

Making Access Possible

Financial Inclusion Diagnostic



Myanmar

November 2018



Unlocking Public and Private
Finance for the Poor



ABOUT THE MAP DIAGNOSTIC 2018

The initial Making Access Possible (MAP) Diagnostic was developed in Myanmar in 2014 based on the 2013 FinScope demand survey. Following this, a Financial Inclusion Roadmap was subsequently developed and it has been partially implemented over the past three years (2016–2018). This Diagnostic was prepared as of November 2018. Given the fast-changing pace of Myanmar's financial markets, the limited life of demand-side data, and the need to fine-tune the focus of national financial inclusion activities, a 2018 MAP study was undertaken to update the financial inclusion priorities and generate a revised Roadmap.

The 2018 Myanmar MAP initiative was approved by the Inter-Ministerial Steering Committee (IMSC) in October 2017. The IMSC consists of members representing relevant government departments and agencies, Development Partners and the private sector. The MAP 2018 applies the initial diagnostic report as the starting point for hypotheses and looks at key changes and market developments. It provides insights into the progress attained in financial inclusion over the past five years. The 2018 MAP aims to improve the focus and relevance of Financial Inclusion (FI) interventions carried out on the basis of the 2014 Myanmar MAP Diagnostic Report, to ensure maximum impact.

The contemporary evidence arising from the 2018 Diagnostic will serve as the foundation for an updated Roadmap, and reassessment to set renewed targets for the years ahead, with an updated Roadmap document, the Myanmar FI Roadmap, 2018–2022.

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Abbreviations

AGD	Asia Green Development Bank
AML	Anti-money Laundering
APN	Asian Payment Network
ASEAN	Association of Southeast Asian Nations
ATM	Automatic Teller Machine
B2G	Business-to-government
CAR	Capital Adequacy Ratio
CB	Cooperative Bank Ltd
CBM	Central Bank of Myanmar
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CGI	Credit Guarantee Insurance
CSO	Central Statistical Organization
DFS	Digital Financial Services
FDI	Foreign Direct Investment
FGD	Focus Group Discussions
FI	Financial Inclusion
FIL	Financial Institutions Law
FIS	Fidelity National Information Service
FPB	First Private Bank
FRD	Financial Regulatory Department
FSDP	Financial Sector Development Plan
FSDS	Financial Sector Development Strategy
FSP	Financial Service Provider
G2B	Government-to-business
G2P	Government-to-person
GDP	Gross Domestic Product
GoM	Government of Myanmar
IBRB	Insurance Business Regulatory Board
IME	International Money Express
IMF	International Monetary Fund
INGO	International Non-governmental Organization
IPO	Initial Public Offering
JICA	Japan International Cooperation Agency
KBZ	Kanbawza Bank

KfW	Kreditanstalt Fuer Wiederaufbau [German Development Bank]
KYC	Know Your Customer
LIFT	Livelihoods and Food Securities Trust
MADB	Myanmar Agricultural Development Bank
MAP	Making Access Possible
MCB	Myanmar Citizens Bank
MEB	Myanma Economic Bank
MFI	Micro Finance Institution
MFS	Mobile Financial Service/s
MFTB	Myanma Foreign Trade Bank
MIC	Myanma Insurance Company
MICB	Myanma Investment and Commercial Bank
MMFA	Myanmar Micro Finance Association
MMK	Myanmar Kyats
MMO	Mobile Money Operator
MNO	Mobile Network Operator
MOALI	Ministry of Agriculture, Livestock and Irrigation
MoPF	Ministry of Planning and Finance
MOU	Memorandum of Understanding
MPT	Myanmar Posts and Telecommunication
MPU	Myanmar Payment Union
MSDP	Myanmar Sustainable Development Plan
MSME	Micro, Small and Medium-sized Enterprise
MTO	Money Transfer Operator
NBFI	Non-bank Financial Institution
NPL	Non-performing Loan
OTC	Over the Counter
P2G	Person-to-government
POS	Point of Sale
QR	Quick Response
RDB	Rural Development Bank
RTGS	Real-time Gross Settlement
SDG	Sustainable Development Goal
SECM	Securities and Exchange Commission of Myanmar
SEZ	Special Economic Zones
SME	Small to Medium-sized Enterprise
SMIDB	Small and Medium Industrial Development Bank

SOB	State-owned Bank
TSL	Two-step Loan
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UPI	Unified Payment Interface
USAID	United States Agency for International Development
USD	United States Dollar
YSX	Yangon Stock Exchange

Executive summary

I. Purpose

This MAP document for Myanmar in 2018 follows on from the original MAP (Making Access Possible) exercise in Myanmar in 2013/2014. MAP undertakes a comprehensive in-country analysis of the financial sector – from the perspective of enhancing financial access – as the basis for preparing a roadmap of action items that are likely to move the country towards achieving financial inclusion objectives.

In each country in which MAP works, the Financial Inclusion Roadmap is based on the MAP Diagnostic, which collates and synthesizes detailed demand-side data (on how financial services are used), supply-side information (on products and financial service providers) and regulatory information, to present a rich picture of the country's financial sector dynamics, achievements, gaps, constraints and opportunities. This picture is used to identify where the most feasible and potentially effective reforms and interventions can take place to improve financial access. The resulting MAP Financial Inclusion Roadmap complements broader government policies, strategies and objectives aimed at achieving sustainable, broad-based economic and social development. As such, MAP also complements broader international strategies such as the pursuit of the United Nations Sustainable Development Goals (SDGs).

II. Contextual Background

Since the 2013 FinScope (demand-side) Survey, the 2014 MAP Diagnostic and the 2015 Financial Inclusion Roadmap (2014 to 2020), extensive political, social, economic and financial sector developments have occurred nationally. A democratic election and change of government have taken place. The economy has been deregulated to some extent and is moving from state-led to market-led development. It is presently opening up its economy to international trade and investment. These broader changes have been reflected in the financial sector, which has grown and diversified. There has been regulatory liberalization, and a positive response from the market and private sector financial institutions, with support from government in some areas.

III. Changes in Lending Patterns

Most private sector financial service providers have grown with respect to their lending patterns and client-base. In these areas, some providers have grown quite dramatically. These include banks, microfinance institutions (MFIs), and cooperatives. Insurers and mobile money operators have also grown although at a much smaller rate. Lending by private banks, for instance, grew from MMK 4,266 billion (USD 3.19 billion) in 2013 to MMK 18,463 billion (USD 13.98 billion), with average annual growth of 45%. Over the same five-year period, the number of MFI clients increased from around 700,000 to 3 million, while the value of loans from MFIs increased nearly ten-fold to MMK 782 billion (over USD 586 million).

In this environment there have been major achievements with regards to financial inclusion. The 2015 Roadmap included the objectives of increasing financial inclusion in Myanmar from 30% of the adult population in 2014 to 40% by 2020, and increasing the percentage of adults with more than one financial product from 6% to 15%. A new FinScope Survey, carried out nationwide in early 2018, showed that not only had both of these objectives been achieved, but they had been achieved well before the original deadline.

The use of financial services by people from formal providers increased sharply between 2013 and 2018 from 30% to 48% of adults. “Deep” access – the use of more than one type of product from a

formal financial service provider – increased to 17% of adults. Access to finance for the key target groups of the self-employed, farmers, and low-income informal employees was similarly achieved. The types of imbalances that have been apparent elsewhere – between urban and rural areas, and between men and women – have not been as apparent in Myanmar. There has been rapid growth of some financial service providers and the rollout of new products, and although access to finance for these different constituencies (urban/rural, men/women) is driven by different providers and products, the overall impact has been quite evenly spread.

IV. Gaps in the Capacity for Financial Service Providers to Meet Needs

a. *Livelihoods Analysis*

Information on livelihoods – on household financial needs and the use of financial services to meet those needs – shows that key needs met by means other than by cash spending from income include healthcare, education, providing for old age, and the acquisition of property and productive assets. There are some important gaps: for example, little acquisition of productive assets by the self-employed; and little use of insurance to deal with the risks of health shocks or harvest failure. Livelihoods analysis points to areas where an enhanced range of financial services can help to meet needs more effectively.

b. *Informal Financial Service Providers*

Informal financial service providers – moneylenders, *hundreds* and so on – continue to play an important role in Myanmar; but in relative terms their importance has declined. Fewer people are now dependent *solely* on informal service providers. The latter are increasingly a complement to formal providers rather than a substitute for them, as many people now have a broader range of financial service providers from which to choose. Where choice is broad, informal providers can continue to play a role because they might offer an attractive value proposition to households and support their livelihoods. But the change does mean that the usage of informal financial services that are provided on onerous terms, due to lack of alternatives, is likely to decline.

c. *Myanmar Agricultural Development Bank*

An important change noted is that the role and position of the previously dominant Myanmar Agricultural Development Bank (MADB) as a credit provider, particularly to farmers in rural areas, has to some extent diminished. This is in part because MFIs and cooperatives have expanded rapidly in rural areas, but also because MADB has been unable to meet demand and to grow. As a result, the three players now involved in rural lending (MADB, MFIs and cooperatives) serve similar numbers of clients. The state-owned banks (SOBs) have contributed less to the dynamism of financial sector development more generally, and their position has diminished in relative terms.

V. Commercial Opportunities for the Provision of Financial Services

As expected, progress in the provision of financial services has focused on the most obvious commercial opportunities including:

- 1) serving the formally employed/salaried market, which has been growing very fast;
- 2) banks serving unmet demand (not well serviced by state-owned banks) from the fast-growing private corporate sector and higher income individuals;
- 3) MFIs and cooperatives stepping in to meet unsatisfied demand for credit, particularly in rural areas, replacing to some extent, credit provision from moneylenders and pawnshops; and
- 4) the rollout of bank branches and ATMs in easier-to-reach urban and semi-urban areas

VI. Projections for the Next Five Years

A key issue is how these dynamics will develop over the next five years and consequently continue to largely influence financial inclusion advancements. Additionally, the design of particular policy and programmatic interventions will contribute to financial inclusion gains and the narrowing of ever-present and emerging access gaps.

Banks have expanded rapidly over recent years. Looking to the near term, bank executives are likely to focus on the impact of new regulatory requirements that influence lending terms, and non-performing loan management. Such pressures may require some reduction in growth, as capital and management resources are stressed. Hence, bank consolidation and recapitalization might be required.

In the case of MFIs and cooperatives, growth has been constrained both by lack of access to funds to sustain credit outreach and a shortage of management skills and systems as operations become larger and more complex. In addition, several aspects of current regulations limit the potential growth of MFIs.

There are many new opportunities arising from the early-stage development of mobile money and digital financial services (DFS), which can easily move beyond money transfers to provide a channel to facilitate payments and access to savings, credit and insurance at low cost and in otherwise hard-to-reach areas. However, an important issue is whether this will happen organically, as the DFS/mobile money ecosystem reaches critical mass, or whether interventions are necessary to promote or hasten growth. MFIs and cooperatives, to a lesser degree, also have a role to play here, thus further extending the range and choice of financial service providers available to consumers.

VII. Policy Evaluation and Recommendations

a. Macroeconomic Goals

From a broader, macroeconomic, financial-system perspective, the biggest priority is to transform at least some of the considerable savings held informally, in cash or in kind, into formal savings in regulated financial institutions. This transformation may contribute to the nation's money supply for on-lending and investment through formal channels.

b. Challenges associated with Extending Access to Credit

While lack of access to credit is a major concern, especially for target market segments that have been identified as priority groups, the self-employed (MSMEs) and farmers, extending access to credit needs to be handled carefully. There is evidence of pockets of over-indebtedness, due in part to borrowing from multiple sources (especially within the MFI sector), and there are concerns that lenders are encouraging more loans than borrowers require or have the capacity to service. Credit expansion needs to be properly managed, with a judicious mix of fewer restrictions on the granting of credit, improved credit risk appraisal skills on the part of financial institutions, broadening of credit provision beyond segments already well served by credit, and improvements to the quality and type of information used to assess the capacity of borrowers to service their debts.

The type of credit and capital available also needs to evolve. Loan terms are still very short (so longer-term credit needs are not well satisfied), and household credit is still largely used for consumption rather than for asset-building or productive (business) purposes. There is also a need for risk capital for start-ups and young businesses to focus on longer-term investment strategies that prioritise equity capital rather than credit).

c. Regulation of Interest Rates

Current policy on regulating interest rates, while intended to benefit borrowers, may be more counterproductive than positive. There are numerous consequences that may arise following lending rate caps. By way of context, the primary influence of risk-averse policies is to minimize losses and maintain slim profit margins. This may in turn affect with respect to the capacity for high-risk borrowers (or borrowers with perceived higher risk, such as small enterprises) to access credit. The broader effect of this is that lenders are left to concentrate on larger, “lower-risk” borrowers that can provide (especially real-estate) collateral for loans. Lending caps may also hinder the expansion of branch networks, especially in rural areas where business volumes are lower and costs higher.

d. The Growth of Micro, Small and Medium Enterprises (MSMEs)

One of the important segments identified for future growth is the self-employed: micro, small and medium enterprises (MSMEs). The segment is not homogeneous, and financial needs vary across types of MSMEs. Medium-scale enterprises are expected to play a major role in future economic growth, diversification and employment creation. Their financing needs, for credit, insurance and efficient payments services are best met by banks.

The vast majority of MSMEs, however, are small or micro enterprises. Their financial needs are best served by MFIs and MMOs rather than by banks. However, MSMEs’ require longer-term investment and risk capital which cannot be easily met from commercial sources of finance and they may be best served through informal sources such as “family and friends”.

e. Suggestions for Aligning the Financial Sector with International Best Practice

The financial sector is currently experiencing rapid growth and development. As such, it will be necessary to continually review its regulatory structure and align it with international best practice, especially as non-bank deposit-taking institutions grow in size.

The MAP 2018 study provides a number of suggestions and action items which cover the following key areas: savings, credit, insurance, DFS as a delivery channel (including for payments and remittances), and financial literacy and consumer protection.

In addition, the report views the data on financial demand, needs and actual usage through a gender lens, and differences in the findings on men and women are highlighted and discussed. The recommendations and action items will be refined and prioritized during the process of preparing an updated Financial Inclusion Roadmap. The key areas of reform are summarized below.

Digital financial services (DFS) as a valuable delivery channel: these are seen as playing a crucial role in extending access. They enable a greater range of financial services to be offered by a broad range of providers at lower costs on a variety of digital platforms. Broader use of DFS can be encouraged through various applications including moving more government payments to digital platforms and enabling mobile money providers to provide interest-bearing savings wallets.

In addition, DFS could provide other financial services on an agency basis, such as unsecured credit in collaboration with banks/MFIs, and low-cost insurance policies, all with digital product sign up and e-KYC.¹ Closely linked to this will be ensuring that developments in the payments system through the

¹ The requirement for non-bank DFS providers to back mobile money balances (whether interest-bearing or not) with a trust account deposit at a licensed bank mitigates the risk; other services, such as credit or insurance, would be provided on an agency basis, and not on the balance sheet of the DFS provider.

real-time gross settlement system (“CBM-Net”) and the Myanmar Payment Union lead to the establishment of a low-cost, real-time, open-access switch to provide interoperability between all types of financial service providers and to support digital transactions.

The extension of DFS is closely linked to the use of financial technology (fintech), and innovation in this area is strongly encouraged. DFS will facilitate the sending and receiving of remittances, which will have particular benefits for women, who are underserved in this area. Women also make up the majority of the dependents target group, many of whom receive transfers from other income earners.

Regulatory reform: the process of regulatory reform and liberalization that has taken place in recent years needs to be continued and strengthened. Among the key areas of regulatory reform is removing restrictions on interest rates, to enable lenders to lend profitably to riskier and smaller-scale borrowers and to cover operating costs in higher-cost areas. Removing such restrictions would extend access to credit to new types of borrowers.

The continued growth of MFIs may be further sustained by developments in MFI regulation and supervision – for instance, through further evolution of the tiered system of MFI regulation. This would include allowing larger (top-tier) MFIs to accept savings/deposits from the public (independently of borrowing) and extend their funding base, while ensuring proper regulation and supervision was in place to protect depositors. MFIs should also be allowed to make collateralized loans. MFI reforms will have particular benefits for women, who comprise the vast majority of MFI clients.

While foreign banks and insurers have entered the Myanmar market their roles have been heavily restricted and their potential impact in modernizing the financial sector, improving efficiency and extending access further is yet to be fully tapped. Further liberalization of banking and insurance should be undertaken. Joint ventures (hitherto not permitted) between domestic and foreign insurance companies would likely extend the scope for innovation. Similarly, the various advantages enjoyed by the state-owned Myanmar Insurance Company are holding back the private insurance sector, while domestic insurers are also restricted in the range of products they may offer.

In the medium term, the regulatory architecture could be reviewed with a view to introducing reforms that are aimed at continuously improving financial sector oversight and risk management while progressing toward alignment with international best practice.

State Owned Banks (SOBs): the current structures and operations of some key SOBs are not sustainable. There are various reasons for this, but extensive reforms and modernization are needed in order to revitalize the SOB sector and ensure that specialized functions, and the goodwill SOBs enjoy in large parts of the population, can be leveraged positively. In the short to medium term, however, SOBs will focus on consolidation and reform strategies rather than expansion.

Cooperatives: these have also played a central role, along with MFIs, in extending financial inclusion in recent years, and this role can be further developed with funding capacity, management skills, information systems and credit appraisal capacity. Over time, opportunities may develop for cooperatives and their local networks to provide other services such as formal micro-insurance product distribution. Quality industry growth will depend on enhanced governance and regulation on cooperative and sector levels with boards and regulatory bodies increasing in capacity and fiduciary oversight.

Consumer protection and financial literacy: strengthening this area will offer widespread benefits such as the increased adoption of formal financial services. An important component of consumer protection and financial literacy is credit information sharing. Accordingly it will be important to establish a credit bureau that may initially service the banks and in turn roll out to MFIs with compulsory credit

report filing and credit status checking for all borrowers. The strengthening of financial literacy may commence with appropriate financial education programmes in schools. This in turn may help consumers to make more informed choices with regards to their choice of financial products and services as well as enable them to avoid problems such as over-indebtedness. Consumer protection mechanisms can help to bolster the capacity of financial institutions to meet these priorities.

Informal and semi-formal provides and channels: most of the focus of financial inclusion is on formal (regulated) financial institutions. However informal and semi-formal financial service providers and channels have a role to play, especially in relation to consumer needs. Community-based informal savings and loan groups seem to offer much potential, combining savings discipline and access to credit with financial literacy. If links can be established (e.g. via mobile money) between such groups and formal institutions (e.g. banks or MFIs), such informal savings groups can also provide a viable channel for rural households to connect with formal financial services.

A rapidly changing economy and society

Amongst target markets, the number of farmers and informally employed groups have declined in size since 2013, however formally employed and self-employed groups have grown.



Myanmar is facing political change, economic reform and the opening up to trade, tourism and investment offer opportunities.



There are improvements in female literacy and employment by --%, and reduced maternal mortality by --%.



Agriculture is still very important but less dominant than the manufacturing and energy sectors and their growth.



Myanmar is still a mainly rural (65%) but urbanizing rapidly.



There is rapid economic growth with a 7.2% increase annually over past five years.



Myanmar is now a lower middle-income country.



Other financial inclusion achievements



Savings in formal financial institutions has doubled, from 6% to 12% of adults



Use of non-bank financial services - e.g. MFIs, co-ops, insurance and mobile money - is the main driver and doubled from 17% to 34% of adults, to over 11 million adults in total



50% of adults save, through formal or informal channels



Informal savings & loan groups (Su Mae) - have 2.5 million members, mainly women



Insurance penetration is still low, but up from 2% to 6% of adults



Less reliance on pawnshops - down from 1.1 million to 700,000 adults



21% of adults send or receive remittances



Informal money lenders still important, but used less - down from 5.9 million to 4.2 million

2015 Financial Inclusion Roadmap objectives have been met ahead of schedule:

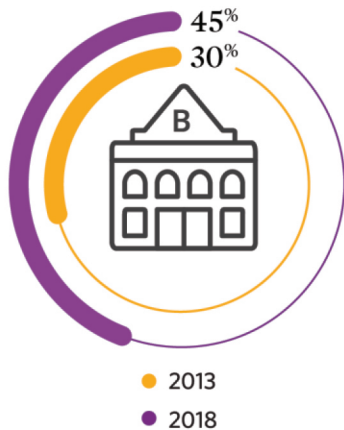


Increasing formal financial inclusion 30% of the adult population in 2014 to 40% by 2020 - achieved before the deadline, reaching 48% in 2018



Increasing adults with more than one product from 6% in 2014 to 15% by 2020 - achieved before the deadline, to reach 18% in 2018

The financial sector is growing fast and changing along with the economy



Lending by private banks went up from MMK 4,266 billion in 2013 to MMK 18,463 billion in 2018, with an average annual growth of 45%



Number of MFI clients increased from around 700,000 to 3 million, while the value of MFI loans has increased nearly ten-fold to MMK 782 billion (over USD 500 million)



Insurance premium income up from MMK 35 billion in 2013 to MMK 133 billion in 2018, and has doubled from 0.06% of GDP to 0.15% over the same period



Co-operative membership has risen from 2.2 million to 3.2 million

Digital financial services at an early stage but offer great potential



Increase in mobile phone ownership from 42% of adults in 2013 to 78% in 2018



Mobile money starting to take off, with 1.4 million adults using it in early 2018, rising rapidly with double-digit month-on-month growth



Increase in financial inclusion underpinned by rapid roll-out of banking infrastructure

- Number of private bank branches up from 577 to 1715
- Number of ATMs up from 253 to 3,123
- Number of POS devices up from 855 to 14,015



Women and rural population sharing in the growth of financial inclusion

- Access to finance rose in both urban and rural areas, and levels of formal access are similar in rural areas (47%) and urban areas (51%)
- Women have experienced a faster improvement in formal financial inclusion than men, but still have a slightly lower formal inclusion rate (46% for women, 50% for men)

SDGs



Ending Poverty- by improving earnings and reducing the cost of financial services



Healthcare- financial services to manage risks



Education-from access to saving and credit



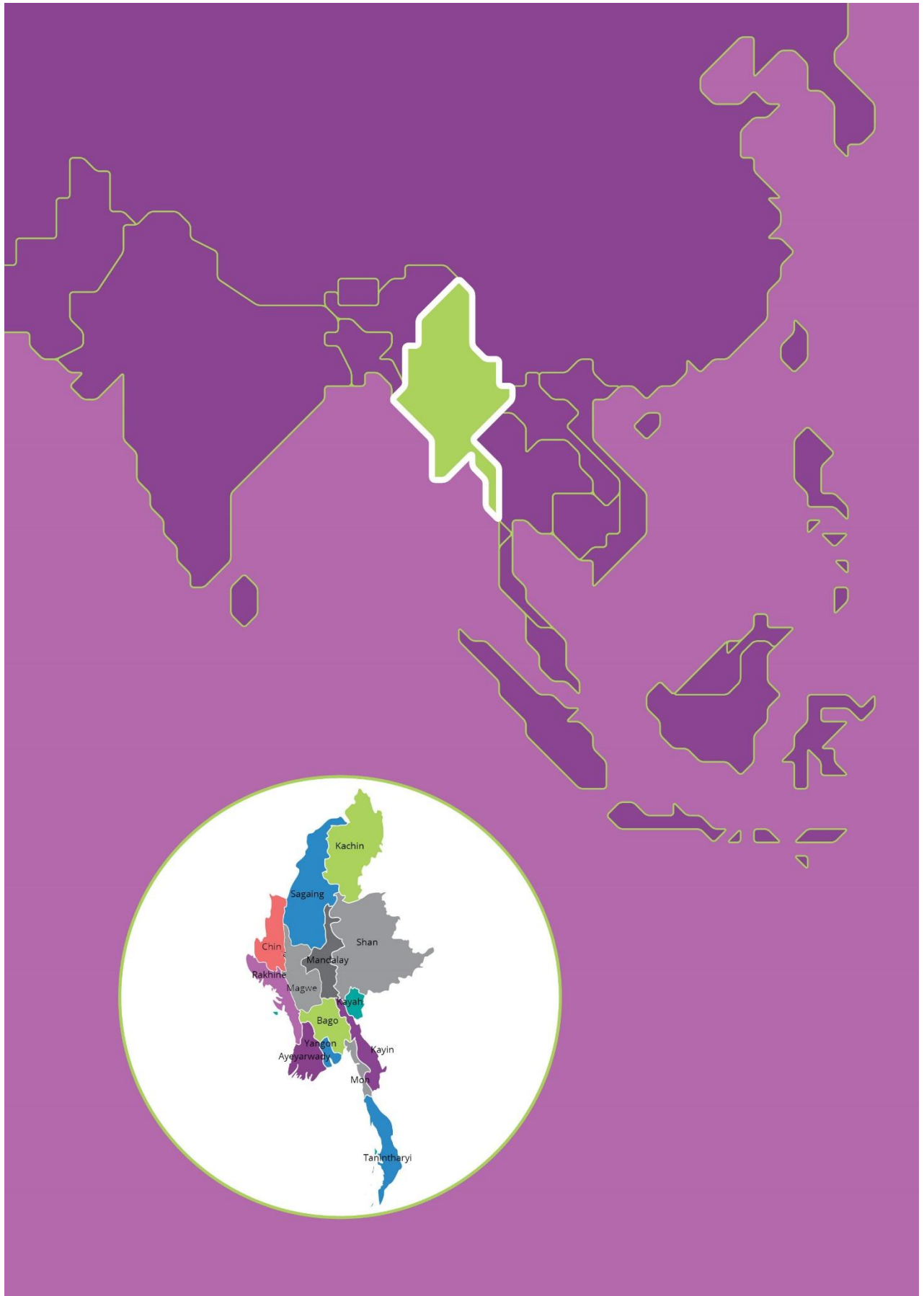
Empowering women & girls



Employment and decent work



Reducing inequality



1. Introduction

In 2013 UNCDF assisted the Government of the Union of Myanmar with the preparation of a financial inclusion strategy intended to complement the country's broader poverty alleviation strategies with a central focus of reducing poverty levels from 26% to 16% by 2015.² The objective was to ensure that financial sector development would complement development policy and poverty alleviation objectives, hence the request for a Making Access (to finance) Possible (MAP) Myanmar study. As part of the MAP study, the first Myanmar FinScope demand-side survey was conducted in 2013, followed by the MAP Diagnostic study of the financial sector in 2014. The MAP Diagnostic addressed financial service demand as well as its supply and regulation. Arising from the survey data was a range of gaps and opportunities for financial sector development, from the perspective of financial inclusion.

Subsequently, MAP's data, analysis and conclusions, laid the foundation in 2015 for the Financial Inclusion Roadmap (2014–2020) with a range of action items applicable to various stakeholders in the financial sector. This included government and its institutions (as policymaker, regulator, and owner of major financial institutions such as the state-owned banks, or SOBs); privately owned, commercial banks; non-bank financial institutions (such as micro-finance institutions, or MFIs, and insurers); donors and development partners; and other participants in the provision of financial services, such as telecommunications companies (telcos). The Roadmap also specified a range of financial inclusion objectives to be achieved over the period 2014–2020, as well as numerical targets in key areas of access to finance. In line with the country's development policy objectives, the MAP Roadmap paid particular attention to the following target groups – farmers; the self-employed (formal and informal micro, small and medium-sized enterprises, or MSMEs); and low-income informal employees – and to women.

The aim of the current MAP 2018 exercise is to review progress since the adoption of the 2015 Roadmap, with regards to ensuing market developments and specific progress in the implementation of the Roadmap and the achievement of the agreed targets. The diagnostic was considered necessary by the main stakeholders, given the dynamism and rapid pace of change in Myanmar since 2014. Besides tracking progress, the intention with the MAP 2018 is to update the analysis underpinning the earlier MAP Diagnostic report, review the relevance of the existing Roadmap objectives, and propose an updated Roadmap with targets, objectives and action items.

The methodology followed by the MAP 2018 is laid out in detail in Appendix 1. This report is structured as follows:

Chapter 2 describes the main changes that have taken place in Myanmar over the past five years, setting the scene for understanding developments with regard to financial inclusion.

Chapter 3 presents detailed results from the FinScope Survey on demand for and usage of financial products/services in Myanmar, focusing on the following financial products: savings, credit, insurance, payments and remittances.

Chapter 4 identifies the main changes in financial product/service usage, including particular focus on those target groups identified as priorities (the self-employed and farmers), and pinpoints priorities for the focus of the Roadmap that will drive financial inclusion for key consumer categories. The report also views the data on financial demand, needs and actual usage through a gender lens, with differences in the findings on men and women highlighted and discussed.

² The government's poverty alleviation goal was set out in an address to the Central Committee in 2011 by the Chairman of Rural Development and Poverty Alleviation Central Committee, Presidents Office, 2011.

Chapter 5 considers the supply side for financial services, and relates key changes in demand and usage to developments in institutions, products and regulations. The chapter highlights prevailing gaps, and focuses on the products, institutions and regulations that will drive improved provision of financial products/services to the various target groups.

Chapter 6 concludes the report, identifies gaps and opportunities, and highlights key recommendations arising from the analysis that will have the greatest impact in terms of enhancing financial access in the coming years. This final chapter includes discussion of digital financial services (DFS), the main product areas, key providers – including banks, MFIs, cooperatives and the SOBs – and consumer capability. This focus will be the basis for priorities for action, which will be further developed in the Roadmap.

2. The changing Myanmar environment

2.1. Introduction

The period since the 2013 FinScope Survey, 2014 MAP Myanmar Diagnostic and 2015 Roadmap has seen significant change within Myanmar and the ASEAN region. Nationally, political and economic reform, new policy initiatives, and consequential financial sector development has occurred leading to poverty reduction and a rising middle class. Regionally, continued advancements toward fostering regional trade within ASEAN, the greater Asia region, and internationally have fuelled national economic growth and progress within key export sectors such as agriculture.

Market-led reforms and economic growth has supported major achievements with respect to financial inclusion. The 2015 Roadmap (2014–2020) included the objectives of increasing financial inclusion in Myanmar from 30% of the adult population in 2014 to 40% by 2020,³ and increasing the percentage of adults using more than one financial product from 6% to 15%. Both of these objectives had been achieved by 2018, well ahead of the original deadline. Access to finance for all of the key target groups (the self-employed, farmers, and low-income informal employees) was also achieved. These achievements, which are discussed in more detail in the following chapter, reflect wide-ranging changes in Myanmar – in the economy, society, and policy frameworks – and were supported by the actions laid out in the Roadmap. The role that all of these changes have played in contributing to improved access to finance in Myanmar is discussed below.

2.2. Global developments

Financial inclusion is increasingly recognized internationally as being important, not necessarily for its own sake but in its instrumental role of contributing to the achievement of better livelihoods and reduced poverty. Testament to this is the increasing range of countries implementing the FinScope Survey and MAP analyses, and the fact that more and more countries are developing financial inclusion strategies. A recognition of the importance of financial inclusion has led to global monitoring through the World Bank's Findex survey and the IMF's Financial Access Survey (FAS), among others. Economic policy reviews by those same institutions almost invariably include some assessment of progress with regard to achieving financial inclusion, as well as financial sector development more broadly.

Financial inclusion is also a strong enabler of the UN SDGs. Financial inclusion, by improving access to financial services, helps to unlock households' potential to manage their livelihoods and supports governments in achieving the SDGs. Since their adoption in 2015, the SDGs have increasingly influenced government and international development strategies, as is also evident in the Myanmar Sustainable Development Plan (MSDP) 2018–2030 (GoM, 2018), which is largely aligned with the SDGs (see Box 1).

³ Financial inclusion was defined as using at least one financial product or service provided by a formal (regulated) financial service provider.

Box 1: The SDGs and financial inclusion

Promoting financial inclusion is critical in order to meet **SDG 1: ending poverty in all its forms everywhere**. Increased access to and use of formal financial products and services can increase earnings, particularly for those working in agriculture and engaged in business activities. Reducing the costs of using financial services (such as the costs of sending or receiving remittances) also helps to boost real incomes and living standards. Furthermore, providing households with better tools to manage risks, accumulate savings and make investments helps households and individuals reduce their vulnerability to financial risk as well as acquire assets, and better match expenditure to fluctuating income levels.

By boosting consumer empowerment, financial inclusion also works towards **promoting inclusive and sustainable economic growth, employment and decent work for all (SDG 8)**, and **reducing inequality within and among countries (SDG 10)**. Specifically, interventions such as improving financial literacy encourage responsible borrowing and lending practices, which in turn promote sustainable economic growth. The promotion of literacy campaigns to address low levels of financial literacy can also help reduce inequality by targeting underserved segments of the population.

Improved financial inclusion also promotes access to better healthcare, thereby contributing to the achievement of **SDG 3: ensuring healthy lives and promoting well-being for all at all ages**. Health risks generally account for one of the biggest impacts on household finances. Traditionally in Myanmar, there is high reliance for healthcare on family, friends and community, which is not always efficient. Better access to financial services and appropriate financial products can help mitigate the risks associated with health crises and medical expenses.

Financial inclusion is also complementary to **SDG 4: ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all**. A significant number of people have had to forgo school education due to poverty. In Myanmar, savings and credit are often used to meet educational expenses. Better access to appropriate financial services can ensure that more young people stay in school and receive an education. Furthermore, higher education contributes to stronger asset bases and improved livelihoods.

Moreover, financial inclusion helps **achieve gender equality and empowerment of all women and girls (SDG 5)** through increased economic empowerment of women. In Myanmar, women tend to be more vulnerable to poverty and unemployment. However, women are a highly active economic group, often in charge of financial decision-making, particularly in remittance-receiving households. Financial inclusion is a cornerstone of ensuring economic empowerment of women and pays double dividends, as women are more likely to use their earnings and bargaining power to purchase goods and services that improve family welfare. Women also tend to be more dependent on informal financial services, and opening up access to a greater range of formal financial service providers offers them more options for meeting financial needs. Specific strategies of collaborating with partners to develop women-targeted goal-oriented savings products and building the financial competence and management skills of high-potential women entrepreneurs can also help close the gender gap in terms of financial inclusion.

Myanmar is an integral part of the regional Association of Southeast Asian Nations (ASEAN), which in recent times has taken a keen interest in financial inclusion. In the framework of enhancing ASEAN cooperation to support the pillar of *Equitable Economic Development in the ASEAN Economic Community*, the promotion of financial inclusion was mandated at the 19th ASEAN Summit in Bali, 2011 and in November 2014 Myanmar-hosted ASEAN Financial Inclusion Conference: Enhancing Access to Finance for Unbanked People in the ASEAN Region.

In April 2016 the ASEAN working committee on financial inclusion was established by ASEAN finance ministers and central bank governors, with the aim of promoting and fostering initiatives to advance financial inclusion in ASEAN. The ASEAN Financial Inclusion Framework was adopted in 2016, with the

following objectives: (i) supporting national financial inclusion strategies and implementation plans; (ii) elevating capacity building of ASEAN member states to enhance the financial inclusion ecosystem; (iii) promoting innovative financial inclusion via digital platforms; and (iv) increasing awareness on financial inclusion and consumer protection (ASEAN, 2018).

2.3. Domestic policy

2.3.1. *National strategy: The Myanmar Sustainable Development Plan*

The 2014 MAP study was developed to support the Myanmar government's 2011 Poverty Reduction Strategy. Since that time, new national policies have been developed. Key policies of relevance to financial inclusion include the Economic Policy of the Union of Myanmar, and the Myanmar Sustainable Development Plan 2018–2030 (MSDP) (MoPF, 2018). These documents, together with the Financial Sector Development Strategy (FSDS) developed during 2015 under the guidance of the Ministry of Planning and Finance (MoPF, CBM & World Bank, 2015) underline the strong commitment of government both to poverty alleviation and job creation as a policy objective and to the important role that financial inclusion can play in the achievement of those objectives. With regard to supporting implementation of these strategies, the MAP 2018 study has been conducted at an opportune time, and this research has paid particular attention to the areas mentioned in these broad strategy frameworks.

The 12-point Economic Policy was launched in July 2016 and outlines the overall frameworks that guide Myanmar's economic and social development. Point 8 specifically plans to achieve financial stability through a financial system that can support the sustainable long-term development of households, farmers and business. Points 5 and 6 focus on MSMEs and agricultural development. The government also intends further liberalizing the financial sector and enhancing access to financial services.

The MSDP provides an integrated set of strategic goals, strategies and action plans to be pursued by the government over the medium to long term, which will contribute to genuine, inclusive and transformational economic growth. The MSDP is structured around three Pillars, five Goals, 28 Strategies and 251 Action Plans. All are aligned with the SDGs, the Economic Policy of the Union of Myanmar, and various regional commitments made by Myanmar over the years. The Myanmar Financial Inclusion Roadmap 2014–2020, developed following the 2014 MAP Diagnostic, was one of the guiding documents for the development of the MSDP. The government anticipates that the newly developed Financial Inclusion Roadmap – 2018–2022 – will further support the implementation of relevant targets in the MSDP.

Of relevance in this regard is Strategy 3.5, with the aim to “Increase broad-based access to financial services and strengthen the financial system overall”. This aim falls under Goal 3 (job creation and private sector-led growth) of Pillar 2 (prosperity and partnership) (see Box 2). Financial inclusion also supports Strategy 3.1 (agricultural development and poverty reduction in rural areas) and Strategy 3.2 (developing small and medium-sized enterprises). Given the MSDP's inclusion of household welfare, agriculture, MSMEs and financial intermediation, it also aligns with the 2011 policy objectives that informed the 2014 MAP Diagnostic and 2015 Roadmap. As well, financial inclusion can influence other MSDP aims such as Goal 4 (human resources and social development) and specifically those relating to access to education (4.1), universal healthcare (4.2), social protection services (4.3), food security (4.4) and harnessing productivity (4.5).

Box 2: Key action items under MSDP Strategy 3.5

Strengthen the capacity of domestic financial institutions.

Strengthen and expand support to non-bank financial institutions (NBFIs).

Expand the scope of mobile and fintech services, including through both domestic and foreign financial actors.

Continue liberalization of the banking sector including through plans and regulations for the Financial Institutions Law (FIL) and Foreign Exchange Management Law (FEML).

Promote more inclusive access to finance by developing a comprehensive microfinance sector strategy with clear regulatory arrangements, including a tiered system that serves different objectives and is cognizant of barriers faced by women and ethnic groups.

Increase the ability of foreign banks to participate in domestic banking activities, including through continued liberalization of market access and allowing foreign banks to take equity positions in domestic banks.

Restructure SOBs to ensure stability of the financial system, reduce fiscal risk and ensure a level playing field for all financial institutions.

Improve the legal and financial infrastructure required for greater and more inclusive access to finance.

Strengthen and further liberalize the insurance sector.

Likewise, other key actions items are:

Strategy 2.1.7: Allow authorized foreign banks to provide both MMK and foreign currency loans to domestic borrowers, and engage in interbank lending with local institutions.

Strategy 3.1.12: Improve the regulatory environment such that it facilitates the development of financial products, and risk management tools and strategies that respond to the unique requirements of rural populations.

Strategy 4.5.3: Provide improved cross-border financial services for migrant workers.

2.3.2. Sector strategy: Financial Sector Development Strategy (FSDS)

With World Bank support, the FSDS 2015–2020 was developed by the Ministry of Planning and Finance (MoPF) and the Central Bank of Myanmar (CBM) in 2015. With the overall goal of creating a sound and sustainable foundation for the financial sector, the FSDS represents a comprehensive approach to financial sector reform and comprises four strategic objectives:

- **Maintain a robust framework for financial sector stability:** relevant regulations related to the new FIL 2016, proper implementation and improvement of legal infrastructure for deposit insurance and payments.
- **Promote efficiency and cost-effective access to finance:** to support payment system reforms including interoperability of various payments sub-systems, and reform of SOBs.
- **Promote financial access for the government, investors and the public to conduct, borrow, save, and plan for the future as well as mitigate various kinds of risks:** easy

access to financial services at a reasonable cost for all stakeholders, especially to MSMEs, as well as access to long-term financial resources.

- **Deepen financial markets and support intermediation of long-term financing:** development of new bank products and development of the insurance sector.

The FSDS comprises significant components relevant to financial inclusion. Furthermore, it is anticipated that, wherever relevant, the strategies resulting from the MAP 2018 will support and help advance these FSDS components. Of particular relevance to financial inclusion is Pillar 4 of the FSDS, which seeks to enhance access by individuals and firms through:

- Improved supervision of microfinance activities.
- Development of mobile money.
- Enhanced access to finance for SMEs (small to medium-sized enterprises).
- Operationalizing the credit bureau.
- Development of agricultural finance.
- Consumer protection framework and financial literacy.

2.3.3. Supporting structures

While the Inter-ministerial Steering Committee (IMSC) is responsible for coordination of activities in financial inclusion, a number of other relevant supporting structures and bodies have been established, and are key anchors to promote financial sector development and financial inclusion:

- **Development Assistance Coordination Unit (DACU):** Cabinet has assigned to DACU responsibility for ensuring that development assistance to Myanmar is efficient, effective, coordinated and nationally owned. DACU comprises the members from various government ministries, including the State Counsellor, MoPF and others, and is supported by the Foreign Economic Relations Department (FERD) of MoPF, which serves as the Secretariat.
- **Development Assistance Policy:** this policy was implemented in 2018 by DACU to ensure coordinated mobilization of development finance.
- **Coordination of Financial Sector Technical Assistance to Myanmar (COFTAM):** established in 2014, COFTAM coordinates developments in the financial sector and has eight sub-sector working groups, including one specifically for financial inclusion. These working groups develop priority issues, and coordinate collaboration and the sequencing of technical assistance and training. COFTAM includes various multilateral agencies, bilateral development partners and representatives from different departments of CBM, MoPF and the Ministry of National Planning and Economic Development.
- **Cooperation Partners Group (CPG):** launched in 2016, this is the main coordination mechanism for international development partners, with the mandate of collaborating with multiple stakeholders in order to enhance effective development cooperation in Myanmar. The CPG currently has 78 member agencies.

Within this coordination context, the IMSC serves in a pivotal role for monitoring financial inclusion efforts within the Roadmap framework and will take initiatives as needed to spur greater access to financial services, where needed.

2.4. Domestic developments: Political and economic

Myanmar's development model relies on a combination of state-led development, private sector development, and community structures. For many decades the state took a leading role in development, with numerous top-down initiatives, driven by the pre-2011 military regime characterized

by rigidly planned development processes, a central role for state institutions, and a very limited role for market forces. The financial sector was especially influenced by the central planner, with various SOBs demonstrating an influential economic role.

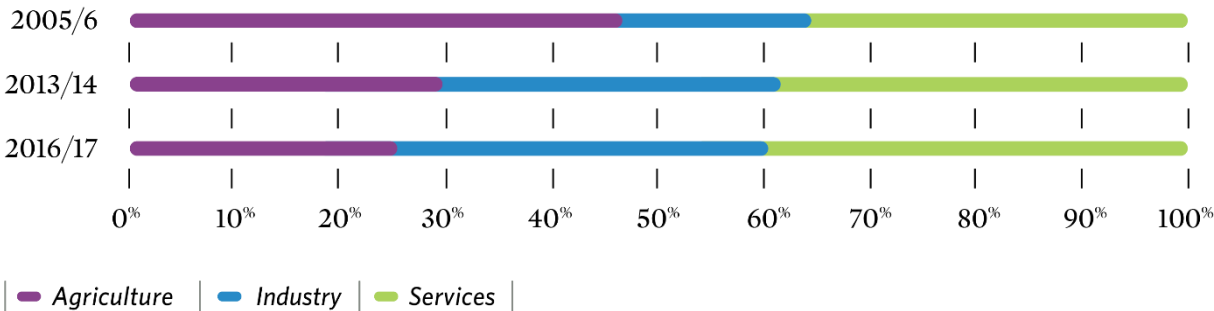
Major reforms initiated by new quasi-military government that took office in 2011. The reforms initiated led to gradual economic freedoms, and major political liberalization. The period between 2013 and 2018, in particular, saw major changes in the country’s political and economic spheres.

Political environment transformed by democratic transition. In November 2015 a nationwide general election was held – the first openly contested elections in Myanmar since 1990. The elections were overwhelmingly won by the National League for Democracy (NLD), and the period since 2016 has seen further reform and modernization.

Economy partially opened up and moving towards market-driven development. Following the 2015 election and the establishment of the new government, international sanctions applied under the previous regime were lifted, leading to greater opportunities to further international trade, investment and travel. There has also been a shift away from state control of the economy towards a greater role for market forces, with private enterprise growth in both the financial and non-financial sectors of the economy. The new government initially benefitted from a very high level of international goodwill but has since been tempered by developments in Rakhine state and the Rohingya refugee crisis. Despite some economic liberalization, restrictions remain, particularly on foreign investment. In this regard, foreign-owned financial institutions are limited in the range and terms of services provided with gradual expansion expected over the foreseeable future.

A rapidly transforming economy with agriculture becoming less dominant. The Myanmar economy has traditionally been dominated by the agricultural sector, accounting for almost half of gross domestic product (GDP) in the mid-2000s. However, with its GDP’s contributions declining steadily agriculture now accounts for 27% of GDP and a similar share of exports. Other emerging sectors as contributors to GDP and exports, include energy (oil and gas) and manufacturing (notably garments). In terms of exports, minerals and energy now account for the same share as agricultural products (see Figure 1).

Figure 1: Changing shares of GDP



Source: Central Statistics Office (2016)

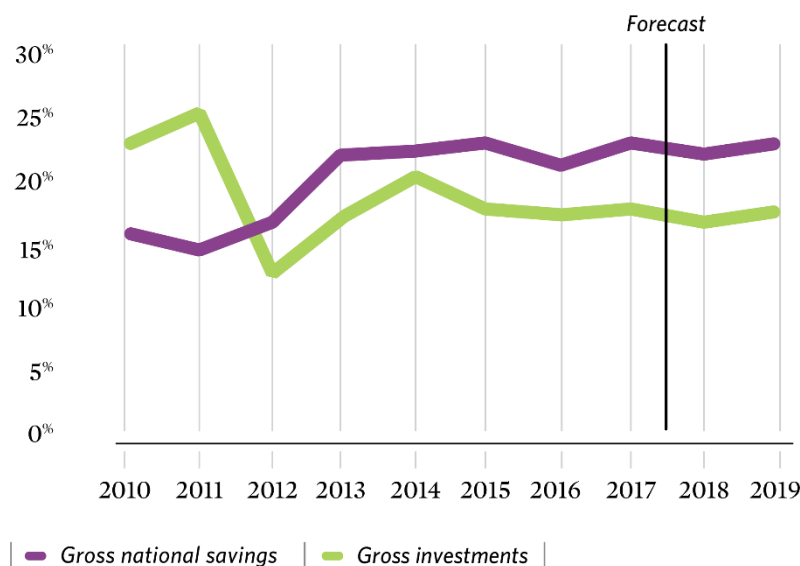
Notwithstanding relative decline, agricultural sector remains crucial at household level. More than two-thirds of the Myanmar population live in rural areas, and approximately half of all adults are involved in farming activities. Around a quarter of the adult population derive their main income from agriculture (FinScope, 2018). Blessed with abundant natural resources and recent investments in crop innovations and technologies, agriculture will continue to maintain a dominant position in the national economy.

Macroeconomic performance good, although with increased downside risks. Real GDP growth averaged 7.2% a year over the five years to 2017, and is projected by the IMF to remain at similar levels over the next five years. Myanmar is currently one of the fastest-growing economies in Southeast Asia. Real GDP per capita was estimated at MMK 1.68 million (USD 1,264) in 2017, elevating the nation to a lower middle-income status.

Since FY2014/15, annual inflation has averaged slightly above 6%, apart from a spike to 8.4% in 2015: higher than desirable, but not excessively so. The fiscal position is reasonably well contained, with a budget deficit averaging just under 4% of GDP for the period 2015–2018. Total public debt is a manageable 35% of GDP, with little concern for debt sustainability unless spending and borrowing increase sharply.

Main macroeconomic weaknesses relate to levels of savings and investment (closely related to financial sector development). Investment is required to provide the basis for future growth, and at an average of 23% of GDP for the period 2013–2017, is below the level needed for a fast-growing economy, and that of Southeast Asian peer countries.⁴ Investment has to be financed, either through domestic savings or by access to foreign savings. Myanmar’s domestic savings rate is very low, at 18% of GDP over the period 2013–2017,⁵ and is, therefore, insufficient to finance even the current low levels of investment, let alone the higher investment required for faster growth (see Figure 2). The savings-investment gap is therefore financed by inflows of foreign capital, whether through foreign direct investment (FDI) or external borrowing. Increasing domestic savings, in a form that can be intermediated through to investment, is therefore an economic priority.

Figure 2: Savings and investment, as % of GDP (2010–2018, and forecasts for 2019)



Source: IMF World Economic Outlook database (April 2018)

Insufficient bank credit to finance domestic needs. The ratio of bank credit to GDP has risen sharply: from 23% of GDP in 2012 to 37% in 2016. Historically, the majority of bank credit has flowed to government, but this has changed and the banking system now lends more to firms and households than to government. At current rates, the ratio of private sector bank credit to GDP remains low by

⁴ Fast-growing Asian economies have typically had investment rates in excess of 25% GDP. Myanmar’s average investment rate of 21% of GDP from 2012–2016 is similar to that of the Philippines, but is less than Cambodia (23%), Thailand (25%), Malaysia (26%), Vietnam (27%) and Indonesia (34%).

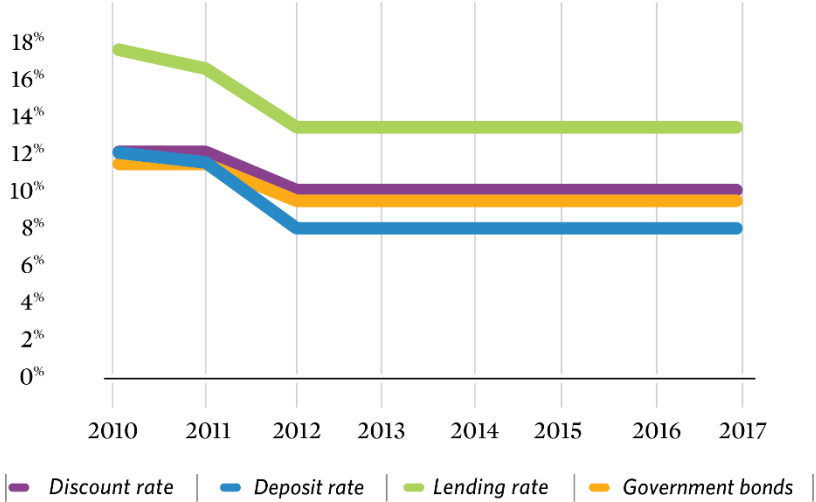
⁵ This refers to macroeconomic savings, and therefore includes both financial savings and savings in kind/real assets.

regional standards and suggests plenty of scope (and need) in the medium and long term for growth in this area of financial services.

Interest rates managed and constant since 2012. Interest rates are CBM regulated with bank lending rates capped at 3% over the CBM reference rate (discount rate of 10%), currently 13% (2018). The bank deposit rate has a floor of the reference rate minus 2%, currently 8%.

It is difficult for banks to compete on the basis of interest rates. The deposit-lending spread (5%) is low by international standards. Under a fixed lending rate policy, risk-based lending is not viable thereby discouraging credit services expansion to new markets. Myanmar’s interest rate regime was also raised as an issue in the MAP 2013 study as a constraint to economic reform. (see Figure 3)

Figure 3: Interest rates, as % (2010–2017)



Source: IMF International Financial Statistics database (2018)

Much of the economy remains informal, even outside of agricultural sector. Myanmar’s informal economy is one of the largest in the world, far exceeding the average for other developing economies. The average share of Myanmar’s informal economy between 1999 and 2006 was 50.7% with a formalization ranking by Schneider et al. (2010: 20) placing Myanmar at 82 out of 88 countries. Amin (2016) notes that the situation had not improved significantly by 2016 and is likely to continue in the near future. Although this situation therefore remains largely unchanged since 2014, the 2018 MAP did reveal signs of growing formalization within financial services usage, which is a positive step to support the long-term formalization of informal economy participants (consumers and providers alike).

Most MSMEs belong to informal sector. This is typical of low- and middle-income developing countries and is not unique to Myanmar. However, in a World Bank enterprise study of the informal sector, unregistered firms in Myanmar were found to perform well in terms of labour productivity and turnover compared to informal firms elsewhere (Amin, 2016). Formal sector firms are more profitable, but, given the relatively high productivity and profitability of informal firms in Myanmar, it seems to be a clear choice and preference to remain informal. Very likely, it will be difficult to create incentives for such firms to shift to the formal sector. In general, the lack of an efficient regulatory system, the absence of effective laws and the high costs of formalization explain why the informal sector remains so large.

Population predominantly rural (around 68%) but with steady urbanization. According to the World Bank (World Development Indicators database, 2018), urban population growth is around 2.5% a year, while rural population growth is almost stagnant. Rural–urban migration and increasing urbanization have important implications for the provision of financial services, as this is generally more accessible

and efficient in densely populated urban locales. **Four main general drivers of migration in Myanmar.** The main drivers of migration from the country are poverty, violent ethnic conflict, natural disasters, and the uneven distribution of economic opportunities. Unsurprisingly, Myanmar's political transition and associated economic liberalization has contributed to the increase in labour migration (Wagle, 2016). As a result, remittances play a growing role in Myanmar's economy. In 2016, the share of remittances in Myanmar's GDP was 4.9% (World Bank, 2017a).⁶

Young population and potential demographic dividend. With population averaging 27 years of age and around 55% of the population is under the age of 30, youth comprise a substantial share of the country's population, (Population and Housing Census, Ministry of Immigration and Population, 2014). A high youth prevalence may be beneficial for growth and development, as dependency ratios fall and young people enter the labour force ("the demographic dividend") – provided that TVET and other educational opportunities are in place

Limited infrastructure a major hurdle to economic growth. Myanmar is one of the most underdeveloped countries in Asia in terms of infrastructure (World Bank, 2017b). Only 37% of the population has access to electricity which makes it a country with one of the greatest power-sector investment needs in Southeast Asia (Vakulchuk et al., 2017: 9).

Lack of infrastructure is a serious obstacle to economic growth (Verbiest & Naing, 2017: 204) Moreover, infrastructure and investments are disproportionately applied because ethnic states particularly suffer from poor road networks and insufficient electricity access.

Mobile phone usage expanding rapidly. The most dramatic growth in mobile phone usage has occurred since the 2013 FinScope Survey. The number of mobile phone subscriptions increased from 6.8 million in 2013 to 50.6 million in 2016 according to the most recent data available. This represents growth from 13 subscriptions per 100 inhabitants to 96 (ITU, 2016). According to the FinScope Surveys, the percentage of adults owning a mobile phone rose from 42% in 2013 to 78% in 2018.⁷

Climate change risks. Myanmar is ranked as the world's second most sensitive country to climate change. The country is also one of the 15 countries that are located in an area which is exposed to 80% of severe flooding within the world (Brakenridge et al., 2017: 81). Annual monsoons bring heavy rains to mountainous and river delta areas from May to October each year, displacing many people. In cities, the situation is exacerbated by under-dimensioned and badly maintained drainage systems; in the countryside, river and dam erosion are the main problems.

The period 2006 to 2016 saw some improvements in women's social and economic inclusion. In recent years, the maternal mortality rate has reduced with improvements in literacy and labour participation rates for women. Moreover, women are now increasingly employed in the non-agricultural sectors (DFAT, 2016: 5). However, many challenges remain, including the 30% wage disparity between men and women, women's low participation rate in national industry working groups (e.g. trade, MSME development, taxation) and women's under-representation in company top management and decision-making processes (DFAT, 2016).

Need for hybrid solutions. Financial sector reforms and the resulting contributions to an enabling operating environment has advanced financial inclusion especially in the delta and central population zones. Despite this progress, underserved and unserved rural areas persist without access to formal

⁶ Myanmar's inward remittances were equal to 3.7% of GDP in 2017. This compares to the average of 0.66% of GDP in low-/middle-income countries in East Asia and the Pacific, and to 6.2% in Vietnam, 1.5% in Thailand, 10.5% in the Philippines, 1.7% in Cambodia and 0.7% in Lao PDR.

⁷ Many people use more than one mobile phone service (have multiple sim cards), and thus the subscription penetration rate is higher than mobile phone ownership.

financial services. Delivery challenges, ethnic complexities, insecurity, and insufficient population base are frequent challenges discouraging commercial viability.

Hence, collaboration from donor, government, community, and industry actors will be required to craft and implement effective financial inclusion solutions for marginalized geographic areas and demographic sectors (e.g. migrants). Any medium-term (5–10 year) and long-term (10–15 year) financial inclusion strategy must address the role of the commercial sector because the regulatory environment needs to facilitate the progression of the commercial sector from easier-to-reach to harder-to-reach clients and to reduce obstacles over time. As the situation currently stands, none of the commercial institutions alone are able to provide financial services to the current underserved and unserved markets; increasing access to financial services will call for hybrid solutions, involving an array of state, commercial and community institutions.

2.5. Domestic developments: Changes in the target markets

MAP Diagnostic used the target group approach to identify unique population segments. MAP's target market segmentation approach classifies adults by their primary source of income. The target groups are as follows: farmers; formal employees; informal employees; self-employed (traders/MSMEs); and dependents (see Appendix 2 for more information).

Target groups considerably changed since 2013. The changes in the target groups⁸ are largely consistent with the economic liberalization, macroeconomic growth and investment trends (e.g. rise of garment industry) over recent years. . For instance, the formally employed segment almost doubled in size (although only comprising 8% of the population). The self-employed segment increased by more than 50%, and now comprise almost a third of the adult population. These two groups are growing even faster in rural areas than in urban, so growth is not leaving rural areas behind.

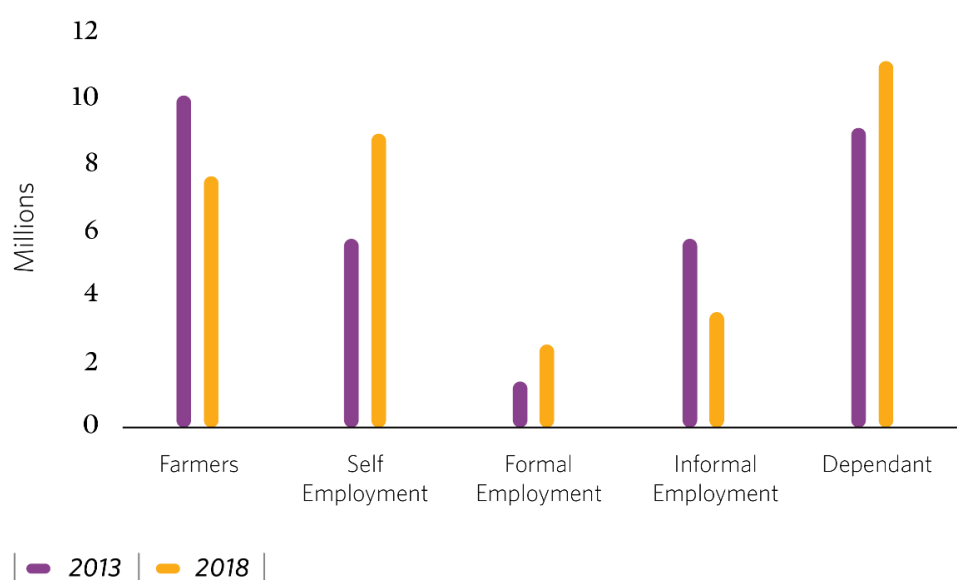
Conversely, farmers decreased by almost a quarter, and informal employees (occasional workers) segment decreased by almost 40%. These last two groups also became more male-dominated, and less educated implying that women and educated adults are leaving less consistent sources of income and pursuing their own businesses or entering formal employment. These employment shifts suggest that people are following opportunities for work or self-employment in the faster-growing, non-agricultural sectors of the economy, and leaving less secure activities behind. Although dependents grew over the period, this could reflect many different contributing factors, as this group is not homogeneous and comprises a range of different types of people (e.g. students, retirees, homemakers) in a range of life-stages (see Figure 4).

Considerable growth in incomes, well ahead of inflation, across most target groups. In line with the changing dynamics of target markets, income levels as reported in FinScope reflect positive macroeconomic developments: overall incomes rose by 21% over the five-year period (4% per year). The increase has been greatest (from a very low base) for informal employees, and at similar, middling levels for farmers, the self-employed, and formal employees. For dependents, however, average income levels dropped over the five-year period.⁹ The top three segments in terms of income are the self-employed, formal employees, and farmers (see Table 1) which remain unchanged from 2013.

⁸ The 2014 MAP Diagnostic used slightly different target group definitions. For comparability, the target groups have been recalculated based on current definitions.

⁹ It is possible, though, that this partly reflect changes in the way the income data was collected between the two surveys.

Figure 4: Size of target groups (2013 and 2018)



Source: FinScope Myanmar 2013, 2018

Table 1: Average income by target group, in MMK per month (2013 and 2018)

	2013	2018	Real change
Self-employed	117,811	195,904	28%
Formal employees	108,147	184,285	31%
Farmers	81,604	140,687	33%
Dependents	65,711	56,372	-34%
Informal employees	59,734	128,683	66%
Total	81,242	127,904	21%

Note: The real change in average salaries is after deducting inflation of 30% over the five-year period.

Source: FinScope Myanmar 2013, 2018

2.6. Domestic developments: Reflecting on the 2014 MAP Diagnostic

The 2014 MAP Diagnostic study was the first study undertaken to assess the level of financial inclusion in Myanmar and it forms the basis of the MAP 2018 study. It is thus important to revisit the key findings of 2014 in order to understand subsequent challenges and developments. The 2014 MAP Diagnostic study resulted in the development of the Financial Inclusion Roadmap (2014–2020), which was the guiding document for the implementation of the financial inclusion action plan for the government.

2.6.1. Summary of the 2014 MAP Diagnostic study

The main research and data findings from the 2014 MAP were as follows:

- **High level of informality:** the majority of transactions were cash-based, and unregulated (i.e. informal) providers dominated the financial landscape. Outside of the Myanmar Agricultural Development Bank (MADB), the private banks were passive in serving the general population,

and the requirement for real-estate collateral had limited the availability of credit. Savings groups and international NGO credit programmes existed, but on a very limited scale. Beyond those obtaining credit from the microfinance market, there was a significant demand for unsecured credit, which was mostly being met by unregulated moneylenders, and to some extent by pawnshops, at extremely high cost. Formalizing this credit would require regulatory adjustments and notably an increase in microfinance interest rates and loan sizes.

- **Better-served rural population:** the extensive credit programme of MADB meant that financial access in rural areas seemed better than in the urban areas. Many farmers had long-standing relationships with MADB, and accessed consecutive loans under the credit programme (rather than using savings or deposits). The Myanma Economic Bank (MEB), with its significant branch network, further contributed to financial access (deposit mobilization/government payments) in rural areas.
- **Limited product offering:** the limited product offering available to consumers undermined the value of the financial services on offer, with consumers compelled to compromise by using inefficient financial services in the absence of efficient ones. For example, in the absence of insurance products, consumers had to use credit and savings to manage risks. Several of the products available had features that did not match consumers' needs: for example, loans of inadequate size. Furthermore, there were major gaps in the retail product offering. And improvements were sorely needed in the quantity and terms of agricultural input credit, which in turn would increase agricultural productivity.
- **Weak infrastructure:** the financial sector had serious infrastructure weaknesses, which constrained the business models and product offering of financial institutions:
 - Most providers did not have electronic or automated management information systems and the footprint of the electronic payments system was very limited.
 - A national switch for ATMs only started operating in 2012, and a real-time gross settlement system was still under development.
 - The ability to extend formal savings and payment services required a dramatic extension to the electronic payments network, and the then nascent mobile networks offered an immediate solution for achieving this. However, this would not obviate the need to extend branch infrastructure and build a network of agents to perform the encashment role.
 - Given that the modernization of banking systems – which would enable better-informed credit decisions on the part of the providers – was pending, decentralized group-based credit would remain the most efficient way to provide rural credit.
- **Undeveloped insurance sector:** insurance could play a critical role in addressing risks facing consumers, and also help secure credit when customers could not offer collateral. However, the market did not provide products to address the key risks faced (e.g. healthcare expenses), and neither agricultural insurance nor credit life insurance was being offered on bank lending
- **Regulatory environment insufficiently enabling:** MAP found that the regulatory environment did not enable the expansion of rural financial services and, furthermore, it inhibited certain urban delivery options. While the government had a strong poverty reduction focus in rural areas (i.e. differential treatment for urban and rural areas), interest rates, loan size restrictions, capital controls and higher cost of rural provision had resulted in the withdrawal of financial services from rural areas. Furthermore, as a result of exchange rate risks associated with reliance on foreign capital inflows and the restrictions on voluntary deposits, MFIs had limited capital at their disposal for on-lending. There was evidence, however, of encouraging regulatory reforms,

which were opening up new opportunities especially for commercial banks and mobile banking services provision.

2.6.2. *Delivery against the Financial Inclusion Roadmap (2014–2020)*

The Financial Inclusion Roadmap (2014–2020) was based on recommendations and action points raised in the 2014 MAP Diagnostic study, with the aim of assisting and facilitating the government and key market players to build a common vision of a desired future for financial inclusion as follows:

Increase Financial Inclusion in Myanmar from 30% in 2014 to 40% by 2020, and adults with more than one product from 6% to 15%, with a full range of affordable, quality and effective financial services (which comply to internationally recognized standards on responsible finance) by getting all stakeholders to work together in an integrated manner.

The Roadmap proposed that the goal of financial inclusion in Myanmar would be best assured by pursuing two main outcomes:

- The strengthening of the financial sector so that it would be better able to support financial inclusion.
- Ensuring financial inclusion in three priority segments that had been chosen in line with government policy and objectives: agriculture, MSMEs, and low-income households.

The recommendations pointed to the need for coordinated action by government, private sector and development partners, working across institutions, products and key market segments in order to address the various barriers to financial inclusion. Some of the significant barriers that needed to be addressed included supporting the rapidly changing regulatory environment that was yet to evolve fully to support financial inclusion; limited supervisory capacity across the board; limited meso-level institutions and infrastructure; the prevalence of unscalable paper-based banking and payments systems; and capital constraints.

The Roadmap implementation structures, a Secretariat and Technical Working Group, were put in place in 2015, and were further revised following national elections in 2016. The structures have met regularly, coordinating implementation of activities as identified in the Annual Action Plans rolled out by the Secretariat.

The overall Roadmap targets, both at the national level and with regard to the priority market segments, had been achieved by 2018, ahead of schedule. In addition, there have been several specific areas on which the Roadmap has been able to successfully deliver and generate some level of impact. Overall progress is summarized in Figure 5.

As a means of assessing the effectiveness of the Roadmap against its objectives, the MAP Myanmar 2018 study gathered perceptions from concerned parties. The findings were that:

- Although ownership existed among the relevant stakeholders, the Roadmap had been unable to position itself as a national strategy.
- Roadmap implementation had been slow but created a conducive regulatory environment for financial inclusion, particularly through policy and legal amendments to directives.
- There was a need to strengthen stakeholder engagement on the already established Roadmap implementation platform.
- There was a need for capacity building for proper transfer in the government.

- Development partners' knowledge in the sector should be leveraged, resources mobilized and duplication of effort avoided, towards the achievement of the common agenda outlined in the Roadmap.

The 2018 MAP findings enable a deeper understanding of Myanmar's financial sector profile and dynamics than was possible in 2013. Given this enriched perspective, and the attainment in large part of the 2020 financial inclusion objectives as outlined in the 2015 Roadmap (2014–2020), a renewed vision for an inclusive financial landscape is in order.

Figure 5: Progress towards achievement of the Financial Inclusion Roadmap vision and objectives

	Vision Statement	Baseline (2013)	2020 Target	Progress by 2018	Comment
Overall Vision	Increase Financial Inclusion in Myanmar from 30% in 2014 to 40% by 2020	30%	40%	48%	Achieved
	Increase Adults with more than one product from 6% to 15%	6%	15%	17%	Achieved
	Full range of affordable, quality and effective financial services (which comply to internationally recognized standards on responsible finance)	<ul style="list-style-type: none"> ▪ Group based, short term, highly collateralized credit ▪ Limited set of insurance and savings products compared to international markets ▪ Inconvenient and expensive to access due to poor distribution ▪ Quality issues e.g. loans too small ▪ Hampered in diversity and functionality by the lack of provider IT systems. 	<ul style="list-style-type: none"> ▪ Full range of affordable, quality and effective financial services 	<ul style="list-style-type: none"> ▪ Much improved range of products, however gaps remain in variety, affordability, quality and effectiveness ▪ Responsible finance increasingly entering the provider and regulator discourse ▪ Many providers have installed IT systems 	In progress
	Getting all stakeholders to work together in an integrated manner	<ul style="list-style-type: none"> ▪ Stakeholders did not have (or had limited, functionally focused) forums to coordinate and cooperate 	<ul style="list-style-type: none"> ▪ Effective dialogue between the stakeholders 	<ul style="list-style-type: none"> ▪ Stakeholders have forums to engage with government and with each other to improve the offerings to consumers 	On track
Segment	Institution building by utilizing and strengthening all categories of financial institutions (as no single type of organisation can provide access to everyone)	<ul style="list-style-type: none"> ▪ Dominant role played by State Owned Banks; Limited role of commercial banks ▪ MFIs & Cooperatives nascent, still small 	<ul style="list-style-type: none"> ▪ All classes of financial service providers exist harmoniously & provide services to customers 	<ul style="list-style-type: none"> ▪ Significant share of customers for commercial banks, MFIs & cooperatives ▪ Emerging role of mobile money 	On track
	Building the market by growing the currently low level of formal intermediation	<ul style="list-style-type: none"> ▪ Cash based economy ▪ Limited use of formal financial services 	<ul style="list-style-type: none"> ▪ All product classes are widely available and used by customers 	<ul style="list-style-type: none"> ▪ Significant growth in access of formal products (except insurance) 	In progress
Sector	Farmers: Improving financial access in agriculture by increasing the quality and diversity of products to farmers	43%	51%	52%	Achieved
	Self Employed: Increasing financial access to self-employed by strengthening institutions best positioned to serve them.	30%	40%	50%	Achieved
	Informal: Providing financial inclusion and resilience to low income households by creating and incentivising business models and partnerships that are best positioned to provide the services, especially in rural areas.	15%	28%	38%	Achieved

Sources: Financial Inclusion Roadmap 2014–2020; FinScope Myanmar 2018

3. Demand for and usage of financial services

An integral part of the MAP process is the FinScope household survey of demand for and usage of financial services (see overview in Box 3). The overall political and economic transformation that occurred in Myanmar between 2014 and 2018 (discussed in Section 2), also impacted positively on the uptake and usage of financial services. There was an increase not only in the proportion of the population using financial services i.e. an increase in “financial access” but also in the combination of financial services types used i.e. an increase in “financial depth”. Both banks and the non-bank sector (particularly MFIs) contributed to this, and are therefore seizing the opportunities that a transforming economy is offering. However, banks capitalized the most on the formally employed, while non-banks contributed significantly to those that are not formally employed.

This section provides an overview of the key changes in financial services uptake between 2013 and 2018, and the use of financial services in 2018. Each financial product market (credit, savings, insurance and payments) is also covered. Box 3: FinScope methodology

FinScope is a nationally representative survey of adults that covers four main types of financial products and services: savings, credit, insurance, and payments (including remittances). The FinScope Survey measures access to finance in terms of usage of one or more of these financial services, and considers services provided by banks, formal (regulated) NBFIs (e.g. MFIs and cooperatives), and informal (unregulated) service providers (e.g. moneylenders).

At the product level (but not for overall access to finance), FinScope also considers provision by family and friends and through “in-kind” services (e.g. savings in the form of gold and jewellery).¹⁰

3.1. Changes in financial access since 2013

3.1.1. *Financial access and depth*

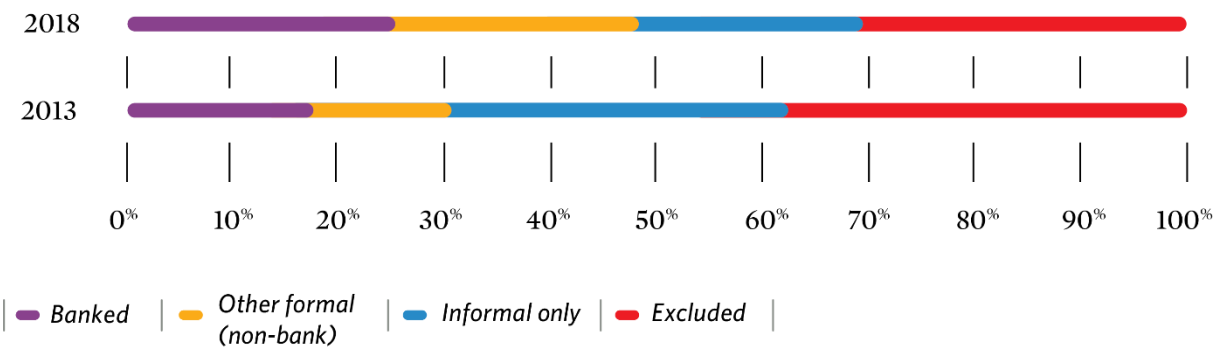
Overall access to financial services and depth of access significantly improved since 2013.

Formal access (through banks and other regulated financial institutions such as MFIs and cooperatives) has increased from 30% to 48% of the adult population (see Figure 6). This is already ahead of the 40% target established in the 2015 Roadmap for attainment by 2020. Overall inclusion, including the use of informal financial services, has increased from 62% of adults to 70%. Hence the rate of formal exclusion has fallen from 70% to 52%, and overall financial exclusion from 38% to 30%. Similarly, financial depth increased significantly;¹¹ in 2013, only 6% of adults used more than one financial product from a formal (regulated) institution, but by 2018 this had risen to 17%. However, the majority of adults remain narrowly served, with 31% using only one formal product, and 22% using informal products only (see Figure 7).

¹⁰ The data derived from the FinScope Survey is self-reported by survey respondents (and weighted to be nationally representative), and as a result may not always agree with supply-side data sourced from service providers or regulators.

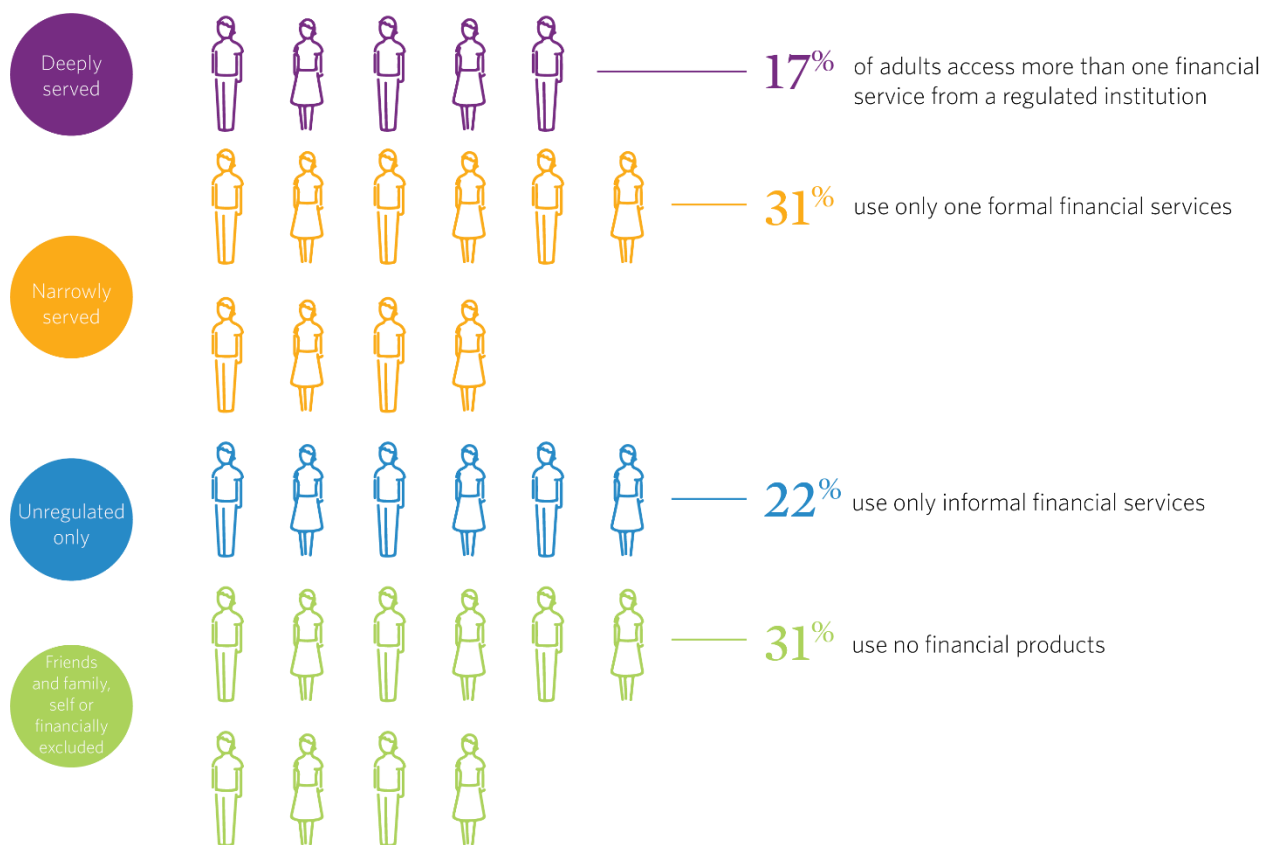
¹¹ “Breadth of usage” refers to the level of financial inclusion i.e. measured by the proportion of adults who are financially included as per the access strand. However, the access strand does not show any overlaps in the use of financial products and services; for this reason, an individual with multiple products (whether formal or informal), will only be reflected in one group, with preference traditionally given to banking. “Depth of access” refers to the use of multiple products, such as savings and credit, from formal financial institutions.

Figure 6: Financial access strand (2013 and 2018)



Source: FinScope Myanmar 2013, 201

Figure 7: Financial inclusion: depth of access (2018)

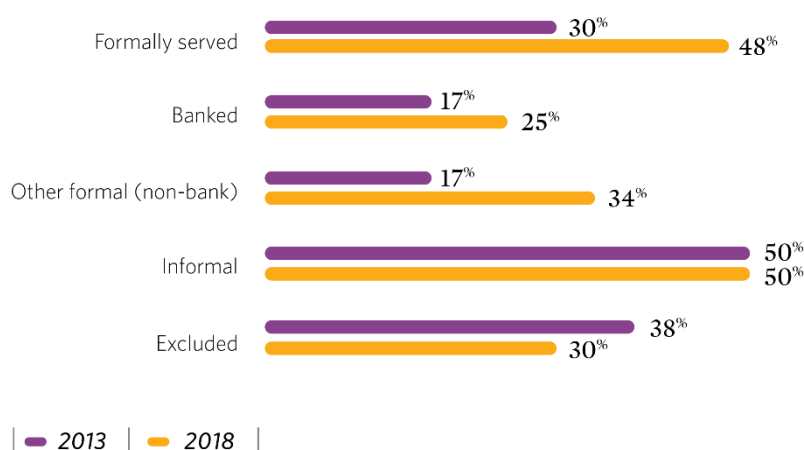


Source: FinScope Myanmar 2018

Increased financial inclusion – use of formal combined with informal services. As Figure 8 shows, there have been increases in the use of both banks and NBFIs. The growth in banking has been mainly driven by consumers’ need to make payments. The use of “other formal” financial institutions has doubled (from 17% to 34% of adults), driven mainly by uptake of credit from MFIs and cooperatives. The use of informal financial services has remained unchanged (at 50% of adults), but adults are increasingly using informal service providers as a *complement* to formal services rather than relying exclusively on them (a trend that is further discussed in the product narrative): In 2013, 18% of adults were using both formal and informal financial services, and 32% were using informal services only.

- By 2018, 28% of adults were using both formal and informal financial services, and 21% were using informal services only.¹²

Figure 8: Drivers of financial inclusion



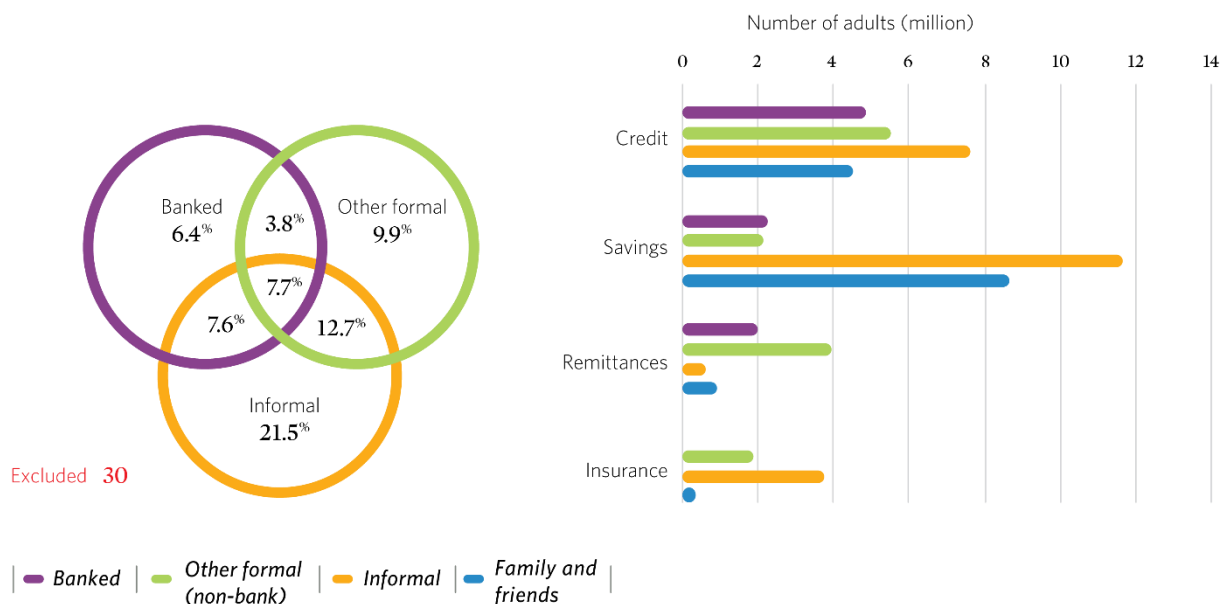
Source: FinScope Myanmar 2013,2018

Increased financial depth – use of multiple formal service types. While increased access reflects an increase in the use of formal and informal services together (as discussed above), there has at the same time been an increase in the use of *multiple* formal financial service types *together*; this reflects the expansion of formal access to credit, savings, insurance and remittances (see the product-level discussion below), again driven by the rapid expansion of private banks (for savings and remittances), and MFIs and cooperatives (for credit) since 2013. At that time, much of the access to a formal financial institution stemmed from MADB, and in particular borrowing from MADB. The recent increase in depth of financial access has resulted from MADB clients also making use of formal services from other financial institutions. However, the deepening of access is not confined to MADB clients: 65% of bank account users are deeply served, as are 68% of MFI account holders, 55% of cooperative members and 49% of mobile money account holders.

Non-bank formal and informal financial services remain very important. The two trends discussed above are further supported by considering the overlaps in product usage between the banked, other formal and informal. As Figure 9 shows, 34% of adults use other formal service providers (including MFIs, cooperatives and mobile money); 23% of such adults rely exclusively on other formal providers for credit, saving, remittance and insurance. More adults use “other formal” financial service providers than use banks (25%); only 6% of adults rely exclusively on banks for financial services (credit, saving and remittance). The findings indicate that 12% of adults use banks along with other formal financial service providers, while 15% use banks along with informal financial service providers. The informal sector continues to play an important role in complementing the provision of formal financial services. While 49% of adults use some form of informal financial services, 28% use informal services alongside banks or other formal services, and approximately 21% use informal financial services alone. Informal financial channels are also the most important means of savings, borrowing and insuring.

¹² In other words, 58% of those that are formally financially included also use informal mechanisms to manage their financial needs.

Figure 9: Formal and informal product usage overlaps, and by product category (without overlaps)



Note: "None" includes no income declared, or income unknown.

Source: FinScope Myanmar 2018

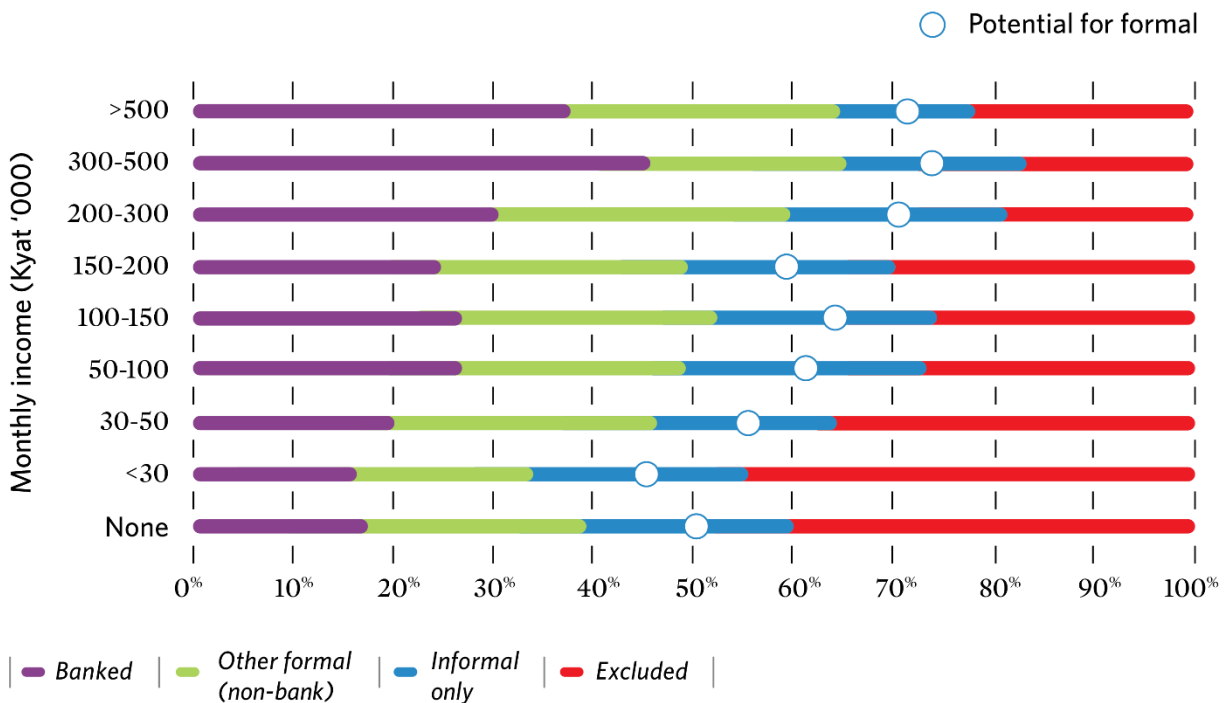
Financial access improves with income. Even at high income levels use of formal financial products/services is surprisingly low. High income earners, as expected, have better financial access and usage (see Figure 10), though not significantly. Nevertheless, even at high income levels there are opportunities to improve financial access, as some high-income earners are financially excluded (perhaps by choice) or use only informal financial services.

Across almost all income groups, about 40% to 60% of adults are excluded from formal financial access. This is surprising because it indicates that many higher-income, bankable clients are not actually served by banks. This could be due to a lack of suitable products, and/or perceptions that banks are not accessible, not necessary or not trustworthy. Thus, an opportunity exists to attract high-income groups into the formal financial sector, especially with targeted savings and investment products.

3.1.2. Usage across localities

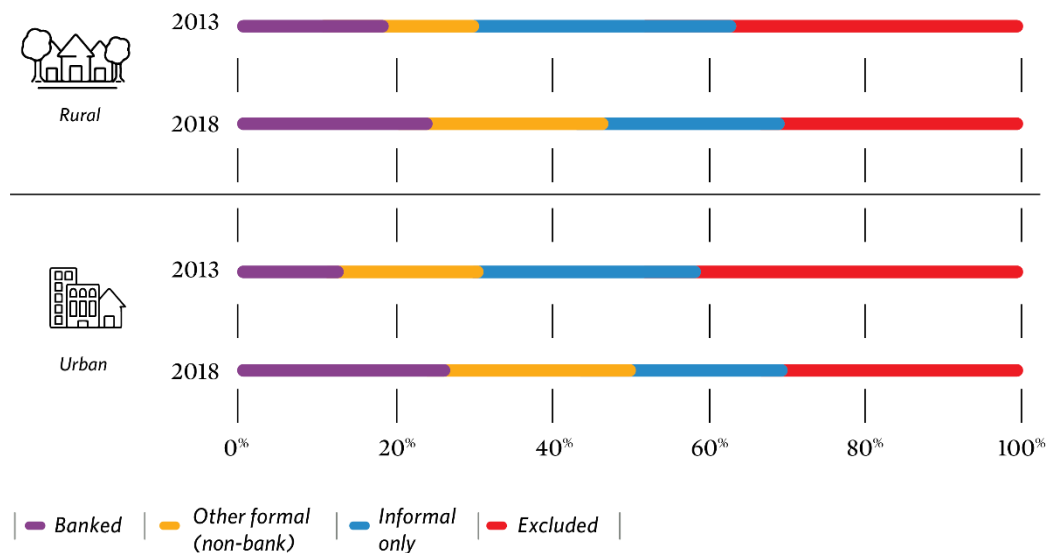
Financial access increased across urban and rural areas. From 2013–2018, formal financial access rose sharply in both urban and rural areas (see Figure 11). However, in urban areas this was mostly driven by improved access to banking (private commercial banks), while in rural areas it was mainly driven by improved access to MFIs and cooperatives (i.e. other formal providers). The informal sector plays a particularly important role in the rural areas, where 72% of the financially included use informal products/services (down from 81% in 2013), whether alone or in combination with formal products.

Figure 10: Access strand, by income group



Source: FinScope Myanmar 2018

Figure 11: Access strand, by location (2013 and 2018)



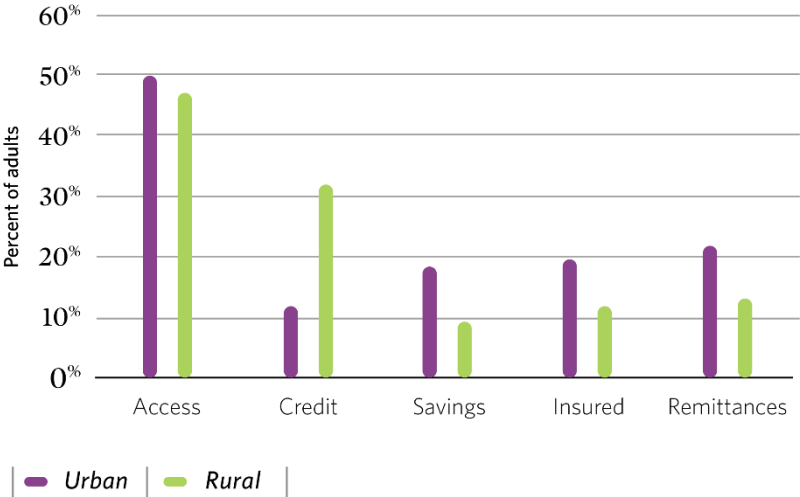
Source: FinScope Myanmar 2013, 2018

Financial inclusion similar for rural and urban, but driven by different dynamics. Although there is no difference in financial exclusion between rural and urban areas (30% excluded in each), there are differences in the use of banked, other formal and informal services, as well as specific providers, which result in differences in the overall level of inclusion: 27% of urban adults are banked compared to 25% of rural adults. However, most of the rural access to banking is driven by MADB, which accounts for over 70% of rural access to banking. Other banks (mainly private commercial banks) serve an estimated 25% of urban adults, but only 7% of rural adults. There is a relatively high uptake of other formal financial services among those that are not banked; this refers mainly to use of MFIs. As with use of banks, the use of other formal providers only is slightly higher in urban areas (at 24%), than in rural areas (at 22%).

Formal financial exclusion is therefore slightly lower in urban areas (at 49%) than in rural areas (at 53%). More adults have to resort to informal finance in rural areas (23%), though, than in urban areas (19%). The higher use of informal financial services thus increases the overall level of financial inclusion in rural areas, bringing rural financial inclusion to the same level as urban.

Product usage varies considerably between urban and rural. Although formal financial access is similar in urban and rural areas, the use of formal borrowing is much higher in rural areas, while uptake of formal saving, insurance and remittances is higher in urban areas (see Figure 12). However, overall levels of savings product/service uptake are higher in rural areas, due to the very high levels of informal savings.

Figure 12: Usage of formal products, by location (% of adults)



Source: FinScope Myanmar 2018

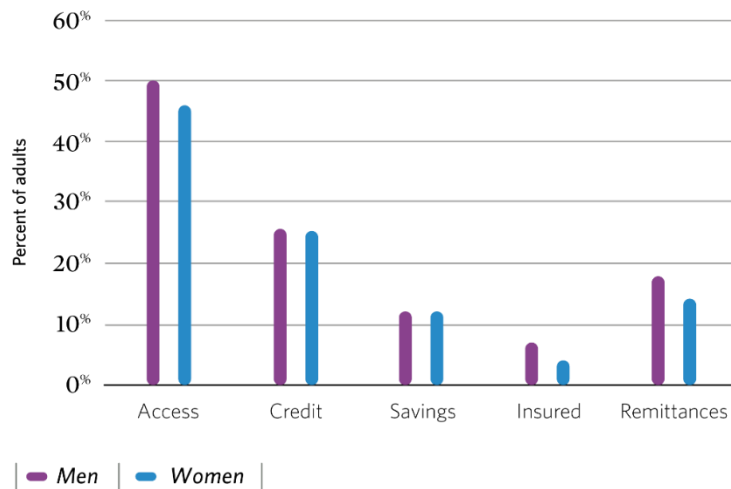
3.1.3. Usage by gender

Women slightly less included, but inclusion growing faster than for men. Overall, men have a slightly higher rate of formal financial inclusion, while women are more reliant on informal channels (see Figure 13). There are also small differences, by gender, in the use of formal financial products (see Figure 14).

Formal savings and borrowing rates are virtually the same for men and women but men are more likely to be insured and use formal services for remittances. However, the improvements in formal financial access between 2013 and 2018 benefitted women slightly more (11% reduction in formal exclusion) than they did men (9% reduction). The most striking contrast is that men have greater access to banking – saving and credit, alike, mainly at private banks – while among women there has been an increase in access to non-bank formal providers, mostly MFIs, in part because of a specific focus, by some MFIs, on providing services to women.

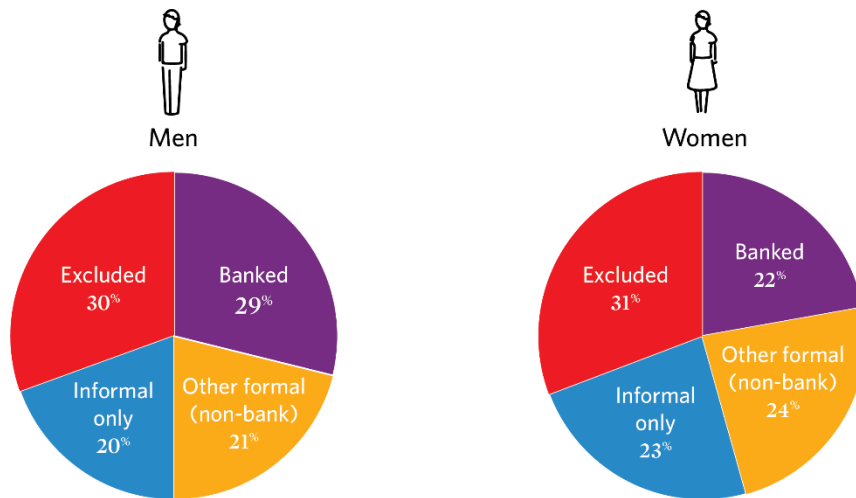
A further striking financial inclusion related difference between men and women relates to target groups. Women make up around half of the adult population, and this gender balance is largely reflected in the self-employed target group. However, formal and informal employees are predominantly men (60% and 61% respectively). The most striking contrasts are with regard to farmers (77% men) and dependents (75% women). This means that men and women are likely to have different financial needs, and that interventions to improve access to financial services will have different effects on men and women. For instance, improving agricultural finance will mainly benefit men, while improving remittance services will mainly benefit women, many of whom are dependent on money provided by others.

Figure 13: Financial access strand, by gender



Source: FinScope Myanmar 2018

Figure 14: Usage of formal products, by gender



Source: FinScope Myanmar 2018

3.2. Changes in financial product usage

A core MAP hypothesis is that people use an array of services to meet their financial needs, and that there are cross-linkages between product markets. Analysing usage/uptake across product markets enables a better understanding of people’s financial needs, more targeted recommendations, and a sound basis for evidence-based decision making. The four product types considered here include credit, savings, insurance and remittances, while mobile money usage is also discussed.

Changes in usage between 2013 and 2018 vary considerably across product markets:

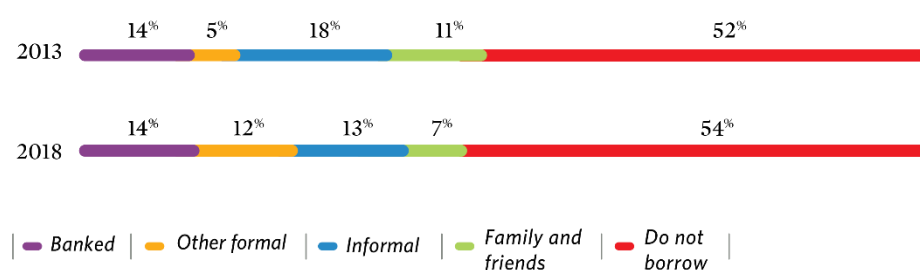
- Credit:** overall credit usage decreased slightly over the period, but formal borrowing – particularly from other formal (non-bank) providers – increased significantly. While both MADB and informal sources of credit remain prominent, credit from moneylenders, while playing a dominant role, is on the decline. Concerns around over-indebtedness remain, although overall indebtedness and affordability actually improved, largely due to a rise in income and to the slight decline in credit usage over the period. There remain, however, pockets of borrowers that may be experiencing high levels of debt stress.

- **Savings:** savings increased over the period, for all categories of formal savings products/services. While jewellery and gold remain the biggest mechanisms for saving, bank savings increased significantly.
- **Insurance:** although both formal insurance and informal risk mitigation increased significantly over the period, insurance usage remains low.
- **Remittances:** use of remittance products/services actually decreased slightly over the period, and there was a substantial shift in usage from informal to formal remittance channels; the majority of remittances are now being sent through formal channels.
- **Mobile money:** with the increase in ownership of mobile phones, the awareness of mobile money increased massively – although actual mobile money usage is still very low. Even so, for half of those who use mobile money, it is the only formal financial service type they use. With mobile money usage increasing at a rapid rate, it may well play a more significant role in the future.

3.2.1. Credit

Overall access to finance has risen, but credit access fallen slightly. The proportion of adults who “do not borrow” rose from 52% in 2013 to 55% in 2018 (see Figure 15). The composition of credit provision has changed, with a growth in access to formal products/services, and a concomitant reduction in access to informal: the uptake of formal credit rose from 18% to 26% of adults, mainly due to increased borrowing from MFIs and cooperatives; associated with this was a reduction in the number of people using only credit from informal sources and family and friends – down from 29% to 20%. Nevertheless, many people continue to use informal sources of credit in addition to bank credit and other formal sources. 45% of adults use credit which makes it the second most widely used source of finance after savings. There was little change in borrowing from banks as MADB’s credit portfolio hardly changed and private banks have been slow in extending credit to household borrowers.

Figure 15: Credit access strand



Source: FinScope Myanmar 2013, 2018

Box 4: The Impact of MADB on financial inclusion figures

The *FinScope* Survey asks respondents whether they currently have/are using, had/have used in the past, or never had/used a product or service from different types of financial institutions or service providers (whether formal or informal). In relation to credit, respondents who respond “yes” to whether they are current borrowers are counted as financially included in the credit strand and the overall financial access strand. However, there are some discrepancies between demand-side (*FinScope* Survey) data and supply-side (institutional) data, particularly when it comes to credit from MADB. Such discrepancies may have an impact on the reported financial inclusion figures.

In both of the *FinScope* surveys from 2013 and 2018, some 4.2 million adults reported having credit from MADB. This figure is believed to include both current active borrowers and inactive borrowers. However, contrary to best banking practice MADB (a SOB operating outside of CBM oversight) does not write off loans that are in default. Borrowers in default are of the perception that they still have a debt owing to MADB, and therefore in the *FinScope* Survey they report a loan from MADB. Information from MADB indicates that around half of the 4.2 million reported borrowers from MADB are in default, with a maximum of 2.2 million active credit clients (depending on the season).

It is not feasible or appropriate to adjust the *FinScope* results to exclude the inactive borrowers (it is not known which of the respondents they are, and household survey results must be reported as per the information provided by respondents). However, a very rough estimate can be made of how “usage” may differ from “access”; if the approximately 2 million inactive MADB borrowers were excluded from usage figures, the reported “banked” figure in the 2018 financial access strand would fall (at most) from 25% to around 20% of adults, if those excluded adults have no other bank products (which is likely to be the case). However, the impact on the overall level of formal usage would be less than this, as some of the excluded MADB borrowers are known to be using other formal (non-bank) financial service providers, such as MFIs and cooperatives (and hence would still be formally financially included). *FinScope* data indicates that over 12% of MADB borrowers also borrow from MFIs and/or cooperatives. Similarly, the impact of this on the usage of credit would be a reduction of “banked” credit from 14% to 8% of adults. Regardless, it is anticipated that this may have a negligible impact on the overall use of formal credit.

Informal sources dominate credit provision.¹³ Approximately 56% of total credit (by value) provided to households in 2018 came from informal sources, with 44% from formal sources. The most common sources of formal credit are MFIs, followed by MADB and cooperatives. Households generally access a limited amount of credit from private commercial banks. The most common sources of credit are informal, notably moneylenders, and family and friends (see Figure 16).

Despite dominant role of informal sources, role of moneylenders diminishing. It is estimated from *FinScope* data (2018) that, in 2018, the 4.2 million clients of moneylenders borrowed MMK 2,329 billion (USD 1.75 billion) from them. In the 2013 *FinScope*, the figures were not estimated as precisely, but the 2014 MAP Diagnostic indicated there were 5.9 million clients of moneylenders, with total borrowings in the range of MMK 2,800–MMK 5,200 billion (USD 2.1–USD 3.9 billion). Even with this uncertainty, it appears that the number of moneylenders’ clients and the amounts borrowed had both fallen by 2018.

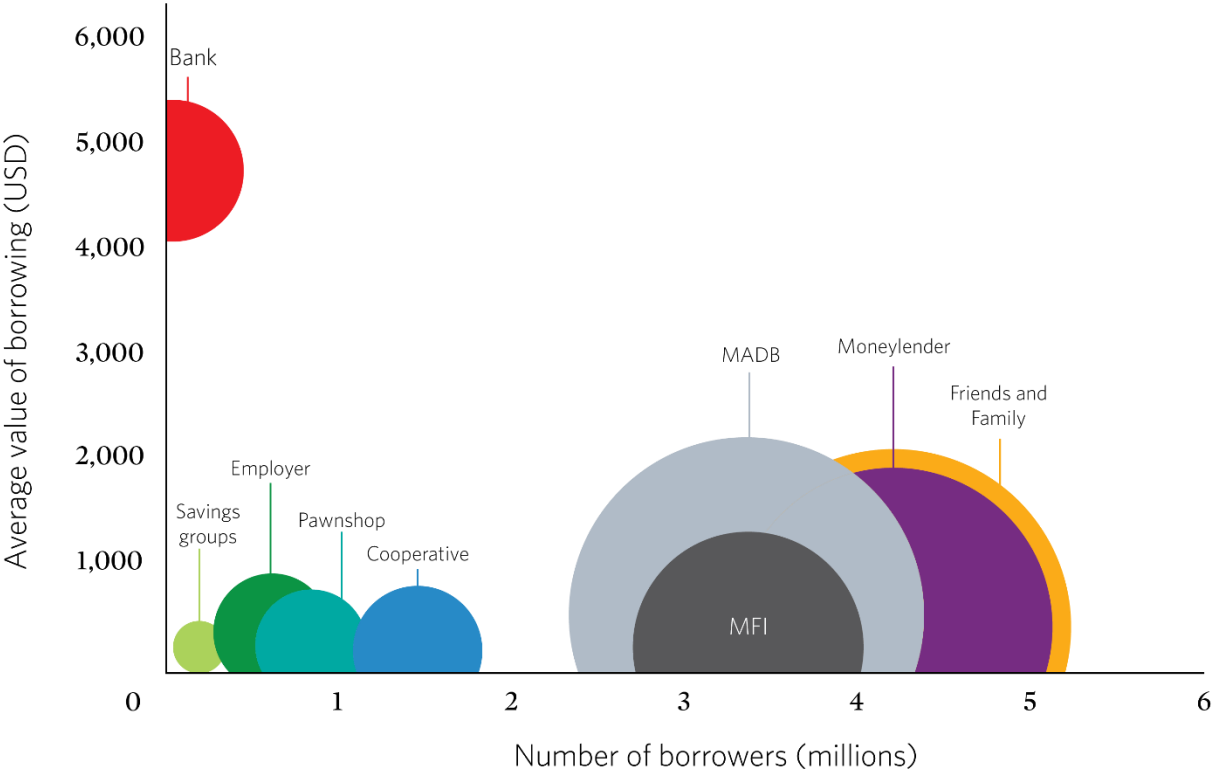
Concerns about levels of over-indebtedness growing in Myanmar. Particular concerns with regard to over-indebtedness include adults/households taking on more debt than they can afford based on their

¹³ There are several important points to note in interpreting the information in Figure 16. Firstly, it is based on responses from adults that provided information on the value of the loans they had. Secondly, for MADB clients it includes both current (active) clients and historical clients that had borrowed in the past but had not (fully) repaid their loans (and therefore considered themselves still owing to MADB, even if they had not borrowed recently). Thirdly, the information relates only to individual borrowers; hence, the average value of bank loans reflects only loans to adults, not overall bank lending including commercial credit.

income, a lack of understanding of the risks of debt, debt being badly structured relative to the income pattern (regular/irregular) of the borrower, credit being too readily available, and borrowing from multiple sources. The MAP 2018 results, which indicate a slight drop in the overall extent of borrowing, and a shift away from moneylenders towards formal sources of credit (which tend to have lower interest rates) may go some way towards alleviating such concerns.

Indebtedness is difficult to measure directly, but it can be approximated. With information from the FinScope Survey on the value of individuals' debt and their income, an estimate can be made of the level of debt service payments (repayments of capital plus interest) relative to income (the debt service ratio). Information is also available on the level of missed repayments on loans from different financial institutions. Whereas 15% of borrowers from banks (including MADB) indicated they had missed a loan repayment, the equivalent figure for MFIs was only 3%, and for cooperatives it was 7%. However, 34% of borrowers from moneylenders had missed a repayment.

Figure 16: Major sources of borrowing



Source: FinScope Myanmar 2018

Indebtedness appears to have fallen. In 2013, the average monthly debt repayments of indebted adults amounted to 55% of average income – an unsustainably high level. In 2018, however, the comparable figure had fallen to 38%, which is much more affordable (although this is a minimum estimate, and the actual level is likely to be higher than this).¹⁴ We can also consider the distribution of debt affordability across borrowers. In 2018, 78% of borrowers had a debt service ratio of 30% or less,

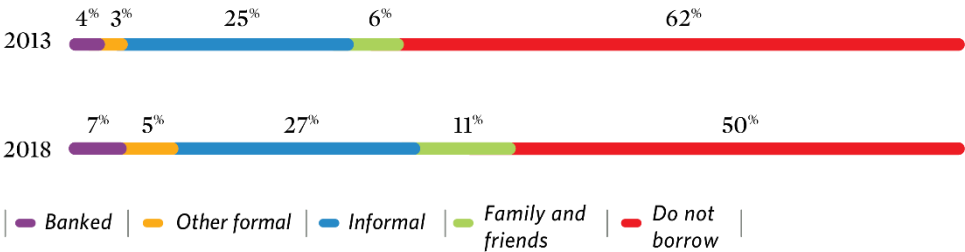
¹⁴ This is based on the assumption that credit is for one year, and bears an interest rate of 8% per annum. Figures refer only to those respondents that provided information on both their income and their level of borrowing. The calculation reflects an approximation of indebtedness; given that many loans (e.g. from MFIs and moneylenders) bear higher rates of interest, this should be interpreted as a lower bound to the actual level of indebtedness.

while 15% had a ratio of 50% or more. This suggests that while there may not be a generalized problem of over-indebtedness, pockets of borrowers exist that may be experiencing high levels of debt stress.

3.2.2. Savings

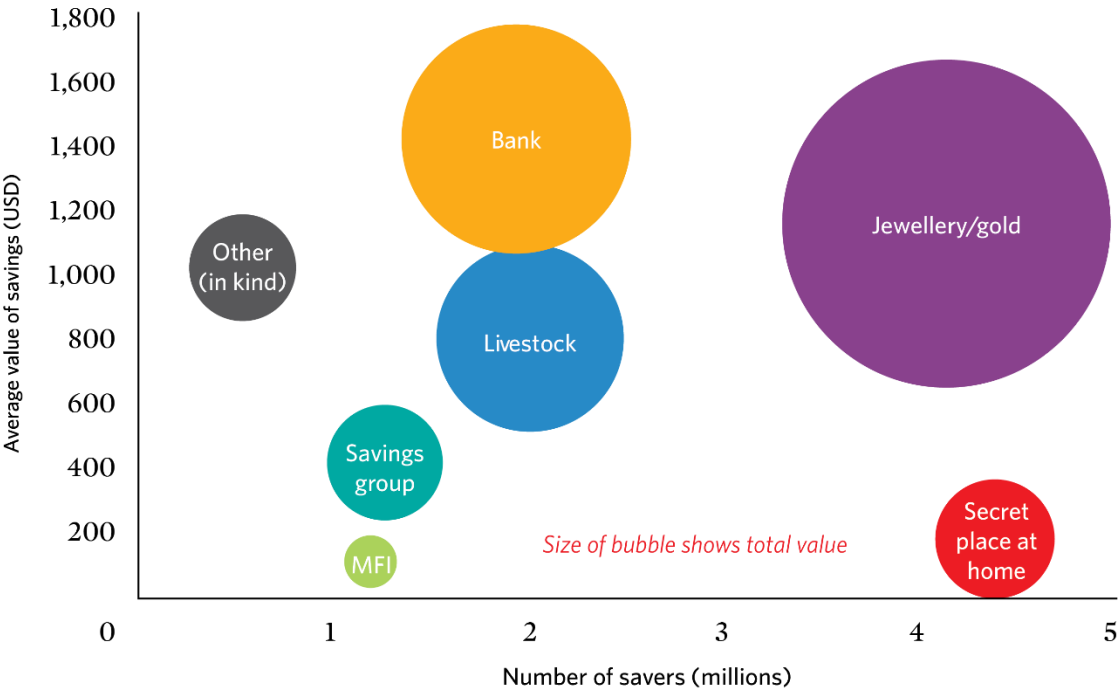
High access to savings products. In 2018, 50% of adults were found to undertake some form of saving, whether formal or informal (see Figure 17). This had increased from 38% in 2013. In 2018, around 12% of adults had a savings account with a bank or a formal NBFi which represents a 6% increase from 2013. However, the most common type of savings product was found to be informal, such as savings in the form of jewellery and gold or in a secret place at home. More than 75% of all savings are held in informal products. Jewellery and gold alone account for an estimated 41% of all household savings (see Figure 18).

Figure 17: Savings access strand



Source: FinScope Myanmar 2013, 2018

Figure 18: Major forms of savings



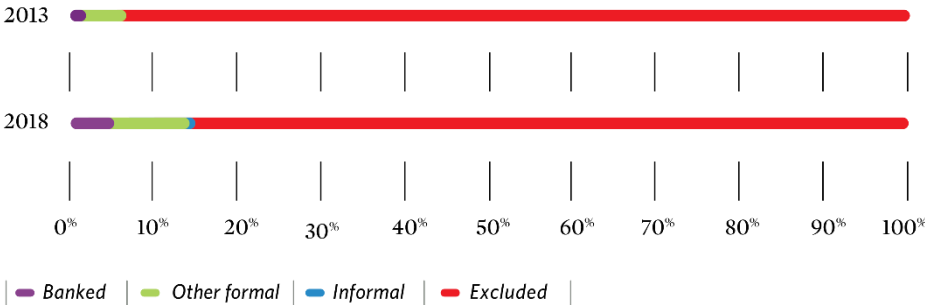
Source: FinScope Myanmar 2018

3.2.3. Insurance

Insurance usage is very low. Only 6% of adults use insurance products from registered insurance companies (see Figure 19). Although this figure is low, usage has increased significantly since 2013,

when the figure was only 2%. A further 10% of adults make use of informal insurance mechanisms such as community solidarity groups; support for these substantially increased over the period. The most common types of insurance reported by users are funeral, motor, life and pension insurance. The figures may not completely include formal employees who benefit from social security insurance coverage mandated by prevailing labor regulations.

Figure 19: Insurance access strand

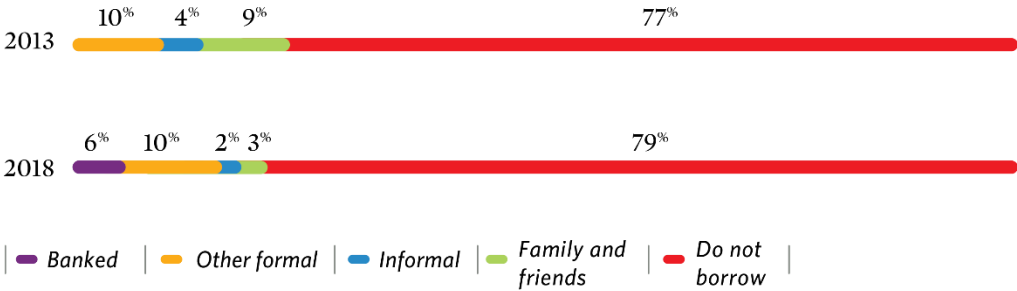


Source: FinScope Myanmar 2013, 2018

3.2.4. Remittances

Relatively low usage of remittance services. Only 21% of adults reported that they send or receive remittances, mostly through a range of formal channels including via bank accounts, over-the-counter (OTC) bank transactions for those without accounts, and mobile money. There is some usage of informal channels (*hundis*) and family and friends, but this is declining in favour of formal remittance channels. Use of informal remittance channels fell from 4.5% of adults in 2013 to 2.1% in 2018, and use of family and friends for remittances fell from 9.5% to 2.9%. There has been little change in the overall use of remittances since 2013, but there has been a shift from informal to formal channels (see Figure 20). This shift is mainly driven by the availability of a greater range of formal remittance products/distribution channels (including mobile money), and greater accessibility (such as increased number of bank branches).

Figure 20: Remittances access strand



Source: FinScope Myanmar 2013, 2018

3.2.5. Mobile money

Rapid increase in access to mobile phones and Internet. As noted in Section 2, an increase in the use of mobile phones has been one of the dramatic changes that have occurred within the past five years (2013–2018). The common ownership of mobile phones – basic and smart phones alike – increased from 42% of adults in 2013 to 78% of adults in early 2018. Similarly, the use of the internet increased significantly: from 2% of adults in 2013 to 28% in 2018.

Mobile money – awareness much higher than usage. Despite the high level of access to mobile phones, mobile money usage is still very low. At the time of the FinScope Survey (2018), only 4% of adults used mobile money, while only 2% had registered mobile money accounts. Nevertheless, it is reported that usage is increasing rapidly as awareness levels grow as shown in Table 2:

Table 2: Awareness level of mobile money providers

Name of provider	Awareness among adults
Wave Money	39%
M-Pitesan	24%
OK Dollar	21%
True Money	13%
Red Dot	11%
Ongo Myanmar	5%

Source: FinScope Myanmar 2018

Mobile money is appreciated for its convenience. Of those using mobile money, 72% claim it is convenient and saves time. However, at present 44% of the adults that do not use mobile money feel they do not need it. The low use of mobile money is largely due to the dominance of cash transactions. Over time, as consumer awareness and financial literacy develops mobile money will grow to become a widely accepted financial source.

Transactions performed on mobile money is quite limited. Mobile money is mainly used for remittances and the purchase of airtime. The use of mobile money to store or save money is also very low, perhaps because there are no products focused on interest-bearing savings.

Mobile money currently serves a narrow proportion of people but there are some signs of an increase in its formal financial accessibility. Of the mobile money account holders, 51% are narrowly served (i.e. have only one formal financial product), whereas 49% are deeply served (i.e. use more than one formal product). Mobile money, then, is a first experience with formal financial services for half of account holders, and serves as a gateway for the delivery of other emerging DFS.

Some key priorities from a consumer perspective

The MAP Global Insights Series 1 (Note 2) found that countries in which access to formal financial services is below 50% typically have very shallow usage: on average, only 1.5 formal financial services are used by those that are formally financially included. However, once countries pass the 50% mark on financial inclusion, depth of financial usage starts increasing, and people on average use between two and three formal financial service types.

Myanmar is at or close to this transition point. As access increases further, the focus needs to change – beyond simply increasing the numbers of people using financial products/services. Key areas of attention should include:

- Shifting the focus to the deepening of financial access, by extending the use of multiple products.
- Paying attention to the quality of financial products and their relevance to peoples' needs and livelihoods, so that access will translate into usage.
- Continuing the trend from usage of informal to formal financial services, especially for savings products/services, where informal usage still dominates. This should be done by giving people

greater access to appropriately designed formal products to complement and/or replace informal product usage.

- Extending the use of commercial bank products beyond remittances and to a broader consumer base, especially as access to banking is still dominated by MADB and the use of commercial (private) bank products remains low.
- Finally, converting awareness of mobile money products into usage is a key objective.

4. Target group changes and needs

As a result of the positive demand-side developments discussed in Section 3, all target markets experienced an increase in financial access, although by far the biggest gains were made by the formally employed. While, for this group, further gains are to be made, all indications are that such gains will indeed be achieved. The focus should therefore expand to the next segment/s where improvements in financial inclusion look achievable; more information is therefore provided on the changes in access, and the financial needs of the *self-employed* target market segment, as well as the *farmer* segment. (Also see Appendix 2, for more information on target market segmentation methodology and target market characteristics.)

Access increased across all target groups. Overall access to financial products/services (formal and informal) increased across all target groups from 2013–2018. However, formal financial inclusion increased more than overall financial inclusion, corresponding with the increased use of formal services *in addition to* informal services. These positive developments either exceeded or are in line with the 2015 Roadmap expectations. Although financial access for farmers increased the least of all the target groups (in terms of both formal and total access), the 2015 Roadmap targets for this group were also still met.

Formally employed experienced by far the greatest gain in financial access. Formal employees stand out among all the target groups for their exceptional increase in access to financial products/services. This reflects two features:

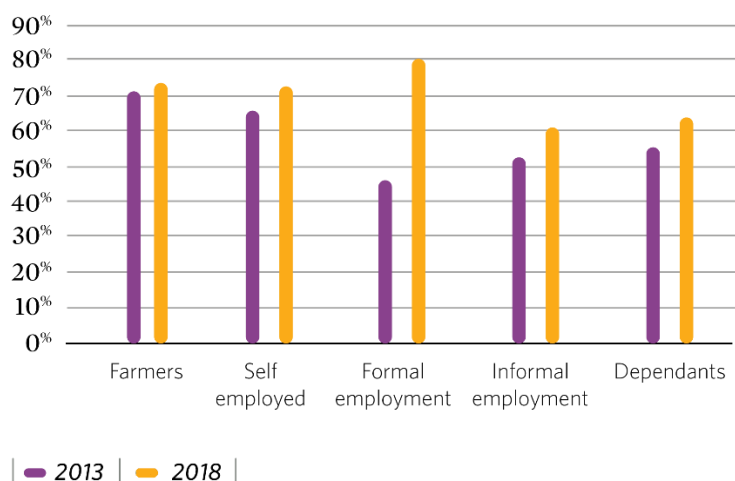
- In 2013, this target market segment had the *lowest* level of financial inclusion (46%) of all the target groups.
- The improvement in this group's financial access has been driven by their access to banking, which has risen from 20% to 45%, with many formal employees receiving their salaries by payment into bank accounts.

Other target groups have benefitted from improved access to “other formal” financial service providers (especially MFIs), but this has largely substituted for reliance solely on informal providers. For most groups, formal financial access has therefore improved more than overall financial access that includes other sources of finance (see Figure 21).

4.1. Linking needs and usage to livelihoods

Financial products/services are ultimately a means to an end. People use products/services not for their own sake but rather to meet an underlying need. Financial products/services are thus a form of “derived demand” where the demand is for something other than the service or product itself. It is therefore useful to look at what financial services are actually being used for. Other than the transfer of value (to make a payment), financial services are also used to manage liquidity, to manage risks, and to meet longer-term goals (see Box 5 and Appendix 3 for more information). This sub-section provides a brief overview of the main needs driving the use of different financial products/services in Myanmar. Table 3 shows a breakdown of needs by target market.

Figure 21: Overall financial inclusion, by target group (2013 and 2018)



Source: FinScope Myanmar 2013, 2018

Box 5: Explaining actual usage as a proxy for needs

Figure 22 conveys the main financial product and service needs in Myanmar. The X-axis represents discrete needs and the Y-axis represents the percentage of Myanmar adults that reveal (through actual usage) a need for a specialised type of financial product/service.

There are four ways in which people might use financial products/services to satisfy particular needs: through payments, savings, credit, or insurance. Some needs can only be satisfied by one product; for example, the need to pay for goods and services, for which only payment products can be used. In other cases, such as for loss mitigation, more than one product can be used to meet the same need.

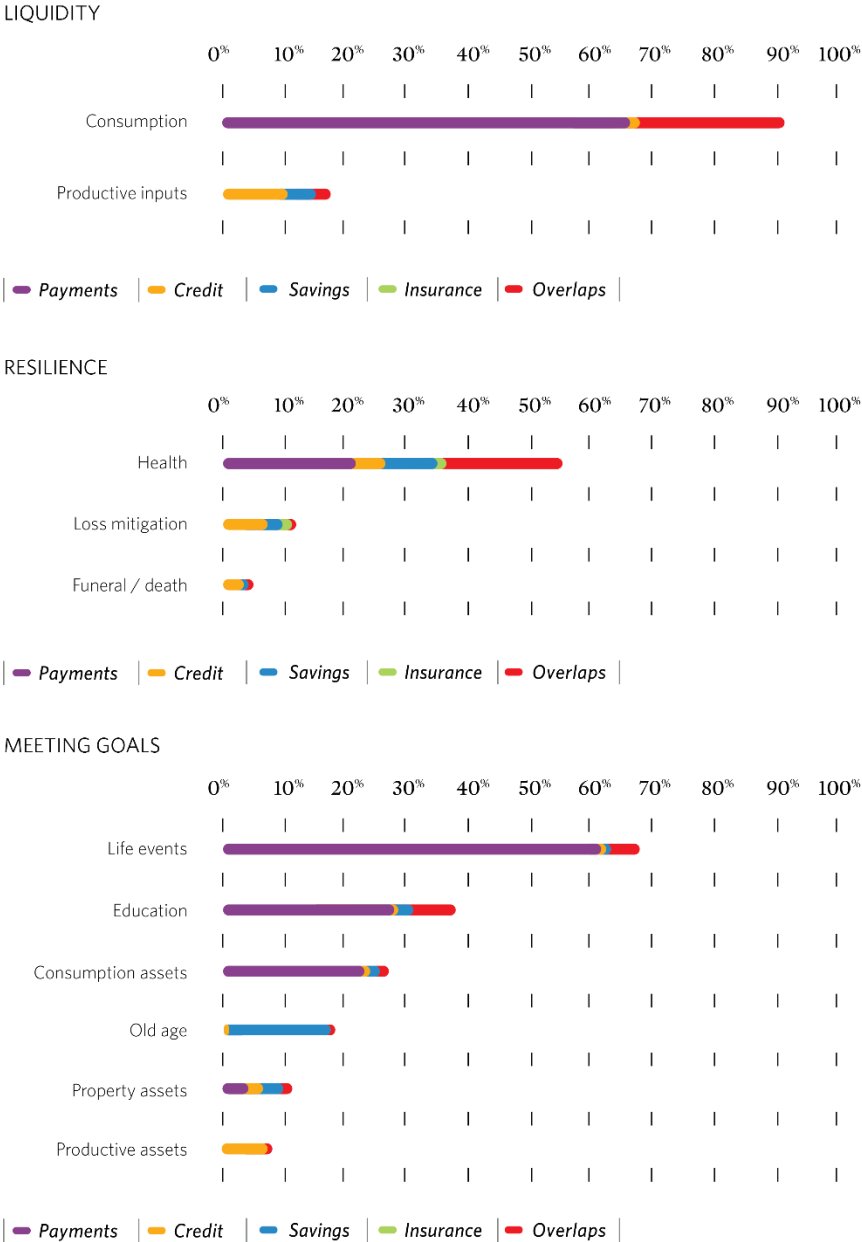
Where consumers use more than one product to meet a particular need, this is classified as an "overlap". It is important to note that the diagram identifies revealed needs based on an analysis of actual usage of financial products/services as reported by FinScope Survey respondents, as well as a number of other FinScope Survey questions that give an indication of likely needs. Therefore, the number of individuals that need a financial product/service will, in reality, be more than is reported in Figure 22 (because of unmet needs) but cannot be less.

Cash remains the main channel of income and expenditure. The analysis reveals that most people receive their income in cash and pay for most of their expenses in cash. The only exception is for receiving remittances (which are mostly non-cash in nature) and sending remittances (more than half non-cash) with "non-cash" indicating funds received/sent over distance by other means, most likely electronically.

Largest financial need is for regular consumption expenditure, such as food and transport (segmented into the "liquidity management" category of needs). This is to be expected. Nevertheless, perhaps of more significance are the next most important financial needs: paying for "life events" such as marriage or ceremonies (which fall into the "meeting goals" category of needs); and dealing with health expenses (which fall into the "resilience" category of needs). Other expenditure related to meeting goals, specifically education, and buying household consumption assets (e.g. furniture or a bicycle) are also noteworthy. Other financial needs are relevant to less than 20% of adults (see Figure 22).

Most of these needs met through monthly income flows. However, more than half of healthcare needs are met through savings and credit, and over a quarter of consumption needs are also met with these sources. Less than 20% of people use financial tools to manage productive cash flows; besides health, these financial tools are very rarely used to manage risks (the largest is loss mitigation e.g. from fire, theft or bad harvests, at just over 10% of adults). For the latter, those that do use financial tools mostly use credit. Similarly, very few people use financial tools to plan for old age (those that do mostly use savings), buy property or land (11%), or purchase productive assets (9%).

Figure 22: Main demonstrated financial product/service needs



Source: FinScope Myanmar 2018

Needs vary across target groups. Across the different target markets, the demonstrated actual usage (as a proxy for needs) of financial products/services to meet different needs varies. Table 3 compares actual usage (i.e. needs) across the five target market segments. The table uses a “traffic light” system to indicate prominence of needs within and across target market segments: cells are highlighted green

when more than 60% of the target market demonstrated use of financial services to meet a particular need; orange cells have values between 20% and 60% while red cells have values lower than 20%. The needs of farmers and the self-employed are discussed in greater detail in the sub-sections that follow.

Table 3: Breakdown of identified needs, by target market

		Overall	Farmers	Formal employees	Self-employed	Informal employees	Dependents
Liquidity	Consumption	92%	93%	94%	97%	97%	87%
	Productive inputs	18%	41%	7%	15%	9%	11%
Resilience	Health	55%	53%	64%	60%	58%	49%
	Loss mitigation	11%	17%	7%	11%	11%	9%
	Funeral/death	4%	4%	2%	4%	7%	4%
Meeting goals	Life events	68%	69%	74%	75%	69%	59%
	Education	38%	38%	37%	45%	38%	32%
	Consumption assets	27%	25%	37%	33%	26%	21%
	Old age	18%	15%	33%	24%	14%	13%
	Property assets	11%	7%	13%	15%	13%	10%
	Productive assets	9%	25%	2%	5%	7%	6%

Source: FinScope Myanmar 2018

The formally employed have the highest level of regular income, and the highest level of formal financial inclusion. Significant points to note about their financial behavior is that, of all the target market segments, the formally employed pay the most attention to saving for old age and providing for healthcare needs and consumption assets. This can be interpreted as pointing to future priorities across the population as a whole as development leads to incomes that are higher and more regular, and as the population becomes more urbanized.

Among other key messages communicated by Table 3 are the prominence of life events, healthcare and education needs across all target groups, emphasizing the importance of making appropriate products/services available, and the low incidence of provision for old age across most groups.

After the formally employed, farmers and the self-employed (MSMEs) have the highest rates of financial inclusion. These two groups also have higher and more predictable incomes than the informally employed and dependents. The remainder of this section addresses how these two target groups (farmers and MSMEs) have changed, since the first MAP Diagnostic, in terms of demographics, financial product/service usage, and needs. Key issues and challenges are also highlighted for each of them.

4.2. The self-employed group has rapidly grown

Rapid growth with high average incomes. The self-employed target group comprises entrepreneurs operating their own businesses, either with or without employees, and are both formal and informal in nature. This target market group grew in size by 54% which constituted one of the fastest growth rates between 2013 to 2018. It is now larger than the farmers group. Average incomes among the self-

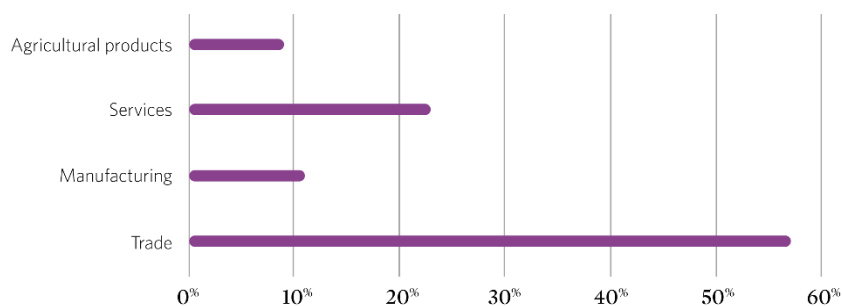
employed are the highest of all the target groups. As such, this may be a primary reason for why self-employment has become increasingly highly attractive and popular.

Growth is driven by young adults but it is also broad-based. The growth in the number of people pursuing entrepreneurial opportunities has been broad-based. Although the average age of the self-employed has fallen (66% are under 45 years old), the group has become less urban (now 45%), and less well educated (61% have primary education or less), suggesting that much of the inflow has been driven by young, less educated adults in rural areas. The group remains evenly split between women and men.

Mainly owner-operated and informal. Of the self-employed adults engaged in their own operations, 88% had no employees, and only 12% had one or more paid employee. The majority of these enterprises were informal, without any licence or registration. Just over half (51%) of the adults mentioned having faced no problem during the commencement or operations of these enterprises.

Trading is the major business activity. As Figure 23 shows, 57% of self-employed adults are engaged in trading activities (selling goods “as is” or after adding some value); 23% in providing skilled services (e.g. mechanic, plumber, hair salon, barber, painting, landscaping); 11% in light manufacturing; and 9% in agriculture.

Figure 23: Classification of self-employed businesses



Source: FinScope Myanmar 2018

Mobile phone ownership and usage. Mobile phone usage among the self-employed target group is among the highest, at 87%, with 75% owning a smart phone. The self-employed target group has high potential as users of DFS as members of this group are young, own smart phones, and have higher-than-average incomes. They are also more urbanized than the population as a whole and are therefore located relatively close to providers of financial and other services.

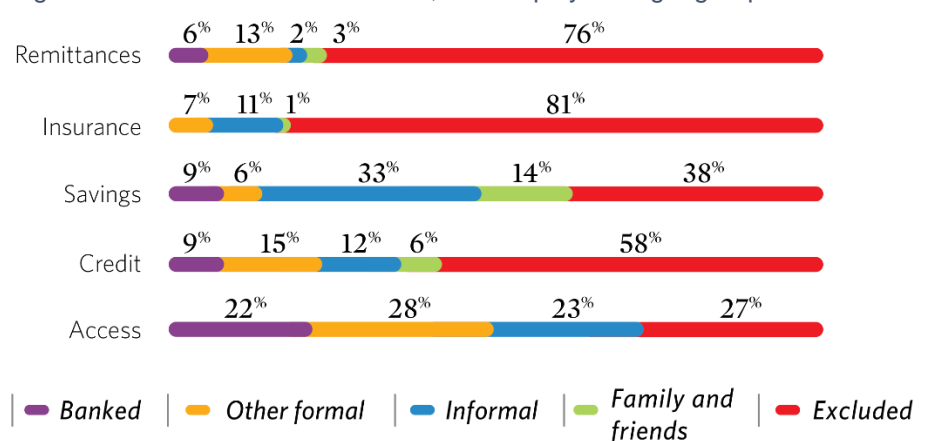
4.2.1. Self-employed group: Financial access

Better access and usage of financial services. Figure 24 provides a breakdown of access to financial products/services by the self-employed. The group has one of the better levels of financial access, with only 26% excluded from formal and informal financial products/services. Of the self-employed adults that are financially included, there are high levels of formal uptake, with 51% using financial products/services from formal providers (compared to 23% using informal providers only). The higher formal uptake is driven mainly by the use of credit, insurance and remittance products/services from the other formal (non-bank) providers.

Big increase in access since 2013. The self-employed group has seen formal access increase from 31% in 2013 to 50% in 2018 – a very large increase. There has been a shift from informal to formal providers across most products, although less so for savings (FinScope 2018):

- **Credit:** of the self-employed adults that are financially included, 24% access credit from formal providers (compared to 18% who access credit from merely informal providers).
- **Savings:** unlike credit, savings is preferred within informal services/channels: of the 62% of the self-employed adults that save, 47% do so with only informal providers or at home.
- **Insurance:** the self-employed have one of the highest uptake rates for insurance, at 19% of self-employed adults indicating use of primarily credit life products or religious/societal mechanisms (i.e. provided for by religious groups of which people are members, or by other people in their local communities).
- **Remittances:** of the 24% of the self-employed that have access to remittance services, three-quarters (18%) use formal providers.

Figure 24: Financial access strands, self-employed target group



Source: FinScope Myanmar 2018

Depth of access greater than for most other target segments. Of the self-employed, 50% use either one formal financial product/service or informal products/services only, while 22% use two or more formal financial products/services (primarily credit and savings) i.e. are deeply served. This compares with 17% of the adult population as a whole which use more than one formal financial product/service.

Relative to other target markets, the self-employed have high usage of savings, remittances and insurance, but low credit usage. Of the self-employed (adults), 58% have no access to credit; and of the 42% that do have access to credit, 18% use only informal providers. Bank credit for MSMEs is limited due to a lack of equity capital contributions, poor business records and insufficient real-estate collateral security (MAP qualitative survey, 2018). Banks have relied on conventional, collateral-based lending approaches, which often set collateral requirements at a level that is difficult for the typical MSME to match. The few other specialized credit products (e.g. two-step loans, credit guarantee insurance) targeted toward MSMEs require enterprises to be registered yet the majority are only licensed or not registered. Most of the self-employed take credit from non-banks (MFIs, cooperatives) as they do not require formal business registration. Of the 24% of self-employed adults accessing formal credit, almost two-thirds (15%) do so from the MFIs. Access to credit was cited as a main constraint by 23% of adults when asked about the issues business faced during start-up or operation.

Use of non-cash transactions low. Only 14% of the self-employed undertake transactions using channels other than cash. Given that the self-employed are likely to be regularly engaging in transactions, primarily for sales of goods and services and the purchase of inputs, it may be beneficial to further encourage the use of DFS.

Usage of credit from multiple providers. Figure 25 shows the range of providers for credit available and used by self-employed adults to meet their credit needs. It is common to combine both formal credit

(banks/non-banks) and informal credit options. For instance, 44% of borrowers with access to credit mention using multiple sources. This is in line with the behaviour of adults in other target market segments, who mention that the mismatches and limitations of credit products force them to borrow from other sources to meet their financial needs.

Main source of bank credit is MADB. Despite the fact that the self-employed do not earn their main income from farming, a large number borrow from MADB. This suggests that loans ostensibly granted for farming are instead used for off-farm business activities, given that there is no verification of the use of loans by MADB (see Figure 25).

Benefits of credit. Almost 60% of self-employed adults agreed that use of credit has improved their livelihoods. Of the self-employed adults that borrowed, 95% felt the cost of borrowing was affordable and the repayments manageable.

Comparing access to finance for the formally self-employed vis-a-vis the informally self-employed. Across Myanmar's 9 million self-employed adults, there is similar distribution of financial access between the formally self-employed (licensed or registered) and the informally self-employed (see Figure 26).

However, the informally self-employed have marginally better access to credit than do the formally self-employed. While this is perhaps surprising, it might reflect the focus of MFIs (and donors) on supporting informal livelihoods.

4.2.2. *Self-employed group: Use cases and livelihoods coping strategy*

The methodology for the livelihoods approach is explained in Appendix 3.

Top expenses of self-employed: day-to-day consumption (liquidity), life events (meeting goals), and healthcare (resilience). Cash is the prevalent means of payment for all expenses, except for healthcare. Relative to income, the largest expenses are education and healthcare. The self-employed make surprisingly low use of financial services for productive (business) inputs and assets. Hence, they may experience constraints when seeking to develop their business activities. Credit is mainly used for consumption expenses, healthcare expenses and education. Compared to the farmers target group, the self-employed group tends to use more savings in anticipation of old age (see *Figure 27 Main financial needs of the self-employed (% of total)*)

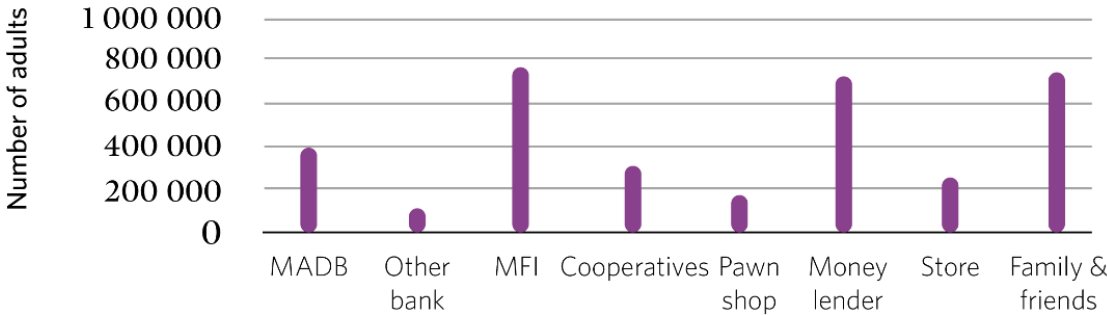
Source: FinScope Myanmar 2018

Most common shock related to health issues. The most common shock facing the self-employed is related to health issues. This reflects the pattern of expenditure outlined above. Other shocks include harvest failure (this indicates that the self-employed are still engaged in agriculture, even though it is not their primary income source) and the death of a family member.

Different strategies are employed to deal with the key areas of health expenses, education and business start-up or expansion. Savings are most commonly used to meet healthcare expenses, while credit is more commonly used for education (see *Figure 27 Main financial needs of the self-employed (% of total)*)

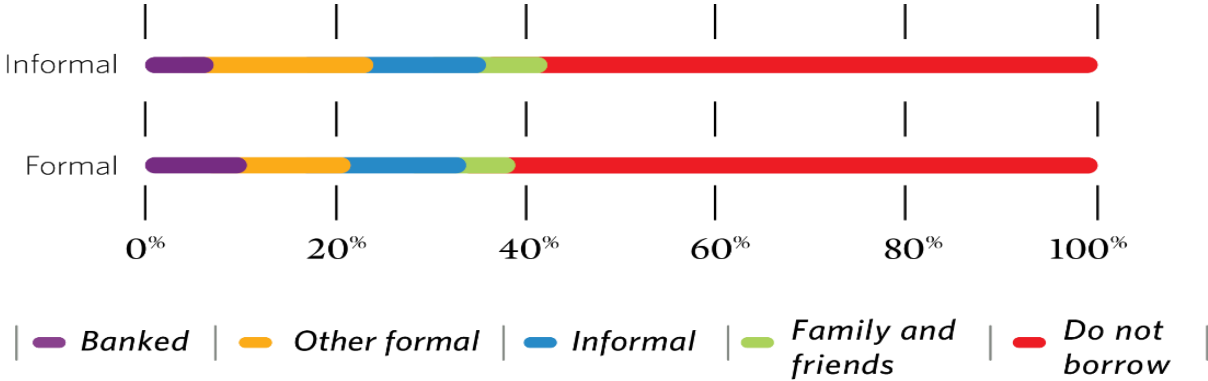
Source: FinScope Myanmar 2018. Where credit is used for health and education, the most common sources are moneylenders, pawnshops, and family and friends. Approximately 22% of the self-employed receive remittances, which are commonly used for medical expenses and business investment.

Figure 25: Sources of credit: self-employed



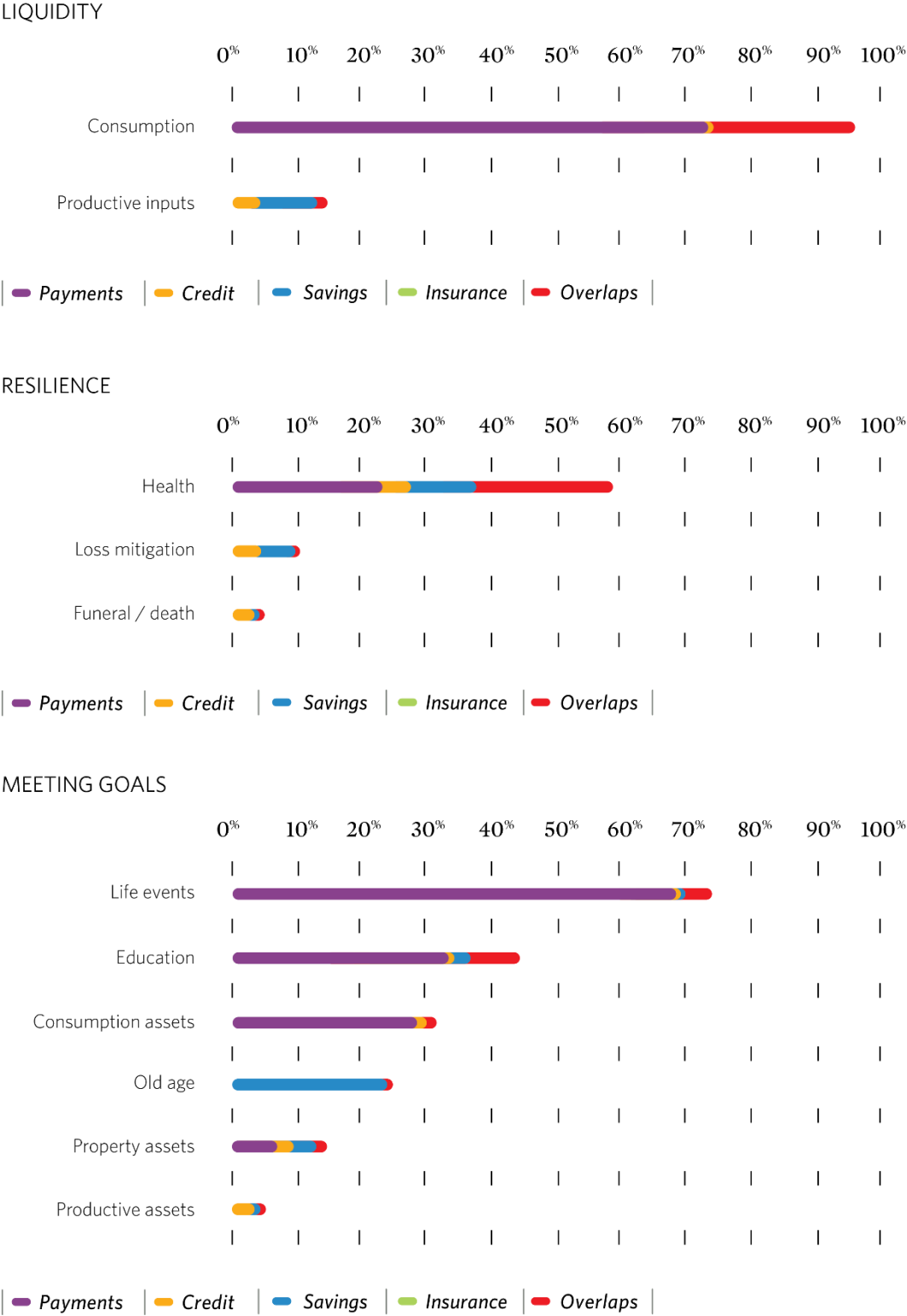
Source: FinScope Myanmar 2018

Figure 26: Credit access strand – formally self-employed vs informally self-employed



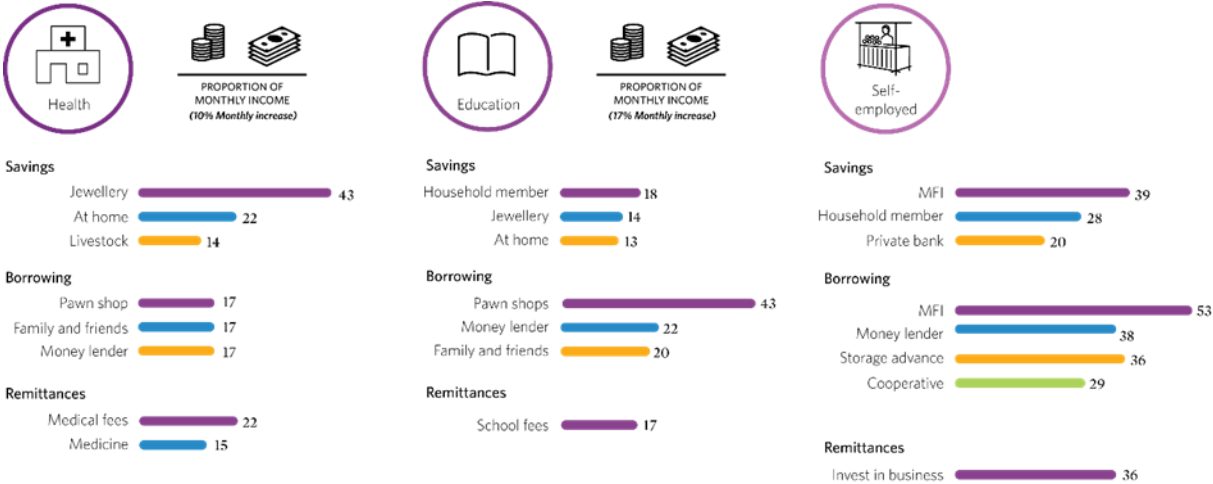
Source: FinScope Myanmar 2018

Figure 27 Main financial needs of the self-employed (% of total)



Source: FinScope Myanmar 2018

Figure 28: Financial responses to main needs – self-employed



Source: FinScope Myanmar 2018

Sources of funds used to meet business needs are different from those for education and healthcare. The sources of funds used to meet the business needs of the self-employed are quite different from those used for education and healthcare. The self-employed commonly use credit from MFIs, moneylenders, and retailers (“store advance”). They are likely to use sources such as borrowed funds as well as savings to finance investment in their businesses. A high proportion of remittance receivers use the funds that they receive for the purpose of investment in their businesses (see Figure 28).

4.2.3. *Self-employed group: Key financial inclusion issues and challenges*

What are the key financial inclusion issues arising from this analysis of self-employed adults’ use of financial services, their needs and livelihoods? The main needs cover the following key product areas: credit, payments (comprising transactions and remittances, respectively), savings and insurance.

Credit: the self-employed have relatively low usage of credit. Given that they are all engaged in business activities of various kinds, there is likely to be a latent need for credit: for productive equipment, business inputs, stocks, debtor financing and so on. Hence additional channels of business credit could be useful, especially as the self-employed have relatively low levels of over-indebtedness. There is also a need for risk capital for start-ups and young businesses i.e. for (longer-term, more investment-oriented) equity capital rather than credit.

Payments – transactions: businesses are also engaged in regular transactions, for both sales and purchases/payments, but transactions are cash-dominated. Extending the reach of electronic transactions through mobile money, quick response (QR) codes and other forms of DFS would help to reduce the risks and costs of cash, as well as potentially building up transactions records that could be used to unlock credit. Payments can include both digital transaction products and physical infrastructure that provides access to cash. However, interoperability of payment infrastructure is crucial for enhancing the value of DFS, and low transaction fees are also important. Hence, without low-cost, interoperable payment solutions, the potential of mobile money to evolve into a ubiquitous payment instrument in a store will remain limited.

Payments – remittances: the self-employed have relatively high use of remittances compared to other target groups, and a high proportion of such remittances (more than a third) are used to support business investment. Improvements in low-cost remittance options could help the self-employed invest in productive assets, which, as already noted, is low for a group that is directly engaged in businesses activities.

Savings: compared with other target categories, savings uptake is more prevalent leading to higher resilience. However, savings occurs mainly through informal products/services/channels, so more access to formal savings options may be helpful, especially products with an education focus.

Insurance: the high risk profile associated with healthcare shocks and related expenses suggests that an affordable health insurance product could fill a need and complement the use of savings and credit to meet shocks.

4.3. A declining farmers base but with some positive dynamics

Farmers group shrinking and becoming more male-dominated. The farmers target group decreased in size by almost 25% between 2013 and 2018, with an increased male presence than previously (now at 77%). Education rates are low but at similar levels to 2013 (71% have no formal education or have only a primary education). Farmers still face many administrative hurdles with respect to whether they can obtain land title certificates. This in turn limits their ability to access MADB credit.¹⁵

Nevertheless, some improvements for farmers are apparent. The group faces ongoing challenges. However, some positive developments have taken place. Crop diversification has occurred and this has made the farmers less dependent on rice paddies. The real incomes of farmers have increased at a greater pace than the norm for the adult workforce. The composition of the farmers target market is now slightly younger than previously, with 57% aged under 45 years. Their mobile phone usage is high (74% usage and 54% smart phone ownership), but still lower than other target groups.

Bigger farmers seem to be better off. Some differences were observed between the sub-groups; farmers with large landholdings (>10 acres) were more likely to be engaged in commercial farming (they sold the majority of their produce), were more likely to have land titles, and were older with higher average income. They also fared better in terms of their usage and ownership of mobile phones. There are nevertheless small discrepancies with respect to the amount of land held by each gender. Slightly more women are in the small-farmer group (<4 acres) than in the middle-farmer (4–10 acres) or large-farmer groups (>10 acres). However, the farmer sub-groups tend to have similar education levels and access to infrastructure.

4.3.1. Farmers: Financial access

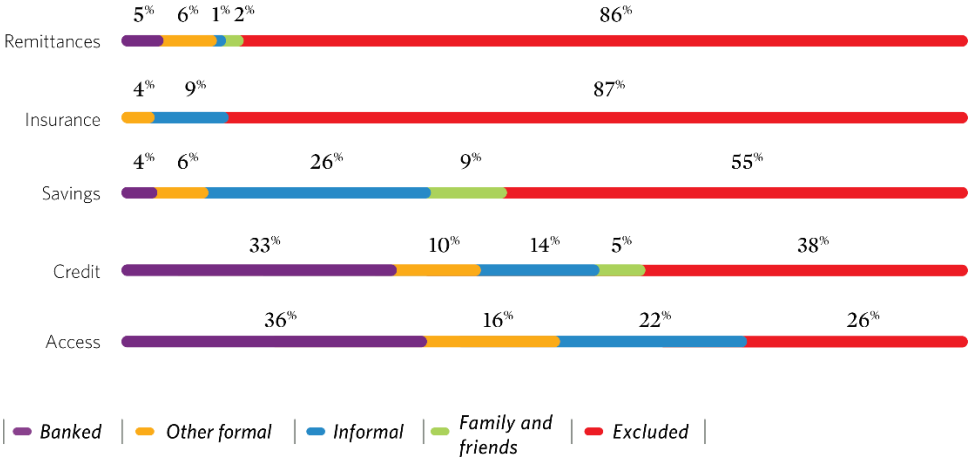
Farmers remain among the most included in terms of formal financial services. provides a breakdown of usage of financial products/services by farmers. Formal financial inclusion increased from 43% to 52% between 2013 and 2018, while the percentage of the excluded decreased from 41% to only 26%. As with the other low-income target markets, family and friends still play a notable role in providing sources of income, such as in relation to savings, credit and remittances.

The key products/services for farmers remain credit and savings. Credit is still largely sourced from MADB. As a result, 62% of farmers have some form of access to credit (formal and informal), compared to only 52% of the total population. In terms of saving, farmers are more likely to use informal channels

¹⁵ Access to MADB credit is limited for the balance of farmers without a land title deed or those farming on leasehold lands (MAP qualitative interviews, 2018).

or family and friends (35%) than formal channels. The use of remittances and overall insurance penetration is low., as only 3.8% of farmers have insurance from formal providers and 9% of them use informal insurance).

Figure 29: Access strands – farmers, by product



Source: FinScope Myanmar 2018

The access of farmers to finance is not increasing even though this has been occurring with respect to other target groups. The increase in farmer’s financial access between 2013 and 2018 was the smallest of any target group. However, it is important to note that in 2013 farmers had the highest level of access of any group which may indicate that there is little scope for further gains. Furthermore, much of this high access was due to credit from MADB, which has not been a very dynamic institution in terms of extending financial access in recent years. Nonetheless, farmers may eventually fall behind other groups in terms of financial access if their capacity to obtain finance is not commensurate with their needs. MADB is also not serving all farmers equally. For instance, only 22% of farmers with less than four acres of land have access to bank credit, compared to 51% of farmers with more than 10 acres. As a result, small farmers still depend on informal services to a great extent.

There are limitations with MADB which forces farmers to borrow from other sources. MADB remains the major formal provider of credit for farmers. Shortly after the 2014 Diagnostic, MADB increased their loan amount to MMK 150,000 (USD 113) per acre of land, although some farmers still do not think this is enough. Some report the cost of farming per acre to be as high as MMK 400,000. Though MADB has started providing loans to non-paddy farmers, 90% of MADB loans are still for paddies. MADB loans are typically seasonal, for a period of eight months, and based on group guarantees.¹⁶

These limitations often force farmers to borrow from other sources to meet their financial needs. In 2013, these sources were mostly informal. By 2018, while informal providers (moneylenders, pawnshops, suppliers/input providers, and family and friends) remained a substantial portion of the overall composition of farmer loans, a dramatic increase has occurred in their access to credit from MFIs and cooperatives. Farmers are, therefore, using a mix of more formal credit sources, than before. Even bank loans by 2018 showed a substantial increase from virtually non-existent levels in 2013. As a result of this diversification, almost half of farmers with credit use more than one provider and 65% of farmers with credit from MADB or a bank also have informal credit.

Mixed evidence of over-indebtedness. It is common for farmers to use multiple loans from different providers. However, there is mixed evidence of over-indebtedness because incidences of missed

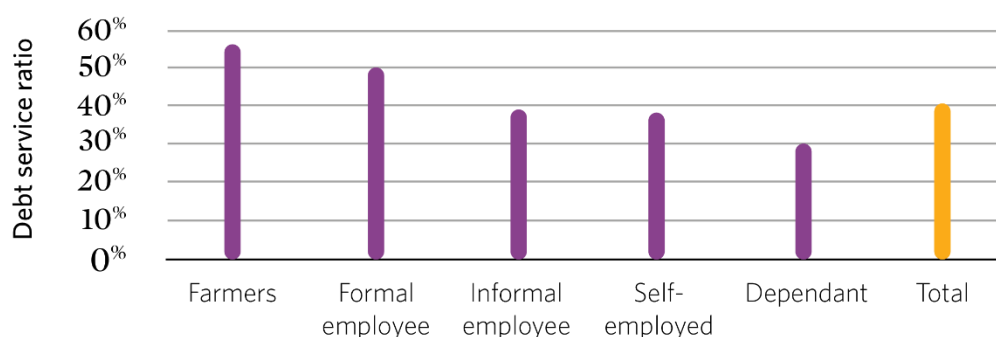
¹⁶ MADB has recently decided to add individual lending as an offering alongside its core group lending product.

repayments are generally low. Only 13.5% of the farmer borrowers indicate they have missed a bank repayment (the lowest of all the target groups). 28.5% of them missed their repayments to moneylenders over the past year (although informal lenders are more flexible in this regard).

A negligible proportion of the MAP qualitative respondents (2018) reported losing their assets or selling their assets for repayment of a loan. Discussions with credit providers reveal that a mismatch between the needs of borrowers and the products available is the primary reason behind the decision to borrow from multiple sources as a cash management strategy. An assessment of the level of debt service obligation across target groups shows that farmers have the highest debt service ratio of all the target groups (see Figure 30). However, this ratio has decreased for farmers (along with all other target groups), largely due to rising incomes.

Farmers also report fairly positive credit experiences. For instance, only 6% of the borrowers who are farmers reported that their lives had worsened as a result of their decision to borrow. 94% of them said that repayments were affordable and manageable, and only 3.5% thought that the interest rate was high or unaffordable.

Figure 30: Debt service ratios, by target group



Source: FinScope Myanmar 2018

4.3.2. Farmers: Cases and livelihood coping strategies

In addition to current product/service usage and changes in that regard over time (discussed above), farmers have needs that they manage through their monthly income, supplemented by the use of financial services such as credit and savings. The next two sub-sections examine the extent to which farmers are able to income and financial services to meet their needs. This section concludes that farmers are only able to use these sources to satisfy their ongoing financial requirements to a moderate extent. As such, it is appropriate to search for opportunities to develop products that are better suited to the needs of farmers.

The influence of an over-reliance on cash on liquidity management. Farmers are highly reliant on cash to meet their needs. They tend to use credit and savings to a limited extent to supplement cash when meeting certain needs. The primary reason behind their use of income and financial services is to meet liquidity needs, particular in relation to consumption expenses (clothing, leisure and food) as well as productive expenses (see Figure 31). In terms of a further breakdown, most consumption expenses are met through cash, although about a third are met through the use of a combination of credit and savings. Productive expenses, on the other hand, are largely met through credit.

Farmers tend to seek to reduce their liquidity risk exposure in accordance with their primary financial needs. These include expenditure on life events (e.g. ceremonies), but also including education, the purchase of durable household and transport goods (e.g. bicycles), the purchase of buying productive assets and the decision to save money for old age. Farmers have a high reliance on cash to meet

longer-term goals which means that they do not leverage the benefits of financial sources such as credit or savings that can better ensure the apportionment of value over time depending on the specific nature of their needs. Their third-biggest use of income and financial services is to meet resilience needs, with most usage relating to health risks, followed by loss mitigation. However, even health risks are largely managed through cash which can constitute an average of 30% of the monthly income of farmers. While harvest failure (part of loss mitigation) was reported as a bigger risk than health, a large proportion of farmers did not use financial services to deal with this risk.

Credit is mostly used for liquidity management and resilience. Among farmers, credit is used mainly for buying productive inputs and meeting consumption expenses as well as managing the risk of losses, and buying productive assets. Farmers thus use credit in the first instance as a liquidity management tool, and secondly as a resilience tool. While it is encouraging that some credit is going towards productive asset-building (i.e. meeting goals), only a very small proportion of longer-term goals in general are met through the use of credit. Most of these needs are instead met through the use of cash.

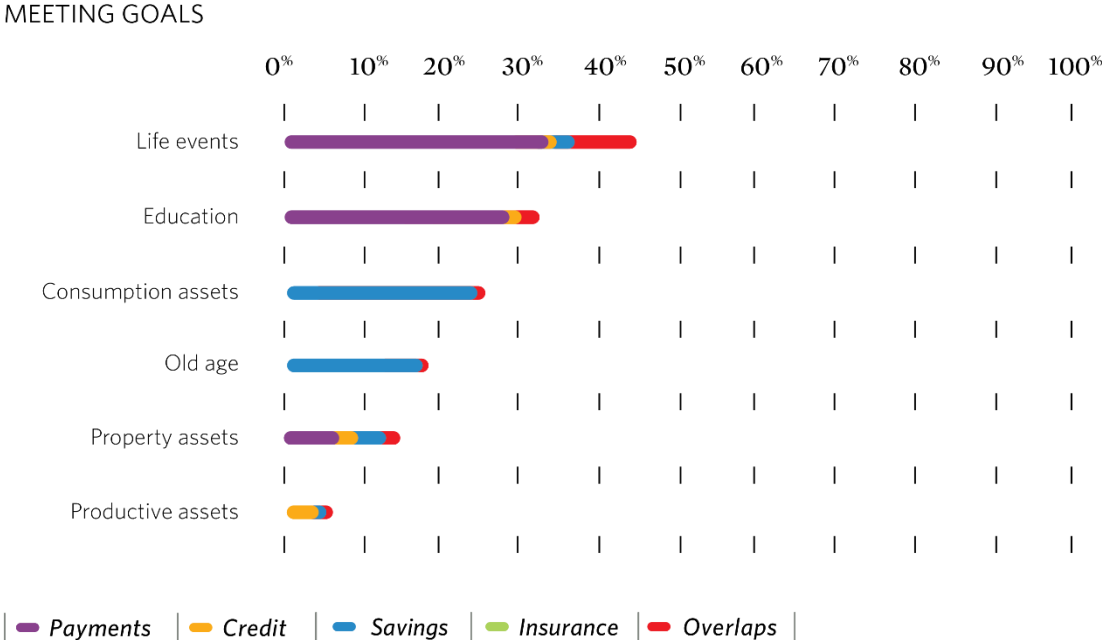
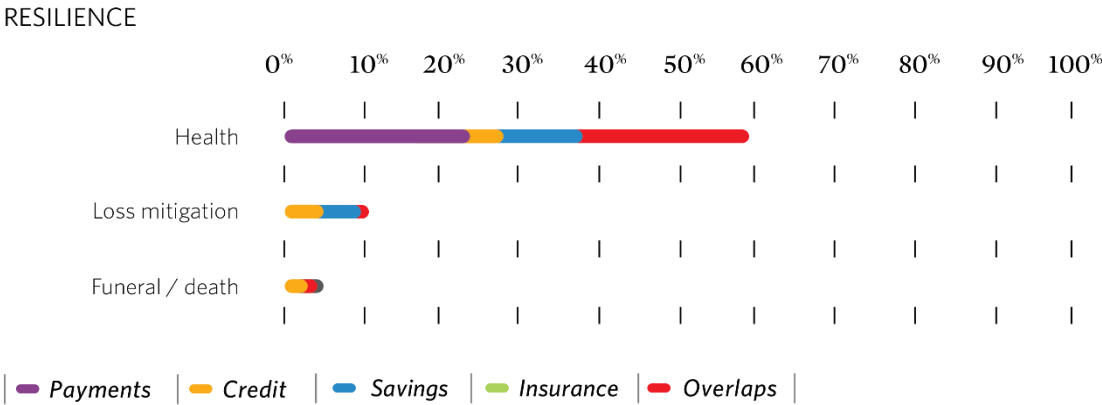
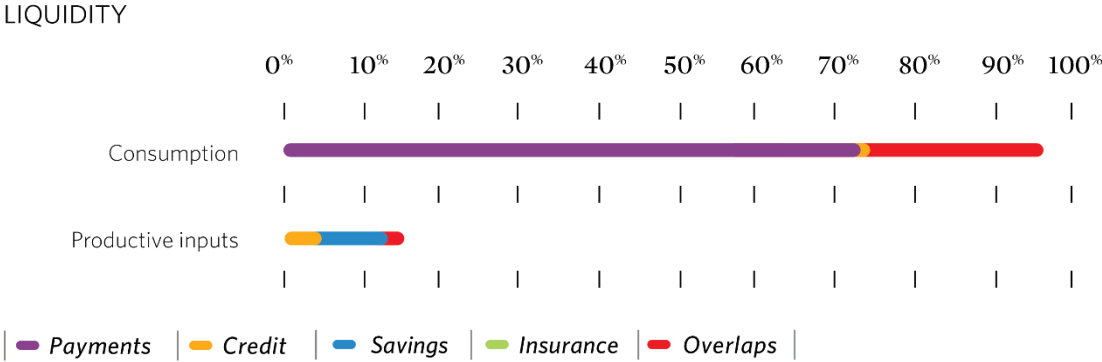
The most common shock for farmers is harvest failure (crop losses) and they tend to use use of financial services is as a partial coping mechanism. 43% of farmers claim that crop losses have a greater financial impact than health shocks whereas 31% of them claim that the impact of health shocks is greater.. This indicates a gap in terms of the financial services available to farmers to mitigate the risk of crop loss. They are less likely to access financial in the event of harvest failure (25%) than when faced with a health shock (5%).

Dealing with health shocks is also a key need. While farmers demonstrate a more active response to health shocks than to harvest shocks, this does not mean farmers are using appropriate financial services with respect to healthcare. For instance, they may pay for expenses with limited out of pocket (cash) resources, or with credit. This in turn may have a more significant negative impact on household well-being than health insurance if the appropriate products were available.

Various financial strategies are often employed for the purpose of coping with emergencies. Emergency coping strategies include borrowing, drawing on savings, and support from other family members via remittances. Moneylenders and pawnshops are commonly used as sources of credit. However, this may be an expensive option so those with considerable financial constraints often resort to family and friends as a source of financial support. In terms of education expenses, credit is mainly sourced from pawnshops, and family and friends. However, it is necessary to note that farmers are less likely to borrow for education purposes than for meeting health expenses. While many farmers do not receive remittances, the funds that are received from this source are commonly used for healthcare expenses. Figure 32 further illustrates the specific types of financial services that are used to deal with health and education as well as the purchase of productive inputs.

The sources of funds that are used for meeting farming needs are quite different from those used for education and healthcare. Farmers commonly use credit from MADB for purchasing seeds. They supplement this with credit from MFIs and moneylenders (which is a reflection of the small size of MADB credit). Savings are also used for meeting farming needs, and a high proportion of remittance receivers use those funds for the purpose of investment in farming businesses. As Figure 42 indicates, pawnshops, family and friends, and money lenders are often used to finance health and education needs.

Figure 31: Main financial needs of farmers (% of total)



Source: FinScope Myanmar 2018

4.3.3. *Farmers group: Key financial inclusion issues and challenges*

What are the key financial inclusion issues arising from this analysis of farmers' use of financial services, their needs and livelihoods? The main needs cover the following four key product areas: credit, payments (remittances), savings and insurance.

Credit: farmers are relatively high users of credit, given that they have access to MADB loans for farming inputs. There may be a perceived need to increase the availability of credit, but the focus of this should be to increase productive capacity and incomes, and at affordable rates to ensure that farmers do not risk becoming over-indebted. However, there may be merit in replacing (high-cost) informal credit from moneylenders and pawnshops with credit from other formal providers: MFIs and cooperatives. MFIs and cooperatives alike will require technical support to design products that meet the needs of the farmers. The credit-underwriting capacity of these institutions will also need strengthening. At the same time, the flexibility/adaptability of informal credit providers should not be undervalued as they will continue to play an important role. Informal credit providers can help to meet unanticipated short-term credit needs and provide flexibility with regards to repayment terms and the timing of lending.

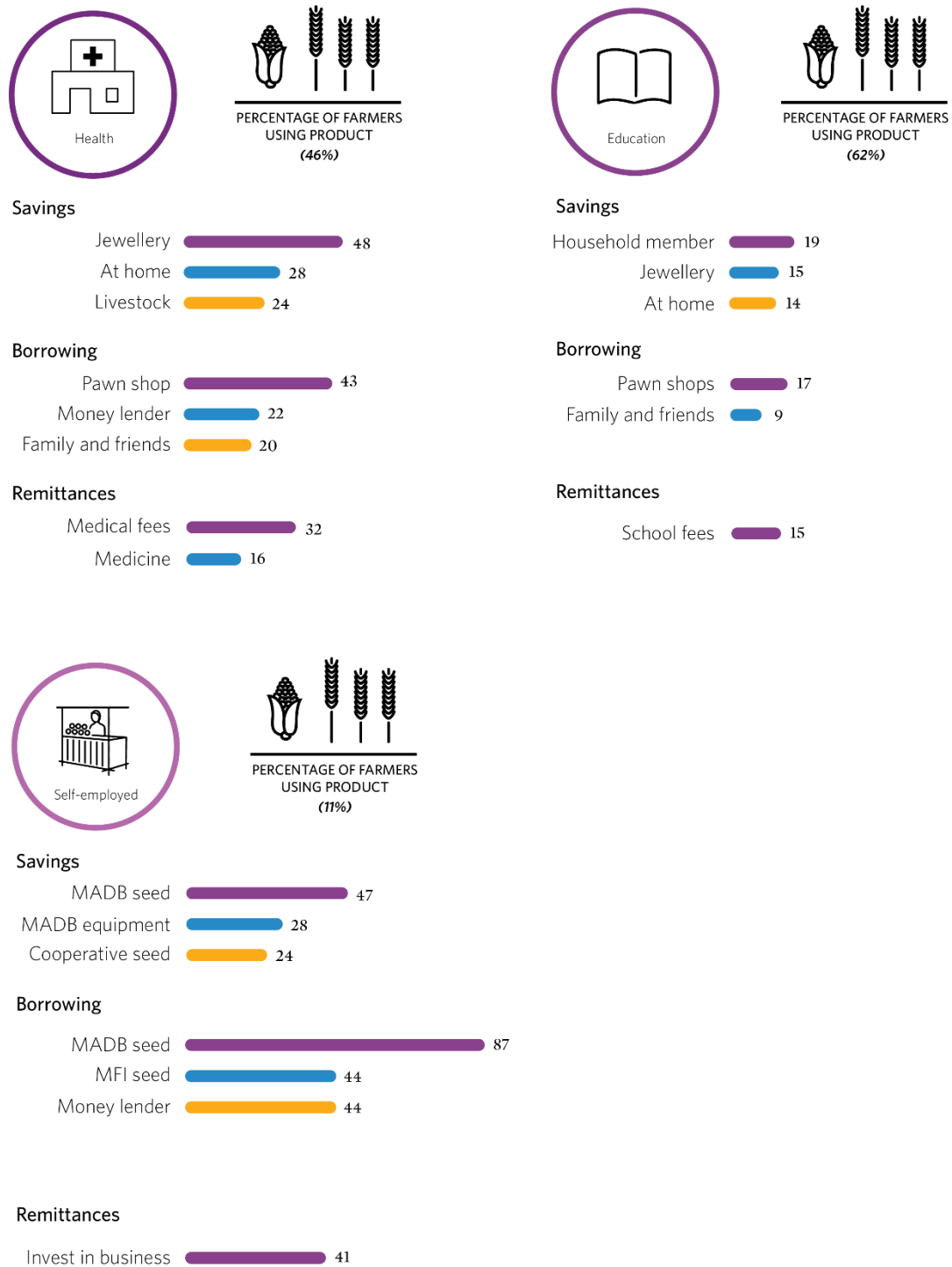
Payments – remittances: farmers make relatively low use of remittances. Better access to remittance and payments infrastructure could help to reduce the cost of financial transactions.

Savings: farmers mostly save in kind (i.e. fixed assets) and informally. This might reflect the nature of their work (e.g. use of livestock) but might also reflect a lack of access to sufficient finance options. Farmers also save relatively little for old age. Their need to save is consequently high, with respect to not only old age but also to offset the effect of unforeseen changes in income patterns on their capacity to meet short-term consumption needs given the irregular nature of their income. More savings options, through formal channels, might help to increase the rate of saving and provide better returns.

Insurance and Risk Mitigation: the potentially large impact of crop failure and limited means of addressing this impact might indicate a need for affordable crop insurance products. However, this would most likely require government subsidies, so the feasibility needs to be carefully considered.

Other means of crop risk mitigation also need to be explored (which may well involve farming techniques rather than financial services), along with other possible options to increase incomes and farmer resilience (such as through the encouragement of higher levels of saving). The prominence of healthcare needs means that the development of appropriate health insurance products would contribute to farmers' resilience in the face of health shocks.

Figure 32: Financial responses to main needs – farmers



Source: *FinScope Myanmar 2018*

5. Supply-side findings and analysis

Central to the MAP process is an analysis of the supply of financial products/services, complementing the analysis of the demand for financial services identified through the FinScope household survey. This chapter discusses Financial Service Providers (FSPs), the products/services they provide, and the regulatory framework within which they operate. The focus is on the supply of products to meet the consumer needs identified in the previous chapter, and on identifying gaps in the supply or regulatory framework that need to be addressed. The following narrative places a focus on Institutions that are more active in financial inclusion and those that have the capacity to improve financial inclusion, especially in relation to the two target markets (the self-employed and farmers) with a special emphasis on women. The assessment also looks into the opportunities that DFS can provide to improve access to formal financial services.

5.1. Financial service providers

This section provides an overview of the main Financial Service Providers (FSPs) in Myanmar, including both formal,¹⁷ and informal,¹⁸ providers. One of the key findings of the 2014 MAP Diagnostic was that the majority of transactions were cash-based, and informal providers dominated the financial landscape. The FSP ecosystem developed rapidly between 2013 and 2018, stimulated by economic growth and liberalization, regulatory reforms, and evolving market demand.

Since 2013, almost all categories of 'formal private sector provider' expanded significantly in contrast to the decline or stagnation of the informal provider and state-owned categories. This corresponds with the changes that occurred in the broader Myanmar environment (see Chapters 1 and 2), and changes also observed and discussed in the demand-side analysis (see Chapter 3).

In particular, banks, MFIs and cooperatives experienced significant transformation over the period, while there were also important developments with regards to insurance, mobile FSPs and money transfer operators, albeit on a smaller scale. Major FSP-related developments include:

- **SOBs:** these remain important, but are still lagging in terms of reform and modernization, and struggle to compete with private banks in terms of growth and service offering.
- **Private banks:** these have expanded their role in the financial system but are not yet moving sufficiently down-market. Instead, they continue to concentrate on larger and more formal clients, due in part to regulatory constraints but also because of weaknesses in business models, institutional capacity and capitalization. However, given the limited degree to which they were found to be serving the easier-to-reach segments in 2013, strengthening their position in serving their current focus is perhaps appropriate for this current period of time. Banks will only be able to provide new approaches to lending and develop products needed for effective down-market services (e.g. SME lending, housing loans) in the future from a position of strength.
- **The insurance sector:** this sector is expected to continue expanding with the regulator allowing foreign insurers to operate in the country. In 2015, the Insurance law was amended with Financial Regulatory Department (FRD) becoming the sector's regulator. However, unfair competition still exists between Myanmar Insurance and other insurers as the former enjoys special privileges in terms of product offerings. All reinsurance must be placed through Myanmar Insurance.
- **MFIs and cooperatives:** when measured by assets and lending, the MFI sector clearly grew in size. The FinScope Survey recorded over three million accounts from MFIs in early 2018, up from 700,000 in 2013. While MFIs and cooperatives have played a crucial role in extending

¹⁷ Formal FSPs are institutions that are formally registered and operate under the formal supervisory/regulatory framework.

¹⁸ Informal FSPs are neither registered nor supervised/regulated.

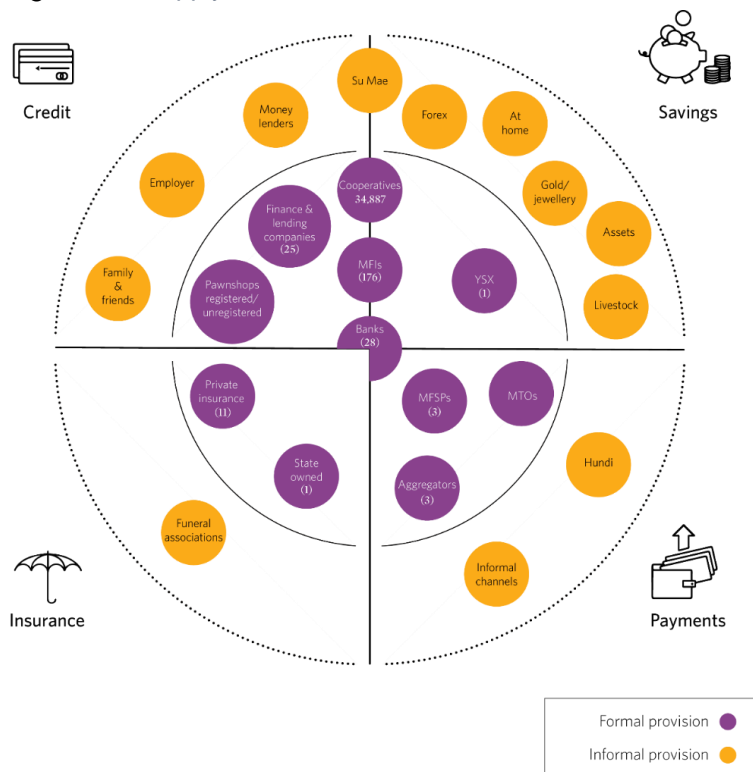
financial access, the pace of growth and development in the past few years might not be sustainable, especially given the need for an expansion of sources of finance on both a domestic and international basis.

- **Cooperatives:** fuelled by the China EXIM Bank’s funding, cooperatives grew significantly in terms of their number of branches, clients served and their loan portfolio. If funding for cooperatives is subject to further expansion then cooperatives as a group will soon match MADB in terms of loan portfolio size and number of clients. In practice, the EXIM Bank loans are now being repaid. This may contribute to an increased focus on the identification of broadening the scope of other funding sources that may be accessed over the coming years.

A key element in attracting financing is strong governance and oversight with accountability from a GoM ministerial level to the fund disbursement and collection in the field. As with other financial sectors, further attention in strengthening accountability mechanisms will lead to beneficial results that enhance the cooperative industry’s reputation, performance, and opportunities for financial partnerships.

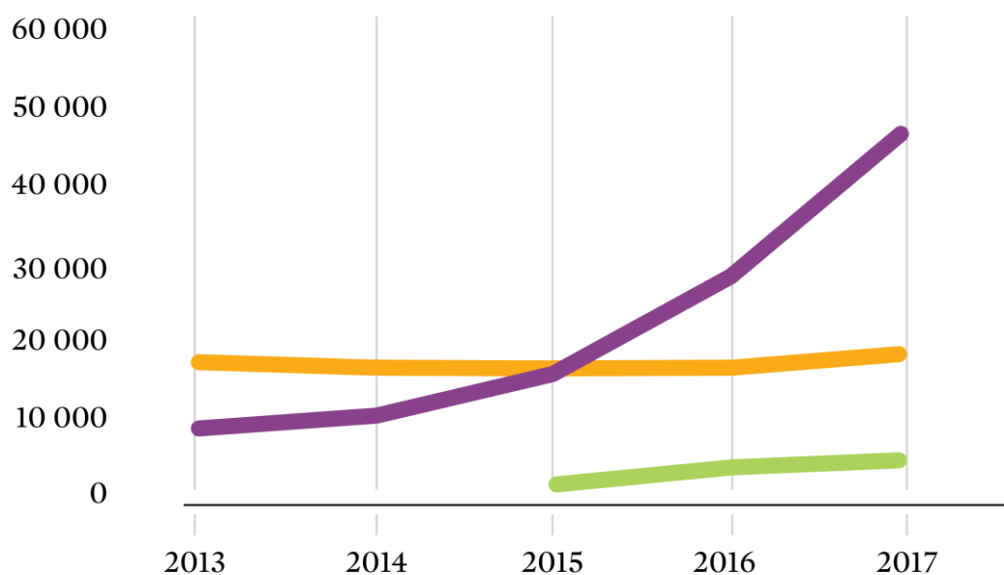
- **Distribution infrastructure/networks:** there has been a major improvement in private sector distribution networks (bank branches, ATMs, POS, mobile money agents) due to regulatory reforms. However, the networks are mostly located in urban areas. It is necessary to expand access points to other parts of the country. Fig 33 depicts the current landscape within which FSPs operate, as well as the product markets served. The formal financial service sector is dominated by banks, cooperatives and MFIs, while the informal is dominated by local players such as moneylenders, informal savings groups (*Su Mae*), funeral societies and unregistered pawnshops. Some of the providers serve only one product market, while others – such as banks, MFIs and savings groups serve a range of product markets.

Figure 33: Supply-side: FSPs



Source: Authors

Figure 34: Banking sector assets, by type of bank



Legend: SOBs (purple), Private banks (orange), Foreign banks (green)

Source: CBM (2017b)

5.1.1. Banks

Banking landscape

The banking sector has three segments: SOBs, private (domestic) commercial banks, and foreign-owned banks. The numbers of banks in each segment is shown in Table 4.

Table 4: Number of banks by category

SOBs	4
Private commercial banks	27
• Municipality-owned banks	3
• Semi-private banks (linked to government agencies)	10
• Fully private banks	14
Foreign bank branches	13

Performance and market shares of three segments greatly changed. Over the five-year period (2013–2018), increased competition from private banks transformed the banking sector. In 2013, SOBs accounted for 68% of all banking assets, including 52% of all deposits and 42% of all bank loans. However, since then SOBs have hardly grown at all with an average asset growth of only 1.2% per year. In contrast, the total assets of private banks have experienced an average annual growth of 56% (CBM 2017b) from MMK 8.4 billion in 2013 to MMK 48.5 billion in September 2017. Private banks accounted for 67% of banking sector assets, 83% of loans, and 67% of deposits in 2017. Foreign banks are recent entrants into the market and accounted for 8% of banking assets (see Fig 34). Lending by private banks also grew at an average 45% per annum, from MMK 4,266 billion (USD 3.19 billion) in 2013 to MMK 18,463 billion (USD 13.98 billion) in 2017.

Private banks

Private banking landscape dominated by the “Big Three”. The big three banks (KBZ Bank, Aya Bank and CB Bank) dominate the domestic banking sector. As of March 2016, (according to Schellhase and Sun (2017)), these three banks account for two-thirds of all loans, two-thirds of all deposits and more than 50% of all branches in Myanmar. However, the focus of the big three is urban areas, corporate clients and high net-worth individuals. As such, they make a very small contribution to financial inclusion. This situation has the potential for a move down-market in due course, provided that banks can develop the required new approaches to lending, skills and products.

Yoma Bank plays a key role in expanding access to finance. Though not comparable to the “Big Three” in terms of size, Yoma Bank is now seen as one of Myanmar’s most internationally integrated financial institutions. It focuses on serving SMEs and has worked with the International Finance Corporation (IFC) to extend new loans to SMEs. It has also partnered with Telenor, a leading Mobile Network Operator (MNO), to develop mobile money products (Schellhase & Sun, 2017).

Similarly, in 2016 the Livelihoods and Food Securities Trust (LIFT) launched the Agribusiness Finance Programme (AFP) implemented by Yoma Bank in partnership with agricultural equipment dealers, to provide a hire-purchase facility. During 2017, the AFP was extended to deliver a suite of semi-secured loan products to increase access to finance for participants in the agricultural value chain.

By the end of 2017, LIFT’s investment of MMK 12 trillion (USD 9 million) had leveraged MMK 116 trillion (USD 87 million) in financing from Yoma Bank for agricultural machinery, mostly tractors. New agricultural equipment valued at MMK 141 trillion (USD 106 million) was financed through hire purchase. It is estimated that approximately 100,000 farmers are renting machinery for tillage and harvesting. The use of machinery has reduced the production costs of farmers and this is in turn giving them more control over the timing of land preparation and harvesting.

Furthermore, under the new semi-secured loan products suite (LIFT, 2017):

- The discounted accounts-receivable product disbursed MMK 946 million (USD 710,000) to 1,100 farmers.
- The payable finance product, which allows input dealers to buy goods on credit from their suppliers, disbursed MMK 90.6 million (USD 68,000) which benefited 200 farmers.
- The seasonal overdraft product, which enables maize traders to buy and sell more goods, disbursed MMK 4.26 billion (USD 3.2 million) to approximately 6,800 farmers.

Private banks like Yoma have expanded their roles and invested in infrastructure, technology, systems and human resources in response to increased competition and the associated need to maximise profits. In the process, they have improved product delivery. Consumers are thus increasingly choosing private banks over SOBs because they offer better and more efficient service offerings.

In addition, private banks have increased their footprint through significant expansion of their branch networks from 577 in 2013 to over 1,700 over a period of five years. A further expansion of the outreach of private banks could come through their linkages with the post office network and the use of its branches for the provision of banking services.

Commercial banks are expected to focus on complying with new requirements for lending, provisioning and capital adequacy in response to the introduction of regulatory reforms for the banking sector by CBM. This may lead to banking consolidation, as well as an improvement in systems and skills. In such an environment, it seems unlikely that the commercial banks will move significantly down-market in the near future.

Foreign banks

Entry of foreign banks branches. Subsequent to the 2014 MAP Diagnostic, the CBM began issuing licences to branches of foreign banks. However, the domestic banking sector largely resisted the greater expansion of foreign competition and pushed the CBM to impose a number of restrictions on foreign banking activity (CBM, 2017b).

Foreign bank branches are now permitted to provide financing to local companies. Previously, the Financial Institutions Law (FIL) 2016 prohibited foreign banks from providing a full range of banking services and direct lending in local currency. It also restricted foreign banks to just one branch per bank and banking services to foreign companies with Myanmar operations. In addition, foreign banks were allowed to lend to domestic banks and MFIs. The primary restriction prohibits retail banking services to local companies and individuals. The CBM gave the assurance that over time, and depending on the stability of the banking sector, it would allow foreign banks to provide full banking services. This assurance was supported during the MAP research by evidence obtained from an interview with a foreign bank manager:

Our scope has been limited by the Central Bank not allowing us to pursue core banking activities. The local banks fear that we will be a direct competition to them where in fact foreign banks can help develop the financial market through technology transfer, human capacity building, introduce international best practices and innovate new products that provide better returns. The CBM while issuing licenses, had assured that foreign banks would be allowed to conduct retail banking when the regulatory framework was developed.

Late in 2018, the CBM through Directive No. 6/2018 (issued on 8 November 2018), permitted foreign bank branches to provide financing and all other banking services to local companies at par with local banks. This directive is expected to provide local companies with greater access to financial products/services as well as bringing about a change in the competitive landscape for the banking sector in Myanmar.

The relaxation of regulations is seen as an essential catalyst for modernizing the financial sector through technology transfer, educating the labour force for professional skills, introducing best global practices, lobbying for market-based reforms, and improving the financial performance of domestic borrowers by creating innovative products. Furthermore, as many local banks are likely to be holding unrecognized NPLs, there will ultimately be a need for substantial inputs of new capital. The foreign banks, or foreign strategic investors, are the most obvious source of new bank capital. At some point, the logic of allowing mergers and takeovers by foreign banking operations will become compelling.

SOBs

Diminishing market share of SOBs reflects a lack of dynamism and desire for reform. The SOBs have not kept up with the growth of the banking sector since banking liberalization in 2011. The most important SOBs from a financial inclusion perspective are the Myanmar Economic Bank (MEB) and the Myanmar Agricultural Development Bank (MADB).

The MEB is the largest SOB in terms of number of branches, of which there were 315 in 2018 (down from 327 in 2013). It has a large retail customer base, with 176,236 current accounts and 863,357 savings accounts (MEB database, 2018). With its large branch network, the MEB contributed to financial access in rural areas. The MEB's practice of providing subsidized loans at negative interest margins to state-owned enterprises and banks (e.g. the MEB receives consumer retail deposits at 8% and lends to MADB at 5%) has caused the MEB to incur substantive losses.

The MAP qualitative survey (2018) indicates that private banks are attracting an increasing amount of customers because they offer better services. However, the MEB has a greater rural footprint with 2 million active customers and 208 branches. Consequently, the MEB has an opportunity to gain competitive advantage over private banks if it is able to provide quality service to rural customers.

MADB has been a key provider in terms of access to agricultural loans. The 2014 MAP Diagnostic indicates that due to the extensive credit programme of MADB financial access in rural areas is generally better than in urban areas. Many farmers in 2014 had long-standing relationships with MADB, and they consequently accessed consecutive loans under the credit programme. This presumably continues to be a relevant trend.

MADB's outstanding loan portfolio is MMK 1.9 trillion (USD 1.3 billion) with deposits of MMK 16.5 billion (USD 11.2 billion). This is very low compared to the loan portfolio that has been substantially funded by subsidized loans from MEB to MADB. It is estimated that there are up to 2 million inactive customers with loans that have not yet been repaid, but which have not yet been written off. Relative to private banks, MADB has low profitability, a high level of NPLs, and it is under-capitalized.

The poor performance of MADB is likely the consequence of poor corporate governance, an inadequate risk management capability, the absence of a modern core banking (IT) system, an unsustainable business model, and ongoing undue political interference in lending decisions.

However, MADB's role in the rural credit market should not be underestimated. MADB should be transformed into a sound, financially sustainable institution to ensure that it provides sustainable farmer-focused credit services that are able to withstand unnecessary political interference and operate according to the highest standards of corporate governance and transparency.

Other SOBs, operating on a much smaller scale, include the Myanmar Foreign Trade Bank (MFTB) and the Myanmar Investment and Commercial Bank (MICB).

Reform is necessary to ensure that the financial sector is stable which may in turn underpin the future growth of the Myanmar Agricultural Development Bank (MADB). The SOBs generally have a record of poor performance which has led them to lose market share to private banks. As such, the Myanmar government is considering reforming them. Reform is necessary to reduce the weaknesses of the SOBs as well as strengthen the stability of the banking sector and enable SOBs to properly carry out their intended functions. This issue applies particularly to MADB, which has a crucial role in the agricultural sector but has been unable to expand that role in recent years. Reform should also include writing off NPLs, and making the MADB subject to the governance and other requirements of the FIL. This could require recapitalization.

The government is reviewing proposed recommendations for restructuring of the SOBs. The government of Myanmar (GoM) is receiving technical support from the World Bank to reform the SOBs and improve their financial position. Any recommendations are in turn being provided to a SOB Reform Committee which is comprised of representatives from the MoPF, CBM, and SOBs. The GoM hired Deloitte to carry out a special diagnostic assessment of MFTB and MICB as part of an effort to conduct a proper audit of the banks and ascertain their fiscal position. Rabobank was tasked with conducting a similar investigation of MEB and MADB.

Banking infrastructure

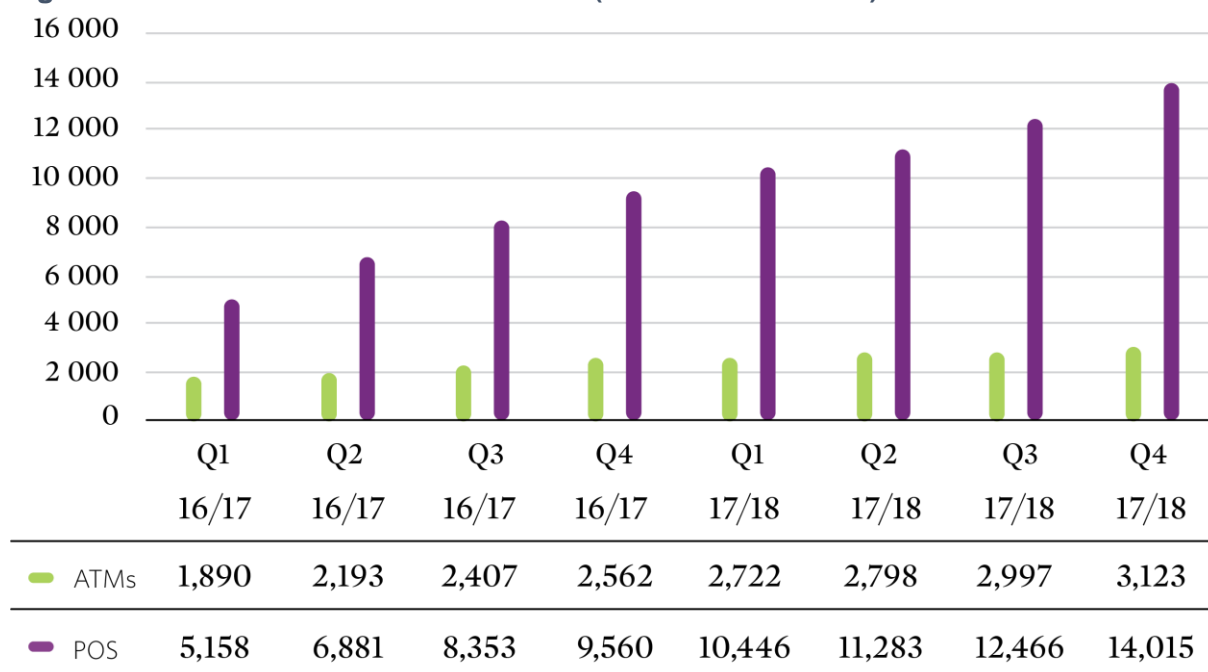
The 2014 MAP Diagnostic found that the financial sector had serious infrastructure weaknesses that constrained the business models and product offerings of financial institutions:

- Most providers did not have electronic or automated management information systems and the footprint of the electronic payment system was very limited.
- A national switch for ATMs had only started operating in 2012 and at that time a real-time gross settlement system (RTGS) was still under development.
- It was necessary to dramatically extend the electronic payments network in order to enhance the availability of formal savings and payment services. This was achieved through the utilisation of nascent mobile networks. This nevertheless does not obviate the need to extend branch infrastructure and build a network of agents that may perform an encashment role.
- The decentralized group-based credit at the time was the most efficient way to provide rural credit. This is because banking systems at in 2014 had not modernised to the extent that they could provide informed credit decisions.

In response to these shortcomings, the CBM issued a directive in 2017 for specialized banks to focus on the provision of greater investment in infrastructure to deliver better access to financial services amongst various segments of the population. through greater investment

Growing banking infrastructure. The number of banks (including SOBs) had increased from 23 to 28 over a period of five years from 2013 to 2018. The number of private bank branches increased rapidly from 577 to 1,715 during the same period (CBM database, 2018). MADB and the MEB alone had a total of 513 branches in 2018. The number of ATMs increased from 253 in 2013 to 3,123 in 2018 and the number of POS devices increased from 855 to 14,015. Figure 35 exemplifies the growth of ATMs and POS devices with respect to the period of 2016/2017 to 2017/2018.

Figure 35: Growth of ATMs and POS devices (2016/2017–2017/2018)



Source: CBM database (2018)

The banking sector reforms introduced in 2011 removed the requirement for bank branches to raise stand-alone capital and seek approval for the opening of each new bank branch. The removal of these requirements has been a key driver of an increase in the number of bank branches led by the private sector (Schellhase & Sun, 2017). The CBM permitted private banks to both conduct foreign exchange transactions and set up ATMs across the country.

A further catalyst that fuelled bank expansion was the approval of the *Foreign Exchange Management Law* in 2012. This was followed by the enactment of the CBM Law in 2013. The autonomy of the CBM as the licensing authority and regulator of all banks facilitated further liberalization of the financial sector. Finally, the FIL was passed in 2016 which helped to level the playing field for private banks and SOBs. This in turn led to an expansion of bank branches.

As shown in Figure 36 and Figure 37, the density of bank branches per 100,000 adults in 2017 was still low compared with other ASEAN countries, and the density of ATMs was the lowest in ASEAN, even in spite of the significant expansion of bank branches and ATMs within the context of Myanmar.

The expansion of bank branches has occurred mostly in urban areas, and the focus of this has been to acquire larger and more formal clients such as large corporates. This has increased the capacity for people to access to finance in urban areas. However, the rural population remains underserved by private banks. Private banks have been reluctant to expand to rural areas because of limited infrastructure, poor connectivity and profit limitations from CBM’s interest rate policy. For these reasons, in principle it is not reasonable to expect an expansion of private banks in rural areas.

Figure 36: ASEAN: commercial bank branches per 100,000 adults (2017)

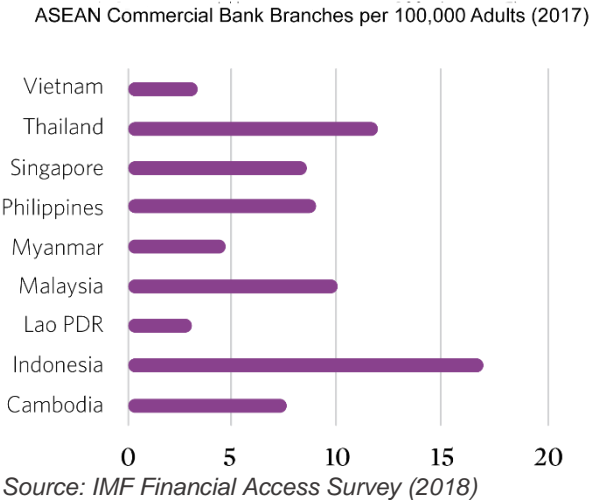
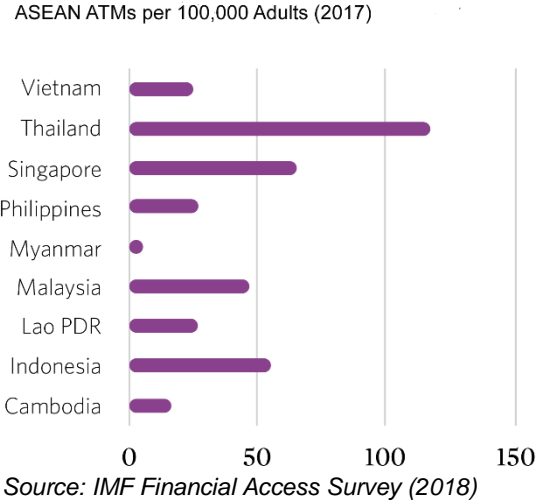


Figure 37: ASEAN: ATMs per 100,000 adults (2017)

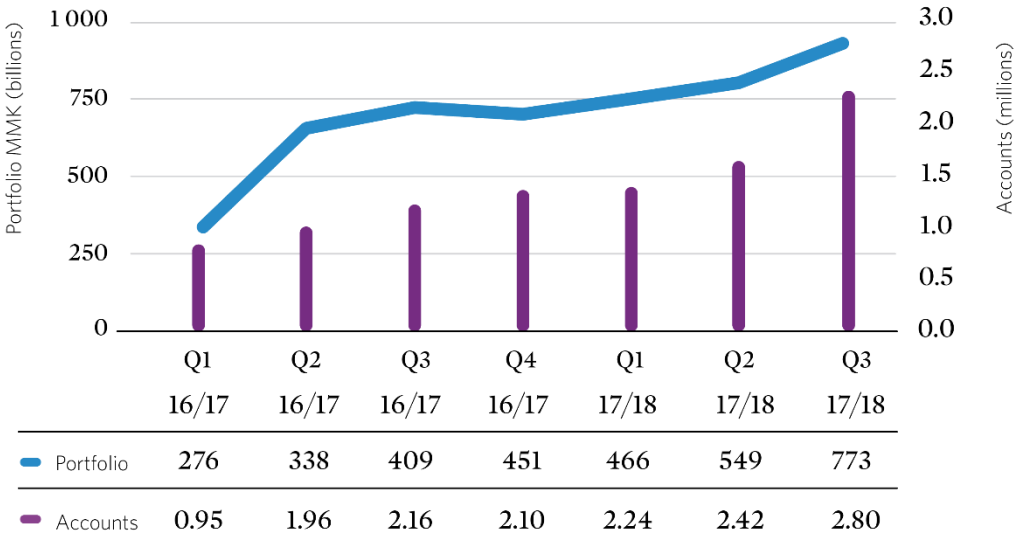


5.1.2. Microfinance Institutions (MFIs)

Overall, the number of Microfinance Institutions (MFIs) fell from 189 in 2014 to 176 in 2018. The number of MFIs initially increased to more than 200, but then dropped as some MFIs gave up their licences due to increased regulatory pressures and reporting requirements. Cooperatives were originally licensed by FRD but now have moved their licenses to the Department of Cooperatives (DOC) which operates under the Ministry of Agriculture, Livestock, and Irrigation (MOALI). However, a measurement of its assets and lending reveals that the microfinance sector grew in size over the five-year period.

According to FRD, from 2016 to 2018 the value of MFI loans outstanding increased fourfold from MMK 276 billion (USD 207 million) for Q1 of 2016/2017 to MMK 773 billion (USD 579 million) for Q3 of 2017/2018. This constitutes an average growth rate of 16% per quarter. The number of active loan accounts increased steadily over the same period: from 950,000 to 2.8 million (see Figure 38). The FinScope Survey (2018) recorded that there were 3.5 million MFI accounts in early 2018.

Figure 38: MFI loan portfolio outstanding and number of accounts



Source: FRD database (2018)

MFI have played a key role in increasing access to finance. MFIs have made it possible for entrepreneurs and farmers to access formal financial services, and they have thereby reduced dependence on expensive informal financial sources. However, there is a great disparity in MFI coverage across states and regions with the majority of MFIs concentrated in Yangon, Ayeyarwady, Mandalay and Bago. The Financial Regulatory Department (FRD) has ceased awarding licences for operations in Yangon and other nearby States/Regions to mitigate the risk of credit oversupply. International MFIs dominate the sector, with an estimated 70% market share. Key challenges faced by MFIs are: a lack of funding, deposit-taking constraints, and a lack of credit information.

MFI generally lack funding but they are increasingly building linkages with banks. The 2014 MAP Diagnostic identified that at the time MFIs had limited capital for on-lending due to the exchange rate risks associated with a reliance on foreign capital inflows as well as prevailing deposit-taking restrictions.. Funding is still the single biggest constraint to growth for the MFI sector. Most of the funding and resources go to large international MFIs, while other, mostly local, MFIs remain underserved.

The MFI sector is perceived by banks as too risky due to the sector’s poor and vulnerable client base, MFI institutional weaknesses, and financial sector risks. The lack of knowledge about the intricacies of the MFI sector within the banking sector makes it difficult for them to borrow from banks. Most banks will not accept the loan books of MFIs as collateral even though the CBM is willing to do so and in general there are only a small history of Non-Performing Loans (NPLs). This unwillingness is attributable to speculation about the complications that may arise in liquidating the loan portfolio in the event of a loan default. Moreover, MFIs are not positive about offering the loan book as collateral as this may restrict the potential of their qualification for additional financing.

Private bank lending to MFIs became possible after a change in regulations during the second half of 2016. With support from the LIFT Fund, Yoma Bank initiated MFI local currency lending in 2017 with

typically one-year renewable loan terms (up to three years). A minimum of 40% USD cash collateral is normally required, with varying repayment terms. In September 2017, Yoma Bank disbursed loans amounting to MMK 7.3 billion (USD 5.48 million) to Proximity Finance (Yoma Bank, 2017). Since then, most international Tier 1 MFIs have accessed long-term financing from Yoma Bank.

Not to be outdone, AYA Bank, with support from a USAID DCA guarantee, has started lending to the same MFI segment. Furthermore, foreign banks are lending to their Myanmar MFI counterparts. For example, Japanese banks are lending to Japanese MFIs located in Myanmar.

In 2017, the LIFT-TCX facility released MMK 120 billion (USD 90 million) of foreign capital into the MFI sector.¹⁹ LIFT's investment of MMK 13.3 billion (USD 10 million), which paid for hedging costs and fees, resulted in MMK 106 billion (USD 80 million) in debt financing. This represents a significant capital injection for Myanmar's microfinance market. In all, 40 loans were issued by 11 lenders to 12 MFIs. A second facility is planned for 2019.

The developments in the MFI lending market were in some part due to UNCDF's pioneering efforts in 2016 to extend local currency loans to MFIs with FRD approval. UNCDF's pilot programme extended financing to four to five small and mid-sized MFIs. Despite its limited financing capacity, the UNCDF MDF pilot has had modest but nonetheless positive results in crowding-in other banks within the MFI lending space.

General deposit-taking licence. The MAP qualitative survey (2018) indicated a need to consider a three-tier system of ranking MFIs, based on their size, performance and governance. Currently, non-deposit-taking MFIs take compulsory savings from their credit clients, while deposit-taking MFIs are allowed to take voluntary deposits as well (savings, time deposits) from their borrowing clients. The proposed third-tier MFIs would, in addition, be able to take deposits from the general public.

However, it is important for the regulator's prudential monitoring capacity to be strengthened before any consideration of an expansion of deposit-taking initiatives. It is also important for MFIs to prove themselves worthy of having a responsibility for compulsory deposits before voluntary public deposits are allowed. Various reports indicate that some MFIs engage in practices that disadvantage their customers. The FinScope Survey data indicates that less than a third of MFI clients are aware of the presence of a compulsory savings account in their name. The lack of client awareness indicates insufficient MFI transparency and inefficacy of client communications. More importantly, it raises concerns with regards to the integrity of both the compulsory savings management framework and internal control mechanisms.

There is a concern that allowing MFIs to take voluntary public deposits puts MFIs in direct competition with the banks. Yet, if this provides clients with better services it should be considered.

Lack of credit information. The majority of MFIs do not have access to a database to know whether their customers have additional loans in other financial institutions. Although some MFIs have shared client information with other MFIs, not much progress has been made in this regard. A key hurdle is privacy regulations, which restrict lenders from sharing customer data with other MFIs. The Myanmar Credit Bureau, which was granted a licence in May 2018, might in time extend its reach to the MFI community. At the time of the writing of this MAP report in November 2018, the Myanmar Micro Finance Association (MMFA) was in the process of launching a credit information-sharing platform to share client credit information between MFIs.

¹⁹ The Currency Exchange Fund (TCX) specializes in microfinance investment vehicles and donors to offer solutions for managing currency risk in developing and frontier markets such as Myanmar.

MFIs played a key role in increasing access over the five-year period 2013–2018. However, given funding constraints, the nature of the growth and development of MFIs over this period may have been curtailed. Likely funding constraints include the high cost of foreign funding (once exchange-rate risk is taken into account), limited, but growing, access to funding from local banks, restrictions on deposit-taking, and lending interest rate caps (which restrict the spread and the sustainable cost of funding).

5.1.3. *Finance and leasing companies*

Rapid growth. The number of finance and leasing companies has grown rapidly: from 3 in 2014 to 25 in 2018. Finance and leasing companies are governed by the Financial Institutions Law (FIL) of 2016. These companies are allowed to lend, lease and provide hire-purchase services, but they may not accept deposits from the public. However, the CBM has the authority to allow finance and leasing companies to receive long-term loans from institutional investors. Currently, foreign finance and leasing companies are barred from entering this space.

The MAP qualitative survey (2018) indicates that the majority of the clients borrowing from finance and leasing companies are based in urban areas. The portfolio of loans mostly consists of vehicle loans (automobiles, bikes), heavy equipment in the construction sector, and computers and electronics in the consumer segment, with limited loans extended to the agricultural sector. Hire-purchase loans for the agricultural sector are usually for tractors.

The growth in finance and leasing companies has allowed people to acquire assets through hire-purchase agreements, which are less cumbersome than conventional credit options because less documentation is required, and loans which meet set conditions are generally expeditiously approved. Also, almost all hire-purchase finance deals are guaranteed by the equipment/vehicle dealer. However, the short-term nature of hire-purchase loans has mostly resulted in an uptake of luxury items such as vehicles and consumer durables.

5.1.4. *Cooperatives*

Growth of cooperatives. In May 2013, the country had 21,138 cooperatives (of which only 5,222 were financial cooperatives) with a total of 2.2 million members. By 2018, there were 34,887 cooperatives with 3.2 million members.

In 2013, the Department of Cooperatives (DOC) announced a plan to have a cooperative in each of the 60,000 villages in Myanmar by adding 5,000 each year to expand access to financial services. Although behind target (there should have been around 46,000 cooperatives by 2018, according to the plan), this still represents a dramatic increase in both the footprint and the number of clients served by cooperatives.

In 2013/2014, a loan received from the China EXIM bank amounting to MMK 533 billion (USD 400 million) was channelled to farmers and other companies in the agricultural sector through cooperatives. The bank loan is payable in 2023, with a requirement for semi-annual interest payments during the first two years and then an eight-year amortization that is payable semi-annually.²⁰ As a result, loans from cooperatives have played an important role in extending financial inclusion over the period.

Growth in loan portfolio. During the fourth quarter of 2017/2018, according to MOALI (2018), the total value of agricultural loans outstanding from cooperatives was MMK 529 billion (USD 397 million), while

²⁰ Htoo Thant, Government to accept only low-interest foreign loans as debts rise, *Myanmar Times*, 23 January 2018. Available online from: <https://www.mmmtimes.com/news/government-accept-only-low-interest-foreign-loans-debts-rise.html> (accessed July 2018).

the total number of active agricultural loan clients stood at approximately MMK 2.6 million (USD 1,950) with an average loan size of MMK 203,671 (USD 152.75). The GoM also provides low-interest loans to farmers by leveraging cooperatives, and continues to use the cooperative network to disburse agricultural loans.

In July 2018, MOALI announced that MMK 550 billion²¹ (USD 413 million) would be provided to the Central Cooperative Association which would then disburse the money as loans to farmers. The conferral of such funding would give cooperatives as a group a loan portfolio that is similar in size to that of MADB. In 2013, MFIs and cooperatives together did not expand the accessibility of their loan schemes on a sufficient scale in comparison with MADB. However, MFIs and cooperatives are now viable alternatives to MADB as a consequence of a substantial growth in their provision of services over the five-year period of 2013 to 2018.

The Department of Cooperatives (DOC) stated that in early 2018 loans made to farmers had a repayment rate of 100%. However, the MAP qualitative survey (2018) indicated that the common provision of loans with a duration of six-months is too short and leads to an inadequate focus on the needs of clients. This situation is driven by the lack of capacity at a ground level to make informed credit decisions, which indicates that most of the methodology and practices of loan providers follow a top-down approach. The result is that the loan is usually due at around the same time as the harvest is ready, and farmers are often compelled to sell their wares at a very low price to settle the debt. The situation is worse if repayment is due before harvest time, as the farmers are then compelled to sell their assets or resort to additional loans from informal sources, such as family and friends or moneylenders.

Need for an improvement in the quality and effectiveness of regulatory oversight. Cooperatives in Myanmar have developed under the principle of self-regulation. Currently, cooperatives fall under the MOALI with oversight by the DOC pursuant to cooperative laws and procedures. Cooperatives operate with minimal regulatory requirements or controls and are staffed by volunteers. Weak governance, monitoring and reporting (limited to annual auditing through the DOC or a government-approved audit firm) create oversight challenges. This renders the cooperatives system vulnerable to general risk and financial fraud, especially given the growing significance of cooperatives in the financial sector.

Valuable role in increasing financial inclusion – but over-indebtedness to be avoided. As FSPs, cooperatives have an important role in increasing the country's overall level of financial inclusion. They also act as a medium for increasing access to formal credit, savings, payment and insurance. However, there is a need for prudent regulation and supervision of cooperatives which often requires a prudent assessment of the level of debt of their members. The MAP qualitative survey (2018) indicates that many members use the cooperatives to refinance their loans from other financial institutions. Thus, there needs to be a focus on developing a system of credit information-sharing to track multiple borrowings and help consumers avoid over-indebtedness. Cooperatives may be used constructively as an organised vehicle for the distribution of the financial products of larger financial providers across a variety of localities because they are often located in rural areas. However, regulatory reform may be required to ensure an effective and appropriate framework for any distribution channels.

Cooperatives as the channel for farmer credit. The government's plan to establish one cooperative in each village and use it cooperative as a channel for the distribution of the China EXIM loan has been largely successful in increasing access to finance for small farmers, even in very remote areas. The MAP qualitative interviews (2018) indicate that there is a sound repayment rate of loans that are distributed through these cooperatives. The country's cooperative credit society plans to use this mechanism and structure to borrow money from international markets at competitive rates, with

²¹ Htoo Thant, Cooperatives set to receive K550 billion in funds, *Myanmar Times*, 04 July 2018. Available online from: <https://www.mmtimes.com/news/cooperatives-set-receive-k550-billion-funds.html> (accessed July 2018).

government support. However, it is necessary to exercise attentiveness in relation to the risk exposure to exchange rate changes.

5.1.5. *Mobile Money Operators (MMOs)*

The country has two licensing procedures for mobile money: the Mobile Banking Licence and the Mobile Financial Service Licence (MFS licence). The former allows companies to partner with licensed banks such as True Money which collaborates with the Asia Green Development Bank (AGD). The latter enables non-banking institutions to provide mobile financial services.

MMOs have promoted competition in the Myanmar financial services landscape by eliminating monopolisation. The provision of licences to two MNOs, Telenor and Ooredoo in 2014 ended the telecommunications monopoly of the state-owned operator, Myanmar Posts and Telecommunication (MPT). Mobile penetration rates have subsequently increased which has considerably opened up opportunities to leverage MNOs to deliver mobile financial services.

Three MFS licences are in operation. The implementation of the MMO regulations has ushered in new non-bank FSPs. MNOs and registered non-banking financial institutions can now apply for an MFS licence. Currently, MMOs are operating under various licences. For example, the regulator initially followed a telco-led approach (Wave) but then granted an MFS licence to OK Dollar, an FSP operating with an MFI licence. The minimum capital requirement has been set at MMK 3 billion (USD 2.25 million). At the time of writing, three MFS licences had been issued, namely Wave Money, M-Pitesan and OK Dollar. A fourth MFS licence is expected to be awarded to MPT in 2018.

Digital financial literacy. Although the uptake of mobile money is encouraging, the majority of transactions are limited to mobile top-up services. Prospective users are not yet comfortable or adequately aware of available mobile money services. Targeted digital financial literacy programmes that are aided by diversified user-friendly digital products may be essential to procure an enhancement of DFS.

MMOs have a strong reach because they engage in agent networking initiatives. The MMOs are permitted to operate through a network of agents. However, the regulations restrict agent exclusivity. MNOs have been able to leverage their distributors as agents to provide MFS to areas where banking facilities are not available. For example, the MAP stakeholder interviews (2018) indicate that Wave Money, which went live in 2016, has 21,000 agents; while M-Pitesan, which went live in 2017, has approximately 9,000 agents.

The growth of agent networks and access to financial services has been significant. KBZ, the largest privately-owned bank, launched its 500th branch in November 2017, 24 years after it opened its first branch. In contrast, Wave Money took only 18 months to attain 20,000 mobile agents.

Mobile banking. The directive on mobile banking 2013 under a bank-led model resulted in the issuance of licences in 2014. Some of the initial mobile banking licence operators are shown in Table 5.

Table 5: Mobile banking licensed operators

Name	Partner
Myanmar Mobile Money	Innwa Bank
myKyat	First Private Bank
663 Mobile Money	Myanmar Citizens Bank
TrueMoney	Asia Green Development Bank
Ongo	Myanmar Oriental Bank

The high density of mobile phone ownership and usage in Myanmar offers promising opportunities for leveraging mobile technology to expand financial services to the unbanked in rural, remote areas in a cost-effective manner. MMOs offer opportunities to leapfrog from a cash-based economy to a less cash-dependent, digital economy by diversifying the products and services that can be delivered via the DFS channel.

However, the majority of MMOs are operating in isolation or through limited integration based on a partnership model. It is therefore crucial to develop the infrastructure to facilitate interoperability between MMOs and existing FSPs. In this context, it is necessary to institute regulatory reforms to facilitate the effective supervision of DFS, MMOs, agent networks and FSPs as well as develop policies for handling grievances.

Payment aggregators. Aggregators are non-banking institutions that provide financial services although they do not own any telecommunications or banking infrastructure. Key aggregators include 2C2P (1-Stop, @Post, PAY Here) and Red Dot. These institutions provide the platform and technical know-how to link payments between MNOs, merchants and banks. Aggregators are only used for cash-ins and they allow users to use their platform to make different types of payments, thereby contributing to a broader goal to transition Myanmar into a less cash-dependent, digital economy. Currently, aggregators do not provide remittance facilities (i.e. cash-in cash-out) with the exception of Red Dot which is in partnership with M-Pitsean.

5.1.6. *National payments system*

Myanmar Payment Union (MPU). The MPU was established as an association in 2011 by 17 member-banks under the guidance of the CBM. It started its operations in 2012. The MPU became a public company in 2015 and as of 2018 it has 23 banks as members.

The MPU operates the national payments switch and is responsible for settling retail payments within the country. The national payments switch provides an opportunity to integrate with the Asian Payment Network (APN) and in turn facilitate integration with the standards and expectations of ASEAN economies. The national switch permits the direct routing of authorization requests and obviates intermediate arrangements and related processing costs. It also allows batch settlement of transactions instead of merely single-transaction processing. This has reduced costs and facilitated the low-cost sharing of ATMs. The national switch has also brought down the interchange fees which are the fees that are levied when cash is withdrawn from the ATM of a bank other than one where the consumer holds their account. This in turn has led to an increase in the number of ATMs (from 210 in 2012/2013

to 2,800 units in 2016/2017) at relatively low costs. This increase in accessibility has in turn led to an uptake in the use of debit cards (from 30,000 in 2012/2013 to 2.9 million in 2016/2017).²²

The MPU has been promoting a “cashless economy” and has been responsible for introducing electronic payment instruments: debit cards in 2012, and credit cards in 2016 (co-branded with MasterCard, Visa and JCB). The organization is in the process of upgrading its current switching technology. After the upgrades, the MPU will be able to offer card to card, card to account and account to account transfers via ATMs. It is expected that with the new system in place many new ways to pay for products via digital methods will be made available, such as inter-bank account to account transfers and cash withdrawals at POS. The new system will also facilitate interoperability between MMOs, and e-banking interoperability between member banks and mobile wallets which are issued by MMOs. However, regulatory reforms will be required to facilitate interoperability between the various FSPs (see also the Regulatory section).

Implementation of a Real-time Gross Settlement (RTGS) system. In January 2016, the CBM implemented the RTGS system (popularly known as “CBM-Net”), which replaced the manual system of clearing and settling payments between banks. CBM-Net provides a platform for large, interbank payment transactions, including interbank trading in currencies and securities.

Phase II of CBM-Net installation includes connecting the core banking systems of banks to facilitate more digital interbank functions as well as RTGS of interbank obligations. The implementation of the RTGS system will facilitate the accessibility of real-time debit and credit within different accounts in different banks. The RTGS has facilitated cheque clearance through a mechanized clearing house connected to the CBM-Net system. As a result, banks have introduced magnetic ink character recognition (MICR) cheques. The RTGS system will also help nurture the growth of Myanmar’s capital market, which is in the early stages of development. The RTGS in practice facilitates the settlement of trade that involves government treasury bonds and equities.

5.1.7. Insurance

Until 2013, the state-owned company Myanma Insurance enjoyed a complete monopoly. However, 12 new domestic insurer licences were issued in that year. These insurers subsequently came into operation after 2014. Of these, three companies provide only life insurance, while the remaining nine companies offer both life and non-life insurance products. The majority of the private insurance companies are owned by large business houses that also hold equity in banks. This relationship provides insurers with the benefits of new businesses, which are referred through their own sister banks, as well as insurance policies required for their own companies.

As of March 2018, the total number of life and non-life insurance policies issued by Myanma Insurance was 50,086 and 2,563,228 respectively (FRD database, 2018). Premium income during the fiscal year April 2017–March 2018 on life insurance policies was MMK 2,937 million (USD 2.2 million), while premium income on non-life insurance policies was MMK 45,637 million (USD 34.23 million). This constitutes a total of MMK 48,574 million (USD 36.43 million) (CBM, 2017a). In contrast, the total premium income (life and non-life) of private insurance companies during the fiscal year 2017/2018 was MMK 84,276 million (USD 63.21 million) which gives private insurers a market share (measured by premium income) of 63%.

²² See also the sub-section on payments under the Products section.

The insurance premium to GDP ratio is estimated at 0.15%. Allianz Research contends that this is very low by regional standards, and compares with 0.4% in Lao PDR, 1.6% in Vietnam, and 4.9% in Thailand (Brandmeir, Grimm & Holzhausen, 2017).

Since the 2014 MAP Diagnostic, insurance penetration (as measured by the ratio of premium income to GDP) has more than doubled from 0.06%. This growth has been almost entirely driven by private insurers even in spite of the restrictions that they still operate under (see Regulatory section below). Consequently, there is considerable potential for future growth with respect to the extent of insurance penetration within Myanmar. For instance, the insurance regulator dictates the policy copy writing and pricing of products which is identical across all insurance providers. Hence, insurers can only compete in terms of customer service and branch coverage.

Foreign insurers were initially permitted to only establish representative (liaison) offices, with activities limited to market research and the provision of support for foreign companies operating in Myanmar. Since 2014, foreign insurance companies have offered insurance to companies in the Thilawa Special Economic Zone. In August 2018, the Insurance Business Regulatory Board (IBRB) announced it would allow foreign insurance companies to provide life and general insurance policies in the fiscal year 2018/19.

New legislation in relation to insurance is being prepared with the support of USAID, World Bank and JICA. Insurers anticipate that the new legislation will liberalize the insurance sector. Current laws require insurance companies to navigate a number of challenges which ranging from underdeveloped capital markets, that offer only a narrow band of investment instruments, to restricted consumer activity and a lack of public awareness of the benefits of insurance policies. The future growth of the sector is highly dependent on public awareness of insurance products as well as how the quality and extent of product services depend on income levels.

The insurance sector in Myanmar is in its infancy, and for the most part consumers do not recognise the benefits that may be obtained after purchasing the insurance products/services which are currently offered. The recent growth of insurance can be attributed to the growing requirement that consumers must purchase insurance products, such as vehicle insurance and travel insurance, in order to access credit for specific purposes from lending institutions.

Insurance companies within the context of developing economies that experience high rates of economic growth tend to change their focus from the provision of only corporate insurance to also the provision of retail or general insurance. move from corporate insurance to retail general insurance., The commencement of such a shift in approach is usually marked by a increase in the likelihood that consumers will be required to take out insurance when purchasing particular products. An uptake in voluntary retail and long-term insurance products usually occurs once there is a sufficient level of growth within the market, a reduction in relevant skills gaps and deficiencies, and the development of agency networks. The procurement of this process may also be aided by the recent announcement in 2018 that foreign insurance companies may serve the needs of domestic consumers who seek insurance. However, it is also important that the IBRB move towards a more liberalized policy with regards to re-insurance arrangements and allow the private domestic insurance companies to offer a greater range of products.

The Myanmar Insurance Association is comprised of 11 private insurance companies and has been officially recognized by the Directorate of Investment and Company Administration (DICA). The

association in January 2018 signed four MoUs with foreign insurance schools with regards to the sourcing of agents.²³

Livestock insurance: There is a livestock insurance pilot project in the pipeline and it is expected to be launched by the end of 2018 by Myanmar Insurance along with the Livestock Breeding and Veterinary Department, the Singapore-based InfoCorp Technologies and RGK + Z&A Group. The premium rate is estimated to be at 1% of the value of the livestock and registration fee per cattle at MMK 2,666 (USD 2). It has been reported that Myanmar Insurance Company is in the process of drafting a livestock insurance policy.²⁴

Crop insurance: The MoPF has approved a two-year crop insurance pilot project. The pilot project was proposed in 2016, submitted to parliament in 2017 and approved only in 2018. The project aims to cover crop damages that are caused by adverse weather conditions. A key challenge is to set a suitable premium rate because there are no prior benchmarks or qualified actuaries. It has been reported that Global World Insurance will help to calculate the premium rate. This will be based on the market prices of paddies per one acre of land.²⁵

Informal insurance: A few of the Buddhist temples/pagodas have organized informal insurance to help community members. They have also organised health camps, provided services to facilitate the access of members to health facilities and assisted with funerals.

5.1.8. *Capital markets*

The development of capital markets in Myanmar began with the issuance of three- and five-year treasury bonds in 1993 by the Central Bank. Moreover, an electronic auction system was introduced for Treasury Bills and bonds in September 2016.

The main milestone in the development of the capital market was the establishment of the Yangon Stock Exchange (YSX) in 2015. The first to list was First Myanmar Investment was the first company to be listed on the YSX and it did so March 2016. The first initial public offering (IPO) was conducted by TMH Telecom in January 2018. There are six licensed securities firms which act as underwriters. The only entities which are permitted to engage with transactions with respect to the YSX are local individuals and institutional investors. Previous discussions with the Securities and Exchange Commission of Myanmar (SECM) suggest that preparations are underway to allow foreign investors to trade shares on the YSX.

The President of Myanmar also signed the new Companies Act in December 2017 which allows foreign investors to hold a stake of up to 35% in local companies. It went into effect in August 2018. Those that have a stake of over 35% are now deemed to be a foreign company. This will assist foreign investors to engage in transactions at the YSX, particularly in relation to sectors that were previously closed-off to foreigners such as pharmaceuticals. This law reverses the Companies Act of 1940 which ensured that foreigners could not buy shares.

Transparency and compliance with adequate disclosure rules and standards are the hallmarks of internationally accepted business practice yet they are not part of everyday practice in the Myanmar

²³ These MoUs were with the General Insurance Association of Japan, Insurance Institute of India, Malaysia Insurance Institute and the Australian and New Zealand Institute of Insurance & Finance.

²⁴ Thiha Ko Ko, Livestock insurance to be launched by year-end, *Myanmar Times*, 16 August 2018. Available online from: <https://www.mmtimes.com/news/livestock-insurance-be-launched-year-end.html> (accessed August 2018).

²⁵ Thiha Ko Ko, Crop insurance to protect paddy farmers available soon, *Myanmar Times*, 20 April 2018. Available online from: <https://www.mmtimes.com/news/crop-insurance-protect-paddy-farmers-available-soon.html> (accessed July 2018).

business environment. Indeed, the successful operation of the capital market depends on transparency and adequate compliance with disclosure rules and standards. It is thus important that necessary policies are developed that promote accountability and transparency and ensure the stringent regulation of the capital market. International standards should govern the criteria for whether an entity may be listed on the YSX.

5.1.9. *Pawnshops*

The role of pawnshops as providers of microfinance has declined while MFIs and cooperatives have grown in importance. The FinScope Survey data indicates that pawnshop credit dropped from 1.1 million adults in 2013 to 700,000 in 2018. This may have been caused by the removal of private pawnshop licences. However, pawnshops continue to be a major source of short-term emergency cash and people still rely on them for urgent credit requirements.

There are two types of pawnshop: registered and unregistered. Currently, pawnshop licences are issued following a bidding process organized by the authority of the state or region or by the municipality. The licence must be renewed every year and licence fees range from MMK 300,000–MMK 20 million (USD 225–USD 15,000) depending on the location. Interest rates and maturities are fixed by the YCDC for the registered pawnshops that are licensed by the Yangon City Development Committee (YCDC). The maturity period of loans from such pawnshops is usually for four months. There is a fixed interest of 3% per month for high-value collateral such as gold and this rate of interest is 10% per month for less valuable collateral.

As indicated by the FinScope Survey (2018), people in Myanmar keep a large part of their savings in the form of assets such as gold and jewellery. People tend to approach pawnshops to liquidate their assets into cash when they require cash

The MAP qualitative survey (2018) suggests that lenders at pawnshops usually have pre-established relationships with the borrowers and accept a range of assets as collateral for an extension of the period of loans. It is also acknowledged that there is a very thin line between what constitutes ‘informal pawnshops’ and ‘moneylenders’, as moneylenders at times also accept assets in return for money loans. There is system to audit and report on pawnshops even though they are registered. Hence, there is a risk of poor governance and a lack of accountability. These risks need to be addressed such as through reform initiatives.

5.1.10. *Money transfer operators*

Money transfer operators (MTOs) provide formal channels to remit money from other countries. MTOs operating in Myanmar include Western Union, 2C2P, Xpress Money, Singapore Post, International Money Express (IME), MayBank and Moneygram. The strategy of the MTOs’ has been to partner with banks and then leverage their branch networks. Western Union introduced Myanmar’s first outbound money-transfer service, which allows customers to transfer money through its nine participating banks in Myanmar. A customer can transfer a maximum of MMK 4 million (USD 3,000) per day and there is a maximum annual limit of MMK 13 million (USD 10,000).

5.1.11. *Informal moneylenders*

Informal moneylenders have been an important source of credit for many people in rural areas. They dominate the credit landscape in terms of the number of their clients. Moneylenders offer flexible service and terms and provide loans based on individual requirements. For instance, they may offer loans for short periods of time such as 24 hours or a week.

FinScope released data in 2018 which suggests that there are approximately 4.2 million people who borrow from moneylenders within Myanmar. Similarly, the MAP qualitative survey (2018) indicates that on average a moneylender has 10 clients. It can thus be estimated that there are approximately 420,000 moneylenders who operate within Myanmar. Informal lenders are an important source of finance for farmers because they provide prompt financial services. They do this by giving consumers the option to access interim financing until MADB or MFI credit is available.

The rate of interest depends on the relationship between the moneylender and the borrower and the type of collateral. Interest rates range from 24% to 120% per annum for collateralized loans, and 50% to 240% per annum for uncollateralized loans.

I have borrowed money and some rice and spices from the grocery store owner to start my Mot-Phat-htote business. I have to repay the money along with the interest of 10% flat to him every 15 days before I can borrow more money or rice. If I am unable to pay within 15 days, then I try and find another lender to borrow from so that I can pay off my first debt so that I can get rice and spices on credit to continue business. (Street vendor, woman)

There has been a shift in the source of borrowing from informal to formal sources. This has been to a large extent caused by the growth of MFIs and cooperatives in rural areas. The number of adults who borrow from moneylenders has reduced from an estimated 5.9 million in 2014 to an estimated 4.2 million in 2018 (FinScope, 2018). A study that was conducted by Michigan State University indicates that the interest rates associated with moneylenders has declined in rural areas that have predominantly MFI and cooperative activity. (Belton et al. 2017). At the same time, moneylenders continue to be an important source of finance, particularly when a borrower desires to meet short-term immediate financial needs that cannot be fulfilled by formal service providers. It is anticipated that the significance of moneylenders within Myanmar will continue to decline at a gradual pace but will remain an important part of the overall financial services industry.

5.1.12. Informal savings and loan/credit groups (*Su Mae*)

Members of the community sometimes form informal savings and loan/credit groups which are controlled by their members and commonly known as *Su Mae*. The MAP qualitative survey (2018) indicates that some savings groups have been set up to enable asset purchases such as kitchen stoves and the like. INGOs such as CARE, PACT and World Vision have been catalysts in helping communities set up savings groups, which typically consist of 20 to 25 members. The number of people who actively saved money with informal groups increased from 930,000 to 1.1 million adults between 2013 and 2018. However, the number of people who are members of the group is usually much higher at around 2.25 million. Women comprise approximately 65% of the total membership. Half of *Su Mae* members live in urban areas compared to 35% of the overall population.

World Vision reported that they facilitated the development of 932 saving groups during the first quarter of 2018 with a total of 20,271 members. The savings of these groups reached MMK 1.15 billion (USD 864,803) while the assets of MMK were worth 1.4 billion (USD 1,050,265) and the value of the total loans outstanding of MMK was 950 million (USD 713,075). The average value of loans outstanding per member stood at MMK 109,599 (USD 82.2).²⁶ The FinScope data from 2018 on the extent of saving conducted by group members and the World Vision data on the average size of assets reveal that the total assets of informal savings groups are currently likely worth approximately MMK 110 billion (USD 82.5 million).

²⁶ Savings Groups Information exchange (<http://thesavix.org>).

These informal savings groups seek to strengthen the capacity of members to support themselves and their families/households by providing access to finance through a savings-based group loan fund. Usually, members save across the entire year, and are thus eligible for a loan once they have accumulated savings for three to six months. The maximum amount of the loan is typically no more than triple the total savings of the borrower. This may differ from one *Su Mae* to another. These informal savings groups offer an easy way to save which is supported by a framework of mutual trust that exists between people who know one another. However, incidents of fraud and mismanagement have occurred due to the informality of management and the growth of some groups beyond the capacity of management (MAP qualitative survey, 2018).

There is an opportunity for informal savings groups to be linked with formal FSPs. They can do this by leveraging DFS and consequently enable members of savings groups to place their savings into a joint saving bank account by using resources such as mobile money. This may enable saving methods to become easier and protect the security of deposits. However, there are two steps that need to be taken to facilitate both the disbursement of credit to savings groups and the integration of such groups with the expectations and principles that underlie the formal sector. The first recommended step is to ensure that there is an appropriate level of interoperability within the sector. The second recommended step is to introduce various regulatory reforms such as the relaxation of KYC requirements and a reduction of the documentation that is required to engage in agreements or transactions. This is essential to procure not only the disbursement of credit to saving groups and the facilitation of better patterns of saving but also to develop a productive interface between saving groups and the formal sector.

5.1.13. *Hundis*

Hundis continues to be a popular financial instrument to use when transferring money. The *hundi* system operates on an extensive network of relationships and trust. The transfer of money through the *hundi* system is generally simple and flexible. It requires little to no documentation in contrast with the extensive amount that is normally requested by formal providers. Also, there is no upper limit on the amounts that can be transferred.

Consumers usually face inconvenience when using banks for transfers because they are often concentrated in urban areas. Conversely, the majority of receivers live in rural areas and must therefore travel a long distance to receive money. The *hundi* system is unique because it delivers the money to the receiver's door. *Hundis* use slightly less favourable exchange rates and make money off the spread in comparison with banks which primarily obtain profits by charging fees.

Overall however, the *hundi* system is inexpensive and it has very low overhead costs. Another benefit of *hundis* is that it provides a channel for black-market transactions. Hence, it offers value to those who wish to transfer money illegally and in turn offer low-cost services to the public.

The number of domestic *hundi* remittance transactions reduced following the entry of MMOs such as Wave, M-Pitisan and OK Dollar, as well as the practices of banks that promote remittances in accordance with a growing branch network. The number of adults that use *hundis* for remittance purposes fell from 1.4 million in 2013 to 0.5 million in 2018 (FinScope 2018). There are legal limits on the transactions that can be used in domestic money transfers which has led *hundis* to be used primarily for high-value money transfers and cross-border transfers. The latter still cannot be made with MMOs

Hence, it is necessary to institute regulatory reform to allow formal FSPs – e.g. MFIs, cooperatives and MMOs – to send and receive cross-border money and thus curb the extent to which money transfers are made with *hundis*. Nevertheless, the *hundi* system is effective, fast, safe and affordable. It is also not necessary to report *hundis* to government tax authorities. As such, some consumers find them particularly attractive.

5.2. Products

This section of the report provides an overview of the various financial products such as credit, savings, insurance and other payments. It also outlines the changes that have occurred in terms of the scope and availability of products since the release of the MAP Diagnostic in 2014.

In 2014, the limited product offering available to customers undermined the value that clients received from financial services. This is because the products on offer were inappropriate and did not adequately address the financial needs of consumers. For example, there were no health insurance products and consequently customers had to use credit and savings to manage risks. Similarly, several products had features that did not fully service the need of the customers. For example, the size of loans were inadequate. This has fuelled the decision of borrowers to borrow from multiple FSPs. There were major gaps in the insurance product offerings available to the general population. Improvements were sorely needed in the quantity and terms of agricultural input credit. It was acknowledged that this was essential to increase agricultural productivity.

The situation improved to a moderate extent between 2014 and 2018. Nevertheless, there are still gaps in range of products as well as their design and set prices within the financial services industry. Typically, the financial services and products on offer are not client-centred but institution-centred and thus the needs of clients are not necessarily the priority.

5.2.1. Credit

Agricultural credit

Agriculture is an important sector and accounts for approximately 26% of GDP. The sector is characterized by small-scale farming and the need for credit to finance farm inputs. Small-scale farming or subsistence farming in other countries usually relates to farming that is undertaken to feed the family and not as an income-generation activity. Under such farming systems, people use seeds from the previous harvest and purchase little in the way of inputs. In Myanmar, small-scale farming occurs on a similar scale to subsistence farming. People generally undertake it as an income-generation activity. They purchase inputs, such as seeds and fertilizers every year and then sell a major part of what they produce to generate money to sustain their livelihoods.

Traditionally, the main channel for the provision of agricultural credit has been through MADB. However, MADB credit is often insufficient in size. This often drives farmers to use other credit sources such as cooperatives, MFIs and moneylenders to supplement their existing finance.

As noted earlier, MADB credit in 2013 and 2014 was supplemented with an initiative that provides credit to farmers through cooperatives. Data on the funds of the China EXIM Bank that are channelled through cooperatives indicate that the loan portfolio of the cooperative sector is on par with that of MADBs. The agricultural loans provided by MADB and cooperatives are similar in nature in the sense that the duration of the loan is usually for six months. In terms of interest rates, the MADB loans are available for 8.5% while cooperatives offer loans at 9%. In terms of loan amounts, MADB provides a loan of MMK 150,000 (USD 112.50) per acre for a maximum of 10 acres, whereas a determination of the conditions of loans from cooperatives is based on the ability for the member to make regular repayments. Usually cooperatives lend MMK 100,000 (USD 75) per acre and increase this by MMK 20,000 (USD 15) per acre if repayment conditions are regularly met.

Farmers also use informal sources such as moneylenders and pawnshops for credit at high interest rates. However, the number of farmers taking loans from informal sources since 2013 has declined due

to the growth of MFIs and cooperatives. In addition, new funds have been established by development partners, such as the Two-Step Loan (TSL) for farm mechanization that is provided by the Japan International Cooperation Agency (JICA).

Several agricultural loan products are discussed below:

MADB loans. MADB provides two types of agricultural loans: seasonal crop production loans and term loans. The majority of the loans disbursed until 2017 have been group loans for paddies. There are reports that MADB loans are often disbursed in an untimely manner (MAP qualitative survey, 2018). MADB does not finance other participants in the agricultural value chain such as agricultural traders, exporters, transport firms, warehouses, equipment sellers etc. Other types of crop farmers also face restrictions in terms of their access to finance. A key constraint on the capacity for MADB to introduce new products is a lack of capital. Nevertheless, it is important to note that the MoPF may be able to relieve some of this pressure because it recently announced its intention to support agricultural value-chain financing.

Starting from 2018, MADB will start disbursing loans on an individual rather than group basis. Under the old system, MADB provided loans to groups of farmers, who in turn conferred guarantees to each another. Now farmers will be able to provide their own guarantee, which means that even if the other farmers in the group have not repaid their loan, the farmer who has repaid his/her previous loan is eligible to apply for a fresh loan. The maximum loan per acre was increased from MMK 100,000 (USD 75) to MMK 150,000 (USD 112.5), for a maximum of 10 acres in 2016 (GIZ, 2016). The annual interest rate decreased from 8.5% in 2014/2015 to 8% in 2017/2018.

JICA Two-Step Loan (TSL) for farmers. JICA has partnered with MADB to provide a new type of loan to farmers. JICA will loan funds to MADB, which in turn will loan the funds to farmers at 8.5% per annum. The value of the maximum available loan is MMK 50 million (USD 37,500) for farmers and MMK 500 million (USD 375,000) for agribusinesses. The principal and interest must be repaid every six months. Payment terms are three years for short-term loans and five years for long-term loans.

The JICA TSL seeks to finance farm machinery which is necessary for farm mechanization. Such an approach may increase the productivity of the sector. The JICA TSL provides higher-value medium-to-long-term agricultural loans at affordable interest rates. These loans are not available from MADB, other banks, MFIs and cooperatives, and they cater mostly to large-scale farmers that require finance for the purpose of farm mechanization. The TSL addresses the long-term goal-setting needs of farmers such as asset-building and agro-mechanization within the context of changing farming patterns. Farmers currently primarily use credit to purchase farming inputs and engage in consumption smoothing. It could thus be reasonably argued that the credit as a source of finance has very high marginal utility.

MFI agricultural loans. MFIs are generally not considered to be conventional providers of agricultural loans. However, a significant percentage of the loans disbursed by MFIs are designed to finance short-term agricultural working capital needs. MFI agricultural loans during the fiscal year 2017/2018 amounted to MMK 244.69 billion (USD 183.5 million) (FRD database, 2018). The MAP qualitative survey (2018) indicates that MFI agricultural loans act as a bridge for financing agricultural inputs. MADB offers seasonal loans although they are often disbursed after the period that they are actually required for the purpose of cultivation. However, the loans are mostly not provided as agricultural loans per se, and are often repaid from other household income sources rather than from the proceeds of crop sales.

Compared to MADB, MFIs provide more customized financial services. For instance, MFIs have extended the agricultural loan period from five months to nine or 11 months, according to the crop cycle and market prices. The introduction of longer repayment and grace periods, less frequent repayments

and hire-purchase products have all helped farmers avoid borrowing from informal sources at higher interest rates to repay MFI loans.

MFIs provide agricultural loans for a wide range of crops apart from traditional paddy crops. There is high demand for loans for crops that are currently not well supported by MADB such as beans and pulses, winter crops (vegetables) and other cash crops.

Private banks. A few private banks provide agricultural credit facilities. In March 2018, Yoma Bank provided a MMK 800 million (USD 600,001) loan to the Mandalay Coffee Group which is involved in various aspects of the coffee value chain such as processing, exporting and retail. Similarly, KBZ Bank, in partnership with ActionAid, has a pilot project which provides loans to female agricultural producers in the Pakokku Magwe region. ActionAid provides collateral in the form of a credit guarantee. Moreover, CB Bank and Yoma Bank provide a crop-pledging facility for the purpose of enabling access to loans. Loans are granted to exporters and they are generally worth up to 60% of the total value of a unit of crop after they are received and stored in a warehouse nominated by the relevant bank. This has led to new opportunities with respect to the development of warehousing receipts. Nevertheless, it is necessary to also develop a comprehensive legal framework that covers applicable law and regulations.

Only a few commercial banks have focused on the field of agricultural credit products, even though the government has listed it as a priority sector. It is necessary for suitably capable and committed banks to enter this space because agricultural lending is highly specialized and technical. **Challenges**

Although the per acre loan provided by MADB has over the years increased from MMK 8,000 (USD 6.75) (in 2005/2006) to MMK 150,000 (USD 112.5) (in 2016), some still consider the disbursement per acre low and insufficient to meet operation costs. As a result, farmers often borrow from multiple sources. This has led to farmers sourcing credit from MFIs, cooperatives and informal sources (moneylenders, pawnshops). According to FinScope (2018), 16% of MADB borrowers also have loans from MFIs and cooperatives.

The repayment of loans is a key challenge faced by farmers as the loans from MADB and MFIs are usually due immediately after harvest when prices are at their lowest. As a result, farmers take additional loans from other financial providers (formal and informal) during harvest time to refinance the previous loan. The farmers then try to hold onto their crops and sell them when the price is more favourable. This suggests that it may be appropriate to amend the repayment terms of current agricultural credit products, and provide more flexibility that satisfies the needs of borrowers with respect to leveraging finance.

Business loans

MSMEs employ a large percentage of the total number of people within the current market (Han & Supinit, 2016). However, very few credit products cater to the needs of MSMEs. The majority of MSMEs are unable to access credit from MFIs and the formal banking sector. The features of this problem include:

- The current interest rate charged by MFIs (30% per annum) is too high to meet needs within this particular context. However, it is considered to be of an average level within the global microfinance industry).
- The value of loans is too small for larger MSMEs to meet some their credit requirements.
- Bank interest rates tend to be lower than those associated with MSME loans and sit at a rate of about 13%. Most of the banks require real-estate collateral, which most MSMEs do not possess. Banks typically require that the MSME has an operational history of at least two years before they can be given the opportunity to take out a loan.

- Many MSMEs do not maintain proper financial records. This heightens the perception by banks that lending to them would be risk-laden.

Recent developments with respect to the business loan segment are sketched below.

New overdraft policy facilitates the introduction of products over a longer-period of time ('long term products'). Until recently, banks were restricted by the CBM to offer loan products for less than a year. This led banks to offer overdraft loans backed by real-estate collateral. The overdraft is regularly rolled over at the end of each year. In practice, given the regular rollover, overdraft facilities are being used to issue loans without a maturity date.

A key problem was that banks were not conducting prudent assessments on the capacity of borrowers to repay loans. This indicates that the banks had a poor underwriting capacity. They should have conducted assessments based on any increases in the value of real-estate that had been collateralized at the banks. One major risk associated with real-estate collateral is that even if properties are foreclosed it is unrealistic to contend that many of them could then simultaneously be put on auction without accruing a considerable depreciation in their value. It is consequently essential to consider other factors such as whether it is appropriate to draw out the time that is required to liquidate the real-estate asset.

Under the new regulations (Directive No. 7/2017) that was issued in 2017, the CBM directed banks to gradually reduce the total volume of overdraft facilities, including temporary overdrafts, as a percentage of the relevant bank's total outstanding loan portfolio. The goal is to reduce this volume from 50% in July 2018 to 30% by July 2019, and finally to 20% by July 2020. The CBM directed banks to clear overdraft facilities for two weeks at the end of each year. In cases where overdraft facilities were not cleared, such loans would be categorized as NPLs.

To avoid a rise in NPLs, further directives were issued in late 2017 which allowed banks to convert overdrafts into three-year term loans. Quarterly interest payments and a grace period of one year is necessary before principal repayments are to be made.

The new policy is expected to push banks to develop products which satisfy longer-term needs. These products are currently unavailable. However, the introduction of them would encourage banks to develop long-term saving products with attractive interest rates. There is nevertheless an inherent risk in converting overdraft loans to three-year term loans. This is because under this system the bank does not assess the borrower's capacity to repay the term loan. Previously, the overdraft loan could only be renewed upon the payment of interest at the end of the year (i.e. no principal repayment). Once the overdraft is converted to a term loan, the borrower is forced to pay both interest and principal. This increases the risk of higher NPLs, which in turn poses a risk to the stability of the banking system as a whole.

However, such reform will force the banks to develop higher standards of credit risk assessment, as well as improve their governance and management systems.

Unsecured loans. Among the many priorities of the 2014 MAP Diagnostic, the objective of increasing the availability of unsecured credit stood out as being important. There were opportunities to increase the amount that providers may lend and create more options to grant loan extensions without imposing any requirements for additional collateral (e.g. MFIs and cooperatives). A key proposal is also to relax the requirement for collateral in relation to personal loans once a credit bureau is set up.

Furthermore, the 2014 MAP Diagnostic pointed out that outside of MADB private banks were generally passive in serving the general population and, secondly, that their collateral requirements constrained

the capacity for the market to meet the needs of qualified borrowers. Savings groups and international NGO credit programmes existed, but on a very confined scale.

Beyond the people who obtained credit from the microfinance market, there was a significant demand for unsecured credit. Most of the supply of this credit at the time was being met by pawnshops or informal moneylenders at an extremely high cost to the borrowers. The formalisation of this credit would require regulatory adjustments and notably an increase in microfinance interest rates and loan sizes.

Since 2017, the CBM has allowed banks to extend loans without collateral (unsecured loans), provided that the institution implements proper risk-management systems. This has led some private banks to provide small-scale loans based on cash flow and receivables. However, banks are hesitant to issue unsecured loans because the interest rate cap of 13% does not justify the risk. Issues such as lack of credit risk assessment expertise and weak internal risk-management systems also dissuade banks from providing unsecured loans.

An important development would be to implement a secured transaction registry law. This could make substantially more assets eligible to be used as collateral, including equipment, machinery, stock, furniture and fixtures, which would be more relevant to MSMEs.

Unsecured loans can benefit MSMEs that wish to expand but do not have adequate real-estate collateral. However, the majority of MSMEs do not maintain proper accounting records and do not have the reporting systems that are required by banks. The MAP qualitative survey (2018) indicated that many banks are not comfortable with offering unsecured loans because the financial statements of MSMEs may not reflect their true financial status, as there is a tendency to maintain double sets of books. Also, the banks are unable to cover the risk premium on unsecured loans due to an existing cap on interest rates.

JICA TSL. JICA introduced the TSL project which seeks to provide finance to MSMEs. JICA provides a loan to MEB at 0.01%, and MEB disburses loans to banks at 4% per annum. The banks then lend to MSMEs at 8.5% per annum, which is significantly below the bank interest rate of 13% and the MFI interest rate of 30%. To access loan facilities under the scheme, borrowers must provide immovable property as collateral. If the borrower cannot provide collateral, they must pay an additional 2.5% as credit guarantee insurance.

One of the attractions of the TSL is that it enables MSMEs without collateral to access credit. During the first phase, approximately 4.7 billion yen (USD 42 million) was loaned to 269 local MSMEs (average loan size of USD 156,000) in manufacturing and services through six local banks, including the SMIDB, Myanma Apex Bank, Myanmar Citizen Bank, Co-operative Bank, KBZ Bank and AYA Bank.

Given the strong demand for loans among MSMEs, an agreement for a second phase of the TSL, worth approximately 15 billion yen (USD 133 million), was signed between JICA and the GoM in 2018. The nature of the loan indicates that this facility is mainly suitable for larger MSMEs, as the loan size is too big for small and micro enterprises. Medium-sized enterprises have the largest growth and job creation potential.

However, the project has one clear gap, which is that small and micro enterprises need to find other sources of credit. The big advantage of this type of programme is that it requires that the lenders develop a credit assessment process i.e. real underwriting to understand borrower performance and cash flow.

Hence, rather than only looking to donors, who have minuscule amounts of funding, it is important to look for opportunities to provide these types of loans from conventional sources within the country.

KfW (German Development Bank) Loan. The German Government, through the KfW Development Bank, has undertaken to provide euro 15.3 million (USD 17 million) in grant funding in two phases. The grants are provided to the MoPF for on-lending to SMEs via partner banks. The intention is to provide a credit line for SMEs and support partner banks to develop business activities in the SME segment. By exemplifying that SME finance is profitable for the partner banks, this initiative should encourage other banks to expand their businesses to the SME sector. The KfW loan provides financing at 8.5% for investment in fixed assets such as new machinery, factory construction etc. but does not provide finance for working capital.

During the first phase, €4.5 million (USD 5 million) was channelled by MoPF as a loan to CB Bank for financing SMEs. For the second phase, KfW (2017) has committed to providing €10.85 million (USD 12 million).

Credit guarantee schemes. A credit guarantee insurance (CGI) scheme for SMEs was introduced in 2014 by Myanma Insurance. Subsequently, banks such as CB Bank and KBZ Bank introduced a collateral-free SME loan product with the CGI. Under the scheme, Myanma Insurance covers 60% of the total loan value, while the non-CGI covered portion of the loan requires 100% collateral. The insurance premium is 3% of the loan amount in the first year, 2.5% in the second year and 2% in the third year.

In principle, the CGI scheme provides opportunities for MSMEs to access credit at a lower interest rate than what they would otherwise pay to MFIs, cooperatives or informal sources. However, the uptake of credit guarantee has been slow. As of April 2017, CB bank had provided only 21 loans and KBZ Bank three loans under the CGI scheme. The reason behind the slow uptake appears to be that banks are not familiar with how to work with MSMEs and they lack the right tools to evaluate the financial capacity of MSMEs. Another reason is that it takes an extensive amount of time to approve a credit guarantee. Furthermore, SMEs are required to submit a business plan and an income statement for the preceding two years. Many of them cannot meet this requirement because they lack the capacity to do so and have informal back office systems.

To ensure the better use of the scheme, it is necessary to spread awareness about it, develop programmes which seek to training enterprises to maintain books, and to enhance the capacity of banks to assess MSMEs.

Overall, apart from those supported by development partners in collaboration with banks, there are few credit products which are offered by private banks that in practice meet the need of MSMEs. MSMEs still largely depend on MFIs, cooperatives, and informal sources to meet their working capital requirements, at higher interest rates. There has been a shift to borrowing from formal sources rather than informal sources, although there is still a persistent pattern of borrowing from multiple formal and informal sources.

One of the priorities identified during the 2014 MAP Diagnostic was to develop insurance products to provide security for credit extension and protection of consumers, particularly for agriculture. Insurance could help to reduce the risks of uncollateralized credit, especially agricultural input credit. However, no product has been developed which can leverage insurance to enable access to credit without collateral, in part because of the questionable commercial viability of crop insurance.

Informal credit. Informal credit products are provided by pawnshops, moneylenders or informal savings groups (*Su Mae*). Most of the adults that lack access to formal credit opt to use informal credit because they have very few options. Despite the very high interest rates (they range from 8% to 12% per month) (MAP supply-side qualitative interviews, 2018), people seem to still be using informal credit to meet their immediate requirements.

Interest rates have moderated largely due to a large increase in options for borrowing from MFIs and cooperatives. The 2014 MAP Diagnostic reported that the interest rate range for informal credit is generally within the range of 10% to 20% per month. Informal loans are usually given for a period of two to six months and sit within the range of MMK 200,000 to MMK 20 million (i.e. approximately USD 150–USD 15,000) (see Table 6).

Table 6: Informal credit

Loan source	Requirement	Loan size	Interest rate	Duration
Pawnshops (informal)	Collateral: goods, clothes, gold	80% of the collateral	3% to 6% per month	3 to 6 months
Moneylenders	Relationship. They are required to know each other	Mutual understanding	8% to 12% per month depending on how the interest is calculated. It is payable either daily, every 10 days or monthly	2 to 4 months
Su Mae	Group member	Pooled money	Negotiable often, 2% to 4% per month	At a maximum period of 3 times that of savings; or, based on a common group understanding

5.2.2. Savings

Traditional savings products. Since 2013, there have been no changes to the interest on savings deposits, given the CBM’s policy on interest rates. Most savings deposits currently offer an interest rate of 8%, although a few banks offer a slightly higher interest rate (between 8.25% and 8.5%). The interest on savings is calculated based on the minimum balance between the first week of the month (i.e. the sixth morning) and the last day of the month – a practice that can disadvantage savers, but it also reflects the reality that many banks lack quality IT systems . Savings products offered by banks are generally the traditional types of accounts, such as the savings account, call account, current account and fixed deposits account. There has been little innovation in relation to products , although some banks have begun to introduce products tailored to specific clients. These include Smart Savings, CB Youth, a Minor Deposit Account, and a Wedding Deposit Account.

Non-bank savings products. The range of savings products that are offered by non-bank FSPs – e.g. MFIs, cooperatives and mobile money operators – is very limited. Compulsory savings requirements exist, mandated by policy and/or regulations, if a credit applicant desires to access credit from MFIs and cooperatives. There is a very limited capacity for the provision of voluntary savings. However, MFIs and cooperatives are not permitted to mobilize savings from the public unless a credit standing (i.e. loan) exists with the institution.

Informal savings groups. Informal savings product providers and products/services have grown to rival MFIs and cooperatives as viable savings channels in rural areas. The vast majority of informal savings occurs in the form of savings groups established by NGOs or by community or workplace initiators (see also section 5.1.12 on *Su Mae*). It is estimated that there are 35,000 to 40,000 savings and credit groups with a penetration between 50% and 60% within Myanmar’s villages and wards.

Savings groups enable their members to make deposits and borrow at low interest rates, as well as receive an annual dividend. The groups collect member deposits with credit intermediation to members at 2.5% to 5% per month over a short duration of often three months. The interest earned through loans is paid back to group members when savings groups disband at the end of a cycle and share out their assets including the interest earned. The cycles are usually eight to twelve months but may vary from one group to another. Apart from such groups, many people continue to save in the form of assets such as gold, jewellery and property.

Challenges

One of the priorities to facilitate an increase in savings, which was identified during the 2014 MAP Diagnostic, was to make available low-cost savings vehicles for short-term saving. Emerging retail payments networks and agents could be leveraged to improve the proximity as well as transaction functionality. This may lead to the creation of convenient store-of-value services and in turn make the depositing and accessing of funds more convenient. It is anticipated that this would likely encourage more savings to be made in the formal sector. However, the infrastructure to support mobile-based savings is at an early stage of implementation with limited penetration and adoption with respect to the general public.

Informal savings mechanisms are still popular. While the amount of saving in banks and other formal institutions has increased, a significant portion of the saving is still dominated by informal savings mechanisms such as gold/jewellery, informal savings and loans groups, and saving at home. One reason for the staying power of informal savings is the lack of real returns of formal products. The current bank interest cap on saving is 8% per annum, while the inflation rate is on average 6%. This leaves a small margin for real returns in the absence of a proper consideration of associated account fees.

In addition, the interest cap on loans set by the CBM may constrain the ability for banks and MFIs to expand their operations into rural areas, given the associated cost of operations and risks. Thus, a further reason for the tendency of people to save informally is that they only have a limited level of access to formal saving products in rural areas. Banks continue to concentrate on urban and peri-urban areas and lack incentives to expand to marginalized areas.

Furthermore, informal saving mechanisms continue to be popular because there is widespread distrust towards formal institutions. This has been largely influenced by a conscious awareness of losses that were sustained by borrowers after previous bank crises.) A further advantage not to be overlooked is the convenience of liquidating gold and jewelry into cash via pawnshops.

Consumers value informal savings channels. The prevalence of informal savings channels reflects both the inadequacy of formal products and channels as well as the ability of informal channels to satisfy existing household and community needs. From a livelihood perspective, the existing informal savings channels may be both suitable and attractive. Nevertheless, the suitability of informal channels cannot really be tested until formal products exist. For example, in the case of credit, the use of informal products and service providers decreased (albeit marginally) once the range of formal products expanded.

At a macroeconomic level, the development of mechanisms to integrate informal savings into the formal financial sector presents attractive benefits in increasing the domestic supply of credit for lending and investment. Hence, there is a need to mobilize savings within the formal system by aligning products with people's needs in terms of accessibility, security, flexibility and returns. This can be procured through enhancing the ability of MFIs to take deposits and developing channels for low-value saving through mobile money services.

5.2.3. Insurance

Although the insurance sector opened up to private insurers in 2012, Myanmar Insurance still maintains a monopoly on 14 of the 29 insurance products on offer (they can be broadly classified as life, marine, aviation, fire, engineering, third party, comprehensive and miscellaneous). Myanmar Insurance Company is a government-owned enterprise and consequently maintains a monopoly over profitable insurance segments such as liability insurance, third party vehicle insurance, construction risk and some health insurance products that have been recently introduced for solely private and government employees. Of these, the biggest portfolio for Myanmar Insurance is the third-party vehicle insurance (607,371 policies), followed by life insurance (65,002 policies) (FRD database, 2018). Both of these insurance products have seen growth because they are mandatory products, the former for motor vehicle owners, and the latter for all government employees.

Private insurers are permitted to offer limited insurance products. The general insurance companies were originally allowed to offer only motor, fire, cash-in-safe, cash-in-transit and fidelity insurance products. This has since been extended to include insurance for highway travel, marine cargo, health, farmer life, and personal accidents. However, private insurers are constrained by regulations which ensure that the same insurance policies are offered at the same prices. This has in turn limited competition.

General insurance. Insurance companies have generally performed better in the area of general insurance. The most popular products are fire, motor and travel insurance. Banks require that a borrower maintains fire coverage as a criterion for loan eligibility which is in turn a key cause for an uptake in fire insurance. A similar uptake in travel insurance has been driven by highway bus companies who like to buy travel insurance policies for their customers. Moreover, an uptake in motor insurance has been largely due to the decision of financial institutions to require vehicle insurance as a prerequisite for the provision of hire purchase services.

Life insurance. Life insurance products are limited to endowments. Other types of life insurance products, such as term life, whole life and annuity plans, are not offered by any of the insurers.

Credit life insurance of MFIs. Besides insurance companies, most MFIs also provide life insurance to clients. The FinScope insurance access strand does not properly recognise this type of insurance. The reason for this is that many clients see it as a bundled credit product, and as such probably do not know that they are insured. The premium is usually set at 0.5% to 1.5% of the total loan amount. A key policy concern is whether there is a way to cover outstanding loans payments in a circumstance where the borrower dies so that the loan obligation is not transferred to family members. However, credit life insurance of this type mainly benefits the MFI because the premiums are not actuarially calculated. These premiums are generally set at 0.5% to 1.5% so therefore they are far higher than what is required to cover any expected losses from deaths.

Most MFIs manage their own insurance fund, which is a latent risk for the MFI sector that is yet to be addressed. It is compulsory to subscribe to life insurance at the time of taking a loan so the uptake is high. The provision of insurance by MFIs is not perfect, although over time, as the market develops, the MFIs need to strengthen the way that they provide insurance to ensure that they can limit their exposure to various risks. A better risk-mitigation strategy that reflects the industry 'best practice' is for MFIs to broker formal insurance products by acting as agents of insurance companies.

Looking Forward. The *MAP Diagnostic* of 2014 highlighted that insurance could play a critical role in addressing the risks that face consumers, and also help to secure credit when clients are unable to offer collateral. However, the market generally has not developed products that can address the key risks faced which include healthcare, crop failure and other types of life insurance.

Similarly, one of the seven priorities to extend financial access in Myanmar was to grow the insurance product portfolio to meet risk-mitigation needs. There is a large opportunity to provide formal insurance for healthcare and life insurance as well as insurance that deals with crop and livestock risks. Such changes would require regulatory adjustments to allow both the Myanmar Insurance Company and new private insurers to offer such products.

The *FinScope Survey* (2018) indicates that health problems, harvest failure, the death of main income earners, and natural disasters are the biggest risks which are faced by the general public. However, there are still very few insurance products that address such risks. There is a pressing need to understand more deeply household risk exposure and the impact of associated risks, in order to design appropriate strategies and products that could serve as effective coping mechanisms.

The insurance sector has numerous problems such as a lack of capacity, minimal investment options, and a shortage in the data that it can use to construct a thorough risk analysis. However, a particular concern is that the insurance sector faces regulatory controls on the features and pricing of its products. This has made insurance products largely unattractive to the general public. Insurance providers appear to offer only basic insurance products that differ only in terms of the type of their service. There are no products that can mitigate the greatest risks for the poor, which include health, crop, and livestock risks.

The majority of adults within Myanmar lack familiarity with insurance and the advantages associated with the mitigation of risks. Many people still rely on old mechanisms to manage their risks: people depend on credit and savings to cope with risks related to health, crop failure and livestock loss, and death. In order to increase the uptake of insurance products, it is important to recognize the risks that the different target market segments face, and develop innovative products that countenance them. Moreover, it is recommended that policy-makers and key stakeholders raise awareness of insurance through financial literacy programmes that are easily accessible to the general public.

It is also important to address another key issue which is that there is a limited distribution of insurance products in Myanmar. This problem is largely characterised by an insufficient promotion of partnerships and the limited extent to which networks of FSPs are leveraged in rural areas. In order to resolve this issue, it may be necessary to increase the quantity of professionals who are skilled in the areas of human resources and insurance. A growth in the penetration of mobile phones and mobile money can lead to the development of new distribution channels for the collection of insurance premiums. Additionally, the growth of cooperatives and MFIs provides an opportunity to leverage them as agent networks and thus contribute to an increase the accessibility of insurance products, particularly agro-insurance products, in a similar manner to how loans have been derived from the China EXIM Bank facility and then disbursed among farmers. However, a strong governance and monitoring structure for cooperatives will need to be in place prior to any decision of non-bank service providers to broker and distribute insurance products. Moreover, skills, training and capabilities should be developed in line with new roles that are envisaged, particularly given that cooperatives are largely staffed by volunteers.

5.2.4. *Payments*

During the past few years, there have been considerable changes to the nature of payments. New providers and products have entered the market. Key developments include the entry of telecom-led and bank-led payment service providers (PSPs), aggregators, and the Myanmar Payment Union (MPU).

Growth of debit/credit cards and POS machines. There has been significant growth in the digital payment space (MPU, 2017):

- The number of e-commerce sites increased from 20 in 2014/2015 to 87 in 2016/2017 (and presumably there has been much more growth since then).

- The number of ATM units increased from 210 in 2012/2013 to 2,800 in 2016/2017.
- The number of debit/credit cards increased from 30,000 in 2012/2013 to 2.9 million in 2016/2017.

The use of debit/credit cards has increased and been normalised particularly within the context of a previously very low uptake. This is a positive sign that Myanmar is transitioning to a less cash-dependent economy, although the full extent and significance of these changes cannot be understood at this very early stage. Consumers also appear to be beginning to trust and accept DFS. In fact, it is possible that there is greater trust in DFS providers than in banks.

Digital payment channels. Since 2012, the majority of the private banks in Myanmar have provided some digital banking services (e.g. ATMs, POS and debit cards). The development of mobile money and transfers occurred after the creation of the CBM’s Mobile Banking Directive of 2013 and thus this represents a fundamental change in product provision. The first mobile wallet is EasyPay by Myanmar Mobile Money and it was launched in 2014. Banks such as CB Bank, AGD Bank, Kanbawza Bank (and a few others) have also developed their own banking mobile apps.

The *MAP Diagnostic* of 2014 recognised that there was a need to significantly increase the supply and availability of electronic payments, through mobile payments platforms and electronic payments networks that are normally developed by commercial banks. The implementation of the MFS Regulations has allowed NBFIs, such as MNOs, to provide remittance and payment facilities.

Mobile wallet. Mobile and digital wallets are provided by MMOs and banks. Mobile wallets allow users to make and receive payments using mobile phones. MFS accounts have been categorized into three levels for the purpose of AML/CFT requirements (see Table 7). Customer accounts are categorized based on transaction limits and level of registration. Levels 1 and 2 are for individuals, while Level 3 is for registered legal entities. For KYC purposes, the Level 1 customer must present identification (national ID card, driving licence or passport). A Level 2 customer must have their SIM registered and submit identification. The Level 3 legal entity must submit its business registration certificate. Based on the KYC documents submitted, the individual and entities can carry out MFS transactions.

Table 7: MFS transaction limits

Account type	Daily cumulative transaction limit (in MMK)	Monthly cumulative transaction limit (in MMK)	Maximum balance limit (in MMK)
Level 1 customer	50,000	1 million	200,000
Level 2 customer	500,000	12.5 million	1 million
Level 3 customer (business)	1 million	25 million	10 million

Source: CBM (2017b)

5.2.5. Remittances

OTC remittance. Traditionally, local remittances were mainly conducted through informal channels such as *hundi* agents, transport agencies, and family and friends. To a lesser extent, banks and MTOs were also used. MMOs have been granted licences which has changed the landscape of domestic remittances. MMO agents can transfer money to any person in the country. The sender may provide the agent only the receiver’s mobile phone number and ID number and any remittance money. It is not necessary for the sender and receiver to have mobile money accounts.

Inter-/intra-bank transfers. Previously, bank transfers were limited to intra-bank (i.e. account–account) transfers, and inter-branch transfers using the bank’s own system. Recently, it has become possible to conduct inter-bank account to account transfers since the implementation of the CBM-NET and institution of a mechanized clearing house.

Single integration between FSPs. Interoperability between FSPs is viewed as a challenge that must be properly resolved if Myanmar is to transition from a cash-based to a less cash-dependent economy. Currently, partial interoperability exists between banks and this has been facilitated by the MPU. Mutual partnerships have facilitated further integration between banks, MMOs and aggregators and this is often in the form of common ownership. For example, one can transfer funds from M-Pitesan to a CB Bank account and vice versa but at the same time one cannot transfer funds from M-Pitesan to Yoma Bank. Similarly, it is not possible to send money from an M-Pitesan account to an OK Dollar account or from Wave Money to True Money. In other words, the level of interoperability across providers is relatively low.

Informal payment system – domestic and international. Under the informal payment system, the *hundi* channel is the popular channel for money transfer. The *hundi* system facilitates the transfer of money to any part of the country or outside the country by providing information about the receiver and paying the *hundi* agent in one location and then enabling the receiver to accept the money in another location. *Hundis* charge slightly less favourable exchange rates than banks and make a profit on the exchange spread. Overall, however, the *hundi* system is inexpensive, with very low overhead costs. A down side is that the *hundi* system is also used for black-market money transfers. For the public, the popularity of the *hundi* system is popular because it is simple and flexible. *Hundis* do not require a bank account and the requisite KYC due diligence. No transaction limits exist and funds are normally delivered to the receiver’s door. Nevertheless, the FinScope Survey results (2013 and 2018) show that the use of *hundis* has decreased over the five-year period.

Although simple and flexible, OTC remittance products are offered by MMOs domestically but are not available internationally. For international remittances, the *hundi* remains the favoured channel. In some instances, migrant workers transfer funds from branches and ATMs of Thai banks, for example, to the accounts of informal operators in Thailand with the latter nation initiating payments to the remittance receivers at Myanmar banks. This is important for migrant workers, many of whom do not have all the legal documentation that is required to make a bank transfer.

When large sums are transferred *hundis* are the preferred choice domestically because the transaction constraints are commonly placed on MMOs.

5.3. Financial sector regulation

5.3.1. Overview: Reforms have been undertaken but challenges still remain

Myanmar’s financial sector has historically been tightly regulated, which has constrained its ability to evolve and develop in response to changing needs and services. However, since 2011, there have been extensive regulatory reforms which seek to expand the accessibility of financial services and develop the FSP ecosystem. While reforms are still in progress and have thus not yet fully stabilized, new measures have helped to move the regulatory framework to a better alignment with international standards. This may help to improve the general trust of the public in the banking sector.

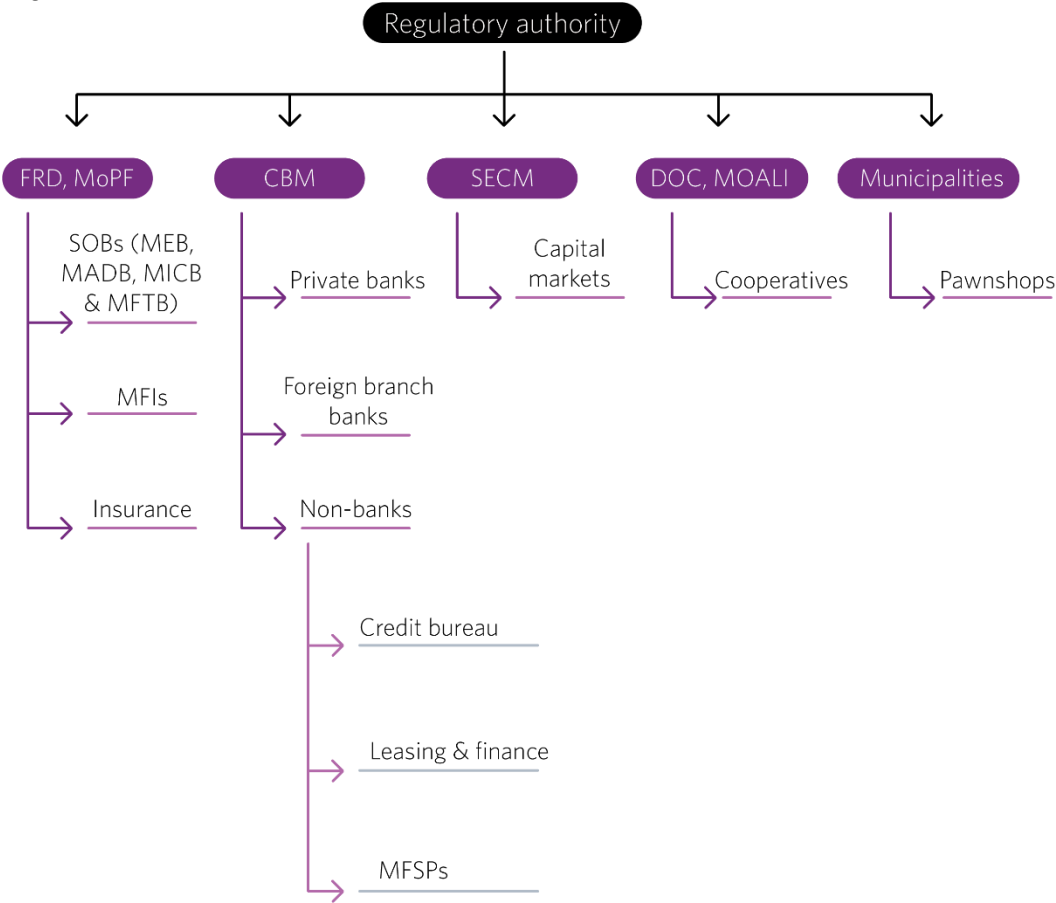
The extent to which the reforms have been implemented effectively is ambiguous at this stage. Measures still lag significantly behind modern international standards in some areas and in others they remain unduly restrictive. This may inhibit financial sector growth and development. Furthermore, delays with respect to the introduction of regulations, which collectively function as a support mechanism, and other directives under new legislation have exerted a negative impact on the effectiveness of the reform process.

Since the banking system was only loosely regulated under the outdated, previous regulations, a period of adjustment to the new law and regulations is necessary. While the law is in its implementation phase, the CBM has to carefully monitor banking sector risks, as banks encounter a period of adjustment.

Fig 39 provides details of the regulatory framework pertaining to relevant financial inclusion regulations and key categories of FSPs in Myanmar: banks, insurers, MFIs, capital markets and member-based FSPs.

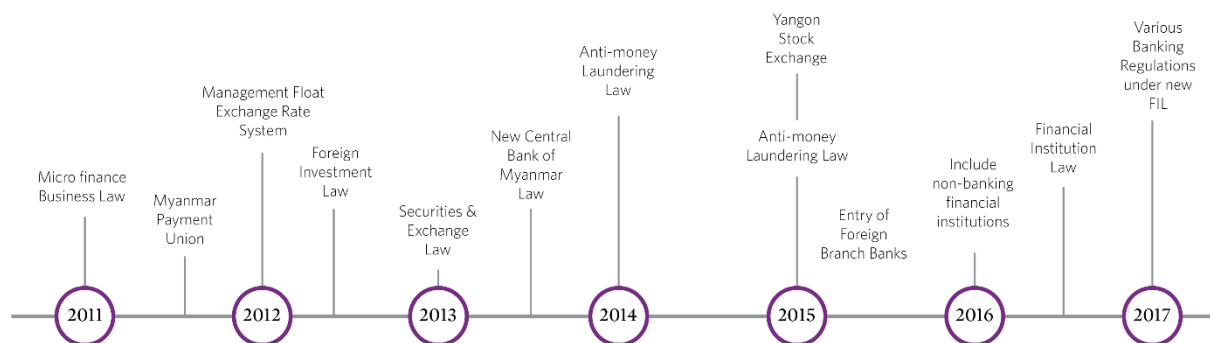
The landscape of regulators is quite fragmented, with five key institutions. A lack of coordination and communication within this diverse group of institutions could lead to unnecessary delays, policy conflicts and excessive bureaucracy. In addition, it is unlikely that all institutions with regulatory powers have a sufficient capacity to manage risks. The new FIL (2016) has provided additional powers to the CBM in an effort to address fragmentation within the regulatory landscape although this has been largely unsuccessful. In the longer term, it may be appropriate to rearrange regulatory responsibilities to some extent.

Figure 39: Financial sector regulatory institutions



Source: Authors

Figure 40: Timeline of key legal and regulatory reforms



Source: Authors

5.3.2. New laws and regulations

Some of the key legal and regulatory reforms in the financial sector since 2011 are shown in Figure 40.

A number of new laws and regulations have been introduced since the 2014 MAP Diagnostic. The key ones are highlighted below, along with potential challenges for their effective implementation.

Financial Institutions Law (FIL) 2016

The new FIL was introduced in early 2016, replacing the previous (1990) law. This primary law governing the financial sector was developed in line with the Basel core principles for banking supervision and regulation, and it has supported the liberalization of the banking sector. The FIL has provided greater autonomy to CBM to enable it to effectively regulate and supervise the banking sector. It also requires the banking sector to adopt prudent practices. Furthermore, the law is expected to strengthen corporate governance and transparency, accounting and auditing, and payment and settlement systems. Some of the key elements of the law include that it:

- empowers the CBM to license, supervise and regulate banks and foreign bank branches.
- enables the CBM to register and regulate selected NBFIs.²⁷
- Authorizes the CBM to regulate, supervise and monitor the payments, clearing and settlement system.
- gives banks permission to provide MFS. Banks are also permitted to venture into insurance services, securities broking and any other activity related to the banking business, as approved by the central bank, via a separately incorporated subsidiary.
- empowers the CBM to license and regulate the operations of private credit bureaus that access information from banks, NBFIs and scheduled institutions.²⁸
- generally does not apply to scheduled institutions. Nonetheless, these institutions may be subject to the whole or any part of the FIL if the MoPF, upon the recommendation of the CBM, recognizes that there is a need for this to occur.

²⁷ NBFIs are permitted to engage in one of the following activities: finance company business, leasing business, factoring business, credit card business, money service business, any other credit services the central bank may prescribe, and such other activities as determined by the central bank.

²⁸ Scheduled institutions are not established under this law, although other legislation protects their ability to provide financial services for a specific group or a community. Such institutions include: the Rural Development Bank, the Agriculture Bank, MFIs licensed under the Microfinance Business Law, credit societies and the Postal Savings Bank.

Regulations under the new FIL

CBM released the first set of four prudential regulations under the new FIL in July 2017. While these regulations are a step towards developing a sound banking system with an adequate risk management structure, the CBM still needs to introduce more regulations and directives to effectively implement the FIL. The four initial regulations introduced under the FIL include:

- **Liquidity Ratio Requirement Regulation 2017:** a bank shall maintain a minimum liquidity ratio of 20% at all times; eligible liquid assets include cash, deposits at the CBM or with other banks, and certain investment assets such as government securities. The ratio is calculated with respect to “volatile liabilities”, which have are based on mainly deposits and short-term borrowing.
- **Large Exposure Regulation 2017:** a bank shall not take on financial exposure in respect of a person or a single counterparty or a group of connected counterparties that amounts to an aggregate liability of more than 20% of the core capital of the bank. Moreover, the aggregate of all large exposures of a bank shall not exceed eight times its core capital.
- **Asset Classification and Provisioning Regulations 2017:** the total volume of overdraft facilities as a percentage of the bank's total outstanding loan portfolio shall be reduced to 50% by July 2018, 30% by July 2019, and 20% by July 2020. Likewise, loans and advances should be classified into five different categories: standard, watch, sub-standard, doubtful, and loss, and necessary provisioning should be made with respect to these categories.
- **Capital Adequacy Regulations 2017:** the regulatory capital adequacy ratio (CAR) to be maintained is 8% of risk-weighted assets and the minimum Tier 1 CAR to be maintained is 4%.

In terms of the regulations introduced, the aim of the liquidity ratio requirement is to ensure sufficient liquidity to accommodate fluctuations in deposit outflows, while the large exposure regulation is expected to reduce risks associated with lending to a single borrower or a group in the event of default. Currently, bank loans are mostly concentrated on large business groups. But the new regulation encourages banks to form consortiums and spread risks among lenders.

The regulation also encourages banks to diversify their credit portfolios, which could benefit MSMEs. The CAR requirement ensures that the banks have an adequate level of capital, as per Basel standards, and have the ability to absorb losses. The asset classification regulation encourages banks to develop credit products with repayment terms that consider the business cycle and cash-flow pattern of the borrower to replace the existing short-term (but rolled-over) loan products.

The 2017 data on banking sector capital elucidates the impact of the large exposure limit on maximum loan sizes. For the smallest banks (1% market share), the large exposure limit would restrict their loan sizes to a range that would be relevant for medium-sized firms. However, medium-sized and large banks can still make loans in the millions of US dollars without breaching the large exposure limit (see Table 8).²⁹

²⁹ The CBM does not publish information on the core capital of the banking sector. The example uses paid-up equity capital instead (the two are closely related).

Table 8: Illustrative impact on large exposure limit on bank loan sizes

Type of bank	Market share (in MMK million)	Paid-up capital (in MMK million)	Maximum loan (in MMK million)	Maximum loan (in USD million)
Large	20%	245,780	49,156	32.8
Medium	5%	61,445	12,289	8.2
Small	1%	12,289	2,458	1.6
Sector		1,228,900		

Challenges and outstanding regulatory issues

- **Meeting new capital requirements:** under the FIL, minimum capital is MMK 20 billion (USD 15 million) for local banks and MMK 99 billion (USD 75 million) for a branch or subsidiary of a foreign bank. In addition, banks need to meet CAR requirements. As foreign direct investment is not permitted into domestic banks, meeting minimum capital and CAR requirements could be challenging, especially for new banks.

Similarly, the prospect of raising capital from the capital market is limited as it is still underdeveloped. This problem could be intensified by banks having to make additional provisions for NPLs, which would be a charge on capital. As at March 2016, the combined CAR of all private banks was 19% (CBM, 2016), so there was a comfortable cushion over the regulatory minimum (8%).³⁰ The magnitude of the impact of increased NPL provisioning under the new regulations is not yet known; however, in the absence of adequate capital, banks would be likely to adopt more conservative lending practices in the short to medium term, leading to slower credit growth.

- **Coordination with other regulators:** the new law does not yet apply to scheduled institutions – such as MADB, RDB, MFIs licensed under the Microfinance law, the Postal Savings Bank, and cooperatives which are established under their own law. Given that these scheduled institutions are key bodies in terms of driving the financial inclusion agenda, a lack of coordination between them may result in conflicting and contradictory policies.

Similarly, effective collaboration is required to ensure better level of understanding and support amongst various regulators. For instance, domestic banks do not extend significant credit to MFIs, largely due to the banks' limited understanding of the MFI sector and ambiguity over the policy with regards to an extension of credit to MFIs. To ensure the effective implementation of the new law, the central bank should coordinate closely with regulators of financial institutions that are not governed under this law and with other relevant domestic and international authorities.

- **Liberalization of interest rates:** the CBM currently sets a fixed bandwidth for deposit and lending rates for banks, based on a reference rate (currently 10%). The lending rate ceiling is set at +3% (13%) of the reference rate, while the deposit rate is set at -2% (8%) of the reference rate. While aimed at making credit affordable and ensuring a good return to depositors, this practice also means that interest rates are not market determined and cannot reflect the costs of lending and the risks of different types of borrowers.

³⁰ This is the regulatory minimum under Basel 1 and 2. Basel 3 has higher requirements for some banks (notably large banks). In addition, many banking regulators apply higher national requirements, where they consider that additional capital is required to safeguard the stability of the banking system.

The MAP supply-side qualitative interviews (2018) indicated that banks were unwilling to take lending risks because an allowance for a risk premium in relation to lending rates is not available under a fixed rate CBM policy. Furthermore, the average return on assets is well below the lending rate cap, given the need to hold regulatory reserve assets and liquid assets. Bankers indicated that, as a result, their effective interest margin (or spread) is 2% to 3%. The interest rate cap has made banks highly risk averse and less innovative; as a result, banks are catering only to large clients fully backed by adequate collateral. Banks have also taken a highly conservative stance with regards to the provision of small-scale credit (such as to MSMEs in both urban and rural areas) because the cost of credit delivery is high compared to serving large credit portfolios.

Strong arguments can be made in favour of relaxing current interest rate restrictions, especially for lending.

- **Narrow interest rate spreads:** liquidity requirements and a lack of investment avenues for liquid funds have reduced the effective return on funds with regards to banks (as this portion of funds cannot be lent out). Hence, their effective spread is low (between regulated minimum deposit rates and maximum lending rates). The lower spread is due to the interest rate cap and this in turn has served to discourage banks from developing and adopting innovative banking products, venturing into rural areas, or lending to urban MSMEs.
- **Impact of the liquidity ratio on lending:** one of the main constraints on lending is the liquidity ratio set by the CBM. As at September 2017, the banking sector as a whole had a liquidity ratio of 48%, while the statutory liquidity requirement is 20%. The CBM does not publish liquidity ratios for sub-types of banks. However, approximate liquidity ratios can be calculated from the sub-sectoral balance sheets that the CBM publishes. These show that, as of September 2017, private banks had liquid assets amounting to somewhere in the range of 24% to 34% of deposits.³¹ If private banks fall within the lower end of this range then they have little scope to increase lending, without deposit growth. The liquidity ratio of 20% is towards the high end of the range of regulatory liquidity ratios internationally, but this is neither exceptional nor unreasonable for a banking system with latent risks and a history of losses to depositors which generally creates potential exposure to bank runs.
- **Level playing field:** SOBs are exempted from complying with the large exposure limit for loans and exposures made at the direction of government policy but not for loans and exposures that are not related to government policy. The provision could have negative repercussions in a scenario where the government is required to apply public funds to rescue the banks in the event of large default, with potential threats to banking sector stability.

SOBs are not subject to CBM regulatory measures and are viewed as having insufficient internal audit, risk management and IT systems. On the other hand, the private banks subject to CBM regulations, are investing in infrastructure, and successfully competing with government-subsidized banks for market share. Despite this disparity, in terms of regulations and compliance, between private domestic banks and SOBs, private banks have advanced rapidly in a competitive market and in turn increased the quality of overall services and products.

Converting overdraft facilities and managing NPLs: As a result of past banking practices, almost 90%³² of a banks' loan portfolio is estimated to be in the form of overdraft loans, backed by collateral. The commercial banks are likely to struggle to convert these overdraft loans to term loans within the stipulated timeframe as the businesses are accustomed to banks rolling over these overdraft loans. As the deadline to convert overdraft loans to term loans looms, banks are pushing borrowers to repay the principal and convert their overdrafts into term loans. However, businesses in the past

³¹ The categories of assets and liabilities in the consolidated balance sheets of commercial banks published by the CBM do not correspond to the regulatory categories in the liquid asset ratio regulation, hence the uncertainty over the exact figure.

³² This figure was derived from consultations with bankers.

have mentioned that they experience some challenges when clearing loans. The core reasons for this include slow business growth and increased levels of competition.

As per the regulatory provision, all of the banks should clear their overdraft facilities for at least two weeks annually, and classify uncleared overdrafts loans as NPLs. In the past, overdrafts were automatically rolled over, which suggests that the banks were unrealistic about the quality of their loans. Since the new provision pushes banks to collect the principal amount, the culture of hiding NPLs would be highly discouraged in the future. Nonetheless, past lending practices could increase bank NPLs in the near future although there is no clear information in relation to what extent this would be appropriate.

Furthermore, with high NPL ratios, banks are likely to be more conservative and stringent in extending credit, which could hamper access to finance. High provisions for NPLs will require a charge on capital, which could undermine the banks' ability to meet capital requirements. In the absence of foreign investment in the banking sector as a whole (which is not permitted), the best option may be for banks to merge in order to strengthen their capital position. Otherwise there are risks of banks failures, which could lead to a contagion effect and a loss of confidence in the banks.

The banks have requested additional time to meet the new requirements.

- **Deceleration of bank branches and the need for credit expansion:** the new CAR regulation imposes higher risk weights (i.e. 100%) for overdraft loans backed by collateral. Some banks may struggle to maintain the CAR above the minimum regulatory requirement; this will have a direct impact on banks' lending and growth strategies. Such banks will either have to inject additional capital or reduce higher-risk assets by withdrawing some credit and controlling fresh credit expansion. Additionally, the expansion of bank branches is expected to slow down in the next 2 to 3 years due to the shift in the focus of banks to managing loan books in order to meet new requirements. However, the rapid growth of branches in the past few years led to saturation of urban markets. The main need is for branches in rural areas; but other challenges that affect operating costs and returns need to be addressed first. It would perhaps be appropriate to revise the regulations to provide for agency banking, which would enable banks to use third parties – such as the post office – to deliver banking services.
- **Establishment of a credit bureau:** the CBM issued a licence to establish a credit bureau in accordance with the FIL 2016. The absence of a credit bureau affected the nature of bank lending, which is mainly collateral-based given that little information on the creditworthiness of borrowers is currently available. This has hindered the capacity of banks to take and assess risks and provide non-collateralized loans. Once the necessary credit information reporting regulation has been introduced, with support from the CBM, the credit bureau should obviously commence an operation as soon as possible. Furthermore, the credit bureau or other complementary data systems should extend to MFIs, cooperatives and other credit providers in a gradual manner.

5.3.3. *Microfinance Directives (2016)*

The MFI sector has grown significantly since the enactment of the *Microfinance Business Law* in 2011. The sector is playing a key role in enhancing financial inclusion in Myanmar. By early 2018, MFIs reported that they had more than 3 million clients.³³ The Microfinance Business Supervisory Committee (under the FRD of the MoPF) in August 2016 introduced directives under the *Microfinance Business Law (2011)* with a core aim to further strengthen and regulate the sector. Some of the key highlights of the directives are as follows:

³³ MMFA (<http://mmfamyanmar.info/>)

- Raised minimum capital level and eligibility criteria for seeking a deposit-taking MFI licence:³⁴ There is a minimum capital requirement of MMK 300 million (USD 225,000) for a deposit-taking MFI, and MMK 100 million (USD 75,000) for a non-deposit-taking MFI.
- Compulsory savings may not exceed 5% of the loan size, and the interest rate paid on savings shall be no less than 15% per annum.
- Voluntary savings from clients may not be higher than the required solvency ratio (12%), and the interest rate paid shall be no less than 10% per annum.
- Deposits may not be taken from non-members.
- MFIs are allowed to engage in hire-purchase services.
- The interest rate on loans is capped at a maximum of 30% per annum, or 2.5% per month.
- There are measures in place to prevent over-indebtedness³⁵ and to provide a consumer protection framework.
- Prior approval from the CBM is required to borrow either in foreign currency or MMK backed by foreign currency.
- A stringent loan loss provision: a 100% loan loss provisioning requirement for loans formed over the previous 90 days.

The fresh set of directives has played a pivotal role in enhancing the growth of the MFI sector. To ensure sustainability of this growth, the directive has focused on minimizing the existing anomalies and malpractices within the sector. The practice of borrowing from multiple sources (from more than one MFI) is sometimes perpetrated among borrowers due to ongoing competition among MFIs. In response, the directive has introduced client protection principles. These principles seek to ensure that microfinance services do not contribute to over-indebtedness among clients, that MFIs meet the needs of client and, lastly, that MFIs provide responsible and accountable financial services. The directive has also raised the minimum capital requirement in an effort to lift prudential standards. This has enabled MFIs to apply for permission to mobilize voluntary deposits from its credit-taking members.

Challenges and outstanding regulatory issues

- **Absence of tier-based regulation:** the MFI landscape is diverse in terms of capital, size, ownership and jurisdiction, with almost 200 MFIs in operation. But all-inclusive regulations have been prescribed for the full microfinance sector regardless of the institutional scale and nature. Implementing a broad approach affects the operations of large and small MFIs alike, and leads to homogeneous product offerings. Tier-based regulation is key to effective supervision, regulation and growth of the sector. For instance, MFIs are not allowed to accept any form of collateral from their clients which could directly affect MFIs with the capacity to innovate through the creation of new products, or their capacity to responsibly lend to more clients with higher credit and risk appetite.
- **Limited capacity to mobilise savings:** MFIs face various challenges in meeting capital requirements to fund outreach expansion and increasing levels of client credit demand. Currently, funds are mainly obtained from international sources in the form of grants, investments and loans. Funds are also raised from domestic sources, but are limited.

MFIs have not been able to contribute much to savings mobilization. They are permitted to accept deposits only from members (borrowers). Restrictions on compulsory savings (5% of loan value)

³⁴ A "deposit-taking" MFI is not allowed to take deposits from the public, only from members (borrowers), and within strict limits.

³⁵ MFIs have to present the report with client business analysis data at the time of the FRD inspection. The report must include detailed documentation including the number of late payment clients, the loan type, the late payment area, the type of business activities, the reason for late payment, proof of the clients' credit history, any income generated by business activities, family members, family income and expenses, and the repayment capacity.

and voluntary savings from members have also restricted the ability for MFIs to raise deposit funding.

Informal saving services are widespread in rural areas because there are limited options for saving formally, and historically informal savings have played a vital role in rural areas. They flexible credit and savings instruments. Informal service providers are often preferred over formal providers because the former offers flexible terms and conditions (e.g. acceptance of gold/jewellery as collateral for credit), enables small-value transactions, offers simplicity in relation to operational capacities. This has contributed to, a high level of trust between the service providers and their clients. Moreover, placing savings with a reputable informal savings provider tends to increase the social capital of an individual. As mentioned earlier, to harness the benefit of established informal structures to drive formal savings gradually, informal savings groups should be recognized and supported, and linked to formal FSPs. MFIs could be used to mobilize informal savings group deposits within the formal sector.

Moreover, MFIs with adequate capacity should be allowed to mobilize deposits from the general public in a controlled and gradual manner to protect the credibility of MFIs and restore public trust. Stringent regulatory and monitoring mechanisms should be developed accordingly, to accommodate such changes.

- **Expansion of MFIs across Myanmar:** currently, the majority of MFIs are operating in semi-urban and urban centres. The new directive encourages but does not require MFIs to operate in rural areas. Under previous regulations, at least 50% of total loans and 50% of customers had to be in rural areas. However, the policy was ineffective. The lack of incentives for MFIs to venture into rural areas, coupled with the high cost of operations and lack of infrastructure, may result in sluggish rural MFI growth.

There should be more incentives for MFIs participate in rural areas. Effective incentives could include the institution of regulations such as an exemption from the interest rate cap, or the allowance of a higher cap. These incentives may encourage MFIs to explore remote markets and develop tailored products and services that can cater to local needs in diverse communities. Besides inadequate margins (effective spread), other risks (including safety concerns, ethnic outreach complexities, and inadequate capital) have discouraged rural MFI expansion and may be the leading disincentive that inhibits rural expansion. **Interest rate liberalization:** MFIs have failed to match the strong need for credit because of limited sources and the high costs of funds. The prospects of borrowing from domestic banks have increased but largely in the form of “back to back” collateralized loans. Small to mid-sized MFIs often do not have the capital to support cash deposits that can meet prescribed conditions for domestic banks to be able to lend to MFIs. Yet some loans have been extended. This in turn has enabled the loan portfolio to be used as collateral.

The LIFT Fund initiated a facility with TCX to absorb the cost of foreign exchange risks incurred with offshore loans. It was launched in 2016 and unlocked \$90M of capital within the microfinance market. As the facility winds down, a follow-on initiative is planned by LIFT to encourage rural finance expansion.

5.3.4. *Mobile Financial Services Regulations (2016)*

The MFS Regulations were issued by the Central Bank under the new FIL which superseded the Mobile Banking Directive of 2013. The law is applicable to all MMOs; this includes MNOs, banks and NBFIs that have received registration certificates from the CBM to provide mobile financial services. Some of the key highlights of the regulations include that they:

- Establish a framework for operators, agents and transactions.
- Make CBM the agency that approves whether commercial banks can obtain a MFS license to conduct MFS after the submission of an application.
- Require non-bank MMOs to maintain a trust account at a licensed bank that matches the balances which are held in the MFS account. The return or interest earned from the liquid assets in the trust account are to be utilized for the benefit of customers, as approved by the central bank.

The role of MFS is crucial in achieving the goal of increasing financial inclusion. MFS regulation has created a pathway to effectively deliver financial services across Myanmar. Furthermore, the entry of MNOs into the financial landscape is expected to drive MFS uptake. The past cross-country experience of MAP and FinScope suggests that the partnership between MNOs and banks can significantly expand the reach of financial services because it leverages the distribution network of MNOs and increases the levels of trust and credibility within banks. This is evidently a mutually beneficial relationship.

Challenges and outstanding regulatory issues

- **Lack of interoperability:** in accordance with the regulations, MMOs are required to implement a MFS that is interoperable with other MMOs. However, as the market is in its infancy, interoperability between MMOs is not yet possible. It is thus crucial to accelerate the uptake in MFS in terms of the interoperability between various accounts and at different types of financial institutions. The development of interoperability within the broader framework of the market would help to facilitate quick, affordable and easy money transfers. Furthermore, it would help to drive the uptake of other financial products which use mobile money, such as savings, credit banking, insurance and remittance.
- **Savings and credit mobilization:** the regulations do not clarify the extent to which a MFS can mobilize savings and credit. Greater clarity in this respect would help to unlock the considerable potential of a MFS to extend products beyond money transfers and remittances. In particular, clarification is required in relation to whether MMOs are permitted to pay interest on mobile money balances.
- **Impact of interest rate cap:** MFS providers argue that the interest rate cap is a hurdle in terms of the proper and effective provision of credit through mobile money. Similar providers from other countries contend that credit which is provided via mobile money is typically low-value and short-term in nature. It typically has an initial credit period of a week or a month. The maturity may be extended and the value of available credit may be increased when loans are repaid on schedule. Furthermore, in the wake of the introduction of the credit bureau, information about the uptake of similar products that deal with credit could be leveraged to allow consumers to access larger amounts of credit from other providers in the future. However, such loans cannot be provided profitably given existing interest rate caps.

5.3.5. Other key laws and regulations

Apart from the laws and regulations outlined above, various other laws and regulations that are crucial to creating an environment that is conducive to the achievement of financial inclusion goals have either been introduced or are in the pipeline. These include:

- **Regulation on the reporting of issues with systems and processes that are relevant to the provision of credit:** The new regulation provides the basis for the establishment and operation of credit-reporting entities such as credit bureaus and it was issued by CBM in 2017. The CBM in May 2018 granted a licence to the Myanmar Credit Bureau. The establishment of this entity may increase overall access to finance for borrowers, and help banks to evaluate not only creditworthiness but also the extent to which their credit assessment procedures are effective.

- **Micro Finance law:** a new Micro Finance law is currently in the pipeline and will supersede the existing law (introduced in 2011) and follow-on directives. The new law is expected to further broaden the role of MFIs in driving the achievement of financial inclusion targets by contributing to improved supervisory and risk-management systems.
- **Insurance Business law:** the long-awaited law, which will replace the outdated *Insurance Business Law* of 1996, is currently in the final phase of preparation. The new law is expected to liberalize the sector by addressing various restrictions and limitations that are associated with it. The new law may also help to provide a level playing field for the private players, given that the current landscape is dominated and controlled by the government-owned Myanmar Insurance Company.
- **Secured Transaction law:** the Central Bank is currently working on this law. It is expected to boost credit, as borrowers will be able to access finance by offering movable assets as collateral. The law will support increased access to hire-purchase products. An effective secured transaction law and accessible collateral registry are crucial for a healthy financial sector and business climate because they can unlock more financing for MSMEs, farmers, traders and infrastructure operators.
- **AML law, 2014 and guidelines:** the law has played a key role in ensuring that the practices of the banking sector comply with international norms. It also provides the necessary legal and regulatory framework for anti-money laundering activities. There is some flexibility within this framework though. For instance, the Mobile Financial Service Regulation has categorized MFS accounts into three categories, with differing KYC/CDD requirements for each category.
- **Myanmar Investment Law (2016) and Myanmar Company law (2017):** the enactment of these two laws is expected to improve the extent to which Myanmar is able to attract foreign investment into the financial sector. They allow foreign ownership of up to 35% in domestic companies, while also opening up the securities market for foreign investors. Similarly, these laws have helped to streamline foreign investment procedures, while enabling the provision of corporate tax reductions.

6. Conclusions, gaps and opportunities

6.1. Conclusions

The narrative discussion, thus far, has provided an overview of Myanmar's financial sector and the way in which the general population engages with it. There is a focus on the self-employed and farmers. In summary, the operating context has positively developed and resulted in the notable expansion of financial inclusion for much of the population.

The financial inclusion story in Myanmar is an encouraging one. There has been a substantial increase in formal financial inclusion and access to finance. The change has been broad-based and benefited urban and rural areas as well as women and men alike. It has also benefited each of the target market segments, albeit to a lesser extent with respect to the farmers group.

The improvement in financial inclusion complements the broader story of rapid change and modernization in Myanmar economically, socially and politically. Evidently, the liberalization process has had a widespread impact on the country.

The Financial sector has grown and diversified. The financial sector is in the process of changing from being state-led to market-led. Regulatory liberalization has taken place, and the market and the private sector financial institutions have responded, with some judicious support from government. There has been growth across most FSPs: most obviously banks, MFIs and cooperatives. Insurers and mobile money operators have also grown, although thus far on a relatively small scale. Together, these changes have served to transform the ability for the financial sector to be inclusive.

The use of financial services from formal providers increased sharply between 2013 and 2018: from 30% to 48% of adults. Informal FSPs (such as moneylenders and *hundreds*) remain extremely important. For example, FinScope estimates that in 2018 the country's 4.2 million moneylender clients borrowed MMK 2,329 billion (USD 1.75 billion). Nevertheless, in relative terms, the importance of informal FSPs declined over the five-year period. Fewer people are now dependent solely on informal FSPs.

Despite the rapid growth of some providers and the rollout of new products, the types of imbalances apparent in other MAP-surveyed countries, between urban and rural areas, as well as with men and women, have not emerged in Myanmar.

One important change from 2013 is that MADB's previously dominant position as a rural credit provider has to some extent diminished. This is due in large part to the rapid expansion of MFIs and cooperatives in rural areas, and in part to poor service quality and product offerings from MADB. As a result, the three players now involved in rural lending (MADB, MFIs and cooperatives) serve similar numbers of clients.

As would be expected, progress in the provision of financial services has focused on the most obvious commercial opportunities, including:

- The rapid growth of the formally employed and the salaried market
- Banks which serve unmet demand (that is not well serviced by SOBs). This usually encompasses both the fast-growing private corporate sector and higher-income individuals.
- MFIs and cooperatives which often step in to meet unsatisfied demand for credit, particularly in rural areas, and replace to some extent the usual credit provision from moneylenders and pawnshops.
- The rollout of bank branches and ATMs in easier-to-reach urban and semi-urban areas.

What do the next five years hold? A key issue for the short-to-medium term future is how current dynamics will influence ongoing developments. What are the main interventions that may enable major gains to be achieved, lead key gaps to be addressed? The pace and level of progress may be quite slow in the absence of a proactive approach.

Banks. Banks have expanded rapidly but are now likely to focus on dealing with the impact of new regulatory requirements that may result in potential changes to lending practices and terms, as well as NPL management. The resulting outcomes might moderate growth, as capital and management resources come under pressure. This may also require bank mergers and recapitalization. Even once they have dealt with this, banks will likely find it difficult to start moving down-market and serve smaller and riskier clients. This will only occur if they develop new approaches to lending, the conferral of skills and product delivery.

MFIs and cooperatives. Similarly, MFIs and cooperatives may experience growth constraints if they lack access to necessary funds for portfolio expansion as well as a limited capacity to leverage management, technical, and support systems to responsibly manage growth.

Money and DFS. Many new opportunities arise from the early-stage development of mobile money and DFS. This may provide a channel for the facilitation of payments and access to savings, credit and insurance in a way that is not only affordable but reaches clients from diverse geographical areas and backgrounds.. However, an important issue is whether this will happen organically, as the mobile money ecosystem reaches critical mass, or whether further interventions are necessary to promote or hasten growth.

Need for intermediation. From a broader macroeconomic perspective, the biggest priority for the financial system is to transform at least some of the considerable savings which are held in informal forms, in cash or in kind, into formal savings instruments to enable intermediated credit and investment.

Access to credit. While lack of access to credit is a major concern especially for segments that have been identified as priorities, such as MSMEs and farmers, any changes will require cautiousness and prudence. There is some evidence of pockets of over-indebtedness, due in part to borrowing from multiple sources (especially within the MFI sector), and concerns that lenders are encouraging more loans than borrowers require or have the capacity to service.

Credit expansion needs to be properly managed, with a judicious mix of i) fewer restrictions on the granting of credit ii) improved credit risk appraisal skills on the part of financial institutions iii) broadening of credit provision beyond segments that are already well served by credit and improvements to the quality and type of information used to assess the capacity of borrowers to service their debts.

MSMEs. One of the important segments identified for future growth is the self-employed. The segment is not homogeneous and financial needs vary across the different types of MSMEs engaged by self-employed. Medium scale enterprises are expected to play a major role in future economic growth, diversification and employment creation. Their financing needs for credit, insurance and efficient payments services can probably be best met by banks.

However, the vast majority of MSMEs are small or micro enterprises. They are financially better served by MFIs and MMOs than by banks. Any need for longer-term investment and risk capital, though, cannot easily be met from commercial sources of finance, and may be best served by informal sources, including “family and friends”.

Ongoing regulatory review. The financial sector is undergoing a period of rapid growth and development. As such, it will be necessary for regulators to develop systems and practices that can closely maintain an awareness of market supply and demand and monitor future developments.

Gender differences and impact. As already noted, women and men within Myanmar have similar levels of overall access to finance. There are nonetheless differences in the types of access they have. For instance, women tend to be more reliant on MFIs and informal financial service channels, while men have better access to banking services.

Many of the actions proposed in this report and discussed below will have particular benefits for women, either because the actions will help to fill gaps that particularly affect women, or because the actions relate to products/services that women tend to use. MFI reforms fit the latter category given that women constitute the majority of MFI users. Improvements that support the continued growth of MFIs will consequently benefit women in particular.

Other initiatives which improve the access of women to financial services include support for the informally self-employed. On the credit side, measures to improve access on the part of informal MSMEs to micro-loans, which are either unsecured or secured against receivables, tend to benefit women. Furthermore, access to unsecured credit via mobile money (i.e. DFS) may reduce some of the pressures that women face.

Women also constitute the majority of the target market group of 'dependents' and gain financial support from other income earners. Thus, improvements in the efficiency of remittances, (such as through the extension of DFS) will benefit women.

One of the most important focus areas, in terms of improving financial inclusion for women, is informal savings and loan groups because their membership is predominantly female. Support for the further growth of such groups, and linking them to formal FSPs, will extend financial access for women, and also provide a potential entry route for them to access formal financial products and services.

Other opportunities. There are additional opportunities in Myanmar that can be further developed to yield gains in relation to financial inclusion in coming years. While foreign banks and insurers have entered the Myanmar market, thus far their roles have been heavily restricted and their potential in terms of modernizing the financial sector, improving efficiency and extending access further is yet to be completely tapped.

Joint ventures have not yet been permitted between domestic and foreign entities, which further restricts the scope for innovation.

While the state-owned Myanma Insurance Company enjoys various advantages, domestic insurers face restrictions in terms of the range of products that they are permitted to offer which somewhat diminishes the effectiveness of the private insurance sector.

Moreover, SOBs have not kept up with the dynamism of financial sector development more generally. Clearly, the influence and market position of SOBs has diminished in relative terms over the five-year period. The current structures and operations of some key SOBs are simply not sustainable. Therefore, extensive reforms and modernisation is needed in order to revitalize the SOB sector and ensure that the specialized functions and goodwill that SOBs enjoy in large parts of the population can be leveraged in a positive fashion. Nevertheless, in the short to medium term, the focus of SOBs will be on consolidation and reform rather than expansion.

Gaps, opportunities and actions

The following sub-sections highlight the main gaps, opportunities and recommended actions to extend financial inclusion across three key areas of financial products/services: savings, credit and insurance. A sub-section on DFS and the DFS/mobile money ecosystem is also included to focus on a delivery channel rather than a product/service per se. DFS has broad influences which may have implications for savings, credit and insurance as well as payments (i.e. transactions and remittances). At the end of each sub-section, key action items that are likely to have the highest impact are proposed, and these will be further examined in the forthcoming updated Financial Inclusion Roadmap. The report concludes with thoughts on strengthening consumer protection and financial literacy.

6.2. Savings

Promote and facilitate formal savings: In Myanmar, savings behaviour is heavily focused on informal channels and assets. This is due to a number of reasons. It reflects a lack of choice and access to formal savings products, low confidence in formal institutions and poor acknowledgement of the benefits of informal saving mechanisms.

- Currently, only *banks* are allowed to accept deposits from the general public; yet, banks are primarily concentrated in urban and semi-urban areas. The limited presence of formal institutions to serve low-value savers in the rural areas has both spurred an uptake of saving via informal channels and served to constrain the flow of savings into the formal banking system.
- *Informal FSPs* offer those that use them a wide range of benefits (e.g. liquidity, ease of access and lack of bureaucracy, credibility/trust, simplicity, flexibility, an ability to accommodate low-value saving, and the potential to build the social capital of users).

Furthermore, the option to open a bank account is considered by most to be tedious and not worth the effort; the documentation and KYC requirements are stringent and paper-based. The value proposition provided by formal savings products is limited. Interest rate calculations, account maintenance fees, and accessibility challenges combine to erode the competitive advantage of formal savings when compared to saving measures in cash or in kind.

Individuals and households would benefit greatly from having a greater range of formal savings options. Then, they would be able to choose formal or informal savings *depending on the value proposition of each* of them, rather than simply through the utilisation of informal options.

In order to overcome the limitations of the lack of formal savings options, as a starting point to encourage formal savings it is necessary to improve ease of access. This could occur through the facilitation of an increase in the number of touch points or the introduction of a remote account based on e-KYC. Another option is to facilitate value creation, by increasing the availability of low-cost savings products that can accommodate even low-value savings.

Allow other formal providers to participate. Cooperatives and MFIs alike have networks distributed across the country, but existing regulations prohibit the mobilization of savings from the general public. These institutions are better placed than banks to mobilise savings from people in rural areas, where banks often have a limited presence, because they have strong connections and networks. However, such opportunities cannot be leveraged without strong prudential monitoring at a regulatory level and effective internal systems management within the relevant institution.

Extend the deposit-taking capacity of MFIs and cooperatives. Going forward, the FRD should gradually allow MFIs, with an adequate capacity, to mobilize deposits from the general public in a

controlled manner. Due to the sensitivity associated with deposits and the potential losses to savers should financial institutions fail, there would need to be stringent regulations bounded by prudential standards and supervision, including monitoring and reporting guidelines. This would require increased capacity at the level of the institutions (MFIs and cooperatives), including management information systems and management expertise, as well as an appropriate regulatory and supervisory capacity.

Expand cooperatives. Cooperatives should be given more freedom and support to expand in an orderly manner into larger and more efficient institutions. Technical support to the industry has been minimal in previous years, especially in comparison with the banking and microfinance sectors. The potential to leverage further growth will depend on a strong operating framework. This can only be realised once key investments of time and resources are made as well as a commitment to continually advance shared goals at all management levels.

Link informal savings and loan groups/Su Mae and formal FSPs. Informal savings and loan groups provide a valuable mechanism for credit, deposit mobilisation, and community development for rural households, particularly in relation to women. When supported by NGOs, such informal providers can also help with financial literacy. Such groups should be encouraged and supported. There may be scope for establishing links between informal providers such as the informal savings and loans groups and formal providers (banks, MFIs and mobile money services). This could help to build access to formal saving services (which can also unlock access to credit) for low-income consumers, especially women.

Savings group reserves could be deposited via mobile money in accounts at banks or MFIs. Examples in other countries include the development of specialised informal savings and loan mobile apps that enable members to track savings contributions and borrowing. Such apps may also allow for group cash deposits and withdrawals via mobile money into a bank or MFI account.

Mobilise savings via MMOs. As the number of MFS account holders, such as mobile money accounts, continues to grow across Myanmar there is huge potential to use this platform to mobilize formal savings among disenfranchised low-income savers with small but meaningful (on an aggregate basis) deposit balances. The MFS can contribute to an increase in the number of low-value savers. The extensive network of mobile money agents provides a convenient access point for a large proportion of the population.

To drive the uptake of formal savings, the CBM should allow MMOs to roll out savings products via their mobile money/MFS accounts, including through the payment of interest. The development of processes relevant to the opening of digital accounts and e-KYC may also help to drive an uptake in digital savings accounts. Additionally, MFS accounts can be linked to bank accounts. In order to protect depositors, the usual rules which require all mobile money balances to be backed by trust accounts in a licensed bank should continue to apply.

It is viable to leverage the post office network. It has been proven in other countries that the post office branch network is a viable mechanism for savings mobilization. Some private banks have applied to the CBM to make use of the untapped post office network, which could be an ideal place to pilot and scale interoperability. More generally, the regulations to enable agency models need to be developed.

Review the regulatory architecture. For the future, and particularly in the medium term, consideration should be given to reviewing the regulatory architecture – as a cross-cutting intervention mechanism and also a key way to ensure the procurement of savings goals.

Simplify and modernize the calculation of interest rates to encourage savings. The interest rate calculation on bank deposits varies depending on the banks, but generally the calculation methodology disadvantages savers and discourages bank deposits. In relation to savings accounts, the interest is

calculated on the minimum balance between the first week of the month (i.e. the sixth morning) and the last day of the month. Banks should use technical support from the CBM to simplify and modernize interest rate calculation methodology across savings products. Banks should adopt the average-daily-balance method, based on the end-of-day balance, to calculate interest, which would encourage and reward regular saving. A similar standard of interest rate consistency is also required within the microfinance industry.

Simplify rules related to withdrawal, fees and charges. Apart from the restrictive interest rate calculation methodology, rules tend to vary across banks with regards to various fees and charges. For instance, banks charge fees on transactions such as fund transfers, withdrawals, and early repayment and account closure. The CBM should issue a directive on banking service fee guidelines, to foster transparency, uniformity, and clear pricing for depositors and borrowers.

There should be restrictions on foreign bank operations that hinder banking sector dynamism, innovation and efficiency. Foreign banks should be allowed to operate without restrictions except for normal, internationally accepted regulatory and supervisory requirements. The further provision of foreign bank services will encourage higher service levels and lift the quality of the product offering within the Myanmar banking sector.

Create greater awareness of issues that are relevant to Savings. There are various limitations and benefits associated with the promotion of savings measures. It is important to spread awareness about the importance of savings at the micro and macro levels.

There has been considerable discussion with regards to the expansion of savings options at FRD, CBM, and industry levels. The next logical step is to move from a discussion of the issues to a proper practical exploration of opportunities and options for the development of savings within the financial sector.

6.3. Credit

Encourage banks to lend to MFIs, MSMEs and the agricultural sector. Recent initiatives funded by JICA, KfW and LIFT have enabled capacity building and product development. This has included an expansion of credit to SMEs and other entities within the agriculture value chain. A few banks have initiated services in these key areas of Myanmar's economy. DPs and industry associations should continue to engage in efforts that integrate previous lessons and sustain innovation within the banking sector. To this end, local financing may be broadened and deepened to fully support and develop economic activity.

Expand equity capital in addition to credit. There is a need for risk capital for start-ups and young businesses. This can be used for longer-term, more investment-oriented equity capital rather than credit.

Amend regulations to improve the ability for MFIs to provide credit to micro and small enterprises. MFIs are emerging as one of the key formal financial institutions with the ability to potentially cater to a large number of micro and small enterprises. Since the majority of banks do not entertain the option of providing credit to micro and small enterprises without real-estate collateral, there is significant gap in credit to the micro and small enterprise sector. Existing regulations, such as the interest rate cap on lending and loan size restrictions, have limited the capacity of MFIs to cater to micro and small enterprises. The following reforms with regard to the MFI sector would further enable intermediation for credit expansion:

- the liberalisation of interest rates,
- the facilitation of both local and foreign borrowing,

- the removal of restrictions with regards to how a micro and small enterprise can take up collateral; and
- the allowance for deposit mobilization from the public (with appropriate regulatory reform).

Increase the role of cooperatives in the provision of credit. The promotion and expansion of cooperatives under government strategy has caused them to become important FSPs. The execution of the China EXIM Bank loan for the disbursement of credit to farmers through wide networks of cooperatives has enhanced their outreach and contributed to the industry's credibility.

The cooperative industry and Department of Cooperatives (DOC) has been able to secure additional financing from local banks. Additionally, some cooperatives are seeking local bank financing to support outreach plans. Despite the fact that cooperatives report low levels of NPLs, the governance of cooperatives, and their existing credit assessment, monitoring and evaluation mechanisms could be strengthened to support network expansion and product innovation. With this in mind, the cooperative industry and DOC would benefit from a consultancy review of operations, capacity and internal controls. The strategic framework that will arise from the review will help to facilitate the development of a business planning process at an industry level and also lead to the creation of a capacity building plan that may enhance current and future operations.

Establish a well-functioning credit bureau. In May 2018, the CBM issued a license to establish a credit bureau in Myanmar. The absence of a credit bureau has affected the nature of bank lending, which is mainly based on collateral given that there is little public information on the creditworthiness of borrowers. This has exerted an impact on the capacity of banks to take and assess risks and provide non-collateralised loans. With support from the CBM, the credit bureau should commence operations as soon as possible, and focus on the provision of bank credit.

A strategic plan should be developed for the gradual extension of its services, or complementary systems, to MFIs, cooperatives and other credit providers. In the long run, the focus should be on expanding and further strengthening the way the credit bureau functions with respect to customer details, credit reporting and credit risk assessment mechanisms. A well-functioning credit bureau may enable formal financial institutions to properly assess the creditworthiness of clients and provide them with pre-approved loans that may be used in emergencies or to meet their short-term financial needs (mainly in relation to working capital). This may prevent them from approaching informal credit providers. A credit bureau, especially once extended to MFIs, can provide information on multiple borrowing (from different institutions) and hence allow lenders to obtain a more comprehensive picture of the credit exposure of borrowers and situations of over-indebtedness. In the meantime, the institution of alternative credit information-sharing initiatives coordinated by the MMFA is advisable.

Reform the MADB. MADB is the largest provider of credit in the economy (in terms of the number of borrowers) and grants substantial support to the agricultural sector (mainly agricultural credit for paddy farmers). However, it has not grown in recent years and its business model is unsustainable. MADB's governance, operations, funding and lending all need to be reformed to ensure the future sustainability of the agricultural sector as well as ongoing support for its modernization.

Prioritise the establishment of an online collateral registry for movable assets. The absence of a Secured Transaction Registry to record loans secured against movable assets has prevented MSMEs from using such assets as collateral. This has directly restricted credit expansion within the MSME and agricultural sectors alike. It is necessary to prioritise the implementation of a Secured Transaction Law and operation of the registry. The registry should have an online access system to facilitate the easy use of the service within the country.

Review existing credit guarantee schemes. Credit guarantee schemes have helped to support access to credit by MSMEs in some countries. However, the existing schemes in Myanmar appear to have had little impact. The reasons for this need to be explored further, and potential changes need to be identified that will make them more effective before any new credit guarantee products may be introduced. The restriction of credit guarantee insurance to Myanmar Insurance should be relaxed and private insurers should be allowed to operate such schemes. In the medium term, the operation of credit guarantees should occur although be moved from Myanmar Insurance to a specialized agency, which may help to facilitate the implementation of relevant legal reforms.

Liberalise interest rates: the interest rate ceiling has also restricted the expansion of credit; it discourages banks from offering non-collateralized loans or extending credit, particularly to MSMEs and the agricultural sector. The providers are unable to charge the necessary risk premiums for such credit products. An analysis of the effect of both the interest rate ceiling and the floor on deposit rates reveals that it may be difficult to cover operating costs and credit risks due to a low interest rate spread. This, in turn, encourages banks, in particular, to concentrate on large loans, which often have lower administrative and monitoring costs.

The CBM should revise the interest rate policy to address these challenges, especially where there are hindrances on the growth of bank credit as well as product innovation, diversification and expansion. As it stands, the interest rate policy also restricts the expansion of branch networks, especially in rural areas, where business volumes are lower and costs are higher. Also, to mitigate the low spread and enhance their profit margins, banks have levied numerous service fees and charges on their products and services, thus discouraging the extent to which end users are willing to use bank products and services.

Similarly, the existing *Microfinance Directives* (2016) caps lending rates at 2.5% per month, or 30% per annum. The interest cap is one factor that restricts the rural expansion of MFIs. Moreover, the cost of borrowing has increased. The rate of borrowing can be more than 15% after factoring in administration and service fees. Consequently, some MFIs find it difficult to sustain borrowing practices and they are less willing to take risks. In order to expand formal micro-credit across Myanmar, there should be more flexible interest rates. Lending rates should vary by region and sector. In due course, controls on interest rates should be gradually removed and the determination of interest rates should be left to market forces.

Allow MFIs to provide collateralised loans. The existing MFI directive does not allow MFIs to accept any form of collateral to extend credit to its members. To enhance the formal credit uptake (such as in relation to individual loans beyond 1M MMK) and close the credit gap, FRD should revise existing laws/directives and allow MFIs to accept collateral to reduce credit risks. However, this should not become a substitute for a better assessment of credit risks (as it has become with the banks).

Streamline MFI borrowing. MFIs require capital to service the credit needs of existing and future clientele. One key capital source is debt financing, usually derived from offshore Microfinance Investment Vehicles (MIV) and increasingly local banks. Regulations of microfinance institutions typically require approval to be gained from CBM and FRD for offshore loans and approval from FRD for local bank financing. The process to acquire these approvals can be a labour-intensive and time-consuming.

The approval process could be streamlined at the State/Region FRD level. The MFI could send the loan approval documentation directly to FRD Nay Pyi Taw and necessitate the provision of a copy to the State/Region office. Consequently, any processing time at the State/Region office may be minimized.

Currently, the CBM has restrictions on the size of offshore loans. Eliminating or increasing the loan size cap would lead to reduced paperwork and administrative effort incurred by CBM, FRD, the MFI, and Lender.

Develop an additional credit channel through MMOs. The expansion of MFS provides an opportunity for an additional credit channel, especially for short-term unsecured loans that are often accessed as a response to emergency situations. The provision of credit, in this manner, is usually accomplished through a partnership between a mobile money provider, a licensed credit institution (such as a bank or MFI), and a fintech company that administers a credit-scoring algorithm. The eligibility of credit can be determined by the subscriber's record with regard to factors such as airtime purchases, the use of mobile money, and any previous borrowing history. Such products should be explicitly permitted, and exempted from the cap on lending interest rates.

Develop the bank credit ecosystem. Apart from the interest rate cap policy, regulations on capital adequacy and liquidity may potentially negatively impact credit expansion. Banks that fail to meet capital and liquidity requirements must curtail their lending until their balance sheet is strengthened. One solution is to allow domestic banks to raise capital from investments or via joint ventures with foreign banks. Banks should also be subject to the International Accounting Standards (IAS) and audited appropriately.

Provide more detailed information on informal lending. While informal FSPs usually charge excessive rates, these providers play an essential role in supplementing formal, less costly, credit (a combination of formal and informal credit, for instance, is common). High interest rates may largely be a consequence of the high transaction costs of low-value transactions, and associated risks (such as in relation to missed repayments). Nevertheless, due to a lack of regulatory mechanisms there is always a risk of fraudulent practices or customer exploitation. Informal FSPs operate to a large extent "below the radar". Public and private stakeholders alike would benefit from a thorough understanding of the operations of implementers and borrowers.

6.4. Insurance

Improve the provision of products within the agricultural insurance sector. There is a lack of financial products within the agricultural sector which deal with the mitigation of common risks. Common risks in the agricultural sector include crop failure and loss of livestock as a result of pests, plant diseases and natural disasters, as well as risks caused by volatile prices. Currently, savings and credit are the main financial tools which are used to manage these risks.

Since a large section of the population is engaged in farming, the introduction of affordable agro-insurance products could help to manage or mitigate losses. Index-based insurance products similar to those used in other developing countries (Area-Yield Index and Crop Weather Index insurance) may be explored, through pilot studies to test their viability. However, agricultural insurance is typically not of interest to private insurers without government subsidies, so affordability and cost-benefit issues will need to be considered by the GoM.

Expand access to health insurance. Currently, available health and medical insurance products are limited to government employees and other formally employed people. The *FinScope* and *MAP 2018* research indicates that, given the absence of formal insurance products, the majority of adults depend mainly on their savings and credit to cover healthcare and medical expenses. Since healthcare and medical costs comprise a major part of household expenses, it is appropriate to consider extending health and medical insurance products to the majority of the population. However, if uptake is to be increased, it is important that premiums for such insurance products are affordable. It is also necessary

to strengthen the social security insurance system to ensure that medical providers are widely accessible.

Liberalise the insurance sector. The enactment of the FIL opened up and liberalised the banking sector. Similarly, the new Insurance Business Law, which is currently under development, seeks to liberalise the insurance sector. Given that insurance penetration and awareness is very low, the new law needs to be introduced without further delay. It is expected to level the playing field for private and foreign insurance companies (currently the landscape is dominated by the state-owned Myanma Insurance Company) by creating a more favorable competitive environment, which will help to introduce much-needed insurance products: such as term and endowment life insurance policies and micro-insurance.

Introduce new products for insurance market development and capital formation. The growth and development of the insurance market has been constrained by the lack of financial products such as annuities and long-term insurance products, that drive capital accumulation and build insurance distribution infrastructure. There is high potential for the development of long-term pension/annuity insurance products, which can help to mobilise formal savings as well as serve as a form of security for retirement.

Furthermore, developing micro-insurance products for the low-income sector has significant potential to formally build resilience at a household level. As previously mentioned, leveraging the cooperative and microfinance branch networks for micro-insurance product distribution is advantageous from an efficiency and service provision expansion view.

6.5. Digital Financial Services

Recognise that interoperability is key to properly promote DFS. DFS usage is still in its infancy but holds the potential to drive improvements in financial inclusion. FSPs presently have a limited reach to the general public within Myanmar even though mobile phone (especially smart phone) penetration is high. DFS can be leveraged to deliver financial products to rural areas and low-income adults. However, the lack of interoperability between DFS providers, as well as between DFS providers and other formal FSPs, limits the potential for DFS to promote financial inclusion.

Although the regulations encourage providers to establish open-access systems and increase interoperability, there is a lack of infrastructure to enable this to properly occur. It is essential to ensure that there is a platform that can allow interaction between the various service providers. Only *single* integrations currently exist as a result of collaboration between providers. The development of a national switch that connects the banking sector, MMOs and future new entrants in the payments ecosystem with the ASEAN Switch will be important as a means of promoting interoperability within the country as well as with other ASEAN countries. Hence, leveraging the MPU to facilitate interoperability will be key because it is the provider of the national payment switch. Given that banks are already connected to the MPU, it is crucial to upgrade the current system/platform to facilitate interaction and interoperability with other MMOs.

Increase interoperability between the banks. The implementation of CBM-Net has helped to achieve a certain level of interoperability between the banks, which did not exist previously. CBM-Net connects the CBM with local banks, international banks and the clearing house, thereby facilitating interbank funds transfers and settlement and creating an instant and digital method for clearing. However, interoperability between FSPs is limited because CBM-Net participation is constrained to banks, the CBM and the clearing house. Future developments of CBM-Net and the services offered by the MPU should ensure that a low-cost, real-time, open-access switch will provide interoperability between all types of FSPs and support widespread digital transactions.

Harness new technologies to deliver consumer benefits. In relation to the topic of interoperability, consumers should see more value in using DFS because it has a higher level of efficiency now and generally reduces the costs of transactions when measured comparatively with other options. To deliver value and reduce the cost of transactions through mobile money, new technologies such as QR codes should be adopted for retail payments. The implementation of QR codes could virtually eliminate the need for POS devices, thereby reducing the cost of transactions. Smart phones are used widely in Myanmar, so therefore there is less of a need for an Unstructured Supplementary Service Data (USSD) channel. However, it is still important to ensure that MNOs do not exploit their position by blocking access to low-cost communication channels such as USSD.

Explore the potential of delivering financial services through mobile money. High operating costs (in terms of cash management, disbursement and collection) in rural areas have been a key constraint on the capacity of financial providers to extend their services. The use of DFS through mobile money has the potential to not only create immense value for the consumer but also spread the reach of the technology to the population at large through its substantial agent network touch points. As the number of MFS account holders continues to grow across Myanmar, there is huge potential to use this platform for loan payments via mobile money agents. The CBM should allow MMOs to roll out savings products, including those that relate to the payment of interest, via their mobile money/MFS account. Moreover, the CBM needs to develop adequate guidelines for the monitoring and supervision of such accounts. Mobile money offers the potential to not only deliver savings mobilization but also facilitate disbursement and the repayment of credit at rural collection points. Mobile money can be used to distribute micro-insurance products, so consequently it can serve as a medium for the collection of insurance premiums.

Improve the way that the Government uses DFS to build its scale and encourage its use. In order to build trust and encourage the use of DFS for sustainability, the GoM is encouraged to take a lead role in prioritizing the digitisation of government payment and receipts via mobile money. The adoption of mobile money by the government to make G2P, G2B payments (salaries, subsidies, pensions, purchase of supplies etc.) and receive P2G, B2G (tax, VAT, utility payments, fees etc.) will greatly help to increase public confidence in mobile money. This confidence and familiarity will have corresponding effects on the uptake of MFS. The government should slowly introduce pilot programmes to disburse payments such as the transfer of social security and pensions to the receiver via the mobile wallet (P2G and B2G). In short, GoM DFS application will enhance the execution of fund transfers, reduce the risk of fund misappropriation, improve transparency and hasten the receipt of funds.

Allow or encourage a 'sandbox approach' for product/service innovation. DFS is based on innovation and creating value for the end users. A sandbox approach is a flexible "test and learn" approach that fosters innovation and the effective delivery of new products and services. The sandbox approach gives limited authorization for the provider partners and particularly the fintech company or companies to test (pilot) new products/services and models with a small number of actual users in a simulated environment.

Such an approach helps regulators to get a better understanding of new products/services, including their associated operational risks and how to mitigate them. Effective approaches to mitigate risks may include close monitoring and reporting practices. Simultaneously, the FSPs and especially the fintech company or companies (undertaking the technical development) obtain more time to build and test the technical and business ideas, instead of focusing on the navigation of complex financial services regulations. Participants are nonetheless required to follow rules with regards to marketing, privacy, AML, disclosure, and the management of conflicts of interest. This approach can include mechanisms to stimulate and promote product innovation within the financial sector, including through competitions such as data hacks or challenge funds. Regulatory changes may be necessary to support the adoption of sandbox approaches.

Facilitate access to digital products. Banks and non-banks alike are required to collect KYC information from their clients as per AML/CFT legislation. The initial physical documentation required in order to commence the use of any type of formal financial product/service is widely perceived as an access barrier. As such, most people prefer to engage in transactions with informal providers, which have no AML requirements.

Myanmar authorities should permit users to remotely and digitally sign-up for digital products such as mobile money and micro-insurance. Easing physical documentation requirements in such cases would likely increase the use of DFS. To this end, a specific test programme which uses a sandbox approach should be undertaken and promoted by field pilots in order to explore and demonstrate the efficacy of e-KYC procedures using a digital platform. This course of action is presently being adopted around the region by financial regulators.

Enable low-cost remittance products to be supported by DFS. The use of DFS for low-cost remittance products has particular benefits for women, given that they constitute the majority of dependents. If the cost of making the remittance transfer is reduced, then the value received by the end receiver will be greater. One option worth exploring is a mechanism to incentivise savings. For example, if the receivers of the remittance products maintained 10% of the remittance value in the account, they may be given a discount or a waiver of remittance costs.

6.6. Financial literacy and consumer protection

Focus on integrating financial literacy within the school-level and college-level curriculum – especially on banking, savings, credit, insurance and DFS. The understanding of basic financial markets and their providers, as well as knowledge about the various products and services offered, is low in Myanmar. In line with the trend of continual market liberalisation, the use of formal financial services has risen exponentially in recent years. Nonetheless, low financial literacy is seen as a key barrier that is preventing a proper uptake in formal financial services. Currently, there is an ongoing discussion with the Ministry of Education (with the support of the MoPF, the CBM and development partners (DP)) to develop school-level and college-level curricula to ensure that the younger generation understands banking, the importance of saving, and various types of banking services – including DFS. At some point, earlier rather than later, financial sector representatives (such as those in banking and insurance) should develop an education planning process to leverage industry experience and resources in the most practical manner for the benefit of students.

The lack of financial literacy and awareness is a key barrier to financial inclusion. The general public generally does not appreciate the potential benefits of financial services because they have a low level of literacy and awareness of the available consumer benefits. Furthermore, the population generally has a low capacity to engage with formal financial institutions, especially banks. In order to empower consumers, it is appropriate to develop effective communication strategies that use styles which are accessible given the level of literacy in the population, and the reality that most people are only first-time users of financial products/services. While MFIs have helped to increase the uptake of financial product/services, consumers still lack knowledge of the functions of the particular products or their possible relevance to their financial needs. For instance, self-employed individuals often use business credit to cover family expenses and counter risk events, and farmers increasingly exhaust their savings to meet operational expenses. Potential customers appear to be intimidated by a seemingly complex range of products and services that they tend to know very little about.

Develop financial literacy and awareness programmes to increase understanding.

Due to the efforts of various agencies such as the LIFT Fund and UNCDF, several financial literacy initiatives have been developed which apply traditional and digital media. Moreover, studies have been

funded by USAID and the World Bank which seek to better understand the extent of financial literacy within the adult population. The subsequent research findings and recommendations may provide valuable insights into possible further material that would be appropriate for FSPs and social service organisations to use to educate adults about financial issues.

In 2015, the ADB funded the development of a national financial literacy strategy that was set up by key stakeholders across the industry and government sectors. A concerted effort is needed to review and upgrade the strategy to ensure that there is a strategic approach to any implementation phase. 2019 is an opportune time for an effective review of the strategy and the development of an action plan especially given the considerable financial literacy research and momentum that was obtained from the inaugural World Savings Day in Myanmar in 2018.

Institute consumer rights and grievance-handling mechanisms (especially for credit and DFS).

While there are some relevant provisions in the FIL, the consumer rights and recourse protections and remedial options in the financial sector are weak. They are generally unclear. There is a low level of awareness of and recourse to ensure that consumer protection rights are maintained. In order to increase the uptake of financial services and general trust in formal FSPs, strong consumer protection and recourse provisions need to be adopted and implemented. Consumer protection mechanisms should ensure that users have security and recourse in cases of abuse that might result from poor financial literacy and fraudulent FSPs. Moreover, given the disproportionate uptake of credit, it is important to consider the extent to which borrowers are aware of issues that may affect them, and the risks of indebtedness. Users must have trust and confidence in the system in order for there to be an effective adoption of digital payments. If they do not feel adequately protected (including with respect to their data and identity) then they will be hesitant to participate. In terms of strengthening grievance-handling platforms, it is crucial that people are made aware of the available procedures for filing complaints and can engage with them with confidence and ease. Attention will need to be paid to the prudent and responsible enforcement of consumer-protection provisions. Regulators, financial sector associations, DPs, legal authorities, and other relevant stakeholders need to collaborate to ensure the proper establishment of a robust consumer protection framework.

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8. List of in-country consultations

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
13-Mar	1	Yasuhisa Ojima- Resident Representative in Myanmar	International Monetary Fund	Room 240- Inya Lake Hotel, 37 Kabaye Pagoda Road, Mayangone Township, Yangon	959421173766	Yojima@imf.org
13-Mar	2	Vanessa Vizcarra Bianchi- Lead FIG Advisory Services Mekong Region Khin Thida Maw -Country Officer Cho Cho Thein- Financial Sector Specialist	International Finance Corporation	20 th Floor, Sule Square, 223 Sule Pagoda Road, Kyauktada Township, Yangon, Myanmar	959453 490 517 959250 676 895 9595111893	vvizcarra@ifc.org kmaw@ifc.org cthein@ifc.org
16-Mar	3	Armin Hofmann- Programme Director Kyi Tha Maw - Technical Expert San Thien- Sr. Technical Expert	GIZ- Banking and Financial Sector Development Tel : +951554491	Rangoon Business Centre No. 97/A, 3rd Floor, West Shwe Gon Daing Road Bahan Township, Yangon	+959444856079 +9595144166 +959796299244	armin.hofmann@giz.de kyi.maw@giz.de san.thien@giz.de
16-Mar	4	Fahmid Karim Bhuiya - President & COO Jason S. Meikle - Deputy Director	Pact Global Microfinance Fund	No. 497, 1st floor, Tower B, Diamond Condo, Pyay Road, Ward 8, Kamaryut Township, Yangon	95 9 797045001 95 9 797045002	fbhuiya@pactworld.org jmeikle@pactworld.org
19-Mar	5	Pe Maw Thin - Senior Manager Zaw Lin Htut - CEO	Myanmar Payment Union	No. 26(A) Settmu Road, Yankin Township	+95 01 8603890 +95 09 262643712	zawlinhtut@gmail.com pmt@mpu.com.mm
20-Mar	6	Gonzalo Gonzalez - Chief Executive Officer Khin Thida - Head Of Operation	Dawn Microfinance	No.226, Room 301, Wizaya Plaza, U Wisara Road, Bahan Township, Yangon	01 524112, 503545	ggonzalez@accion.org khin.thida@dawn.com.mm

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
20-Mar	7	Masayuki Nakamura- National Country Representative Thet Lyr Win- Assistant Program Officer Taiji Inui Dr. Eng- Chief Advisor	Japan International Cooperation Agency	#701, 7th Floor, Sakura Tower, No. 339, Bogyoke Aung San Road. Kyauktada Township, Yangon, Myanmar	9595157729 959254298050 9595145982	Nakamura.Masayuki@jica.go.jp Thetlyirwin.My@jica.go.jp inui.taiji@friends.jica.go.jp
21-Mar	8	Dou Wei - Manager Financial Institutions Department Phoo Pwint Mon - Assistant Manager Financial Institutions management	Industrial and Commercial Bank of China Limited	No. 459, Pyay Road, Kamayut Township, Yangon, Myanmar	95 943133887 95 95143836	wdou@mm.icbc.com.cn phoopwintmon@mm.icbc.com.cn
21-Mar	9	Saw Dino Ku - Executive Director Zarni Lwin - Assistant Manager- Financial Institutions Dept	A Bank	No.12-09/10 (Level 12), Junction City Tower, Bogyoke Aung San Road, Pabedan Township, Yangon	959962185875 9595412172	zarnilwin@abank.com.mm sawdinoku@abank.com.mm
22-Mar	10	Minn Aung- Chairman Wendy Medrano Lazo - Technical Advisor Phyu Yamin Myat - Member	Myanmar Microfinance Association	Room 008, Building C1, Sa-bai Street, Sinmalite Yuzana, Highway Complex, Kamaryut Township, Yangon, Myanmar	9775209010 959965979796	w.medrano@ada-microfinance.lu office@myanmarmfa.com
22-Mar	11	Susan Mbogo - Head of Marketing	Wave Money	No 84, 7th floor, Uniteam Marine Building, Pann Hlaing, Sanchuang Township, Yangon	95 (0) 9791009010	susan.mbogo@wavemoney.com.mm

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
		Thynn Thazin Soe - Marketing & Communication Manager			95 (0) 9791009033	thynnthazin.soe@wavemoney.com.mm
22-Mar	12	Aung Kyaw Myo - General Secretary (KBZ Bank Deputy CEO) Dr, Hla Nyunt - Deputy Managing Director (Global Treasure Bank) San Yin Aung - Head Enterprise Banking Department (CB Bank) Naw Eh Hpaw - Managing Director Support Service & Operation (CB Bank) Wai Lwin Than - Adviser International Banking Department (SMIDB)	Myanmar Bankers Association	No 2, Sibin New Road, Yankin Township, Yangon	95 9 975146900	aungkyawmyo@kbzbank.com nawehhpaw@cbbankmm.com wailwin@yahoo.com drhlanyunt2012@gmail.com sanyinaung@cbbank.com.mm
23-Mar	13	Vanessa Hegarthy - First Secretary Suu Hlaing Aye - Senior Program Officer	Australian Embassy - DFAT	Vantage Tower, 623 Pyay Road, Yangon	959420187114 9595009994	vanessa.hegarty@dfat.gov.au suuhlaing.aye@dfat.gov.au
23-Mar	14	Rommel Caringal - Chief Executive Officer	Vision Fund	No 19, Shin Saw Pu Road, Winsor Estate Condo, Sanchaung Township, Yangon	959976966119 9595412574	rommel_caringal@wvi.org Su_Myat_Htet@wvi.org

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
		Su Myat Htet - Head of Business Development				
23-Mar	15	Ms. Sophie Nguyen - Financial Sector Economist, South East Dave Grace- Consultant	Asian Development Bank '95678106280-86	Park royal Hotel, Padauk Building, 13/14 Hotel Zone, Dekhina Thiri Township, Nay Pyi Taw		dtnguyen@adb.org dgracehome@gmail.com
23-Mar	16	Mark Flaming -Chief Digital Officer	Yoma Bank	No. 192,Level 8, Office Tower 2, HAGL Myanmar Center Tower, Kabar Aye Pagoda Road, Bahan Township	959765602045	markflaming@yomabank.com
26-Mar	17	Mary Miller - Access to Finance Lead	Nathan Associates	No 81A, Supoung Street, Inya Myaing Bahan Township, Yangon	951595355	mmiller@nathaninc.com
26-Mar	18	Ms. Smita Wagh- Senior Financial Sector Specialist	World Bank Tel: +95 1 654824	No.57, Pyay Road, 6 1/2 Mile, Hlaing Township, Yangon, Myanmar		swagh@worldbank.org
26-Mar	19	Rozano Planta- Head Mobile Financial Services	MPT	No.43, Bo Aung Kyaw Road, Kyauktada Township, Yangon, Myanmar	959421000183	rozano-pl@mptjo.com.mm
26-Mar	20	Peter J Brimble- Team Leader	DaNa Facility	Room 302, Prime Hill Business Square, No.60, Shwe Dagon Pagoda Road, Yangon	95945000285	Peter_Brimble@danafacility.com
27-Mar	21	Myint Kyaw - Program Specialist -Microfinance and Enterprise Development	LIFT-fund (managed by UNOPS)	12 (o) Pyi Thu Lane, 7 Mile, Mayagone Township, Yangon	09420091891	MyintK@unops.org LsengK@unops.org

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
		L Seng Kham- Agricultural Economics Officer				
27-Mar	22	U Thein Myint - Microfinance Specialist	Consultant MFI Formerly MADB & UNDP	No 10, Post Office Road, Thanlyin Township, Yangon	95094701	theinmyint108@gmail.com
27-Mar	23	Steve Haley - DFS consultant	Modusbox (DFS)		959793125186	steve.haley@modusbox.com
28-Mar	24	Tint Phyto Aung - Deputy General Manager	Ok Dollar	no 256/269, Corner of Bogyoke Aung San Road and Seik Kan Thar Street, Kyauktada Township, Yangon	959971114001 959444822452	tint.phyo@direct-consumers.com
28-Mar	25	Dr. Zeyar Nyunt - Chief Executive Officer	Small & Medium Industrial Development Bank (SMIDB)		9595099199	oakgarchanmyae@gmail.com
29-Mar	26	Abdul Malek Mohd Khair - Country Head	May Bank	7th Floor, Centrepoint Towers, 65 Corner of Sule Pagoda, Yangon	959421026088	malekk@maybank.com.mm
29-Mar	27	Khin Saw Win - Senior General Manager	First National Insurance	No 400/406, Merchant Road, Botahtaung Township, Yangon	9795197740	Khinsaw.win@fnipublic.com
29-Mar	28	Dr Sean Turnell	Director of Research, Myanmar Development Institute	Nay Pyi Taw, Yangon	9509974496721	sean.turnell@mq.edu.au
29-Mar	29	Zaw Naing -Director General That Zin - Director	Ministry of Planning and Finance- Financial Regulatory Department	No.34, Special Zone, Nay Pyi Taw	959429316093, 972719599 959793116700	zawnaing652011@gmail.com tzin.mofr@gmail.com

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
29-Mar	30	U Thaung Naing- Deputy Director General Myo Aung- Director	Co-operative Department Ministry of Agriculture, Livestock and Irrigation	Office No.16, Nay Pyi Taw	95095153574, 95098302679 95943038545	thaungnaing@gmail.com mmaung.coop@gmail.com coopdeptdg@mptmail.net.mm
30-Mar	31	Daw Yi Yi Khaing- Director	SME Department- Ministry of Industry	Building No 41, Nay Pyi Taw	09250377199	Yiyi.khaing2012@gmail.com
30-Mar	32	Nang Htwe Nyunt- Deputy General Manager Tin Moe Thein- Deputy General Manager	Myanma Economic Bank	No.26, Thiri Kyawswar Road, Banks Zone, Nay Pyi Taw	959421119024 959256131080	nanghtwe@meb.gov.mm tinmoethein99@gmail.com
30-Mar	33	Jacques Voogt - Chief M commerce Officer	Ooredoo - M Pitesan	Myanmar Center Tower, 192 Kaba Aye Pagoda Road, Bahan Township Yangon	959973333377	JVOOGT@ooredoo.com.mm
30-Mar	34	Ei Sein Kywe - Director Htay Chun - Commission Member Thein Myint - Commission Member Akira Kurita - Policy Advisor (JICA) Tin May oo - Commission Member	Securities Exchange Commission of Myanmar	No 21-25, Sule Pagoda Road, 2nd floor of MEB Yangon	959420703727 9595011887 959250257350 95 0 9 965428691	eiseinseinkywe@gmail.com htaychun50@gmail.com theinmyint44@gmail.com akira.kurita@dsa.go.jp
30-Mar	35	Khin Sandar Hlaing - Deputy General Manager	Oriental Leasing Co. LTd	No 37 Latha Street, Latha Township, Yangon	951381546	khinsandarhlaing27@gmail.com

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
30-Mar	36	Sandar Oo - Managing Director May Thandar - Assistant General Manager Khin Moe Kywe - Deputy General Manager	Myanma Insurance	No 627.635, Merchant Street Yangon	959783793123 951387247	md-mi@mof.gov.mm sdo2004@gmail.com MYANSURE@mptmail.net.mm maythandar.inss@gmail.com
	37	Daw Than Than Swe	Central Bank of Myanmar	Office No.55, Nay Pyi Taw	95-67-418203	thanthanswedd@gmail.com
	38	Aung Kyaw Myo-Deputy Chief Executive Officer (All banking operations) Zaw Lin Aung, Managing Director	KBZ Bank	No. 615/1, Pyay Road, Kamayut Township	9509975146900, 5146900 9509420017230	aungkyawmyo@kbzbank.com
	39	Thein Zaw Tun (Don)- Managing Director(Business) Ronald, Ye Tun Oo- Assisant General Manager (Corporate Strategy and Development Division)	CB Bank	Union Financial Centre, No.46, Mahabandola Road, Yangon	959425293661 959974394888	don@cbbankmm.com ronald.ye@cbbank.com.mm
	40	Myint Zaw-Chief Executive Officer/Director Mi Mi Naing-General Manager (Foreign Banking Department)	First Private Bank	No. 619/621, Merchant Street, Pabedan Township, Yangon	1376452 0943002688	srmanager.myintzaw@gmail.com dymanager.mi@gmail.com

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
	41	Myint Soe-Chief Executive Officer Zaw Lwin Oo-General Manager Khin Moh Moh-Deputy General Manager	Central Co-operative Society Limited	4th Floor, Co-operative Business Centre, Bahan Township, Yangon	959420008304 951401396 95943084287	ccscencoop@ccsmyanmar.cooop zawlwino@gmail.com mohmoh1986@gmail.com
	42	U Min Thu-Managing Director	Myanmar Agriculture Development Bank	NO. 26/42, Pansodan Street, Kyauktada Township, Yangon	1391016	mdmadb@mptmail.net.mm
	43	Adeline Pelletier, lecturer	International Growth Centre, London School of Economics and Political Science			pelletieradeline@gmail.com

Appendix 1: Map 2018 – Approach and Methodology

The MAP research methodology takes a holistic view of a country, combining the complex interplay of political economy, the driving consumer needs and the market context. In order to do this, detailed quantitative demand-side data is collected via the FinScope Survey, and extensive qualitative research – in the form of comprehensive interviews with key stakeholders ranging from government to donors, associations and private sector entities – is undertaken.

The 2014 MAP Diagnostic was a comprehensive overview of the market in Myanmar. The current (2018) MAP study is a follow-on from the initial MAP Diagnostic.

Below are some of the key differentiating features of the MAP 2018 as compared to the original MAP Diagnostic:

- **Stakeholder process:** the 2014 MAP Diagnostic had established stakeholder processes and the necessary approval structures – and the MAP 2018 study was able to leverage these.
- **Demand-side information:** a nationally representative FinScope Survey, which depends on detailed pre-survey field studies to identify key issues and to localize questionnaires and data collection, was undertaken.
- **Focus of research:** unlike the MAP Diagnostic, which included a detailed assessment of the financial inclusion landscape, the MAP 2018 focus is more on identifying changes since the previous Diagnostic, as a means to support fine-tuning of the national priorities.
- **Priority areas:** MAP 2018 had the task of identifying a few key priority areas for further “deep dives” and analysis as well as providing recommendations, whereas the MAP Diagnostic had no initial priority areas of focus or identification.
- **Nature of recommendations:** MAP 2018 suggests changes to already-identified priorities and identifies successful approaches that need to be strengthened.

The MAP 2018 study builds on the initial MAP Diagnostic especially through:

- A hypothesis-driven approach (checking what has changed rather than what is).
- Fine-tuning the questionnaires and research questions given the knowledge gained from the initial study and MAP’s ongoing involvement in various countries.
- Basing any recommended future actions at national level on what is already in place.

Stakeholder engagement and sample size

The MAP 2018 study was supported by 43 supply-side stakeholder interviews with regulators, financial service providers, and third-party service providers;³⁶ information and data were derived from 150 in-field interviews with representatives of the target markets as well as 16 focus-group discussions held between March and May 2018 in the eight states/regions: Yangon, Shan, Kayin, Ayeyarwady, Mandalay, Kachin, Rakhine and Bago. The study also analysed statistical data sourced from the Central Statistical Organization (CSO), the CBM, and FRD of the MoPF, along with significant desktop research to identify trends and validate findings. The data from the interviews was analysed against the quantitative demand-side data from the Myanmar FinScope Consumer Survey 2018.³⁷

³⁶ Third-party service providers are non-bank institutions entrusted by a bank to conduct one or more parts of its payment services.

³⁷ The FinScope Consumer Survey is a nationally representative survey (using CAPI) of the adult population aged 18 years and older at regional and urban/rural level with a sample size of 5,500 adults. This was carried out from January–April 2018. The sample was drawn by the Department of Population (DoP) and weighting was validated by the CSO and DoP.

Appendix 2: Target Groups

Target market groups are used to segment the adult population into discrete groups, which allows for a finer and more accurate focus on specific and varying financial service/product usage and needs. The target group segmentation approach is central to the MAP process, whereby the entire adult population of a country is divided into a number of groups, with *shared characteristics* within groups (e.g. demographic, economic, financial access), and *major differences* between groups. Financial service needs are likely to vary between target groups, and hence they are evaluated based on a number of key parameters that influence the nature of the segment's demand for financial services. **The main income source of adults is used as a proxy for the level and regularity of income** (derived from the FinScope Survey).

The target groups used in Myanmar are as follows: farmers; formal employees; informal employees; self-employed (MSMEs/traders); and dependents. The criteria for inclusion in the various target groups are shown in Table 9.

Table 9: Target group descriptions

Target group	Description (main source of income)
Farmers	Includes crop farmers, livestock farmers, farm employees, and those who collect/forage from nature
Formal employees	Public and private sector employees; people that draw a pension (i.e. pensioners)
Informal employees	Casual labour, domestic employees
Self-employed (MSMEs/traders)	Owners of formal (registered/licensed) MSMEs, informal MSMEs, those trading, those making goods to sell
Dependents	Those who receive money from family, friends and/or household members (e.g. dependents include people that are elderly/retirees, homemakers, students 18+, the sick, the unemployed); dependents are mostly people that are not in the labour force ³⁸

The 2014 MAP Diagnostic identified unique segments of the adult population in Myanmar using this approach. The MAP 2018 process looks at the target markets identified in 2013 and updates the size of the segments. In addition, with a more refined lens with which to view the financial services market in Myanmar and the people it seeks to serve, the MAP 2018 target market segmentation approach was able to fine-tune the segmentation and to take the initial analysis further.

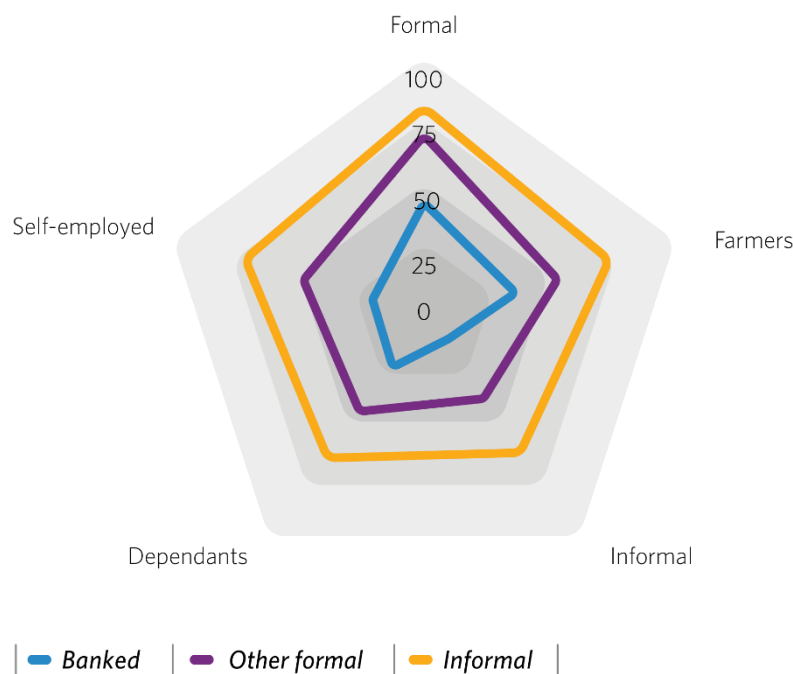
Formal financial access varies considerably across target groups. Formal employees have the highest level of access to formal financial products/services; this is driven by access to formal savings

³⁸ The size of the dependents target group is broadly consistent with the 67% labour force participation rate (15–64 years of age) reported in the 2015 census.

and remittances. There is medium financial access for farmers and the self-employed, driven by MADB credit (for farmers), and non-bank formal financial services (for the self-employed).

The FinScope research found that informal financial products/services are important for all groups except for formal employees. Similarly, informal employees and dependents have lower access to formal financial products/services. Access to informal financial services goes some way towards compensating for constrained access to formal financial products/services for these groups, resulting in a relatively even shape for the outer line of the diagram depicting financial access (see Figure 41). This shows that overall financial access (whether formal or informal) does not vary a great deal across the MAP Myanmar target groups.

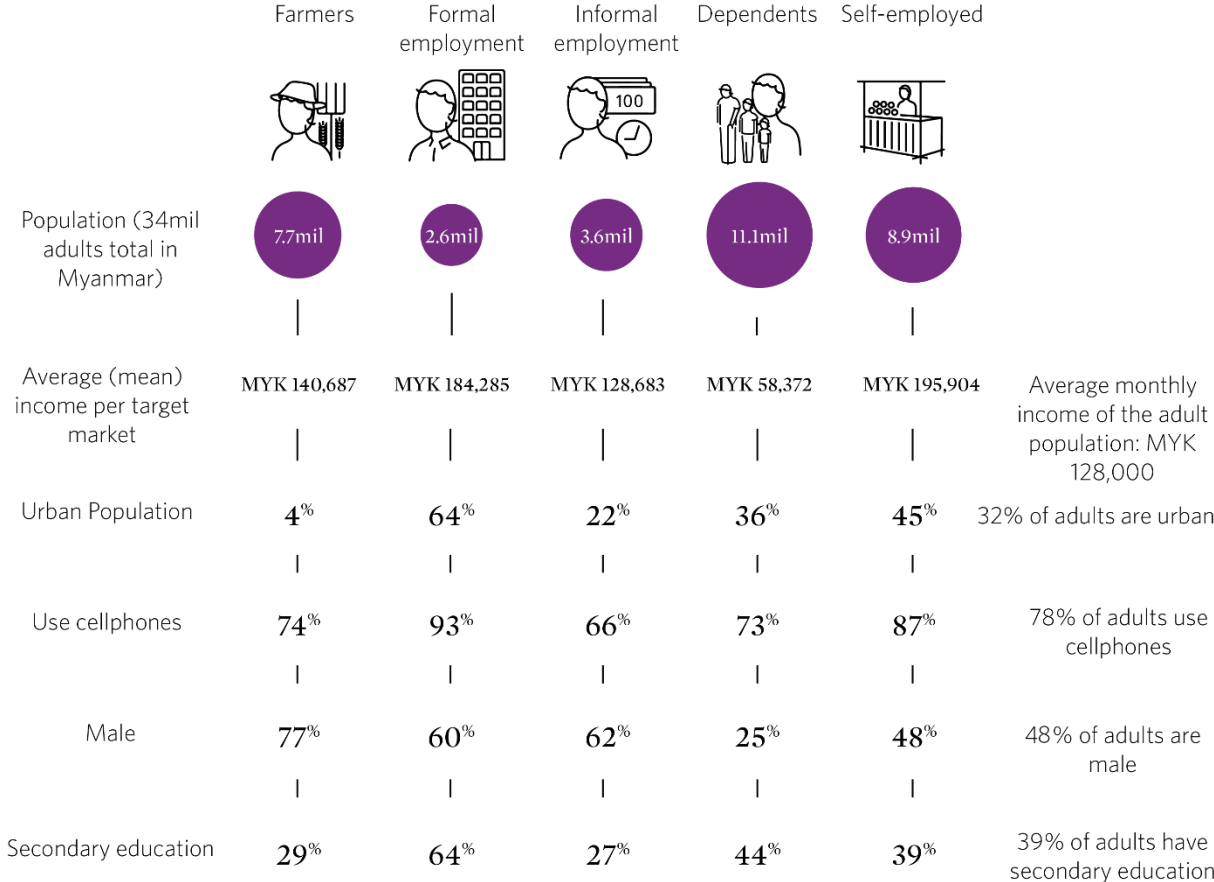
Figure 41: Financial access, by target group (% , cumulative)



Source: FinScope Myanmar 2018

Considerable variation. The demographic characteristics of the target groups vary considerably: e.g. with regard to location, age, education, and gender composition. Similarly, socio-economic characteristics such as income and access to mobile phones also vary. These characteristics, as well as their access to different types of financial services, are summarized in .

Figure 42: Target group characteristics (Myanmar, 2018)



Source: FinScope Myanmar 2018

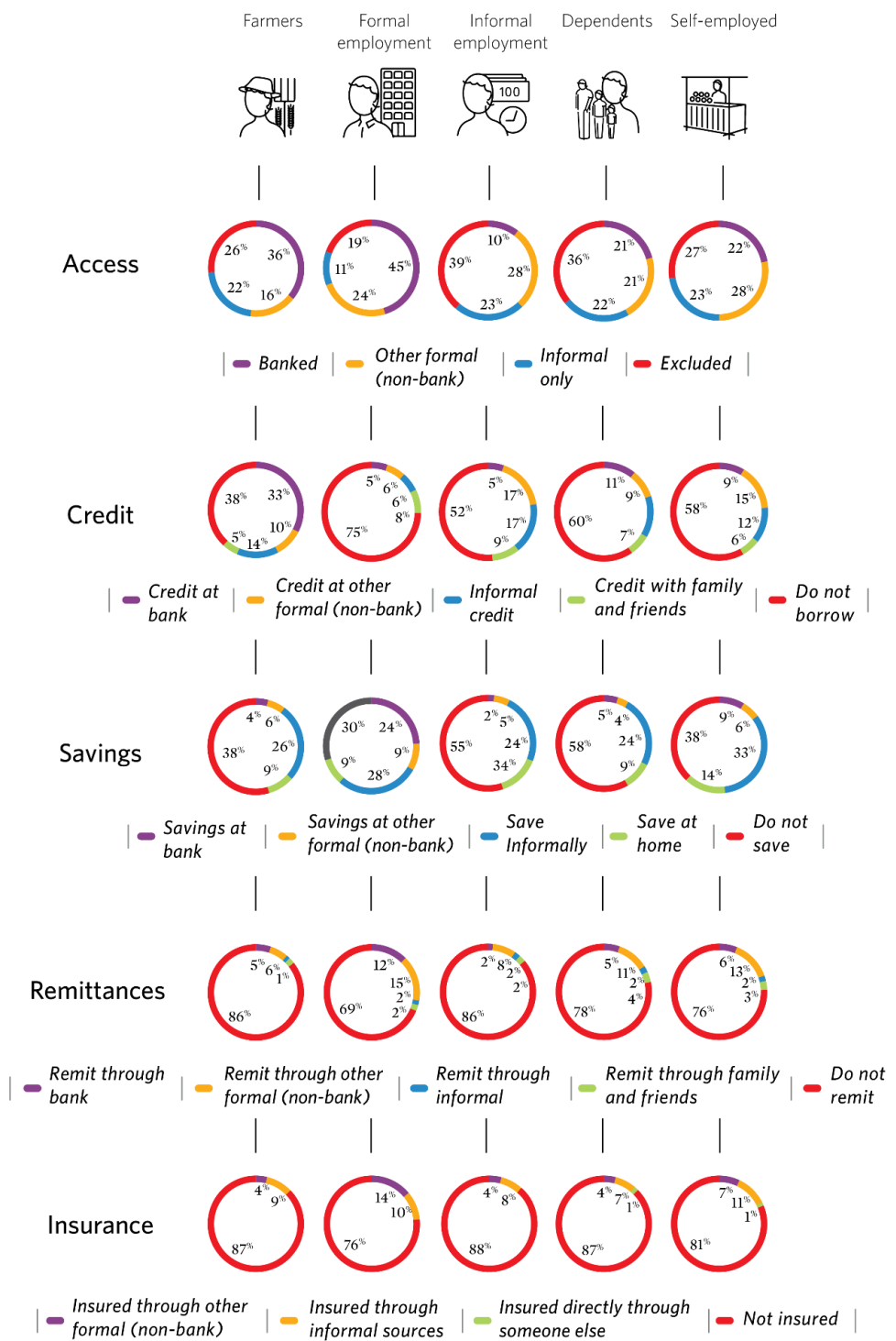
The characteristics of the target groups can be summarized as follows:

Formal employees: the smallest of the target groups, but rapidly growing, with reasonably high income. Predominantly urban, mostly men, and well educated. Good access to financial products/services, especially through banks, but very low usage of credit. Almost universal mobile phone access.

Self-employed: the second largest group, fast-growing, high average incomes, relatively urban, young and well educated. High mobile phone usage. Overall, access to financial products/services is around average

Farmers: a large group but shrinking. Relative to the other target market segments, members of this group are elderly and predominantly men. Income around the average, good access to mobile phones. High financial inclusion, especially credit.

Figure 43: Sources of income for each target group (Myanmar, 2018)



Source: FinScope Myanmar 2018

Dependents: the largest of the target groups, and growing, comprising predominantly women. Mostly without a direct source of income, so a low average income. Close to the national average for urban/rural split, education and mobile phone usage. Low use of financial services except for remittances.

In the 2014 MAP Diagnostic, the target market segments form the basis for assessing gaps and opportunities in the product markets: savings, credit, insurance, and payments (remittances and transactions). One of the innovations of the 2018 MAP is the use of a financial needs and livelihoods approach to obtain a better understanding of the usage of financial services.

When an adult or household faces a financial need, they resort to a strategy to obtain money, which passes through an institution, a channel and a specific medium of exchange (inflow). Acquired funds are used to pay for fulfilling the need (an outflow), which will also pass through an institution, a channel and a specific medium of exchange. The mechanisms in which money is received and spent to fulfil a use case or need are not always the same.

Use cases help policymakers and FSPs understand the circular flow of funds (and the platforms they pass through) in order for people to fulfil their needs, e.g. paying school fees or buying a tractor, and to target policies more accurately for the different target market groups. Real life scenarios also prompt policymakers, analysts and FSPs to identify and critically examine *how* people decide which products and services to source to meet their needs, and to come up with possible interventions to support people's decisions for their financial well-being.

Appendix 3: Livelihoods Context and Framework – Linking Needs and Usage to Livelihoods

Different types of consumers behave differently and have different needs for financial products/services. Understanding the financial needs and demands of people and their households makes it possible to develop policy, product and service solutions that better serve the needs of such households and reduce inequalities of access. Market segmentation has traditionally been used by the private sector to determine the potential size of a market, estimate the business case for providing services, and better target the products and services offered to these segments.

Segmentation is a crucial tool for investment strategy and market operations for private sector institutions. It is driven by detailed data and analytics, with regard to the country and its population and income characteristics and behaviour. It allows for a granular understanding of the people within the specific groups along with their needs, their realities and the systematically different policy approaches required to improve their welfare and achieve broader public policy objectives.

Understanding the needs and demands of people enables policymakers and providers to design policies and products that assist individuals within the framework of their lived realities. This approach – known as the sustainable livelihoods approach – is currently being adopted by leading global organizations as their main analytical framework. Thus, people, rather than the resources they use, or their governments, are the main concern. Increasingly, policymakers are adopting a similar approach to improving the design of financial inclusion policies: combining the sustainable livelihoods approach with market segmentation.

This MAP Myanmar 2018 therefore makes use of the financial needs and livelihoods approach to obtain a better understanding of the usage of financial services by different target groups. The idea is that when an adult or household faces a financial need, they resort to a strategy to get money, which passes through an institution, a channel and a specific medium of exchange (inflow). This is used to pay for fulfilling the need (an outflow), which will also pass through an institution, a channel and a specific medium of exchange. The mechanisms whereby money is received and spent to fulfil a use case or need are not always the same.

The different types of needs and transactions are summarized in Table 10.

Table 10: Financial needs and sources of income

Financial needs/ use cases	Use cases are defined as the specific purposes for which consumers use an instrument. Use cases are grouped into three financial needs categories: Liquidity refers to people’s ability to meet regular expenses in each income cycle. Resilience entails the ability to deal with unexpected shocks that have a financial impact. Meeting goals describes the need to meet foreseeable life objectives or life-stage/social obligations that would require a lump sum.
Sources of income/ inflows	Inflows detail how an adult sources money. Often income is linked back to a use case as consumers match tasks and needs: e.g. to purchase a house could require selling an asset, getting money from family/friends or borrowing. This can also be described as livelihood strategies designed to meet financial needs. Inflows also describe the financial institutions, channels and means of exchange when receiving payments informed by a livelihood strategy to fulfil a financial need.
Outflows	Outflows detail the financial institutions, channels and means of exchange that adults use when making payments to actualize the financial needs expressed in use cases.

