

THE GOVERNMENT OF
THE UNION OF MYANMAR

JAPAN INTERNATIONAL
COOPERATION AGENCY

**Myanmar-Japan Cooperation Programme for Structural Adjustment
of the Myanmar Economy**

FISCAL AND MONETARY POLICY WORKING GROUP

STUDY ON THE FINANCIAL SECTOR

Volume I — [1]

**Final Report
On
BANKING SECTOR REVIEW
AND
HUMAN RESOURCE DEVELOPMENT
PROGRAMME**

Executive Summary

January 2003

The Japan Economic Research Institute



R 1 I

CR(5)

02-19

104
38
R1I

**THE GOVERNMENT OF
THE UNION OF MYANMAR**

**JAPAN INTERNATIONAL
COOPERATION AGENCY**

**Myanmar-Japan Cooperation Programme for Structural Adjustment
of the Myanmar Economy**

FISCAL AND MONETARY POLICY WORKING GROUP

STUDY ON THE FINANCIAL SECTOR

Volume I

**Final Report
On
BANKING SECTOR REVIEW
AND
HUMAN RESOURCE DEVELOPMENT
PROGRAMME**

Executive Summary

January 2003

The Japan Economic Research Institute



1171271【8】

Abbreviations and Acronyms

ALM	Asset and Liability Management
ASEAN	Association of Southeast Asian Nations
CBM	The Central Bank of Myanmar
FMWG	Fiscal and Monetary Policy Working Group
HRD	Human Resource Development
IBBM	Institut Bank- Bank Malaysia
ICT	Information and Communication Technology
IT	Information Technology
JICA	The Japan International Cooperation Agency
K	Kyat
MBA	Myanmar Bankers' Association
ODA	Official Development Assistance
SME	Small and Medium-sized Enterprise

PREFACE

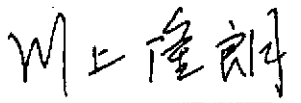
This report describes the results of the study titled Study on the Financial Sector, which covers both the banking sector and microfinance. This is one of the study components of the Fiscal and Monetary Policy Working Group (FMWG) within the framework of the project titled *Myanmar-Japan Joint Study for Economic Structural Adjustment in Myanmar*.

JICA organized a study team led by the Japan Economic Research Institute, headed by Mr. Hirohiko SEKIYA. The study team visited Myanmar seven times between November 2001 and December 2002 to hold a series of discussions and conduct several field surveys, and led a unique microfinance study tour in the Philippines with the kind support of relevant organizations in the country. I would like to highlight that this report is an outcome of joint research, conducted through mutual understanding and close cooperation of Myanmar and Japan's FMWG taskforce members, experts, and the study team.

I hope that this report, including its useful suggestions, will be used practically not only for JICA's future aid programmes but also by the Government of Myanmar, concerned organizations, officials and experts to contribute to further development of the financial sector in Myanmar.

I wish to express my sincere appreciation to the officials concerned in the Government of Myanmar and to other relevant organizations and people concerned for their close cooperation and valuable input in the study.

January 2003



Takao Kawakami

President

Japan International Cooperation Agency

January 2003

Mr. Takao Kawakami
President
Japan International Cooperation Agency

Dear Mr. Kawakami,

Letter of Transmittal

We, hereby, have the pleasure of submitting our report titled Study on the Financial Sector conducted under the Myanmar–Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy. The Study, a component of the research by the Fiscal and Monetary Policy Working Group (FMWG), covers both the financial sector, with particular focus on the banking sector, and microfinance. It describes the results of the study conducted by the Japan Economic Research Institute in accordance with the contract entered into with the Japan International Cooperation Agency, integrated with achievements of the Joint Study by FMWG.

This report is an outcome of the joint study of Myanmar and Japan's FMWG taskforce members, their supporting members, and the consultants of both sides between November 2001 and December 2002. The team held discussions with the officials concerned in the Government of Myanmar, bankers and other relevant experts through field studies and workshops in Myanmar. In addition, the team conducted a microfinance study tour in the Philippines with the kind support of government agencies, CARD Bank and other microfinance institutions in the Philippines.

We hope that important suggestions presented in this report will contribute to further development of the financial sector and implementation of relevant policies.

We wish to take this opportunity to express our sincere gratitude to the concerned ministries of Myanmar and other relevant organizations for the kind cooperation they extended to our team, as well as for the warm hospitality provided during our stay in Myanmar. We also wish to express our deep gratitude to your agency, JICA (including the Myanmar Office and the Project Office), as well as the Ministry of Foreign Affairs, the Ministry of Finance, and the Japanese Embassy in Myanmar.

Very truly yours,


Hirohiko Sekiya

Team Leader, Study on the Financial Sector

The Myanmar–Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy

Executive Summary

Background of the Report

1. This report on banking sector development in Myanmar is part of the study on the Myanmar financial sector (hereinafter called “the Study”), one of the study components of the Fiscal and Monetary Policy Working Group (FMWG) within the framework of the project titled *Myanmar–Japan Joint-Study for Economic Structural Adjustment in Myanmar*. JICA organized a study team led by the Japan Economic Research Institute (the prime manager) to implement the Study jointly with Myanmar experts, officially beginning in November 2001 coordinated by the FMWG, which comprises members from both countries (a members list is attached at the end of the report).
2. The main purpose of this joint study is to identify priority issues and policies on the main financial intermediaries in Myanmar, their managerial improvements and human resource development for banking sector in particular, and thereby contribute to financial sector development that is conducive to a market-oriented economy. Our joint-study team approaches this issue by conducting interviews with financial institutions and analyzing existing disclosed documents and data.
3. To address the issues on the financial sector, it was decided through discussions at the FMWG level that the study led by the Japan Economic Research Institute was to focus primarily on the private sector in the banking business, in consideration of the circumstances on the Myanmar side. Overarching banking sector development issues including state-owned banks were therefore not addressed in a comprehensive manner within this study, although some points are referred to because they are indispensable to the main purpose of the study. Further to the first part of the Study on Banking Sector in Myanmar until July 2002, the second part of the Study highlights Human Resource Development of Private Banks, vital to accelerating development of banking sector in Myanmar.
4. With the promulgation of the Central Bank of Myanmar Law and the Financial Institutions of Myanmar Law, the government allowed private banks to commence operations in 1992 as part of the banking sector modernization process. Private banks have been playing increasingly substantial roles in development of the financial sector and the national economy. However, there are still many issues to be considered in order to establish a firm foundation of public trust

(by ensuring a sound financial system and improving financial service quality) and contribute to economic growth (by providing capital to real sectors that have higher productivity). Thus, in this report, we will summarize further development of banking sector policies and private-bank management, followed by HRD programme for banking sector with close linkages.

Measures to be Taken into Consideration for Further Development of Banking Sector in Myanmar

5. In order to keep momentum in the development of Myanmar's banking sector, policy makers should take into consideration the fact that maintaining public confidence in fundamental commercial banking activities is important. Therefore, ensuring banking system sustainability, improving peoples' access to financial services, and removing impediments to institutions' competitiveness should be emphasized.

6. Policy measures and managerial improvements for building a sounder financial system Assurance of the soundness and stability of the financial system is a prerequisite for further banking sector development in Myanmar. However, at a time of rapid expansion of financial services, prudential practices are apt to be deferred for future discussion.

- In order to protect depositors, we recommend that banks disclose their financial statements to the general public and at the same time, develop the sound accounting practice particular to banking sector.
- The Central Bank of Myanmar (CBM) is to take into consideration to establish appropriate prudential norms to be put into actual practice by banks. A typical example is to establish a sounder monitoring and repayment system through introduction of both monthly (or more frequent) repayment and periodical monitoring of the credibility of borrowers in cases where loans are being rolled over. CBM is to take into consideration to examine the quality of assets and real situations of non-performing loans.
- In order to prevent repeated failures, we recommend that banks share amongst themselves periodically their information on delinquent customers and fraud in financial transactions.
- In order to keep financial discipline of banking sector, policy lending should be segregated from commercial banking activities.
- In line with the Control of Money Laundering Law (enacted June 2002), effective actions will be taken against illegal money transactions, with deliberate consideration on ensuring soundness and stability in the financial system.

- The Central Bank of Myanmar is to take into consideration to mandate sound corporate governance in private banks by upgrading the existing establishment norms to reflect international standards. Review of article 3(a) of FIM Law is recommended, specifically looking to require that some private banks be established as shareholding companies. Shareholding companies would provide far sounder financial bases and bank management accountability. In modern market economies, banks must have shareholding company status. Institutions established as limited liability companies should be classified as finance companies.
- CBM is to take into consideration for the need of establishing accounting standards that enable domestic private banks to compete and cooperate with foreign banks on equal financial bases.
- External auditing and publication of audited results should be compulsory for all financial institutions of relevant size and market presence. Detailed criteria should be set by CBM.

7. Policy measures for enhancing private banks' capacity to provide loans to the small-and-micro enterprise sector, to best serve the real sector productivity growth

- Encourage private banks to improve the access of the small-and-micro enterprise sector to commercial banking services by permitting them to gradually expand their branch networks into local areas, corresponding to the financial capacity of the banks concerned. The criteria for permits for new branches should be rationalized.
- Support institutional capacity building (in financial intermediation) of banks in the course of their expansion from regional to nationwide banks. In parallel with enlarging their customer bases—from only individuals at the community level to also enterprises with wider scopes of business—private banks need to upgrade their bases for making loans from personal connections and mere collateral valuation to creditworthiness and managerial and financial sustainability of enterprises and projects. Human resource development (capacity to both assess borrowers' business plans before providing credit and monitor customer performance after providing credit), will be getting more important in order to minimize credit risk in the banking sector.
- Mobilize longer-term funds by giving customers more incentive to save long term—incentives such as gradual adjustment towards positive interest (in real terms). Banks need to introduce more flexible lending rates, reflecting the

individual credit risks of borrowers, in order to encourage more lending to small and micro businesses.

8. Policy measures for strengthening commercial banks' competitiveness in order to cope with ASEAN regional financial cooperation initiatives and open-up the financial market of Myanmar In the April 2002 ASEAN Finance Minister Meeting in Yangon, member countries made commitments to further liberalization of financial services in 2002. The financial crisis in Asia in 1997 and its subsequent impacts highlighted the fact that financial system sustainability is critically dependent on increased competitiveness by domestic financial institutions.

- In order to enhance the competitiveness of commercial banks for the country as a whole, an appropriate division of works among state-owned banks and private banks needs to be reviewed in view of recent rapid progress of private banks' financial services.
- Permission of dealing with foreign exchange business to private banks should also be considered in order to strengthen their business bases in preparation for a gradual shift to full-fledged international banking. Lifting the ban on joint ventures between foreign and domestic banks would facilitate the transfer of know-how to domestic commercial banks from abroad.
- An inter-bank money market and treasury bond secondary market should be established in order to give commercial banks a better environment for liquidity management.
- Financial system stability is reviewed periodically in modern market economies. Assessment of the financial sector in Myanmar cannot be complete without examining its legal framework, focusing on the practice of law. The degree of promotion necessary to induce an efficient discharge of financial obligations should be measured in order to determine policy for further strengthening of the financial market.
- Nowadays, banking laws and regulations governing the legal status, organization, and operation of banks are becoming uniform worldwide. A comparative study identifying possible differences would help prepare the Myanmar banking sector for modernization.

The present situation of human resource development in Myanmar

9. The present situation of ODA

Assistance in human resource development of the banking sector of Myanmar is conducted

mainly by ODA; such assistance is difficult to be provided by overseas private financial institutions, as foreign banks firms are facing restrictions in such activities as establishing a joint-venture company or opening a new branch. International bureau of the Ministry of Finance and Revenue is in charge of receiving ODA for financial institutions. In 2002 (as of November 2002), 113 programmes (2822 days in total) have been conducted, either domestically or overseas, by five international institutions and seven countries. More than half of those programmes were conducted by IMF, followed by Japan which provided 21 programmes (572 days in total) including the one conducted jointly with other institutions.

Characteristics of such HRD programmes are:

- Beneficiaries are the Ministry of Finance and Revenue, the Central Bank and State-owned Commercial Banks and availability of such assistance is very limited to private financial institutions.
- The World Bank and the Asian Development Bank have not conducted these HRD programmes for the banking sector and a limited number of countries is providing these programmes as bilateral technical assistance.
- Very few programmes aim at assisting improvement in institutional capacity of financial institutions systematically through providing trainers' training, as most of training focus mainly on capacity building of officials of financial supervisory agencies.

Recommendations on HRD and Technical Assistance for Banking Sector

A Sustainable Banking Sector Training Programme

10. We will discuss concretely a banking sector training programme that incorporates trends in banking policies and management, with focus on the following factors: core implementing agencies, targeted trainees, priority subjects, implementing timeframe, recommended courses, and so forth.

11. Identification of Priority Areas for the Banking Sector HRD Programme

We will use the following criteria to identify priority areas (those with significant gaps between training and demand) to be addressed by the HRD programme.

- 1) Urgency of banking sector policies
- 2) External impact of the training programme (e.g. dissemination of best practices for enhancing financial discipline for banks as a whole)
- 3) Areas or subjects in which only overseas sources have the know-how

4) Effectiveness and efficiency of training implementation

5) Possible immediate training effects

Emphasis will be put on trainers training subjects rather than on basic subjects that can be covered in a corresponding course in the future. Trainers can disseminate their knowledge to their colleagues through in-house training (or on-the-job training) in their respective banks. Thus by linking trainers training with in-house training we can expect maximum impact at minimum cost.

5) Possible immediate training effects

12. Options for implementing banking trainings

In order to implement such trainings, we will examine appropriate modalities. We suggest three options to implement banking trainings.

1) Expected programmes by MBA

Myanmar Banker's Association was established in April 1, 1999 in accordance with the resolution of the Trade Policy Making Council meeting No. 4/99. All private sector banks are constituted as members in the Myanmar Bankers' Association.

MBA started its first training course in this August. It was not trainers training course. However, the experience of this course management know-how will be useful to start trainers training course in MBA. The dissemination effect is broad. The merit for using MBA as a training vehicle is that it is easy for member banks to use training course and it meets the purpose of MBA.

Also a new MBA building will be built in 2004 and it will be used not only as a training centre but also as a banking library. Although this contributes to decreasing in the management cost of training course, member banks and training participants will still have to pay additional costs.

When this course is supported by overseas technical assistance, MBA will be able to be the window of ODA. Considering above elements, MBA seems to be a suitable organization for introducing new trainers training course.

2) Expected programmes by Myanmar-Japan Center for Human Resource Development

The Government of Myanmar and Japan have agreed to establish Myanmar-Japan Center for Human Resource Development (hereinafter the Center) in Yangon for promoting comprehensive human resource development support and exchanges. Their main activities are; Conducting business courses, Japanese language course, and cultural and other exchanges.

After inception of the Center in 2003, actual implementation of various programmes are expected with the involvement of short-term and long-term experts from Japan prior to the completion of new facilities of the Center in 2005.

Through this undertaking, overall adjustments on the support for HRD from Japan will become easier and recommendations of the ongoing Myanmar –Japan Joint Study for Economic Structural Adjustment will be reflected in the future programmes of Japan Center. Thus the support of HRD for the banking sector will be a promising agenda of the business courses of the Center with the support of Yangon Institute of Economics, considering the importance of the banking sector in the Myanmar economy.

Proposed syllabuses for the course in the Center are basically similar to the trainers training course by the Myanmar Banker's Association mentioned above. However, targeted audiences will be broader than that of MBA, and policy makers and scholars will be included in addition to bankers. Ad-hoc seminars by inviting Japanese and other foreign experts can be more flexibly organized for specific issues of emergency because of the cross-cutting nature of the Center.

3)Expected programmes by an independent training school

Establishing an independent training school is another option. A typical example in ASEAN countries is banking school in Malaysia named “Institut Bank – Bank Malaysia (IBBM)” in Kuala Lumpur. IBBM can be a good future model for training programme and Myanmar can learn many important issues from them.

IBBM is a NPO that was established by banks in Malaysia for concentrating on banking training in 1977. IBBM is governed by a Council. The Governor of Central Bank serves a chairman of the council of IBBM. Currently, IBBM has 86 institutional members and about 7,000 individual members. IBBM offers 400-500 training courses a year. Last year, IBBM trained 14,500 people. From the case of IBBM, we can see that the following aspects are important for successful operation of a banking training school.

- Strong central bank leadership for establishing and operating the institution
- Strong financial support from member banks
- Considerable amount of subsidy out of “the staff training fund”
- Clear targeting of trainees for each subject
- Wide global network of trainers

13. Framework for developing training programme

1) Recommended methods

When we consider the target trainees for the training programme, we can divide them into three groups: officers and beginners, supervisors and managers, and top management. We recommend that three types of training courses should be designed according to each level of trainees.

Targeted trainees and modalities

Course Type	Targeted trainees	Methods	Duration
A	New employees & officers	General lectures and case study (correspondence course)	Four weeks per course
B	Supervisors & managers (Trainers)	Classified by special areas lectured by overseas experts	Two weeks per course in a specific area
C	Top management	Workshops or seminars on specific subjects Overseas study trip programme	One day or two days per subject One week

2) Recommended subjects and time schedule of the training courses

From the study, we have identified some important areas that are crucial for modernizing banking operations and therefore should be focused on the training for bankers. We recommend the following five major areas to be included in the training programme:

- Strategy and management
- Risk management
- International banking and international financial market
- Credit analysis and project evaluation
- Information and communication technology

Please see detailed recommended training courses in the table at the end of this summary.

The following table shows the time schedule and recommended courses.

Course Type	2003	2004	2005	2006	2007
A	MBA general course continues	→	→	→ Correspondence course starts	→ →
B	Six urgent courses start	Six urgent courses continue and five additional urgent courses start	Eleven urgent courses continue and five future courses start	Eleven urgent courses and five future courses continue, and five additional future courses start	Total twenty-one courses continue
C		Courses start (Ad hoc seminars)	→	→	→

3) Problems to be solved to implement recommended courses

Main problems are trainers fees, selecting suitable trainers, textbooks and materials (including translation into Myanmar language), strengthening linkage with government organizations such

as the Central Bank of Myanmar and the Attorney General, trainers training and linkage with OJT.

Expected technical assistance in HRD of the banking sector

14. Support for MBA's trainers training programme

MBA seems to be suitable organization for introducing new trainers training course. Technical Assistances including Japan to this undertaking are highly recommended in order to establish efficient and effective training programme with a long-term sustainability. Priority will be given to know-how for which there is no domestic source.

15. Support for the possible HRD programmes for banking sector in Myanmar-Japan Center for Human Resource Development

We recommend to the Center to conduct a banking sector training programme as part of its Business Course considering the crucial importance of the sector. The possible workshops for banking sector organized by the Center is also expected to provide policy dialogue opportunities between the two countries.

For both cases mentioned above, active interchanges of experts in Japan, Myanmar, and other ASEAN countries should be paid respect in order to make Myanmar counterpart possible to introduce appropriate institutions, HRD programmes and resource persons which are best fit to the Myanmar context.

16. Dispatch JICA specialists in the subjects of urgent need for conducting a seminar

In the course of the Study, Myanmar FMWG and banks requested the Study team to conduct a seminar for priority issues with which banks in Myanmar are currently facing. In order to materialize a prompt action for assistance to banking sector HRD, the Joint Study Team has made proposal of this scheme to both Governments. JICA is ready to respond this request with the consensus of the Myanmar Ministries concerned. Through this seminar, the recent private banks' common undertaking will be highlighted for further improvements.

The following three areas are of urgent need among private banks.

- Information and Communication Technology for Banking Activities
- Modernization of Payment and Fund Transfer System
- Micro Business Loan Appraisal

The one-day seminar could be conducted in Yangon in the 1st quarter of 2003 with involvement

of JICA short-term experts upon agreement among concerned Ministries concerned. This trial will become an important step stone for long-term assistance schemes mentioned above.

Table: Recommended Training Courses

Areas	Urgent Courses	Future Courses
Strategy and Management	Banking marketing and customer satisfaction	
	Branch management	
	Fund transfer	
	Developing supervisory skills	
	Accounting, auditing, and performance evaluation	
Risk Management	Compliance	Operational risk management
		Asset and liability management (ALM)
		Liquidity management
International Banking and International Financial Market	International regulations and money laundering law	International trade finance
		Foreign currency exchange
		Derivatives
		International financial market
Credit Analysis and Project Evaluation	Methodologies of corporate analysis	
	Evaluation of SME business plan	
	Credit monitoring	
ICT	ICT and management	Advanced ICT in banking business
		Security in Information system
		Database management system

**Joint Study Team Members for Financial Sector Study under
Fiscal and Monetary Policy Working Group**

MYANMAR SIDE

FMWG and Experts

Leader	Name U Than Lwin*	Title Deputy Governor The Central Bank of Myanmar
Taskforce Member	U Hla Maung*	Advisor, Ambassador (Rtd.) Ministry of Foreign Affairs
Taskforce Member	U Kyi Shein*	Advisor Ministry of Finance and Revenue
Taskforce Member	Dr. Khin San Yee*	Associate Professor Institute of Economics
Supporting Member	Daw Yin Yin Mya	Deputy Director The Central Bank of Myanmar
Microfinance Expert	U Ohn Lwin	Advisor Myanmar Agricultural Development Bank
Microfinance Expert	U Sein Myint	
Legal Expert	U Ba Kyaning*	
Financial Expert	Daw Khin May Shin*	
Assistant Researcher (Microfinance Sector)	U Tin Myint*	
Assistant Researcher (Microfinance Sector)	Hnin War War Win	
Assistant Researcher (Microfinance Sector)	Thi Da Myint	
Assistant Researcher (Legal Sector)	U Aye Hlaing*	
Assistant Researcher (Banking Sector)	Daw Aye Sandar Win*	

JAPANESE SIDE

**FMWG and
Consultants**

Leader	Name Prof. Takehiko Kondo	Title Dean, College of Asia Pacific Management Ritsumeikan Asia Pacific University
Taskforce Member	Prof. Hideki Esho	Professor, Faculty of Economics Hosei University,

*Asterisks indicate main contributors to the report. Parentheses indicate chapter titles for which the individuals named were in charge.

Taskforce Member	Dr. Fumiharu Mieno	Associate Professor, Faculty of Economics Hosei University
Taskforce Member	Mr. Ryu Fukui*	Deputy Director General International Cooperation Department Development Bank of Japan
Supporting Member	Ms. Yoko Honda	Research Assistant International Cooperation Department Development Bank of Japan
JICA Consultant	Mr. Hirohiko Sekiya* (Executive Summary)	Senior Researcher International Bureau Japan Economic Research Institute
JICA Consultant	Mr. Masahisa Koyama*	Executive Vice President Japan Economic Research Institute
JICA Consultant	Mr. Toshiyuki Katagiri*	Director General International Bureau Japan Economic Research Institute
JICA Consultant	Mr. Takao Aiba*	Senior Economist International Bureau Japan Economic Research Institute
JICA Consultant	Ms. Eri Habu*	Chief Policy Analyst Policy Studies Department International Division UFJ Institute Ltd.
JICA Consultant	Dr. Gilberto M. Llanto	Chairman, Board of Advisers CARD Bank (CARD Rural Bank, Inc.)
JICA Consultant	Dr. Jaime Aristotle B. Alip	Chairman and Managing Director CARD Bank (CARD Rural Bank, Inc.)
JICA Consultant	Mr. Edgardo F. Garcia	Executive Director Microfinance Council of the Philippines, Inc.
JICA Coordinator	Mr. Naoki Takeuchi*	Economist International Bureau Japan Economic Research Institute
JICA Coordinator	Ms. Maiko Sudo*	International Bureau Japan Economic Research Institute
Assistant Researcher	Ms. Mading Seng Ja*	International Bureau Japan Economic Research Institute

*Asterisks indicate main contributors to the report. Parentheses indicate chapter titles for which the individuals named were in charge.