Making Access Possible

MOPF

KYAT

Myanmar

MAP Refresh Myanmar Diagnostic

2018

FMT
FINMARK TRUST

UNCDF MAKING ACCESS POSSIBLE

PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and 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.

MAP has been working with stakeholders led by the Government of Myanmar in ensuring the implementation of the national financial inclusion roadmap.

At country level, the core MAP partners work alongside Government, other key stakeholders and donors to ensure an inclusive, holistic process. The MAP refresh was funded by the Department for International Development (DFID) through its DaNa Facility programme. DFID leads the UK Government's work to end extreme poverty. This includes ending the need for aid by creating jobs, unlocking the potential of girls and women and helping save lives when humanitarian emergencies hit.

DaNa Facility
Empowering Enterprise

UKaid
from the British people

The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the national flower of Myanmar, which is the Padauk flower. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the Padauk flower with the currency symbol of Myanmar we represent the characteristics of the country, linking financial inclusion with successful growth.

ABOUT MAP MYANMAR REFRESH 2018

The initial Making Access Possible (MAP) Diagnostic was conducted in Myanmar in 2014, based on the FinScope demand survey that was conducted in 2013. This was followed by the development of a Financial Inclusion (FI) Roadmap, which has been partially implemented over the past three years (2016–2018). Given the fast-changing pace of financial markets in Myanmar, the limited shelf-life of demand-side data, and the need to fine-tune the focus of financial inclusion activities at national level, a MAP Refresh study was undertaken to update the financial inclusion priorities and generate a revised Roadmap.

The MAP Refresh uses the initial diagnostic report as the starting point for hypotheses, and looks at the key changes and market developments. It provides insights into the progress attained in financial inclusion over the past five years. The MAP Refresh aims to improve the focus and relevance of FI interventions carried out on the basis of the Myanmar MAP Diagnostic Report, 2014, 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.

Preparation for MAP Refresh for Myanmar was approved by the Inter-ministerial Steering Committee (IMSC) in October 2017.

MAP Series Editor: Kameshnee Naidoo

Diagnostic Editor: Jacquie Withers

Diagnostic Authors: Keith Jefferis (Econsult Botswana), Christiaan Loots (UNCDF), Sudip Bhaju, Raju Dhan Tuladhar and Rojesh Bhakta Shrestha (Beed Management Private Limited).

Layout and Design: Garage East and Candice Borgstein (FinMark Trust)

The authors of this note would like to thank those who reviewed the document and provided invaluable comments: Rajeev Kumar-Gupta, Robin Gravesteijn, Paul Luchtenburg, William Naing (UNCDF), Brendan Pearce, Nikki Kettles, Kingstone Mutsonziwa, Grant Robertson, Obert Maposa and Damola Owolade (FinMark Trust), Anthony Githiari (Consultant), Neal Youngquist, Byung Yeon Kim, Giulia Zaratti, Alejandro Gonzalez Caro, Steve Haley, Saw Gabriel and Darly (DaNa Facility). We extend our thanks to all those who reviewed and commented on drafts, including CBM, and FRD, as well as those who assisted with surveys and data collection.

Acknowledgements

The programme has been developed by United Nations Capital Development Fund (UNCDF) and MAP partner, FinMark Trust, in close cooperation with the DaNa Facility, as a follow-up on the initial MAP research carried out in 2013. The programme is embedded in the new United Nations Development Program (UNDP) Myanmar Country Programme (2018–2022), approved by the Government of Myanmar (GoM). MAP Refresh for Myanmar is funded by The DaNa Facility. The project is governed by the IMSC, chaired by H.E.U. Maung Win, Deputy Minister, Ministry of Planning and Finance (MoPF), with Secretariat support from the Financial Regulatory Department (FRD) under the leadership of Director General U Zaw Naing. The IMSC consists of members representing relevant government departments and agencies, Development Partners and the private sector.

Table of Contents

List of Figures and Tables

List of tables

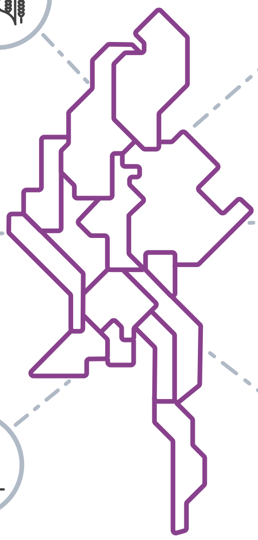
List of figures

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 Cooperation]
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
MFSP	Mobile Financial Service Provider
MFTB	Myanma Foreign Trade Bank
MIC	Myanma Insurance Company
MICB	Myanma Investment and Commercial Bank
MMFA	Myanmar Micro Finance Association
MMK	Myanmar Kyats
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

A rapidly changing economy and society



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

Political change, economic reform, opening up to trade, tourism and investment.

Improvements in female literacy and employment, and reduced maternal mortality.

Agriculture still very important, but less dominant as manufacturing and energy sectors grow.

Still mainly rural (65%) but urbanizing rapidly.

Rapid economic growth – 7.2% annually over past five years.

Myanmar now a lower middle-income country.

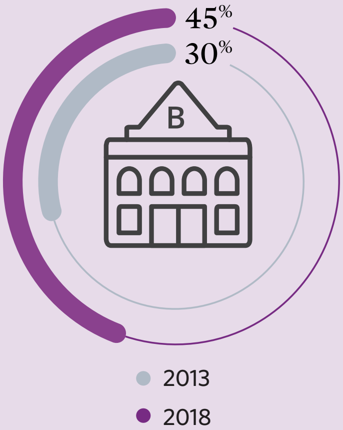
Many other financial inclusion achievements

- Savings in formal financial institutions has doubled, from 6% to 12% of adults
- 50% of adults save, through formal or informal channels
- Insurance penetration still low, but up from 2% to 6% of adults
- 21% of adults send or receive remittances
- 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
- Informal savings & loan groups (Su Mae) – have 2.5 million members, manly women
- Less reliance on pawnshops – down from 1.1 million to 700,000 adults
- 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 17% in 2018

Financial sector is growing fast and changing along with the economy



Lending by private banks up from MMK 4,266 billion in 2013 to MMK 18,463 bn, with 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 23% 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 14,105

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 costs of financial services

Healthcare – financial services to manage risks

Education – from access to savings and credit

Empowering women & girls

Employment and decent work

Reducing inequality

Executive summary

This MAP Refresh Myanmar document 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 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 synthesises detailed demand-side data (on the usage of financial services), 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 Sustainable Development Goals (SDGs).

Since the 2013 FinScope (demand-side) Survey, the 2014 MAP Diagnostic and the 2015 Financial Inclusion Roadmap (2014–2020), there have been extensive political, social, economic and financial sector developments in Myanmar. 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, as well as being opened up 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 there has been a positive response from the market and from private sector financial institutions, with support from government in some areas.

Most private sector financial service providers have grown, some quite dramatically. This growth has mainly involved banks, microfinance institutions (MFIs), and cooperatives; however, insurers and mobile money operators have also grown, although from a much smaller base. 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 regard 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 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.

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.

Informal financial service providers – moneylenders, hundis 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.

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.

As expected, progress in the provision of financial services has focused on the most obvious commercial opportunities. These include: serving the formally employed/salaried market, which has been growing very fast; banks serving unmet demand (not well serviced by state-owned banks) from the fast-growing private corporate sector and higher-income individuals; 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 the rollout of bank branches and ATMs in easier-to-reach urban and semi-urban areas.

The question is how these dynamics will play out over the next five years: which priority interventions can continue the achievement of major gains, and address the gaps that have been identified? Without action, there is a risk of progress slowing.

Banks have expanded rapidly. In the short term, they are likely to focus on dealing with the impact of new regulatory requirements, which are changing both how they lend and how they deal with non-performing loans. Such pressures may require some reduction in growth, as capital and management resources come under pressure; bank mergers and recapitalization might be required. Even once they have dealt with this, banks will be unable to start moving down-market and serving smaller and risker clients unless they develop new approaches to lending, skills and products.

In the case of MFIs and cooperatives, growth has been constrained both by lack of access to funds they can lend out 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. But 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 also have a role to play here, thus further extending the range and choice of financial service providers available to consumers.

From a broader, macroeconomic, financial-system perspective, the biggest priority is to transform at least some of the considerable savings held in informal forms – in cash or in kind – into formal savings in formal financial institutions, so that such savings can be intermediated into credit and investment.

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 some 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 consumptive, rather than for asset building or productive (business) purposes. 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.

Current policy on regulating interest rates, while intended to benefit borrowers, may be more counterproductive than positive. Caps on lending interest rates make many types of lending uneconomic, as lenders cannot cover the costs of funding, risk and operations. This has implications for the availability of credit for higher-risk borrowers (or borrowers with perceived higher risk, such as small enterprises), and leads lenders to concentrate on larger, "lower-risk" borrowers that can provide (especially real-estate) collateral for loans. It also serves to restrict the expansion of branch networks, especially in rural areas where business volumes are lower and costs higher.

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. The larger enterprises – medium-scale – 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 best be met by banks and perhaps larger MFIs, given reforms that will enhance those institutions' ability to provide sustainable credit. The vast majority of MSMEs, however, are small or micro enterprises whose financial needs are different; such MSMEs might be better served by MFIs and MFSPs rather than by banks. These MSMEs' 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 (e.g. by "family and friends").

With the rapid growth and development of the financial sector and its different components, it will be necessary to keep the regulatory structure under review, and align it with international best practice, especially as non-bank deposit-taking institutions grow in size.

There are unexploited opportunities that can be further developed to yield financial inclusion gains in coming years. Following the evidence and analysis in the MAP Refresh study, a number of suggestions and action items are presented, covering 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 recomendations and action items will be refined and prioritized during the process of preparing an updated 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, by enabling 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 by different means, 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 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 will be 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 can be promoted 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 make more use of MFIs than do men.

While foreign banks and insurers have entered the Myanmar market, thus far 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

[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.

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 unfair advantages enjoyed by the state-owned Myanma 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 entire regulatory architecture should be reviewed with a view to introducing reforms that would enable better management of financial sector risks, and bringing the structure more in line with international best practice.

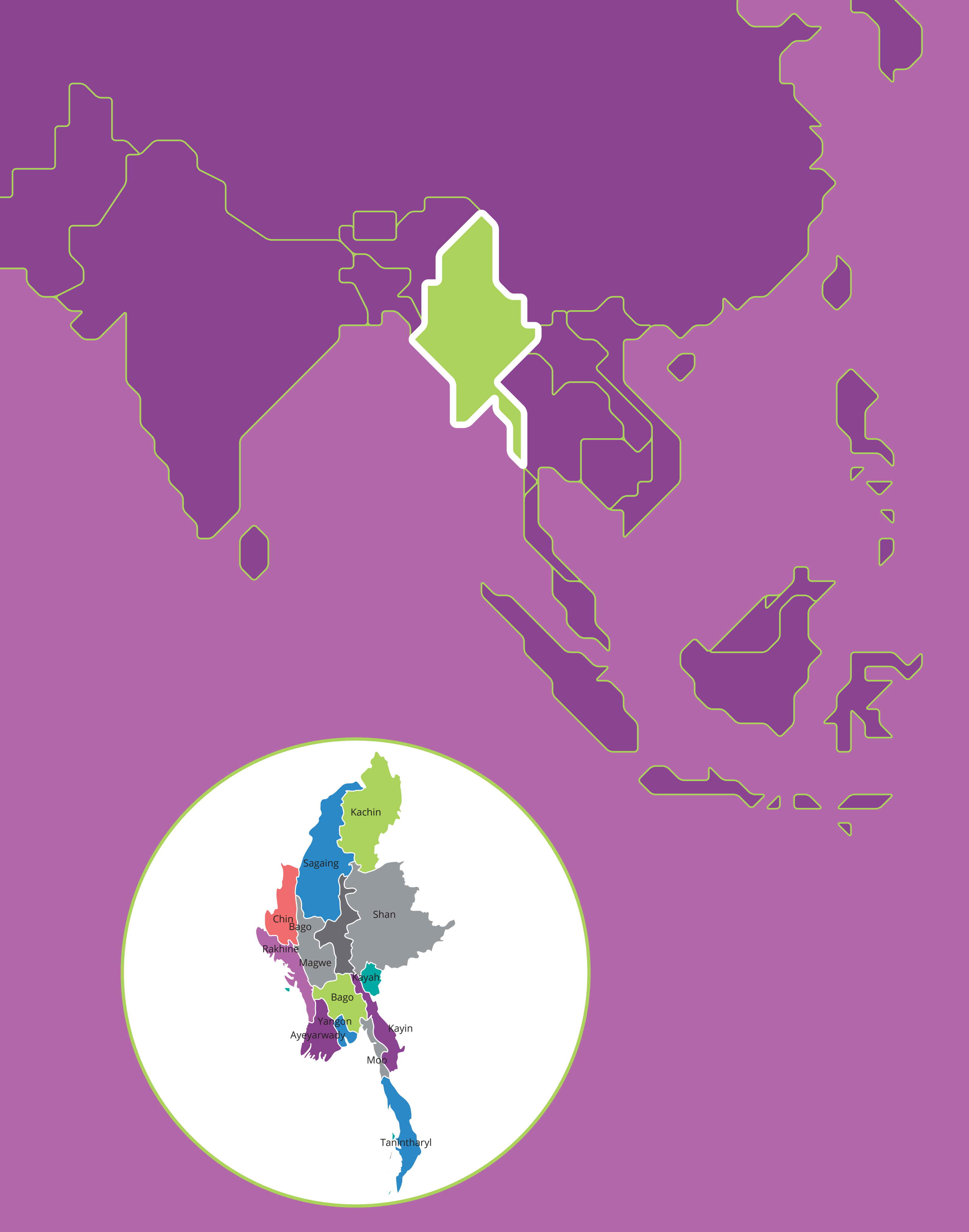
SOBs: the current structures and operations of some key SOBs are not sustainable. There are various reasons for this, but extensive reforms and modernization are needed in order to revitalize the SOB sector and ensure that specialized functions – and the goodwill SOBs enjoy in large parts of the population – can be built upon positively. In the short to medium term, however, the focus of SOBs will be consolidation and reform 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. As cooperatives grow, their networks and local presence can be used as channels for the distribution of other financial services. As cooperatives become larger, changes may be needed in the way they are regulated and supervised (i.e. as financial institutions rather than cooperatives).

Consumer protection and financial literacy: strengthening this area would offer widespread benefits. Because an important component of consumer protection and financial literacy is credit information sharing, it will be important to get a credit bureau up and running, initially servicing the banks but with a plan to roll out to MFIs in due course, with compulsory credit report filing and credit status checking for all borrowers. Strengthening financial literacy, starting with appropriate financial education programmes in schools, will help consumers make more informed choices regarding financial products and services and avoid problems such as over-indebtedness. This focus needs to be bolstered by improved consumer protection mechanisms.

Informal and semi-formal provides and channels: while much of the focus of financial inclusion is on formal (regulated) financial institutions, informal and semi-formal financial service providers and channels have a role to play, especially if they meet consumers' 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 an access route for rural households to formal financial services. This would be particularly beneficial for women.

Informal financial service providers – moneylenders, hundis 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.


Kachin
Sagaing
Chin
Bago
Rakhine
Magwe
Shan
Kayah
Bago
Yangon
Ayeyarwady
Kayin
Mon
Tanintharyl

1 Introduction

In 2013 UNCDF assisted the Government of the Union of Myanmar with the preparation of a financial inclusion strategy that would complement the country's broader poverty alleviation strategies, as then encapsulated in the government objective 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 covered the demand for, and supply and regulation of financial service provision, and identified a range of gaps and opportunities for financial sector development, from the perspective of financial inclusion.

On the basis of this data, analysis and conclusions, in 2015 a Financial Inclusion Roadmap (2014–2020) was prepared, with a range of action items applicable to various players 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 Refresh exercise is to review progress since the adoption of the 2015 Roadmap, with regard to ensuing market developments and specific progress in the implementation of the Roadmap and the achievement of the agreed targets. The Refresh 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 Refresh 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 Refresh 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, and differences in the findings on men and women are highlighted and discussed.

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 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.

2 The changing Myanmar environment

2.1 Introduction

The period since the 2013 FinScope Survey and the launch of the MAP Myanmar Diagnostic in 2014 and Roadmap in 2015 has been one of rapid change, both within Myanmar and internationally. Within the country there has been political and economic reform, new policy initiatives, and major progress with regard to financial sector development. Internationally, the Sustainable Development Goals (SDGs) have been widely adopted as both targets and a framework for policy actions, within which financial inclusion plays an important role.

This environment has supported major achievements with respect to financial inclusion. The 2015 Roadmap (2014–2020) included the objectives of increasing financial inclusion[3] in Myanmar from 30% of the adult population in 2014 to 40% by 2020, 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 – that is, 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 playing a key role in 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 2018–2030 (GoM, 2018), which is largely aligned with the SDGs (see Box 1).

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 2015 Myanmar hosted the 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). The Myanmar government emphasizes the need to align to regional initiatives, particularly in the measurement and reporting on financial inclusion.

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.

[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 vulnerability, 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. Promoting 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.

With regard to supporting implementation of these strategies, the MAP Refresh 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 "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. And financial inclusion plays a supporting role for various additional MSDP strategies: for instance, under Goal 4 (human resources and social development), 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 Refresh 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 financial inclusion Inter-ministerial Steering Committee has been 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 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.

While there is an increased level of coordination relevant to the sector (which is good for aligning stakeholder efforts), the Inter-ministerial Steering Committee structure on financial inclusion can be expected to continue to play a pivotal role in coordinating activities and policy in the area of financial inclusion, in coordination with these other forums.

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. This was associated with rigidly planned development processes, a central role for state institutions, and a very limited role for market forces. This situation applied in the financial sector as elsewhere, with various SOBs playing a central role.

Major reforms initiated by new quasi-military government that took office in 2011. The reforms initiated led to a gradual economic liberalization, 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.

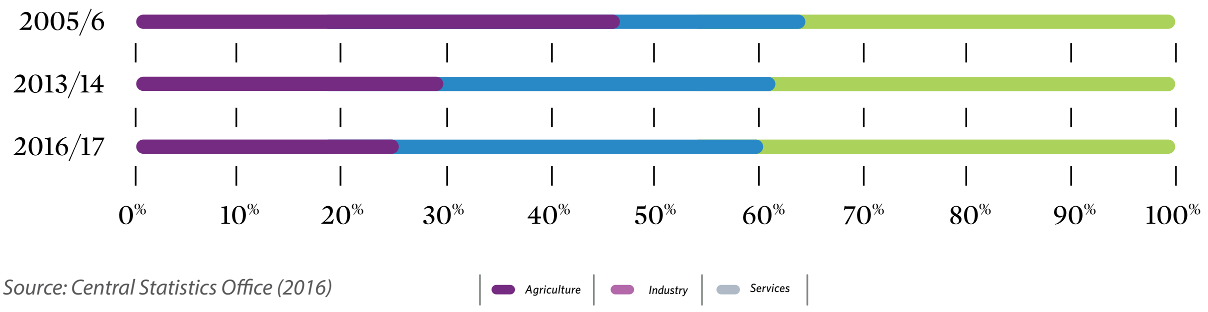
Economy partially opened up and moving towards market-driven development. Following the 2015 election and the establishment of the new government, international sanctions applied under the previous regime were lifted, and the economy was opened up further to international trade, investment and travel. There has also been a shift away from state control of the economy towards a greater role for market forces, with the growth of private enterprise in both the financial and non-financial sectors of the economy. The new government initially benefitted from a very high level of international goodwill; this has since been tempered by developments in Rakhine state and the Rohingya refugee crisis. Despite some economic liberalization, many restrictions remain, particularly on foreign investment, and foreign-owned financial institutions are highly constrained in terms of what they may do.

A rapidly transforming economy with agriculture becoming less dominant. The Myanmar economy has traditionally been dominated by the agricultural sector, which accounted for almost half of gross domestic product (GDP) in the mid-2000s. However, this has been falling steadily, and agriculture now accounts for 27% of GDP and a similar share of exports. Other sectors are emerging as contributors to GDP and exports, including 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).

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). The dominant position of agriculture in terms of livelihoods is likely to continue for many years.

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 around this level 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, making Myanmar a lower middle-income country. Annual inflation has been around 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 35% of GDP, which is relatively low, and debt sustainability is unlikely to be a concern unless spending and borrowing increase sharply.

Figure 1: Changing shares of GDP

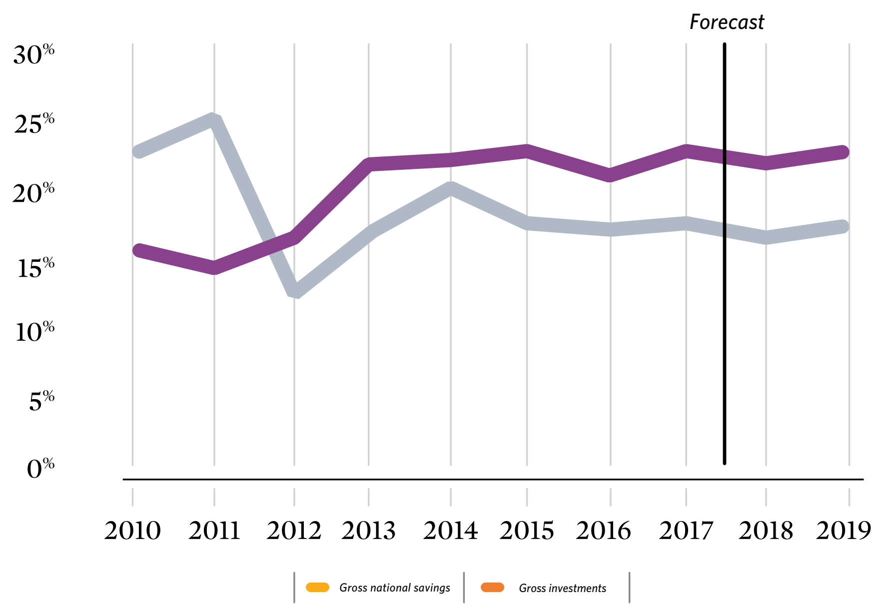


Source: Central Statistics Office (2016)

[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 that of Cambodia (23%), Thailand (25%), Malaysia (26%), Vietnam (27%) and Indonesia (34%).*

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 that would be 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 the rate of 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)



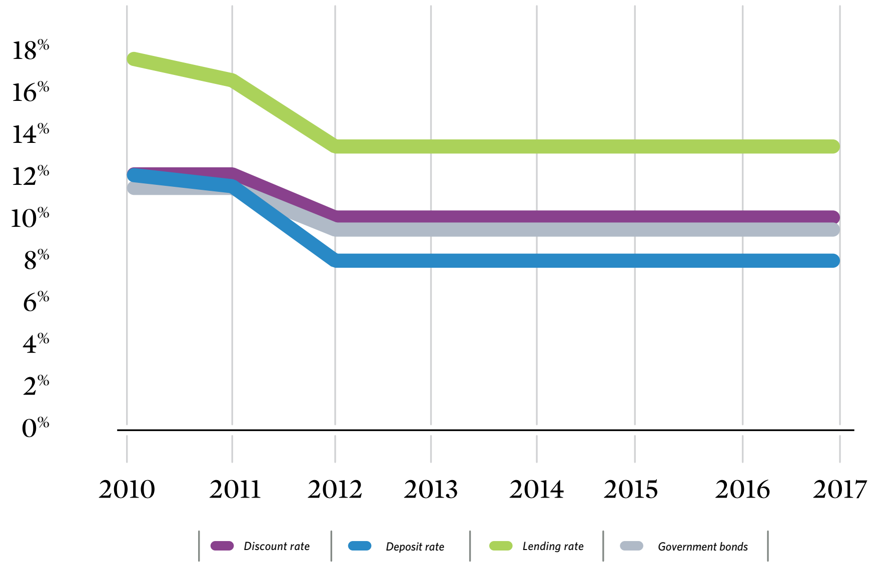
Source: IMF World Economic Outlook database (April 2018)

Bank credit a main and growing channel for savings to finance investment, but remains low. 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. But even at 20% of GDP, the ratio of private sector bank credit to GDP remains low by regional standards. While this indicates low usage of bank credit, it also 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. Given that interest rates in Myanmar are not market determined, they cannot reflect changing inflation or market conditions; rather, bank lending rates are capped at 3% over the CBM reference rate (discount rate), 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, and furthermore interest rates cannot reflect risk or the cost of penetrating new market segments. The deposit-lending spread (5%) is low by international standards. Regulated rates are higher for MFIs, but the same problems remain. Myanmar's interest rate regime was also raised as an issue in 2013, and the continued strict regulation of interest rates and reluctance to liberalize is representative of the slow pace of economic reform (see Figure 3).

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

Figure 3: Interest rates, as % (2010–2018)



Source: IMF International Financial Statistics database (2018)

Much of the economy still 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%, and Myanmar was ranked by Schneider et al. (2010: 20) as 82 out of 88 countries in terms of formalization of the economy. 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 Refresh 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, informal 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/preference to remain informal, and 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.

Domestic developments: Social, demographic and infrastructural

Population predominantly rural (around 65%) 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 cheaper and more efficient in more densely populated areas.

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 has been associated with an 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]

[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.

Young population and potential demographic dividend. Youth comprise a substantial share of the country's population: the average age is 27 years, and around 55% of the population is under the age of 30, according to the Population and Housing Census (Ministry of Immigration and Population, 2014). This can potentially be beneficial for growth and development, as dependency ratios fall and young people enter the labour force ("the demographic dividend") – provided that complementary policies are in place. However, Myanmar has the lowest life expectancy and the second-highest rate of infant and child mortality of the ASEAN countries (World Bank, 2017b); financial inclusion can potentially play a role in improving access to healthcare.

Limited infrastructure a major hurdle to economic growth. With only 37% of the population having access to electricity, and Myanmar being one of the most underdeveloped countries in Asia in terms of infrastructure (World Bank, 2017b), lack of infrastructure is a serious obstacle to economic growth (Verbiest & Naing, 2017: 204). The country also has the greatest power-sector investment needs of the countries of Southeast Asia (Vakulchuk et al., 2017: 9). However, infrastructure, social and economic development are unevenly distributed across the country. And Myanmar's ethnic states are underdeveloped, as evident in: lack of infrastructure (e.g. roads and electricity); high incidence of poverty; low education/literacy levels; high drug abuse among youth; land confiscation; severe environmental and social impacts of development projects; uneven distribution of revenues from natural resources; injustices with regard to political rights; high incidence of violations of basic human rights; and cultural discrimination and lack of minority protection (Kraas, Spohner & Myint, 2017).

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 (the most recent data available), representing 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 23% 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 where 80% of the world's population exposed to severe flooding is located (Brakenridge et al., 2017: 81). The monsoon brings heavy rains to mountainous and river delta areas from May–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 2006–2016 saw some improvements in women's social and economic inclusion. In recent years, the maternal mortality rate has been reduced and literacy has improved, as have 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 opening up for commercial actors should help advance financial inclusion. Given the nascent stage of the economy and the generally underdeveloped level of the country's infrastructure, however, this will take time. 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.

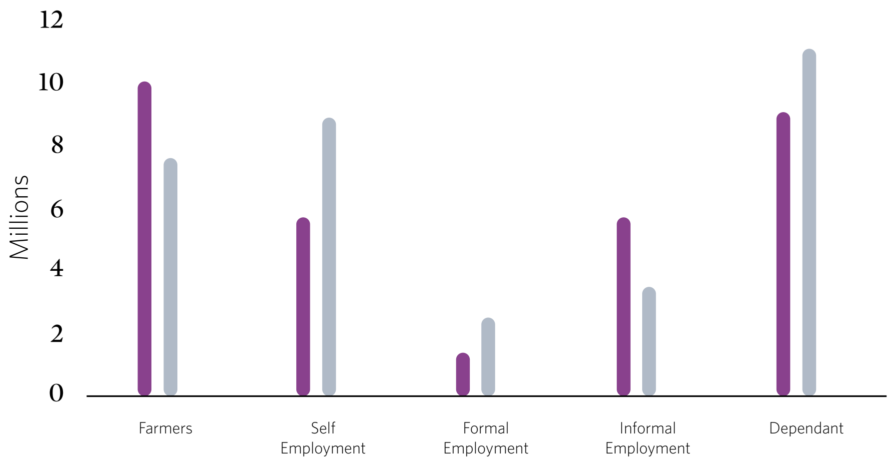
2.5 Domestic developments: Changes in the target markets

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 groups[8] are largely consistent with the liberalization of the economy, and macroeconomic growth

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

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



Source: FinScope Myanmar 2013, 2018

and trends observed in Myanmar. For instance, the formally employed segment almost doubled in size (although they still only comprise 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, the farmer segment decreased by almost a quarter, and the informal employees (occasional workers) segment decreased by almost 40%. These last two groups also became more male-dominated, and less educated – meaning that women and educated adults are leaving these less consistent sources of income and pursuing their own businesses or entering formal employment. These changes 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 the dependent target market segment 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 lie 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] As in 2013, in 2018 the top three segments in terms of income are the self-employed, formal employees, and farmers (see Table 1).

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

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

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 Refresh study. It is thus important to revisit the 2014 key findings 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 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.

Regulatory environment insufficiently enabling: MAP found that the regulatory environment did not enable the expansion of rural financial services and, furthermore, that 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 many MFIs 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 – that is, 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.

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)	• Group based, short term, highly collateralized credit • Limited set of insurance and savings products compared to international markets	• Full range of affordable, quality and effective financial services	• Much improved range of products, however gaps remain in variety, affordability, quality and effectiveness	In progress

	Vision Statement	*Baseline (2013)*	*2020 Target*	*Progress by 2018*	*Comment*
		• • 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.		• Responsible finance increasingly entering the provider and regulator discourse • Many providers have installed IT systems	
	Getting all stakeholders to work together in an integrated manner	• Stakeholders did not have (or had limited, functionally focused) forums to coordinate and cooperate	• Effective dialogue between the stakeholders	• Stakeholders have forums to engage with government and with each other to improve the offerings to consumers	On track
Sector	Institution building by utilizing and strengthening all categories of financial institutions (as no single type of organisation can provide access to everyone)	• Dominant role played by State Owned Banks; Limited role of commercial banks • MFIs & Cooperatives nascent, still small	• •All classes of financial service providers exist harmoniously & provide services to customers	• 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	• Cash based economy • Limited use of formal financial services	• All product classes are widely available and used by customers	• Significant growth in access of formal products (except insurance)	In progress
Segment	**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 incetivising 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

As a means of assessing the effectiveness of the Roadmap against its objectives, the MAP Myanmar Refresh 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.

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.

3.1 Changes in financial access since 2013

3.1.1 Financial access and depth

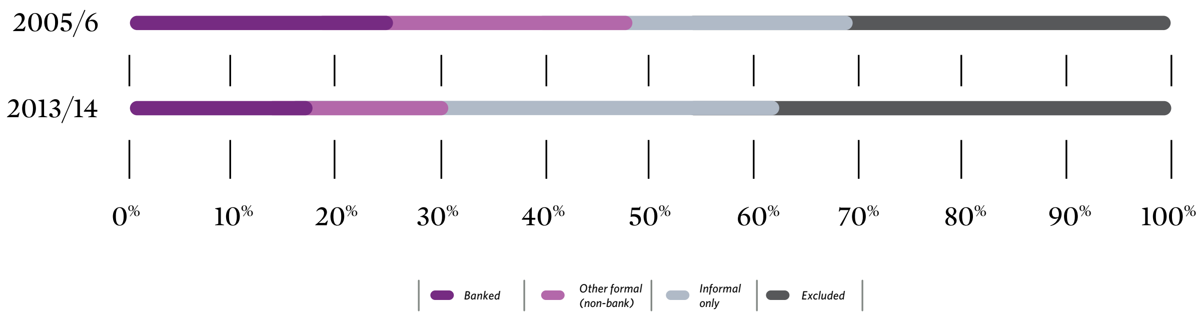
Overall access to financial services and depth of access significantly improved since 2013. Formal access (through banks and other regulated financial institutions such as MFIs and cooperatives) has increased from 30% to 48% of the adult population (see Figure 6). This is already ahead of the 40% target in the 2015 Roadmap (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).

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). Full details of the construction of the FinScope Access Strands are provided in Appendix 3.[10]

Figure 6: Financial access strand (2013 and 2018)

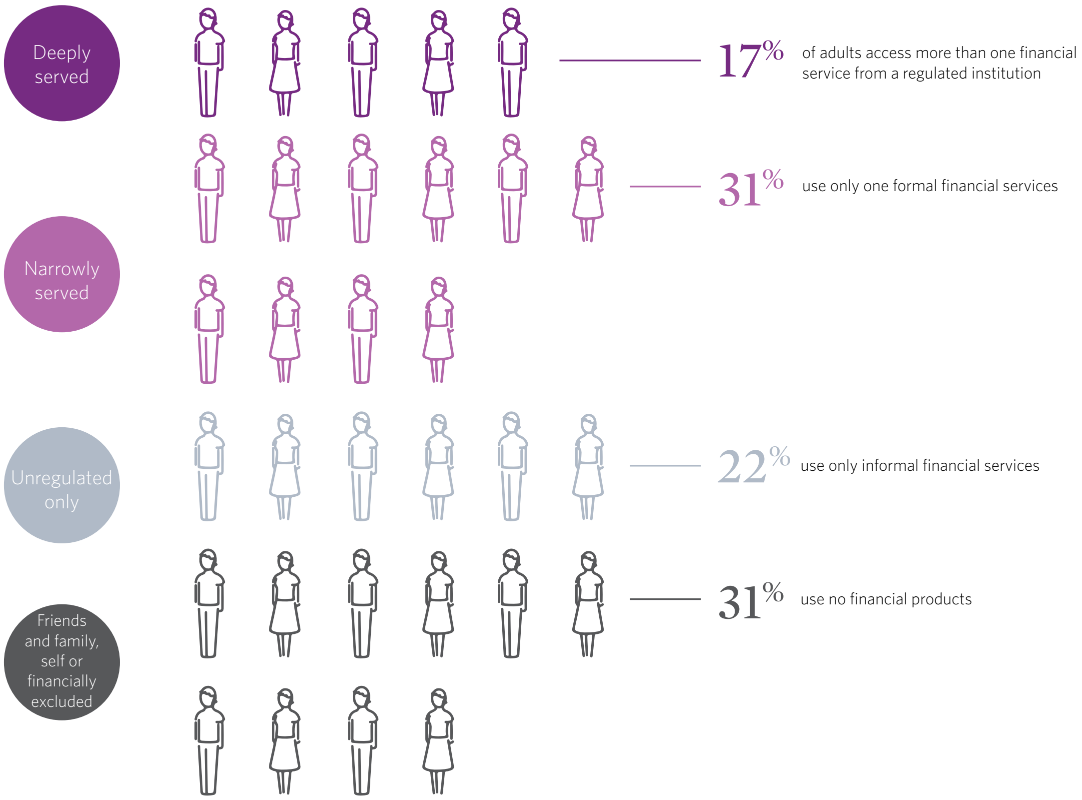


Source: FinScope Myanmar 2013, 2018

[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 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 (the NBFIs) 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 picked up again in discussion of the product level):

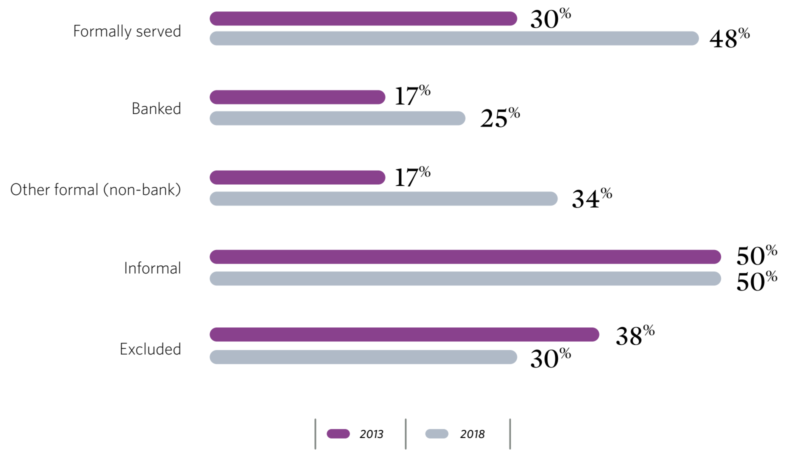
In 2013, 18% of adults were using both formal and informal financial services, and 32% were using informal services only.

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

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.

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

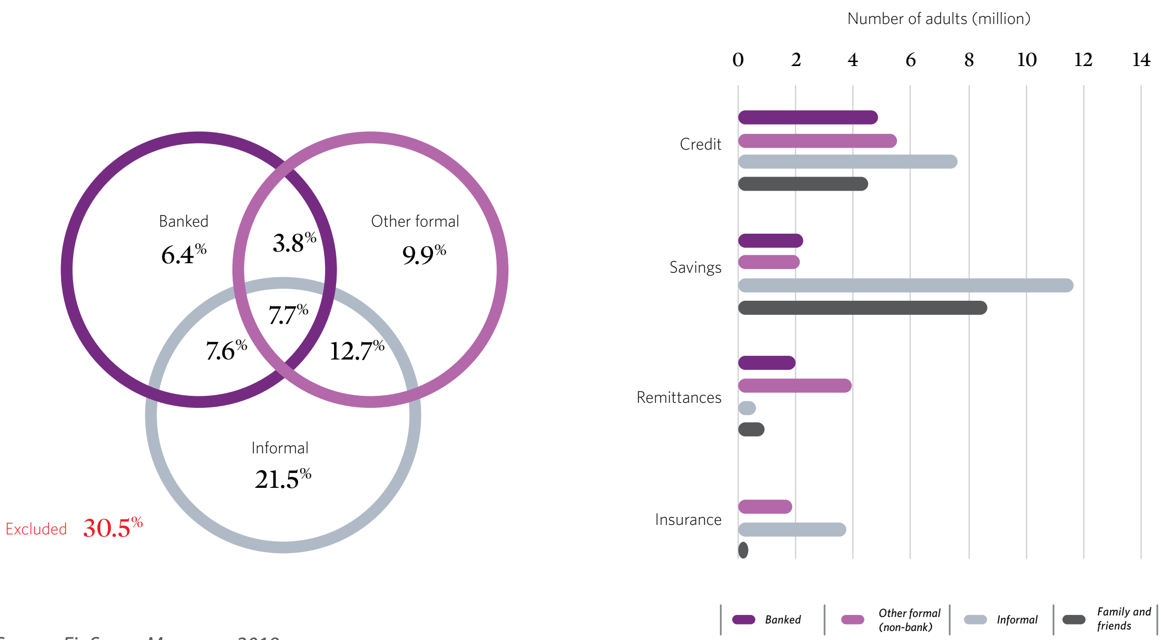
Figure 8: Drivers of financial inclusion



Source: FinScope Myanmar 2013, 2018

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. As the right-hand panel of Figure 9 shows, informal financial channels are also the most important means of savings, borrowing and insuring.

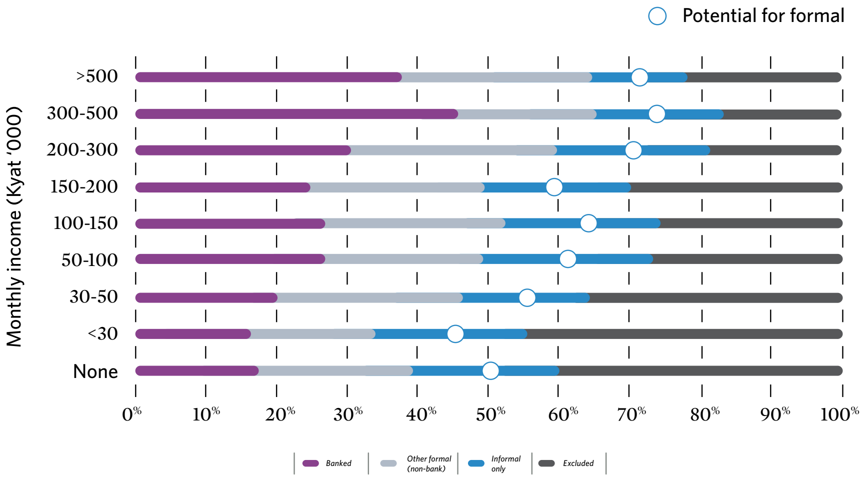
Figure 9: Formal and informal product usage overlaps, and by product category (without overlaps)



Source: FinScope Myanmar 2018

Financial access improves with income. Even at high income levels, however, use of formal financial products/ services is surprisingly low. Higher income earners, as expected, have better financial access (see Figure 10). Nevertheless, even at high income levels there are opportunities to improve financial access, as some high-income earners are financially excluded or use only informal financial services. Across almost all income groups, about 40%–60% of adults are excluded from formal financial access. This is surprising because it means that many higher-income, bankable clients are not actually being 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.

Figure 10: Access strand, by income group

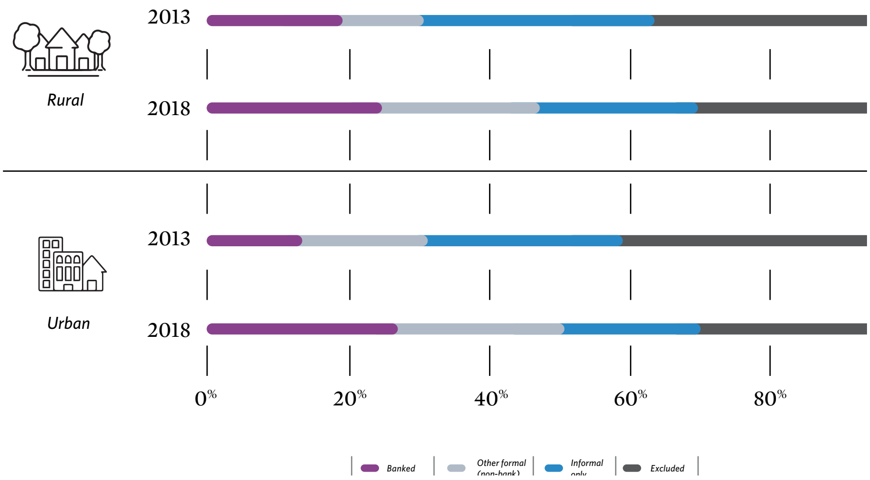


Note: *"None" includes no income declared, or income unknown.*
Source: FinScope Myanmar 2018

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

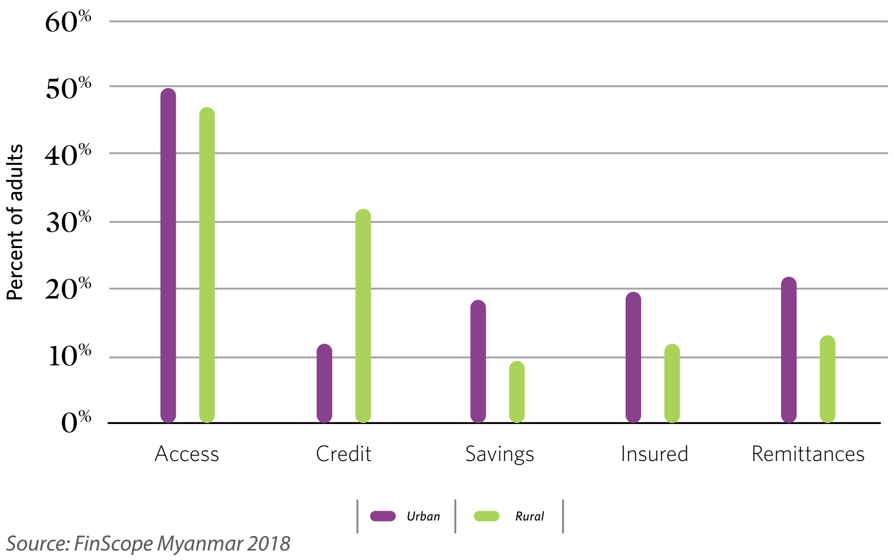


Source: FinScope Myanmar 2013, 2018

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)

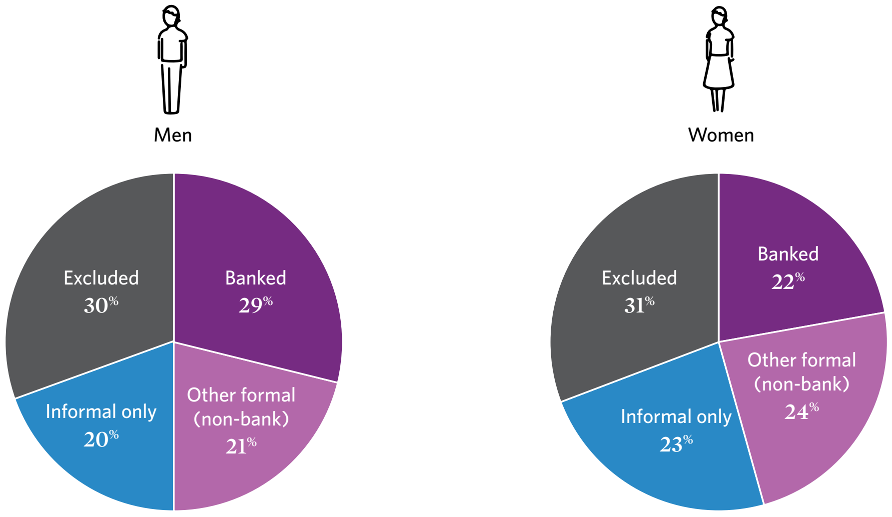


Source: FinScope Myanmar 2018

3.1.3 Usage by gender

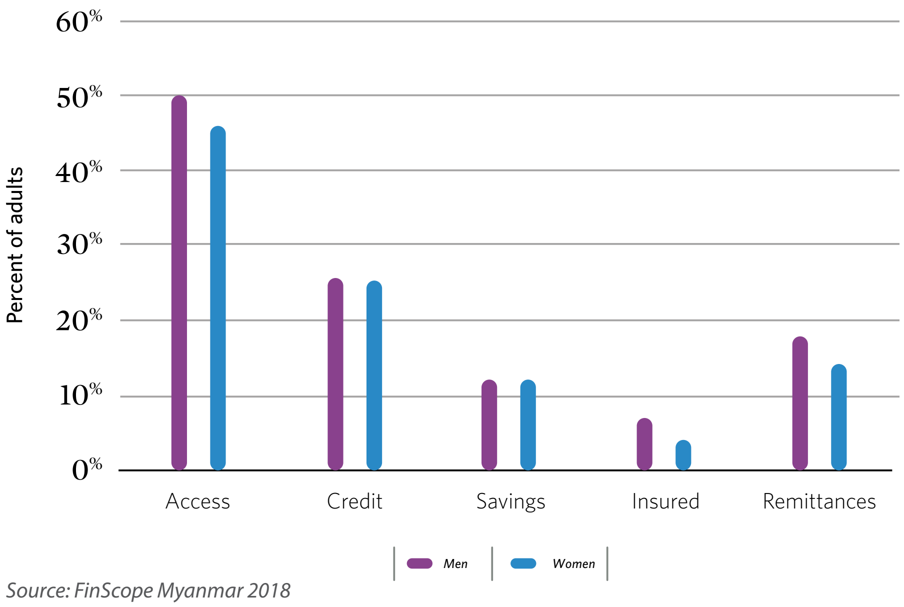
Women slightly less included, but inclusion growing faster than for men. Overall, men have a slightly higher rate of formal financial inclusion, while women are more reliant on informal channels (see Figure 13). There are also small differences, by gender, in the use of formal financial products (see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

Figure 13: Financial access strand, by gender



Source: FinScope Myanmar 2018

Figure 14: Usage of formal products, by gender



Source: FinScope Myanmar 2018

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.

3.2 Changes in financial product usage

A core hypothesis of MAP is that people use an array of servies 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:

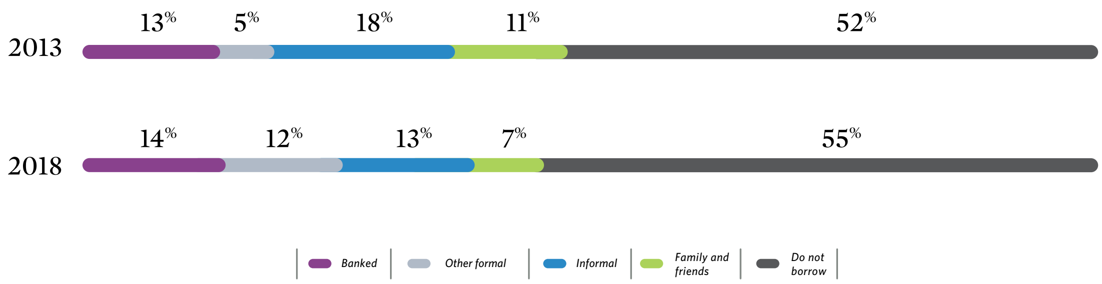
- ***Credit:*** overall credit usage decreased slightly over the period, but formal borrowing – particularly from other formal (non-bank) providers – increased significantly. While both MADB and informal sources of credit remain prominent, credit from moneylenders, while playing a dominant role, is on 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. Of the four financial products, credit is the second most widely used (45% of adults) 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). For credit, if respondents respond “yes” to currently borrowing, they 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, and such discrepancies may have an impact on the reported financial inclusion figures.

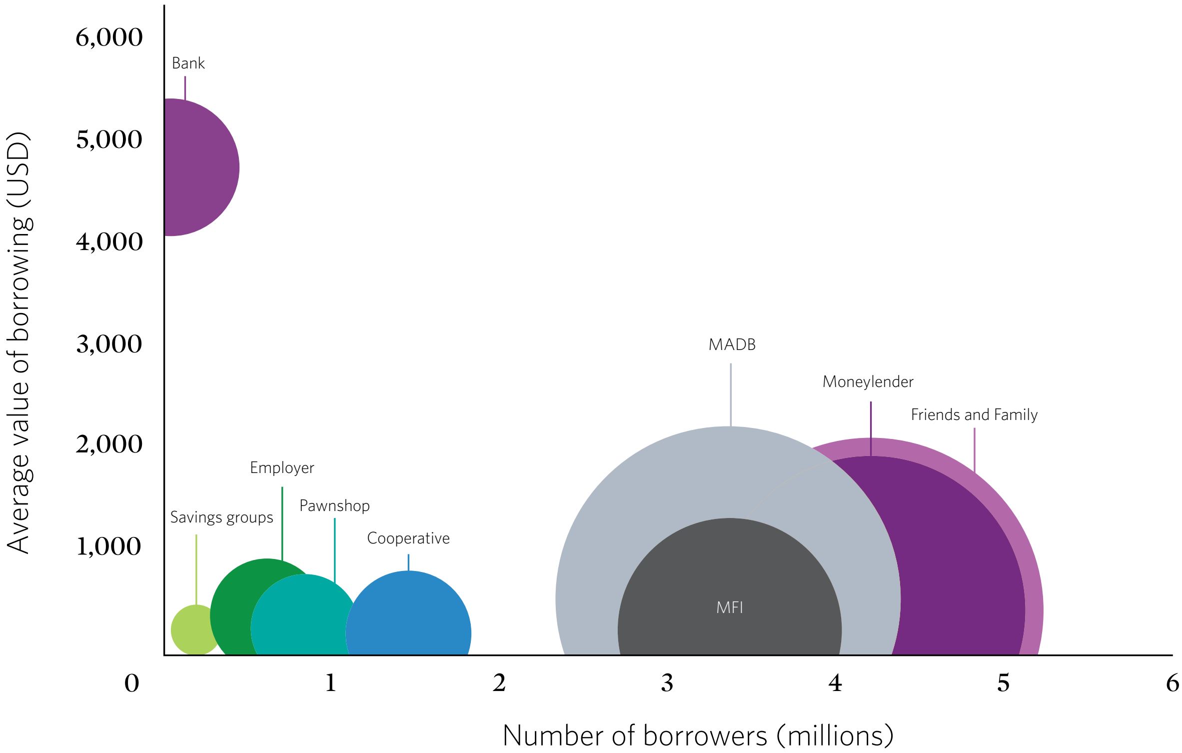
In both FinScope 2013 and 2018, some 4.2 million adults reported having credit from MADB. This figure is believed to include both current active borrowers and inactive borrowers. Contrary to best banking practice, however, MADB (an SOB operating outside of CBM oversight) does not write off loans that are in default. Borrowers in default are of the perception that they still have a debt owing to MADB, and therefore in FinScope 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 on usage of credit would be to reduce "banked" credit from 14% to 8% of adults, but with less of an impact on overall usage 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. Credit to households from private commercial banks is limited. However, 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

Figure 16: Major sources of borrowing



Source: FinScope Myanmar 2018

[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.

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 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 Refresh 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.

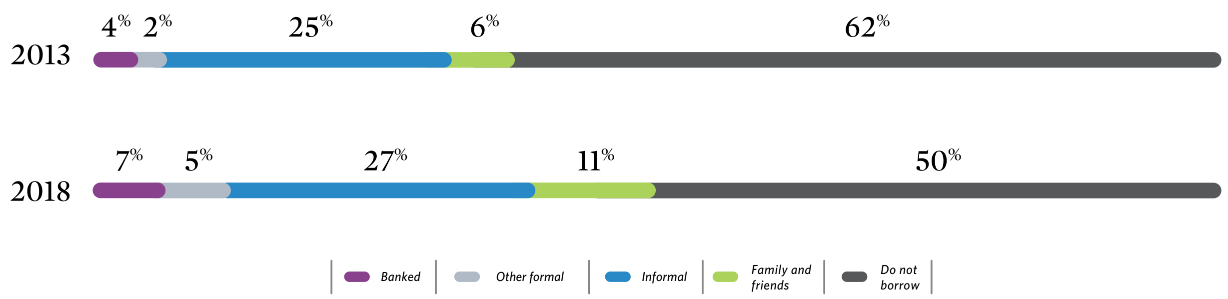
Indebtedness difficult to measure directly, but can be approximated. With information from the FinScope Survey on the value of individuals' debt and their income, an estimate can be made of the level of debt service payments (repayments of capital plus interest) relative to income (the debt service ratio). 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 7%. However, 34% of borrowers from moneylenders had missed a repayment.

Indebtedness appears to have fallen. In 2013, the average monthly debt repayments of indebted adults amounted to 55% of their 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). 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, while 15% had a ratio of 50% or more. This suggests that while there may not be a generalized problem of over-indebtedness, there remain pockets of borrowers that may be experiencing high levels of debt stress.

3.2.2 Savings

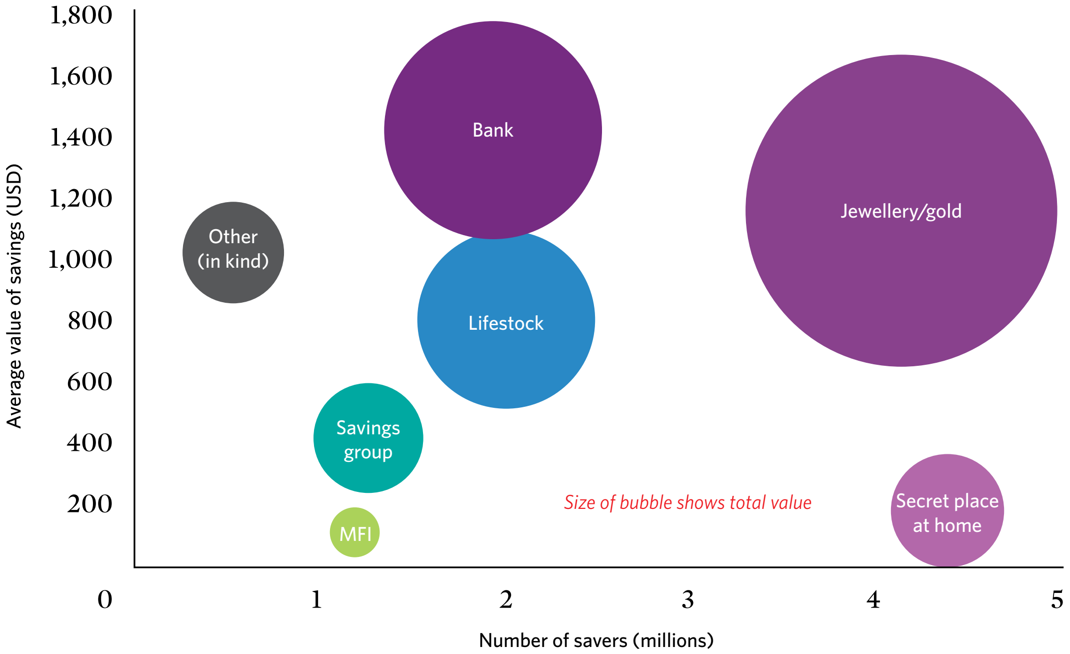
High access to savings products. In 2018, 50% of adults were found to undertake some kind of saving, whether formal or informal (see Figure 17). This had increased from 38% in 2013. In 2018, around 12% of adults had a savings account with a bank or a formal NBFI – up from 6% in 2013. However, the most common type of savings products were 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 201, 2018

Figure 18: Major forms of savings

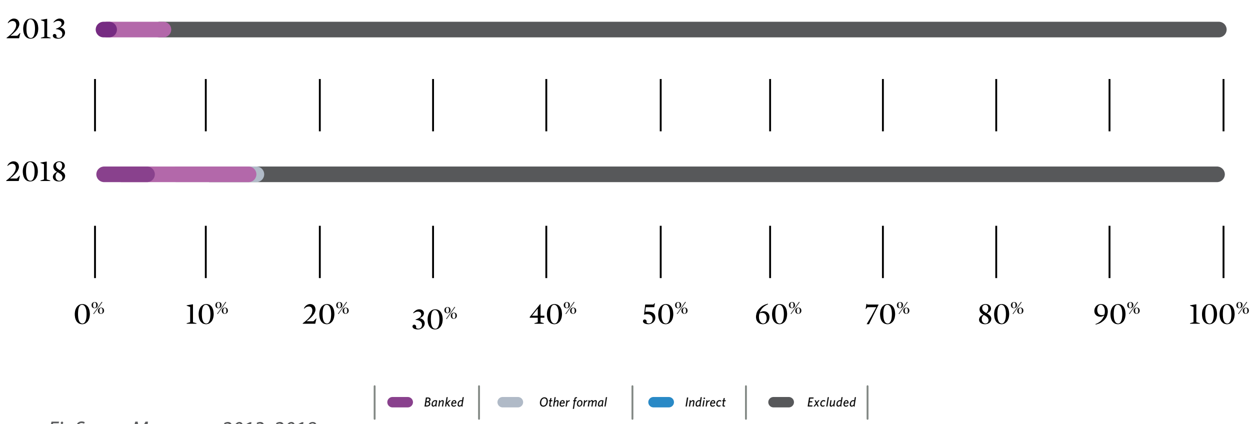


Source: FinScope Myanmar 2018

3.2.3 Insurance

Insurance usage 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 showed a substantial increase over the period. The most common types of insurance reported by users are funeral, motor, life and pension. The figures may not fully include formal employees who benefit from social security insurance coverage through their employment.

Figure 19: Insurance access strand

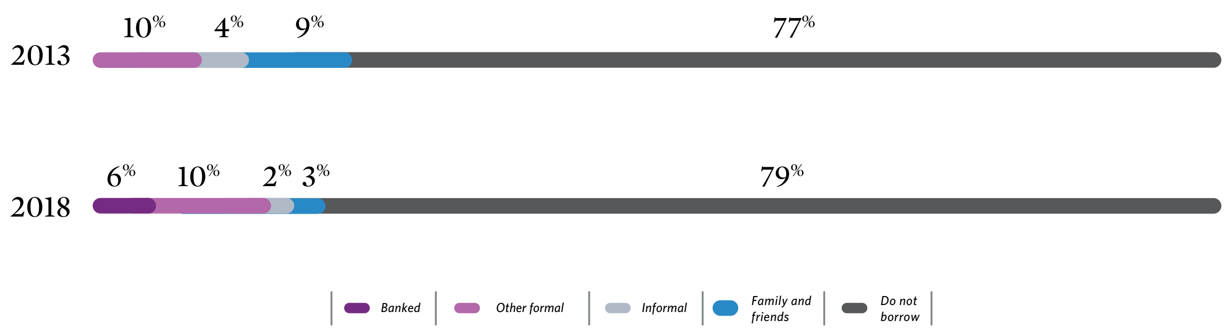


Source: FinScope Myanmar 2013, 2018

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 being 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, increased usage of mobile phones has been one of the dramatic changes occurring during the past five years (2013–2018). Ownership of mobile phones – basic and smart phones alike – increased from 23% 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. And the percentage of the adult population aware of mobile money is much larger, than those actually using it; the population's level of awareness of mobile money providers is 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 appreciated for convenience. Of those using mobile money, 72% claim it is convenient and saves time. The low usage of mobile money is driven by the fact that the country is still a cash-based economy. Mobile money is a relatively new financial product/channel, about which there is a lack of consumer awareness and financial literacy; 44% of the adults that do not use mobile money feel they do not need it.

Transactions performed on mobile money 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 small but showing some success in extending formal financial access. 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 choice, so that they have the option of formal financial products but can choose to continue using informal products if these provide them with better value or are more suited to their needs.
- Extending the use of commercial bank products beyond remittances and to a wider range of people, especially as access to banking is still dominated by MADB and usage of commercial (private) bank products is still low.
- Finally, converting awareness of mobile money products into usage.

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, there are further gains 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:

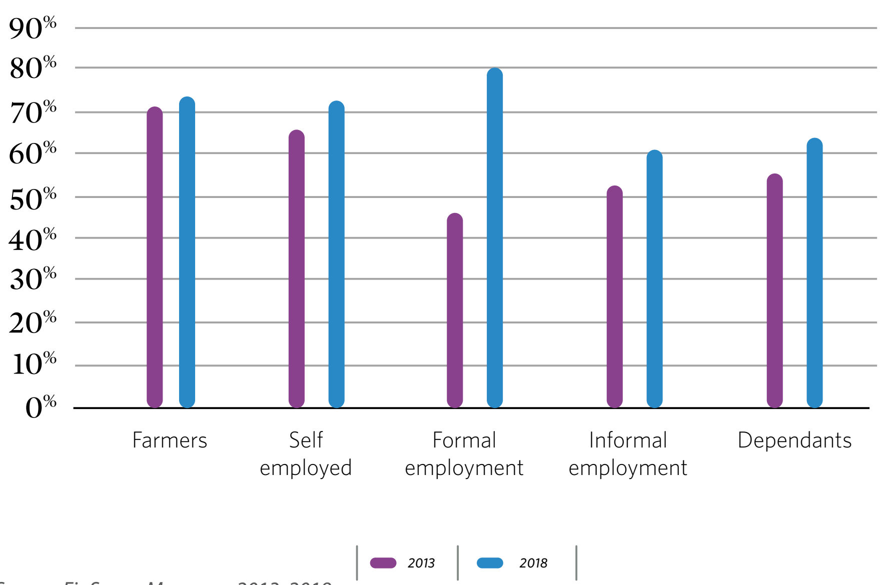
- In 2013, this target market segment had the lowest level of financial inclusion (46%) of all the target groups.
- The improvement in this group's financial access has been driven by their access to banking, which has risen from 20%–45%, with many formal employees receiving their salaries by payment 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 has (see Figure 21).

4.1 Linking needs and usage to livelihoods

Financial products/services are ultimately a means to an end; people use the roducts/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 4 for more information). This sub-section provides a brief overview of the main needs driving 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 shows the prominence of the various needs in Myanmar. The X-axis represents the discrete needs identified and the Y-axis represents the percentage of Myanmar adults that reveal (through actual usage) that they need a particular 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 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 (most non-cash), and sending remittances (more than half non-cash); here, "non-cash" means received/sent over distance by other means, most likely electronically.

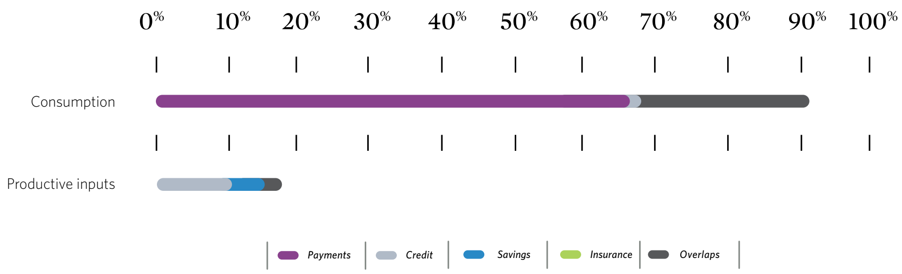
Largest financial need is for regular consumption expenditure, such as food and transport (which falls into the "liquidity management" category of needs). This is to be expected. But perhaps of more significance are the next most important financial needs: paying for "life events" such as marriage or ceremonies (which falls into the "meeting goals" category of needs); and dealing with health expenses (which falls 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) – is also noteworthy. Everything else is a need for 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. Less than 20% of people use financial tools to manage productive cash flows; besides health, there is very little use of financial tools 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%).

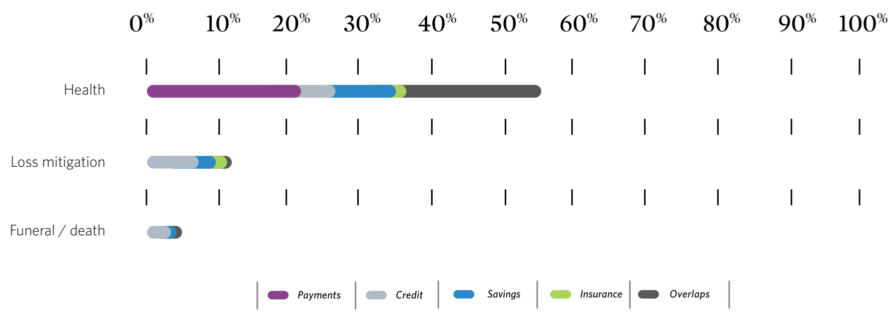
Needs vary across target groups. Across the different target markets, as expected the demonstrated actual usage (as a proxy for needs) of financial products/services to meet different needs varies. Table 3 compares actual usage (i.e. needs) across the five target market segments. The table uses a "traffic-light" 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.

Figure 22: Main demonstrated financial product/service needs

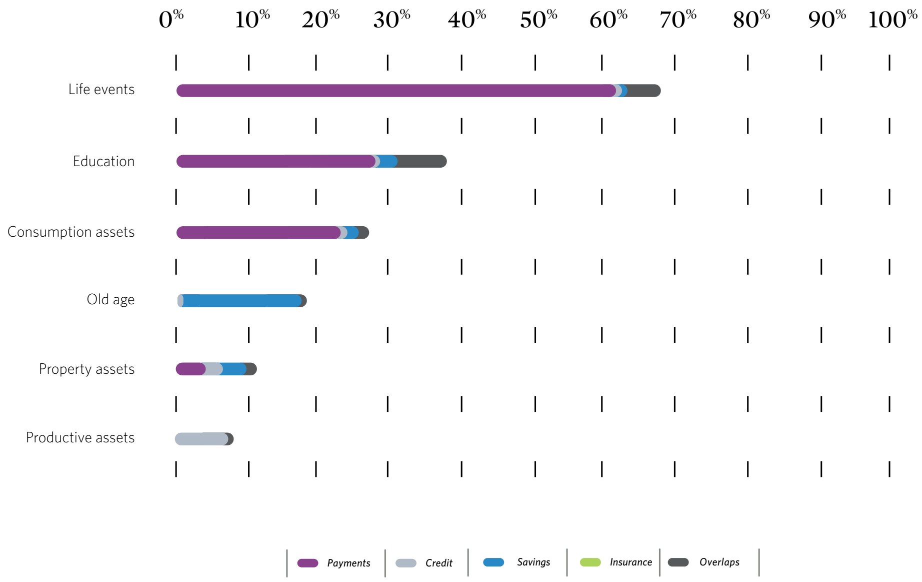
LIQUIDITY



RESILIENCE



MEETING GOALS



Source: FinScope Myanmar 2018

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 behaviour 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 therefore unpacks how these two target groups (farmers and MSMEs) have changed, since the first MAP Diagnostic, in terms of demographics, financial products/services usage and needs. Key issues and challenges are also highlighted for each.

4.2 Self-employed group is fast growing

Fast-growing group with high average incomes. The self-employed target group comprises those that run their own businesses, either with or without employees, including both formal and informal. This target market group was one of the fastest growing from 2013–2018, increasing in size by

54%. It is now larger than the farmers group. Average (mean) incomes are the highest of all of the target groups; people are presumably attracted to self-employment by the prospect of higher incomes, which explains the rapid growth in the size of this group.

Growth driven by young adults but has been 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.

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.

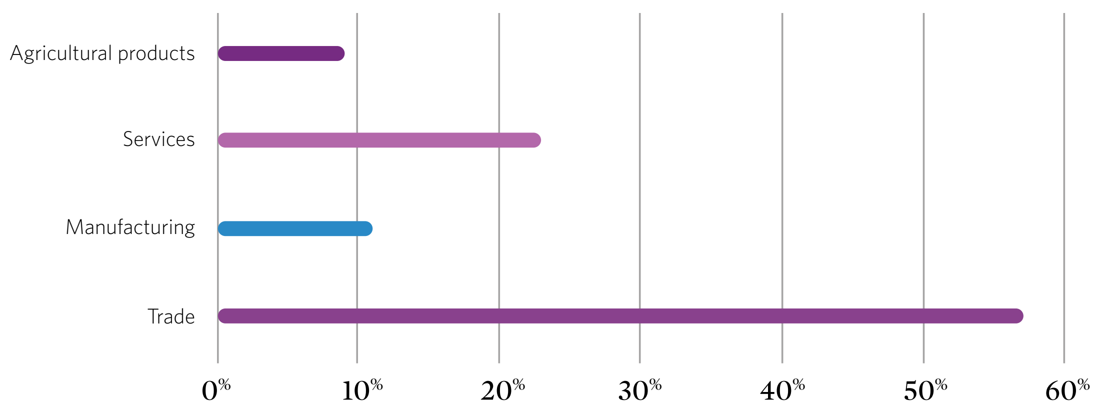
4.2.1 Self-employed group: Financial access

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 this is less marked for savings (FinScope 2018):

- ***Credit:*** of the self-employed adults that are financially included, 24% access credit from formal providers (compared to 18% accessing credit from informal providers only).

Figure 23: Classification of self-employed businesses



Source: FinScope Myanmar 2018

- ***Savings:*** when it comes to savings, the pattern is different, with a preference for informal services/ channels: of the 62% of the self-employed adults that save, 47% save with informal providers only or at home.
- ***Insurance:*** the self-employed group has one of the highest uptake rates for insurance, at 19% of self-employed adults; however, the insurance cover in question is more credit life or religious/societal (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, 18% use formal providers. This finding, however, is contrary to the finding of the MAP qualitative survey, where the majority of respondents stated they preferred to use informal channels for remittances.

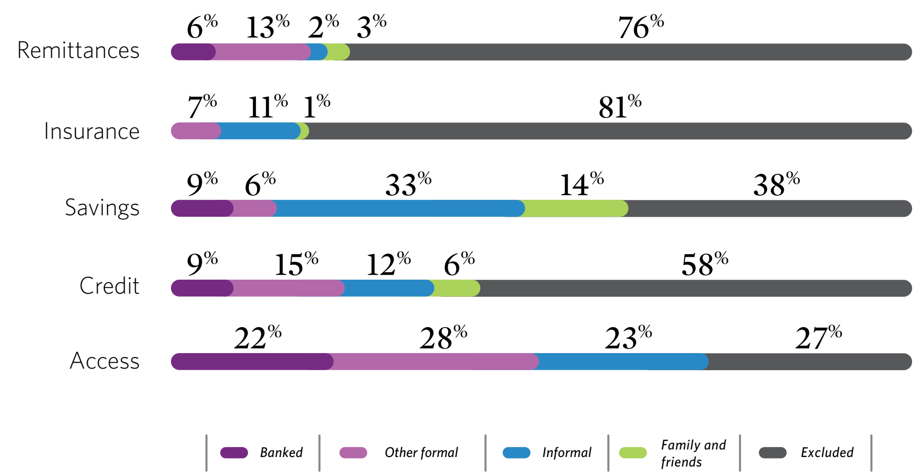
Depth of access greater than for most other target segments. Of the self-employed, 50% use either one formal financial product/service, or informal products/services only, while 22% use two or more formal financial products/services (primarily credit and savings) – i.e. are deeply served. This compares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

Relative to other target markets, 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 informal providers only. Bank credit for MSMEs is limited due to 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 (two-step loans, credit guarantee insurance) for the promotion of MSMEs require them to be registered – and the majority of them are only licensed or not registered. Most of the self-employed take credit from non-banks (MFIs) through groups, as this does not require formal business registration. Of the 24% of self-employed adults accessing formal credit, 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 transacting – for sales of goods and services and purchase of inputs – there may be benefits to further encouraging the use of electronic methods (DFS).

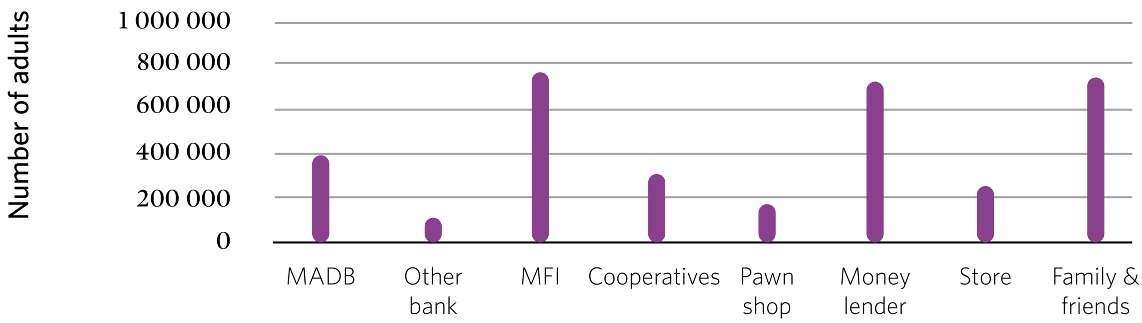
Usage of credit from multiple providers. Figure 25 shows the range of providers for credit available and used by self-employed adults to meet their credit needs. It is common to combine both formal credit (banks/non-banks) and informal; 44% of borrowers with access to credit mention using multiple sources. 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.

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



Source: FinScope Myanmar 2018

Figure 25: Sources of credit: self-employed



Source: FinScope Myanmar 2018

Main source of bank credit is MADB. Despite the fact that the self-employed do not make their main income from farming, a large number borrow from MADB. This suggests that loans ostensibly granted for farming are instead used for 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 had helped in improving 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 vs 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.

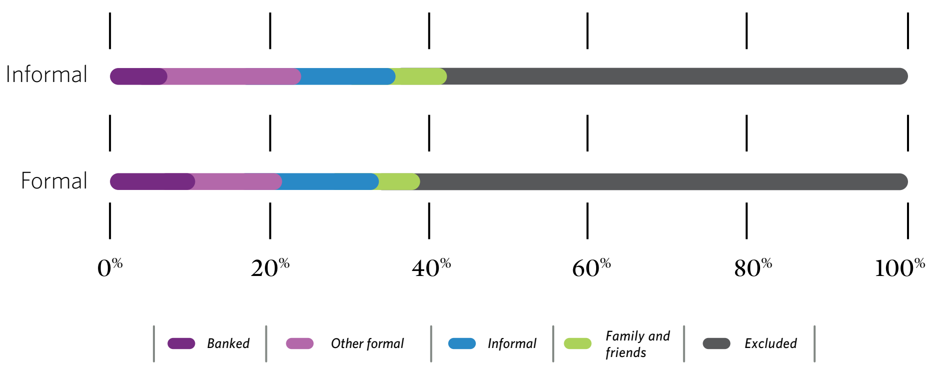
4.2.2 Self-employed group: Use cases and livelihoods coping strategy

The methodology for the livelihoods approach is explained in Appendix 4.

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 might be constrained in the development of their business activities. Credit is mainly used for consumption expenses, healthcare expenses and education. Compared to the farmers target group, in the self-employed group there is greater use of savings in anticipation of old age (see Figure 27).

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 (indicating that

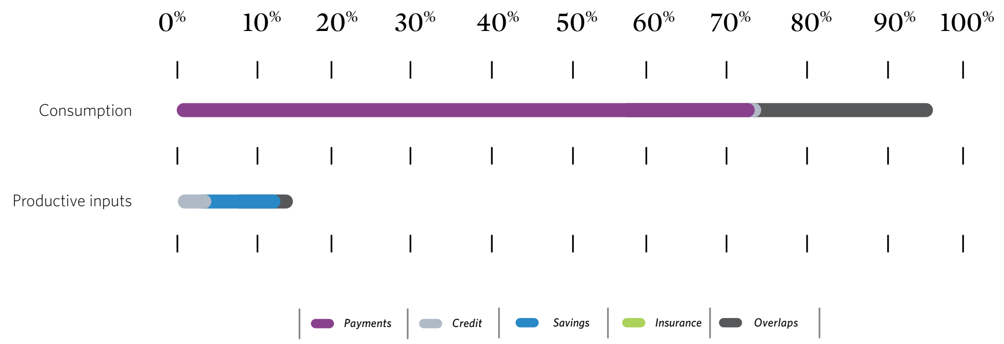
Figure 26: Credit access strand – formally self-employed vs informally self-employed



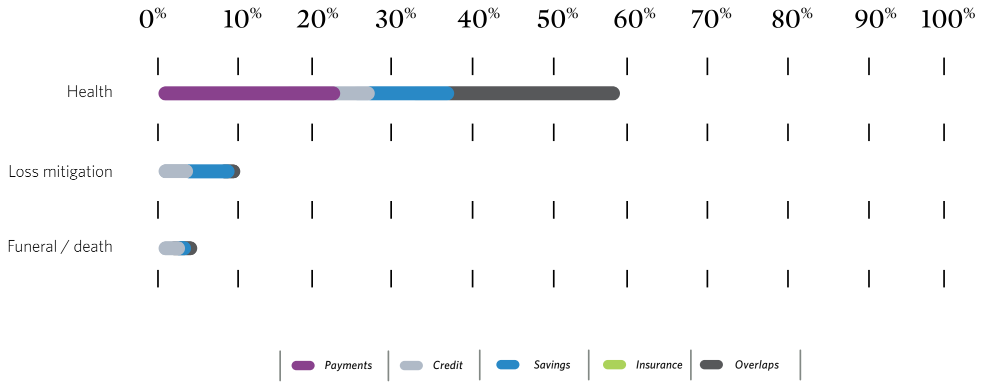
Source: FinScope Myanmar 2018

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

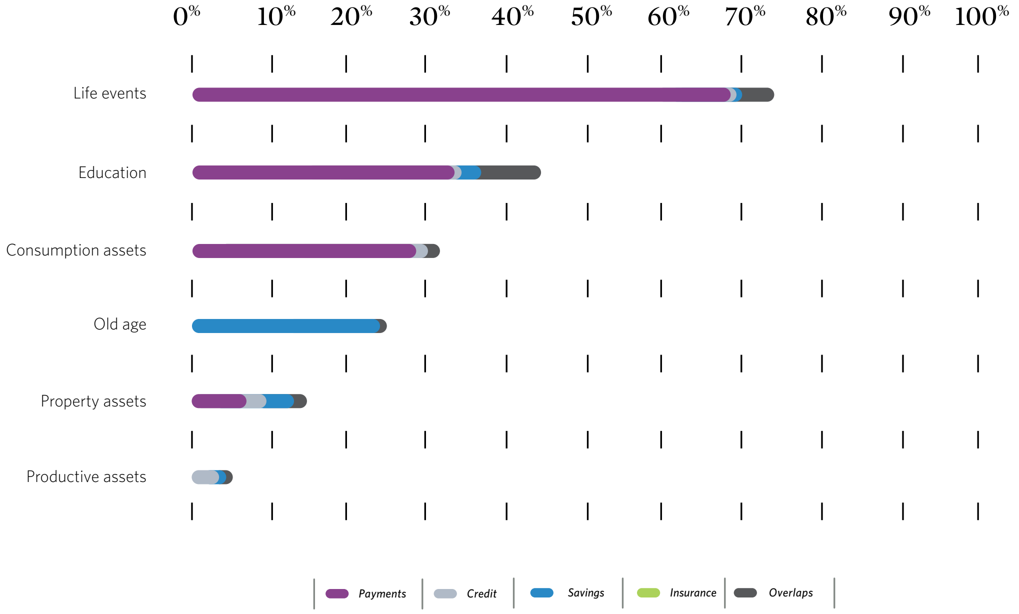
LIQUIDITY



RESILIENCE



MEETING GOALS



Source: FinScope Myanmar 2018

the self-employed are still engaged in agriculture, although not as their primary income source) and the death of a family member.

Different strategies are employed to deal with 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). Where credit is used for health and education, the most common sources are moneylenders, pawnshops, and family and friends. Around 22% of the self-employed receive remittances, which are commonly used for medical expenses and investment in business.

Sources of funds used to meet business needs 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; most commonly, the self-employed use credit from MFIs, moneylenders, and retailers ("store advance"). Investing in a business is mainly financed by borrowed funds, although savings are also widely used. A high proportion of remittance receivers use the funds received for investing in businesses (see Figure 28).

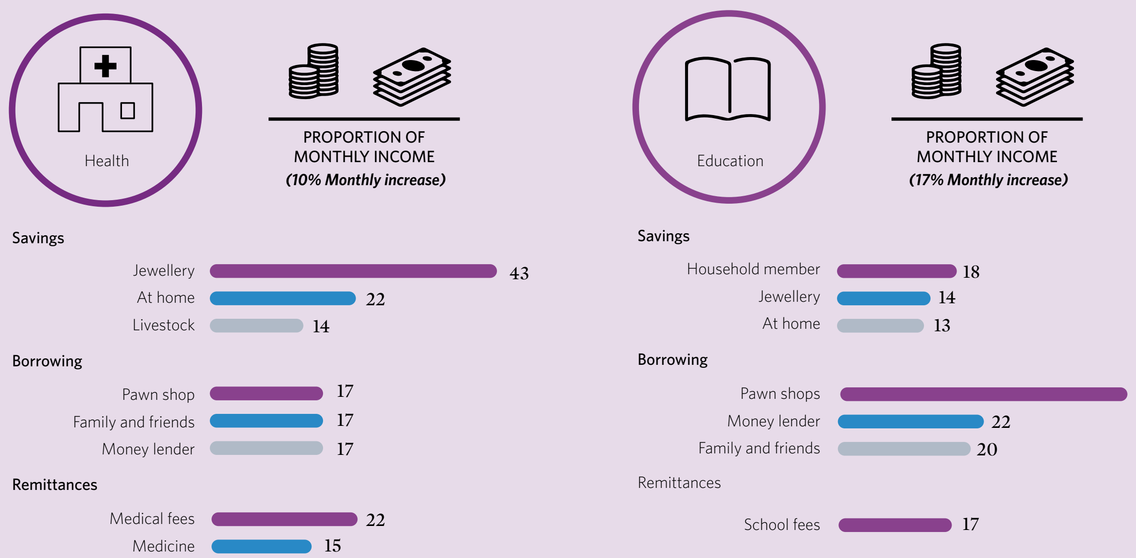
4.2.3 Self-employed group: Key financial inclusion issues and challenges

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

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

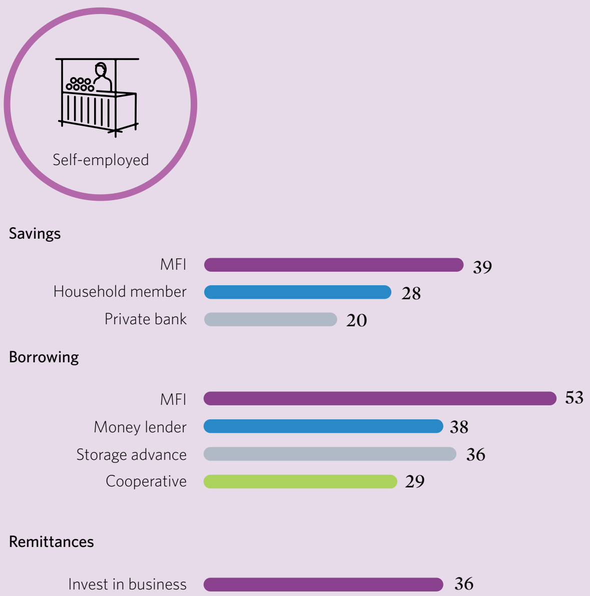


Source: FinScope Myanmar 2018

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; without low-cost, interoperable payment solutions, the potential of mobile money to evolve into a ubiquitous payment instrument in 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: saving is more common among members of the self-employed target market group than in other groups, and this supports resilience. However, the saving is mainly through informal products/services/channels, so more access to formal savings options may be helpful, especially options with an educational focus.



Insurance: the high profile of 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 Farmers group shrinking 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, and is even more male-dominated 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). Formalization of land ownership is still hindered by administrative hurdles in obtaining land title certificates, which limits access to MADB credit.[15]

Nevertheless, some improvements for farmers are apparent. Despite the decline of the group as a whole, some positive developments have taken place. There has been some diversification of crops grown, with less dependence on rice paddy. Real incomes have increased faster than the average. The composition of the farmers target market has become slightly younger, with 57% aged under 45 years. Mobile phone usage is high (74% usage and 54% smart phone ownership), but lower than in 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 and had higher average income. They also fared better in terms of usage and ownership of mobile phones. Small differences in gender by land size were also found, with slightly more women in the small-farmer group (<4 acres) than in the middle-farmer (4–10 acres) or large-farmer groups (>10 acres). However, little difference was found between these farmer sub-groups in terms of either education levels or access to infrastructure.

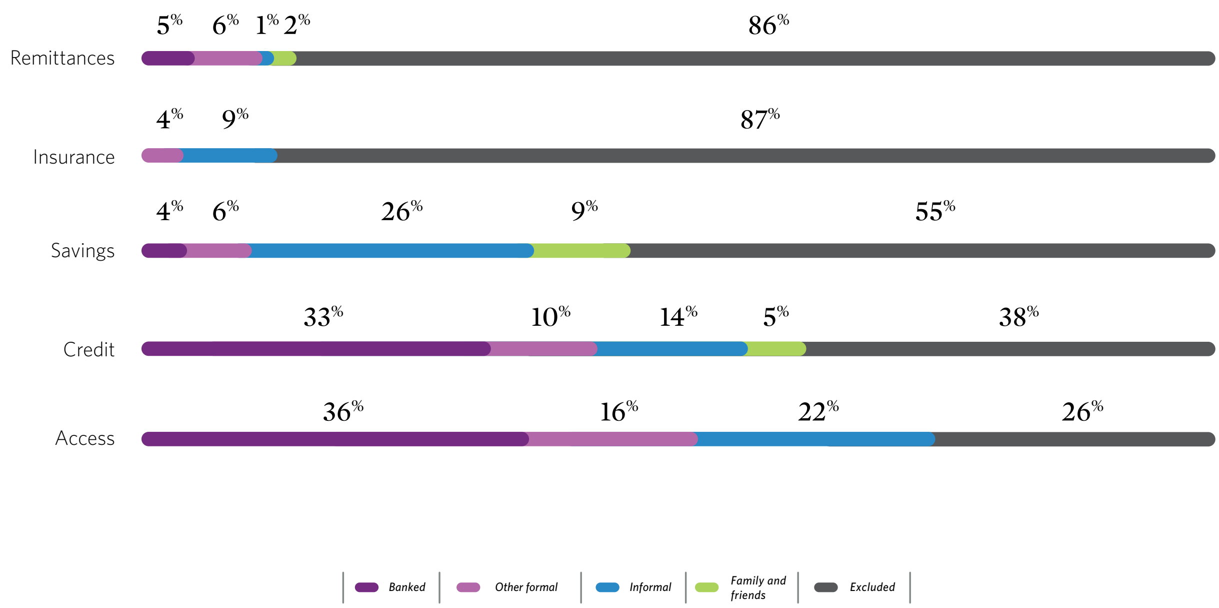
[15] Access to MADB credit is limited for the balance of farmers without a land title deed or those farming on leasehold lands (MAP qualitative interviews, 2018).

4.3.1 Farmers: Financial access

Farmers remain among the most included in terms of formal financial services. Figure 29 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 excluded decreased from 41% to only 26%. As with the other low-income target markets, family and friends still play a notable role, particularly for savings, credit and remittances.

The key products/services for farmers remain credit and savings, with credit still largely driven by 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 make more use of informal channels or family and friends (35%) than of formal. Use of remittances is low, as is insurance penetration; 3.8% of farmers have insurance from formal providers, with 9% using informal insurance.

Figure 29: Access strands – farmers, by product



Source: FinScope Myanmar 2018

Farmers' access to finance not increasing along with other target groups'. The increase in farmer's financial access between 2013 and 2018 was the smallest of any target group. This may reflect that, in 2013, farmers had the highest level of access of any group, which would have limited the scope for further improvement. 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, the fact of only a small increase in farmers' financial access over the five-year period poses the risk of farmers eventually falling behind other groups in terms of financial access. 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.

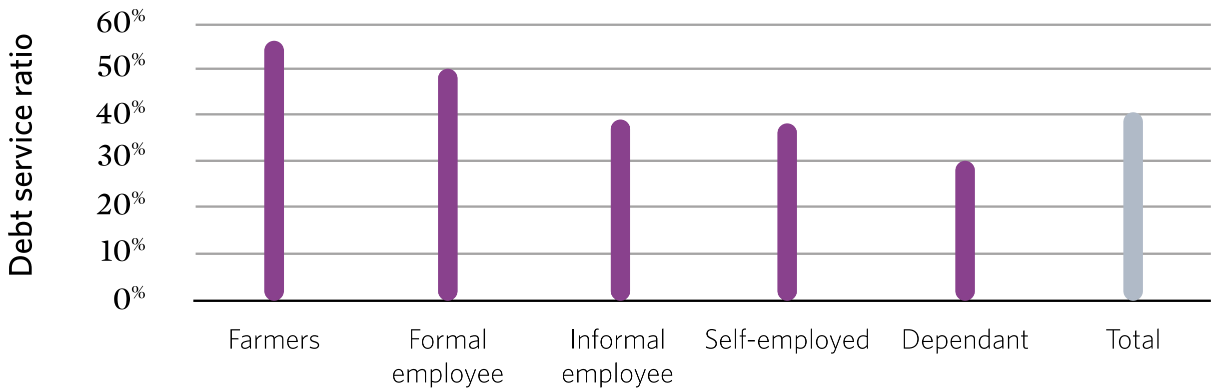
MADB limitations – and sources of farmers' credit diversifying. MADB remains the major formal provider of credit for farmers. Shortly after the 2014 Diagnostic, MADB increased their loan amount to MMK 150,000 (USD 113) per acre of land, although some farmers still do not think this is enough – some report the cost of farming per acre to be as high as MMK 400,000 (USD 300). Though MADB has started providing loans to non-paddy farmers, 90% of the loans provided by MADB are still for paddy. The loan from MADB is seasonal, for a period of eight months, and is 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, there

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

had been a dramatic increase in the use of loans from MFIs and cooperatives. For credit, farmers are, therefore, using more formal sources, and a greater mix of formal 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. Though multiple usage of loans from different providers is common, there is mixed evidence of over-indebtedness. For instance, there are low levels of missed repayments. Only 13.5% of the farmer borrowers say they have missed a bank repayment (the lowest of all the target groups), and 28.5% say they have missed a repayment to moneylenders in 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, while discussions with credit providers highlighted borrowing from multiple sources as a cash management strategy due to the mismatch between the needs and the products available. An assessment of the level of debt service obligation across target groups shows that farmers have the highest debt service ratio of all of the target groups (see Figure 30). However, this ratio had decreased for farmers (along with for all other target groups), largely as a result of rising incomes. Farmers also report fairly positive credit experiences. For instance, only 6% of the farmer borrowers reported their lives had worsened as a result of borrowing, 94% said repayments were affordable and manageable, and only 3.5% thought the interest rate high or unaffordable.

Figure 30: Debt service ratios, by target group



Source: FinScope Myanmar 2018

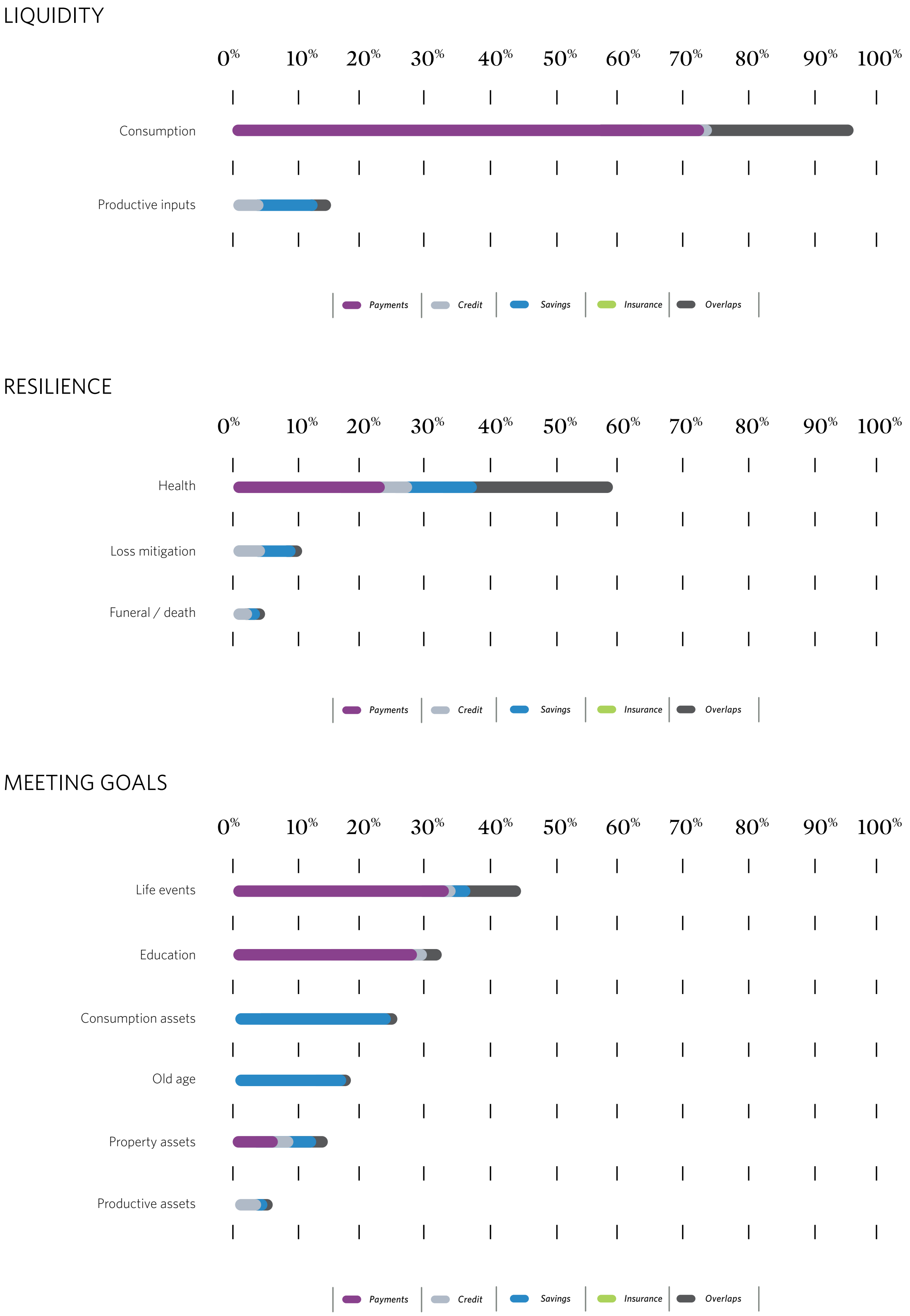
4.3.2 Farmers: Use cases and livelihoods coping strategies

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 needs of farmers versus their demonstrated use of income and financial services to meet these needs. Some clear gaps arise, suggesting opportunities to develop products better suited to farmers' needs.

Over-reliance on cash and liquidity management. Farmers are highly cash-based, and use credit and savings to a limited extent to supplement cash in meeting certain needs. Their biggest demonstrated use of income and financial services is to meet liquidity needs, primarily consumption expenses (clothing, leisure and food), but also productive expenses (see Figure 31). 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 though credit.

In terms of main financial needs, liquidity management is followed by meeting goals, of which the biggest is expenditure on life events (e.g. ceremonies), but also including education, buying durable household and transport goods (e.g. bicycles), buying productive assets and saving for old age. There is a high reliance on cash to meet longer-term goals, which means that farmers are not able to leverage the benefits of financial services to allocate value over time (either through

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



Source: FinScope Myanmar 2018

credit or savings). 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 (e.g. when necessary, this could constitute an average of 30% of farmers' monthly income). 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 mostly used for liquidity management and resilience. Among farmers, credit is used mainly for buying productive inputs and meeting consumption expenses, managing the risk of losses, and buying productive assets. Credit usage for farmers is therefore in the first instance a liquidity management tool, and secondly a resilience tool. Although it is encouraging to see that some credit is going towards productive asset-building (i.e. meeting goals), overall a very small proportion of longer-term goals are met through the use of credit, while most of these needs are met through using cash.

Most common shock for farmers is harvest failure (crop losses), but this only partially addressed through financial service usage. In contrast to the use of cash and financial services to meet shocks, data on actual shocks experienced shows that more farmers consider crop loss has a bigger financial impact than health shocks (43% vs 31% of respondents). This indicates a gap in terms of the financial services available to farmers to mitigate the risk of crop loss; they are more likely to do nothing in the event of harvest failure (25%) than when faced with a health shock (5%).

Dealing with health shocks 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 for healthcare; for instance, paying such expenses out of pocket (cash), or on credit could have a more significant negative impact on household well-being than using health insurance, if appropriate products were available.

Various financial strategies employed for dealing with emergencies. Emergency-coping strategies include borrowing, drawing on savings, and support from other family members via remittances. Where credit is used, the most common sources are moneylenders and pawnshops (which is expensive), or family and friends. For education expenses, credit is mainly from pawnshops, and family and friends, although borrowing for education is less common than for meeting health expenses. Although not many farmers receive remittances, they are commonly used for healthcare expenses. The use of specific types of financial services to deal with health, education and buying productive inputs is illustrated in Figure 32.

The sources of funds used for meeting farming needs are quite different from those used for education and healthcare. Most commonly, farmers use credit from MADB for purchasing seeds, supplemented by 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 investing in farming businesses.

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.

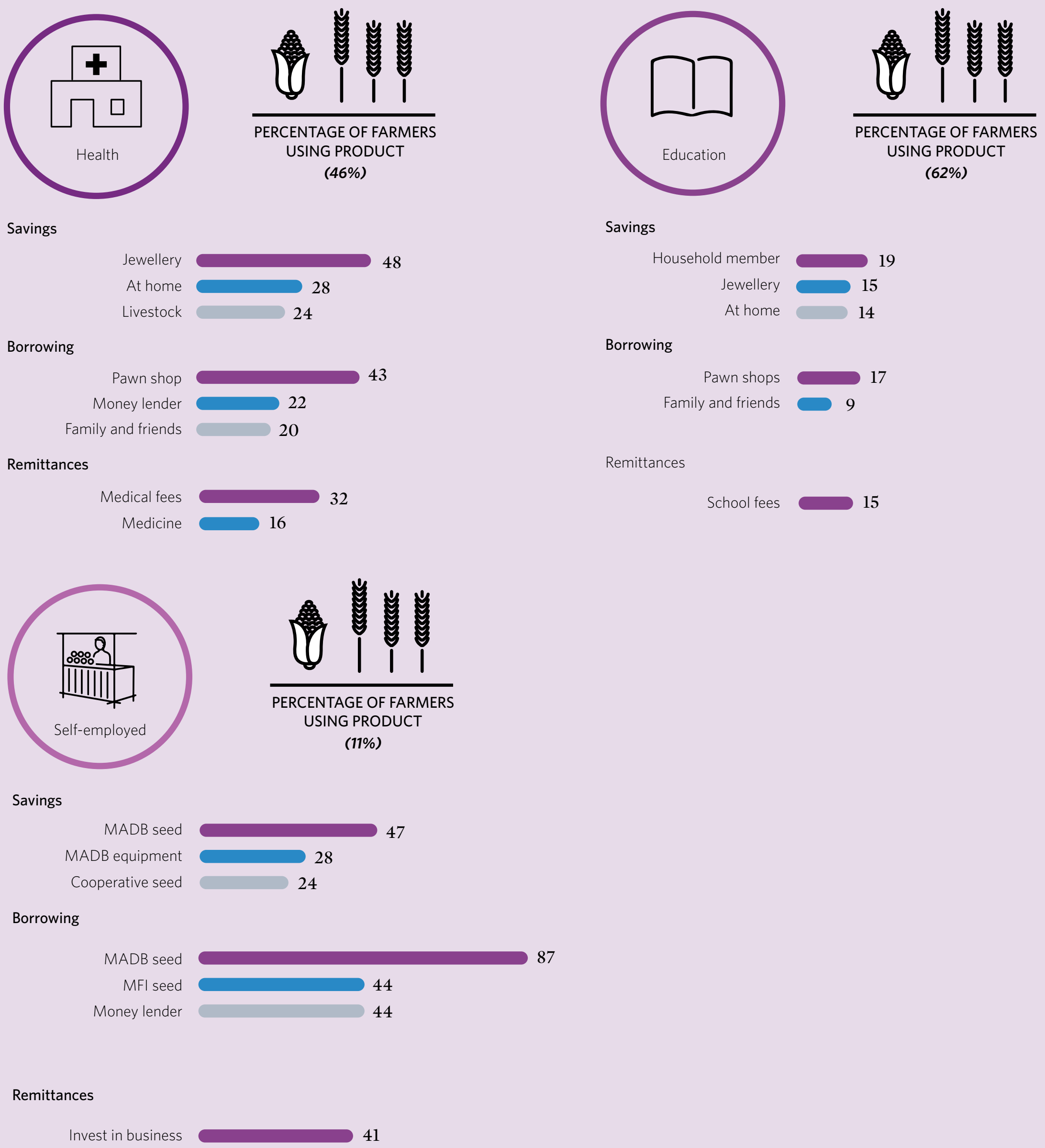
Credit: farmers are relatively high users of credit, given their access to MADB loans for farming inputs. There may be a perceived need for more credit, but this has to be firmly targeted on increasing productive capacity and incomes, and at affordable rates, because otherwise there is a risk of farmers 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 boosting. At the same time, the flexibility/adaptability of informal credit providers should not be undervalued, and they will continue to play an important role. Informal credit providers can help to meet unanticipated short-term credit needs and provide flexibility with regard to repayment terms and timing.

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, as well as providing access to a broader range of financial services.

Savings: farmers mostly save in kind and informally. This might reflect their situation (e.g. use of livestock) but might also reflect a lack of available options. Farmers also save relatively little for old age. Savings needs are high, not only for old age but also for short-term consumption smoothing given the irregular nature of farmers' incomes. More savings options, through formal channels, might help increase savings rates and provide better returns.

Insurance: 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 be around farming techniques rather than financial services), along with other ways to increase incomes and possible ways to increase farmer resilience (such as through encouraging higher levels of saving). The prominence of healthcare needs means that the development of appropriate health insurance products could make an impact on 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, to complement the analysis of the demand for (need for/usage of) financial services identified by using 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 chapter focuses on institutions that are more active in financial inclusion and those that have the capacity to improve financial inclusion, especially for the two target markets identified as priorities (the self-employed and farmers) and for women. The assessment also looks into the opportunities that DFS can provide for improving access to formal financial services.

5.1 Financial service providers

This section provides an overview of the main 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, while the informal provider and state-owned categories either contracted or stagnated. This corresponds with the changes that occurred in the broader Myanmar environment (see Chapters 1 and 2), and changes that were 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 significant developments with insurance, mobile FSPs and money transfer operators, although off a much smaller base. In particular, the following major FSP-related developments can be highlighted:

- ***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; rather, they continue to concentrate on larger and more formal clients, due in part to regulatory constraints but also 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 (i.e. barely "scratching the surface"), strengthening their position in serving their current focus segments is perhaps appropriate for the period, and will provide the depth and strength (new approaches to lending, new skills and products) needed if they are to consider moving down-market in the future.
- ***The insurance sector:*** after liberalization in 2013, this sector expanded and is expected to continue expanding with the regulator allowing foreign insurers to operate in the country. In 2015, the Insurance law was amended, substituting the country's Financial Regulatory Department (FRD) rather than Myanma Insurance as the insurance regulator. However, unfair competition still exists between Myanma Insurance and other insurers as it enjoys special privileges in terms of product offerings, and all reinsurance must be placed through Myanma Insurance. It is essential to liberalize regulations on the products other insurers can provide and reinsure with other international insurance companies, and this might be more important than allowing foreign insurers in (especially if foreign players will also be restricted in what they are permitted to offer).
- ***MFIs and cooperatives:*** when measured by assets and lending, the MFI sector grew in size; the FinScope Survey recorded over 3 million borrowers from MFIs in early 2018, up from 700,000 in 2013. While MFIs and cooperatives have played a crucial role in extending financial access, the nature of their growth and development in the past few years might not be sustainable (especially given the need for more sources of funds).
- ***Cooperatives:*** fuelled by China EXIM Bank funding, a massive boom was experienced by cooperatives over the period, in terms of the number of cooperatives, the number of clients served, and the size of the loan portfolio. It is seen that if funding for cooperatives is further expanded then cooperatives as a group will soon match MADB in terms of loan portfolio size and number of clients; this increases the need for a strong governance and monitoring systems. In practice the EXIM Bank loans are now being repaid. Hence, even

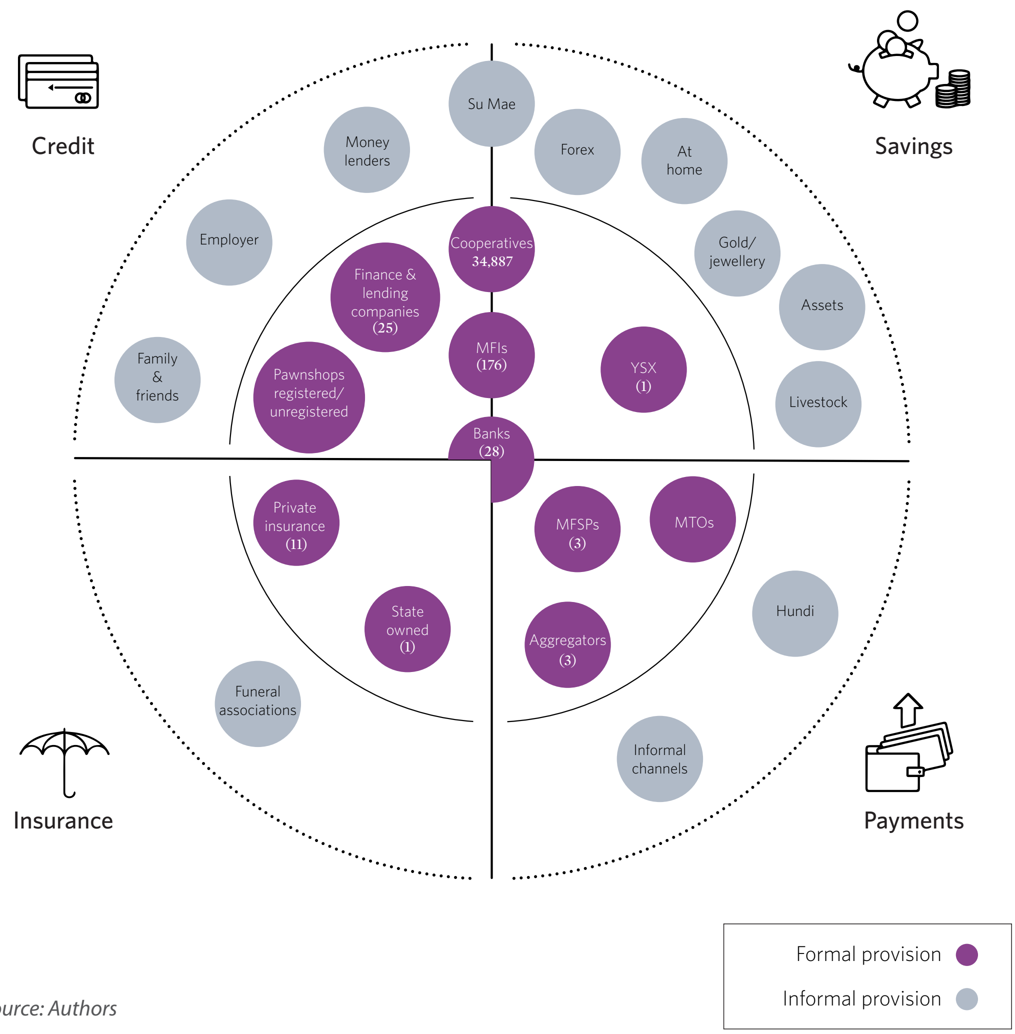
[17] Formal FSPs are institutions that are formally registered and operate under the formal supervisory/regulatory framework.
[18] Informal FSPs are neither registered nor supervised/regulated.

though the cooperatives' deposit balances (mostly from accumulated compulsory savings from cooperatives' members) may be available for extending credit, the government will have to find a new source of funding for cooperatives for them to grow. The cooperative network provides a valuable alternative distribution system in rural areas. However, the cooperative model differs from that of other FSPs because decisions regarding product terms are driven largely by the general assembly of the cooperative's members, which may not be the most professional decisions. Thus, leveraging on cooperatives' network for expanded distribution of financial services will require a strong governance and monitoring system by the Department of Cooperatives (DOC) and the general assembly. It is important that the governance and monitoring system so adopted should increase accountability within cooperatives so as to mitigate risks and install appropriate consumer protection measures to ensure sustainability over the long term.

- ***Distribution infrastructure/networks:*** there has been a major improvement in distribution networks (bank branches, ATMs, POS, mobile money agents) but they are still urban-dominated. Regulatory reform and modernization/liberalization have played an important role, but a great deal of further progress is needed on these fronts.

Figure 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 localized 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 (Su Mae) – serve a range of product markets.

Figure 33: Supply side: FSPs



Source: Authors

5.1.1 Banks

Banking landscape

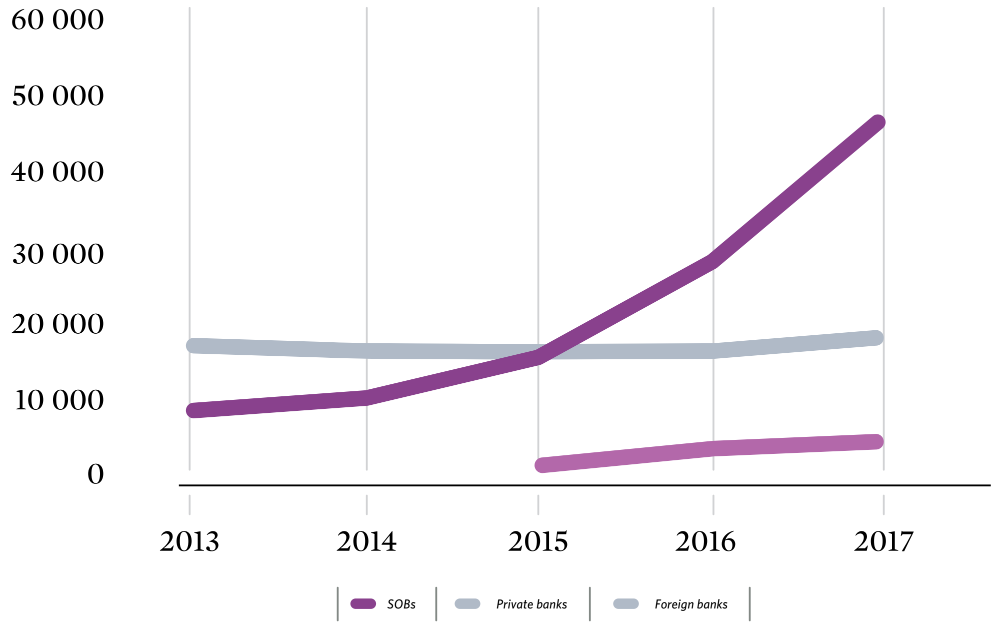
The banking sector has three segments: SOBs, private (domestic) commercial banks, and foreign-owned banks. The numbers of banks in each segment is shown in Table 4.

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. Since then, however, SOBs have hardly grown at all (asset growth of only 1.2% a year, which is negative in real terms). By contrast, private banks have grown at a rapid pace, with total assets increasing from MMK 8.4 billion in 2013 to MMK 48.5 billion in September 2017 (according to the most recent CBM data): average annual growth of 56% (CBM, 2017b). By September 2017, private banks accounted for 67% of banking sector assets, 83% of loans, and 67% of deposits. Foreign banks have only recently entered the market, and by 2017 accounted for 8% of banking assets (see Figure 34). Lending by private banks 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%.

Figure 34: Banking sector assets, by type of bank



Source: CBM (2017b)

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 had two-thirds of all loans, two-thirds of all deposits and more than 50% of all branches in Myanmar (of the total private and semi-governmental bank sector). However, the focus of the big three is urban areas, and they have not contributed significantly to financial inclusion, instead concentrating on mobilization of savings and extension of credit to corporate clients and high net-worth individuals, which make more financial sense in terms of returns and cost. This situation has the potential for a move down-market in due course, provided that banks can develop the required new approaches to lending, skillls and products.

Yoma plays 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 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 (here the traders were all deposit customers of Yoma Bank, and their deposits formed part of the security for the loan facility provided). 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 farmers' production costs and is giving farmers 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 benefitted 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.

With increased competition and the need to maximize profits, private banks have expanded their roles and invested in infrastructure, technology, systems and human resources – in the process improving their product delivery. Given the improved service offerings and more efficient systems, customers are increasingly choosing private banks over SOBs. Furthermore, private banks have increased their footprint through significant expansion of their branch networks, to over 1,700 in total (see infrastructure section below), which has also helped capture market share. Further expansion of outreach could come through linkages with the post office network and use of its branches for the provision of banking services.

With the CBM introducing regulatory reforms for the banking sector, commercial banks are expected to focus on complying with new requirements for lending, provisioning and capital adequacy, which may lead to banking consolidation, as well as improving systems and skills. In such an environment, it seems unlikely that the commercial banks will soon move down-market.

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 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. They were permitted to provide banking services to foreign companies doing business in Myanmar, and were permitted to lend to domestic banks and MFIs. They were not allowed to provide retail banking to local companies and individuals. The CBM gave the assurance that with 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, introducing 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. (Manager, foreign bank)

Late in 2018, the CBM through Directive No. 6/2018 (issued on 8 November 2018), permitted foreign bank branches to provide any 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 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 lack of dynamism and reform. The SOBs have not kept up with the growth of the banking sector since liberalization in 2011; SOBs are lagging behind in terms of reform and modernization. The most important SOBs from a financial inclusion perspective are the Myanma Economic Bank (MEB) and 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, with better services provided by private banks, customers are slowly shifting towards private banks. However, the MEB's current rural footprint represents an opportunity for the bank 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. It has around 2 million active customers and 208 branches, both little changed since 2013. The 2014 MAP Diagnostic indicated that, due to the extensive credit programme of MADB, financial access in rural areas seemed better than in urban areas. Many farmers had long-standing relationships with MADB, accessing consecutive loans under the credit programme (rather than using the bank for savings or deposits). The outstanding loan portfolio is MMK 1.9 trillion (USD 1.3 billion), and deposits of MMK 16.5 billion (USD 11.2 million), which is very low in comparison to the loan portfolio that has been substantially funded by subsidized loans from MEB to MADB. There are believed to be up to another 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 and a high level of NPLs, and is under-capitalized.

The poor performance of MADB is attributed to poor corporate governance, inadequate risk management capability, lack of a modern core banking (IT) system, an unsustainable business model, and undue political interference in lending decisions. MADB's role in the rural credit market cannot be underestimated. To ensure the provision of sustainable farmer-focused credit services, it is critical that MADB be converted into a sound, financially sustainable institution that is able to withstand unnecessary political interference and to operate according to the highest standards of corporate governance and transparency.

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

Reform necessary to ensure financial sector stability and underpin MADB growth. Given SOBs' poor performance and loss of market share to private banks, the Myanmar government is considering reforming them. Reform is necessary to reduce SOBs' weaknesses, strengthen the stability of the banking sector, and enable SOBs to properly carry out their intended functions. This applies particularly to MADB, which plays a crucial role in the agricultural sector, but which has been unable to expand that role in recent years. Reform should also include writing off NPLs, and making MADB subject to the governance and other requirements of the FIL. This could require recapitalization.

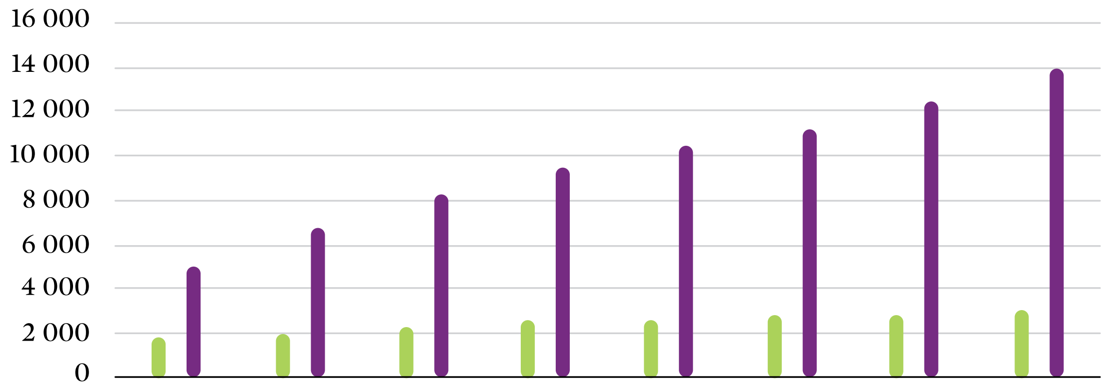
Government reviewing proposed recommendations for SOB restructuring. With the aim of reforming SOBs and improving their fiscal position, the government of Myanmar (GoM) has used advisory support from the World Bank provided to a State-Owned Bank Reform Committee, comprising representatives from the MoPF, the central bank and the banks themselves. As part of an effort to conduct proper audits of the banks and ascertain their fiscal positions, the GoM hired Deloitte to carry out a special diagnostic assessment of MFTB and MICB, while 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 a real-time gross settlement system (RTGS) was still under development.
- The ability to extend formal savings and payment services required a dramatic extension in 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 – was pending, decentralized group-based credit would remain the most efficient way to provide rural credit.

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



	Q1 16/17	Q2 16/17	Q3 16/17	Q4 16/17	Q1 17/18	Q2 17/18	Q3 17/18	Q4 17/18
ATMs	1,890	2,193	2,407	2,562	2,722	2,798	2,997	3,123
POS	5,158	6,881	8,353	9,560	10,446	11,283	12,466	14,015

Source: CBM database (2018)

To overcome these shortcomings and to facilitate better access, in 2017 the CBM issued a directive for specialized banks to focus on and prioritize providing better financial access to the population by investing in infrastructure.

Growing banking infrastructure. Compared with 2013, by 2018 the number of banks (including SOBs) had increased to 28 (from 23). During the period 2013–2018 the number of private bank branches increased rapidly, from 577 to 1,715 (CBM database, 2018). MADB and the MEB 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 shows the growth of ATMs and POS devices for the period 2016/2017–2017/2018.

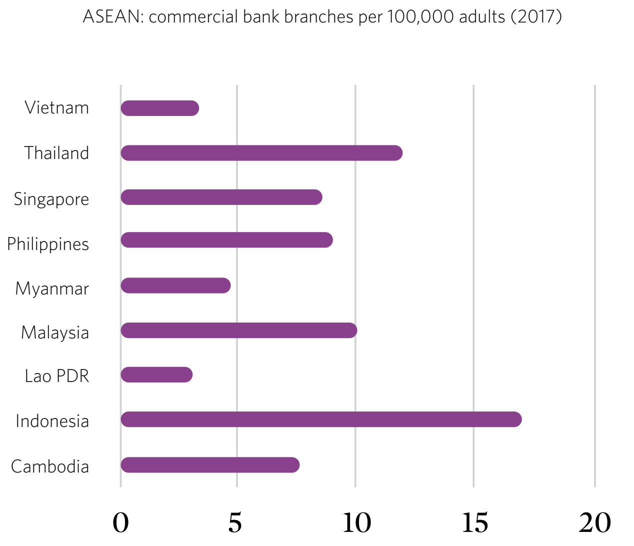
The banking sector reforms introduced in 2011 removed the requirement for bank branches to raise stand-alone capital and seek approval for opening of each new bank branch. The removal of these requirements has been a key driver of the increased number of bank branches led by the private sector (Schellhase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

The other driver of bank expansion is the approval of the Foreign Exchange Management Law in 2012 followed by the enactment of the Central Bank of Myanmar (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 (passed in 2016), helped level the playing field for private banks and SOBs, which prompted growth of bank branches.

As shown in Figure 36 and Figure 37, despite the significant growth of bank branches and ATMs, 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.

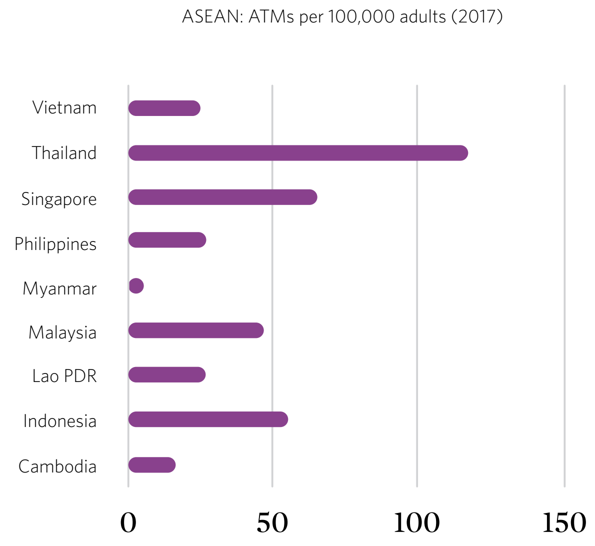
The expansion of bank branches has occurred mostly in urban areas, and has focused on acquiring larger, more formal clients (e.g. large corporates). This has increased access to finance in urban areas, but the rural population remains underserved by private banks. Private banks have been reluctant to expand to rural areas because of limited infrastructure, poor connectivity and the interest rate policy of the CBM; for private banks, the returns from operating in rural areas do not justify the costs.

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



Source: IMF Financial Access Survey (2018)

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



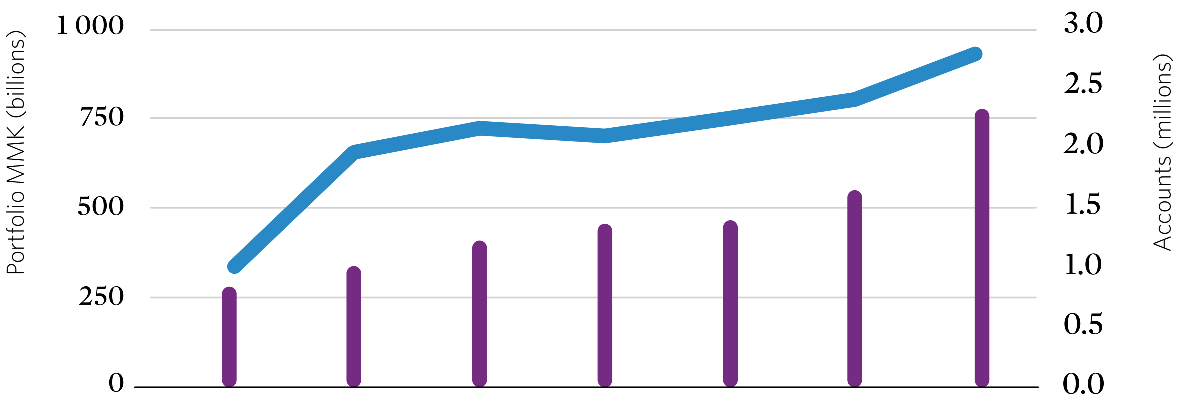
Source: IMF Financial Access Survey (2018)

5.1.2 MFIs

Overall, the number of MFIs fell from 189 in 2014 to 176 in 2018. The number of MFIs initially increased to more than 200 – but then dropped; some MFIs gave up their licences due to increased regulation and reporting requirements, and some cooperatives with MFI licences gave up their licences and went back to a cooperative registration because that places no restrictions on taking deposits. However, when measured by assets and lending, the sector grew in size over the five-year period.

According to FRD, from 2016–2018 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 – 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 3.5 million borrowers from MFIs in early 2018.

Figure 38: MFI loan portfolio outstanding and number of accounts



	Q1 16/17	Q2 16/17	Q3 16/17	Q4 16/17	Q1 17/18	Q2 17/18	Q3 17/18
Portfolio	276	338	409	451	466	549	773
Accounts	0.95	1.96	2.16	2.10	2.24	2.42	2.80

Source: FRD database (2018)

MFIs have played significant role in increasing access to finance. MFIs have made it possible for entrepreneurs and farmers to access formal financial services, and have thereby reduced dependence on expensive informal financial sources. However, there is great disparity in MFI coverage across states and regions; the majority of MFIs are concentrated in Yangon, Ayeyarwady, Mandalay and Bago. FRD has ceased awarding licences for operations in Yangon in order to mitigate the risk of credit oversupply. International MFIs dominate the sector, with an estimated 70% market share. Key challenges faced by MFIs are the following, discussed in more detail below: lack of funding; general deposit-taking licence; lack of credit information.

Lack of funding for many MFIs – but emerging bank–MFI linkages. The 2014 MAP Diagnostic identified that due to the exchange rate risks associated with reliance on foreign capital inflows and restrictions on voluntary deposits, MFIs had limited capital for on-lending. Funding is still the single biggest constraint to growth for the MFI sector. Despite the high potential demand for microcredit – approximately MMK 1.33 trillion (USD 1 billion) according to UNCDF (2017b) – MFIs have not been able to attract sufficient funds for expansion from foreign and local institutions. Most of the funding and resources go to large international MFIs, while other, mostly local, MFIs are underserved.

The MFI sector is perceived by banks as too risky due to a poor and vulnerable client base, MFIs' institutional weaknesses, and financial sector risks. The lack of knowledge about the MFI sector makes it difficult for them to borrow from banks. Though the CBM allows banks to accept the loan books of MFIs as collateral, most banks will not do so despite low levels of NPLs. This is due to the complications that may arise in liquidating the loan portfolio in the event of a loan default. Moreover, MFIs are not positive of offering the loan book as collateral as it can restrict MFIs from qualifying for additional financing.

Private bank lending to MFIs become 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 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. AYA Bank, however, has largely focused on lending to Tier 2 MFIs. 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, which was 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. In addition, a rural finance facility is under development, with the goal of providing financing (in local currency) prioritizing lending to rural finance-focused MFIs and small-to-mid-sized MFIs.

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 to 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, before this can be considered, it is important that the regulator's prudential monitoring capacity be strengthened. It is also important that MFIs prove themselves worthy of having 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 a compulsory savings account in their name. The lack of client awareness indicates insufficient MFI transparency and client communications. More importantly, it raises concerns regarding the integrity of compulsory savings management and internal controls.

Although the CBM has stated that allowing MFIs to take on voluntary public deposits puts MFIs in direct competition with banks, this should be welcomed – as long as regulatory and consumer protection issues receive due attention at government and industry levels.

Lack of credit information. The majority of MFIs do not have access to a database to ascertain whether their customers have additional loans in other financial institutions. Although some MFIs have begun maintaining a database and sharing it 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 this MAP report-writing (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.

MFIs played a key role in increasing access over the five-year period 2013–2018. However, given funding constraints, the nature of MFIs' growth and development over the period might not be sustainable. The funding constraints include the high cost of foreign funding (once exchange-rate risk is taken

[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.

into account), limited access to funding from local banks, restrictions on deposit-taking, and lending interest rate caps (which restrict spreads 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 FIL 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 (2018), 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 urban-based. 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, which is less cumbersome than conventional credit because less documentation is required, and approval of loans can be quick. 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 uptake of luxury items such as vehicles and consumer durables. Policies for facilitating partnerships with MFIs and cooperatives are needed, in order to help MSMEs and farmers also acquire assets under the hire-purchase system.

5.1.4 Cooperatives

The cooperative network, with its wide reach in rural areas, holds the potential for alliance with other FSPs for broader distribution of financial services such as insurance, savings, payments and remittance. Cooperatives represent an attractive proposition for FSPs because cooperatives offer customer connectivity by virtue of their reach in unserved rural markets, while FSPs bring in specialized skills in areas such as product design.

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) officially announced a plan to have a cooperative in each of the 60,000 villages in Myanmar by adding 5,000 each year in order 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; loans were by tranches payable in 2023, with semi-annual interest payments for the first two years followed by an eight-year amortization 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 FRD (2018), the total value of agricultural loans outstanding from cooperatives was MMK 529 billion (USD 397 million), while 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 has also been providing low-interest loans to farmers by leveraging cooperatives, and continues to use the cooperative network to disburse agricultural loans.

In July 2018, the Ministry of Agriculture, Livestock and Irrigation (MOALI) announced that MMK 550 billion[21] (USD 413 million) would be provided to the Central Cooperative Association, which would disburse the money as loans to farmers. If this funding comes through, it will give cooperatives as a group a loan portfolio similar in size to that of MADB. In 2013, MFIs and cooperatives together did not expand access on a sufficient scale to be compared to MADB; but developments over the five-year period have significantly expanded the financial services footprint in rural areas beyond that of only MADB.

The DOC states a 100% repayment rate of loans to farmers. However, the MAP qualitative survey (2018) indicated that the duration of the six-month loan is too short and there is not much focus on client needs. This situation is driven by

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

the lack of capacity at ground level to make informed credit decisions, which means that most of the methodology and practices 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 it is not harvest time, as the farmers are then compelled to sell their assets or resort to additional loans from informal sources (e.g. family and friends, or moneylenders).

Need for improved regulatory oversight. Cooperatives in Myanmar have been developed under the principle of self-regulation. Currently, cooperatives fall under the MOALI and are regulated by the DOC under cooperative laws and procedures. Cooperatives operate with minimal regulatory requirements/controls, however, 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 situation renders the cooperatives system vulnerable to general risk and financial fraud, especially given the growing significance of the cooperatives in the financial sector.

Valuable role in increasing financial inclusion – but over-indebtedness to be avoided. As FSPs, cooperatives play an important role in increasing the country's overall level of financial inclusion, acting 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, in order to assess the level of debt of many 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, in order to track multiple borrowings and help consumers avoid over-indebtedness. Since cooperatives are located in the rural areas, they offer the potential for use as channels for distribution of financial products of larger financial providers through tie-ups – but clear regulatory reform will be required. The DOC will need to improve its regulatory oversight through improved governance and monitoring.

Cooperatives as the channel for farmer credit. The government's plan of establishing one cooperative in each village and using the cooperative as a channel for distributing the China EXIM loan has been successful in increasing access to finance for small farmers, even in the remotest areas. The MAP qualitative interviews (2018) indicate that the repayment rate of the loans distributed through these cooperatives has been encouraging. The country's cooperative credit society plans to leverage on this mechanism and structure to borrow money from international markets at competitive rates, with support from the government, although care will have to be taken with regard to taking on exchange-rate risks.

5.1.5 Mobile FSPs (MFSPs)

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 (as in the True Money collaboration with AGD); the latter enables non-banking institutions to provide mobile financial services.

MFSPs latest addition to Myanmar financial services landscape. The licensing of 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 rapidly, which has opened up opportunities for leveraging MNOs to deliver mobile financial services.

Three MFS licences in operation. The implementation of the MFSP regulations has ushered in new non-bank FSPs. MNOs and registered non-banking financial institutions can apply for an MFS licence. Many companies have applied for MFS licences. Currently, MFSPs 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 (November 2018), three MFS licences had been issued: Wave Money, M-Pitesan and OK Dollar. A fourth MFS licence is expected to be awarded to MPT in 2018 (but was not yet issued as time of report-writing).

Digital financial literacy. Although the uptake of mobile money is encouraging, the majority of transactions are limited to mobile top-up services, as users are not yet comfortable with and are unaware of other services. Targeted digital financial literacy programmes aided by diversified user-friendly digital products will be key to enhancing the uptake of DFS.

Strong reach of MFSPs through agent networking. The MFSPs 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: for example, KBZ, the largest privately owned bank, launched its 500th branch in November 2017 – 24 years after it opened its first branch; by 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 licences being issued in 2014. Some of the initial mobile banking licence operators are shown in Table 5.

Table 5: Mobile banking licence 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. MFSPs offer opportunities to leapfrog from a cash-based economy to a less cash-dependent, digital economy by diversifying products and services that can be delivered via the DFS channel. However, the majority of MFSPs are operating in isolation or through limited integration via partnerships; it is therefore crucial to develop the infrastructure to facilitate interoperability between MFSPs and existing FSPs. In this context, regulatory reforms will be needed for supervising DFS, MFSPs, agent networks and FSPs; and policies for handling grievances will need to be developed.

Payment aggregators. Aggregators are non-banking institutions that provide financial services without owning any telecommunications or banking infrastructure of their own. 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 allow users to use their platform to make different types of payments, thereby moving towards a less cash-dependent, digital economy. Currently – with the exception of Red Dot, which is in partnership with M-Pitesan – these aggregators do not provide remittance facilities (i.e. cash-in cash-out).

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, and started its operations in 2012. The MPU became a public company in 2015 and as at 2018 has 23 member banks. The MPU operates the national payments switch and is responsible for settling retail payments within the country. The national payments switch provides an opportunity for integrating with the Asian Payment Network (APN), thereby facilitating integration with ASEAN's economies; it allows direct routing of authorization requests, and elimination of intermediate arrangements and related processing costs. The national switch allows batch settlement of transactions instead of single-transaction processing. This has reduced costs and facilitated low-cost sharing of ATMs. It has also brought down the interchange fees (i.e. the fees levied when cash is withdrawn from the ATM of a bank other than one where the consumer holds their account). This has led to increased access to ATMs (from 210 in 2012/2013 to 2,800 units in 2016/2017) at lower costs, which in turn has driven uptake of debit cards (from 30,000 in 2012/2013 to 2.9 million in 2016/2017) (see also the sub-section on payments under the Products section).

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–card, card–account and account–account transfers via ATMs. It is expected that, with the new system in place, many new digital payment products will be made available, such as inter-bank account–account transfer, and cash withdrawals at POS. The new system will also facilitate interoperability between MFSPs, and e-banking interoperability between member banks and mobile wallets issued by MFSPs. However, regulatory reforms will be required for facilitating interoperability between the various FSPs (see also the Regulatory section).

Implementation of 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 the 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 so as to facilitate more digital interbank functions as well as RTGS of interbank obligations. The implementation of the RTGS system will facilitate real-time debit and credit of different accounts in different banks. The implementation of 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 allows the settlement of trade involving government treasury bonds and equities.

5.1.7 Insurance

Until 2013, the state-owned company Myanma Insurance enjoyed a complete monopoly. In that year, however, 12 new domestic insurer licences were issued (although they only 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 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), making a total of MMK 48,574 million (USD 36.43 million) (CBM, 2017a). By 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), giving private insurers a market share (measured by premium income) of 63%.

The insurance premium to GDP ratio is estimated at 0.15%. As argued by Allianz Research, 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%), and this has been almost entirely driven by private insurers. This is despite the restrictions that private insurers still operate under (see Regulatory section below), and illustrates the large potential for future growth in the role of insurance. 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 only to establish representative (liaison) offices, with activities limited to market research and provision of support for foreign companies operating in Myanmar. Since 2014, foreign insurance companies have been permitted to offer 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.

A new Insurance Act is being drafted through the support of USAID, World Bank and JICA. Insurers are anticipating the new act will liberalize the insurance sector (although at the time of writing of this report, in November 2018, the act had not yet been published). Under current laws, insurance companies must navigate a number of challenges, ranging from underdeveloped capital markets that offer only a narrow band of investment instruments, to restricted consumer activity and lack of public awareness about the benefits of insurance policies. The future growth of the sector is highly dependent on awareness of insurance products as well as on income levels.

The insurance sector in Myanmar is in its infancy, and for the most part consumers do not perceive the benefits of purchasing the insurance products/services currently offered. The recent growth of insurance can be attributed to forced purchase of insurance product (e.g. vehicle insurance, travel insurance) required when credit is made available.

It is seen that in many developing markets, as markets develop, the insurance companies tend to move from corporate insurance to retail general insurance, usually driven by mandatory insurance in the beginning. Furthermore, at the point that the market has reached a certain scale, skills have reached sufficient levels, and agent networks have developed, the uptake of voluntary retail and long-term insurance products increases. The recent (2018) announcement allowing foreign insurance companies to serve domestic insurance needs is expected to boost uptake of insurance. However, it is also important that the IBRB move towards a more liberalized policy with regard to re-insurance and allow the private domestic insurance companies to offer a greater range of products.

The Myanmar Insurance Association, comprising 11 private insurance companies, has been recognized by the Directorate of Investment and Company Administration (DICA). The association in January 2018 signed four MoUs with foreign insurance schools[22] for agents.

Livestock insurance: There is a livestock insurance pilot project in the pipeline and expected to be launched by the end of 2018 by Myanma Insurance along with the Department of Livestock Breeding and Veterinary, Singapore-based InfoCorp Technologies and RGK + Z&A Group. The premium rate is estimated at 1% of the value of the livestock and registration fee per cattle at MMK 2,666 (USD 2). It is reported that Myanma Insurance Company is in the process of drafting livestock insurance policy.[23]

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 as a result of adverse weather conditions. The challenge highlighted is setting a suitable premium rate because there are no prior benchmarks or qualified actuaries. It is reported that Global World Insurance will help in calculating the premium rate, which will be based on the market prices of paddy per one acre of land.[24]

Informal insurance: A few of the Buddhist temples/pagodas have organized informal insurance to help community members by organizing health camps, providing member assistance for health facilities and providing assistance for 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. An electronic auction system was introduced for treasury bills and bonds in September 2016. The establishment of the Yangon Stock Exchange (YSX) in 2015 is the main milestone in capital market development. The first listing took place in March 2016 (First Myanmar Investment). The first IPO (TMH Telecom) took place in January 2018. There are six licensed securities firms acting as underwriters. Only local individuals and institutional investors are allowed to transact at the YSX. Discussions with the Securities and Exchange Commission of Myanmar (SECM) have indicated that preparations are being made to allow foreign investors to trade shares on the YSX. SECM notes that the new Companies Act, expected to come into force in 2018 (but not yet in force at the time of report-writing in November), will help allow foreign investors to transact at the YSX.

Transparency and disclosure, the hallmarks of internationally accepted business practice, are not part of everyday practice in the Myanmar business environment; yet, disclosure and transparency are major issues for successful operation of the capital market. It is thus important that the necessary policy be developed for promoting accountability and transparency and ensuring stringent regulation of the capital market. The criteria for listing on the YSX should be as per internationally acceptable standards.

5.1.9 Pawnshops

The role of pawnshops as providers of microfinance has declined with the growth of MFIs and cooperatives. The FinScope Survey data indicate that pawnshop credit dropped from 1.1 million adults in 2013 to 700,000 in 2018, which may partly reflect the scrapping of private pawnshop licences. Despite the drop in the number of pawnshops, they continue to be a major source of short-term emergency cash and people still rely on them for urgent credit requirements.

[22] General Insurance Association of Japan, Insurance Institute of India, Malaysia Insurance Institute and the Australian and New Zealand Institute of Insurance & Finance.
[23] 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).
[24] 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).

There are two types of pawnshop: registered and unregistered. Currently, pawnshop licences are issued by a bidding process organized by the authority of the state/ region or by the municipality. The licence has to be renewed every year and licence fees range from MMK 300,000–MMK 20 million (USD 225–USD 15,000) depending on the location. For the registered pawnshops licensed under the Yangon City Development Committee (YCDC), the interest rates and maturities are fixed by the YCDC. The maturity period of loans from such pawnshops is usually four months, with fixed interest of 3% per month for high-value collateral such as gold and 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. Then, when the immediate need for cash arises, people approach pawnshops to pawn their assets to get cash. The MAP qualitative survey (2018) indicates that the pawnshop usually knows the borrower and accepts quite a range of assets as collateral for extending loans. It is also seen that there is a very thin line between informal pawnshops and moneylenders, as moneylender at times also accept assets in return for money loans. Although the pawnshops are registered, there is no system of audit and reporting; hence, the risk of poor governance and lack of accountability arises and this needs addressing.

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 MTOs' strategy has been to partner with banks so as to leverage their branch networks. Western Union has 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, with 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 and dominate the credit landscape in terms of number of clients. Moneylenders offer flexible service and terms and provide loans based on individual requirements: e.g. loans for short periods such as 24 hours or a week. FinScope data (2018) indicate that currently in Myanmar there are approximately 4.2 million people borrowing from moneylenders. 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 operating in Myanmar. They are an important source of finance for farmers as they provide prompt financial services by making available 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%–120% per annum for collateralized loans, and 50%–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 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 borrowing, from informal to formal sources, driven by the growth of MFIs and cooperatives in rural areas. This has reduced the number of adults borrowing from moneylenders from an estimated 5.9 million in 2014 to the estimated 4.2 million of 2018 (FinScope, 2018). A study conducted by Michigan State University indicated that moneylenders' interest rates have declined in rural areas with MFI and cooperative activity. (Belton et al. 2017). Although the number of adults borrowing from moneylenders has declined, moneylenders continue to be an important source of finance, particularly for meeting short-term immediate financial needs, which formal service providers are yet to fulfil. It is expected that the role of moneylenders will continue to decline slowly but they will still form an important part of financial service provision.

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

Informal savings and loan/credit groups (popularly known as Su Mae) are formed by members of the community and are member-operated. The MAP qualitative survey (2018) indicates that some saving 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 20–25 members. From 2013–2018, the number of people actively saving with informal groups increased from 930,000 to 1.1 million adults – although membership is much higher, at around 2.25 million. Membership tends to be predominantly women (around 65% of the total). Half of Su Mae members live in urban areas (compared to 35% of the overall population).

During the first quarter of 2018, World Vision reported facilitating a total of 932 saving groups with a total of 20,271 members. The total savings of these groups stood at MMK 1.15 billion (USD 864,803), total assets of MMK 1.4 billion (USD 1,050,265) and total loans outstanding of MMK 950 million (USD 713,075). The average value of loans outstanding per member stood at MMK 109,599 (USD 82.2).[25] Based on the FinScope (2018) data on the number of savings group members, and the World Vision data on average size of assets, it is estimated that the total assets of informal savings groups is approximately MMK 110 billion (USD 82.5 million).

These informal savings groups are aimed at strengthening members' ability to support themselves and their families/households by providing access to finance through the savings-based group loan fund. Usually, members save year round, and are eligible for a loan once they have saved for three to six months. The maximum amount of the loan is typically not more than triple the borrower's total savings. This may differ from one Su Mae to another. These informal savings groups represent an easy way to save, supported by the mutual trust that exists between people who know one another. However, there have been incidents of fraud and mismanagement, 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 through leveraging DFS, where members of savings groups can make their recurring saving – e.g. via mobile money – into a joint saving bank account. This ensures easy saving methods and safety of deposits. However, if DFS are to be leveraged by saving groups, there will need to be interoperability. And various regulatory reforms – such as relaxation of KYC requirements, reduced documentation – will need to be introduced to accept savings and disbursement of credit to saving groups and to move the saving groups towards the formal sector.

5.1.13 Hundis

Hundis still continue to be a popular means of transferring money. The hundi system operates on an extensive network of relationships and trust. Money transfer through the hundi system is generally simple and flexible, requiring less (or no) documentation than formal providers do. Also, there is no upper limit on amounts that can be transferred. There is some inconvenience for consumers in using banks for transfers as the banks are concentrated in urban areas, whereas the majority of receivers live in rural areas and must therefore travel quite a distance to receive money. In contrast, the hundi system delivers the money to the receiver's door. Hundis use slightly less favourable exchange rates and make money off the spread, compared to banks, which profit by charging fees. Overall, however, the hundi system is inexpensive, with very low overhead costs. Another point in the hundis' favour is that because they provide a channel for black-market transactions (and hence value to those who wish to move money illegally) they can offer low-cost services to the public.

The entry of MFSPs such as Wave, M-Pitesan and OK Dollar, as well as the banks promoting remittances through their increased branch network, has reduced the number of domestic hundi remittance transactions. The number of adults using hundis to remit fell from 1.4 million in 2013 to 0.5 million in 2018 (FinScope 2018). The transactional limit on domestic money transfers means that hundis are used for high-value money transfers, as well as cross-border transfers, which still cannot be made through MFSPs. Hence, in order to curb money transfers through hundis, regulatory reform is necessary to allow formal FSPs – e.g. MFIs, cooperatives and MFSPs – to send and receive cross-border money. Nevertheless, the hundi system is effective, fast, safe, affordable, and non-transparent (in the sense of no reporting to government tax authorities) and will always be attractive to consumers for these reasons.

5.2 Products

This section of the report provides an overview of the various financial products under credit, savings, insurance and payments, and explores the changes that have occurred since the 2014 MAP Diagnostic. In 2014, the limited product offering available to customers undermined the value that clients received from financial services, as those products on offer were inappropriate and did not adequately address the financial needs of consumers. For example, there were no health insurance products; in their absence, 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 fact that loan sizes were inadequate has fuelled multiple borrowing from different FSPs. There were major gaps in the insurance product offerings available to the general population. Improvements

[25] *Savings Groups Information exchange (http://thesavix.org).*

were sorely needed in the quantity and terms of agricultural input credit, which in turn could increase agricultural productivity. Although the situation had improved by 2018, there are still gaps in financial service product range, design and pricing. Typically, the financial services and products on offer are not client-centred but institution-centred.

5.2.1 Credit

Agricultural credit

Agriculture is an important sector, accounting 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 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, while the small-scale farming is on a similar scale to subsistence farming, people undertake it as an income-generation activity; they buy inputs (e.g. seeds, fertilizers etc.) every year and sell a major part of their produce to sustain their livelihoods.

Traditionally, the main channel for providing agricultural credit has been through MADB; however, this does not fully meet the need of farmers, and has also seen little development over the five-year period (2013–2018). As already mentioned, in 2013/2014 MADB credit was supplemented by an initiative to provide credit to farmers through cooperatives. The China Exim Bank funds channelled through cooperatives have made cooperatives' loan portfolio similar in size to that of MADB. The agricultural loans provided by MADB and cooperatives are similar in nature in the sense that the duration of the loan is usually 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 loan of MMK 150,000 (USD 112.50) per acre for a maximum of 10 acres, whereas loans from cooperatives are based on the member's ability to make regular repayments. Usually cooperatives lend MMK 100,000 (USD 75) per acre and increase by MMK 20,000 (USD 15) per acre if repayment is regular.

Farmers also use informal sources (moneylenders, pawnshops etc.) for credit at high interest rates; however, since 2013 the number of farmers taking loans from informal sources 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 from Japan International Cooperation Agency (JICA).

A number of the agricultural loan products are discussed below.

MADB loans. MADB provides two types of agricultural loan: seasonal crop production loans and term loans. The majority of the loans disbursed until 2017 were group loans for paddy. There are reports that MADB loans are often disbursed late (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., and there is also restricted access for other types of crop farmers. Although the MoPF has announced its intention to support agricultural value-chain financing, lack of capital is a key constraint for MADB in introducing new products.

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 guaranteed one 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 maximum 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 aims at financing farm machinery, which is necessary for farm mechanization in order to increase productivity of the sector. If provides higher-value medium- to long-term agricultural loans at affordable interest rates, which are not available from MADB, other banks, MFIs and cooperatives, and caters mostly to large-scale farmers that require finance for farm mechanization. The TSL addresses the farmers' long-term goal-setting needs of asset-building and agro-mechanization with changing farming patterns. The current usage of credit by farmers is mostly for purchasing farming inputs and for consumption smoothing.

MFI agricultural loans. Although MFIs are generally not thought of as providing agricultural loans, a significant percentage of the loans disbursed by MFIs are for financing 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 because MADB's seasonal loan is often late for cultivation time. However, the loans are mostly not provided as agricultural loans per se, and are often repaid from other household income sources, not from the proceeds of crop sales.

Compared to MADB, MFIs provide more customized financial services; for instance, extending the agricultural loan period from five months to nine or 11 months, according to the crop cycle and market prices. Introduction of longer repayment and grace periods, less frequent repayments and hire-purchase products has helped farmers avoid borrowing from informal sources at higher interest rates to repay MFI loans. There is high demand for loans for other crops, such as beans and pulses, winter crops (vegetables) and other cash crops, which are not well supported by MADB. MFIs provide agricultural loans for a wide range of crops besides the traditional loan for paddy crops.

Private banks. A few private banks provide agricultural credit facilities. In March 2018, Yoma Bank provided an MMK 800 million (USD 600,001) loan to the Mandalay Coffee group involved in various areas of the coffee value chain such as processing, exporting and retail. Similarly, KBZ Bank, in partnership with ActionAid, has a pilot project providing loans to women agricultural producers in the Pakokku Magwe region, for which ActionAid provides collateral in the form of a credit guarantee. CB Bank and Yoma Bank are providing a crop-pledging facility for accessing loans; loans are granted to exporters for up to 60% of the crop value after they are received and stored in bank-specified warehouse. This has opened opportunities for developing warehousing receipts, but the necessary legal framework (law and regulations) will need to be provided. More generally, however, few commercial banks have ventured into agricultural credit products, even though the government has listed it as a priority sector. As agricultural lending is highly specialized and technical, the need is for suitably capable and committed banks to enter this space.

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 the 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. It is seen that, 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 a need to amend the repayment terms of current agricultural credit product, to provide more flexibility that meets the financing needs of the borrowers.

Business loans

Although MSMEs account for a high percentage of total employment (Han & Supinit, 2016), there is a lack of credit products catering to the needs of MSMEs. The majority of MSMEs are unable to access credit from MFIs and the formal banking sector:

- The current interest rate charged by MFIs (30% per annum) is considered too high.
- For larger MSMEs, the value of loans is too small to meet some of their credit requirements.
- While bank interest rates are lower (13%), most of the banks require real-estate collateral, which most MSMEs do not possess. And banks typically require at least two years of operational history before MSMEs can be considered for a loan.
- Many MSMEs do not maintain proper financial records, which heightens the risk perception on the part of the banks.

Recent developments in the business loan segment are sketched below.

New overdraft policy facilitates introduction of long-term products. Until recently, banks were restricted by the CBM to offering loan products for less than a year. This led banks to offer overdraft loans backed by real-estate collateral, with the overdraft regularly rolled over at the end of the year. In practice, given the regular rollover, overdraft facilities were being used to issue loans without a maturity date. The problem is that, with poor underwriting capacity on the part of the banks, they were not assessing the borrowers' capacity to repay, which should have been done based on the increased value of real-estate collaterized at the banks. The risk with real-estate collateral is that, even if the properties were foreclosed, it is unrealistic to think that many properties could simultaneously go on auction without the value of the properties being as a result lowered and without drawing out the time taken to liquidate the real-estate asset. Under the new regulations (Directive No. 7/2017) issued in 2017, the CBM directed banks to gradually reduce the total volume of overdraft facilities (including temporary overdrafts and any kinds of overdraft) as a percentage of a bank's total outstanding loan portfolio, 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 the year. In cases where overdraft facilities were not cleared, such loans would be categorized as NPLs.

In order to avoid a rise in NPLs, further directives issued in late 2017 allowed banks to convert overdrafts into three-year term loans, with quarterly interest payments and a grace period of one year before principal repayments.

The new policy is expected to push banks to develop longer-term products, which are currently unavailable. This will simultaneously encourage banks to develop long-term saving products with attractive interest rates. However, there is inherent risk in converting overdraft loans to three-year term loans. This is because the bank has not assessed the borrower's capacity to repay the term loan, as previously the overdraft loan was renewed by only paying the interest at the end of the year (i.e. no principal repayment). With the overdraft 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. It will also force the banks to develop higher standards of credit risk assessment, as well as to improve their governance and management systems.

Unsecured loans. Among the many priorities of the 2014 MAP Diagnostic, increasing the availability of unsecured credit stood out as being important. There were opportunities to increase the lending of providers permitted to extend loans without collateral (e.g. MFIs and cooperatives). There would also be an option to relax the collateral requirement for personal loans once a credit bureau was in place. Furthermore, the 2014 MAP Diagnostic pointed out that, outside of MADB, the private banks were passive in serving the general population; and the requirement for collateral had limited the market for qualified borrowers. Savings groups and international NGO credit programmes existed, but on a very confined scale. Beyond those people obtaining credit from the microfinance market, there was a significant demand for unsecured credit, which was mostly being met by pawnshops or informal moneylenders at extremely high cost to the borrowers. Formalizing 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. In addition to interest rates, issues such as lack of credit risk assessment expertise and weak internal risk-management systems dissuade banks from providing unsecured loans. An important development would be to implement a secured transaction registry law, which could make a lot more assets eligible for use as collateral: including equipment, machinery, stock, furniture and fixtures, for example, 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 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, due to the interest rate cap, the banks are unable to cover the risk premium on unsecured loans.

JICA TSL. JICA introduced the TSL project for the development of finance for 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, of 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 main growth and job creation potential; however, the project leaves a gap, in 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 setups where these types of loans can be provided from conventional sources within the country.

KfW (German Development Cooperation) 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 showing that SME finance is profitable for the partner banks, this initiative should encourage other banks to expand their business 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, euro 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 euro 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 21 loans and KBZ Bank only three loans under the CGI scheme. The slow uptake appears to be because banks are not familiar with working with MSMEs, and lack the right tools to evaluate the financial capacity of MSMEs. The low uptake is also because of the long time the credit guarantee programme takes during the evaluation process. Furthermore, SMEs are required to submit a business plan and an income statement for the preceding two years, which many cannot do. To ensure better use of the scheme, it is thus necessary to spread awareness about it, to develop programmes aimed at training enterprises to maintain books, and to develop the capacity of banks to assess MSMEs.

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

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 reduce the risks of uncollateralized credit, especially agricultural input credit. However, there has been no development of products to leverage insurance to access credit without collateral, in part because of the questionable commercial viability of crop insurance.

Informal credit. Informal credit products are provided by pawnshops or moneylenders or from informal savings groups (Su Mae). Most of the adults that lack access to formal credit opt to use informal credit as they have very few options. Despite the interest rates being very high – ranging from 8%–12% per month (MAP supply-side qualitative interviews, 2018) – people seem to be using informal credit to meet their immediate requirements. Due to increasing options for borrowing from MFIs and cooperatives, it appears there has been a slight fall in the interest rate; the 2014 MAP Diagnostic reported the interest rate range for informal credit at 10%–20% per month. Informal loans are usually given for a period of two to six months and in the range of MMK 200,000–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%–6% per month	3–6 months
Moneylenders	Relationship Know each other	Mutual understanding	8%–12% per month depending on how the interest is calculated and payable: daily/10 days/ monthly	2–4 months
Su Mae	Group member	Pool money	Negotiable often, 2%–4% per month	Max 3 times the savings; or, group understanding

5.2.2 Savings

Traditional savings products. Since 2013, the interest on savings deposits has remained unchanged, given the CBM's policy on interest rates. Most savings deposits currently offer 8% interest, with a few banks offering a slightly higher interest rate (between 8.25% and 8.5%). The interest on savings 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 – a practice that can disadvantage savers, but that reflects the lack of IT systems in many banks. Savings products offered by banks are generally the traditional type of savings account, call account, current account and fixed deposits account. There has been little product innovation, although some banks have begun to introduce products tailored to specific clients: smart savings, CB Youth, Minor Deposit Account, and Wedding Deposit Account.

Non-bank savings products. The range of savings products offered by non-bank FSPs – e.g. MFIs, cooperatives and mobile money operators – is very limited. There are some compulsory savings requirements if consumer wish to access credit from MFIs and cooperatives, and there is a limited provision for voluntary savings. However, MFIs and cooperatives are not permitted to mobilize savings from the public (i.e. from non-members, with MFI membership driven by the desire for access to credit).

Informal savings groups. Informal savings product providers and products/services have grown to rival MFIs and cooperatives as viable savings channels in rural areas. There are semi-formal/informal savings grups, which provide a basic form of saving (see also section 5.1.12 on Su Mae). It is estimated that there are about 35,000–40,000 such savings and credit groups; this puts their penetration between 50% and 60% within the local communities in which they occur. These groups enable their members to make deposits and borrow at low interest rates, as well as receiving an annual dividend. The groups collect savings from their members and typically offer loans at 2.5%–5% per month for a three-month duration. 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 interest earned. The cycles are usually eight months or a year, but this may vary from one group to another. Beside saving in such groups, many people continue to save in the form of assets such as gold, jewellery and property.

Challenges

One of the priorities for increasing savings, which was identified during the 2014 MAP Diagnostic, was to provide low-cost savings vehicles for short-term saving. Emerging retail payments networks and agents could be leveraged to improve proximity as well as transaction functionality so as to enable convenient store-of-value services, making depositing and accessing of funds more convenient, which would likely encourage savings in the formal sector.

Informal savings mechanisms still popular. Although 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. It is seen that people continue to save informally. One reason for this is that the products offered by formal institutions do not provide good value. The current interest cap on saving is 8% per annum, while the inflation rate is on average 6%. This means that once the consumer has factored in the various expenses involved (e.g. the cost of account maintenance, taxes and other fees charged by banks), the low real returns on saving become unattractive.

In addition, the interest cap on loans set by the CBM is a hurdle for rural expansion for banks and MFIs because the current interest rate does not justify the cost of operations in rural areas. Thus, a further reason for people's tendency to save informally is the limited access to formal saving products for those in rural areas, given the banks' concentration in urban areas and the lack of incentives for banks to move down-market. Limited branch networks of formal savings providers mean rural people's access to formal saving channels is very limited.

Furthermore, the enduring popularity of informal saving mechanisms is lack of trust in formal institutions due to past experience of losing savings held in banks. Finally, informal savings can provide liquidity (via pawnshops).

Consumers value informal savings channels. The prevalence of informal savings channels reflects both a lack of formal channels and the ability of informal channels to satisfy households' financial service needs – from a livelihoods perspective, the existing informal savings channels may be both suitable and attractive. Nevertheless, the suitability of informal channels from a livelihoods perspective cannot really be tested until formal products are also available. For example, in the case of credit, the use of informal products and service providers decreased once the range of formal products expanded.

Furthermore, informal savings do not help to address macroeconomic needs, which is for funds that can be intermediated into lending and investment. Hence, there is a need to mobilize savings into the formal system through products that would align with people's needs in terms of accessibility, security, flexibility and returns. This can be promoted 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 to private insurers in 2012, Myanma Insurance still maintains a monopoly on 14 out of the 29 insurance products on offer (this can broadly be classified as life, marine, aviation, fire, engineering, third party, comprehensive and miscellaneous). Myanma Insurance Company, being a government-owned enterprise, maintains its monopoly over profitable insurance segments such as liability insurance, third party vehicle insurance, construction risk and some health insurance products recently introduced for private and government employees only. Of these, the biggest portfolio for Myanma Insurance is the third party 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 first for all motor vehicle owners, and the second for all government employees.

Private insurers 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 accident. However, private insurers have been directed to offer the same insurance policies at the same prices, which has limited competition. The excessive control by the regulator has discouraged private insurers from developing innovative insurance products.

General insurance. Insurance companies have done better on the general insurance side. The most popular products are fire, motor and travel insurance. The key driver for uptake of fire insurance is that banks require businesses to take out fire insurance as a criterion for loan eligibility. The uptake of travel insurance is driven by highway bus companies buying travel insurance policies for their customers, while uptake of motor insurance is largely driven by financial institutions requiring vehicle insurance when providing hire purchase.

Life insurance. Life insurance products are limited to endowments and health insurance. 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, some MFIs also provide credit life insurance to clients. This insurance does not come through strongly on the FinScope insurance access strand, however, because many clients see it as a bundled credit product, and as a result probably do not recognize that they are insured. The premium is usually 0.5%–1.5% of the total loan amount. The objective is to cover loans in case of death of the borrower so that the loan burden is not transferred to family members. However, credit life insurance of this type mainly benefits the MFI because the premiums are not actuarially calculated and, at 0.5%–1.5%, are far higher than needed to cover the expected losses from deaths. Some MFIs manage their own insurance fund, which is a latent risk for the MFI sector that is yet to be addressed. Because it is compulsory to subscribe for life insurance at the time of taking a loan, uptake is high. Although the provision of insurance by MFIs is not perfect, over time, as the market develops, the MFIs need to strengthen the provision of insurance to withstand exposure to various risks, at the same time not taking on too much risk themselves. A better risk-mitigation strategy would be for MFIs to broker formal insurance products by acting as agents of insurance companies.

The 2014 MAP Diagnostic highlighted that insurance could play a critical role in addressing risks facing consumers, and also help secure credit when clients could not offer collateral. However, the market did not provide for products to address the key risks faced: e.g. healthcare cover, agricultural insurance or credit 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 (especially) healthcare and life as well as for crop and livestock risks. This would require regulatory adjustments to allow both Myanma 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 faced. But there are still very few insurance products that address such risks. There is a pressing need to understand the risks to which households are exposed and the impact of such risks, in order to design appropriate strategies and products to manage these risks.

Challenges

Besides being restricted by a lack of capacity, minimal investment options, and shortage of data on which to base risk analysis, the insurance sector faces regulatory controls on product features and pricing. This has made insurance products unattractive. Insurance providers appear to be offering only basic insurance products with differentiation only in terms of service. There are no products to mitigate the greatest risks for the poor: health, crop, and livestock risks.

The majority of Myanmar adults lack familiarity with insurance and the advantage of mitigating 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 to develop innovative products focused on risk management, while generating awareness of insurance through financial literacy programmes.

It will also be important to address the issue of limited distribution of insurance products, by promoting partnerships and leveraging the networks of FSPs in rural areas. Furthermore, it will be important to increase the capacity of human resources and skilled insurance professionals. The growth in penetration of mobile phones and mobile money can point to new distribution channels for collection of insurance premiums. It is also seen that the growth of cooperatives provides an opportunity to leverage them as agent networks in order to increase the accessibility of insurance products – particularly agro-insurance products – in a similar manner to how loans derived from the China EXIM Bank facility were disbursed among farmers. However, before cooperatives can be used to broker and distribute insurance products, a strong governance and monitoring structure for cooperatives will need to be put in place, and their skills and capacity developed in line with the new role envisaged – particularly given that cooperatives are staffed by volunteers.

5.2.4 Payments

In the past few years, payments have undergone considerable changes with the entry of new providers and the introduction of new products. Changes have mostly been driven by 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 much more 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 increased uptake of debit/credit cards is a normalization process (given previously very low uptake), as well as a positive sign of moving towards a less cash-dependent economy, although it is still at a very early stage. It is also a sign that people are 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 been providing some digital banking services (e.g. ATMs, POS and debit cards). The latest product entry is the launch of mobile money and transfers, following the CBM's Mobile Banking Directive of 2013. The first mobile wallet, EasyPay by Myanmar Mobile Money, 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 2014 MAP Diagnostic identified the need to significantly increase the supply and availability of electronic payments, through mobile payments platforms and electronic payments networks 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/digital wallets are provided by MFSPs 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 along with identification submitted. 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. With MFSPs being granted licences, the landscape of domestic remittances is changing; MFSP agents can transfer money to any person in the country, with the sender providing the agent only with the receiver's mobile phone number and ID number, and the 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, with the implementation of the CBM-NET and a mechanized clearing house, it is now possible to conduct inter-bank account–account transfers.

Single integration between FSPs. Interoperability between FSPs is seen as a challenge for moving from a cash-based to a less cash-dependent economy. Currently, facilitated by the MPU, partial interoperability exists between banks. Further integration between banks, MFSPs and aggregators exists through mutual partnerships, often resulting from 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 limited.

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 money transfer to any part of the country or outside the country by providing the receiver's information and paying the hundi agent in one location, with the money being received by the receiver in another. Hundis charge slightly less favourable exchange rates than banks do, and make 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 driven by the fact that it is simple and flexible; there is no need to open a bank account or satisfy KYC requirements; there are no transaction limits; and the money is 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 being offered by MFSPs domestically, these providers cannot generally offer such products/services 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; the latter then make payments to the remittance receivers at branches of Myanmar banks. This is important for migrant workers, many of whom do not have all the legal documentation required for making a bank transfer.

The transactional limit imposed on MFSPs means that even for domestic remittance, beyond a certain value people still have to depend on the hundi system (i.e. when large sums of money transfer are needed).

5.3 Financial sector regulation

5.3.1 Overview: Reforms undertaken but challenges remain

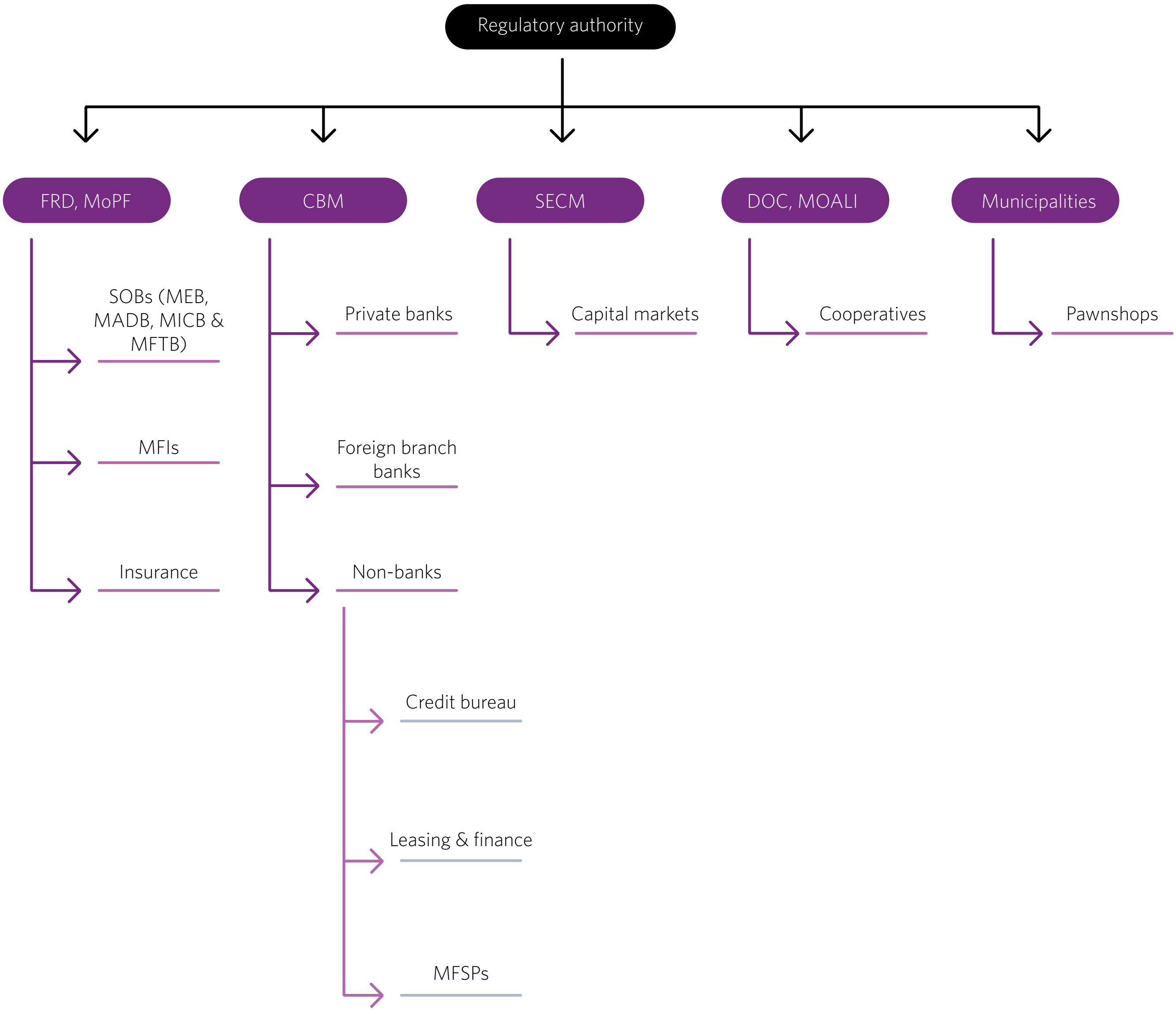
Myanmar's financial sector has historically been tightly regulated, which has constrained its ability to evolve and develop in response to changing needs and services. However, since 2011, there have been extensive regulatory reforms that have supported the accessibility of financial services and development of the FSP ecosystem. Although these reforms are still in progress and thus not yet fully stabilized, they have helped to move the regulatory framework towards alignment with international standards and improve the general public's trust levels in the banking sector. The extent and effective implementation of these reforms, however, remain a challenge, as they still lag significantly behind modern international standards in some areas and in others remain unduly restrictive, thereby inhibiting financial sector growth and development. Furthermore, delays in introducing supporting regulations and directives under new legislation have impacted negatively 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 go through a period of adjustment.

Figure 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 (see Figure 39). Lack of coordination and communication within this diverse group of institutions could lead to unnecessary delays, policy conflicts and red tape. In addition, it is unlikely that all institutions with regulatory powers have sufficient capacity to manage risks. The new FIL (2016) has tried to address fragmentation by providing additional powers to the central bank; nonetheless, the regulatory landscape is still fragmented. In the longer term, some rearrangement of regulatory responsibilities should be considered.

The current regulatory structure is far from ideal and not in line with most international practice. It is generally not considered good practice for government departments to be directly involved in regulation and supervision of financial institutions, as FRD is currently; governments are usually responsible for policy formulation and implementation, and not direct regulation and supervision. Hence, a wide-ranging review of the current regulatory structure of financial institutions should be undertaken. Several possible reforms could result. One option would be to separate responsibility for regulation between deposit-taking financial institutions (e.g. banks and deposit-taking MFIs) and other financial institutions. The former are typically the responsibility of the central bank. The MFIs could fall under a non-bank regulator (responsible for insurance, pensions, capital markets, other – non-deposit-taking – lenders and so on). This latter option could be met in the longer term by spinning off FRD as an independent regulator (independent of the MoPF), responsible for non-bank institutions that do not fall within the CBM mandate, and perhaps combining it with the capital market regulator, SECM.

Figure 39: Financial sector regulatory institutions

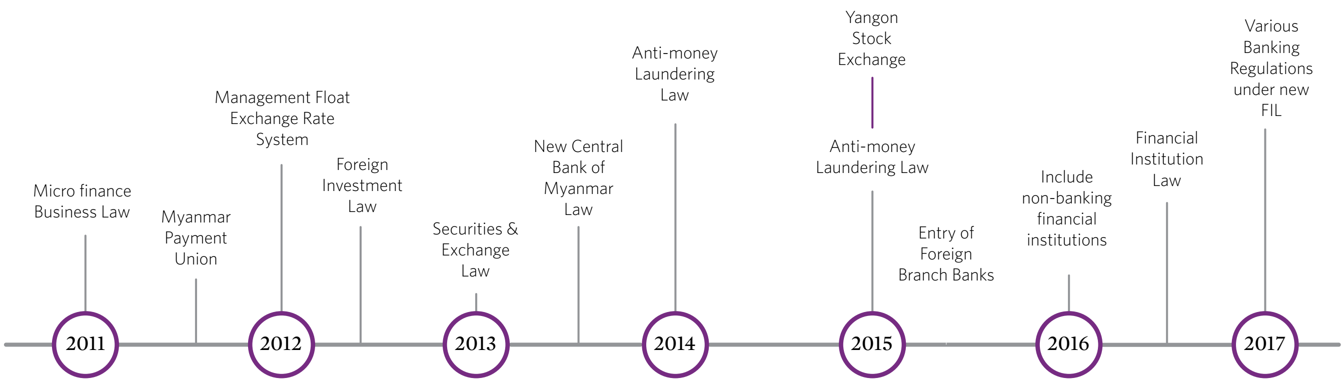


Source: Authors

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.

Figure 40: Timeline of key legal and regulatory reforms



Source: Authors

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 the CBM to develop effective regulation and supervision of 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 provisions of the law are as follows:

- Its gives power to the CBM to license, supervise and regulate banks and foreign bank branches.
- Its gives power to the CBM to register and regulate selected NBFIs.[26]
- Its gives power to the CBM to regulate, supervise and monitor the payments, clearing and settlement system.
- It gives banks permission to enter into provision of MFS. Banks are also permitted to venture into insurance, securities broking and any other activity related to banking business, as approved by the central bank, via a separately incorporated subsidiary.
- Its gives power to the CBM to license and regulate the operations of private credit bureaus that access information from banks, NBFIs and scheduled institutions.[27]
- It is not applicable to scheduled institutions. Nonetheless, these institutions shall be subject to the whole or any part of the FIL, if the MoPF upon the recommendation of the central bank, decides upon need.

[26] *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 determined by the central bank.*

[27] *Scheduled institutions are not established under this law, but under another law, and provide financial services for a specific group or a community. Such institutions include: Rural Development Bank, Agriculture Bank, MFIs licensed under the Microfinance Business Law, credit societies and the Postal Savings Bank.*

Regulations under the new FIL

The central bank 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", 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 constitutes in aggregate a liability amounting to 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.
- ***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 risk 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 the banks are adequately capitalized, 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.

On the basis of 2017 data on banking sector capital, the impact of the large exposure limit on maximum loan sizes can be illustrated. 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).[28]

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		

[28] *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).*

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%).[29] 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 is not yet applicable to scheduled institutions – e.g. 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, lack of coordination between them can result in conflicting and contradictory polices. Similarly, effective collaboration is required to ensure better understanding and support among 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 confusion over policy regarding extension of credit to MFIs. To ensure 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.

  The MAP supply-side qualitative interviews (2018) indicated that the banks were unwilling to take risks while providing credit as they could not include a risk premium in their lending rates. 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%–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 been highly conservative with regard to providing small-scale credit – e.g. to MSMEs, whether from urban or rural areas – because the cost of serving this credit is high compared to serving large credit portfolios.

  Strong arguments can be made in favour of relaxing the current interest rate restrictions, especially for lending.
- ***Narrow interest rate spreads:*** the combination of liquidity requirement and lack of investment avenues for liquid funds has reduced banks' effective return on funds (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 due to the interest rate cap has served to discourage banks from developing and adopting innovative banking products and venturing into rural areas, or from lending to urban MSMEs.
- ***Impact of 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 at September 2017, private banks had liquid assets amounting to somewhere in the range

[29] 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.

[30] 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.

of 24%–34% of deposits;[30] if they fall at the lower end of this range, private banks 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 is neither exceptional nor unreasonable for a banking system with latent risks, a history of losses to depositors and, therefore, 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 because the government might have to pump in taxpayers' money to rescue the banks in the event of large default, which could undermine the stability of the banking sector.

The SOBs have been escaping regulatory measures and have weak internal audit, risk management and IT systems. On the other hand, the private banks have been complying with regulations, investing in infrastructure, and competing with government-subsidized banks for market share. Despite the disparity – in terms of regulations and compliance – between private domestic banks and SOBs, the private banks have been advancing rapidly in the market through quality services and better products offering, and have been gaining market share.

Converting overdraft facilities and managing NPLs: due to past banking practices, almost 90%[31] of banks' loan portfolio is estimated to be in the form of overdraft loans, which are backed by collateral. The commercial banks are likely to struggle while converting these overdraft loans to term loans within the stipulated timeframe as the businesses are accustomed to 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 have mentioned experiencing challenges in clearing loans, citing slow business growth and growing competition as the reasons. As per the regulatory provision, all the banks should clear their overdraft facilities for at least two weeks annually, and the overdrafts loans that are not cleared should be treated 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. Nontheless, the past lending practices could increase the NPLs of the banking sector in the near future – although to what extent, there is no clear information.

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 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 domino effect and a loss of confidence in the banks.

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

- ***Deceleration of branch and 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 2–3 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 has caused saturation of many of the 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. A useful change would be a revision to the regulations to provide for agency banking, which would enable banks to use third parties – such as the post office – to provide banking services.
- ***Establishment of credit bureau:*** under the FIL 2016, the central bank issued a licence to establish a credit bureau. The absence of a credit bureau has been affecting 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 banks' capacity to take and assess risk 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 operation as soon

[31] *This figure was derived from consultations with bankers.*

as possible. Furthermore, the credit bureau should extend its services to MFIs, cooperatives and other credit providers in a gradual manner.

5.3.3 Microfinance Directives (2016)

The growth of the MFI sector following the enactment of the Microfinance Business Law in 2011 has been significant. The sector is playing a key role in enhancing financial inclusion in Myanmar. By early 2018, MFIs were serving more than 3 million people.[32] To further strengthen and regulate the sector, the Microfinance Business Supervisory Committee (under the FRD of the MoPF) in August 2016 introduced directives under the Microfinance Business Law (2011). Some of the key highlights of the directives are as follows:

- Raised minimum capital level and eligibility criteria for seeking a deposit-taking MFI licence[33]: minimum capital 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-indebtedness[34] 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.
- There is stringent loan loss provision: a 100% loan loss provisioning requirement for loans past 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. As multiple borrowing (from more than one MFI) is common among borrowers due to competition among MFIs, the directive has introduced client protection principles; it aims to ensure that the microfinance services do not cause client over-indebtedness and that MFIs meet the clients' needs and provide responsible and accountable financial services. Aiming for sustainable and robust growth of the sector, the directive has also raised the minimum capital requirement, and allowed MFIs to mobilize voluntary deposits from 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 blanket regulations have been prescribed for all types of MFIs regardless of their scale and nature. This affects 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; this blanket regulation has directly affected those MFIs that do have the capacity to innovate new products and lend more to clients with higher credit and risk appetite.
- ***Limited savings mobilization:*** MFIs face various challenges in meeting their funding requirements, especially with rapid growth. 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), who are usually people with low income and low saving capacity. Restrictions on compulsory and voluntary savings from members have also restricted MFIs' ability 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 – providing flexible credit and savings instruments. Informal service providers are often preferred over formal providers because the former offer flexible terms and conditions (e.g. acceptance of gold/jewellery as collateral for credit), enable small-value transactions, offer simplicity of operations, and have established high levels of trust with their clients,

[32] MMFA (http://mmfamyanmar.info/)
[33] A "deposit-taking" MFI is not allowed to take deposits from the public, only from members (borrowers), and within strict limits.
[34] MFIs have to present the report with client business analysis data at the time of FRD inspection. The report must include detailed documentation including number of late payment clients, loan type, late payment area, type of business activities, reason for late payment, proof of clients' credit history, income generated by business activities, family members, family income and expenses, and repayment capacity.

and also because saving with a reputable informal savings provider serves to increase an individual's social capital. 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. If these informal institutions are graduated in terms of scale, size and operations, they could be gradually brought under a minimal reporting regulatory framework with a focus on consumer protection. There is also the possibility that MFIs could be used to mobilize savings into the formal sector. MFIs with adequate capacity should be allowed to mobilize deposits from the general public in a controlled and gradual manner to ensure MFI credibility and 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. 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.

  In order to encourage more MFI participation in rural areas, MFIs should be incentivized by providing more favourable regulations such as exemption from the interest rate cap, or allowing a higher cap. The incentive would drive MFIs to explore markets and develop rural portfolios with tailored products and services catering to local needs. Additionally, interest rates can be expected to decrease in due course as a result of competition between MFIs. Besides inadequate margins (effective spread), other risks – e.g. safety concerns, ethnic outreach complexities, and inadequate capital – have slowed the growth of MFIs in the rural areas.

- ***Interest rate liberalization:*** MFIs have failed to match the strong need for credit because of limited sources and high costs of funds. The prospects of borrowing from domestic banks are limited because banks require collateral, which MFIs cannot provide. Only a few domestic banks provide non-collateral-based lending to MFIs, which is at an early stage, supported by various programmes. The average cost of funds for MFIs reflects interest costs, and foreign exchange risks (for foreign loans). The spread between borrowing and lending rates is restricted by the 30% interest cap on loans. This spread must cover operating costs as well as the risk premium necessary to cover loan losses. Restrictions on the spread due to the interest rate cap have impeded the growth of MFIs in recent years – especially in the rural areas, where cost of operations is high.

5.3.4 Mobile Financial Services Regulations (2016)

The MFS Regulations were issued by the central bank under the new FIL, and superseded the mobile banks directives 2013. The law is applicable to all MFSPs; 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 are:

- They provide a framework for operators, agents and transactions.
- A commercial bank seeking to conduct MFS shall apply to the central bank for product approval.
- Non-bank MFSPs must maintain a trust account at a licensed bank that matches the balances held in the MFS account. The return or interest earned from the liquid assets in the trust account shall 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 spread financial services across Myanmar – a country in which physical branch expansion is a costly affair, given that the population is scattered and infrastructure is limited. Furthermore, the entry of MNOs into the financial landscape is expected to drive uptake of MFS. MAP and FinScope cross-country experiences suggest that the partnership between MNOs and banks can significantly expand the reach of financial services by leveraging the distribution network of the former and the established levels of trust/credibility and financial expertise of the latter.

Challenges and outstanding regulatory issues

- ***Lack of interoperability:*** under the regulations, MFSPs are required to implement MFS that are interoperable with other MFSPs. However, as the market is in its infancy, interoperability between MFSPs is not yet available. To accelerate the uptake of MFS in Myanmar, interoperability between various accounts at different types of financial institutions is crucial. In addition to facilitating quick, affordable and easy money transfers, interoperability will help drive the uptake of other financial products using mobile money: savings, credit banking, insurance and remittance.

- ***Savings and credit mobilization:*** the regulations do not clarify the ability of MFS to mobilize savings and credit. Greater clarity would help unlock the considerable potential of MFS to extend products beyond money transfers and remittances. In particular, clarification is needed as to whether MFSPs are permitted to pay interest on mobile money balances.
- ***Impact of interest rate cap:*** MFS providers consider the interest rate cap a hurdle to providing credit through mobile money. The experience of other countries is that credit provided via mobile money is typically low-value and short-term (starting with a week or a month, with maturity extending and the value of available credit increasing when loans are repaid on schedule). Furthermore, with the introduction of the credit bureau, credit information about uptake of such products could be leveraged to allow consumers to access larger credit amounts 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 enabling environment for achieving financial inclusion goals have either been introduced or are in the pipeline:

- ***Credit information reporting regulation:*** issued by the central bank in 2017, it provides the basis for the establishment and operation of credit-reporting entities such as credit bureaus. Since the central bank in May 2018 granted a licence to Myanmar Credit Bureau, the establishment of such an entity is expected to increase financial access for borrowers, and help banks evaluate creditworthiness and improve their credit assessment procedures.
- ***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 1996, is currently in the final phase of preparation. The new law is expected to liberalize the sector by addressing various restrictions and limitations and opening up the sector. It is also expected to provide a level playing field for the private players, given that currently the landscape is dominated and controlled by the government-owned Myanma Insurance Company.
- ***Secured Transaction law:*** the central bank is currently working on this law; the law 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 these will unlock more financing for MSMEs, farmers, traders and infrastructure operators.
- ***AML law, 2014 and guidelines:*** the law has played a key role in establishing the banking sector on a par with international norms, and has provided the necessary legal and regulatory framework for anti-money-laundering activities. There is some flexibility; 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 overall environment for attracting foreign investment into the financial sector. The laws allow foreign ownership of up to 35% in domestic companies, while also opening up the securities market for non-Myanmar investors. Similarly, these laws have helped streamline foreign investment procedures, while providing corporate tax reductions.

6 Conclusions, gaps and opportunities

6.1 Conclusions

The preceding chapters of the MAP Refresh Myanmar report have examined the changes in the country with regard to financial inclusion since the 2013 FinScope Survey, the 2014 MAP Diagnostic report, and the 2015 Financial Inclusion Roadmap (2014–2020). The current report identifies the major changes that have taken place over the five-year period with regard to financial service usage, the changing roles of different FSPs, and the varying degrees of impact of regulatory reform.

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, benefitting urban and rural areas, women and men, alike. It has also benefitted all of the target market segments – albeit to a lesser extent in the case of the farmers group.

The improvement in financial inclusion complements the broader story of rapid change and modernization in Myanmar – economically, socially and politically – as would be expected, given that the liberalization process has had a widespread impact.

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 smaller scale. Together, these changes have served to transform financial inclusion.

The use of financial services from formal providers increased sharply between 2013 and 2018: from 30% to 48% of adults. Informal FSPs – e.g. moneylenders, hundis – 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, informal FSPs' importance declined over the five-year period; fewer people are now dependent solely on informal FSPs – which, although typically convenient, are also typically expensive.

Despite the rapid growth of some providers and the rollout of new products, the types of imbalances that have been apparent in other countries in which MAP operates – between urban and rural areas, and between men and women – have not been apparent in Myanmar.

One important change from 2013 is that the previously dominant position of MADB as a credit provider, particularly to farmers in rural areas, has to some extent diminished. This is due in 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:

- Serving the formally employed/salaried market, which has been growing very fast.
- Banks serving unmet demand (not well serviced by SOBs) from the fast-growing private corporate sector and higher-income individuals.
- 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.
- The rollout of bank branches and ATMs in easier-to-reach urban and semi-urban areas.

What do the next five years hold? The question is how the dynamics will play out over the next five years: what are the priority interventions that can continue the achievement of major gains, and address the gaps that have been identified? Without action, there is certainly a risk that progress could slow.

Banks. Banks have expanded rapidly but are now likely to focus on dealing with the impact of new regulatory requirements resulting in changes to the way in which they lend, and how NPLs are dealt with, which might require some reining in of growth, as capital and management resources come under pressure. It may also require bank mergers and recapitalization. Even once they have dealt with this, banks will be unable to start moving down-market and serving smaller and risker clients unless they develop new approaches to lending, skills and products.

MFIs and cooperatives. Similarly, MFIs and cooperatives might find their growth constrained by lack of access to funds that they can lend out, as well as low capacity in terms of management skills and systems as their operations become larger and more complex. Several aspects of current regulation limit the potential growth of MFIs.

Money and DFS. There are many new opportunities arising from the early-stage development of mobile money and DFS, which can easily move beyond money transfers to provide a channel to facilitate payments and access to savings, credit and insurance affordably and to otherwise hard-to-reach clients. But an important issue is whether this will happen organically, as the mobile money ecosystem reaches critical mass, or whether interventions are necessary to promote or hasten growth.

Need for intermediation. From a broader, macroeconomic, financial-system perspective, the biggest priority is to transform at least some of the considerable savings held in informal forms – in cash or in kind – into formal savings in formal financial institutions, so that such savings can be intermediated into 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 – MSMEs and farmers – extending access to credit needs to be handled carefully. 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: fewer restrictions on the granting of credit; improved credit risk appraisal skills on the part of financial institutions; 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 run by the self-employed. The larger enterprises – medium-scale – 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 best be met by banks and perhaps larger MFIs, given reforms that will enhance those institutions' ability to provide sustainable credit. However, the vast majority of MSMEs are small or micro enterprises, whose financial needs are different; such businesses might be better served by MFIs and MFSPs than by banks. Their 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 (e.g. by "family and friends").

Ongoing regulatory review. With the rapid growth and development of the financial sector and its different components, it will be necessary to keep the regulatory structure under review, and align it with international best practice, especially as non-bank deposit-taking institutions grow in size.

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

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 will support the continued growth of MFIs will benefit women in particular.

Other initiatives that can improve womens' financial access include actions to support the informally self-employed. On the credit side, measures to improve access on the part of informal MSMEs to micro-loans – either unsecured or secured against receivables – would benefit women. Furthermore, access to unsecured credit via mobile money (i.e. DFS) would help to overcome some of the constraints women face.

Women also constitute the majority of the dependents target market group, and are supported by transfers from other income earners; thus, making improvements in the efficiency of remittances – e.g. by extending DFS – will benefit women.

One of the most important focus areas, in terms of improving financial inclusion for women, is infomal savings and loan groups because their membership is predominantly women. Supporting 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 to formal financial products/services.

Other as-yet-unexploited opportunities. There are unexploited opportunities in Myanmar that can be further developed to yield financial inclusion gains in coming years.

While foreign banks and insurers have entered the Myanmar market, thus far their roles have been heavily restricted and their potential impact in terms of modernizing the financial sector, improving efficiency and extending access further is yet to be fully tapped. Joint ventures have also not yet been permitted between domestic and foreign entities, which further restricts the scope for innovation. And domestic insurers are restricted in the range of products they are permitted to offer, while the state-owned Myanma Insurance Company enjoys various unfair advantages that are holding back the private insurance sector.

At the same time, the SOBs have not participated in the dynamism of financial sector development more generally, and their position has diminished in relative terms over the five-year period. 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 built upon positively. Nevertheless, in the short to medium term, the focus of SOBs will be consolidation and reform rather than expansion.

Gaps, opportunities and actions

The following sub-sections highlight the main gaps, opportunities and possible 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; as a delivery channel rather than a product/service per se, DFS encompass and 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, for further elaboration in the forthcoming updated financial inclusion Roadmap. The report concludes with thoughts on strengthening consumer protection and financial literacy.

6.2 Savings

Encourage people to save formally, by providing more options. In Myanmar, savings behaviour is heavily focused on informal channels and assets, reflecting a lack of choice and access to formal savings products, on the one hand, and the perceived benefits of saving informally, on the other:

- Currently, only *banks* are allowed to accept deposits from the general public; yet, banks are mainly 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 the 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, ability to accommodate low-value saving, and building of users' social capital), even though for some products/services the pricing may be onerous or exploitative.

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

  Individuals and households would benefit 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*, rather than, as currently, being restricted by the lack of formal options.

  In order to overcome the limitations of the traditional banking channel, as a starting point to encourage formal savings it is thus necessary to improve ease of access (e.g. increase the number of touch points, introduce remote account opening based on e-KYC) and value creation (i.e. availability of low-cost savings products that can accommodate even low-value savings).

Allow other formal providers to participate. Cooperatives and MFIs alike have branch networks that are more widely distributed across the country, but existing regulations prevent them from mobilizing savings from the general public. Because of the segments they work in, though, these institutions are better placed than banks are to mobilize savings from the people in the semi-urban and rural areas, where, as we have seen, banks do not have as much presence.

Permit MFIs to customize voluntary savings products. MFIs should be permitted to extend and adapt the current voluntary savings products they offer, in order to be able to cater to varying customer savings needs (e.g. for education fees, consumer durables etc.).

Extend deposit-taking capacity of MFIs and cooperatives. Going forward, FRD should gradually allow those MFIs with 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 with 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 regulatory and supervisory capacity.

For these reasons (and also because cooperatives are staffed by volunteers), deposit-taking by *MFIs* should be considered before deposit-taking by cooperatives, and deposit-taking by the latter should be restricted to members only. To contain risks, the amount of deposit mobilization can be capped, based on institutional capacity. Moreover, greater supervisory monitoring of compulsory savings accounts and compliance with liquidity standards is needed.

Expand cooperatives. Cooperatives should be given more freedom and supported to expand in an orderly manner into larger and more efficient institutions. For cooperatives that are already large, it may be necessary to move regulation away from the DOC to a financial services regulator. The regulations should facilitate a wider portfolio of financial services and create a favourable environment for cooperatives and formal FSPs to collaborate. In addition, it will be important to build the capacity of the DOC.

Link informal savings and loan groups/Su Mae and formal FSPs. Informal savings and loan groups provide a useful alternative savings channel for rural households, and particularly for 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 build access to formal saving services (which can also unlock access to credit) for low-income consumers, especially women. Savings of such groups could be deposited via mobile money in accounts at banks or MFIs. Examples in other countries include the development of specialized informal savings and loan mobile apps that allow members to track their savings contributions and borrowing, and group cash deposits and withdrawals via mobile money into a bank or MFI account.

Mobilize savings via MFSPs. 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. The MFS can particularly drive growth in the number of low-value savers, as existing formal financial institutions have failed to accommodate such depositors. 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 MFSPs to roll out savings products via their mobile money/MFS accounts, including the payment of interest. Developing digital account opening and e-KYC processes would also help drive uptake of digital savings accounts. MFS accounts can also be linked to bank accounts. In order to protect depositors, the usual rules requiring all mobile money balances to be backed by trust accounts in a licensed bank should continue to apply.

Piggyback on post office network. Post office branches can also be used as a mechanism for mobilization of savings (and other financial services); they could act as agents for banks and other financial institutions. 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 needs to be developed.

Review 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 but particularly relevant to savings. All institutions involved in deposit mobilization from the general public, or at least those above a certain size, could then be brought under the purview of the CBM, with FRD focusing specifically on the NBFIs. Saving mobilization by MFIs could in due course be brought under the deposit insurance scheme.

Simplify and modernize interest rate calculation to encourage savings. The interest rate calculation on bank deposits varies across banks, but generally the calculation methodology disadvantages savers and does not encourage bank deposits. For 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. With technical support from the CBM, banks should 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.

Simplify rules related to withdrawal, fees and charges. Besides the restrictive interest rate calculation methodology, rules vary across banks regarding various fees and charges. For instance, banks charge fees on transactions such as funds transfer, withdrawals, early repayment and account closure, among others. The CBM should issue a directive on banking service fee guidelines, which will help to bring transparency and uniformity and would minimize unnecessary costs for depositors and borrowers.

Restrictions on foreign bank operations hindering banking sector dynamism, innovation and efficiency. Foreign banks should be allowed to operate without restriction other than the normal, internationally accepted regulatory and supervisory requirements; competition will raise the level of services for clients but also help make the local banks more competitive.

6.3 Credit

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

- Liberalize interest rates.
- Facilitate both local and foreign borrowing.
- Remove restrictions on taking up collateral.
- Allow deposit mobilization from the public (with appropriate regulatory reform).

Increase role of cooperatives in credit provision. The promotion and expansion of cooperatives under government strategy has established them as important FSPs. The execution of the China Exim Bank loan for disbursing credit to farmers through cooperatives' wide networks has enhanced their credibility. However, whether cooperatives will be able to borrow money – from either internal or external sources – after the Exim Bank loan remains to be seen, especially given the foreign-loan repayment challenges resulting from exchange rate changes. Despite the fact that cooperatives report low levels of NPLs, cooperatives' governance, credit assessment, monitoring and evaluation mechanisms are weak. As cooperatives' role expands and their portfolio grows, there has to be a focus on strengthening these areas – by introducing specific financial services regulations and supervision rather than just regulations applicable to cooperatives in general. There is also a need for building the capacity of cooperative managers to manage larger and more diversified financial services.

Well-functioning credit bureau. In May 2018, the CBM issued a licence to establish a credit bureau in Myanmar. The absence of a credit bureau has affected the nature of bank lending, which is mainly collateral-based given that little information on the creditworthiness of borrowers is available. This has impacted banks' capacity to take and assess risks and provide non-collateralized loans. With support from the CBM, the credit bureau should commence operations as soon as possible, focusing on bank credit. A strategic plan should be developed for the extension of its services to MFIs, cooperatives and other credit providers in a gradual manner. In the long run, the focus should be on expanding and further strengthening the functioning of the credit bureau with respect to customer details, credit reporting and credit risk assessment mechanisms. A well-functioning credit bureau would enable formal financial institutions to assess the creditworthiness of clients and provide them with pre-approved loans that could be used in cases of emergencies or to meet their short-term financial needs (mainly working capital), thereby preventing their approaching informal credit providers. A credit bureau, especially once extended to MFIs, would provide information on multiple borrowing (from different institutions) and hence allow lenders to obtain a more comprehensive picture of borrowers' credit exposures and cases of over-indebtedness. In the meantime, alternative credit information-sharing initiatives coordinated by the MMFA should be encouraged.

Encourage banks to lend to the agricultural sector and MSMEs. Banks have limited agricultural portfolios, and if lending to the sector is to be expanded they will need to strengthen their capacity for doing credit appraisals for agricultural clients. It will be important to understand the agricultural value chain, harvest cycles, food prices and seasonality.

Similarly, the majority of banks do not understand how MSMEs operate, and thus MSMEs are categorized as high-risk borrowers by virtue of their insufficient assets, low capitalization, and lack of financial records. For this reason, the loans offered by banks are based on real-estate collateral – yet many MSME clients lack collateral.

Therefore, banks need to shift from a collateral-based financing model to a production-based or cash-flow-based model of evaluating creditworthiness and to develop products to cater to these segments. Recent innovations – e.g. those by Yoma Bank, MSME wholesale loans to MFIs, and the JICA TSL project – will need to be continued because they help encourage bank lending in the priority segments of farmers and MSMEs.

Need for equity capital rather than credit. 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.

MADB reform. MADB is the largest provider of credit in the economy (in terms of the number of borrowers) and provides 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 future sustainability and support for the modernization of the agricultural sector.

Prioritize establishment of 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 towards the MSME and agricultural sectors alike. The implementation of a Secured Transaction Law and operation of the registry should be prioritized. The registry should have an online access system to facilitate easy usage of the service across the country.

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

Liberalize 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, as the providers are unable to charge the necessary risk premiums for such credit products. Combined with the floor on deposit rates, this results in a low interest rate spread that makes it difficult to cover operating costs and credit risks; this, in turn, encourages banks, in particular, to concentrate on large credit portfolios, which entail lower administrative and monitoring costs.

The CBM should revise the interest rate policy to address these challenges, which are hindering the growth of bank credit and which have also limited 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 higher. Also, to mitigate the low spread and enhance their profit margins, banks have been levying numerous service fees and charges on their products and services, thus discouraging end users of 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 restricting MFI rural expansion. Moreover, as the cost of borrowing is increasing and can be more than 15% after adding in processing/service fees, some MFIs are finding borrowing difficult to sustain and are less willing to take risk. For the expansion of formal micro-credit across Myanmar, FRD should allow more interest rate flexibility, such as allowing lending rates to vary by region and sector. In due course, controls on interest rates should gradually be removed and interest rate determination left to market forces.

Allow MFIs to provide collateralized loan. The existing MFI directive does not allow MFIs to accept any form of collateral to extend credit to its members. To enhance formal credit uptake and close the credit gap, FRD should revise existing laws/directives and allow MFIs to accept collateral to reduce credit risks, though this should not become a substitute for better credit risk assessment skills (as it has become with the banks).

Reduce barriers to MFI borrowing. Borrowing from a foreign financial institution is a primary source of funds for many MFIs. Nevertheless, there are numerous operational challenges that these MFIs need to address to access these foreign funds. The Microfinance Directives (2016) require MFIs to receive prior approval from the central bank when borrowing in foreign currency or MMK backed by foreign currency. Likewise, the MFI requires FRD approval, whether the loan fund is borrowed from inside or outside of the country, and this in turn often involves (unnecessary) documentation and approval. There are also lengthy and unnecessary approvals required at the state and regional levels, and such impediments should be removed. To facilitate and support formal expansion by MFIs, FRD in collaboration with the CBM should minimize restrictions on borrowing by MFIs. A proper guideline with adequate timelines would further smooth the borrowing process. The FRD cap on the size of loans should also be removed as MFIs are already subject to leverage (debt-equity ratio) guidelines. Improving access to MFI credit would particularly benefit women, who make up the majority of MFI clients.

Credit through MFSPs. The expansion of MFS provides an opportunity for an additional credit channel, especially for short-term unsecured loans. This is usually done through a partnership between a mobile money provider, a licensed credit institution (such as a bank or MFI), and a fintech company that provides the credit-scoring algorithm. Credit eligibility can be determined by the subscriber's record with regard to such factors as airtime purchases, mobile money usage, and previous borrowing history. Such products should be explicitly permitted, and should be exempted from the cap on lending interest rates.

Development of the credit ecosystem. Apart from the interest rate cap policy, regulations on capital adequacy and liquidity may potentially have an impact on the growth of credit. Banks that are unable to meet the capital and liquidity requirements would have to adopt conservative lending policies. One way of addressing this is to allow domestic banks to raise capital from investment from, or via joint ventures with foreign banks. Banks should also be subject to the International Accounting Standards (IAS) and audited appropriately.

More detailed information needed on informal lending. While the prices informal FSPs charge (effective interest rates) may appear high, these providers play an essential role (a combination of formal and informal credit, for instance, is common), and the high interest rates may largely reflect the high transaction costs of low-value transactions, and the risks (e.g. of missed repayments). Nevertheless, due to the lack of regulatory mechanisms there is always a risk of fraudulent practice or customer exploitation. Informal FSPs operate to a large extent "below the radar", and there is a need for more detailed information on the sector.

6.4 Insurance

Agricultural insurance. There is an absence of financial products available in the agricultural sector relating to the mitigation of risk. These risks mostly relate to crop failure and loss of livestock as a result of pests, plant diseases and natural disasters, as well as risk caused by price volatility. Savings and credit are currently the main financial tools used to manage such risk. However, this can have a bigger negative impact on household incomes than using insurance. Since a large section of the population is engaged in farming, the introduction of affordable agro-insurance products could help manage or mitigate losses. Index-based insurance products similar to those used in other developing countries (Area-Yield Index and Crop Weather Index insurance) can be explored, and pilot studies should be undertaken to test 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.

Health insurance. Currently the health and medical insurance products offered are limited to government employees and other formally employed people. The FinScope and MAP Refresh 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, there could be benefits to introducing or 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 be affordable. It is also necessary to strengthen the social security insurance system for better health treatment options.

Liberalize the insurance sector. As the enactment of the FIL has opened up and liberalized the banking sector, the new Insurance Business Law, currently under development, is intended to liberalize the insurance sector. Given that insurance penetration 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 favourable competitive environment, which will help to introduce much-needed insurance products: e.g. 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 pensions and annuities, which help drive capital accumulation and build insurance distribution infrastructure. There is high potential for development of long-term pension/annuity insurance products, which can help in mobilizing savings as well as serving as a form of security during retirement.

6.5 DFS

Interoperability key to promoting DFS. DFS usage is still in its infancy but holds the potential to drive improvements in financial inclusion in a country where the reach of formal FSPs is limited and 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 them and other formal FSPs, limits the use of DFS to promote financial inclusion.

Although the regulations push providers to establish open-access systems and interoperability, the lack of infrastructure/platform allowing interaction between the various service providers is a barrier. Only single integrations currently exist as a result of collaboration between providers. Development of a national switch that connects the banking sector, MFSPs 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, upgrading the current system/platform to facilitate interaction and interoperability with other MFSPs is crucial.

Interoperability between the banks. The implementation of CBM-Net has helped 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 clearing instantly and digitally. However, interoperability between FSPs is limited because CBM-Net participation is limited 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. With interoperability, consumers should see more value in using DFS due to increased efficiency and reduced costs of transactions. To deliver value and reduce the cost of transactions through mobile money, new technologies such as QR codes should be adopted for retail payments; implementation of QR codes could virtually eliminate the need for POS devices, thereby reducing the cost of transactions. Though the wide use of smart phones in Myanmar reduces the need for an Unstructured Supplementary Service Data (USSD) channel, 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 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 financial providers in extending services. DFS through mobile money has the potential to create value, and increase usage and reach to a larger population through its large 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 payment via mobile money agents. The CBM should allow MFSPs to roll out savings products via their mobile money/MFS account, including the payment of interest. Moreover, the CBM needs to develop adequate guidelines for the monitoring and supervision of such accounts. Besides savings mobilization, mobile money offers the potential to facilitate disbursement and repayment of credit at rural collection points. Mobile money can be used to distribute micro-insurance products and can serve as a medium for collection of insurance premiums.

Government use of DFS to build scale and encourage use. In order to build trust and encourage the use of DFS for sustainability, the GoM should take the lead in prioritizing digitizing 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, fees etc.) will go a long way towards developing confidence in mobile money among the general public. This could in turn increase the uptake of MFS. The government should slowly introduce pilot programmes to disburse payments such as social security contribution and tax returns directly to the receiver via the mobile wallet (P2G and B2G), which would offer consumers the benefits of reduced risk of misappropriation of funds, improved transparency and less fraud and corruption.

Allow/encourage a sandbox approach for product/service innovation. DFS are based on innovation and creating value for the end users. A sandbox approach is a flexible “test and learn” approach that fosters innovation and delivery of new products and services. The sandbox 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 get a better understanding of new products/services, including their associated operational risks and mitigating factors, through close monitoring and regular interactions and reporting. At the same time, the provider partners – and especially the fintech company or companies (undertaking the technical development) – get more time to build and test the technical and business ideas, instead of spending time navigating complex financial services regulations. Participants are nonetheless required to follow rules on marketing privacy, AML, disclosure, and 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, challenge funds etc. 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 the AML/CFT legislation. Because the initial physical documentation required in order to commence using any type of formal financial product/service is widely perceived as an access barrier, most people prefer to transact with informal providers, where no bureaucracy is involved. The Myanmar authorities should allow remote digital sign-up for uptake of digital products such as mobile money and micro-insurance; easing physical documentation requirements in such cases would likely increase DFS usage. To this end, a specific test programme using a sandbox approach should be undertaken and promoted by field pilots in order to explore and demonstrate e-KYC approaches using a digital platform – an approach that is being adopted around the region by financial regulators.

Low-cost remittance products to be supported by DFS. Using DFS for low-cost remittance products would particularly benefit women, given they constitute the majority of dependents. If the cost of making the remittance transfer is reduced, the value received by the end receiver will be greater. One option worth exploring would be a mechanism to incentivize savings; for example, if the remittance receivers maintained 10% of the remittance value in the account, they would receive a discount or a waiver of remittance costs.

6.6 Financial literacy and consumer protection

Mandatory 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 very low in Myanmar. As the market continues to liberalize, the usage of formal financial services has risen exponentially in recent years; nonetheless, low financial literacy is seen as a key barrier for the uptake of 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) 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.

Financial literacy and awareness programmes to increase understanding. Lack of financial literacy and awareness is among the strongest doorstep barriers. Low literacy rates and awareness levels among consumers have led to low levels of appreciation for the potential benefits of financial services and a general low capacity of the population to engage with formal financial institutions, especially banks. Consumers can be empowered through effective communication using a style that is accessible given the level of literacy in the population, and first-time adopters of financial products/services can be supporting to engage with the service offerings. While MFIs have helped to increase uptake of financial products/services, consumers still lack knowledge of the functions of the product or their possible relevance to their financial needs. The lack of consumer education manifests in such examples as self-employed individuals using business credit to cover family expenses and risk events, and farmers exhausting their savings to meet operational expenses. Potential customers are intimidated by a seemingly complex range of products and services about which they have very little (or no) know-how.

Consumer rights and grievance-handling mechanisms to be put in place (especially for credit and DFS). Despite the provisions in the FIL, the consumer protection, rights and recourse provisions in the financial sector are weak – mostly limited to theory and with unclear guidelines. There is a low level of awareness of and recourse to consumer protection rights. In order to increase uptake of financial services and 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. Moreover, given the disproportionate uptake of credit, it is important to consider the awareness and protection of borrowers, and the risks of indebtedness. The adoption of digital payments requires trust and confidence in the system on the part of users, and if they do not feel adequately protected (including their data and identity) they will be hesitant to participate. In terms of strengthening grievance-handling platforms, it is crucial that people be made aware of the procedures for filing complaints and can do so with confidence and ease. Attention will need to be paid to the enforcement of consumer-protection provisions.

7 References

ADB (Asian Development Bank). (2014). *Myanmar: Unlocking the Potential. Country Diagnostic Study*. Philippines: ADB.

ADB. (2015). *Developing Myanmar's Finance Sector to Support Rapid, Inclusive, and Sustainable Economic Growth*. Available online from: https://www.adb.org/publications/developing-myanmar-finance-sector-rapid-inclusive-sustainable-growth (accessed November 2018).

ADB (2017). *Myanmar: Economy.* Available online from: https://www.adb.org/countries/myanmar/economy (accessed July 2017).

Amin, M. (2016). *Informal Firms in Myanmar*. Enterprise Surveys Country Note Series, No. 33. Informality. World Bank Group, Washington, D.C. Available online from: http://documents.worldbank.org/curated/en/204971482736208631/Informal-firms-in-Myanmar (accessed January 2018).

ASEAN (Association of Southeast Asian Nations). (2018). *ASEAN Finance Ministers' and Central Bank Governors' Joint Meeting*. Available online from: http://asean.org/asean-economic-community/asean-finance-ministers-meeting-afmm/overview/ (accessed September 2018).

Asia Insurance Review. (2014). *Myanmar: A Glimpse into the Market's Insurance Potential*. Available online from: http://www.asiainsurancereview.com/Magazine/ReadMagazineArticle?aid=35419 (accessed November 2018).

Belton, B., Filipski, M., Hu, C., Oo, A. & Htun, A. (2017). *Rural Transformation in Central Myanmar: Results from the Rural Economy and Agriculture Dry Zone Community Survey*. Research Paper 64, Food Security Policy Project, Michigan State University, East Lansing.

Brandmeir, K., Grimm, M. & Holzhausen, A. (2017). Global Insurance Markets – Current Status and Outlook. *Trend Watch 5*, 05 July 2017. Allianz Research. Available online from: https://www.allianz.com/en_GB/economic_research/publications/working_papers/insurance_markets/gvm050717e.html (accessed September 2018).

Brakenridge, G.R., Syvitski, J.P.M., Niebuhr, E., Overeem, I., Higgins, S.A., Kettner, A. J. & Prades, L. (2017). Design with Nature: Causation and Avoidance of Catastrophic Flooding, Myanmar. *Earth-Science Review* 165: 81–109.

CBM. (Central Bank of Myanmar). 2015. *Annual Report 2014–15*. Available online from: http://www.cbm.gov.mm/content/2708 (accessed July 2018).

CBM. (2016). *CBM Financial Stability Report 2015-16*. Available online from: http://www.cbm.gov.mm/sites/default/files/pdf/fsr_2015-2016_.pdf (accessed July 2018).

CBM. (2017a). *Quarterly Financial Statistics Bulletin* (2017, Volume IV). Available online from: https://www.cbm.gov.mm/content/2507 (accessed October 2018).

CBM. (2017b). *Quarterly Financial Statistics Bulletin* (2017, Volume I). Available online from: https://www.cbm.gov.mm/content/2507 (accessed October 2018).

CGAP (Consultative Group to Assist the Poor). (2018). *Financial Inclusion Insights – Myanmar Analytical Report*.

Chamberlain, D., Bester, H., Smit, H., Loots, C., Mburu, S. Dermish, A. & Gidvani, L. (2014). *Myanmar Country Diagnostic Report 2014*. UNCDF Making Access Possible (MAP) Programme. Available online from: https://finmark.org.za/map-myanmar-1/ (accessed July 2018).

CSO (Central Statistical Organization). (2016). *Myanmar Statistical Yearbook*.

Datamarket. 2018. *Bank deposit to GDP (%)*. Available online from: https://datamarket.com/data/set/28m2/bank-deposits-to-gdp#!ds=28m2!2rr3=o&display=line (accessed July 2018)

DFAT (Department of Foreign Affairs and Trade, Australian Government). (2016). *Women and the Economy in Myanmar: An Assessment of DFAT's Private Sector Development Programs*. DFAT Gender Assessment. Available online from: https://dfat.gov.au/about-us/publications/Pages/women-and-the-economy-in-myanmar-assessment-dfat-private-sect-dev-prog-jan-16.aspx (accessed November 2018).

Enclude. (2015). *Supporting Digital Financial Services in Myanmar – Assessment of the Potential for Digital Financial Services in Agriculture Value Chains*, abridged version.

Ferguson, J. (2013). *Consultancy on Co-operative Systems in Myanmar*. Yangon: Livelihoods and Food Securities Trust (LIFT).

FRD (Financial Regulatory Department). (2016). *Insurance Industry in Myanmar*.

FinMark Trust. (2013). *FinScope Myanmar 2013*. Available online from: http://finmark.org.za/finscope-myanmar-2013/ (accessed July 2018).

FMR. (2018). *Myanmar Financial Services Report 2018*. Yangon: FMR.

Gammage, S., Kes, A., Winograd, L., Sultana, N., Hiller, S. & Bourgault, S. (2017). *Gender and Digital Financial Inclusion. What Do We Know and What Do We Need To Know?* International Center for Research on Women (ICRW).

GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit*). (2016). *Myanmar's Financial Sector – A Challenging Environment for Bank*s, 3rd edition. Bonn & Eschborn: GIZ.

GSMA (2014). *State of the Industry – Mobile Financial Services for the Unbanked*.

Han, B.V.M.M. & Supinit, V. (2016). The Study of SMEs' Contribution to Myanmar's Economic Development. *International Journal of Management and Commerce Innovation*s 3(2): 665–662.

IFC (International Finance Corporation). (2013). *Microfinance in Myanmar: Sector Assessment*.

IMF (International Monetary Fund). (2017). *Myanmar Selected Issues*. IMF Country Report no. 17/31.

International Growth Centre. (2014). *Mobile Payment Services in Developing Countries*.

International Growth Centre. (2017). *Myanmar Remittances*. Reference number: S-53405-MYA-1.

ITU. (2016). *Statistics*. Available online from: https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx (accessed September 2018).

JICA (Japan International Cooperation Agency). (2014a). *Preparatory Survey on Two-step Loan Project for Agriculture and Rural Development in the Republic of the Union of Myanmar*. Daiwa Institute of Research Ltd, Sanyu Consultants Inc.

JICA. (2014b). P*reparatory Survey on Two-step Loan Project for Small and Medium Enterprises Development in the Republic of the Union of Myanmar*. Daiwa Institute of Research Ltd, Sanyu Consultants Inc.

Kennedys Legal Solutions. (2017). *Before the Market Opens: How Is the Insurance in Myanmar Currently Regulated?*

KfW (German Development Cooperation). (2017). *Improving Financial Access for SMEs. On Behalf of the German Government KfW Launches 4.45 Million EUR Grant Funds for SME Promotion*. KfW press release, Yangon, 12 June 2017.

Kraas, F., Spohner, R. & Myint, A.A. (2017). *Socio-economic Atlas of Myanmar*. Stuttgart: Steiner Franz Verlag.

LIFT (Livelihoods and Food Securities Trust). (2017). *LIFT Annual Report 2017.* Available online from: https://www.lift-fund.org/lift-annual-report-2017 (accessed July 2018).

Loughnane, J. (2017). *Mobile Money in Myanmar: Going Directly from Cash to Digital*. Accion. Available online from: https://www.accion.org/mobile-money-in-myanmar-cash-digital (accessed November 2018).

Luna-Martinez, J. De & Anantavrasilpa, R. (2014). *Myanmar Agricultural Development Bank: Iinitial Assessment and Restructuring Options (English)*. Washington, D.C.; World Bank Group. Available online from: http://documents.worldbank.org/curated/en/241951468060547171/Myanmar-agricultural-development-bank-initial-assessment-and-restructuring-options (accessed November 2018).

MAP (Making Access Possible). (2015). *Agricultural Finance*. Summary Note, 2015.

Maw, K.N. (2012). Development of Payment and Settlement System. In H. Lim and Y. Yamada (eds), *Economic Reforms in Myanmar: Pathways and Prospects*. BRC Research Report No. 10, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand.

Mekong Business Initiative. (2016). *Support for Commercial Microfinance Industry in Myanmar*.

Ministry of Immigration and Population. (2014). *The Population and Housing Census of Myanmar*. *Summary of the Provisional Results.* Available online from: http://myanmar.unfpa.org/publications/summary-provisional-results-0 (accessed January 2018).

MMFA (Myanmar Micro Finance Association). (2017). *Policy Recommendation for Growth, Diversification and Improved Social Impact*. White Paper 2.

MoPF (Ministry of Planning and Finance, GoM), CBM & World Bank. (2015). *Myanmar Financial Sector Development Strategy, (2015–2020)*.

MoPF. (2017). *Cost of Doing Business in Myanmar*.

MoPF. (2018a). *Myanmar Development Assistance Policy*.

MoPF. (2018b). *Myanmar Sustainable Development Plan (2018–2030)*. August 2018.

MPU (Myanmar Payment Union). (2016). *Annual Report (2015–16)*. Available online from: https://www.myanmarpaymentunion.com/index.php/about-us/annual-report (accessed September 2018).

MPU. (2017). *Annual Report (2016–17)*. Available online from: https://www.myanmarpaymentunion.com/index.php/about-us/annual-report (accessed September 2018).

Schellhase, J. & Sun, L. (2017). *Access to Capital. The Banking Sector in Myanmar: An Assessment of Recent Progress*. Milken Institute.

Schneider, F., Buehn, A. & Montenegro, C. (2010). *Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007.* Working Paper No. 5356, The World Bank, Washington, D.C.

Turnell, S. (2016). *Banking and Finance in Myanmar – Present Realities, Future Possibilities*. United States Agency for International Development (USAID).

UNCDF Making Access Possible (MAP) Programme. (2015). *Myanmar Financial Inclusion Roadmap 2014–2020*. Available online from: http://www.uncdf.org/myanmar-financial-inclusion-roadmap-20142020-migration (accessed July 2018).

UNCDF. (2017a). *Barriers to Women's Financial Inclusion in Myanmar*.

UNCDF. (2017b). *Fostering Savings and Credit Cooperatives in Myanmar*.

UNCDF. (2017c). *Remittances as a Driver of Women's Financial Inclusion in the Mekong Region*.

UNCDF. (2017d.) *UNCDF Myanmar Market Development Facility: Overcoming Systemic Failures for Lasting Impact*. Available online from: http://www.uncdf.org/article/2758/uncdf-myanmar-market-development-facility-overcoming-systemic-failures-for-lasting-impact (accessed November 2018).

UNFPA (United Nations Population Fund). (2014). *Census Atlas Myanmar – Myanmar Population and Housing Census*. Available online from: http://themimu.info/node/61659 (accessed November 2018).

Van der Sterren, J. (2013). *Wholesale Microfinance Support Facility*. Yangon: Livelihoods and Food Securities Trust (LIFT).

VDB Loi. (2014). *Mobile Banking, Mobile Money and Myanmar's Financial Regulations*. VDB Loi Myanmar Legal Briefing. Available online from: http://www.vdb-loi.com/mlw/easy-money-mobile-banking-mobile-money-myanmars-financial-regulations/ (accessed November 2018).

Visa. (2018). *Financial Education for Sustainable Growth. Myanmar Financial and Payment Attitudes Study*. Available online from: https://myanmar.visa.com/dam/VCOM/regional/ap/myanmar/newsroom/documents/financial-education-for-sustainable-growth-en.pdf (accessed July 2018).

Vakulchuk, R., Hlaing, K.K., Naing, E.Z., Overland, I., Suryadi, B. & Velautham, S. (2017). *Myanmar's Attractiveness for Investment in the Energy Sector. A Comparative International Perspective*. NUPI-MISIS Report. Available online from: https://www.myanmarisis.org/publications (accessed January 2018).

Verbiest, J-P.A. & Tin, H.N. (2017). Myanmar as a Destination for OFDI: A New ASEAN Foreign Investment Frontier. In C. Lee & S. Sermcheep (eds), *Outward Foreign Direct Investment in ASEAN*. Singapore: Institute of Southeast Asian Studies, 202–226.

Wagle, U. (2016). The Role of Remittances in Determining Economic Security and Poverty in Myanmar. *European Journal of Development Research* 28(4): 536–554.

WBG/MoPF (World Bank Group/Ministry of Planning and Finance). (2018). Strategic Options for Restructuring of Four State-owned Banks in Myanmar. WBG/MoPF draft policy paper.

World Bank (2017a). *Personal Remittances, Received (% of GDP)*. Online database. Available online from: http://data.worldbank.org/indicator/BX.

World Bank (2017b). *The World Bank in Myanmar*. Available online from: http://www.worldbank.org/en/country/myanmar/overview (accessed July 2017).

Yoma Bank. (2017). *A Myanmar Social Enterprise, Proximity Designs and Yoma Bank Signed an Innovative Funding Agreement*. Available online from: https://www.yomabank.com/proximity-designs-and-yoma-bank-signed-an-innovative-funding-agreement.php (accessed November 2018).

8 List of in-country consultations

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
13-Mar	1	Yasuhisa Ojima- Reseident 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	Cho Cho Then- Financial Sector Specialist	International Finance Corporation	57 Pyay Road, Hlaing Township, Yangon	9595111893	cthein@ifc.org
16-Mar	3	Armin Hofmann- Programme Director Kyi Tha Maw - Technical Expert San Thien- Sr. Technical Expert	GIZ- Banking and Financial Development Tel : +951554491	Rangoon Business Centre No. 97/A, 3rd Floor, West Shwe Gon Daing Road Bahan Tonship, 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, Diamind 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
20-Mar	7	Masayuki Nakamura- National Country Reppresentative Thet Lyir 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- Managing Director	Pyae Mahar	Buildeing (e), 5th Floor, Room No. 506, Highway complex Compound, Kamaryut Township, Yangon, Myanmar	9595199399 95931160260	minnspecial@gmail.com minnaung@pyaemahar.com

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
22-Mar	11	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	12	Susan Mbogo - Head of Marketing Thynn Thazin Soe - Marketing & Communication Manager	Wave Money	No 84, 7th floor, Uniteam Marine Building, Pann Hlaing, Sanchuang Township, Yangon	95 (0) 9791009010 95 (0) 9791009033	susan.mbogo@wavemoney.com.mm thynnthazin.soe@wavemoney.com.mm
22-Mar	13	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	14	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	15	Rommel Caringal - Chief Executive Officer Su Myat Htet - Head of Business Development	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
23-Mar	16	Ms. Sophie Nguyen - Financial Sector Economist, South East Dave Grace- Consultant	Asian Development Bank ‘95678106280-86	Parkroyal Hotel, Padauk Building, 13/14 Hotel Zone, Dekhina Thiri Township, Nay Pyi Taw		dtnguyen@adb.org dgracehome@gmail.com

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
23-Mar	17	Mike Fleming-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	18	Mary Miller - Access to Finance Lead	Nathan Associates	No 81A, Supoung Street, Inya Myaing Bahan Township, Yangon	951595355	mmiller@nathaninc.com
26-Mar	19	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	20	Rozano Planta- Head Mobile Financial Services	MPT	No.43, Bo Aung Kyaw Road, Kyauktada Township, Yangon, Mynmar	959421000183	rozano-pl@mptjo.com.mm
26-Mar	21	Peter J Brimble- Team Leader	DaNa Facility	Room 302, Prime Hill Business Square, No.60, Shwe Dagon Pagoda Road, Yagon	95945000285	Peter_Brimble@danafacility.com
27-Mar	22	Myint Kyaw - Program Specialist -Microfinance and Enterprise Development L Seng Kham- Agricultural Economics Officer	LIFT-fund (managed by UNOPS)	12 (o) Pyi Thu Lane, 7 Mile, Mayagone Township, Yangon	09420091891	MyintK@unops.org LsengK@unops.org
27-Mar	23	U Thein Myint - Microfinance Specialist	Consultant MFI Fomerly MADB & UNDP		95094701	theinmyint108@gmail.com
27-Mar	24	Steve Haley - DFS consultant UNCDF Program Manager	Modusbox (DFS)		959793125186	steve.haley@modusbox.com
28-Mar	25	Tint Phyo Aung - Deputy General Manager Htet Eincali Win	Ok Dollar	no 256/269, Coner of Bogyoke Aung San Road and Seik Kan Thar Street, Kyauktada Township, Yangon	959971114001 959444822452	tint.phyo@direct-consumers.com htetinzaliwin@okdollar.com
28-Mar	26	Dr. Zeyar Nyunt - Chief Executive Officer	Small & Medium Industrial Development Bank (SMIDB)		9595099199	oakgarchanmyae@gmail.com
29-Mar	27	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	28	Khin Saw Win - Senior General Manager	First National Insurance	No 400/406, Merchant Road, Botahtaung Township, Yangom	9795197740	Khinsaw.win@fnipublic.com
29-Mar	29	Dr Sean Turnell	Special Economic Consultant to the State Counsellor Government of the Union of Myanmar	Nay Pyi Taw, Yangon	9509974496721	sean.turnell@mq.edu.au

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
29-Mar	30	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
29-Mar	31	U Thaug Naing- Deputy Director General Myo Aubg- 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	32	Daw Yi Yi Khaing- Director	SME Departent- Ministry of Industry			
30-Mar	33	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	34	Jacques Voogt - Chief M commerce Officer	Oreedoo - M Pitesan	Myanmar Center Tower, 192 Kaba Sye Pagoda Road, Bahan Township Yangon	959973333377	JVOOGT@ooreedoo.com.mm
30-Mar	35	Ei Sein 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	36	Khin Sandar Hlaing - Deputy General Manager	Oriental Leasing Co. LTd	No 37 Latha Street, Latha Township, Yangon	951381546	khinsandarhlaing27@gmail.com
30-Mar	37	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
	38		Central Bank of Myanmar	Office No.55, Nay Pyi Taw	95-67-418203	

Date	S. No	Name and Designation	Organization	Address	Contact No.	Email ID
	39	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
	40	Thein Zaw Tun (Don)-Managing Director(Business) Ronald, Ye Tun Oo-Assisant General Manager (Corporate Strategy and Developemnt Division)	CB Bank	Union Financial Center, No.46, Mahabandola Road, Yangon	959425293661 959974394888	don@cbbankmm.com ronald.ye@cbbank.com.mm
	41	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
	42	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.coop zawlwino@gmail.com mohmoh1986@gmail.com
	43	U Min Thu-Managing Director	Myanmar Agriculture Development Bank	NO. 26/42, Pansodan Street, Kyauktada Township, Yangon	1391016	mdmadb@mptmail.net.mm
	44	Adeline Pelletier, lecturer	International Growth Centre, London School of Economics and Political Science			pelletieradeline@gmail.com

Appendix 1: Map Refresh – 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 Refresh study is a follow-on from the initial MAP Diagnostic.

Below are some of the key differentiating features of the MAP Refresh 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 Refresh 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 Refresh focus is more on identifying changes since the previous Diagnostic, as a means to support fine-tuning of the national priorities.
- ***Priority areas:*** MAP Refresh 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 Refresh suggests changes to already-identified priorities, and identifies successful approaches that need to be strengthened.

The MAP Refresh study builds on the initial MAP Diagnostic and was, therefore, designed to have a lighter touch, encompassing:

- 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 Refresh study was supported by 44 supply-side stakeholder interviews with regulators, financial service providers, and third-party service providers;[35] information and data was 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.[36]

35 Third-party service providers are non-bank institutions entrusted by a bank to conduct one or more parts of its payment services.
36 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[37]

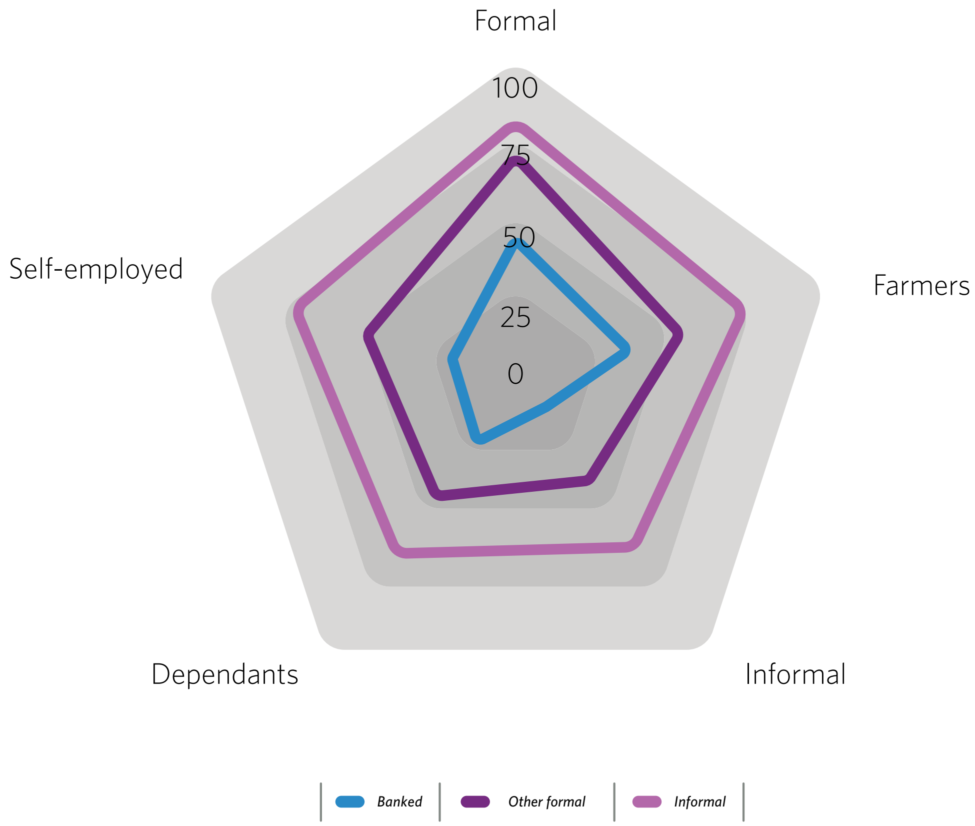
The 2014 MAP Diagnostic identified unique segments of the adult population in Myanmar using this approach. The MAP Refresh process looks at the target markets identified in 2013 and updates the size of the segments. In addition, with a more refined lens with which to view the financial services market in Myanmar and the people it seeks to serve, the MAP Refresh 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 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; by the same token, 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.

[37] 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.

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.

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.

Informal employees: a small group, and shrinking. Below average income. Mainly rural, more men than the population as a whole, and not well educated. Lowest mobile phone usage. Very low access to banking.

Dependents: the largest of the target groups, and growing,

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

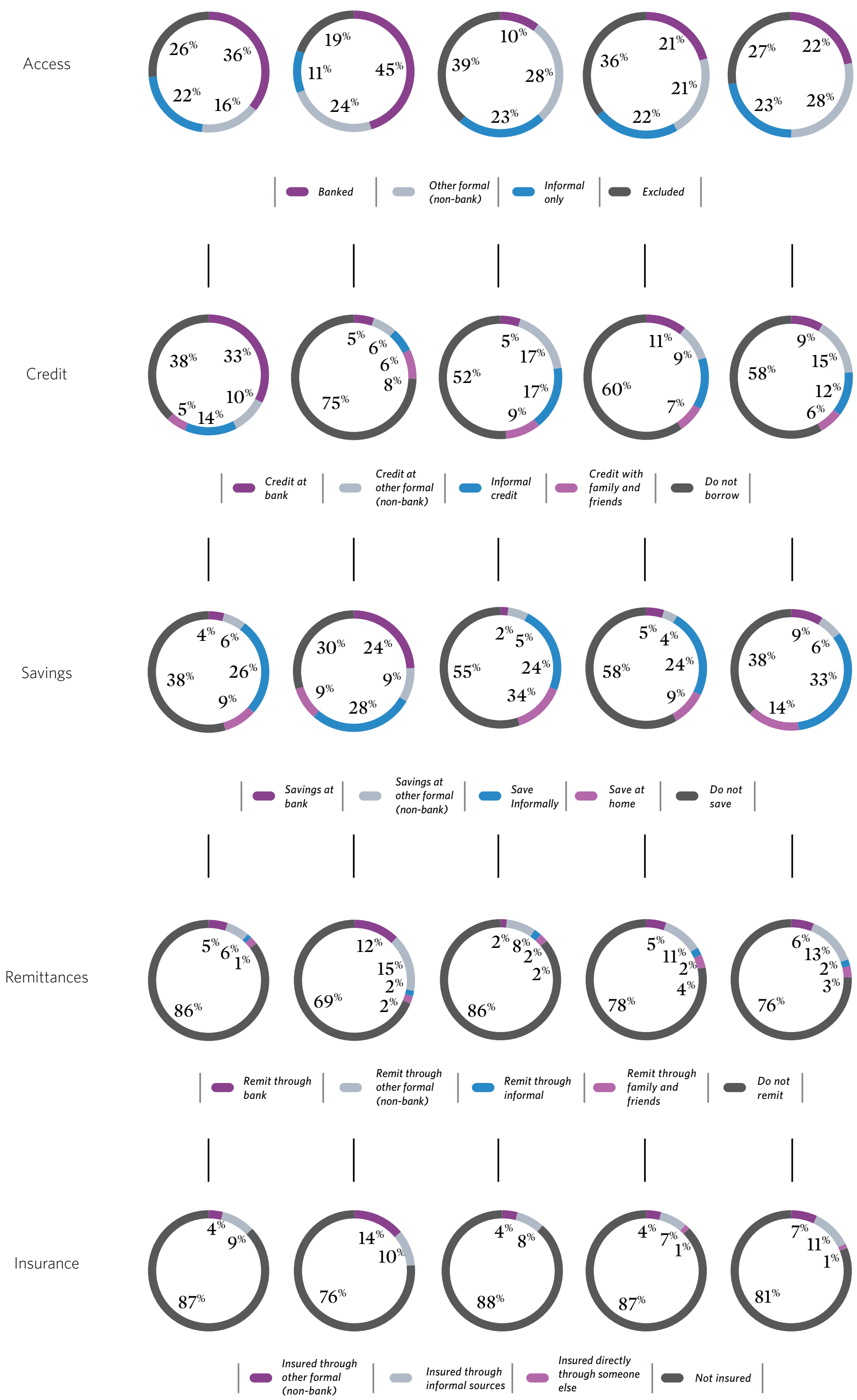
	Farmers	Formal employment	Informal employment	Dependents	Self-employed	
Population (34mil adults total in Myanmar)	7.7mil	2.6mil	3.6mil	11.1mil	8.9mil	
Average (mean) income per target market	MYK 140,687	MYK 184,285	MYK 128,683	MYK 58,372	MYK 195,904	Average monthly income of the adult population: MYK 128,000
Urban Population	4%	64%	22%	36%	45%	32% of adults are urban
Use cellphones	74%	93%	66%	73%	87%	78% of adults use cellphones
Male	77%	60%	62%	25%	48%	49% of adults are male
Secondary education	29%	64%	27%	44%	39%	39% of adults have secondary education

Source: FinScope Myanmar 2018

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 Refresh is the use of a financial needs and livelihoods approach to obtain a better understanding of the usage of financial services. 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 in which money is received and spent to fulfil a use case or need are not always the same. This helps policymakers and FSPs to 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. It also prompts policymakers, analyst 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.

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



Source: FinScope Myanmar 2018

Appendix 3: FinScope Access Strands

The access strand illustrates the uptake of financial services and products. It assumes that the goal of financial inclusion initiatives is to improve the uptake of formal financial services and products. MAP has adapted the standard access strand categorization employed by FinScope to define the following distinct sections or groups of adults in Myanmar:

Financially excluded: individuals that do not currently have, or do not currently use, any form of financial products or services, either regulated or unregulated (formal or informal).

Financially included: those that are not excluded, but have access to[38] formal and/or informal financial services. They are divided into two groups:

- ***Informally included*** *– unregulated/informal financial products and services:* individuals that are financially included through the uptake of financial products or services from entities that are unregistered and not supervised for the provision of financial services (or any other aspect of their activities), but that have no formal products or services. For instance, this includes those that are members of savings groups, borrow from unregulated lenders (e.g. moneylender, family, friends), and remit funds through hundis.
- ***Formally included*** *– regulated/formal financial products and services:* individuals that are financially included through the uptake of financial products or services from institutions that are both regulated and supervised for the provision of financial services.
    - » *Banked vs other formal, non-bank products and services:* the regulated component is further disaggregated into those that have a bank account and those that do not have a bank account, but have another formal financial service. "Other formal" financial services include MFIs, insurance, mobile money, and remittance transfers etc.

It is important to note that the access strand does not show any overlaps in the use of financial products and services. An individual with both regulated and unregulated (formal and informal) products will only be reflected in the regulated (formal) group, and somebody with both a banked and non-bank formal product, or both a bank account and an informal product, will only be reflected in the banked strand. An individual with a non-bank formal product such as a mobile money account, but no bank account, will be reflected under the "other formal" strand. In other words, each individual can only appear in one segment of the access strand.

Although the access strand gives weight to formal provision, it is recognized that informal/unregulated financial services play an important role. This may be as a complementary product/service for those also using formal products, or as a product that extends access for those not using formal products.

The access strand can further be used to illustrate uptake across particular product groups (credit, savings, insurance or payments). At the product group level (e.g. savings or credit), usage of "family and friends" is additionally included in the measurement of access, even though this category is not included in the overall access strand calculation. The financial products, services, mechanisms, channels and activities that have been included for each category of the product group access strands are listed below (see Table 10).

[38] In line with "access strand" terminology, we often refer to "have access to" as synonymous with "use or have".

Table 10: Classification of product group access strands

	Banked	***Other formal***	***Informal***	***Family & friends***
Credit	Private banks, SOBs	MFIs, cooperatives, licensed pawnshops	Employers, informal groups, moneylenders, retail stores	Family loans (that have to be repaid)
Savings	Bank account	MFI account	Semi-formal or informal savings and loan groups	Saving with a family member or friend, or a community member; secret place at home; saving in kind (e.g. gold, jewellery, cattle)
Insurance	n/a	Insurance company product – either direct, or through broker, agent, or other financial institution	Informal savings and loan groups, village mutual support organizations/ Buddhist temples/ pagodas (e.g. for burials)	
Payments: remittances, transactions (in previous 12 months)	From a bank account	OTC bank transfer, mobile money, money transfer operator (e.g. Western Union)	*Hundi*, bus, taxi driver	Send or receive remittances via family member or friend

Appendix 4: 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 – 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 Refresh 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 11.

Table 11: 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.

FMT
FINMARK TRUST

UN
CDF
MAKING ACCESS POSSIBLE