The **Financial Sector Development** Programme

Myanmar

Myanmar's financial system is one of the least developed in the world. As a result, firms and households overwhelmingly lack access to basic financial services including credit, savings products, insurance, and payment services. This means that only 21% of adults in Myanmar have access to a bank account at a formal financial institution. It's also a significant obstacle for businesses of all sizes and across sectors. Lack of access to finance is the most frequently identified obstacle to doing business in Myanmar, with 22.7% of firms citing it as a major constraint, higher than access to land at 21.3%, electricity at 16.9%, and a skilled workforce at 9.5%. Without access to a full range of financial services, firms are unable to expand their operations and invest adequately in new technologies, thereby limiting job creation, particularly by small and medium sized enterprises.

The project

The **Financial Sector Development Programme (FSDP)**, is a £5 million project delivered by the World Bank and funded by the UK Government Department for International Development (DFID). It aims to expand access to finance in Myanmar for individuals and businesses across Myanmar as a first step towards reducing poverty and promoting shared prosperity. The FSDP targets modernising the Central Bank of Myanmar, restructuring of the four key State Owned Banks, and building regulatory and supervisory capacity for microfinance and insurance markets.

The programme seeks to do this by providing catalytic technical advice and support to the Ministry of Planning and Finance (MOPF) and the Central Bank of Myanmar (CBM), working in close alignment with the World Bank's recent $100 million IDA concessionary loan to maximise the impact of DFID's co-financing. For example, the FSDP has supported the drafting of implementing regulations under the Financial Institutions Law in collaboration with the IMF, which will bring Myanmar closer to the Basel I international banking regulations.

Programme activities support the disbursement-linked reforms under the World Bank loan and contribute to ensuring that the ambitious project outcomes are achieved.

The FSDP is part of the Business for Shared Prosperity (BSP) programme, a DFID £55 million programme operating from 2015 to 2021 to increase prosperity in Myanmar by improving economic opportunities for poor women and men by unlocking the potential of business.

The beneficiaries

For the poor, who are the least likely to have a bank account, the programme will increase access to formal financial services enabling them to protect their savings, make payments easily and affordably, mitigate financial risks and improve access to credit.

For households, it means access to savings instruments which will help smooth consumption, increase investment, and facilitate women's economic empowerment.

And for local private firms and entrepreneurs, expanding access to finance services will enable them to obtain financing to expand their business activities, increase their productivity, and create new jobs and incomes.

The work of the FSDP

To achieve its objectives the FSDP focuses on three pillars that target different structural deficiencies within the financial system in Myanmar.

Modernisation of the Central Bank of Myanmar (CBM)

Reform of the CBM is critical for the ongoing growth, prosperity and financial stability of Myanmar. The MOPF and CBM are committed to significant reform agendas, however they have limited institutional capacity or systems to tackle their mandates.

To address this issue, the FSDP is providing technical assistance to modernise the CBM through strengthening the legal and regulatory framework for the banking system, establishing the CBM training centre to support systematic and comprehensive up-skilling and capacity development of the CBM and FRD, and to provide further institutional development of the CBM in governance, HR practices and change management.

The FSDP will assess the full scope of demand for training with the CBM and other stakeholders and develop a business plan and curriculum for the proposed training centre.

Building regulatory and supervisory capacity in the microfinance and insurance markets

Both the insurance and microfinance markets within Myanmar are severely underdeveloped, hindering SME and MSME growth within the country. To ensure that these markets support growth and work for individuals, small businesses and entrepreneurs FSDP has been working with the MOFP, as the overarching Government body responsible for regulation of both markets, to improve and enhance regulatory and supervisory capacity.

This has involved support to upgrade the legal and regulatory framework for the Myanmar financial sector including preparing a paper for the Financial Regulatory Department on a roadmap to insurance liberalisation. The programme has also conducted a legal review of the Insurance Business Law with an initial gap analysis looking at the demands and market dynamics of a modern and efficient insurance industry.

Restructuring of Myanmar's four key State-Owned Banks (SOBs)

Myanmar's major State-Owned Banks are a legacy of years of isolation from global financial markets and the nationalisations, consolidations and protectionism undertaken during previous periods of Government. The major SOB's undergoing reform include the Myanmar Economic Bank (MEB), which has the widest potential reach to extend credit to the real economy and provides a wide range of commercial banking services. The Myanmar Investment and Commercial Bank (MICB) and Myanmar Foreign Trade Bank (MFTB), which act mainly as vehicles for the foreign exchange deposits of government departments and state-owned enterprises. Though they do also provide some financial services to the private sector, including domestic commercial and investment banking services. And finally the Myanmar Agricultural Development Bank (MADB), which serves rural areas through providing short and long-term credit for agricultural, livestock, and other rural enterprises.

In 2012, the Government of Myanmar stated its commitment to reforming the SOBs with the overarching goal of reducing fiscal costs and distortions in the financial sector and delivering access to financial services to groups traditionally underserved by the financial sector in Myanmar.
Towards this end, the FSDP is funding a diagnostics exercise which will provide due diligence checks on the institutional and operational mechanics within the banks as well as a financial review of the SOBs. This will provide the technical input for the Government of Myanmar to decide upon strategic restructuring in their reform of the SOBs.

The World Bank IDA $100 million credit is complementary to the FSDP, as it will provide the necessary financing for the implementation of the restructuring plans. The restructuring of the SOBs is expected to strengthen the stability of the banking sector, reduce fiscal risks, improve governance and increase the competitiveness of the banking sector as a whole. They will be part of a comprehensive sector-wide policy framework that also clearly defines the public policy mandate for state ownership of financial institutions.

The Financial Sector Development Project is delivered by the World Bank and funded by the UK's Department for International Development (DFID) as part of the Business for Share Prosperity (BSP) Programme. For more information on the BSP please visit: www.danafacility.com