MAKING ACCESS POSSIBLE

map

Myanmar

Financial Inclusion Roadmap

2014 – 2020

Creating financial inclusion through leadership towards a market based approach

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 financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Myanmar represents a partnership between UNCDF, UNDP, LIFT, Cenfri and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Myanmar. This report was produced by the UNCDF as part of the larger diagnostic work. Funding came from UNCDF and LIFT (Livelihoods and Food Security Trust Fund).

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List of Abbreviations and Acronyms

ASEAN	Association of Southeast Asian Nations
ATM	Automatic Teller Machine
CBM	Central Bank of Myanmar
Cenfri	Centre for Financial Regulation and Inclusion
CPAP	Country Programme and Action Plan
FGDs	Focus Group Discussions
FinScope	Myanmar FinScope Survey 2013
FMT	FinMark Trust
FRD	Financial Regulatory Department (formerly MMSE)
GDP	Gross Domestic Product
HV	Home visits
INGO	International Non-governmental Organization
KIIs	Key Informant Interviews
LIFT	Livelihoods and Food Securities Trust Fund
MADB	Myanmar Agricultural Development Bank
MAP	Making Access to Financial Services Possible
MEB	Myanmar Economic Bank
MFI	Microfinance Institution
MIC	Myanmar Insurance Company
MIS	Management Information Systems
MPU	Myanmar Payments Union
MMSE	Microfinance Supervisory Enterprise
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-governmental Organisation
PACT	Private Agencies Collaborating Together
POS	Point of Sale
RTGS	Real Time Gross Settlement
SFI	State Financial Institution
SME	Small and Medium Enterprise
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
SMIDB	Small and Medium Industrial Development Bank

USD / Kyat Exchange Rate

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

1. Executive Summary

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

Preparation for Making Access Possible (MAP) Myanmar was approved by the President of the Union of Myanmar in January 2013, and the programme has been jointly funded by the United Nations Capital Development Fund (UNCDF) and Livelihoods and Food Securities Trust Fund (LIFT).

In summary, the analysis paints a clear picture of a market where although the levels of formal access stands at a moderate 30%, such access is thin (only 6% have access to more than one product), and even where available, the formal product frequently does not suit customer needs. The recommendations point to a 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 need addressing include supporting the rapidly changing regulatory environment that is yet to evolve fully to support financial inclusion, limited supervisory capacity across the board, limited meso level institutions and infrastructure, prevalence of un-scalable paper-based banking and payment systems, and capital constraints.

The Roadmap provides a framework to define, agree, coordinate, measure and track efforts to address these barriers.

In order to provide a vision and direction, a policy goal is proposed towards which supportive intervention logic can be organized and monitored. The proposed goal is to:

> *"Increase Financial Inclusion[1] 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 proposes that the goal of financial inclusion in Myanmar will be best assured by pursuing two main Outcomes[2], namely (1) The strengthening of the financial sector so that it is able to better support

[1] The G-20 definition of financial inclusion is adopted and refers to a state in which all working adults have effective access to credit, savings (defined broadly to include current accounts), payments, and insurance products from formal institutions. "Effective access" involves convenient and responsible service delivery at a cost affordable to the customer and sustainable for the provider. The Financial inclusion percentage in this context refers to the number of adults using at least one formal financial service. (G-2 definition available at http://www.gpfi.org/sites/default/files/documents/CGAP.pdf)

[2] The Results Based Management nomenclature of the UNDP Handbook on Planning, Monitoring and Evaluating for Development Results (2009) page 53 is used: Activities → Outputs → Outcomes → Impacts / Goal Level

financial inclusion, and (2) Ensuring financial inclusion in three priority segments which have been chosen in line with government policy and objectives.

Strengthening the financial sector involves building institutions critical to financial inclusion and addressing market barriers across product categories to grow formal intermediation. The three selected priority segments are among those that the government of Myanmar has been focussing on to drive economic growth and alleviate poverty, namely agriculture, MSME, and low income households.

Twenty interventions (activities) to be implemented by stakeholders have been identified in the stakeholder process, including capacity and knowledge building initiatives, corporate reform and modernisation programmes, infrastructure enablement projects and proposed research projects. A time horizon of up to five years is envisaged for the full impact to be realised, although the interventions have been grouped into the respective impact horizons. Some of the longer term infrastructural interventions required include the extension of the distribution footprint, roll out of electronic payment systems, and the introduction of an automated credit bureau.

The interventions will result in a sustainable and responsible financial sector able and positioned to support financial inclusion, provide access to currently excluded individuals, ensure deeper financial inclusion for those already included, and meet national goals across the three critical customer segments.

2. Background

2.0 ABOUT MAP MYANMAR

This Roadmap is part of a series of documents produced in the Making Access Possible (MAP) Myanmar initiative[3].

Preparation for MAP Myanmar was approved by the President of the Union of Myanmar in January 2013. The programme has been developed by United Nations Capital Development Fund (UNCDF) in close cooperation with the United Nations Development Programme (UNDP) office in Myanmar and is embedded in the UNDP Country Programme and Action Plan (CPAP), which has subsequently been approved by the Government of Myanmar.

MAP Myanmar is funded by UNCDF and the Livelihoods and Food Securities Trust Fund (LIFT). The project is governed by a Steering Committee under the leadership of U Htein Linn, Managing Director, and U Win Aung, Managing Director of the Financial Regulatory Department (FRD), and consisting of 10 members representing government and project sponsors.

[3] The FRD and the Steering Committee would like to thank the compilers and reviewers of this report, including Anthony Githiari of Pygma Consulting (primary compiler), Feisal Hussain, Paul Luchtenburg and Kammy Naidoo (UNCDF), Doubell Chamberlain, Hennie Bester, Herman Smit and Christiaan Loots (Cenfri), Myint Kyaw (LIFT), Bob Currin and Brendan Pearce (FinMark Trust team), Julie Fawn Earne (IFC) Eric Duflos (CGAP), Kelly Hattel, Dave Grace (ADB) and members of the MAP Myanmar Steering Committee. Government would also like to thank the individuals from various stakeholders including government ministries and agencies, donor agencies, NGOs, financial services providers, industry bodies, technology providers and telecommunications operators for all your inputs into this Roadmap process and your efforts to extend financial services to the excluded. A special thanks to the members of the Steering Committee for the guidance and detailed feedback provided in the preparation of this report.

The key research findings from the MAP diagnostic in Myanmar are captured in the MAP Synthesis Note which summarises the main findings of a comprehensive demand-side, supply-side and regulatory analyses ("Making Access Possible: Myanmar Country Diagnostic Report", 2014). The supply-side analysis covers payments, savings, credit and insurance, and therefore provides an understanding of microfinance in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. The demand-side analysis draws from quantitative data provided by the Myanmar FinScope Survey 2013 and qualitative research in the form of Focus Group Discussions (FGDs), Home Visits (HV) and Key Informant Interviews (KII).

This Roadmap synthesises the main findings and recommendations from the comprehensive demand-side, supply-side and regulatory analyses ("Making Access Possible: Myanmar Country Diagnostic Report", 2014) and presents a way forward on the recommended action areas for financial inclusion in Myanmar.

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

Documents produced as part of the MAP Myanmar initiative include: (1) T*he MAP Myanmar Financial Inclusion Synthesis Note*, (2) *Making Access Possible: Myanmar Country Diagnostic Report, 2014*, and (3) summary report and presentation - Myanmar FinScope Survey 2013. These are available as separate reports. The FinScope dataset is available on request for future research.

Note:

MAP Myanmar diagnostic was conducted before the results of the Population and Housing Census of Myanmar 2014 were available. The Census results will inevitably affect the figures whenever they refer to absolute population numbers (number of adults, number of service provider clients, size of market segments, etc.), population based benchmarks (e.g. branches per adult population), and other statistical results. Any potential changes to the figures are, however, not expected to impact the recommendations in the Roadmap significantly.

2.1 Myanmar Financial Inclusion Roadmap - Introduction

The purpose of the Myanmar Financial Inclusion Roadmap is to assist the government and market players to build a common vision of a desired future for financial inclusion based on the various recommendations and action points raised in the MAP Myanmar financial inclusion diagnostic.

The diagnostic is based on the application of the MAP diagnostic and programming framework to support expanding access to, or consolidating the provision of, financial services for individuals and micro and small businesses. It is contained in the *MAP Myanmar Financial Inclusion Synthesis Note*, and the *Making Access Possible: Myanmar Country Diagnostic Report, 2014* prepared by the Centre for Financial Regulation and Inclusion (Cenfri).

The supply-side analysis is based on in-country research and interviews with representatives of financial services providers and government while the demand-side analysis draws from quantitative data provided by the Myanmar FinScope Survey 2013 (5100 nationally representative households) and qualitative research in the form of Focus Group Discussions, Home Visits and Key Informant Interviews.

The Financial Inclusion Roadmap introduces an action plan that could be adopted by the government, regulators, meso level institutions, and market participants to achieve the desired inclusion Goal, Outcomes and Outputs. It also provides an indication of the implementation costs, timelines and prioritisation. The

Roadmap should be understood by stakeholders to provide needed direction and to assist in the preparation of a multi-year rolling plan, annual plans and related budgets.

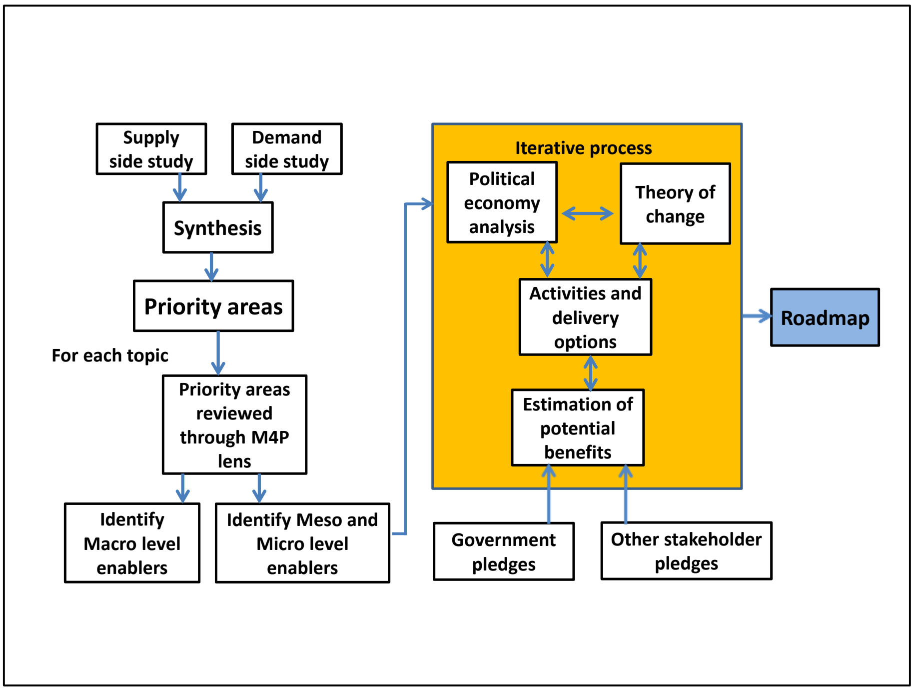
While financial inclusion internationally typically targets adults that are not using formal financial services and earn below USD 10- 15, in Myanmar 95% of adults earn US$10 / day or less and hence the Roadmap impacts the majority of the population. By implication, there is therefore significant overlap with broader financial sector initiatives.

2.2 Roadmap approach and methodology

Schematically the Roadmap approach is shown in Figure 1. The Roadmap is founded on priority areas identified in the research, representing gaps and opportunities in the market which can have the largest positive impact on consumer welfare if appropriately addressed.

Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (MM4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

Figure 1: Roadmap approach



At the macro and meso levels, issues have been defined and analysed within the supply and regulatory analysis in the diagnostic report. The micro level issues (which describe, on the one hand, the service providers and, on the other, the consumers), supply and usage of financial services has been effectively reviewed as part of the supply analysis and also within the demand-side FinScope survey and integrated into the diagnostic report. Thus the interventions identified have been part of an extensive research that identified interventions that might make the market work more effectively for the user of the product or service. The identified interventions might change the market by increasing inclusion or making inclusion more resilient.

Additionally, these interventions have been viewed from the perspective of "what is possible" to achieve taking into account the political, social and economic environment of Myanmar. The interventions are adjusted or fine-tuned to take advantage of political opportunities or adapted in the light of stakeholder tensions to achieve a working compromise.

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes. Outputs and activities necessary to achieve the desired goal are identified and further detailed.

The final stage of the process is to build consensus from the key stakeholders for the interventions and to place it in the format of a road map, including responsibilities and accountabilities. For the purposes of prioritisation, costs, timeframes and targets have been estimated, but these will need to be further firmed up at the beginning of the implementation phase.

3. Myanmar Financial sector context

3.1 Political context

Myanmar is currently best described as a country in the midst of a triple transition – from an authoritarian military system to democratic governance, from a centrally directed economy to a market-oriented economy, and from 60 years of conflict towards peace in the region. This presents enormous economic opportunities as well as challenges.

Reform started in the 1990s with the passing of the Central Bank of Myanmar Law and the Financial Institutions Law of Myanmar, which opened up the private sector. This initial phase of opening up was met with a rapid expansion until the banking crisis in 2003, which saw a re-emergence of the state-run financial sector.

The new constitution adopted in 2008 followed by elections in 2011 brought new and deeper reforms that looked to stimulate economic activity and reduce poverty in Myanmar, and since 2010, the government has embarked on an ambitious reform programme. These reforms have been felt throughout all spheres of the economy, including in areas crucial to financial inclusion. Myanmar is set to join the ASEAN integration in 2015, which aims to create a single market and production base. Telecommunications is expected to make an imminent impact with the expected entry of new players (Ooredoo and Telenor) to support the Government's target of 80% mobile phone penetration by 2016.

Despite these extensive regulatory changes, aspects of the evolution of the financial sector are likely to be gradual. At a macro level, the move from a very rigid rules-based system to a risk-based system is progressing slowly due to limitations in skills and systems. In addition, the combined limitations on general infrastructure, rudimentary MIS systems and human resource constraints may restrict innovation and progress in the medium term.

Other factors that need to be taken into account include the strong role of the state in the financial services sector. Figure 2 shows the regulated financial sector at a glance. The state serves a majority of customers, through the state banks (MEB and MADB serve more than half of the bank customers), the cooperatives (although a majority of these cooperatives do not focus on savings and credit[4]), insurance (MIC currently has 100% market share) and the 2 026 regulated pawnshops.

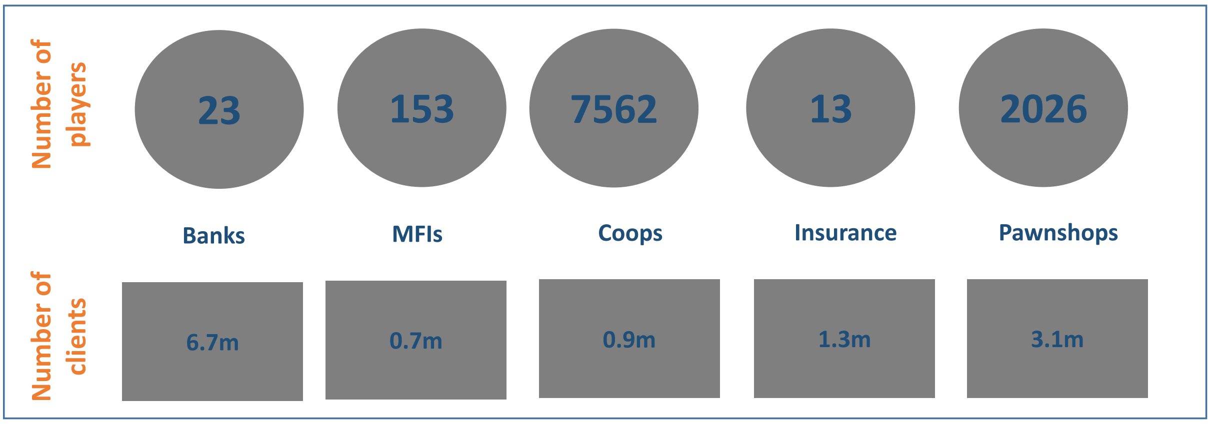


Figure 2: Sector at a glance

There is strong policy support for financial inclusion under the broader rubric of poverty alleviation with the objective to reduce poverty from 26% to 16% by 2015, which has led to an interest in financial inclusion as a key to poverty reduction and an enabler of growth. President U Thein Sein's four out of eight development tasks to address rural development and poverty alleviation are related to financial inclusion, namely[5]:

- Development of agricultural production sector
- Development of rural productivity and cottage industries
- Development of micro saving and credit enterprises
- Development of rural cooperative tasks

There has also been strong support from development partners for financial inclusion in Myanmar with a number of existing initiatives. Some examples include:

- LIFT funding to MFIs
- China support to procure domestic payments switch for ATM and POS
- Loan from China for the cooperative sector
- Plans for RTGS and Automated Clearing House (ACH) through technical support of JICA
- World Bank Financial Inclusion (FIND) programme to support institution building for microfinance supervision reform and capacity and financial literacy
- UNDP MFI finance (through PACT)
- IFC support to capacity building at meso level including dissemination of good practices on responsible finance, branchless banking, etc.
- UNCDF support through the MicroLead project
- Potential JICA ODA loans

[4] At the time of the research, an estimated 2343 cooperatives were either registered as an MFI, a Savings and Credit Coop Society, a Bazaar Credit Coop Society or a Micro-credit Coop Society.

[5] Source: First National Workshop on Rural Development and Poverty Alleviation held in May 2011

- ADB support for responsible finance, cooperatives and financial inclusion
- GIZ support of the banking sector

3.2 Financial inclusion in Myanmar

Financial services play a critical role in enabling poor people to sustain livelihoods and improve living conditions by helping to stretch small, irregular and uncertain incomes to pay for expenses and secure investment opportunities. Improved access to finance is regarded as pro-growth and also a means to reduce income inequality and poverty. A number of studies have shown that countries with more developed formal financial systems record faster declines in income inequality and poverty levels[6]. Financial sector development makes two mutually reinforcing contributions: poverty reduction through its impact on economic growth by mobilising savings and investing in the growth and productive sectors (Finance for growth) and through direct benefits in the poor being able to smooth consumption and protect from shocks to reduce their vulnerability and increase their income generating capacity (Finance for all).

Expansion of access to quality financial services in Myanmar, when successfully achieved, will be critical as it will enable economic growth and poverty reduction through:

- Access to new economic opportunities by allowing investment in income-generating activities
- Better management of investments and risks as suitable products allow people on low incomes to smooth their consumption, protect their assets and income against shocks (particularly in Myanmar's agriculture driven economy), and make lumpy investments in housing, education and health
- Efficient exchange of goods and services where efficient payments services help people remit money, trade in goods and services and reduce their transaction costs
- More informed and better protected consumers with the capability to make appropriate choices
- A responsible and sustainable industry

There is great need to expand access to financial services in Myanmar. According to the MAP report 2013, over 70% of adults do not have formal access to credit, deposit and other financial services, such as insurance and remittances[7]. Furthermore, although 30% of adults use regulated financial services, only 6% of adults use more than one service, and many of the available regulated products do not fully meet the needs of clients (for example, loan size, loan term, cost or quality). Only 5% of adults have a bank account in their name, with a prevalent low opinion of the banking sector (70% of adults believe they can easily live life without a bank account). Credit has the deepest reach (19% formal access), while other products are underdeveloped, especially insurance (3%) and savings (6%).

The majority of citizens rely on unregulated providers, often at substantially higher cost than those offered by regulated providers, or family and friends to meet their need for financial services. MAP research also found that rural areas are slightly better served than urban areas; the result of targeted credit provision to rural areas by state financial institutions coupled with a nascent commercial banking sector.

[6] A. Demirguc-Kunt (2005), 'Financial Sector Development as an Essential Determinant for Achieving the MDGs: Increasing Private Credit Shown to Reduce Income Inequality', World Bank, Washington, D.C.

[7] Formal access is defined as access through regulated financial service providers, who are registered legal entities regulated for the provision of financial services including banks, SFIs, MFIs, cooperatives and state-regulated pawnshops.

Across segments, farmers and (the formally employed) formal consumers are the most widely served, while the informal consumers (informally employed) and informal enterprises[8] have the least levels of access.

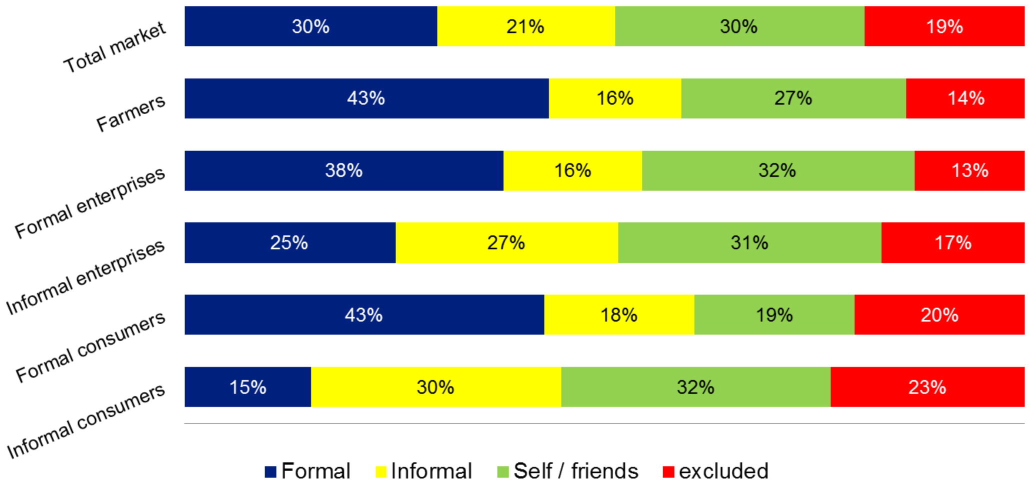


Figure 3: Financial inclusion levels by market segment

Even though by regional terms access to at least one formal product is moderate at 30%, usage lags behind that of peers with a low deposit and credit to GDP ratio (27% and 11% respectively in 2012 / 13) compared to peers between 30% - 120%, and insurance premiums to GDP ratio of 0.08% in 2012 in comparison to peers at 1.2% - 5%[9].

The long-term objective in Myanmar is to achieve a high degree of financial inclusion, which is universal access to a wide range of quality financial services, at a reasonable cost, for everyone needing them, and provided by a diversity of sound and sustainable institutions operating in a competitive market environment.

3.3 Barriers to financial inclusion

The diagnostic report on the status of financial inclusion in Myanmar has demonstrated the following:

1. ***Myanmar population is thinly-served by financial services*** with only 6% of adults using more than one product, products not fully meeting needs (51% of adults use financial services from regulated and / or unregulated sources), current access being driven by regulated credit without an account and non-account-based payments.
2. ***High levels of informality throughout economy*** with a pervasive and sophisticated unregulated financial sector constituting the largest source of borrowing. An estimated 9.2 million adults have a loan from an unregulated financial services provider with an estimated total outstanding debt as high as K 5.4 trillion (USD 5.7 billion). The total outstanding debt provided by unregulated money lenders is estimated to be as high as K 3.7 trillion (USD 3.9 billion). This compares with the outstanding loan book of the commercial banking sector of K 5 trillion and 60 000 credit clients. There is positive consumer perception of unregulated institutions and pervasive use of cash.

[8] See also the International Finance Corporation Enterprise Survey for Myanmar 2014, available at http://www.enterprisesurveys.org/data/exploreeconomies/2014/myanmar#finance

[9] Source: http://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS and http://data.is/13NvQmw, accessed March 2014; Sigma, No3/2013: World Insurance in 2012.

3. *Capital constrained regulated retail financial sector* which can be attributed to policy, regulatory and business model features and the absence of a capital market in Myanmar. As a consequence of the scarcity of capital, institutions without a specific low income client mandate will direct capital to more lucrative opportunities in the high income and corporate markets. Clients who are unable to access regulated credit are resorting to more expensive services from unregulated institutions. Additionally given the short-term nature of deposits funding loan portfolios, no long-term credit products are offered. There is scope to increase policy directed retail capital reticulation and for mobilising capital from the currently unregulated market.
4. *Limited infrastructure constrains business model and product offerings:* Severe physical infrastructure inadequacies amplify distribution challenges. Additionally the lack of electronic infrastructure drives up costs and limits scale (most financial services providers are in the early stages of adopting electronic management systems, and there is limited supporting financial sector infrastructure - credit bureau, payment systems, capital market, forex market).
5. *Constrained product offerings undermine value to customers,* where product offerings do not meet consumer needs, and mismatches lead to an unmet need or a higher cost.
6. *Current regulatory environment is not enabling expansion of rural provision and may discourage delivery to urban poor*, as constraints in regulation deter even mandated and subsidised operations from challenging rural markets (for example, the current interest rate caps, loan sizes, capital regulations and the higher cost of rural provision are resulting in withdrawal of certain NGO MFIs from some rural markets).

Given these and the detailed findings in the diagnostic report, the barriers to financial inclusion in Myanmar can be summarised as follows:

- *New and evolving investment climate*, including a nascent commercial contract enforcement regime which increases risk for investors.
- *Rapidly evolving regulatory environment* that is yet to fully support financial inclusion: Laws and regulations are still being finalized, and, in instances, are not yet fully supportive of financial inclusion. There is, for example, a need generally to improve the balance between regulation and commercial decision-making, and to review specific regulations, e.g. credit and interest rate caps. There is also a need to boost supervisory capacity across the board.
- *Cash-based economy* with a weak culture for formal savings and low trust in formal intermediation.
- *Missing institutions and infrastructure*: Infrastructure plays a significant role in accessibility and drives access to and cost of delivery of financial services. Particular infrastructure critical to financial inclusion includes electronic payments infrastructure, customer touch points, credit bureau, capital market, and a foreign exchange market. The payments infrastructure is still underdeveloped but is slowly being redressed. Customer touch points are limited with 2.8 bank branches per 100 000 adults (compared to 8 in Nepal, Bangladesh and the Philippines), 0.6 ATMs per 100,000 adults (compared to 10 – 80 for peer countries), and 1.9 POS machines per 100 000 adults (> 100 in some surrounding economies). There is also a lack of supporting infrastructure (roads, electricity, telephone and internet).
- *Paper-based banking / payment systems* that are unsustainable and impact on cost and scalability: Many institutions and especially SFIs and cooperatives that serve a majority of low income clients utilise paper-based systems that are heavily reliant on low-cost labour to be sustainable. To offer improved products at scale, they will have to modernise and recruit higher skilled people at higher prices.
- *Limited skills*: Both the cost and availability of these skills will prove challenging.
- *Inappropriate or insufficient products and services.* Some of the main shortcomings include: Inappropriate features, e.g. loan size, collateral, repayment timelines, cost; Inflexible products when compared to informal products; Arbitrage where money lending is highly profitable when compared

to a savings account; Limited service delivery points; Inconvenient opening hours; and even Unavailability, e.g. Lack of savings opportunities / products, limited insurance product set.
- ***Funding constraints***: Most financial institutions suffer from a capital constraint that limits their ability to extend credit. The government's emphasis on largely retaining domestic ownership of the financial sector implies that most of the required capital will have to be raised domestically.
- ***Business model limitations and culture*** lead to low quality and diversity of services, especially due to Limitations in information systems and skills; the Time required to develop new skills required, e.g. risk assessment; and the Prevalence of the old culture still in place (both in regulation and also in business).
- ***Lack of sustainable business models to serve rural areas***: The public sector relies on subsidies while the private sector is not yet sustainable in rural areas as the cost of doing business is high (low infrastructure base, lack of scale, weak systems).

At a product level, each product faces unique barriers. Savings are particularly impacted by the lack of deposit and withdrawal points, and low interest rates, which results in gold and private intermediation, offer better value (8% vs 36%+). Regulatory constraints also limit savings growth, with some SFIs operating at a razor thin interest spread (MADB at 0.5% p.a.) and MFIs unable to collect voluntary deposits.

Significant barriers for credit products include the lack of deposits to meet demand, unsuitable products (loan sizes, short-term nature, collateral requirements, and group-based delivery) and regulated caps and loan terms that limit the effectiveness of what is currently available.

The payments market is affected by the lack of electronic infrastructure and formal touch points, while for insurance there is a discernible lack of a full range of suitable products.

3.4 Market drivers

As the barriers to financial inclusion are overcome, there are broader factors that need to be taken into account to understand the evolution of financial services, such as the limited infrastructure (roads, electricity) that may render the "brick-and-mortar" approaches unfeasible, a target mobile penetration of 80 percent by 2016, which will change the delivery landscape, a limited skilled labour requiring automation and efficiency, drive for local ownership and indigenisation, and cautious liberalisation as a result of the 2003 banking crisis that may potentially undermine innovation, especially in distribution.

Further trends that will shape the future nature of financial provision for lower income households include:

- Strong economic growth and rising personal incomes
- Investor optimism and easing international restrictions following policy reforms
- Increasing movement of people, goods and services within and beyond Myanmar
- Increasing consumer culture creating demand for retail credit and electronic payment instruments
- High levels of informality, which creates opportunities
- Global impact on exports, remittances and migration
- Inflation
- Entry of international banks and later insurers, which will increase competition and innovation

4. Financial Inclusion – A Proposed Goal for Myanmar

In order to provide a vision and direction for financial inclusion in Myanmar, a policy goal is proposed towards which supportive intervention logic can be organised and monitored. The proposed goal is:

"By 2020, Increase Financial Inclusion in Myanmar from 30% to 40%, more than one product from 6% to 15%, with full range of affordable, quality, effective and responsible financial services by getting all stakeholders to work together in an integrated manner."*

The goal was arrived at in consultation with stakeholders. In achieving this goal, it is important to note the supporting objectives to improve the quality of available products in order to ensure that customer needs are better met in a responsible marketplace. Achieving the goal on a sustainable basis will also mean that industry subsidies are gradually eliminated through improvements and innovation in the delivery mechanisms.

The Roadmap proposes that the goal of financial inclusion in Myanmar will be best assured by pursuing two main Outcomes[10]:

- *Strengthening the financial sector* so that it is able to better support financial inclusion, building and where necessary creating institutions critical to financial inclusion, and addressing market barriers across product categories to grow formal intermediation.
- *Ensuring financial inclusion in three priority segments* which have been chosen in line with government policy and objectives (Figure 4) i.e. agriculture, fisheries and livestock (the backbone of the economy today), micro, small and medium enterprises (a key driver of growth and jobs in the coming years), and the low income (critical for addressing poverty alleviation and social stability).

	Size (m)	Access in 2014	Target in 2020
Agriculture - Farmers	12.1	43%	51%
MSME - Formal Enterprises - Informal Enterprises	7.2	30%	40%
Low Income - Informal consumer	7.5	15%	28%
Other	13.0	27%	36%
Total	39.8	30%	40%

Figure 4: Roadmap targets for priority markets

The logic of the Activities and Outputs supporting the Outcomes and the goal is illustrated in the figure below:

[10] The Results Based Management nomenclature of the UNDP Handbook on Planning, Monitoring and Evaluating for Development Results (2009) page 53 is used: Activities → Outputs → Outcomes → Impacts / Goal Level

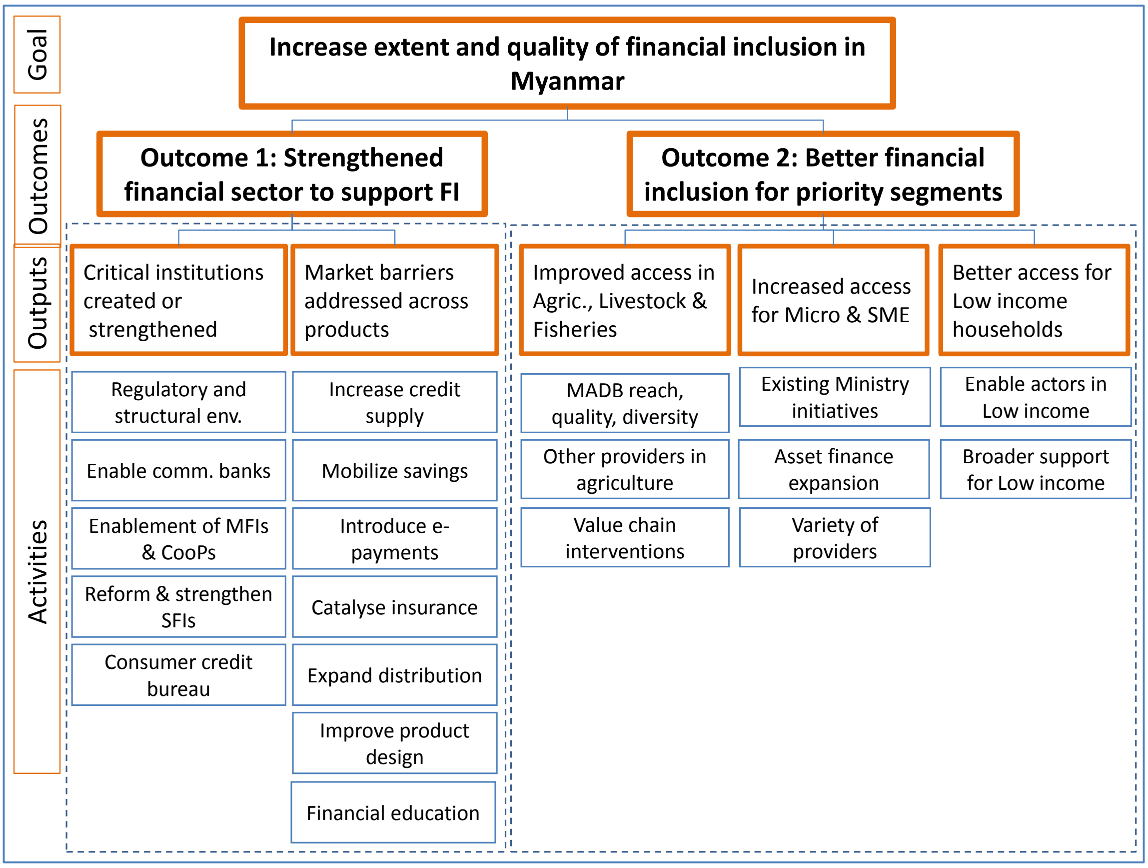


Figure 5: Proposed financial inclusion interventions in Myanmar

The activities / proposed interventions supporting the outputs, outcomes and the goal are further detailed below:

1. **Outcome 1**: The financial sector is strengthened and is able to better support financial inclusion.

   1.1 **Output 1.1** Institutions critical to financial inclusion are strengthened or created where they do not exist: Five activities / interventions have been identified to achieve this output:

   - Reform the regulatory and structural environment to ensure it is sound and fully supports the sector players in their goals towards financial inclusion
   - Ensure commercial banks are fully enabled to serve the mass market, as well as in providing services to other players in the low income market
   - Develop and support MFIs and Cooperatives so that they are fully able to complement the banks and other players across all market segments but especially among the low income
   - Reform and strengthen key SFIs (MEB and MFTB) affecting other players in the financial inclusion value chain
   - Implement a consumer credit bureau to serve all service providers in the retail space

1.2 **Output 1.2**: Current market barriers across product categories and the ecosystem in which they operate are addressed to grow formal intermediation. Seven activities / interventions have been identified to achieve this output:

- Increase credit supply
- Mobilise savings
- Introduce and expand e-payments
- Catalyse insurance sector development
- Extend distribution footprint
- Improve product design
- Financial education and responsible finance

2. **Outcome 2**: Increased and improved quality of financial inclusion is achieved in the three priority segments chosen in line with government policy and objectives.

   Output 2.1 Improved financial access in Agriculture by increasing the quality and diversity of products available to farmers. It is envisaged to achieve this through three activities:

   - Improve MADB service reach, quality and diversity
   - Enable multiple financial service providers in agriculture
   - Agricultural value chain interventions to support farmers

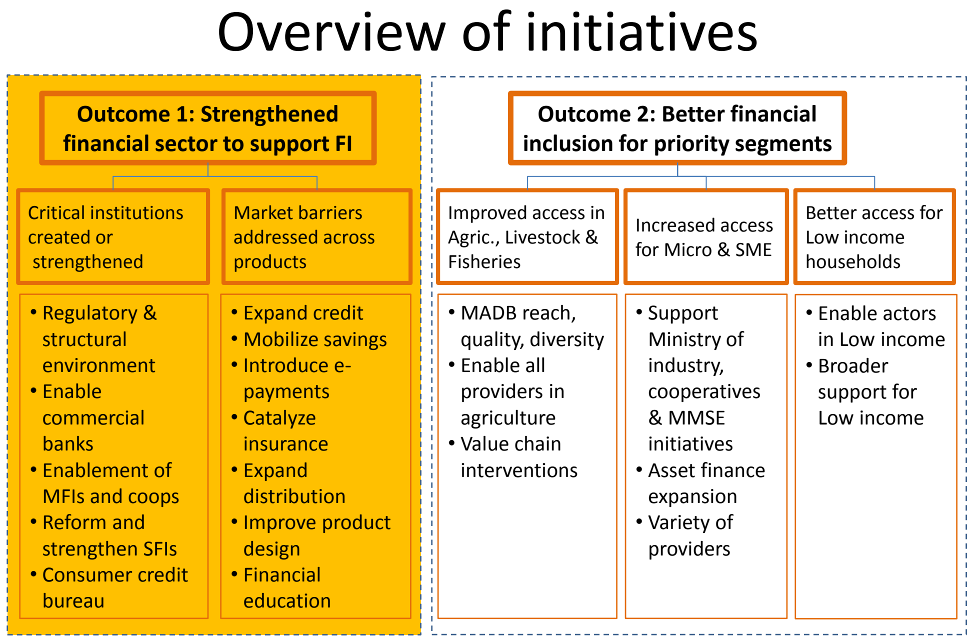
   Output 2.2 Increased financial access to MSME by strengthening institutions best positioned to serve them. It is envisaged to achieve this through three activities:

   - Support the existing government initiatives to increase finance to MSMEs
   - Support expansion of asset finance by commercial banks and other players
   - Enable wider range of providers to provide services to MSMEs

   Output 2.3 Better financial inclusion and resilience to low income households by creating and incentivising business models and partnerships that are best positioned to provide the services, especially in rural areas. It is envisaged to achieve this through two activities:

   - Better enable actors in the low income segment
   - Broader support for the low income

5. Outcome 1 - Strengthened financial sector to better support financial inclusion



5.1 Output 1.1 - Institutions critical to financial inclusion are created / strengthened

In order to strengthen institutions critical to financial inclusion in Myanmar, the following initiatives require attention.

- Strengthen the regulatory and structural environment
- Ensure commercial banks are fully enabled to serve the mass market
- Develop and support MFIs and Cooperatives
- Reform and strengthen key SFIs in the financial inclusion value chain (MEB and MFTB)
- Implement a consumer credit bureau

Each of these initiatives is discussed in detail below.

Supportive regulatory and structural environment

It is necessary to ensure that the regulatory environment is sound and that it supports the sector players in their goals towards inclusion, especially by ensuring that proper regulations are in place and that there is a full suite of regulators and supervisors with increased capacity.

Currently, various providers that are critical to financial inclusion are regulated from different departments. In particular, it is noted that the Central Bank (through commercial banks), FRD (via MFIs), Ministry of Cooperatives (via financial cooperatives) and the Ministry of Agriculture (through the MADB which plays a critical role in financial inclusion for rural areas as a byproduct of its primary mandate in agriculture) all play a critical role in financial inclusion. Some level of coordination is being provided by the Ministry of Finance on policy and regulation. However, key decisions are often independently made by the respective line ministries /

regulators who have diverse objectives, and strengthened coordination is critical to avoid duplication and gaps in the financial inclusion agenda. Regulation also needs to be aligned. For example, plans are advanced in the new finance law to place certain aspects of the MADB under CBM regulation.

In addition, Myanmar currently lacks a suite of market conduct regulators to complement the prudential regulators, i.e. a credit regulator, a financial services consumer protection agency or an awareness and financial literacy regulator.

In order to address these issues, it is proposed to:

1. Conduct financial sector legal framework review and analysis.
2. Perform an international benchmark exercise to determine what regulators and supervisors should exist and their spans of control and to propose an optimal structure.
3. Provide support to increase regulatory and supervisory capacity (people, IT) in the Ministry of Finance, in the national regulatory bodies (CBM, FRD, Ministry of Cooperatives and Ministry of Agriculture) and in the regions. The support should also encourage / enable co-ordination across the country rather than on a State-by-State basis and the move from rules-based to risk-based supervision in Myanmar.
4. Coordinate ownership of financial inclusion initiatives and policies within government, including resourcing and annual work plans.
5. Set up advocacy mechanisms for industry and donors in order to provide input into government structures all the way to cabinet level.
6. Entrench and continue stakeholder engagement with industry forums including ministries, regulators, service providers and development partners.

It is proposed that the Ministry of Finance should coordinate these activities with the support of others, including the CBM, Ministry of Cooperatives, FRD, Ministry of Agriculture and development partners. The objective could be achieved over 12 – 18 months, and development partners would provide the technical assistance required to carry out the work.

Strengthen and enable commercial banks to support financial inclusion

It is important to ensure that commercial banks are fully enabled to serve the mass market, as well as to provide services to other players active in the low income market such as cooperatives and MFIs. The main objective could be articulated as creating a strong and modern banking sector efficiently providing services to the market, including a suite of credit, savings, payment and insurance products, across all consumer market segments.

In reviewing the efforts necessary to fully empower banks, it should be noted that the regulatory environment is still evolving, and while there is definite movement from rules-based towards risk-based supervision, historical practices, insufficient systems and people skills hinder the CBM from fully supervising banks on a risk-based model. Regulations therefore frequently impact on commercial decision-making, e.g. in product pricing, term and collateral, or branch requirements.

In addition, most banks operate with limited MIS, with a few banks in process of implementing core banking systems and transitioning to their use. There is limited real time network connectivity between branches. These infrastructural limitations prevent cost-effective and secure administration of accounts at scale. Proper systems could also support advanced products including large-scale retail credit, real time transactions for mini-branches and agents, implementation of credit bureau and the proper transition to risk-based supervision.

At a business level, banks are still transitioning to modern approaches, currently exhibiting a conservative approach to risk for historical reasons. There is also a lack of proper performance management (e.g. branch P&L) and limited capacity in certain functions that are critical to a modern bank (e.g. risk management). Proposed actions to better enable banks in financial inclusion include:

- Support to regulators to enable more commercially driven decision-making by banks
- Support to improve and utilise electronic and IT systems, including core banking systems, potentially resulting in a regulator process to mandate minimum system
- Capacity building support
  - Support to implement internationally recognised standards
  - Support to improve service quality
  - Market research and data analysis to strengthen strategies and operations
  - Credit products based on risk assessment rather than collateral requirements
  - Culture change towards performance orientation, e.g. branch Profit & Loss, devolved (branch level) decision-making
  - Support for Bankers Association

The major cost associated with this initiative is the cost of technical assistance in the identified areas and, for the banks themselves, the cost of the envisaged IT systems. The initiative can be anticipated to take up to 24 – 36 months, driven by the timelines required to build the necessary capacity and to implement the core banking systems. The initiative would be coordinated by the CBM, with support from the banks, Ministry of Finance and Revenue, and development partners.

Enablement of MFIs and Cooperatives

MFIs and Cooperatives can be better enabled to support financial inclusion by reviewing the regulatory environment to make it more supportive, ensuring the relevant regulators have suitable capacity and systems to monitor the sector, increasing the service providers' operational capacity, and ensuring they develop the necessary scale for sustainability.

While the research clearly demonstrated a need for both MFIs and cooperatives to exist and complement other players in the market, they both currently have a limited reach (at the time of the research, MFIs served only 690 000 clients and financial cooperatives 880 000 clients) and a very limited product offering (short-term loans offered on a group basis that do not always meet the target market needs).

The MFIs are currently fragmented and, as a result, unsustainable. There is a need for government to relook at their minimum set-up requirements and for donor stakeholders to focus their efforts and support a selected number (minimum of 4 – 5 MFIs are proposed) to enable them to reach scale and sustainability. Without such support, it could take much longer, and few are likely to reach scale and sustainability.

Some of the current regulations also limit MFI sustainability and in instances innovation. Current interest rate caps potentially confine players to urban areas, while proposed loan size cap (K500 000) are too low to serve certain segments of the market being below an average moneylender loan of K635 000. Commercial decision-making is often impacted by regulatory requirements, e.g. requirement to submit and adhere to business plans for new geographies. MFIs also face challenges and delays in obtaining approval for capital increases and limitations in deposit taking. The need to pay minimum interest on compulsory deposits (15%) is also a concern.

Internally, MFIs are only now adjusting to evolve their status, modify funding mandates, enter new areas, strengthen their business operations and sustainability, and transform from paper / Excel-based systems to proper IT systems. Current systems restrict product offerings, which desperately need to evolve. MFIs are also facing difficulty in finding suitably qualified and experienced skill as they expand, and they carry significant currency risks in addition to normal business risk due to lack of local Kyat funding.

The MFI Association is still relatively new and its capacity is limited. The Association could be enhanced and its role expanded, especially for advocacy but also for data collection and channelling training.

The proposed focus areas to address the issues faced by MFIs include:

- Ensuring a supportive regulatory environment for MFIs by reviewing interest rate caps, loan size caps, statutory ratios, reserves, minimum set-up requirements, timeline to MFIs providing a full service suite (including voluntary deposits) and regulation to formalise and extend insurance products
- Capacity and IT support to MFIs including policies, skills, MIS, operations and the MFI association
- Support to increase supervisory capacity and coordination in the FRD and in the regions
- Joint strategic development of a minimum of 4 – 5 MFI to enable them to reach scale through targeted funding estimated at USD 20 million (currently, support for 3 institutions of USD 3 million each is in place). Donors will, in conjunction with government, select the targeted institutions, based on mutually acceptable criteria.
- Increased longer-term funding
- Support for MFIs to borrow, especially local currency wholesale facilities. Stakeholders will need to agree how this is best provided, e.g. apex funds, banks offering sector priority lending, etc.
- Regulatory and funder support for longer term loans and other product evolution, e.g. payroll lending, remittances, etc.
- Continued current support for rural outreach

The cooperatives sector has seen recent aggressive growth, supported in part by an agreement between China and Myanmar that has secured USD 600 million to be injected over 3 years into agricultural cooperatives. This funding is aimed at the poor and is being disbursed through CCS and the regional and township federations at Kyats 100 000 per household and 18% interest per annum. There are plans to increase the loan sizes, as well as to source additional funding.

A key issue facing the rapid growth of the cooperatives is the limited use of prudential standards and professional management systems, and, for example, clients are not required to undergo needs and risk assessment prior to disbursals. The supervisor (Ministry of Cooperatives) has limited tools to manage the funds, and the mandatory annual audits may be insufficient as the loan book grows. This is particularly important since, although Myanmar has had experience with cooperatives for a long time, sustainability at this scale is not yet proven and will require a few years of operation. Research into the experience of other countries in rapidly scaling up cooperatives could assist in ensuring that the expansion meets its objectives.

Key focus areas recommended for the cooperatives sector include:

- Support to increase supervisory capacity within the Ministry of Cooperatives but potentially also at a local / regional level. This will also include streamlining the objectives of the FRD versus the Ministry of Cooperatives and introducing portfolio monitoring and management tools for supervisors.
- Capacity and IT support for cooperatives, especially to commercialise the current model through business model improvement, e.g. needs assessment, risk assessment, as well as skills, MIS and operations support, and the introduction of management information systems, e.g. at township level
- Increased long-term funding (Carefully monitored growth in funding is needed, with gradual disbursements conditional on repayment performance, credit risk analysis training and the introduction of governance standards.)
- Support for longer term loan product evolution

Costs are anticipated in the provision of technical assistance and to implement IT systems to better manage the MFIs and cooperatives.

Implementation will require an estimated 24 – 36 months and should be driven jointly by the FRD and the Ministry of Cooperatives, with the support of the MFIs, cooperatives, CBM, Ministry of Finance and development partners.

Reform and strengthen MEB and MFTB

The reform of SFIs critical to the financial inclusion value chain (MEB for its services and branches and MFTB for its international services) is important if the broader objectives are to be met. The key objective of this initiative is to commercialise and modernise management and the IT systems and bank processes for these SFIs, as they currently run as government departments, with manual systems that limit products and service turn-around times. It is particularly important for MEB to modernise its systems and increase operational efficiency, as it is a major deposit taking institution. Key focus areas of implementation include:

- Reform strategy development including the review of the mandate and legal framework, and commercialisation of activities
- Modernising the IT systems and processes including implementation of core banking systems
- Capacity building for commercial decision-making and to enable product diversity

The project could be completed in 24 – 36 months, coordinated by MEB and MFTB respectively with the support of the Ministry of Finance and the CBM. The major costs involved are assistance to develop the strategy, as well as infrastructure cost for the IT systems.

Establish consumer credit bureau

The objective of this initiative is to establish between one to three credit bureaus operating to international standard, with a critical mass of banks and SFIs being able to use them in Phase 1, and MFIs, cooperatives, retailers and finance companies joining in subsequent phases.

Myanmar currently has no credit bureau, the major bottleneck being the lack of suitable data from service providers and the manual nature of systems. As a result, there is heavy reliance on the group lending models operating on a decentralised model, and, where a different model is pursued, over-reliance on collateral. It is also currently difficult to measure or manage over-indebtedness, with non-performing loans potentially being understated due to generous definitions and consumer debt refinancing. There are already concerns that current levels of credit are unsustainable for some segments. It is therefore critical to implement a credit bureau given the huge demand for consumer credit, which will enable growth of unsecured lending, higher operational efficiency, credit monitoring of consumers to manage indebtedness and further innovation in the credit market. Implementation is likely to await a critical mass of banks with modern MIS and branch connectivity. It is also dependent on the ID system, and indications are that this needs pre-work due to citizens holding multiple IDs and with a high rate of name similarity.

Key focus areas of implementation include:

- Legal, regulatory and licensing framework, including decisions on private versus public ownership of the bureau, single versus multiple bureaus, etc.
- Early phase workaround solutions: Explore improved information collection by FRD and others (e.g. on collateral calls and credit outstanding) and spreadsheet-based negative reporting models
- Review of national registration cards framework
- Establishment of a fully automated credit bureau following bank modernisation, and usage by all market players in a phased fashion (Phase 1: banks and MADB; Phase 2: All SFI; Phase 3: MFI, cooperatives, retailers, finance companies)

The project could be completed in 36 – 48 months given the current infrastructural bottlenecks, coordinated by CBM and the Bankers Association with the support of the Ministry of Finance, banks, SFIs, FRD, Ministry of Cooperatives and the development partners. The major costs involved are assistance to develop the necessary legal and regulatory frameworks and to introduce and entrench credit assessment technologies. There are also bureau infrastructure costs.

5.2 Output 1.2 - Market barriers across product categories are addressed

Concerted effort to remove barriers to financial inclusion across product categories should increase the level of formal intermediation, which is a desirable outcome given government objectives. Seven initiatives have been proposed.

Increase credit supply

The objective is to increase regulated credit supply for the consumer and MSME markets, potentially by the estimated demand amount of K 4.5 trillion (such an increase would double the formal credit supply and take Myanmar from approximately 11% credit to GDP ratio in 2012 / 13 to 21%, still well below regional ratios[11]).

Due to existing supply constraints, consumers are reliant on informal credit, which is expensive. Adults using formal providers (18.6%) are comparable to those using unregulated providers only (17.8%) and family & friends (11.2%). Money lenders provide the bulk of informal credit. Migrating clients to lower cost regulated products could have significant economic (and welfare) benefits, especially for groups that are more reliant on unregulated credit such as informal consumers (27%) and informal enterprises (21%). An increase in credit supply, especially long term financing for enterprises, will support economic growth and hence employment.

MADB is the largest formal credit provider, but it does not meet all demand even in its core focus area of seasonal paddy rice loans. Recent growth has been driven by increases in loan sizes per acre, and hence new farmers are not being reached. In addition, 3.4m farmers cannot provide right of use documents and therefore are not even eligible for such loans. Commercial banks currently provide the bulk of their formal credit to few high income clients and are unlikely to meet demand in other segments as their loans are already near statutory limits at around 67% of deposits. Other suppliers such as MFIs and cooperatives are still small. Recent rapid growth of credit through cooperative funding will alleviate some of the need but not sufficiently (USD 600 million is currently anticipated with 100 million already disbursed).

Meeting the demand will require a combination of both foreign and domestic funding. On the local front, SFIs lend out only a limited portion of their deposits, and, subject to national requirements, some of the balance could be intermediated into loans. Informally held funds could also be potentially intermediated.

Increase in credit supply however needs careful evaluation and should be carried out in parallel to the financial education and responsible finance activities noted below. Some segments of the market may be reaching their repayment limits, and, in the absence of a credit bureau or other mechanisms to monitor over-indebtedness of enterprises and / or consumers, expanding credit too much too fast could significantly hamper current reforms.

Given that private sector players will require time to extend operations to rural areas, there is a continuing need for existing (subsidised) funding in the short-term including the current MADB subsidy of USD 15 per borrower that sustains over 2 million households. However, in light of existing demand, it is clear that interest rates for

[11] Cambodia 34%, Indonesia 43%, Sri Lanka 48%, Bangladesh 69%, Nepal 68%, Philippines 51% and Thailand 170%. Source IMF– http://data.worldbank.org/indicator/FS.AST.DOMS.GD.ZS, accessed March 2014

all players are artificially low. Prior to 2012, MADB lending interest rates of 13% - 18% were funded sustainably via deposits at 8%.

Credit products also need to evolve, especially as virtually all credit to the low income is short-term credit with product diversity being in part restricted by funding and lack of MIS. A potential gap in the credit market between K 500 000 and K 20 million is also possible given recent pronouncements on loan size caps.

Suggested focus areas include:

- Ensuring a supportive regulatory environment to encourage investment through improved regulatory certainty, levelling the playing field for all providers, an interest rate review, especially for rural outreach, and continued reform of the contract enforcement regime
- Sourcing more local funding from deposits and possibly larger proportion of SFI deposits for on-lending, as well as international funding (G-2-G, Donors)
- Creating and / or improving market development facilities and wholesale funding structures including the product terms, potentially leveraging commercial wholesale in profitable segments
- Supporting product evolution, particularly evolution of credit beyond short-term working capital, and the introduction of weather insurance for agricultural credit

This initiative is envisaged to be completed in 12 – 18 months, coordinated by the Ministry of Finance and Revenue, with support from the CBM, banks, SFIs, FRD, Ministry of Agriculture, Ministry of Cooperatives and development partners including government-to-government arrangements. The major costs involved in this initiative are for technical assistance to support the government in implementing the initiative.

Mobilise savings

The objective is to increase regulated savings and increase the number of formal savings accounts (potentially from 2.4 million to 4.4 million accounts[12]).

Current levels of formal savings are low in Myanmar, where 62.7% do not report any savings and 25.7% save at home or with someone they know. Many resort to saving informally due to a number of factors, including lack of accessible providers, lack of trust in formal savings due to past inflation and demonetisation, low interest rates of 8% p.a. since 2012 (fuelling the more lucrative money lender credit activity which bypasses the formal sector with up to K 3.7 trillion diverted from savings), and a lack of incentive from providers - margin spread of 0.5% has led to reduction in MADB savings. Even for commercial banks, the current interest spread (5%) is not always enough to encourage them in difficult-to-reach areas.

Deposit-taking MFI are currently not allowed to take voluntary deposits, potentially limiting their impact and their sustainability. The minimum interest on compulsory deposits of 15% has the effect of limiting the MFIs willingness to take deposits.

Building trust for customers requires time, awareness, adequate interest rates and presence through physical branches. Deposit insurance, which was introduced in 2013, will also assist in building such trust although its costs, limits and institutions covered may need review.

[12] Convert 33% of informal-only savers into formal, and 10% of self, family and friends into formal

There has been recent growth in deposits, driven in part by the abolishing of deposits to bank capital ratio and easing of branch expansion regulations. Most banks are close to their loan to deposits ratio and will benefit from additional deposits to increase their lending activities.

Focus areas proposed during implementation include:

- Improve regulatory support for deposit mobilisation, including:
    - Reviewing interest spread and impact on remote areas (cost of informal credit suggests artificially low interest)
    - MFI deposit mobilisation plan, including timelines for them to be able to take deposits, initially as bank agents
    - Encouraging increased footprint for easy and frequent access (proximity, fees), especially ATMs
    - Mobile phone saving wallets
- Government support for SFIs to renew savings mandate (margin spread, footprint)
- Low fee, low minimum balance accounts for small savers
- Deposit insurance limits, premiums, reach and awareness
- Targeted campaigns, e.g. Increasing awareness and addressing barriers for high income groups and formal enterprises in urban areas, Use of remittances to promote account opening, Potential intermediation of pawnshop gold holdings, and Addressing of door step barriers (e.g. many believe that if they are not employed they cannot open a bank account)

This initiative is envisaged to be completed in 12 – 18 months, coordinated by the Ministry of Finance and Revenue, with support from the CBM, FRD, the Ministry of Agriculture and the Ministry of Cooperatives. Technical assistance will be required to support the government in implementing the initiative. Successful mobilisation of savings will depend on successful extension of distribution infrastructure.

Introduce e-payments

Development of electronic payments will require the installation of essential payment, clearing and settlement infrastructure. This must remain a priority for the government, and much of it is already in progress. Gradually it will also be necessary to migrate consumer payments to electronic payment systems and to convert current non-account-based payments undertaken by banks to account-based relationships. All major institutions (including MFI) and citizens should be able to transact electronically.

Some progress has been made with the establishment of the MPU in 2011 to facilitate ATM and POS payments, although the POS devices can have up to 90% down time. It is expected that in the near future, a real time gross settlement system (RTGS) will be operated by the Central Bank, replacing the current manual payments clearing system. ASEAN financial integration would also ultimately require Myanmar's integration into the ASEAN Payment and Settlement System. The licensed mobile networks should assist with reliable, comprehensive real time network connectivity between banks.

The mobile companies should further enable the establishment of infrastructure to grow e-payments, using mobile phones as touch points, as well as mobile phone based financial services. The regulatory environment needs to be supportive, and enhancements to existing laws and regulations may be required to cater for new modes of service, diversity of providers such as non-bank payment service providers, and the evolving area of consumer protection for digital financial services. Regulations will need to continue to balance the interests of the banks with those of new players, such as telecom operators.

A key requirement to developing a fully functional national payments system is a national strategy, which is yet to be developed / adopted.

Government as a major source of payments should create critical mass for electronic payments infrastructure, leveraging the civil and military service personnel.

The recommended focus areas include:

- Regulations and regulator resources, capacity and expertise
- Electronic clearing & settlement (ACH and RTGS) systems and retail real time processing and switching platforms
- National Payment System Strategy and Standards, including a public policy for real time retail platforms allowing customers to directly issue payment instructions, and a stakeholder process to discuss cost and benefits of a national payments system
- Encouraging enablers, especially cash electronic interfaces such as POS, ATM, mobile cash-in cash-out agents, telecommunication infrastructure, and training and awareness
- E-payments and bank savings accounts for civil servants, the military and pension recipients

Given the current status of infrastructure in Myanmar, the project could take 3 - 4 years to implement and should be coordinated by the CBM, supported by the MPU, Ministry of Finance and Revenue, banks and mobile companies. The infrastructure costs involved should be for the industry, with development partners providing support to develop the strategy and create the required legal and regulatory environment.

It should be noted that the growth of electronic payments is highly dependent on available distribution infrastructure, covered under a separate initiative in this Roadmap.

Catalyse insurance sector development

The objective is to create a thriving, competitive insurance sector, where the insurance premiums to GDP ratio can increase from the current 0.08% to 1.5% by 2020[13], to mitigate consumer risks and to enhance the effectiveness of other financial services, particularly credit. This requires enabling regulation that supports the growth of the recently licensed players and development of new products, especially agricultural and health insurance, which may have to be extended to low income groups on a subsidised basis. As such, the new law that is being drafted needs careful consideration to ensure it supports insurance sector development by balancing the risk of inexperienced entrants with support for financial inclusion.

Currently, the insurance landscape is dominated by MIC, which is reliant on a few products. All MIC investments are held in government Treasury-bills, denying the market a significant source of long-term funding. MFIs and cooperatives also provide insurance with their credit products, but it is unregulated.

The research identified a need for health, agricultural, life, funeral, disability and credit life insurance.

Proposed focus areas include:

- Regulatory interventions to enable sector sustainability and reach, including flexible products and business models, optional bundling of insurance with credit, support to new players to introduce microinsurance, aggregators to distribute insurance (MADB, MFIs, agricultural value chain players), foreign partnerships to enhance industry capacity and enhancing IBSB capacity
- Enhancing MIC product offering (scale, agricultural insurance, expand compulsory government employee scheme, market research and analysis, better leverage of IT)
- Reinsurance and reinvestment of insurance assets

[13] Asian emerging markets average of 2.65%; Philippines, Vietnam and Indonesia between 1.2% and 1.77%

- Formalisation of MFIs' and cooperatives' microinsurance

The project could be completed in 12 – 24 months, coordinated by the MIC or IBSB with the support of the Ministry of Finance, insurers, CBM and banks. Technical assistance will be needed to support the IBSB and the players.

Expand distribution footprint

Extending the distribution footprint forms one of the biggest opportunities. Electronic payments will make a big difference, but only if the financial sector is able to create a ubiquitous network of cash-in and cash-out agents that are connected to the payment service providers in real time. In addition, non-bank agents can extend the reach of SFIs and commercial banks and even MFIs dramatically, provided the risks are managed. The objective is to increase distribution infrastructure to regional benchmark values, e.g. bank branches including agencies from 1 114 (2.8 per 100 000 adults) to 3 600 (9 per 100 000), ATMs from 274 (0.7 / 100 000 adults) to 4 000 (10 / 100 000) and POS from 855 (2.1 / 100 000 adults) to 24 000 (60 / 100 000).[14]

There has been recent bank branch growth due to easing of regulations, but there is still substantial room for growth (only 23% of the rural population are within 30 minutes of a bank branch vs 65% for urban areas) and the branch network needs to triple to reach benchmarked levels. Such growth will require a mix of approaches, as the cost of new branches is relatively high. Bank agencies, electronic touch points and cash-in cash-out agents all need to grow to reach the masses.

Mobile is likely to play an increasing role in distribution by enabling new business models and through mobile network agents, especially in rural areas. Other players with potential include the post office branches and grocery stores (although currently there are no significant retail chains). Agency banking could allow delivery of services through existing retail stores or petrol stations. However, such a model will only be a sustainable and trusted model of expansion if consumers have clarity in who they are dealing with and financial institutions are held accountable for their agents' actions.

Focus areas:

- Encourage investment in existing models including growth in various type of bank branches, ATM, POS, and m-banking, and consider ways to incentivise rural branch expansion, e.g. larger interest spread for smaller deposits in rural areas
- Create broader payment system infrastructure
- Regulate alternative models such as agent banking, internet banking, Telco-led m-payments and cash agents, and encourage financial inclusion initiatives to leverage mobile pre-paid agents
- Develop mobile into a touch point to complement ATMs, POS and Bank Branches

Success in distribution is dependent on Advanced IT and payment systems infrastructure, and mobile network. The anticipated timeline is 24 – 48 months, and the project should be coordinated by the CBM and supported by banks, Ministry of Finance, FRD, Ministry of Agriculture, Ministry of Cooperatives and mobile phone companies. Infrastructure costs will be borne by the respective industry players.

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[14] Bank branches: Philippines 8.1, Nepal 8.4, Bangladesh 8.1, Indonesia 9.6, Malaysia 19.9, and Thailand 11.8 (2012). ATM: Bangladesh 5, Cambodia 6.7, PDR 12.9, Philippines 19.3, Nepal 7.5, Indonesia 36.5, Malaysia 52.9, Thailand 84.1. POS: Indonesia 120, Cambodia 36, Malaysia 941
Source: http://data.worldbank.org/indicator/FB.CBK.BRCH.P5, 2012, accessed March 2014

Improve product design

The objective is to encourage development of products that meet the needs of the respective segments, through innovation in product features and product bundling where economically sensible / viable and responsible.

Lack of appropriate product funding, skills, infrastructure and MIS systems currently limit what institutions can offer, leading to products that are costly or inappropriate, over-reliance on decentralised group models, and loan products that do not meet the needs of the low income. (Agricultural loans often disbursed too late for planting inputs forcing farmers to take expensive informal loans; requirement to repay loans immediately after harvest forces farmers to sell crops at the lowest price resulting in low returns and increasing poverty. Virtually all formal loan products are short-term in nature, hence they cannot be utilised for asset purchases and capital formation).

Proposed focus areas:

- Flexibility in regulation to minimise rules and allow commercial product design, especially for banks
- Products to be modified and new services to be developed to meet the needs of citizens. Special categories of need include longer-term credit with repayment terms suitable, especially to famers (the MADB and MFIs can play a major role here if properly capacitated), asset finance loans (finance companies and commercial banks can play a role here, as well as SFIs and MFIs), flexible savings products with low to no minimum balance requirements and the ability to deposit small amounts frequently, as well as an array of electronic payment products.

The project could be completed in 12 – 24 months, coordinated by the Ministry of Finance and supported by CBM, banks, MFI, cooperatives, insurance companies, FRD, Ministry of Agriculture and Ministry of Cooperatives.

Financial education and responsible finance

Infrastructure for Basic Consumer Financial Literacy

While lack of access is certainly a driver of the current financial inclusion figures, consumer knowledge and awareness also play an important role as consumers need to know and understand the benefits and risks of formal financial products and services versus the informal arrangements they may be more accustomed to. Moreover, those choosing to "experiment" with a formal product need basic financial knowledge to manage it well or risk having a bad experience which may increase the likelihood that they will abandon the formal sector. Even among those comfortable with the formal financial services sector, as the number and complexity of financial choices increase in the years ahead, so will the opportunity for bad decisions or bad actors to hurt financially uneducated consumers.

Presently, a handful of private sector entities and NGOs offer financial education programmes targeting specific populations in specific regions. Each is planned, developed and executed independently of other programmes. While such efforts are to be commended, each is forfeiting an opportunity to have a greater impact through national coordination. Increased coordination can enhance their effectiveness and overall efficiency. By helping to guide the organic growth in the financial education movement, government can enable programme providers to pool resources, learn from and inform best practices, prioritise strategically and complement broader financial inclusion efforts.

Private sector accountability for financial literacy efforts is also needed, as the increase in access may lead to potential for consumers to misuse the products because of misunderstanding and inexperience. Since providers of financial products directly benefit from the broadening of access, they are uniquely well-positioned to assure that product penetration is matched with knowledge penetration. This can be accomplished through the provision of appropriate and objective financial literacy programmes in the communities they serve. Concerted efforts to raise the financial literacy level of Myanmar's consumers also need to be grounded in consumer research that links knowledge, perceptions and behaviour which will ultimately be valuable in formulating measures to increase financial literacy.

In parallel, Myanmar should also take steps to educate its youth on financial topics. The Ministry of Education should prioritise financial literacy and integrate it into existing curricula at multiple grade levels.

To address the above issues, it is proposed to:

- Enhance coordination of financial education, potentially through:
    - Formation of a cross-sector national advisory board which will develop a national strategy and propose it to the government for adoption. The board will consist of members from the private sector, development partners, NGOs and government.
    - Formation of a financial literacy coordinating council to enhance coordination within government with representatives from CBM, the Ministry of Finance (FRD), the Ministry of Cooperatives and Ministry of Education
- Improve accountability for financial institutions by considering regulatory requirements on such entities to support financial literacy or at least to report to regulators annually on their institutions' financial literacy activities
- Develop and field a national baseline survey on adult financial literacy to determine specific areas for improvement
- Integrate financial literacy lessons into present curricula at multiple grade levels. Such integration must be facilitated through specialized training for curriculum writers and for teachers.

Responsible Finance

For financial institutions to sustainably serve the market and increase consumer and enterprise welfare, they must be able to balance shareholder demands with concern for the consumers. Internationally accepted and well-developed frameworks exist for institutions to assess their practices and for regulators to adapt rules.[15] Within each product area, analysis is needed to identify consumer protections that are appropriate without being overly burdensome.

Major areas of potential improvement include the introduction and refinement of common disclosures and transparency on credit pricing; expanding the deposit insurance scheme to deposit-taking MFIs and cooperatives; addressing basic consumer rights regarding refunds, principal agent liability, data privacy and recourse mechanisms for new digital and physical payments / mobile money channels; ensuring that insurers are financially sound to make good on their commitments; and providing transparency on any bundling of products.

These efforts are particularly urgent as taken together, the lack of a credit bureau, rapid increase in service providers (180 new MFIs in the past 2 years, rapid growth in cooperative funding), lack of deposit insurance for MFIs / cooperatives, weak prudential oversight of MFIs / cooperatives, an increasingly consumer-driven market, new mobile banking services, weak regulator capacity and some MFIs masking the true cost of credit as a result of the interest rate caps, the conditions are ripe for consumer abuses if not properly handled.

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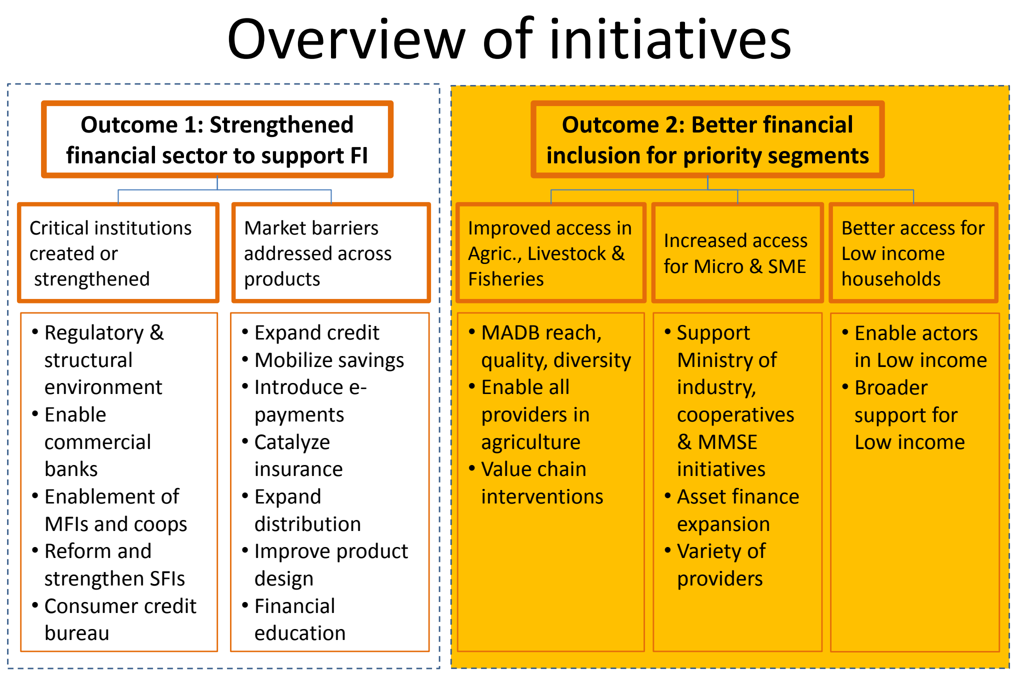
[15] Such frameworks include the Smart Campaign's Consumer Protection Principles for Providers and the World Bank's Good Practices for Consumer Protection, which are largely aimed at the market environment.

To address these issues and concerns, it is proposed to:

- Issue a regulation on transparency of interest rates and fees via a total cost of credit disclosure for all licensed lenders
- Encourage the banking, cooperative, MFI, insurance, payments and consumer lending sectors to implement internal codes of conduct
- Implement a financial sector ombudsman for receiving and resolving complaints, analysing such information, and making statistics available to the public
- Expand awareness of the existing deposit insurance system for banks and the scope of deposit insurance to cover MFIs and cooperatives focused on financial intermediation.
- Require financial institutions to remain responsible for the security and privacy of clients' data and to maintain liability for banking agents acting on their behalf

It is proposed that the Ministry of Finance coordinate the activities, later delegating customer education to the proposed government financial literacy coordinating council, with the support of development partners. The objectives could be accomplished between 18 - 24 months, and development partners would provide the technical assistance required to carry out the work.

6. Outcome 2 – Financial inclusion for priority segments



6.1 Output 2.1 – Improved financial access in agriculture

Although there is quite a high usage of formal credit amongst farmers (38%), their needs are not fully met, as evident from the 24% that borrow informally and the 38% that have no access. There is a need for a wider variety of options available to farmers, including longer-term loans and asset finance. Three activities / interventions are proposed:

- Reform and modernise the MADB to increase the reach, quality and diversity of its services as it remains the primary vehicle of access for financial services by farmers
- Support agricultural cooperatives and rural MFIs so that they continue to form a critical part of the services to farmers
- Foster adequate interventions, which will be essential to ensure a vibrant industry, beyond the farm gate

Improve MADB reach, quality and diversity

In order to achieve the objective of increasing MADB's reach, quality and diversity, and ensure a commercially sustainable organisation, a reform programme is needed.

The reform will ensure that MADB functions as a commercial entity, resolves major customer complaints such as the length of processes, funds for sufficiency of loans, and provides systems that allow individual and higher loan values (by managing opportunity for error / fraud) at scale.

A recent study of the MADB[16] has highlighted challenges that are likely in such a transformation given the huge changes needed for it to be transformed from a lending arm of the government into a commercial service provider.

Focus areas of implementation include:

- Corporate reform to ensure autonomy and sustainability, drawing on regional experience. Key areas include strengthening the governance and operational infrastructure, increasing management's role in strategy, and ensuring compliance with international accounting standards
- Reviewed strategy around existing products
  - Detailed farmer debt evaluation
  - Higher loan sizes per acre, larger plots (10 - 20 acres)
  - Loans to farmers without land registration certificates
  - Couple agricultural insurance with credit, potentially on a mandatory, subsidised basis
  - Potential partnerships with value chain players, e.g. for agricultural and other insurance products
- Products to enable mechanisation and irrigation
- Business processes and systems to improve service levels:
  - Timeliness of loans
  - Service quality (application process, staff capacity at branches, distance to branch, etc.)
- Modern IT systems for diversity of products
- Managed move to commercial sustainability
  - Interest rates review to improve interest spread (currently 0.5%)
  - Phase out MEB subsidy ($15 per client per year) over 2 – 3 years
- Closer cooperation with other players in agriculture (especially MFI and cooperatives) to ensure sustainable sector
- Continued leverage on MEB's deposit-mobilisation capacity as it is unlikely that MADB can raise enough deposits to fund its portfolio

The project timeline is anticipated at 24 – 36 months, coordinated by the MADB with the support of the Ministry of Agriculture, Ministry of Finance, the CBM and MEB. The major costs involved are assistance to develop the strategy, as well as infrastructure cost for the IT systems.

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[16] MADB: Initial Assessment and Restructuring Options, World Bank, 2014 (funded by LIFT)

Enable multiple providers in agriculture

Whilst MADB is the main supplier of credit in agriculture, there is need to support other emerging suppliers, notably MFIs and agricultural cooperatives. A major risk factor for Myanmar agriculture is the potential for over-indebtedness and land loss with increasing debt in this sector. Careful studies are therefore required hand-in-hand with increased access.

Key focus areas of implementation include:

- Retaining and improving existing MFI efforts in agriculture
  - Retain or expand existing funding
  - Ensure sustainable policies, business practices and IT systems are in place
  - Expand product range
- Strengthening rural agricultural cooperatives[17]
  - Research and evaluation of government initiative
  - Improve business processes and supervisory capacity
- Introducing disaster insurance to mitigate current high provider risk exposure in agricultural credit
- Improving product design, especially for MFI, to match product to agricultural cycles and to need
- Studies to better document farmer over-indebtedness

This is a 12 – 18 month initiative, to be spearheaded by the Ministry of Finance, with the support of the Ministry of Agriculture, FRD, Ministry of Cooperatives, MFIs and cooperatives.

Agricultural value chain interventions

Public / private partnerships providing technical assistance across the value chain, especially seed technology, post-harvest technology, packaging, storage and distribution, are required. It is also necessary to ensure upstream investments in aggregation, storage and marketing so that they do not become a bottleneck for farmers. Two other notable issues to be addressed within this initiative include how to ensure farmers maximise prices and pass minimum surplus to the aggregators and distributors, and managing the impact of "Dutch disease."

Focus areas of implementation include:

- Public / private partnership in providing technical assistance in value chain, especially seed technology, post-harvest technology, packaging, storage and distribution
  - Research into and strengthening of the value chain to improve productivity and to ensure no bottlenecks
  - Research on relative failure of credit linked to agricultural processing
- Leveraging anticipated increase in mobile penetration to intervene more efficiently in the value chain
  - Information sharing
  - Visibility for supply chain efficiency
  - Enhancing access to markets
- At a macroeconomic level, managing the impact of Dutch disease, which can undermine the viability of farming

The project will take 24 – 36 months, coordinated by the Ministry of Agriculture with the support of the Ministry of Finance and the CBM.

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[17] Further detailed under Output 1.1 under "Enable MFIs and cooperatives"

6.2 Output 2.2 – Increased financial access for MSME

The research indicated supply-side constraints as a driver of the currently low levels of access for MSME. This needs to be addressed, as, for example, the lack of credit predictably places a ceiling on growth potential. Enterprises need access to credit (asset finance and working capital), savings, and electronic payments systems to flourish. Insurance is also needed as enterprises are currently relying on self-mitigation to manage risk. Proposed initiatives for enterprises include:

- Supporting the government in its current initiatives to increase MSME credit supply
- Stimulating asset finance, which remains a challenge for MSME. The growth of leasing and finance companies will be required to augment the capital funding.
- Supporting the role of cooperatives and MFIs, especially for informal traders so as to ensure they have adequate access to financial services

Support to current government initiatives in MSME sector

Government has been making efforts to support MSMEs through a number of initiatives, notably through the Ministry of Industry and the MEB to subsidise credit to MSME, as well as other measures through the cooperatives (Ministry of Cooperatives) and the MFIs (FRD).

MSMEs in general have limited access to funding, as many do not have documentation or collateral, and suppliers such as banks lack programmes for start-ups (banks require > 3 years history) and also lack MSME specific products. There is a loan size gap between banks and MFIs / cooperatives, with banks serving the very high-end and MFIs / Cooperatives offering entry level group-based loans. Banks cite regulatory conditions (collateral, terms < 12 months) as the main obstacles to developing MSME finance.

The Ministry of Industry has attempted to provide subsidised wholesale funding in partnership with SMIDB (8.5% interest, 3 years) and has recently expanded to other banks. Despite low interest rate, SMIDB has only 550 active loans, collateral being a major constraint.

A need to support the formalisation of more MSMEs through a targeted programme has been identified as many are not registered. It is also necessary to carry out further research on the current initiatives to inform their potential extension and for capacity support to the players to reduce dependence on collateral. Accurate statistics do not exist, and there is no reliable data to measure the finance gap.

The new MSME law is envisaged to provide a reliable legal framework. MSME are also in need of infrastructure modernisation and skilled labour.

Proposed focus areas include:

- Programme to increase levels of formality of sector
    - Basic MSME data collection, collation and sharing
    - Support to formalise and register MSME businesses
    - Assistance with business planning
    - Review regulatory framework to ensure it supports MSME expansion and access to credit
- Further research to improve current Ministry of Industry / SMIDB initiative and inform extension to other banks
- Capacity for improved business-plan-based risk assessment by banks to reduce dependence on collateral
- Credit guarantees for MSME as risk assessment skills and infrastructure are put in place (planned for 2015)

- MSME credit bureau, initially manual
- Increased funding for MSME finance

The project could be completed in 18 – 24 months, coordinated by the Ministry of Industry with the support of the Ministry of Finance, the CBM, SMIDB and other banks, FRD and the Ministry of Cooperatives.

Support expansion of asset finance

The objective is to increase the range of bank and finance company asset finance products tailored to MSME, as there only a limited number of asset finance products.

Tailored business loans are only now emerging, including working capital, warehouse, construction, corporate and import and export financing, and letters of credit and pledge loans. Mortgage and vehicle finance are non-existent (except AGD). Hire purchase loans serve as a financing mechanism for assets such as electronics, furniture, automobiles, tractors, equipment, machinery, apartments and condominiums, especially in the absence of long-term / mortgage loan products. Enterprises are also using hire purchase to access credit for business assets (hospital equipment, heavy machinery, business machinery, generators). There is therefore need for more long-term and tailored products, systems and infrastructure to overcome collateral requirement, and innovation to sustainably serve smaller businesses.

Focus areas:

- Longer-term and more tailored products
    - Encourage entities to continue to refine and tailor products to business needs
    - Longer-term bank loan products, especially by allowing insurers to provide longer-term funding to banks
    - Expansion of hire purchase to all banks
    - Support to SFIs to develop MSME products
- Initiatives to reduce reliance on collateral, especially MIS systems and credit bureaus
    - Support creation of infrastructure that allows banks to sustainably provide smaller loans to smaller businesses
- Innovation to sustainably serve smaller businesses
    - Banks to provide a full suite of services to enterprises
    - Leverage electronic payment system to create more account-based relationship with banks

This initiative could be completed in 12 – 18 months, coordinated by the CBM and supported by banks, SFIs, Ministry of Finance, Ministry of Agriculture, Ministry of Cooperatives, MFIs, cooperatives and the FRD.

Enable wider range of providers for Micro and SME

The objective is to support non-bank providers currently supporting MSMEs, notably MFIs and cooperatives.

Many informal enterprises cannot meet bank entry requirements and rely on bazaar cooperatives, MFIs, pawnshops and money lenders for credit. The products from the alternative providers are not always suitable; being group-based micro loans with short-term repayments, mostly for working capital (some experimenting with asset finance).

Proposed focus areas:

- Regulatory support for MFIs to serve MSME
    - Eliminate proposed caps on loans

- Rural MSME outreach encouraged through appropriate incentives (interest rates)
- Funding
    - Targeted funding for MSME
    - Ensure envisaged growth in cooperative funding caters for MSME and longer term products
- Product design
    - Support evolution from short-term working capital and group lending to individual loans, longer-term and higher loan values
    - MFIs and cooperatives create targeted products / initiatives

The project could be completed in 18 – 24 months, coordinated by the Ministry of Finance, and supported by MFIs, cooperatives, FRD, Ministry of Industry, banks, and the Ministry of Cooperatives.

6.3 Output 2.3 – Financial inclusion and resilience for low Income households

There are four main low income groups: farm workers, private individual employees, piece or casual workers and remittance receivers. The research estimates that 32.8% of adults earn below USD 2 per day.

Penetration of credit in this sector is high, with more than 50% using credit, although mainly from unregulated providers. Low income adults access regulated services through MFIs, regulated pawnshops and cooperatives. Two initiatives are proposed to provide financial inclusion and resilience to low income households, especially in rural areas.

- Many low income households are rural (70% of informal consumers are rural), and hence the incentivisation of rural MFIs and cooperatives will have significant impact given the limited reach of other formal entities. This may require a review of savings and credit interest rates to ensure sustainable business models.
- There is also a need for broader support for the low income, especially in intra-household inclusion but also in non-financial support.

Better enable actors in the low income segment

There is a need to support providers currently operating in the low income segment, mainly cooperatives and MFIs. A third provider, pawnshops, has not been recommended for support as it is perceived negatively by sections of the market.

These providers have a challenge to serve very rural areas. Many cooperatives and for-profit MFIs focus on areas with profit potential (urban, densely populated, higher income), and even INGOs are now moving away from subsidised funding. Additionally, the current products are limited to short-term credit, and these may need expansion to include other products like regulated microinsurance, savings and deposits.

The number of cooperatives is set to expand exponentially, with government targeting 60 000 new cooperatives, but the cooperative model is still new in rural settings, with limited infrastructure to manage portfolios.

The government through the Ministry of Rural Development is implementing the Emerald Green Project, under which they are providing financial support to villages in Myanmar. These initiatives need to be better coordinated.

Key focus areas of implementation include:

- Integrating / coordinating different initiatives targeting low income, including agricultural cooperatives, MFIs, MADB, and the Emerald Green Village Project
- Facilitating MFIs and cooperatives in low income market
  - Regulation to encourage MFIs and cooperatives to serve rural markets (interest rate review, less rigid requirements to enter rural areas, e.g. no mandatory business plans)
  - Funding, possibly earmarked for specific poor rural areas
  - Expansion of product range (requires regulatory amendments), including savings (as agent for banks, and deposit-taking MFI as capacity allows); Cash merchants for low value disbursals; Acceptance network for payments; Partner for insurance and healthcare providers
  - Encourage low cost business models (leverage improvements in IT, payment and mobile infrastructure; Support for improvements in MIS, staff and operations)
- Working with relevant Ministries to tailor services for Rakhine and Chin: It may be necessary to have state specific financial inclusion products, developed in conjunction with the Ministries of Health, Agriculture and Education.

The project should be completed in 12 – 24 months, coordinated by the FRD and supported by MFIs, cooperatives, Ministry of Cooperatives, banks, Ministry of Finance, Ministry of Agriculture, Ministry of Health and Ministry of Education.

Broader support for the low income segment

Focus needs to be created at a policy level for intra-household financial inclusion, especially for women, the elderly and the disabled. In addition, non-financial services support where partners are available should be provided to the low income. The proposed focus areas include:

- Policy level initiatives on intra-household financial inclusion, especially for women, the elderly and the disabled
  - Research
  - Policy interventions
- Non-financial support to accompany financial services
  - Vocational training
  - International experience
  - Income generating activities

This is potentially a 12 month project, coordinated the Ministry of Rural Development, with the support of the Ministry of Agriculture, Ministry of Cooperatives, Ministry of Health, Ministry of Education and mobile network operators.

7. Roadmap to reform

7.1 Profile of initiatives

In total, 20 interventions (activities) have been proposed. The potential timelines associated with each intervention are shown in Figure 6.

Timeline	Initiatives
Short term (12 – 18 months)	• Supportive regulatory and structural environment • Increase credit supply • Mobilize savings • Enable multiple providers in agriculture • Support expansion of asset finance • Broader support for the low income
Medium term (2 – 3 years)	• Strengthen and enable commercial bank sector • Enablement of MFIs and cooperatives • Reform and strengthen MEB and MFTB • Catalyze insurance sector development • Improve product design • Improve MADB service reach, quality and diversity • Agricultural value chain interventions • Support Ministry of Industry initiative • Enable wider range of providers for MSME • Better enable actors in the low income segment • Financial education and responsible finance
Longer term (4 – 5 years)	• Establish consumer credit bureau • Introduce e-payments • Extend distribution footprint

Figure 6: Estimated implementation timelines

Figure 7 below further shows the profile of the various initiatives across two dimensions, namely the ease of implementation and the potential impact in order to allow prioritisation. Whilst detailed work plans must address the time, capital and resources required, in developing this prioritisation framework the following factors have been taken into account:

- Potential impact of each initiative, especially in terms of financial inclusion (access and quality)
- Estimated order of magnitude of cost
- Estimated time to implement / time to impact

The resulting prioritisation matrix is as shown.

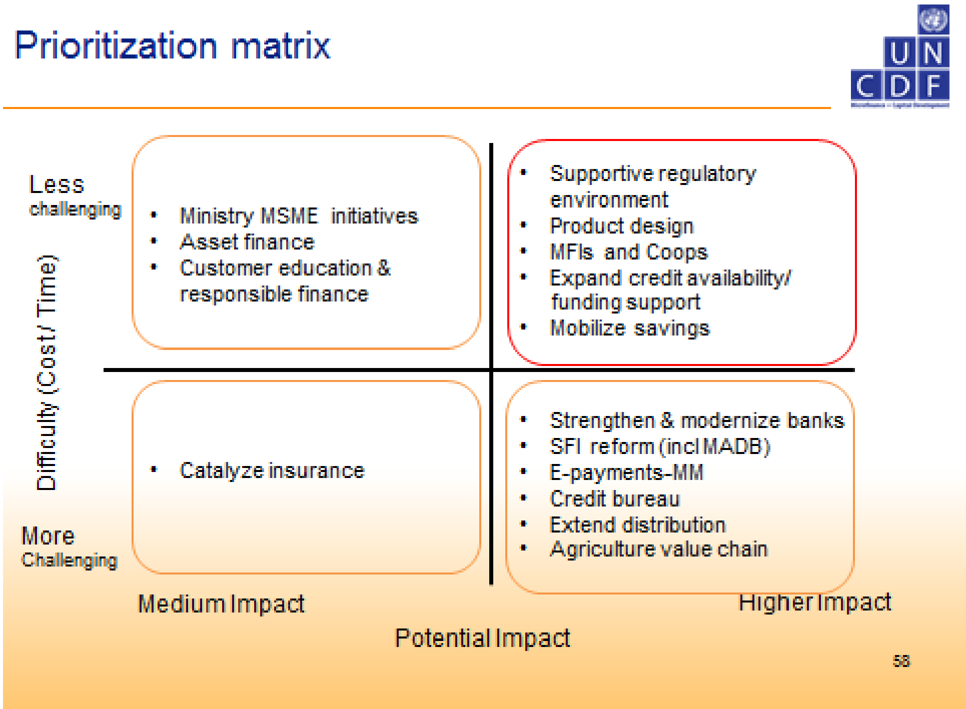

Figure 7: Prioritisation of interventions

7.2 Programme benefits, costs and funding

Increasing access and quality of access will be beneficial to the economy, as there is substantial evidence that financial inclusion yields tangible benefits for the poor. By providing savings, credit, transaction and insurance services, financial services enhance people's capacity to diversify and manage risk, and encourage entrepreneurial behaviour and economic dynamism.

The proposed programme will deepen and broaden financial services in the following ways:

- At the micro level, the programme will improve financial institutions through improved capacity to develop more relevant products, new distribution channels suitable for the low income, and access for additional segments of the market. It will also ensure improved customer capability through customer education.
- At the micro level, there will also be reform and modernisation of key institutions such as MADB, MEB, MFTB, banks, MFIs, cooperatives and others, to enable efficient delivery of services.
- At the meso level, the programme will strengthen the financial sector by providing appropriate infrastructure and information (mobile transactional platform and a credit reference bureau) that will lower costs and encourage the entry of commercial entities in low income markets.
- At the macro level, the programme will enable an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor, especially the banks, SFIs, MFIs and cooperatives to make them more sustainable. It will also allow for regulators to improve their capacity to regulate the market more effectively.
- Overall, the programme will result in a sustainable and responsible financial sector to support financial inclusion, allowing access for currently excluded individuals, and deepening financial inclusion for categories that are currently included.

A review of anticipated costs reveals a potential programme cost in the order of USD 100 - 150 million over 2014 – 2019. 50% of these costs are in the form of subsidies required for farmers obtaining services through the MADB that the government is currently funding. (These estimates need further work and detailing through the necessary work plans).

The specific benefits associated with these potential costs are shown in Table 1 below.

Initiative	Benefits
State subsidies via MADB	• Continuing livelihood for 2 million farmers, with an orderly reduction in the subsidies over a period of 3 years. This cost is currently carried by the government.
Technical assistance in various areas	• Knowledge transfer, capacity building for operators (SFIs, banks, MFIs, cooperatives, etc.) and regulators • Reform strategy for key SFIs that currently underpin financial inclusion in Myanmar
Funding and development for core MFIs	• Minimum of 4 – 5 sustainable MFIs to provide services to the low income
Management systems for cooperatives	• Proper management at local / regional level of a USD 600 million fund injection, which has potential to grow further in the near future
Management systems for core SFIs	• Modern systems for MEB, MFTB and MADB, to allow scalability, operational efficiency, and interoperability with other industry players
Management systems for core MFIs	• Modern MIS systems for the 4 – 5 core MFIs to ensure they can scale their operations, and operational efficiency

Table 1 Summary of major project benefits

7.3 Implementation and evaluation

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

In order to achieve the desired goal and outcomes, it is necessary to have a management and oversight body responsible to centrally coordinate, monitor and evaluate the various initiatives and policy reviews that take place across the departments and agencies. Such a structure could be an inter-ministerial oversight group similar to the existing MAP Steering Committee, enhanced to meet the requirements of implementation. The Ministry of Finance should also be part of this forum, possibly chairing it and taking responsibility for coordination of policies impacting on the development of microfinance. A high level individual should be identified as a programme champion, and this should typically be the President of the Union, the Minister of Finance, or the Governor of the Central Bank.

The oversight group's mandate would be to provide oversight and to coordinate and ensure the implementation of the recommendations in the Roadmap, and it should be resourced accordingly. Non-governmental bodies such as development partners should be incorporated into the forum along with private sector providers of financial services.

The forum, once established and after adopting the Roadmap, will also consider whether the Roadmap could be evolved into a national policy, supported by appropriate national financial inclusion targets.

Given the overlap between the Financial Inclusion Roadmap and broader financial sector initiatives, the forum needs to coordinate and harmonise the different sector initiatives, ensuring synergies are extracted where possible. They will also monitor and evaluate outcomes and provide regular report-backs to various government organs. To do so would need support of staff for 3 – 5 years.

The forum and in particular the Ministry of Finance should ensure that stakeholders' projects falling behind schedule are escalated to the highest level, and as a result reviewed to ensure they remain relevant to the government objectives.

It is suggested that each ministry or organisation will implement specific areas of the Roadmap under their jurisdiction but will report to the oversight group on progress. In many instances, an area of the Roadmap may require more than one organisation, and sub-working groups under the main oversight would take responsibility for these.

Secretariat support to the oversight group would ensure work plans that show the relationships between components and also provide for appropriate monitoring and evaluation on a six month basis.

The overview of the MAP process now entering implementation is shown in Figure 8, while the key stakeholders to be included are shown in Figure 9.

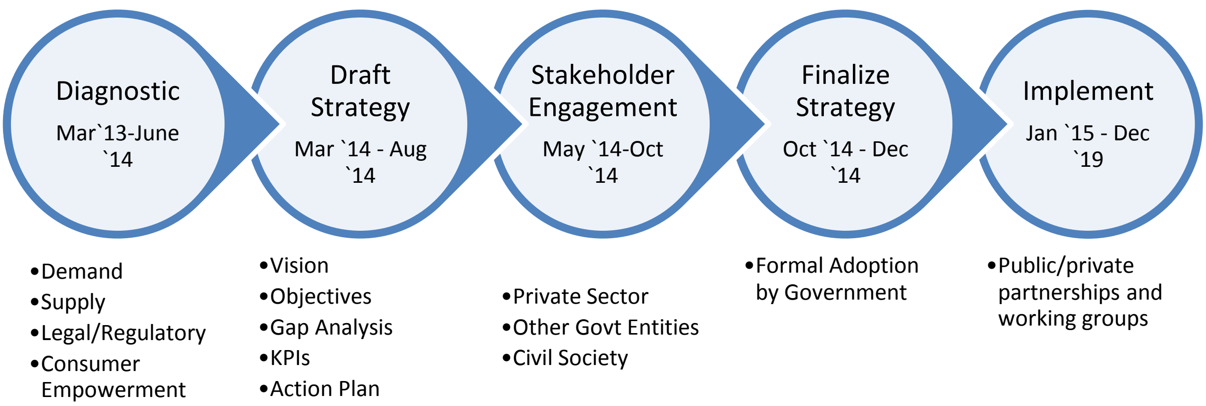

Figure 8: Process overview

	CATEGORIES	INSTITUTIONS	ROLES & RESPONSIBILITIES
1	REGULATORY AUTHORITIES	• CBM • MMSE • IBSB	1. Frameworks that support financial inclusion 2. Advice and guidance to their Institutions on achieving Financial Inclusion targets.
2	MINISTRIES	• Finance • Agriculture • Cooperatives • Industry • Rural devt. • Local government • Communications • Planning • Education; Health; Labour, employment & social security	1. Coordination of Initiatives 2. Budget 3. Ensure that initiatives within ministry comply with Policy statements and with best practice
3	ASSOCIATIONS & NETWORKS	• Microfinance • Banking • Mobile operators • Postal network	1. Represent members' ideas in Financial Inclusion committees meetings 2. Ensure transmission of information between members and with other partners 3. Encourage best practice among members
4	SECTOR ENTITIES	• Public sector entities • Private sector entities	1. Implementation of best practices 2. Feedback to coordinating bodies
5	DEVELOPMENT PARTNERS	• Donors • Technical partners • Partner governments	1. Financial and Technical support 2. Coordinate amongst each other and with Government

Figure 9: Financial inclusion stakeholders

7.4 Measurement

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The actual targets will be finalised as a first step of the implementation process to ensure ownership, but the following are suggested as primary indicators to evaluate the programme:

Implementation areas to be tracked:

- Institutional targets (Banks, SFIs, MFIs, Cooperatives)
- Product targets (Credit, Savings, Payments, Insurance)
- Channel targets (Branches, Agencies, ATM, POS)
- Segment targets (Agriculture, MSME, Low income)

Outcome based measurement criteria would also be used to evaluate the impact of the initiatives. These include:

- Access
- Usage
- Affordability
- Appropriateness
- Financial literacy
- Consumer protection

Secondary indicators will be proposed through the work planning process where necessary to report on the progress or impact of specific stakeholder initiatives. Examples of these include number and percent of targeted clients on credit bureau roll, achievement of targeted number and value of payments over e-payment platform, and achievement of targeted reduction in a payment transaction cost.

7.5 Key risks

The main risks to successfully implementing the initiatives and the mitigation steps thereof can be summarised as follows:

Table 2: Anticipated risks and mitigation strategies

Risk	Possible mitigation
• Lack of buy-in / compliance from key stakeholders	• High level champion • Joint development and finalisation of vision and Roadmap with key stakeholders including government, donors and private sector • Workshop with individual stakeholders, regular updates during implementation
• Timing delays in passing required regulation and legislation, including unforeseen conflict with other laws and government objectives	• Support from Ministry of Finance
• Lack of basic infrastructure limiting service in some areas or affecting service quality, e.g. power, roads	• Use of back-up power and batteries where possible, e.g. for ATMs, POS and other electronic devices • Use of mobile wallets to reduce need for travel
• Technical implementation risks	• Proper feasibility studies, planning and implementation
• Lack of finance	• Ensure donor and government support for financial inclusion • Encourage private sector development
• Rapid pace of change leading to duplication	• Comprehensive industry discussions at the correct levels • Centralised policy and implementation coordination
• Lack of investment by private sector players	• Regulatory intervention where necessary, but main reliance on market forces

8. Conclusions

The Government has made significant progress in the last 2 – 3 years reviewing laws and regulations and redefining the financial services landscape in Myanmar. In the last decade, a lot of effort has also gone into extending financial access through organisations such as the MADB and the MEB, ensuring that some sections of society that commonly only have access to informal financial services are served. The challenge now is to find innovative but practical ways to diversify and improve the extent and quality of financial services and to better leverage the private sector to provide financial inclusion.

The MAP process has identified a number of practical steps that the government in conjunction with other stakeholders could take to enhance financial inclusion in Myanmar and to support the policy objectives as articulated by the President of the Union and other organs of government.

The immediate next steps in achieving these objectives include:

- Establishing a Financial Inclusion Inter-Ministerial Oversight Group to adopt and coordinate the implementation of the Roadmap
- Continuing stakeholder engagement to secure implementation resources from stakeholders (especially the private sector and development partners) and further fine-tuning the design
- The Inter-Ministerial oversight group (once established) creating the necessary implementation pre-requisites, including reaffirming the objectives, alignment to policy framework for financial inclusion, establishing the working groups and detailed work plans for each initiative, and developing the financial inclusion indicators to measure impact of the national master plan and of specific initiatives

The Roadmap as a framework is a living document which will continue to be updated during implementation.