

QUEEN MAXIMA'S VISIT TO MYANMAR

On the invitation of President U Thein Sein of the Republic of the Union of Myanmar, Queen Máxima of the Netherlands visited Myanmar from 30th March to 1st April 2015 as the United Nation Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA). The overall objective of her visit was to amplify the dialogue and engagement with key government decision-makers in order to encourage Myanmar to embark upon an accelerated phase of deepening financial inclusion. The goal was to assist Myanmar to take critical near-term steps to place itself on a pathway that can lead to much wider financial inclusion. As UN's capital investment agency for the world's least developed countries, UNCDF has long been one of the UNSGSA's advisory reference groups. During Queen Máxima's visit in Myanmar, UNCDF took an active role in facilitating an open, fruitful information-sharing and knowledge-mobilizing process in the financial inclusion agenda. In order to establish a channel for dialogue, several roundtable meetings were conducted between UNSGSA and representatives from the banking sector, mobile network operators and development agencies, among others.

Financial Inclusion in Myanmar: A Wider Range of Involvement and a Broader Agenda of Actions.

On 31st March, a roundtable discussion with development partners was conducted at the Chatrium Hotel in Yangon, moderated by UNCDF Senior Regional Technical Advisor, Mr. Feisal Hussain.

Although development partners work in different fields in Myanmar, they share similar concerns and prospects about its fast-changing economy. Access to proper financing is one of the most important issues mentioned. Capital control, interest rate caps and stringent approval processes for loans conducted by Central Bank of Myanmar have been advised to be mitigated. On the macro level, the political stability and the inflationary pressure cause risky fluctuations and uncertainty; while, on the micro level, a lack of necessary financial infrastructure and risk management tools cause hesitation as well. Besides the aforementioned regulatory issue, many participants mentioned that SME finance was a key area towards further development and strengthening of the credit and financing achievements in Myanmar. SMEs are deemed to be the backbone of economic development and an engine of growth. Especially for modern Myanmar, in order to maintain its high GDP increasing rate, SMEs play a very significant role.

At the same time, participants agreed that a credit bureau and relevant regulations are essential for the financial sector to develop further – it would expedite both the processes of financial and entrepreneurial development. Based on the discussion and the current situation in Myanmar, a series of actions were proposed or recommended during the roundtable meeting:

SHORT TERM ACTIONS

- New regulation to be issued by the Central Bank (CB), allowing a few suitable non-bank companies, especially telecoms, to offer small value accounts and payment services through their subsidiaries or business partners.
- Prudential regulations, policies and practices to ease lending restrictions and to broaden the sources of funding for microfinance institutions.
- A new bank and financial institutions law to be passed by the Parliament and enacted by the government, enabling commercial banks to offer a wide range of financial services to low-income and SMEs.

MEDIUM TERM ACTIONS

- Upgrade the **financial sector infrastructure**, by setting up a credit bureau, proposing laws enabling the use of movable assets as collateral and establishing an electronic registry for them.
- Build a **competitive market place**, by liberalizing gradually interest rates for lending and deposits for all financial institutions, restructuring the two largest state-owned banks (MADB and MEB) to make them financially sustainable, and requiring government employees to open an account to initiate the take off of electronic salary disbursement.
- Upgrade the **regulatory framework**, by having the CB issue new prudential regulations to enforce both Central Bank and Bank and Financial Institutions Law, strengthening the microfinance supervisor (the FRD) to enable it to conduct effective risk-based supervision, and strengthening the Ministry of Cooperatives through tailored training, especially on risk assessment and with an upgraded regulatory and supervisory framework for credit cooperative to make sure they reach the necessary scale ensuring sustainability.
- Scale up **agricultural and MSME finance**, by revising and amending legal framework to enable new forms of agricultural finance, upgrading basic MSME data collection, collation and sharing, easing their registration procedures and reviewing the regulatory framework to ensure it supports MSME expansion and access to credit.

In general, positive signs are seen by most of development partners. A series of goals and targets are set and many believe that Myanmar is making significant progress in pursuing a wider range of financial inclusion. Moreover, a roadmap is in place to provide systematic instructions towards the achievement of the goals and targets that were set.



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A Fast Track Towards Better Financial Inclusion in Myanmar.

On 30th March, a roundtable discussion with microfinance institutions (MFIs) was conducted at UNDP Myanmar's compound in Yangon, moderated by UNCDF's Financial Inclusion Programme Specialist, Mr. Paul Luchtenburg.

There are currently 254 MFIs operating in Myanmar. This large number of MFIs makes it hard to implement an efficient supervisory mechanism. However, a strong resolution is seen from the action taken by the Government of Myanmar and relevant regulatory bodies. A series of progressive reforms are expected from the Government and the Central Bank to ease the potential and momentum of the power of microfinance and promote a more robust financial inclusion agenda.

During the roundtable meetings a wide range of issues related to microfinance were raised and discussed, the four majors being:

➤ **Key perception of microfinance:** Microfinance should be an integral part of the financial system. Hence it is good practice that the industry takes a comprehensive approach to plan, examine, implement and evaluate the projects undergoing or to than regard it solely as a poverty alleviation tool. Otherwise, it will limit the potential outcomes that could be achieved through microfinance.

➤ **Funding issues:** There have been increasingly prevalent funding problems faced by MFIs: it usually takes 6 months for an MFI to gain approval for funding. At the same time, for the fund sourcing, many restrictive limitations are in place making it harder to group the capital from individuals. For example, foreign firms are not permitted to access the local funding market while local MFIs can only source funding from Myanmar Economic Bank (MEB). MFIs and relevant parties are seeking to explore more sustainable inflow of capital to build on the funding pool and all the efforts require a more open and flexible policy.

➤ **Regulations:** The interest rates of the loans provided are largely controlled by the regulator and are not in alliance with the real situation and the real needs for the industry. State-owned lender, Myanmar Agricultural Development Bank (MADB) itself becomes a significant competitor to MFIs as it offers a subsidized interest rate as low as 5 % per annum while getting the fund from MEB at a cost of 4% per annum. The active role and input of the Government is highly appreciated while it is agreed that the situation of the industry would be better if the Government exercises its power on supervision rather than interference.

➤ **Capacity building:** The high turnover rate of staff is one of the major issues for MFIs in capacity building. The long time spent on looking for staff and large effort on training put a great challenge on the consistency and the effectiveness of the knowledge and project management.

Overall, the sustainable development of the microfinance actors is seen to be one of the strong aspects in driving the improvement of economic and financial infrastructure, which improves the quality of life in Myanmar. An extensive partnership and collaboration among the microfinance industry in Myanmar is to be supported to better serve the people and society in general.

