

Myanmar

Financial Inclusion Roadmap Summary

2014 – 2020

*Creating financial inclusion through leadership
towards a market based approach*

ABOUT MAP AND IT'S IMPLEMENTING PARTNERS

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

The map methodology and process has been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.



PARTNERING FOR A COMMON PURPOSE

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

In Myanmar, MAP was jointly funded by UNCDF and the Livelihoods and Food Security Trust Fund (LIFT). Globally, MAP also receives funds from the Partnerships Framework on Inclusive Growth and Sustainable Development (PFIS), a partnerships framework agreement with the Swedish International Development Cooperation Agency (Sida)



Livelihoods and Food Security Trust Fund



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List of Abbreviations and Acronyms

ATM	Automatic Teller Machine
CBM	Central bank of Myanmar
Cenfri	Centre for Financial Regulation and Inclusion
FinScope	Myanmar FinScope Survey 2013
GDP	Gross Domestic Product
INGO	International Non-governmental Organization
LIFT	Livelihoods and Food Securities Trust Fund
MADB	Myanmar Agricultural Development Bank
MAP	Making Access to Financial Services Possible
MEB	Myanmar Economic Bank
MFI	Microfinance Institution
MIC	Myanma Insurance Company
MIS	Management Information Systems
MPU	Myanmar Payments Union
MMSE	Microfinance Supervisory Enterprise
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-governmental Organization
POS	Point of Sale
SFI	State Financial Institution
SME	Small and Medium Enterprise
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
SMIDB	Small and Medium Industrial Development Bank

1. Introduction

1.1 Myanmar Financial Inclusion Roadmap

The Myanmar Financial Inclusion Roadmap lays out a plausible vision for the enhancement of financial inclusion in Myanmar. It is based on the diagnostic results contained in the Making Access Possible Myanmar Financial Inclusion Synthesis Note, and the Making Access Possible: Myanmar Country Diagnostic Report, 2014. The supply-side analysis is based on in-country research and interviews with key players while the demand-side analysis draws from quantitative data provided by the Myanmar MAP FinScope Survey 2013 and qualitative research in the form of Focus Group Discussions, Home Visits and Key Informant Interviews.

The MAP diagnostic and programming framework supports expanding access to, or consolidating the provision of, financial services for individuals and micro and small businesses. MAP Myanmar was approved by the President of the Union of Myanmar in January 2013, and the programme has been jointly funded by the UNCDF and LIFT.

1.2 Financial inclusion in Myanmar

There is strong policy support for financial inclusion in Myanmar under the broader rubric of poverty alleviation with the objective to reduce poverty from 26% to 16% by 2015 which has led to an interest in financial inclusion as a key to poverty reduction and an enabler of growth. President U Thein Sein's four out of eight development tasks to address rural development and poverty alleviation are related to financial inclusion, namely the development of the agricultural production sector, rural productivity and cottage industries, micro saving and credit enterprises, and rural cooperative tasks¹.

According to MAP FinScope 2013, over 70% of adults do not have formal access to financial services, the majority of citizens relying on unregulated providers, often at substantially higher cost, or on family and friends. The research further demonstrated:

1. **Myanmar population is thinly-served by financial services** with only 6% of adults using more than one product, products not fully meeting needs, and current formal access being driven by non-account based credit and remittances.
2. **Highly informal economy.** The pervasive and sophisticated unregulated financial sector constitutes the largest source of borrowing with an estimated outstanding debt of K 5.4 trillion.
3. **A capital constrained regulated retail financial sector.** As a consequence institutions direct capital to the more lucrative high-income and corporate markets. Additionally given the short-term nature of deposits funding loan portfolios, no long-term credit products are offered.
4. **Limited infrastructure constrains business model and product offerings.** The lack of physical and electronic infrastructure drives up costs and limits scale (most financial services providers are in the early stages of adopting electronic management systems).
5. **Constrained product offerings undermine value to customers,** where products do not meet consumer needs, and mismatches lead to an unmet need or a higher cost.

¹ Source: First national workshop on rural development and poverty alleviation held in May 2011

6. *Current regulatory environment is not enabling expansion of rural provision and may discourage delivery to urban poor*, for example the interest rate caps, loan sizes and capital regulations, already resulting in withdrawal of certain NGO MFIs from some rural markets.

1.3 Barriers to financial inclusion

The research also reviewed the key barriers to financial inclusion in Myanmar, and these can be summarised as follows:

- *New and evolving investment climate and commercial contract enforcement regime* increases risk for investors
- *Rapidly evolving regulatory environment that is yet to fully support financial inclusion*, with a need to review specific regulations, improve the balance between regulation and commercial decision making and to boost supervisory capacity across the board.
- *Cash based economy* with a weak culture for formal savings and low trust in formal intermediation
- *Missing institutions and infrastructure* limits access and increases cost of delivery. Particular infrastructure to note includes electronic payments, branches, the credit bureau, roads, electricity and telephone networks.
- *Paper-based banking / payment systems* that are unsustainable and impact on cost and scalability. To offer improved products at scale providers will have to modernise.
- *Limited skills*: Both the cost and availability of skills will prove challenging.
- *Inappropriate or insufficient products and services*: e.g. inappropriate features such as loan size, collateral and repayment timelines and cost; Inflexible products when compared to informal products; Arbitrage where money lending is highly profitable when compared to a savings account; Inconvenient opening hours; and Unavailability of certain products.
- *Funding constraints*: All financial institutions suffer from a capital constraint that limits their ability to extend credit.
- *Business model limitations and culture* lead to low quality and diversity of services. The most obvious is the limitations in information systems, the time required to develop new skills required e.g. risk assessment, and the prevalence of the old culture still in place (both in regulation and also in business)
- *Lack of sustainable business models to serve rural areas*: The public sector relies on subsidies while the private sector is not yet sustainable in rural areas as the cost of doing business is high (low infrastructure base, lack of scale, weak systems)

2. Ensuring Financial Inclusion in Myanmar

In order to provide a vision and direction financial inclusion in Myanmar, a policy goal is proposed:

“By 2020, increase Financial Inclusion² in Myanmar from 30% in 2014 to 40%, 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”.

Meeting this goal will be best assured by pursuing two main outcomes, namely (1). the strengthening of the financial sector so that it is able to better support financial inclusion, and (2). ensuring financial inclusion in three

² Financial inclusion means providing effective access to credit, savings (defined to include current accounts), payments, and insurance services from formal institutions. “Effective access” means convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider.

priority segments which have been chosen in line with government policy and objectives. The three priority segments selected include agriculture, MSME and the Low income.

The detailed outputs and activity plans needed to achieve these outcomes are further detailed below:

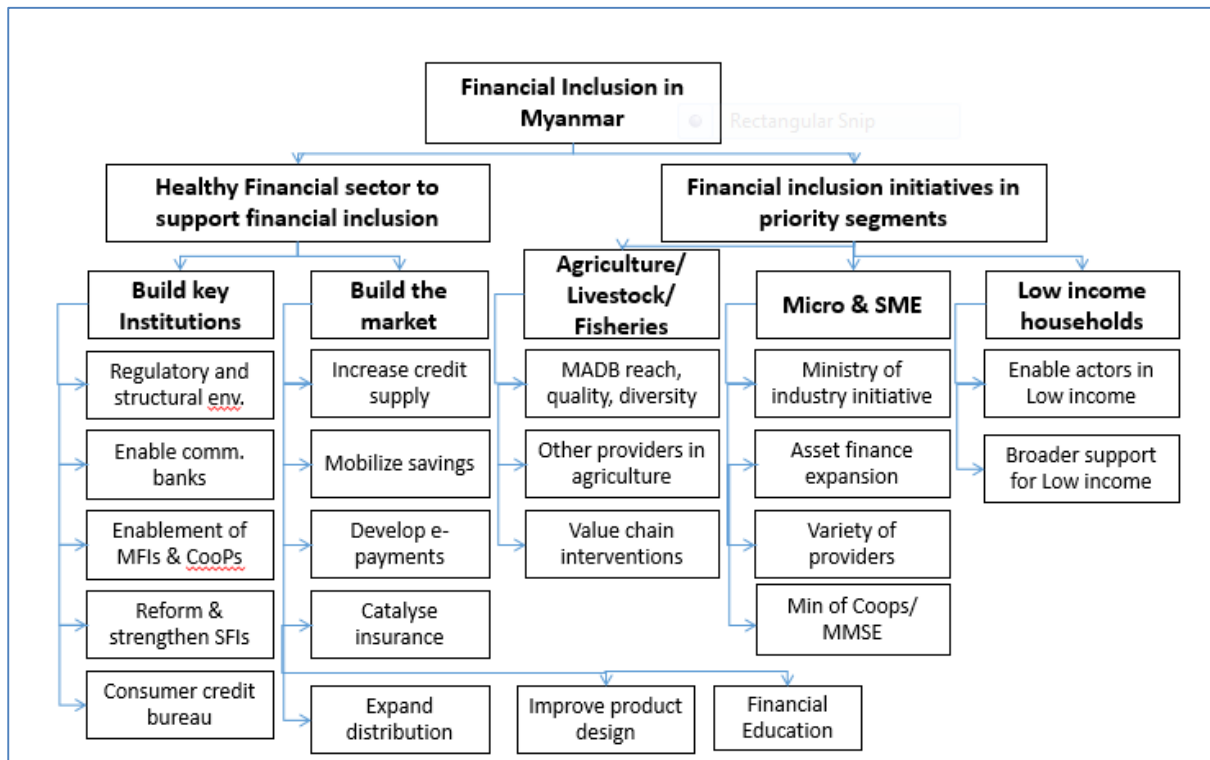


Figure 1: Achieving Financial Inclusion in Myanmar

2.1 Outcome 1: The financial sector is strengthened to better support financial inclusion

Two outputs have been identified as necessary to achieve this outcome, namely ensuring that institutions critical to financial inclusion are strengthened, and that current market barriers across product categories are addressed to grow formal intermediation.

1.1 **Output 1.1** Institutions critical to financial inclusion are strengthened or created where they do not exist, the high priority ones being identified as follows:

1. *Reform the regulatory and structural environment to ensure it is sound and fully supports the sector players in their goals towards financial inclusion.* This will be done by ensuring that where necessary regulations are reviewed or put in place, that there is a full suite of capacitated regulators, and that potential overlaps and gaps are addressed. The Ministry of Finance and revenue is recommended to coordinate activities in this initiative.
2. *Ensure commercial banks are fully enabled to serve the mass market, as well as in providing services to other players in the low income market such as cooperatives and MFIs.* Key issues include support to the CBM to supervise banks on a risk based model, ensuring banks overcome infrastructural limitations especially in IT, and capacity support for transition to modern approaches and internationally recognized standards. This will be coordinated by the CBM.

3. *Develop and support MFIs and Cooperatives so that they are fully able to complement the banks and other players across all market segments but especially among the low income.* The proposed focus areas include ensuring a supportive regulatory environment; Support to increase supervisory capacity including in the regions; Strategic development of MFIs; Local currency wholesale facilities; and capacity and IT support. Cooperatives specifically require support to commercialise the current model, introducing needs assessments, risk assessments and management information systems. The initiative will be coordinated by the MMSE and the Ministry of cooperatives.
4. *Reform and strengthen key SFIs (MEB and MFTB) as they affect other players in the financial inclusion value chain.* The key objectives include a review of the mandate and legal framework, strategy for commercialisation and modernisation, and capacity building. This will be coordinated by the two SFIs respectively.
5. *Implement a consumer credit bureau to serve all service providers in the retail space.* This will enable growth of unsecured lending, higher operational efficiency, credit monitoring to manage indebtedness. As it will take time, it is necessary to explore interim possibly manual solutions. This initiative should be coordinated by CBM and the Bankers Association.

1.2 **Output 1.2:** Current market barriers across product categories are addressed to grow formal intermediation as follows:

1. *Increase regulated credit supply for the consumer market to meet the estimated demand of K 4.5 trillion, through a combination of strategies, including raising funding from SFIs who currently lend out only a portion of their deposits (subject to national requirements), donor and government to government funding, and intermediating informally held funds.* The regulatory environment should also be reviewed to encourage private sector investment. This initiative will be coordinated by the Ministry of Finance and Revenue.
2. *Mobilize savings:* The objective is to increase the value and number of formal savings accounts, which requires customer trust, awareness, adequate interest rates and physical branch presence. Specific measures proposed include reviewing the regulatory environment, renewing the SFI savings mandate (margin spread), introducing small saver accounts, reviewing the terms for deposit insurance, and targeted campaigns e.g. pawnshop gold holdings. This should be coordinated by the Ministry of Finance and Revenue.
3. *Introduce and expand e-payments:* Development of electronic payments must remain a priority for the government and much of it is already in progress. Proposed focus areas include making the regulatory environment more supportive, facilitating investment in key infrastructure, developing a national payment system strategy and standards, and introducing e-payments and bank savings accounts for civil servants, the military and pension recipients to encourage growth of e-payments. The initiative should be coordinated by the CBM.
4. *Catalyze insurance sector development:* This requires regulations to better support the growth of the recently licensed players and development of new products especially agricultural and health insurance. Additionally, the regulation needs to support flexible products and business models, bundling of insurance with credit, distribution of insurance through aggregators, formalizing existing MFI and co-operatives microinsurance products, reviewing the reinsurance and reinvestment options for insurance assets, and enhancing IBSB capacity. This should be coordinated by the IBSB.
5. *Extend distribution footprint:* Extending the distribution footprint forms one of the biggest opportunities. Proposed interventions include creating incentives for investment in existing infrastructure such as bank branches, ATM and POS, and fast tracking regulation and business models for alternative channels (agency banking, mobile phone networks, post office branches and grocery stores). The project should be coordinated by the CBM.

6. *Improve product design*: The objective is to encourage innovation in product features and product bundling where economically viable. This may require more flexibility in regulation to minimise rules, and capacity support for products to be modified and new services to be developed. This should be coordinated by the Ministry of Finance and Revenue.
7. *Customer literacy and education*: Customer education and customer protection measures are needed across the board to ensure that customers make the best use of services, and that their trust in providers is protected. This will be coordinated by the Ministry of Finance and Revenue.

2.2 Outcome 2: Increased / better quality financial inclusion in three priority segments

Output 2.1 Improved financial access in Agriculture by increasing the quality and diversity of products available to farmers through:

1. *Improve MADB service reach, quality and diversity*: Institute a reform program to ensure that MADB functions as a commercial entity, resolves major customer complaints such as on the length of processes and funds for sufficiency of loans, and automates to enable new products and scale. New products are also needed for mechanisation and irrigation. The project should be coordinated by the MADB.
2. *Enable multiple financial service providers in agriculture*: It is necessary to support other emerging suppliers, notably MFIs and agricultural cooperatives. Potential improvement areas include further support for MFIs involved in agriculture, strengthening of rural agricultural co-operatives, disaster insurance to mitigate current high provider risk exposure in agricultural credit and coupled with studies to better document farmer over-indebtedness. The initiative is to be championed by the Ministry of Finance and revenue.
3. *Agricultural value chain interventions to support farmers*: Public private partnerships providing technical assistance across the value chain especially in seed technology, post-harvest technology, packaging, storage and distribution are required. Additionally efforts are needed to better leverage anticipated increase in mobile penetration which should lead to efficiency improvements in the value chain. The project will be coordinated by the Ministry of agriculture.

Output 2.2 Increased financial access to Micro and SME by strengthening institutions best positioned to serve them through:

1. *Support to the Government initiatives to increase finance to MSMEs (Ministry of Industry, Ministry of Cooperatives)*: In order to enhance these efforts, there is a need to formalise more MSMEs through a targeted program, to carry out further research on the current initiative with SMIDB to inform extension to other banks, and capacity support to the players to reduce dependence on collateral. The project should be coordinated by the Ministry of Industry.
2. *Support expansion of asset finance by commercial banks and other players*: The objective is to increase the range of bank and finance company asset finance products tailored to MSME, through targeted capacity support. This initiative is to be coordinated by the CBM.
3. *Enable wider range of providers to provide services to MSMEs*: The objective is to support non-bank providers currently supporting MSMEs, notably MFIs and cooperatives. This will be done through better regulatory support for MFIs (eliminate proposed caps on loans, interest rate reviews), targeted funding especially through cooperatives and support for more relevant product design. The project will be coordinated by the Ministry of finance.

Output 2.3 Better 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. Two initiatives are proposed:

1. *Better enable actors in the low income segment:* There is a need to support providers currently operating in the low income segment, mainly cooperatives and MFIs. Key areas of implementation include better integrating and / coordinating different initiatives targeting the low income (Agricultural cooperatives, MFIs, MADB, Green village project), facilitating MFIs and Coops in low income rural market through regulation (interest rates, requirements to enter rural areas, targeted funding), and working with relevant Ministries to tailor services for example to Rakhine and Chin especially for health, agriculture and education. The project should be coordinated by the MMSE.
2. *Broader support for the low income:* Focus needs to be created at a policy level for intra-household financial inclusion, especially for the elderly, women and disabled. In addition, non-financial services support where partners are available should be provided to the low income. The proposed initiative is to be coordinated the Ministry of rural development.

3. Roadmap to reform

3.1 Summary of anticipated benefits

Twenty initiatives have been identified in the stakeholder process and these have been outlined above. The initiatives at the micro level will directly improve the ability of financial institutions to serve the low income through capacity support for more relevant products and new distribution channels suitable for the low income. It will also make them more sustainable through capacity development and also reform and modernisation for example for MADB, MEB, MFTB, banks, MFIs, cooperatives and others, to enable efficient delivery of services. The low income will benefit by being able to access more and relevant financial services, and improved capability through customer education.

At the meso level, the programme will strengthen the financial sector by providing appropriate infrastructure and information that will lower costs and encourage the entry of commercial entities in low income markets.

At the macro level, an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor, especially the banks, SFIs, MFIs and cooperatives to make them more sustainable. It will also allow for regulators to improve their capacity to regulate the market more effectively.

Overall the program will result in a sustainable financial sector able to support, deepen and broaden financial inclusion, allowing access for currently excluded individuals, and deepening financial inclusion for categories that are currently served.

3.2 Implementation and evaluation

Multiple ministries, departments and government agencies are currently responsible for elements of financial inclusion structures needed to properly serve the low income groups vulnerable to exclusion. Allowing the different initiatives to continue to run without coordination will hamper the achievement of policy, and its reach for broader economic and societal benefit.

It is therefore recommended to have an inter-ministerial National Committee set up to centrally coordinate, monitor and evaluate the various initiatives and policy related to financial inclusion that take place across the departments and agencies. This body should also provide oversight and coordination to ensure the

implementation of this roadmap. The Committee would monitor and evaluate outcomes and provide regular report back to various government organs. Given the overlap between the financial inclusion roadmap and broader financial sector initiatives, the oversight group needs to coordinate with others to minimise duplications.

The Committee would succeed the existing MAP Steering committee. In comparison however, it would be enhanced to include more ministry representatives, and these would be at cabinet level in order to meet the requirements of implementation. The Ministry of finance and revenue should be part of this forum, possibly chairing it.

Working sub groups of the National Committee will implement specific areas of the roadmap under their jurisdiction, and these sub groups would comprise the key stakeholders including the regulatory authorities (CBM, MMSE, IBSB, Ministry of Finance, Ministry of Cooperatives, Ministry of Agriculture), line ministries (Industry, Rural development, local government, communications, planning, education, health, labour, employment and social security), development partners, relevant public sector entities (SFIs) and private sector entities (bankers association, MFI association etc.).

The National Committee will as a first step set the national targets and agree a measurement, tracking and reporting mechanism.

4. Conclusion

In the last decade a lot of effort has also gone into extending financial access to usually marginalised sections of society. The Government has further made a lot of progress in the last 2 – 3 years reviewing laws and regulations and redefining the financial services landscape. The challenge now is to find innovative but practical ways to diversify and improve the extent and quality of financial services.

The MAP process was approved by the President of the Union of Myanmar in 2013 in order to meet this challenge. As a result an extensive stakeholder engagement process has been followed to establish a reliable evidence base on which to develop a strategy for financial inclusion in Myanmar, potential national financial inclusion goals identified, and a roadmap developed. The roadmap has identified a number of practical steps that could be taken to enhance financial inclusion in Myanmar, and support the policy objectives as articulated by the President of the Union and other organs of government.

The immediate next steps in implementing this roadmap include:

- Launch the Financial Inclusion Road Map Framework at the ASEAN meeting
- Establish a Financial Inclusion Inter-Ministerial National Committee to coordinate the implementation of the roadmap and strategy.
- The National Committee should confirm the national targets, adopt the roadmap, and develop the financial inclusion measurement, tracking and reporting mechanisms.
- The National Committee will also establish the necessary working groups, which in turn will finalise the objectives and detailed workplans for each initiative.

As part of the stakeholder engagement process, the National Committee will approach the private sector and potential development partners to assist implement the various specific interventions.

