Chapter 11

'Myanmar Microfinance Center of Excellence (MMCE)' and Capacity Building Programmes

1. While the existing micro-credit/microfinance service providers in Myanmar such as INGOs, local NGOs and Saving and Credit Cooperative Societies to some extent have achieved remarkable success in their respective operations given the constraints they face, the JICA microfinance team believes that building the capacities of these institutions and other potential players is the key to the growth of the industry in the country. By so doing, the nascent MFIs can expand their outreach and develop cost-effective, sustainable operations. In this regard, the JICA microfinance team strongly recommends the establishment of "The Myanmar Microfinance Center of Excellence" (MMCE). An institution such as MMCE will be the principal resource center for microfinance promotion and development.

2. The MMCE is envisioned to be the focal point in a long-term capability building programme where international expertise can be made available to the budding microfinance industry in Myanmar even as it gradually increases the domestic capacity to provide technical assistance to microfinance programmes and operations. In the future, there shall be an increasing domestic availability of microfinance training courses and programmes as the country's training institutions such as the cooperative colleges develop their own capabilities.

3. Establishing the Center will gather the limited human resource for microfinance in the country, i.e., teachers and trainers, in one place; make efficient use of existing fixed assets, e.g., buildings; and allow the nascent microfinance industry to draw on a common knowledge and skills pool on microfinance across different sectors, i.e., NGOs, cooperatives, banks, and policymakers (Fukui, 2002). Thus, MMCE is envisaged to have both economies of scale and scope in capability building on microfinance in the country.

4. Because the MMCE is a long term strategy and establishing this on the ground will be an evolutionary process, the microfinance team suggests the following phases:

Phase 1. Building the Capacities of Existing Local Training Institutions

5. This will include not only the training of local trainers in the field of microfinance but also improving the existing structures and facilities of the institutions that will be involved. The following are the recommended institutions that will be included under this phase.

6. *Cooperative Sector: Yangon Cooperative Degree College and Sagaing Cooperative College.* These two colleges have existing facilities like lecture rooms, computers, dormitories that

can accommodate trainees from the cooperative sector that will be involved in microfinance operations. Moreover, the location of these colleges is very strategic relative to the location of the proposed pilot microfinance projects. Sagaing Cooperative College is just about 30 minutes from Mandalay and very accessible both by land and air. Sagaing is also very near the three Saving and Credit Cooperative Societies being proposed to implement microfinance operations.

7. Sagaing Co-operative Regional College (SCRC) was established in 1996. It used to be a training school. SCRC offers a two-year diploma degree in business accounting and marketing management. Currently there are around 450 students enrolled. Graduates of this college can earn their bachelor degree through enrolling for another 2 years either in distance education colleges/universities or Institute of Economics in Yangon or the Yangon Cooperative College. SCRC has produced over 600 graduates. Eighty percent of the graduates are working in private companies as sales accountant, accountant, and supervisors among others. The remaining 20% are absorbed either in government or in the cooperative societies.

8. SCRC has 27 full time faculty staff. Average age is 45 years old. Two thirds of the faculty members have at least 15 years of actual work/practice in managing cooperative societies. The college is very strong in accounting and marketing management which are important courses in microfinance capability building programmes.

9. SCRC has 4 lecture halls. Each lecture hall has 2 classrooms. Each classroom can accommodate 70 students. There is one assembly hall that can accommodate 400 people. SCRC also has around 30 computers housed in an air-conditioned room. It has dining and dormitory facilities. There are two dormitories (one for males, one for females). A dormitory can accommodate 100 students. The facilities of SCRC is better that the two other cooperative colleges in Mandalay and Yangon which the JICA microfinance team has also visited.

10. The Mandalay Regional Cooperative College in Mandalay Division campus has an area of 20.6 acres. It was upgraded into a cooperative college from a cooperative training school in 1992. The student population is 530 students served by 23 faculty members and 44 administration staff. The college offers three diploma programmes for students: Diploma in Business Accounting; Diploma for Secretary in Enterprise and Diploma in Marketing Management. There are eight major subjects included in the programme: economics,

mathematics, English, statistics, computer education, business organisation, cooperative principles, Myanmar language. The duration of the diploma course is 2 years. Graduates who pass the exam can enroll in Yangon Cooperative College.

11. The regional college has 5 lecture rooms and one big hall. It has also one dining room and two dormitories for faculty staff. There are no dormitories for students. Students live outside of the campus.

12. The regional college is more concentrated on academic activities. The mandate of giving training to members of the board of directors (BOD) and staff of Saving and Credit Cooperative Societies is lodged with the cooperative training school. However, according to the faculty members interviewed, they can also give training to the Saving and Credit Cooperative Societies' BOD and staff if requested since most of the faculty members have adequate experience in actual cooperative management.

13. On the other hand, the Yangon Cooperative Degree College (YCDC) is within the Yagoon area which will allow microfinance training courses to be conducted for the staff and officials from the Ministry of Cooperatives. At present, YCDC has the capacity of to accommodate 400 students for each academic year. Three year to four year BA degree is awarded to successful students. It has a close relationship with International Cooperative Association (ICA) through the Central Cooperative Society of Myanmar. It must be noted however, the existing facilities need to be improved.

14. The JICA microfinance team has noted that some of the current faculty and training staff of Sagaing Regional Cooperative College and Yangon Cooperative Degree College may have the potential to be teachers and trainers on microfinance since many of them have at least 10 to 20 years of actual cooperative management experience. Those faculty members are themselves members of cooperative societies where they have applied their basic knowledge in accounting and financial management. However, their basic knowledge and experience have to be enhanced by exposure to and training in best practices in microfinance. Moreover, the heads of these two institutions have shown great interest and desire to strengthen their faculty and have new course offerings, i.e., training in the area of microfinance.

15. These two institutions have great potential in developing into strong resource centers for microfinance training for the cooperative sector. Once the faculty members shall have been

properly trained in microfinance, they could offer courses to microfinance practitioners, i.e., the Saving and Credit Cooperative Societies. They could also build the capacities of the four other Cooperative Colleges in Myanmar in microfinance training. In this way, there will be a satellite of strong institutions that will serve the training needs of the nascent microfinance industry.

16. The training requirements as seen by various microfinance players are shown in Box 11-1 below.

Box 11-1. Capacity Building Programme Requirements for Human Resource of Organisations

Requirements for Staff Training

1. Basic knowledge on microfinance activities and microfinance methodologies.
2. Technical computation methods being applied in microfinance operations.
3. Bookkeeping, accounting and record keeping.
4. Social mobilisation and financial mobilization.
5. Reporting, monitoring and evaluation.
6. Financial and personal management.
7. PRA and PME (Participatory Rural Appraisal and Participatory Monitoring and Evaluation).
8. Publication of IEC materials (Information, Education and Communication)
9. Exposure trips inside or outside country.
10. Training on software application on microfinance methodologies and information systems for microfinance institutions.

Requirements for Client Training

1. Basic knowledge on microfinance activities.
2. Bookkeeping and record keeping.
3. Vocational training (to increase their repayment capacity).
4. Leadership training, conflict resolution.
5. Social mobilisation.
6. Meeting minutes writing, and recording.
7. Exposure trips within Myanmar.
8. Basic need training identified by target clients.

Source of Information: Report of Myanmar local counterpart team

17. Annex 11-1 is the survey report of the JICA local microfinance team regarding the cooperative colleges and training schools.

18. *NGO Sector: Capacity Building Initiative (CBI).* The CBI is a joint project undertaking of international and local NGOs in Myanmar that aims to provide training for Myanmar nationals and use local knowledge and expertise in Myanmar to design, implement, and manage more effective development projects. Its long-term vision is to establish a national training institute that will continuously build the local capacities of the NGO sector.

19. As a joint programme of INGOs, CBI on its own has no MOU with the government and therefore borrows the legal cover of its secretariat organisation, SCF-UK. It has 3 full time staff (one coordinator, one training assistant and one accountant). It has received funding support from several international organisations like Oxfam Grameen Bank, Save the Children UK, Save the Children USA, and other funding institutions. At present, Oxfam UK provides a 2-year funding to CBI to support its operations and activities.

20. CBI is managed through a steering committee composed of 5 INGO representatives (SCF-US, as chairman; SWISSAID; Karamosia International; MSI; and, ADRA). The steering committee meets regularly to provide policy directions and resource mobilisation. To assist the full time secretariat in the day- to-day operations, a working committee was formed composed of 6 INGO representatives (SCF-Uk, Chairman; MSF-Holland; CARE Myanmar; ACF; World Vision International; AMI). Almost all of the representatives of the working group are Myanmar nationals.

21. In 2001, CBI conducted 9 trainings. The training courses were attended by 202 participants with 32 coming from 11 local NGOs and 180 from 23 INGOs. The training courses conducted were in the area of community development. Each participant paid US$5 per day for food and snacks.

22. The CBI has its own office and training facilities in Yangon. It has a full-time staff and core of trainers drawn from its own NGO memberships and invited international trainers who bring project-specific expertise. The CBI offers regular training courses for its memberships in the following areas: project management, PRA/RRA, community development, financial management, project proposal preparation, among others. Microfinance is one area that CBI would like to learn and develop because this is one of the expressed training needs of

the CBI's membership. During the last JICA mission in August/September 2002, more than 30 people attended a half-day seminar entitled "Introduction to Best Practices and Performance Standards in Microfinance" organised by CBI for its membership.[1]

23. Annex 11-2 reports the outline of the seminar conducted by the JICA microfinance team at CBI.

24. The CBI has a strong potential to be developed as the training arm for microfinance for the NGOs. Although CBI's concern is not only on microfinance but also building the capacities of the local NGOs and local staff of INGOs in management and implementation of development projects. JICA can build a potentially strong microfinance training programme through a collaborative effort with CBI.

25. *Myanmars' Bankers' Association.* The mission recognised that another (perhaps, second) pillar of the microfinance industry is the banking sector. The private banks and cooperative banks, and even the government owned bank, MADB have expressed strong interest in understanding and pursuing microfinance as a component of their lending programmes during the JICA microfinance team's several visits and meetings with the banking sector. In fact, the team notes that the banking sector has an association called the Myanmar Bankers' Association (headed by the Central Bank Governor). In 2002, the association conducted several basic banking courses like foreign banking, auditing, accounting, bank supervision, money laundering, lending, deposit and bank management among others. The team notes that by capitalising on the existing bankers' association and training their trainers in microfinance, it will hasten the strengthening of the banking sector in the operationalisation of the microfinance operations in Myanmar.

26. As discussed, for the cooperative sector, the YCDC in Yangon and SCRC in Sagaing will be the focal institutions to train the trainers and practitioners in the microfinance. For this phase to be operationalised, it is strongly recommended that a core trainer faculty staff (8-10) from each college will be developed and trained in the field of microfinance so that they may in turn train the practitioners (coop managers, loan officers, backroom support staff, and, BODs) in the cooperative sectors.

27. For the NGO sector, CBI as the focal institution to train the NGO practitioners (manager/

[1] The speakers are the JICA microfinance team members.

executive directors, loan officers, backroom support staff, and board of trustees/directors), it is also strongly recommended that a core group of trainers (8-10) will also be trained. They will in turn train the practitioners. For the banking sector, the mission strongly recommends to train the existing faculty members/trainers of the Myanmar Bankers' Association.

28. The following are the possible capacity building/courses that are being suggested by the JICA microfinance team for Phase 1 for both the trainers (from the CBI, Cooperative Colleges, and Banking Institute) and microfinance practitioners:

29. Basic Management Development Workshop

Module 1. Cost-effective Targeting: the identification and motivation of poor women. Equips the participants with knowledge and skills on how to identify the poorest among the poor and motivate them to get access to credit. Discusses the approach and methodology to ensure that the poorest not only participate in the programme but also gain control of the credit resource, a real manifestation of empowerment. Participants are given hands-on exercise on means testing and area mapping.

Module 2. Creating and Maintaining Strong Credit Discipline. Designed to harness the knowledge and skills of field staff in creating and maintaining credit discipline among borrowers so as to ensure proper utilisation of loan and high repayment and attendance performances.

Module 3. Financial Management: Financial Control and Cash Flow Management. Designed for branch managers and finance officers. Discusses the importance of thorough and strictly enforced procedures to minimise/prevent financial abuses given the fact that almost all financial transactions are conducted in the villages between borrowers and field staff without supervision. Key elements on financial management such as financial control and cash flow management towards branch viability were two of the most important aspects given emphasis. A review of loan policies and bookkeeping workshops are done/simulated in order to set the stage for cash flow management. Cash flow management is equally emphasised to ensure that funds are made available when and where needed.

Module 4. Planning, Monitoring and Evaluating Programmes. Focuses on key elements

that should be installed for effective monitoring and evaluation of microfinance programmes. Provides participants with knowledge and skills in efficient and effective planning; designing of appropriate monitoring tools, forms, and indicators; and assessing whether their organisations are achieving the objectives vis-à-vis targets. Specific output is the revision of work plan/business plan based on realistic assumptions.

30. Advanced Management Development Workshop

Module 5. Modeling Scaling-up Branch Outreach to Viability. Designed to assist management to strengthen their management capacity to be able to scale-up their outreach to the poor and attain financial viability in the shortest possible time.

Module 6. Training Staff for and Synchronizing their Supply with Scaling-up. Scaling up would demand the deployment of competent, well-trained field staff. This module will teach practitioners how to synchronise their human resource with the need in the field.

Module 7. Repayment Crises and Rehabilitation Strategies. This module thoroughly discusses coping and preventive strategies when repayment problems and crisis in membership occur in the institution. Participants learn applied techniques on participative rehabilitation strategies developed and used by Grameen Bank and CASHPOR member institutions.

Module 8. Keeping Your Good Personnel: Enlightened Personnel Management. This module is designed for senior staff to equip them with the knowledge and skills in handling and managing personnel. Keeping good personnel is essential for programme continuity as well as viability. Ways to deal with fast staff turn-over is discussed. As well, participants will be able to craft personnel policies critical in achieving organisational targets.

Module 9. Internal Auditing. This module is designed to set up an internal audit system to prevent misuse of funds and fraud and thus, to tighten internal financial control.

31. In addition to the above modules, courses on governance, MIS, action research such as client satisfaction survey and product/service development will also be included in the Phase 1.

32. To operationalise Phase 1, it is strongly recommended that a full time microfinance capacity building expert and a core of short term trainers/experts (by subject matter specialist, i.e., financial management, credit and savings methodology, product development, branch management, monitoring and evaluation, accounting and bookkeeping, and MIS among others) be mobilised to insure that the local trainers and practitioners coming from the cooperative sector and NGO sectors are fully equipped with knowledge, skills and attitudes in microfinance operations. There are a number of successful MFIs in Asia from which the JICA and Myanmar can draw full time expertise and short term expatriates such as microfinance practitioners from Bangladesh, the Philippines, Indonesia or India, etc.

33. Under Phase 1, the capability building of the local training institutions will not only be in the form of formal training but also exposure programme and study visits to different countries that have sound and successful microfinance experiences both at the policy and operational levels. As a suggestion, the trainers, selected practitioners and policy makers can visit countries like the Philippines to observe CARD Bank and the government's policy on microfinance; and Cambodia regarding its microfinance experiences both at the policy and operational level. For this Phase, the team recommends that the each exposure trip will compose of 10-15 people for a period of two weeks. It is suggested also that under this Phase, at least one to two exposure programmes to different countries are sponsored by JICA every year.

34. The approach suggested in Phase 1 is the trainers' training strategy wherein the core trainers will also be taught curriculum development, module and course development and implementation and evaluation in the field of microfinance. Tested and tried curricula, modules and courses will be implemented but adjustments will be made to suit the context of Myanmar. The frequency and the subject matter/modules (as discussed in the earlier section of this chapter) will be detailed during the implementation. However, the experiences have shown that the basic management modules in microfinance will be implemented by the first year of implementation. Each module is designed for about a week and implemented every quarter. It is also important to follow on with supervision and guidance from the international experts the progress made by the trainers and practitioners on how they are implementing their learning from the training. During the practitioners' implementation, the trainers with the guidance and supervision of the experts will be provided the necessary technical assistance and advice. From experience, this phase will take at least take two three years.

Phase 2. Establishment of the Myanmar Microfinance Center for Excellence

35. Under this phase, the MMCE will be established as a joint undertaking by the government and JICA. It is envisioned that MMCE will have a distinct personality with a set of full time staff and trainers composed of academicians, policy makers, faculty members coming from the CBI, Cooperative Colleges that have been trained in microfinance under the Phase 1, and practitioners coming from the NGO, banking and cooperative sectors. To vest it formal recognition, it may be advantageous to locate in an academic setting, e.g., in a university such as the University of Yangon.

36. The JICA microfinance team proposes that the MMCE be supported by JICA in funding the construction of the physical facilities equipped with training rooms, dormitories and other amenities that are proper for an institute of learning. The MMCE will have a core of full time staff to manage the MMCE. The faculty and core of trainers may serve part-time as they will come mostly from the practitioners and faculty members of cooperative colleges, CBI, Banker's Institute trained in Phase 1. In the next stage of its evolution, MMCE might have full-time faculty and core of trainers as the demand for training and development of new skills increases. From experience, establishing this phase will take another 2-3 years

Phase 3. Linkaging the MMCE with international microfinance institutes

37. During this phase the MMCE will link with other microfinance institutes in Asia to strengthen its own capabilities and share experiences. The strong microfinance institutes are CARD, Philippines; BRAC, Bangladesh; and, BRI, Indonesia among others. Each of the identified MFIs has their own training institute with proven international experiences and in one or another has been involved in international projects either as direct implementers, trainers, or combination. Under this Phase 3, it is envisioned that MMCE as a way to build its internal and international capabilities, exchange of faculty members and staff will be a major component of this Phase. The MMCE will also be tasked to do publications of training and operations manuals, training kits, case studies, researches about microfinance in the country and experiences of other countries. Other kinds of specialised training for the faculty of MMCE will also be provided.

Annex 11-1

Survey Report on Cooperative Colleges and Training Schools by the JICA Local Microfinance Team

Cooperative Colleges and Training Schools

Introduction

A successful Saving and Credit Cooperative Society is a certain type of department which is always continuously dealing with training and educational services. The members of Saving and Credit Cooperative Societies, members of producers' cooperative society should be taught the ways and means to choose and buy suitable products and commodities knowing the actual cost of those things. Moreover, to train and give educational services to the members of marketing cooperatives the way to produce quality products and commodities. Active members of Saving and Credit Cooperative Societies must always learn regularly at training centers, workshops and meetings. Therefore, cooperative may be defined as economic movement mainly dealing with education and training services. Similarly, cooperative may also be defined as educational movement mainly dealing with economic activities.

In Myanmar, special attention has been given to education and training from time to time in carrying out the cooperative movement. Under the Ministry of Cooperatives, one degree college (CDC), one central college (CCC) and two regional colleges (CRC) were opened in order to produce qualified students in accountancy, computer application and various aspects of management. Four cooperative training schools and three commercial training schools were also opened to give education and training services.

Objectives

With a view to produce technically qualified students in accountancy, computer application and various aspects in management, the courses are designed to fulfill the following objectives:

To train the employees, board of directors of the Saving and Credit Cooperative Societies and young citizens competent for the promotion of economic capabilities.

To train the students and give chance to youths to be able to comprehend the cooperative principles and practices.

To provide students who passed the Basic Education High School Examination with the knowledge of market-oriented economic system.

To create opportunities to study for the advanced know-how at home and abroad.

To play a supporting role in education sector and training the staff for the State in formulating the market-oriented economic system.

To set up a good relationship with international organisations such as International Cooperative Alliance, UN Agencies etc., also with the cooperative colleges within the region.

Various courses

At Yangon Cooperative Degree College, accountancy, managements, economics, statistics, commercial laws and regulations, computer application are given as the compulsory subjects. The duration of the courses is three years and B. A. (Business Science) Degree is awarded. Since Central Cooperative Society in Myanmar has become a member of ICA, a close relationship between Central Cooperative College and ICA (ROAP) and other organisation is expected to build up in the field of technical cooperation and development. There are five diploma courses in secretary-ship for financial management at the Central Cooperative College at Phaungyi in Hlegu Township. The duration of each course is 2 years.

Three diplomas in secretary-ship for enterprise, business accounting, marketing management courses and two certificates, bookkeeping and accountancy, salesmanship courses are available at two Cooperative Regional Colleges in Mandalay and Sagaing.

Apart from the major subjects for diploma courses which can be specialised in second year, there are eight compulsory subjects; statistics, English, Myanmar, mathematics, cooperative, computer application and business organisation and elementary accounting.

With a view to run the cooperative business activities effectively and successfully in line with the market oriented economy, various courses needed for the Executive Committee members

(BOD) and staffs of Saving and Credit Cooperative Societies are being provided at three cooperative training schools in Pathein, Moulamyaing and Taungyi. For outsiders four certificate courses in bookkeeping and accountancy, business accounting, computer studies and computerised accounting courses are provided. For departmental staffs and BOD, workshops and on job skillfulness training modules are applied and certificates are awarded to their respective courses. Advanced accountancy, principle and functions of management, marketing management, financial management, personal management, production management, auditing and cost accounting subjects are provided for departmental society's staffs and BOD members.

All courses are designed to have eight months in classrooms and one-month field assignment to business enterprises for practical applications and gained knowledge and skill special programmes for outstanding students are arranged as study visits to foreign countries upon the respective foreign countries invitation.

At three cooperative commercial training schools, five types of full time courses are given for secretary-ship, bookkeeping and accountancy, computer application, shorthand typing and office business skills, techniques and procedures. Part time courses on bookkeeping and accountancy, computer, typing in Myanmar/English language proficiency courses are also available.

Human resource development

Human Resource Development Center was established under the Yangon Cooperative Degree Colleges. Branch school was opened at the Cooperatives Trade Center at the corner of Saya San Road and University Avenue in Bahan Township on 30th August 2000. The International Academy Association of republic of Korea has offered teaching aid including computers, foreign language labs and sports equipment. The Chairman of Myanmar Education Committee opened the diploma courses on 30th August 2000. 200 students have already gained the English language diploma course and also 200 students already gained the computer diploma course. And the diploma course has been still opening there.

Provision of educational services at township level

Provision of educational services through lectures method to 10% targeted members of the societies reach 113%. Extension services given through pamphlets, periodicals, magazines, television and radio are effective up to 121%. Training on auditing courses reach 156%, discussion

on the cooperative theory, 154%. Guideline on working procedure courses for departmental staffs is 130% and higher grade auditing reach 67%.

Faculty members

Each and every faculty members of the colleges has at least twenty years services in cooperative departments and holds a bachelor degree from either Institute of Economics or other universities with further studies of master degrees, diplomas and certificates from universities at home and abroad. The teaching staffs of regional colleges, training schools, and commercial training schools are also very efficient in their teaching professions holding respective degrees.

Facilities and capacity

At present, Yangon Degree College has the capacity of accommodating 400 students for each academic year. The cooperative regional colleges have the capacity of accommodating 300 students yearly. The training schools and commercial schools have the capacity of accepting 200 students yearly. Lecture rooms and buildings are enough for respective number of students at each teaching centers.

The college and training schools have their libraries with special collection of reference books on economics, management statistics, entrepreneurial studies, financial, banking, marketing and accounting provided for faculty members as well as students. Modern teaching equipments such as audio-visual aids, computers and secretarial apparatuses are also provided. Students will have the opportunity to learn respective subjects by participative learning methods among which, case studies business games, group discussion and role-plays will be most frequent.

Recommendations

Cooperative education and training essential for the executive committee members and staff to feed the increasing demand of management and technical skill to run business efficiently and successfully. The regional college is occupied and engaged with the regular courses. Only short courses (not more than 3 weeks) can be provided during the vacation. Only interested personals should be trained and be entrusted with the organisational management of Saving and Credit Cooperative Societies.

Microfinance is a subject very new to our cooperative training schools. Lecturers and tutors should be given short courses and participate in microfinance workshops and seminars. Modern teaching aids equipment and materials should be provided. Books, pamphlets and periodicals should be supplied to our library for reference to gain international experiences.

To become effective cooperative training courses for EC members and staffs of cooperatives, enough funds to cover management and administrative cost should be provided. Teachers should be allowed honorarium fees as reward for their achievement.

As for Yangon Cooperative Degree College aims in training youths to become technically and managerially skilful personal as per demand of the market oriented economy having a plan to upgrade the degree college to university in the very near future, more teaching staff members and modern teaching aids should be provided.

Annex 11-2

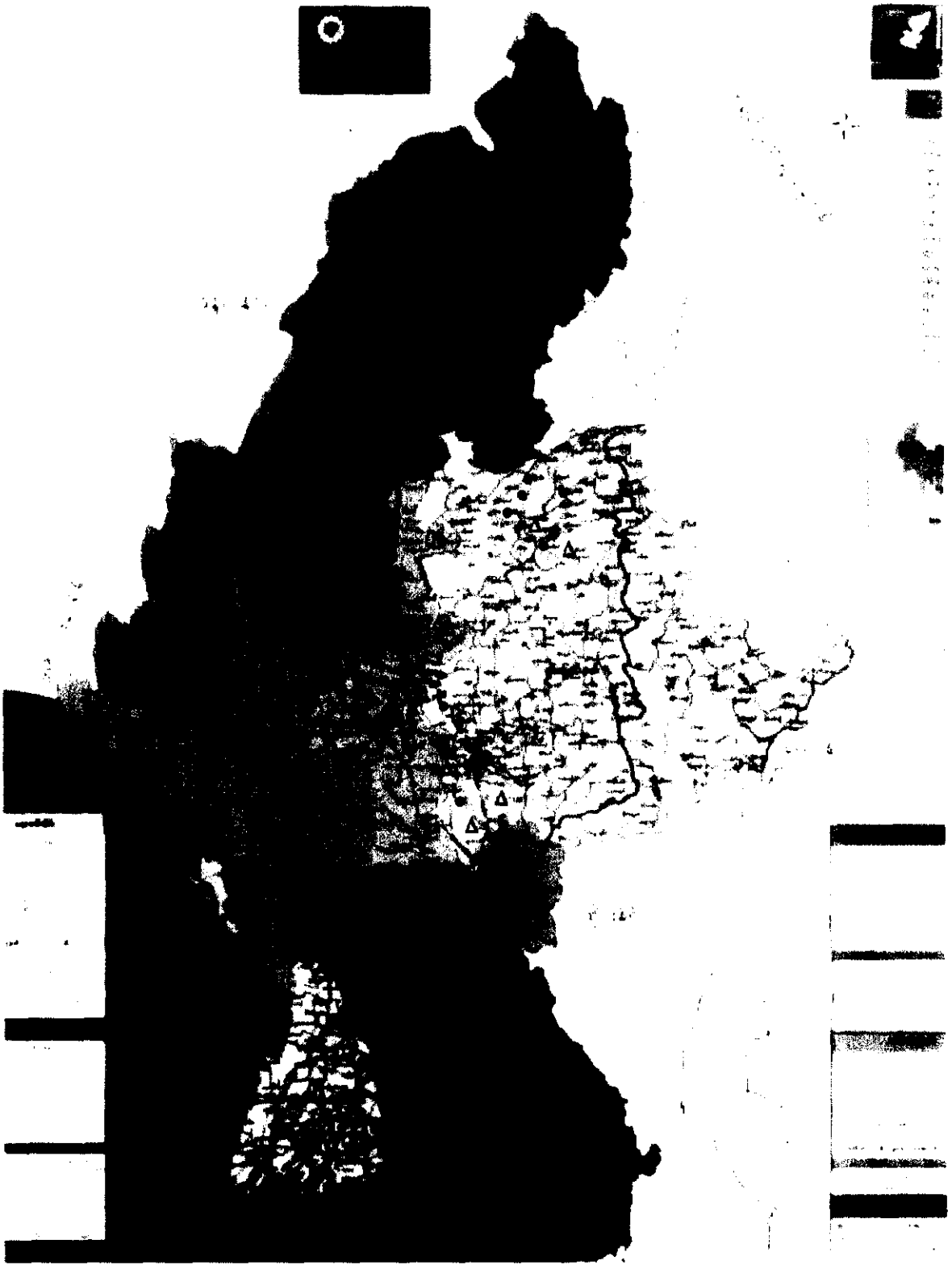
Highlights of the CBI Seminar, September 3, 2002

Myanmar- Japan Joint Microfinance Seminar with INGOS
Introduction to the Best Practices in Microfinance

Agenda

1. Opening Remarks by Mr. Ryu Fukui, Taskforce member, Deputy Director General, Development Bank of Japan
2. Presentation on Comparative Experiences of CARD, Philippine and TYM, Vietnam by Dr. Aris Alip, JICA Microfinance Consultant, Chairman and Managing Director, CARD Bank.
3. Presentation Lessons Learned from the Case Presentation of CARD in the Philippines and TYM in Vietnam by Mr. Ed Garcia, JICA Microfinance Consultant, Executive Director, Microfinance Council of the Philippines.
4. General Discussion

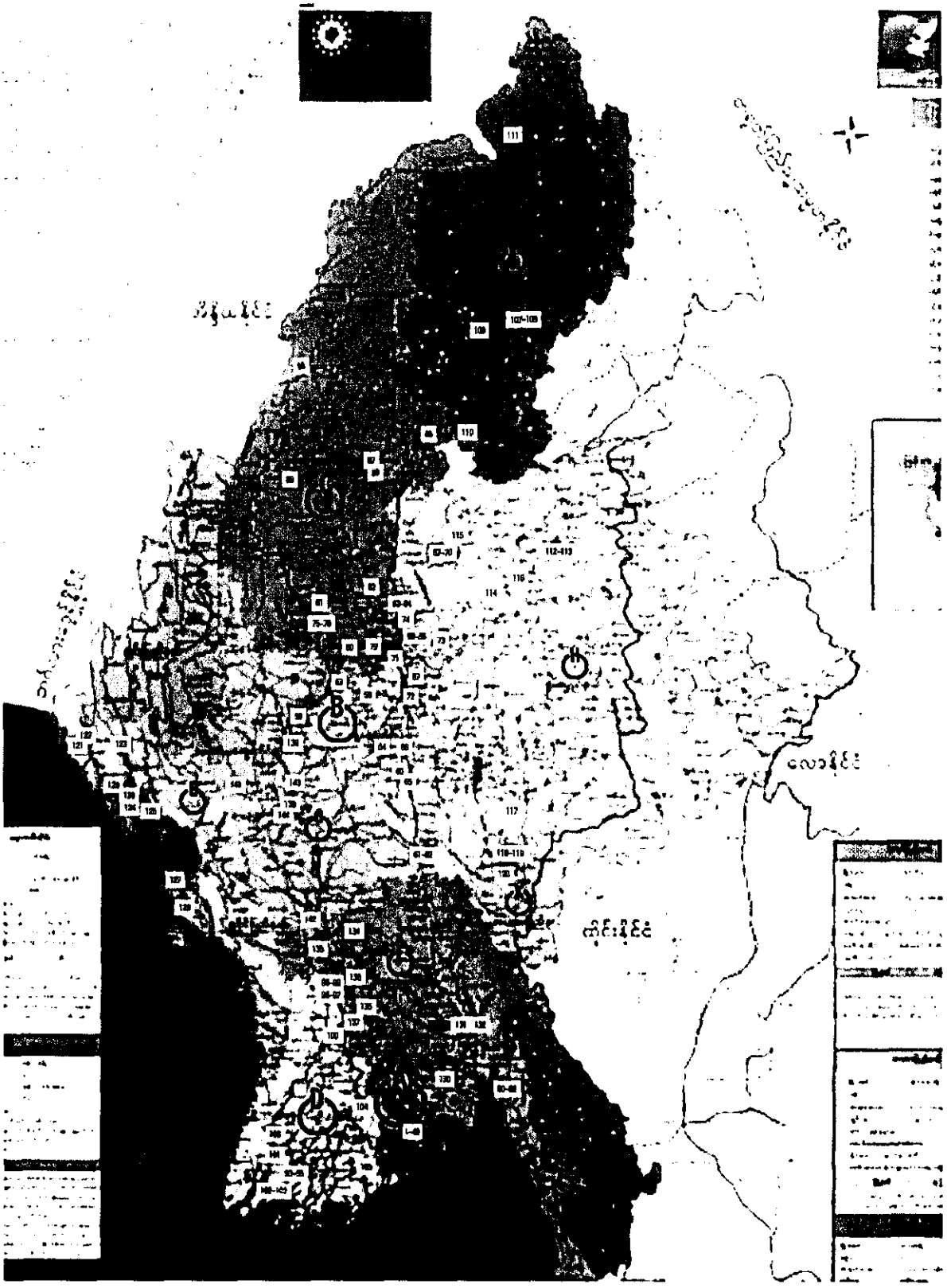
Location of NGOs Incolved in Microfinance



Legend

+ Micro-Finance INGO
● UNDP Assisted Project
□ Other INGO
Δ Local NGO

Location of Open-type Saving & Credit Cooperative Societies



A.	Yangon	- 49 societies	G.	Magway	- 6 societies
B.	Mandalay	- 25 societies	H.	Shan	- 6 societies
C.	Sagaing	- 15 societies	I.	Kachin	- 5 societies
D.	Ayeyarwaddy	- 14 societies	J.	Mon	- 3 societies
E.	Rakhine	- 9 societies	K.	Kayah	- 3 societies
F.	Bago	- 8 societies		Total	- 143 societies

III. On Foreign Exchange Rate Unification:

Japan's Experience and Myanmar's Future

This paper was initially presented at Yangon on 25 June 2000 and was revised in December 2002.

Introduction

I am a Japanese researcher on the international monetary system.

In Part One of this paper, I will present Japan's experience in foreign exchange rate unification. I will treat the "Young Report" with utmost importance because it seems to me to have some commonality which transcends borders and time despite the major differences of the fixed exchange rate system at the time of the report and the generalised floating exchange rate system of today.

In Part Two, I will make some comments on Myanmar's situation. Quite frankly though, I am not familiar with the situation in Myanmar and would appreciate correction if I am mistaken. In order to avoid any misunderstanding, I would like to say that I have no intention of interfering with the country's domestic concerns. They should be resolved by natural course internally through the country's own decision-making process.

Part One: Japan's Experience

My presentation here relates to Japan's experience in its international monetary history and is limited to my personal knowledge. I was only a baby when the Young Report was issued in Japan in 1948.

According to the Young Report, a single exchange rate of 360 yen per dollar was adopted in Japan on 25 April 1949.

I will start with a background briefing on the economic and trade conditions of Japan immediately after World War II and then discuss the Young Report, the existence of which even Japanese hardly know.

Economic and trade conditions

Immediately after WWII, Japan's economic conditions were disastrous, but in spite of that, in the latter half of the 20th century, Japan became a world economic superpower. Very few economists predicted that the Japanese economy could take off in such a short period.

When I visited Vietnam in 1992 and exchanged views on various issues with its people, I realised that Vietnam attained self-sufficiency in food and was exporting rice. In contrast, the food situation in Japan was miserable around 1950. We were suffering severely from a food shortage. Under such conditions, Japan's exchange rate per dollar was fixed at 360 yen. The stabilisation of the exchange rate brought discipline into the Japanese economy and contributed to its reconstruction and development thereafter. I would like to go further into the details.

During WWII, almost 25% of Japan's capital stock was destroyed, and just after the war, our industrial production fell down to 36% of the level in 1934-36. As for trade, in 1946, more than 60% of imports were supported by U.S. aid. While half of the imports were of food, the rest were mostly of cotton, of which almost 80% were for re-export after processing. About the half of all exports were of raw silk. Both exports and imports were transacted mainly with the U.S. During this stage, being supported by the U.S. aid, Japan's trade was barely surviving.

Very luckily for us, in 1947, circumstances in the Far East led the United States to change their policy toward Japan and prompted us to recover rapidly and stabilise our economy.

In the same year, normal trade was re-opened, but in a very restricted sense. Exports that year totaled 173 million dollars, of which three fourths were textile-related. Imports of the same year totaled 523 million dollars, of which 56% were food-related. At the same time, several signs of recovery appeared in our industries. Specifically, coal and steal increased in production, the production of chemical fertilisers needed to increase food production recovered substantially, and the textile industry expanded as a result of the re-opening of cotton trade.

In 1948, the trade situation came closer to normalisation after the conclusion of trade agreements with the U.K. and some other countries. Exports of that year totaled 258 million dollars while imports totaled 658 million dollars, of which 461 million dollars had been transacted with aid.

In April 1949, a single exchange rate of 360 yen per dollar was implemented. Throughout the year, exports showed for the first time an evident trend of rapid increase and doubled to over 500 million dollars.

Imports also increased rapidly, reaching 905 million dollars. Even though food was as always the most important imported goods and the U.S. was our most important partner, our unaided imports were recorded at 370 million dollars. 1949 was the first year when exports exceeded

unaided imports, and our foreign reserve increased somewhat.

On the domestic side, in those days, subscriptions by the Bank of Japan to the bonds issued by the Reconstruction Finance Bank were bringing about hyperinflation in Japan. The official wholesale price index was, based 100 in 1945, 465 in 1946, 1,375 in 1947, 5,961 in 1949, and 7,047 in 1950, so the task of quickly stopping inflation was the most urgent item on the agenda. We were still under occupation of the Allied Forces at that time and many economic bureaucrats in the ESS (Economic and Science Service) had influence in the formation of our economic policies. The bureaucrats, who were in the Allied Forces, believed that our inflation would come to an end if we increased production under official price control, adopted the ration system, and restrained from increasing salaries.

In this situation, in 1949, Joseph Dodge, who was then at the top of Detroit Bank and also had influence on Germany after the war as economic advisor to the Allied Forces, surveyed the Japanese economy. He defined the Japanese economy as an 'economy on stilts', placing one stilt on aid from the U.S. and the other on domestic subsidies, and warned that if the stilts were too long, there would be grave danger of Japan falling down and breaking its neck. He believed that Japan should not be supported by American aid and that Japan should accumulate capital by itself by lowering costs and saving and thereby increasing production. He recommended that Japan end inflation through tightly restrictive fiscal and monetary policies. His policy recommendation materialised in the form of a super-balanced budget, which comprised not only the general account but also the special accounts and with more debt repayment than required by law. This, in reality, was a surplus budget.

There were several related occurrences of importance as follows.

First, the Reconstruction Finance Bank stopped issuing new bonds and providing new loans. (The Reconstruction Finance Bank was established in 1946 with the aim of lending to industries with no access to other financial institutions, but in reality had been providing subsidies to industries unable to commercially cover their production costs, particularly to the coal industry.) The source of the funding of this bank had been the bonds subscribed, for the most part, by the Bank of Japan. The outstanding amount of the bank was at the level of 64 billion yen, which was as high as one third of the total amount borrowed by commerce and industry, and hence, the main source of creating new credits.

Second, at that time, the Government was buying export products from the private sector at high prices while buying import products to the private sector at low prices, and thus, the Special Account on Trade Financing was always in the red and was financed by the General Account Budget. All the aid money amounting to 1.6 billion dollars, mainly from the U.S., was consumed for these invisible subsidies. Under the above-mentioned super-balanced budget, these invisible subsidies were brought to an end.

Third, most price control measures became unnecessary.

Multiple exchange rates

During the first years under occupation, all external transactions were directly managed by the Allied Forces. Foreign exchange income earned through trade was controlled by the Allied Forces. The mandate of the Trade Board was limited to the domestic field of trade. International prices, which are determined in international markets and denominated in foreign currency, were separated completely from domestic prices. (Domestic official prices are denominated in yen.)

Yen resources, independently of foreign resources, were received and paid by the Special Account on Trade Financing which, as I mentioned above, was always in the red.

More precisely, to export something, firstly, the Trade Board would purchase it from a domestic manufacturer at the domestic official-price denominated in yen, decided irrespectively of the export price denominated in foreign currency on the international market. Next, the export product would be sold to an Allied Forces-designated trade agency on the U.S. and other international market, at an export price denominated in foreign currency. On the other hand, to import something, firstly, the Allied Forces would purchase it from the U.S. or other international market at an import price denominated in foreign currency. Next, the Trade Board would sell it to a domestic buyer at a domestic official price, decided irrespectively of the import price denominated in foreign currency on the international markets.

In this process, we can say the exchange rate for export was theoretically the domestic official purchase price in yen divided by the export price in foreign currency. This rate varied from goods to goods. In January 1949, it ranged from 200 yen per dollar for caustic soda to 600 yen per dollar for pottery. For raw silk, the exchange rate was as low as 420 yen per dollar.

On the other hand, the exchange rate for import was theoretically the domestic official sales

price in yen divided by the import price in foreign currency. This rate also varied depending on the goods. In January 1949, it ranged from 67 yen per dollar for pig iron to 284 yen per dollar for type-B heavy oil. For cotton, yen was as high as 80 yen per dollar.

There were thus innumerable de facto exchange rates but there was no structured system among them and this type of multiple exchange rates had shortcomings. For exporting, a lower yen rate was applied so that domestic manufacturers could survive. For importing, a higher yen rate was applied and imported raw materials were sold cheaply to domestic manufacturers in order to minimise impact on the domestic economy. Domestic official prices were set lower than those reflecting dollar denominated prices of imported raw materials were. They had the same economic effect as subsidies to importers.

In general, the multiple exchange rates thus applied made exporting and importing easy to conduct, which, in a word, was an easy solution. However, the outcome was a loss of the discipline imposed under the single exchange rate system, in which the dollar denominations used in exporting would be the same as those used in importing. Importing was devouring precious hard currency so it was costly, but this was not reflected in the economy. At the same time, a lower yen exchange rate for export was increasingly reflected, which meant that even industries without international competitiveness were able to survive. In this way, resources were being misallocated.

Under these circumstances, it was the Young Report which recommended that Japan adopt a single unified exchange rate system without delay.

The Young Report

The formal name of the Young Report was "Report of the Special Mission on Yen Foreign Exchange Policy, 12 June 1948." The mission to prepare this report was headed by Dr. Ralph A. Young, then a highly ranked official at the Federal Reserve Board. The mission members visited Japan in May 1948.

Curiously enough, the report had been left confidential for very many years.

Dr. Toshihiko Yoshino, once a member of the Board of the Bank of Japan, received a copy from Dr. Young, and released it to the public in 1972.

The purport of the report is as follows:

- That the Allied Forces firmly believed that the adoption of the single currency system was instrumental to the increase of the exporting needed to reach the goal of Japan's independence,
- That to increase import prices in yen in relation to export prices, it was helpful to be well aware of the fact that importing was costly for a country like Japan, which lacked per capita resources and was low in productivity,
- That the disappearance of the multiple exchange rates would resultantly enable the Japanese Government to freely formulate plans and policies relating to international trade,
- That the single exchange rate would function as a stabilising factor to the economy after the initial impact brought on by its adoption, and
- That, for a stabilising effect on the domestic economy and international trade, it is advisable that official announcements of the yen exchange rate and accompanying anti-inflation measures be made at the same time.

Toshihiko Yoshino understood that the recommendation in the Young Report was practically an all-at-once approach. At that time, however, many Japanese preferred a milder, gradual, step-by-step approach to mitigate perspective significant impact on the Japanese economy.

The Young Report recommended that Japan fix its exchange rate between 270 and 300 yen per dollar, assuming that 300 yen could be sustainable for 80% of the export industry. In reality, the rate was decided at a lower level of 360 yen per dollar.

The Japanese authorities received no advance notification when the exchange rate was decided at 360 yen. Kiichi Miyazawa, who was then a young official of the Ministry of Finance, wrote later that "the figure of 360 yen per dollar was a complete surprise." It was surprising because the exchange rate policy is always a highly sensitive matter.

That is the way the Japanese economy became exposed to international competition.

At that time, although textile products had a higher yen rate than 360 yen per dollar, not many other export goods did. Most products, particularly heavy industry products, were subject to lower yen rates. At the same time, through the balanced budget mentioned above, the 'stilts', which were invisible subsidies, were removed. Unfortunately, the year of 1949 became the first year of recession in the period following WWII. The U.K. devalued the sterling pound by 30.5%,

which made things difficult for the Japanese economy. Nonetheless, the Allied Forces resolutely maintained the yen rate without devaluing it.

The Allied Forces believed that the exchange rate should not be altered so readily and that difficulties in export should be overcome by rationalising and stabilising the Japanese economy. For two years following the adoption of the 360-yen exchange rate, the wholesale price increased by over 50% and the export price by 20%, which were greater increases than in other countries. Those two years made up the adjustment period of our economy to the new single exchange rate system. Since then, prices stabilised and external payments became largely balanced. Twenty years later, in 1968, it became evident that a trend of trade surplus in Japan was developing.

The official exchange rate of 360 yen was maintained for more than twenty years until the Smithsonian Agreement in December 1971 after the Nixon shock.

We had four pillars supporting our policy during those years.

First, the national budget had been balanced until 1965.

Second, our monetary policy adapted flexibly to the situation of the "ceiling of the balance of payments". After conditions of the Japanese economy had improved, importing increased and exporting decreased, and a tight monetary policy was adopted by raising the official discount rate. Then, gradually, importing decreased and exporting increased. The trade balance came into surplus and the foreign reserve increased. Then an expansionary monetary policy was adopted by lowering the official discount rate. This process was repeated.

Third, foreign exchange was centralised to the Government and foreign capital movements were controlled.

Fourth, export was promoted, for which purpose JETRO was established.

Part Two: Myanmar's Future

As a scholar studying international monetary system, I am interested in the exchange rate system of Myanmar. The official exchange rate of Myanmar's currency is around 6 kyat per dollar (officially, it is linked to the Special Drawing Right (SDR) of the IMF) but its market rate is far

lower than the official rate. When I first talked with Deputy Governor U Than Lwin in Yangon in the fall of 1998, he told me that its real value was about 200 kyat per dollar. It is said that the market rate has been over 1000 kyat per dollar since August 2002. I know of no country where the market exchange rate of its currency is that low compared to the official rate. This situation, first of all, brings about complication, confusion, misperception, and even a loss of confidence in official statistical documents relating to international transactions conducted under the official exchange rate.

At the Yangon Airport, foreign visitors are required compulsively to exchange money equivalent to 200 U.S. dollars into Foreign Exchange Certificates (FECs).

Officially, one FEC is equal to one dollar, but its market rate is lower than its face value. On top of that, during our stay in late February 2001, we heard that there was a rumor saying that FECs would be demonetised. The authorities, however, frantically denied the content of the rumor.

This reminds me of something in the Young Report I mentioned in Part One. According to the report, the "Rueff financial reforms" were carried out in France toward the end of the 1950s and a unification of exchange rates was implemented in China in the 1990s. That constituted the basis of economic development and stability in those countries in later years. Those experiences show in an unmistakable way that a stable exchange rate system is an essential framework for effective management of a national economy. The existence of multiple exchange rates or violent fluctuations impedes an optimal allocation of resources, distorts the structure of economy and retards economic development. An exact calculation of the impact, however, is not easy to conduct because the factors involved relate to almost every aspect of the national economy.

In the case of Myanmar, my impression from the talk I had with several firms was that, thanks to the high adaptability of the Myanmarese to the changing environment, the adverse impact of multiple exchange rates on individual businesses has been minimised in verifiable degrees. However, the inflow of foreign direct investments (FDIs) to Myanmar compared to other "FDI-driven" Asian economies is particularly sluggish and it may be fair to say that the dearth of FDIs is causing a great loss of opportunities to the Myanmar economy.

Awareness of the importance and necessity of unification has been increasing. For example, in its Country Economic Report of December 2001, the Asian Development Bank states the following:

"The degree of distortion between the official and market exchange rates is extraordinarily high. Although the Government has attempted to mitigate the adverse impact of this distortion by progressively allowing the private sector to operate at the market rate, the dual exchange rate system remains a key source of resource misallocation, non-transparency and uncertainty."

So if I may say so, I hope for unification of the exchange rate in Myanmar at the earliest possible date. One important problem on this matter relates to how. The Myanmar authorities are planning a gradual step-by-step approach over possibly two years, as opposed to an all-at-once approach. They believe that a strong protected position is a precondition. I make no comment on the first point, but I totally agree with the second point.

I believe that for a country with such high adaptability as Myanmar, it might be wiser to try to shorten the adjustment period however painful it may be in the transitional period.

As for Myanmar's foreign reserve position, although the authorities hesitate to admit it, the situation seems very serious. Because of the lack in foreign reserve, internal traders, despite the strict foreign exchange control, can easily influence the foreign exchange market with a very small amount of speculative funds. That seems to have been actually happening in the market for last several years, leading virtually to a free fall of the kyat. That is why I take interest in the concerns of the Myanmar authorities. In this respect, if I may express my strictly personal and perhaps hazardous view, Japan should consider lending to the Central Bank of Myanmar a certain amount of funds in short-term yen credit, instead of dollar credit. This will help the Central Bank support its foreign exchange reserve, provide against contingencies on the market, and unify the exchange rate of kyat at an earliest day possible all at once. I insist that if there is credit, it should be given in yen, because to be held as foreign reserve, credit is one aspect involved in the internationalisation of currencies and will end up promoting internationalisation of the yen by that much. Under this scheme, Myanmar may, subject to prior approval by Japan, change necessary amounts of yen funds into U.S. dollars through the Federal Reserve Bank of New York at any time to intervene in the foreign exchange market in case of a violent fluctuation of the kyat. If nothing happens in the currency market, the yen fund could serve as a safety net.

This is, by nature, a simple financial operation for international currency stability. On the other hand, considering Myanmar's huge arrears in repaying loans to Japan, the Japanese Government may have second thoughts about readily reopening yen credit because it must closely consider accountability to Japanese taxpayers.

Conclusion

I realise that circumspection is called for when one speaks about Myanmar because the country's current circumstances are quite complicated. I believe that, in the long run, its exchange-rate normalisation will be one important step to increase foreign capital flow into the country and to catapult economic development by leaps and bounds in this 21st century.

IV. Financial Behaviour of Private Manufacturing Companies in Myanmar: Implications for Banking Sector Development

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Part I

Overview: Myanmar Financial System

Section 1. Introduction

As a measure of market-oriented economic development, the Myanmar Government initiated banking and financial reform in June 1990. Three laws were enacted: (1) the Central Bank Law, (2) the Financial Institutions Law, and (3) the Myanmar Agricultural and Rural Development Law. As a result, not only twenty private banks were created but the MSEC (Myanmar Securities Exchange Centre), a joint venture between Daiwa Securities and MEB (Myanma Economic Bank), was established. These measures were certainly a big step toward realising a market-oriented economy, but only up to a certain point.

Numerous other reforms must be implemented in future to enhance the institutional ability of the banking system as well as the capital market.

The main objective of our research is to clarify the current financial environment from the viewpoint of corporate finance and, based on such information, to deduce some policy implications for further development of the financial sector.

Section 2. Characteristics of the Financial System in Myanmar

2.1 Overview

The banking sector occupies the core position of the financial system in Myanmar. Apart from the banks there is the Myanmar Securities Exchange Centre (MSEC), which is a security company, the Myanmar Small Loan Enterprise (MSLE), which is a non-bank financial institution, and the Myanmar Insurance Corporation (MIC), but these institutions occupy only a marginal position in the financial activities of Myanmar.

The initiatives taken since 1992 in financial sector reform are an important element of market-oriented economic reform. Private banks were given authorisation to operate, foreign banks were allowed to open representative offices, and the Myanmar Securities Exchange Centre was established. However, private banks are not permitted to transact foreign exchange business because of strict controls under the current severe exchange shortage. Only the MICB and MFTB, both state-owned banks, are authorised to conduct foreign exchange business. Furthermore, foreign banks have not yet been granted branch status and the MSEC currently has only one listing company.

2.2 Financial Deepening

Table 1 denotes the trends of the GDP, M1, and M2 from 1987/88 to 1996/97. M1 denotes "currency in circulation plus demand deposits" and M2 denotes "M1 plus savings deposits plus savings certificates plus time deposits". M1/GDP denotes Marshall's k_1 (Column 4 in Table 1) and M2/GDP denotes Marshall's k_2 (Column 5 in Table 1). It is well known from the financial history of developed countries that Marshall's k_1 is stable but Marshall's k_2 increases as the economy develops, so that Marshall's k_2 is a good indicator of financial deepening.

In the case of Myanmar, Marshall's k_1 has been stable, but we cannot find any secular rising trend of Marshall's k_2. In other words, people do not place their money in time deposits of banks. The result is the limited capacity of the banks to lend money to firms and their stagnating role as a financial intermediary in the national economy.

Table 1 Trends of GDP, M1 and M2 (million kyats)

Year	1. GDP	2. M1	3. M2	4 = 2/1 (%)	5 = 3/1 (%)
1987/88	68,698	9,713	18,126	14.1	26.0
1988/98	76,243	15,937	23,521	20.9	30.9
1989/90	124,666	21,536	30,942	17.3	24.8
1990/91	151,941	32,333	45,942	21.3	30.2
1991/92	186,802	43,737	54,531	23.4	29.2
1992/93	249,395	60,200	77,773	24.1	31.2
1993/94	360,321	74,982	98,618	20.8	27.4
1994/95	472,774	98,323	132,060	20.8	27.9
1995/96	603,602	131,800	185,530	21.8	30.7
1996/97	715,438	176,865	258,777	24.7	36.2

Source: Central Statistical Organization (CSO), Statistical Yearbook 1997, pp. 298, 307.

Table 2 shows the trends of currency in circulation and bank deposits from 1987. The share of time deposits has been almost negligible. The share of savings deposits shows a rising trend from 1994; however, the currency still in circulation accounts for a major share. The main reason for the lack of increase in bank deposits is the negative real interest rates for deposits.

Table 2 Trends of Currency in Circulation and Bank Deposits (million kyats)

Year	Currency in Circulation (%)	Demand Deposits (%)	Savings Deposits (%)	Time Deposits (%)	Total (%)
1987	8,299 (45.8)	1,414 (7.8)	8,411 (46.4)	2 (0.0)	18,126 (100.0)
1988	14,659 (62.3)	1,278 (5.4)	7,581 (32.2)	3 (0.0)	23,521 (100.0)
1989	19,926 (64.4)	1,610 (5.2)	9,403 (30.4)	3 (0.0)	30,942 (100.0)
1990	29,211 (66.8)	3,122 (7.1)	11,403 (26.1)	3 (0.0)	43,739 (100.0)
1991	39,289 (68.5)	4,448 (7.8)	13,606 (23.7)	3 (0.0)	57,346 (100.0)
1992	54,429 (70.0)	5,677 (7.3)	17,454 (22.4)	75 (0.1)	77,773 (100.0)
1993	68,663 (69.6)	5,560 (5.6)	23,454 (23.8)	116 (0.1)	98,618 (100.0)
1994	90,659 (68.4)	6,358 (4.8)	32,911 (24.9)	327 (0.2)	132,060 (100.0)
1995	119,207 (64.3)	8,907 (4.8)	51,838 (27.9)	1,006 (0.5)	185,530 (100.0)
1996	159,786 (61.7)	11,374 (4.4)	79,359 (30.7)	799 (0.3)	258,777 (100.0)

Source: Central Statistical Organization (CSO), Statistical Yearbook 1997.

2.3 Effectiveness of Monetary Policy

The Central Bank of Myanmar Law defines the objectives of the Central Bank of Myanmar (CBM) as follows:

(a) To preserve the internal and external value of the currency;

(b) To promote efficient payment mechanisms;

(c) To ensure the efficiency of the financial system;
(d) To foster monetary, credit, and financial conditions conducive to orderly, balanced, and sustained economic development.

And by law, the roles of the CBM are:

(1) To act as sole issuer of domestic currency (including Foreign Exchange Certificates (FEC));
(2) To act as banker to the government;
(3) To advise the government on such matters as the state budget and economic development policies and planning;
(4) To act as advisor and agent in the issuance of government securities;
(5) To formulate and implement monetary policy;
(6) To inspect, supervise and regulate the financial system;
(7) To act as banker to financial institutions;
(8) To implement exchange rate policies and, as agent of the government, to control foreign exchange transactions;
(9) To manage international reserves and to implement measures to ensure a stable and viable balance-of-payments position; and
(10) To perform transactions and other activities on behalf of the government arising out of the latter's participation in international banking, credit, and monetary organisations.

Generally speaking, the functions of a central bank are: (a) to issue bank notes, (b) to act as the banker to the government, and (c) to act as the banker to the banks, three functions which the CBM Law seems to satisfy. Also, it is generally expected that a central bank maintains the value of currency and promotes economic growth. Again, the CBM Law appears to satisfy these fundamental roles.

However, the actual situation of the CBM is far from what is defined by the CBM Law. An especially serious problem is that the internal and external value of the currency has not been secured. To preserve the internal value of the currency means to stabilise prices, i.e., to restrain inflation. To preserve the external value of the currency means to stabilise the exchange rate. Neither objective has been attained in Myanmar. The major reason lies in the fact that CBM is only a department of the Ministry of Finance and Revenue, not an independent organisation. The CBM is not the banker to the government but rather a bank subordinate to the government. In fact, issuing short-term 90-day Treasury Bills (TB) to the CBM finances the deficit of the state

budget. Creating money by issuing TBs is the main cause of high inflation and hampers sound macro-economic management.

The Achilles' heel of Myanmar economy is the rising deficit of the public sector. The State Fund Account (SFA), which is the combined budgets of the central government administration and the State Economic Enterprises (SEE), increases year by year. Selling TBs to the CBM has financed much of the budget deficit of the SFA. Medium- and long-term treasury bonds and accumulation of arrears to the foreign sector finance the remaining SFA budget deficit.

As shown in Table 3, the main purchaser of medium- and long-term treasury bonds is private enterprise (which means private banks). Under the current inflation rates, there is no incentive for private banks to buy treasury bonds. However, because treasury bonds are government-approved liquid assets, and private banks cannot find any other profitable securities in which to invest, treasury bonds occupy a major portion of the private banks' portfolios.

Table 3 Sales and Outstanding Medium- and Long-term Treasury Bonds (million kyats)

	Three-year Treasury Bonds				Five-year Treasury Bonds			
	Sales	Outstanding			Sales	Outstanding		
		Total	Public	Private Enterprises		Total	Public	Private Enterprises
1993/94	36.0	36.0	26.0	10.0	6.8	6.8	6.8	0
1994/95	47.0	83.0	73.0	10.0	7.7	14.5	14.5	0
1995/96	823.8	907.2	80.2	827.0	48.6	62.8	22.8	40.0
1996/97	1,898.5	2,769.6	121.6	2,648.0	492.0	554.8	54.8	500.0
1997/98	2,425.3	5,147.5	101.8	5,045.7	1,788.2	2,343.1	154.1	2,189.0
1998/99	10,678.2	15,002.0	141.3	14,860.7	14,974.9	17,311.1	237.1	17,074.0
1999/00	5,340.5	18,444.0	136.3	18,307.7	36,855.0	54,158.8	326.5	53,832.3
2000/01	15,735.7	31,754.4	144.4	31,610.0	44,559.9	98,670.1	366.2	98,310.0

Source: CSO, Selected Monthly Economic Indicators.

The CBM rigorously regulates almost all interest rates. As shown in Table 4, the Central Bank Rate (CBR) increased from 4% to 11% in 1989, to 12.5% in 1995, and to 15% in 1996. But it decreased to 12% in 1999 and further decreased to 10% in 2000 in spite of rising inflation rates.

Deposit as well as lending interest rates substantially increased in 1989 in accordance with the increase of the CBR. However, if we think of inflation rates, except for small personal loans at pawnshops, real interest rates have been negative up to now, a situation that does not provide

any incentive for savings. This is a typical case of financial repression, in which people prefer real assets such as gold, rice, and automobiles.

In 1989, bank lending to State Economic Enterprises was abolished. This was an outcome of the integration of the State budget and the SEE budget. Since then, SEEs obtain loans without interest (i.e. "subsidy" or "budgetary support") under the SFA system.

The CBR cannot work effectively as long as all interest rates are strictly regulated. Furthermore, the payment system using commercial bills is not well developed, so that discounting of commercial bills by banks is also not common in Myanmar. Under such conditions, the CBR has only a limited role as an effective monetary policy.

Table 4 Selected Interest Rates (%)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Central Bank Rate	4.00	11.00	11.00	11.00	11.00	11.00	11.00	12.50	15.00	15.00	15.0	12.0	10.0
2. Treasury Bills and Bonds													
a. 3-month	1.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
b. 3-year	2.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	13.50	13.50	13.50	10.50	8.50
c. 5-year	3.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	14.00	14.00	14.00	11.00	9.00
3. Deposit Rates													
a. Demand Deposits	0.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	6.00	6.00	5.00	5.00
b. Fixed Deposits													
1. 3 months	1.00	8.50	8.50	8.50	8.50	8.50	8.50	9.50	12.00	12.00	12.00	10.00	9.25
2. 6 months	1.50	9.00	9.00	9.00	9.00	9.00	9.00	10.00	12.50	12.50	12.50	10.50	9.50
3. 9 months	2.00	9.50	9.50	9.50	9.50	9.50	9.50	10.50	13.00	13.00	13.00	11.00	9.75
c. Savings Accounts	8.00	8.00	8.00	8.00	10.00	10.00	10.00	10.00	12.00	12.00	12.00	10.00	9.00
d. Savings Certificates	10.90	10.90	10.90	10.90	12.00	12.00	12.00	12.00	15.00	15.00	15.00	12.00	10.00
4. Lending Rates													
a. State Economic Enterprises													
1. Working Capital Loans	8.00	---	---	---	---	---	---	---	---	---	---	---	---
2. Financial Loans	8.00	---	---	---	---	---	---	---	---	---	---	---	---
b. Cooperatives													
1. Working Capital Loans	8.00	15.00	15.00	15.00	16.50	16.50	16.50	16.50	16.50	16.50	16.50	15.00	15.00
2. Financial Loans	9.00	12.00	12.00	12.00	14.50	14.50	14.50	14.50	14.50	14.50	n.a.	n.a.	n.a.
c. Private Sector													
1. Agriculture													
(1) Village Bank	8.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	n.a.	n.a.
(2) Farmers	12.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	17.00	15.00
d. Trade													
(1) Working Capital Loans	---	15.00	15.00	15.00	16.50	16.50	16.50	16.50	18.00	18.00	18.00	15.00	15.00
(2) Term Loans	---	12.00	12.00	12.00	14.50	14.50	14.50	14.50	16.50	16.50	16.50	14.50	14.00

Source: CSO, Statistical Yearbook 1997; ADB, Country Economic Report: Myanmar.

Neither can an open market operation be an effective monetary policy measure because there is no secondary market of treasury bills and bonds.

Then how effective is the reserve policy? It is stipulated that the minimum reserve ratio should

be 5% for time deposits and 10% for demand deposits. Banks should deposit 75% of reserves to the Central Bank. On top of this, banks are required to maintain at least 20% of the total debt as liquid assets. The liquid assets are defined as "excessive reserves" and consist mainly of medium- and long-term government bonds. Judging from the fact that the minimum reserve ratio and statutory liquidity ratio have never changed, these measures do not appear to work effectively as a monetary policy measure. A reserve policy is only one possible effective monetary policy measure under the current situation of the Myanmar financial system. However, if even this policy measure does not work effectively, the natural conclusion would be that there is no effective monetary policy for Myanmar at all. In other words, the CBM does not fulfil its most important responsibility: to preserve the value of the currency.

2.4 Banking Sector

Table 5 shows the structure and growth rates of total bank deposits. The growth rate in 1988 was minus 9.8%. However, after 1989 there was a secular and substantial rising trend: about 30% growth per year from 1989 to 1994, jumping to 60% in 1995 and nearly 50 percent in 1996. Savings deposits account for the major share. As previously mentioned, the real interest rates on deposits were negative during these periods so it is quite astonishing that bank deposits experienced such significant growth in spite of negative interest rates.

One plausible explanation for such a paradoxical phenomenon lies partly in the favourable effects of financial liberalisation. In 1989 the interest rates on deposits substantially increased and did so again in 1996 and 1997. Under continuous financial repression, the financial behaviour of the people is certainly affected by real interest rates in the long term, but may respond to nominal interest rates in the short term because of a monetary illusion. This seems to be the reason why people prefer savings deposits that can be easily drawn rather than time deposits. That there are no substitutable financial commodities may be another reason. People definitely prefer real assets such as gold, automobiles, and real estate to financial assets, but there are various restrictions to investing in real assets. In that case it is preferable to some people to choose bank deposits that bear interest rather than currency that bears no interest. What this means is that once deposit interest rates become positive, it would be possible to mobilise savings in a big way.

Table 5 Structure and Growth Rates of Bank Deposits (million kyats)

	Demand Deposits [%]	Savings Deposits [%]	Time Deposits [%]	Total [%]	(Growth rate %)
1987	1,414 [14.4]	8,411 [85.6]	2 [0.0]	9,827 [100.0]	
1988	1,278 [14.4]	7,581 [85.6]	3 [0.0]	8,862 [100.0]	(- 9.8)
1989	1,610 [14.6]	9,403 [85.4]	3 [0.0]	11,016 [100.0]	(24.3)
1990	3,122 [21.5]	11,403 [78.5]	3 [0.0]	14,528 [100.0]	(31.9)
1991	4,448 [24.6]	13,606 [75.4]	3 [0.0]	18,057 [100.0]	(24.3)
1992	5,771 [24.7]	17,454 [74.8]	119 [0.5]	23,344 [100.0]	(29.3)
1993	6,319 [21.1]	23,454 [78.3]	182 [0.6]	29,955 [100.0]	(28.3)
1994	7,664 [18.5]	32,911 [79.5]	826 [2.0]	41,401 [100.0]	(38.2)
1995	12,593 [19.0]	51,838 [78.2]	1,892 [2.9]	66,323 [100.0]	(60.2)
1996	17,079 [17.2]	79,359 [80.2]	2,553 [2.6]	98,991 [100.0]	(49.3)

Source: CSO, Statistical Yearbook 1997, p. 307.

Table 6 is a comparison of state banks and private banks in terms of deposit mobilisation. Deposits with private banks have been growing at a satisfactory rate since 1992 when private bank business was permitted. In 1996, only five years after the partial liberalisation of banking, the share of private banks in total deposits amounted to 36%. Their facilities and services are superior to those of state banks.

According to the data submitted by the Government of Myanmar, the total deposits in private banks in 1999-2000 further increased to 129,121 million kyats, accounting for 61.1% of the total bank deposits, and those of public sector banks were 82,224 million kyats (Table 7). The deposits with private banks (especially the AWB and Yoma Bank) show phenomenal growth. However, private banks are not permitted to make loans of more than one year's duration and non-bank financial institutions, such as Myanma Insurance Company, MSEC, Foreign Exchange Bureau, and representative offices of foreign banks, cannot conduct banking operations.

Under such strict regulations and limited financial sector activities, investments by private companies as well as direct foreign investments are also very limited.

Table 6 Bank Deposits: State Banks and Private Banks (million kyats)

	State Banks				Private Banks			
	Demand Deposits	Savings Deposits	Time Deposits	Total	Demand Deposits	Savings Deposits	Time Deposits	Total
1987	1,414	8,411	2	9,827	--	--	--	--
(%)				(100.0)				(0.0)
1988	1,278	7,581	3	8,862	--	--	--	--
(%)				(100.0)				(0.0)
1989	1,610	9,403	3	11,016	--	--	--	--
(%)				(100.0)				(0.0)
1990	3,122	11,403	3	14,528	--	--	--	--
(%)				(100.0)				(0.0)
1991	4,448	13,606	3	18,057	--	--	--	--
(%)				(100.0)				(0.0)
1992	5,677	17,362	75	22,997	94	92	44	230
(%)				(99.0)				(1.0)
1993	5,560	22,701	116	28,377	759	753	66	1,578
(%)				(94.7)				(5.3)
1994	6,358	29,881	327	36,566	1,306	3,030	499	4,835
(%)				(88.3)				(11.7)
1995	8,907	40,866	1,006	50,879	3,686	10,972	886	15,544
(%)				(76.6)				(23.4)
1996	11,374	51,071	799	63,244	5,705	28,288	1,754	35,747
(%)				(63.9)				(36.1)

Source: CSO, Statistical Yearbook 1997, p. 307.

Table 7 Deposits per Bank (million kyats)

	1998-1999	1999-2000
Public Sector Banks (total)	67,664 (47.8%)	82,224 (38.9%)
1. Myanma Economic Bank	64,590	78,381
2. Myanma Investment and Commercial Bank	1,046	1,472
3. Myanma Agricultural Development Bank	2,028	2,471
Private Sector Banks (total)	73,849 (51.2%)	129,121 (61.1%)
4. Myanmar Citizen Bank	1,630	2,146
5. Co-operative Bank	629	1,499
6. Yatanabon Bank	33	41
7. First Private Bank	2,220	3,467
8. Myawaddy Bank	5,065	6,766
9. Yangon City Bank	5,080	3,380
10. Yoma Bank	10,069	20,997
11. Myanmar Oriental Bank	6,191	9,375
12. Myanmar Mayflower Bank	11,465	16,585
13. Tun Foundation Bank	801	1,115
14. Kanbowza Bank	176	1,041
15. Asia Yangon International Bank	172	90
16. Myanmar Universal Bank	961	2,544
17. Asia Wealth Bank	25,287	54,903
18. Myanmar Industrial Development Bank	1,055	1,048
19. Myanmar Livestock & Fisheries Development Bank	1,259	1,761
20. Co-operative Promoters Bank	118	377
21. Co-operative Farmers Bank	22	108
22. Sinbin Tharyar Yay Bank	486	506
23. Innwa Bank	1,130	1,372
Total	141,513 (100.0%)	211,345 (100.0%)

Source: Data provided by ADB

Table 8 clearly shows that the share of the private banking sector in total domestic credit also increased substantially during the 1990s. In 1989 the share of the private sector was only 1.5%, but in 1997 it increased to 32.6%.

Table 8 Domestic Credit Outstanding per Sector (million kyats)

	Total Domestic Credit (%)	Public Sector (%)	Private Sector (%)
1994.3	108,160 (100.0)	96,467 (81.4)	21,993 (18.6)
1994.9	119,232 (100.0)	104,393 (79.8)	26,407 (20.2)
1995.3	153,908 (100.0)	123,353 (81.3)	28,461 (18.7)
1995.9	170,125 (100.0)	126,762 (75.8)	40,396 (24.2)
1996.3	209,418 (100.0)	158,180 (77.2)	46,824 (22.8)
1996.9	246,155 (100.0)	169,426 (72.6)	64,101 (27.4)
1997.3	292,556 (100.0)	206,029 (72.8)	77,066 (27.2)
1997.9	323,240 (100.0)	207,961 (67.4)	100,428 (32.6)

Source: IMF, Myanmar: Recent Economic Developments and Selected Issues, p. 86.

Section 3. Contribution of Private Firms in the Industrial Sector

One of the objectives of economic reform in Myanmar is to promote private sector participation in building a healthy and vigorous national economy. Therefore, the primary subjects of this research are the large manufacturing companies, which are expected to be the core organisations for economic development.

In 1998-99, the contribution of the industrial (manufacturing and processing) sector to the total GDP was only 7.2% (Table 9). In the manufacturing and processing sector, the private sector contributed about 71% of the total. If we include the productive sectors, the share of the private sector is 87.2% (Table 10).

Although the contribution of the private sector to the total GDP occupies the dominant share, the number of large private factories/establishments is only 142; the share of large factories/ establishments among the total private factories/establishments is only 0.3% (Table 11). Most of the private factories/establishments (95.4%) are small-scale, i.e., employing less than ten workers, and have no access to bank loans, unlike the case of large factories/establishments. This clearly depicts the financial behaviour and attitudes of the banking system from which we can draw lessons for further financial sector reforms.

Table 9 Contribution of Industry to the GDP

(In constant price, million kyats)

Year	Industry	Total GDP	Share of Industry (%)
1995-96	6,192	66,742	9.3
1996-97	6,532	71,042	9.2
1997-98	6,878	74,329	9.2
1998-99	7,259	78,775	9.2

Source: Ministry of National Planning and Economic Development.

Table 10 GDP by Type of Ownership, 1998-99 (%)

	State	Cooperatives	Private
Production Sectors	11.4	1.4	87.2
Agriculture	0.2	1.9	97.9
Livestock and fishery	0.3	1.1	98.6
Forestry	46.2	0.6	53.2
Mining	10.8	1.0	88.2
Manufacturing and processing	28.2	1.0	70.8
Power	99.9	0.1	0.0
Construction	45.8	0.2	54.0
Services	54.5	2.6	42.9
Trade	21.3	2.4	76.3
GDP	21.8	1.9	76.3

Source: Ministry of National Planning and Economic Development.

Table 11 Factories and Establishments by Numbers of Workers and Ownership 1998-99 (provisional)

Category	State-owned	Cooperatives	Private	Total
Less than 10 workers	719 (45.6)	443 (65.4)	50,844 (95.4)	52,006 (93.7)
10-50 workers	291 (18.5)	175 (25.8)	2,134 (4.0)	2,600 (4.7)
51-100 workers	257 (16.3)	57 (8.4)	150 (0.3)	464 (0.8)
Over 100 workers	309 (19.6)	2 (0.3)	142 (0.3)	453 (0.8)
Total	1,576 (100.0)	677 (100.0)	53,270 (100.0)	55,523 (100.0)

Source: Review of Financial, Economic and Social Conditions, 1998-99.

Part II

Corporate Finance in Myanmar

Section 4. Capital Structure and Fund Raising Behaviour of Major Manufacturing Companies

4.1 Objectives and Method

The purpose of this section is to grasp a rough picture of corporate finance in major manufacturing companies, which is essential information for the argument of financial sector development.

We conducted a questionnaire-based financial survey on individual manufacturing companies located in Yangon, covering balance sheets, the money flow of fund raising, as well as corporate profiles. In this paper, the observations are based on aggregated data.

4.2 Data Collection

4.2.1 The UMFCCI (Union of Myanmar Federation of the Chambers of Commerce and Industry) conducted a questionnaire-based survey for each company from March-August 2002 under contract of the project. The survey covers 150 manufacturing companies located in Yangon. So far, forty samples are available.

4.2.2 The survey includes various questions on financial affairs, such as:

(1) Balance sheets for three years (1998, 1999, 2000)
(2) Initial funds at the time of establishing the company
(3) Fund raising measures for large equipment investment and relationship with bank

And questions on company profiles, such as:

(4) Volume of assets, employment size, main products, company history, etc.
(5) Previous work history, ethnicity, education level, etc. of owners

4.3 Major Results

4.3.1 Summary of observations

Before examining the details of the observations, we will summarise the major results.

4.3.1.1 Basic features

(1) The share of bank loans to total assets is under 10% in total average. It is extremely low compared with other developing East Asian countries.

(2) The leverage rate is roughly 30%. This figure is also extraordinarily small, which implies that companies generally rely on self-financing.
(3) Quasi self-financing, defined as "borrowing from affiliated companies" and "borrowing from owners and managers", is relatively high.

4.3.1.2 Firm size

Medium-sized companies are the most active in borrowing from banks. Large-sized companies rely on both bank loans and self-financing/quasi self-financing, whereas small-sized firms are far removed from bank borrowing.

4.3.1.3 Owners' previous occupation

The category of former "Government Servant" is highest at bank borrowing, whereas "Trader-rooted" is very low. "Government Servant" and "Family Business" firms are high at self-financing/ quasi self-financing.

4.3.1.4 Owners' ethnicity

"Bamar" owners appear to have better access to bank loans and "Non-Bamar" owners appear to be more dependent on quasi self-financing (borrowing from owners and managers).

4.3.1.5 Education level of owners

Those in the category of "Degree Holder" seem to have easier access to bank loans than those in the category of "High School Graduate".

4.3.1.6 Legal status of firms

Those that are "Private Limited Companies" are higher at usage of bank loans than those that are a "Partnership". "Co-operative Limited" is extraordinarily high at bank borrowing.

4.3.2 Basic features

4.3.2.1 Table 3.1 shows the basic capital structure of all samples, categorised by whole sample and years. Table 3.2 summarises the same figures on selected Asian countries for comparison. Some of the figures in Column LC deviated from 100% because they are a simple average. Although we should be careful in making a basic comparison with other countries since the data might be different for each country's sample range and definition of items, the table shows many obvious features of corporate finance in Myanmar.

First, the leverage rate is 31-38%, which means that the majority of funds come from capital accounts. In capital accounts "paid-up capital" is highest, at about 50%. It is clear that the method of corporate financing in Myanmar firms is primitive in the sense that fund raising mostly depends on self-finance.

Second, the share of bank loans to total assets is under 10% in the total average. This is an extremely low figure in comparison with that of other developing Asian countries. The share of other liabilities to total assets is approximately the same as for other Asian countries, so that the difference in the rate of bank borrowing results in a lower leverage rate.

Last, quasi self-financing defined as "borrowing from affiliated companies" and "borrowing from owners and managers" appears to play a substantial, but not crucial, role in fund raising. "Borrowing from affiliated companies" is higher than "listed" Thai companies, but much lower than "non-listed" ones.

4.3.2.2 From the answers to questions on "Initial Capital", we obtained only limited information. However, Table 3.3 shows some very basic features. The number of companies that used fund raising methods other than self-finance, is only 12 out of 40. Of these 12 companies, 8 used a combination of self-financing and other methods.

4.3.2.3 Tables 3.4 and 3.5 show the aggregation of answers on fund raising behaviour for large equipment investments. In the questionnaire, we asked each company about two recent cases of equipment investment. Unfortunately, we gained only 18 viable cases out of 40 x 2 = 80 potential samples. In the 18 cases, 11 investments were implemented without borrowing from banks. In about half of the remaining seven cases, the companies felt that the banks do not provide loans in sufficient amounts. The average figures for the 18 cases indicate that the major source of funds is from the firms' owners (52.3%), followed by bank loans (21.1%).

Table 3.1 Balance Sheet of All Sample

		Average	1998	1999	2000
	No. of Companies	40	31	36	33
	No. of Samples	100	31	36	33
A1	Accounts & Notes Receivable	12.0%	10.1%	11.1%	14.9%
A2	Investment and Loans to Affiliated Cos.	4.4%	5.2%	5.6%	2.4%
A3	Premises and Equipment	48.7%	49.9%	49.2%	47.1%
A4	Other Assets	32.0%	31.5%	31.8%	32.6%
A5	**Total Assets**	**97.1%**	**96.8%**	**97.7%**	**97.0%**
L1	Accounts and Notes Payable	11.9%	11.9%	12.3%	11.4%
L2	Bank Borrowing	9.7%	9.9%	10.4%	8.8%
	No. of Null Samples	63	19	22	22
L3	Borrowing from Affiliated Companies	2.3%	2.6%	1.8%	2.5%
L4	Borrowing from Owners & Managers	5.0%	3.9%	6.1%	4.8%
L5	Borrowing from Informal Lenders	0.3%	0.1%	0.4%	0.2%
L6	Other Liabilities	4.0%	1.2%	4.8%	5.7%
L7	***Total Liabilities***	**34.7%**	**31.0%**	**37.6%**	**34.8%**
C1	Paid-up Capital	48.3%	54.6%	47.6%	43.2%
C2	Retained Earnings	10.0%	8.7%	9.5%	11.7%
C3	Additional Paid-in Capital and Others	6.3%	4.0%	4.9%	10.1%
C4	**Total Capital Account**	**65.1%**	**68.4%**	**62.3%**	**65.2%**
LC	**Total Liabilities and Capital Accounts**	**100%**	**99%**	**100%**	**100%**

Table 3.2 Capital Structure in comparison with Asian Countries

	Myanmar	Thailand		Korea	Japan
	1998-2000	Listed 1997-99	Non-listed 1997-99	Listed 1995-96	Both 1990
No. of Companies	40	85	77	776	
L2 Bank Borrowing	9.7%	51.0%	40.9%		42.0%
L3 Borrowing from Affiliated Companies	2.3%	1.7%	9.4%		N/A.
Bond	0.0%	2.0%	0.0%		10%
L1 Accounts and Notes Payable	11.9%	18.0%	28.1%		38.0%
L4 Borrowing from Owners & Managers	5.0%				N/A.
L5 Borrowing from Informal Lenders	0.3%				N/A.
L6 Other Liabilities	4.0%				5.0%
L7 Total Liabilities	**34.7%**	**72.7%**	**78.4%**	**78.5%**	**74.0%**
C1 Paid-up Capital	48.3%	18.1%	21.2%		7.0%
C2 Retained Earnings	10.0%	-10.5%	-4.6%		19.0%
C3 Additional Paid-in Capital and Others	6.3%	14.4%	5.0%		
C4 Total Capital Account	**65.1%**	**22.0%**	**21.6%**	**21.5%**	**26.0%**
LC Total Liabilities and Capital Accounts	**100%**	**95%**	**100%**	**100%**	**100%**

Source: Thailand Listed: "Listed Company Info.", Security Market of Thailand, 85 top manufacturing firms consistent for 97-98, Thailand Non-listed: "Bingo Data Base" Business on Thailand Ltd, 77 top manufacturing firms consistent for 97-99, Korea: "Lee, Lee and Lee (2000), Table 1, p. 347", Asian Economic Journal Vol.14,No.4, Japan: "Noma, Haneda and Yonezawa (1992) in Japanese, p. 37, Figure 2-5" Toyo Keizai shinposha

Table 3.3 Self-finance Usage of Initial Capital

	Average
Total No. of Companies	40
For 100% Self-financing for Initial Capital	28
For 0% Self-financing for Initial Capital	4
Average of Self-finance Share over Total Asset	84.0%

Table 3.4 Money Flow for Equipment Investment

	Average
Total Assets: (million kyats)	226.6
Investment from related Cos.	13.2%
Investment from Owners	52.3%
Bank Borrowing	21.1%
Others	13.4%
Total No. of Samples	18

Table 3.5 Basic Statistics of Investment Funding

	No. of Samples (Companies)			
Total No. of Surveyed Samples	40			
Valid Samples	18			
Bank Borrowing is Null	11			
Bank Borrowing is not Null	7			
Duration of Bank Borrowing		12 month	36 month	60 month
	7	3	3	1
Bank		AWB	YOB	MICB, MCB, MYB
	7	2	2	1
Interest Rate		0.13	0.15	0.16
	7	2	3	2
Impression at Borrowing		Sufficient	Insufficient	Excessive
	6	3	3	0

4.3.3 Company size (Total assets)

4.3.3.1 We classified the samples into three categories according to the size of total assets: large (over 200 million kyats), medium (45-200 million kyats), and small (under 45 million kyats). There is vast disparity in the methods of fund raising among the three categories. The horizontal axis in Fig. 3.1 or Fig. 3.2 illustrates the distribution of the samples, which also shows that the sample firms vary broadly in size. The volume of total assets of the largest firm is over 4,500 times that of the smallest one. Table 3.7 shows the basic figures by this classification. Figures 3.1 and 3.2 illustrate the capital structure and money flow for investments, respectively, by each sample. Table 3.6 summarises the observation results.

4.3.3.2 Medium-sized companies have a number of remarkable features. According to Table 3.6, the leverage rate is 45.1%, which is much higher than that of large- or small-sized companies. In liabilities, bank borrowing is 13.5%, the highest in the three categories. On the other hand, the capital account is obviously low due to the scarcity of paid-up capital. Figures 3.1 and 3.2 show that some companies in this category use bank borrowing at very high level.

Medium-sized companies rely substantially on bank loans for their funds. Their equity is rather small, implying either active investment behaviour or easy accessibility to bank loans.

4.3.3.3 Large-sized companies also depend substantially on bank borrowing. However, their financing methods appear to be more diversified. Equity, particularly paid-up capital, is much

higher than that of medium-sized companies, whereas they tend to use quasi self-financing for new investments. Large-sized companies utilise both bank loans and self-financing/quasi self-financing for their activities.

4.3.3.4 Small-sized companies appear to have the least accessibility to bank loans. Their share of bank loans to total assets is remarkably lower than large or medium-sized companies, and their equity rate is the highest in the three categories. In liabilities, "borrowing from owners and managers" is obviously high (10.7% of total assets). Small-sized companies appear to be far removed from the loan market, and entirely dependent on self-financing and quasi self-financing.

Table 3.6

	Large	**Medium**	**Small**
Capital Structure	Bank/Self-finance	Bank	Self-finance
Initial Capital	Self-finance	Bank	Self-finance
New Investment	Bank/Self-finance	Bank	Self-finance

Table 3.7 Classified by Size

A. Balance Sheet

		Large	Medium	Small
	No. of Companies	11	14	15
	No. of Samples	34	33	33
A1	Accounts & Notes Receivable	14.9%	12.0%	9.0%
A2	Investment and Loans to Affiliated Cos.	9.7%	3.5%	0.0%
A3	Premises and Equipment	43.8%	46.5%	56.2%
A4	Other Assets	32.3%	29.0%	34.7%
A5	**Total Assets**	**100.6%**	**91.0%**	**100.0%**
L1	Accounts and Notes Payable	5.6%	20.4%	9.6%
L2	Bank Borrowing	12.0%	13.5%	3.6%
	No. of Null Samples	13	21	29
L3	Borrowing from Affiliated Companies	0.2%	2.3%	0.0%
L4	Borrowing from Owners & Managers	0.7%	3.5%	10.7%
L5	Borrowing from Informal Lenders	0.7%	0.0%	0.1%
L6	*Other Liabilities*	3.4%	5.3%	3.2%
L7	**Total Liabilities**	**22.6%**	**45.1%**	**27.3%**
C1	Paid-up Capital	59.3%	30.3%	55.1%
C2	Retained Earnings	9.1%	10.5%	10.2%
C3	Additional Paid-in Capital and Others	3.5%	7.3%	8.0%
C4	**Total Capital Account**	**71.9%**	**48.1%**	**73.3%**
LC		**94%**	**93%**	**101%**

B. Self-finance Usage of Initial Capital

	Large	*Medium*	*Small*
Total No. of Companies	11	13	14
For 100% Self-financing for Initial Capital	7	6	8
For 0% Self-financing for Initial Capital	0	3	0
Average of Self-finance Share over Total Assets	91.6%	68.0%	92.9%

C. Money Flow for Equipment Investment

	Large	Medium
Investment from Related Cos.	18.3%	0.0%
Investment from Owners	58.5%	36.0%
Bank Borrowing	20.0%	24.0%
Others	3.2%	40.0%
Total No. of Samples	13	5

Figure 3.1 Capital Structure by Size of Firms (1999 B/S)

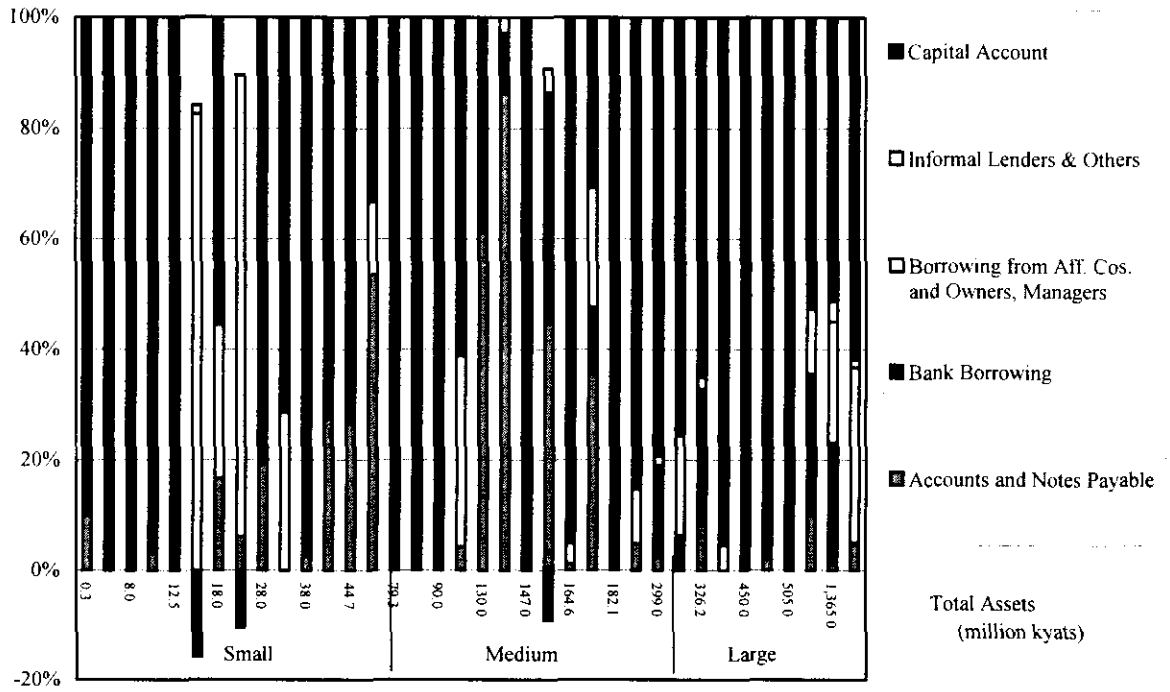
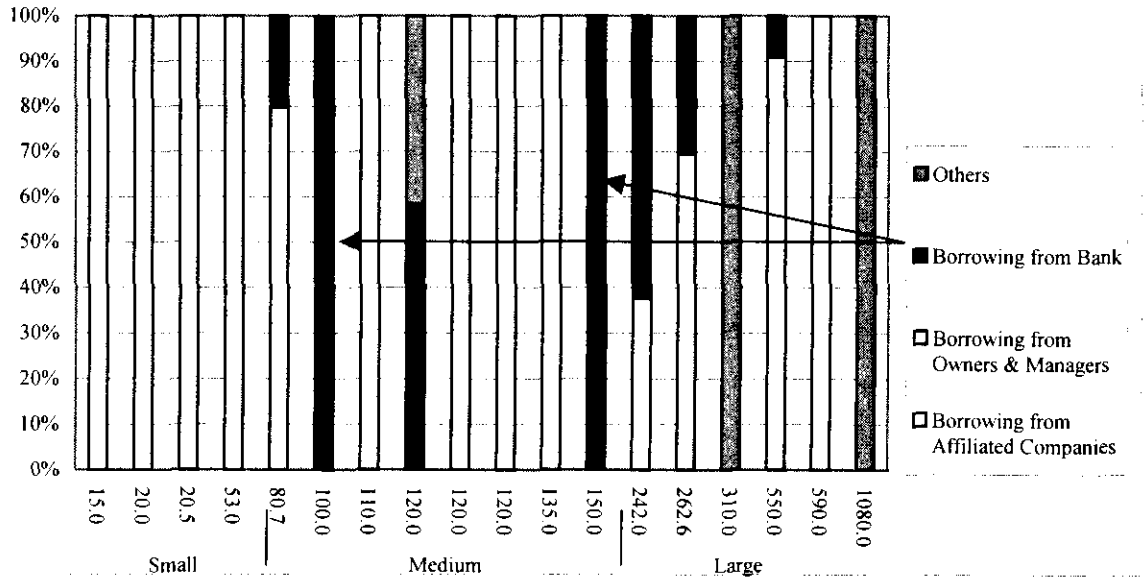


Figure 3.2 Money Flow for Equipment Investment



4.3.4 Previous occupation of company owners

4.3.4.1 The second classification corresponds to the previous occupation of company owners. We built five categories in designing the questionnaire: "Government Servant", "Trader", "Private Enterprise", "Family Business" and "Student". Table 3.8 summarises the observations.

4.3.4.2 The rate of bank borrowing is highest for the category of "Government Servant", 23.4% on average which is much higher than the total average (9.7% in Table 3.1). On the other hand, other liabilities are generally low so that the leverage rate is in the average level. Former government servants seem to utilise bank loans as a major source of funds.

4.3.4.3 In the category of "Trader", the rate of bank borrowing is the lowest. Although they rely substantially on quasi self-financing (3.9% from affiliated companies, 5.2% from owners and managers), the leverage rate is still very low (18.0%). Trader-rooted firms have a very primitive profile in corporate finance, relying entirely on self-finance. This feature is more obvious in new investments (Table C). A large enough average of seven samples indicates that in this category funds are raised through the owners' cash by 70%, and through related companies by around 30%. Bank borrowing is negligible.

4.3.4.4 In the categories for "Private Enterprise" and "Family Business", the rate of bank borrowing is average, but the leverage rate is relatively higher. Particularly, the latter showed quite a high level of quasi self-finance: "Borrowing from Owners and Managers is 17.1%, whereas "paid-up capital" is very low. In the money flow for investment, "Family Business" tends to depend on borrowing from the owners.

4.3.4.5 In the "Student" category, the leverage rate is relatively low, and other liabilities are average, implying a high dependence on self-financing.

4.3.4.6 The obvious contrast between "Government Servant" and "Traders" in the rates for both bank borrowing and quasi self-financing implies a difference in the personal relationship with the banking industry. It is not difficult to imagine that former government officials have easier access to loans from state banks. On the other hand, the remoteness of "Traders" to bank loans is somewhat unexpected because most private banks are built by "Traders". This might imply that private banks are not active enough and lending is still biased toward particular business circles. Such observations suggest the overall existence of so-called credit rationing in the loan market.

Table 3.8 Classified by Occupation of Company Owners

A Balance Sheet

		Governme-nt Servant	Trader	Private Enterprise	Family Business	Student
	No. of Companies	4	15	30	35	5
	No. of Samples	10	36	26	13	15
A1	Accounts & Notes Receivable	27.2%	8.1%	12.3%	12.1%	10.5%
A2	Investment and Loans to Affiliated Cos.	0.7%	5.9%	0.5%	16.3%	0.9%
A3	Premises and Equipment	59.1%	48.1%	51.9%	46.8%	39.4%
A4	Other Assets	13.0%	29.3%	35.4%	27.3%	49.1%
A5	**Total Assets**	**100.1%**	**91.4%**	**100.0%**	**102.5%**	**100.0%**
L1	Accounts and Notes Payable	7.2%	5.9%	18.4%	20.2%	11.3%
L2	Bank Borrowing	23.4%	2.6%	11.4%	10.8%	13.9%
	No. of Null Samples	3	30	16	4	10
L3	Borrowing from Affiliated Companies	1.9%	3.9%	0.3%	0.2%	3.8%
L4	Borrowing from Owners & Managers	0.0%	5.2%	3.9%	17.1%	0.0%
L5	Borrowing from Informal Lenders	0.0%	0.0%	0.1%	1.8%	0.0%
L6	Other Liabilities	4.6%	0.4%	8.3%	8.9%	0.0%
L7	**Total Liabilities**	**37.1%**	**18.0%**	**42.5%**	**59.0%**	**29.0%**
C1	Paid-up Capital	35.8%	62.2%	49.6%	19.5%	46.1%
C2	Retained Earnings	7.6%	5.5%	1.9%	22.8%	24.2%
C3	Additional Paid-in Capital and Others	4.7%	10.1%	8.1%	0.0%	0.7%
C4	**Total Capital Account**	**48.1%**	**77.8%**	**59.6%**	**42.4%**	**71.0%**
LC		**85%**	**96%**	**102%**	**101%**	**100%**

B. Self-finance Usage of Initial Capital

	Governme-nt Servant	Trader	Private Enterprise	Family Business	Student
Total No. of Companies	3	14	11	5	5
For 100% Self-financing for Initial Capital	0	1	2	0	0
For 0% Self-financing for Initial Capital	1	6	5	4	5
Average of Self-finance Share over Total Assets	74.4%	86.8%	77.5%	80.0%	100.0%

C. Money Flow for Equipment Investment

	Governme-nt Servant	Trader	Private Enterprise	Family Business	Student
Investment from Related Cos.	0.0%	28.6%	0.0%	0.0%	37.6%
Investment from Owners	0.0%	70.1%	17.4%	76.0%	0.4%
Bank Borrowing	100.0%	1.3%	22.2%	24.0%	62.0%
Others	0.0%	0.0%	60.4%	0.0%	0.0%
Total No. of Samples	1	7	4	5	1

4.3.5 Ethnicity of owners

4.3.5.1 We classified the samples into categories along the ethnicity of the owners. In the questionnaire, we provided a blank column for a description of ethnicity and obtained results in seven categories: Bamar (61 samples), Chinese (11), Sino-Myanmar (1), Indo-Myanmar (2), Kachin (2), Korean (3), and Shan (6). Table 3.9 summarises the basic figures categorised by Bamar and Non-Bamar. The table does not include "Table C" because all viable samples on equipment investment belong to the "Bamar" category. Figure 3.3 illustrates the capital structure in each category.

4.3.5.2 One of the remarkable features is the contrast between Bamar and non-Bamar in liabilities. Those in the Bamar category enjoy more advantageous bank loans than those in the non-Bamar category, but adversely have a much lower leverage rate. Bamar owners seem to utilise mainly bank loans and other liability items are generally low.

4.3.5.3 On the other hand, non-Bamar owners seem to utilise quasi self-financing and other items under liabilities. "Borrowing from owners and managers"(8.0%) and "accounts and notes payable" (16.9%) are substantially higher than that of Bamar owners, so that the leverage rate is much higher than the total average. At the same time, "paid-up capital" in the non-Bamar category is substantially low.

4.3.5.4 According to Fig. 3.3, in non-Bamar entrepreneurs, only "Chinese" and "Sino-Myanmar" utilise bank loans. There are no transactions with banks in other ethnic categories.

4.3.5.5 Although we should be very careful when interpreting the results of so few samples, it does appear that the ethnicity of owners affects accessibility to bank loans; minority owners appear to have less access to the formal external fund market. In this aspect, there is also credit rationing in the market.

Table 3.9 Classified by Ethnicity of Owners

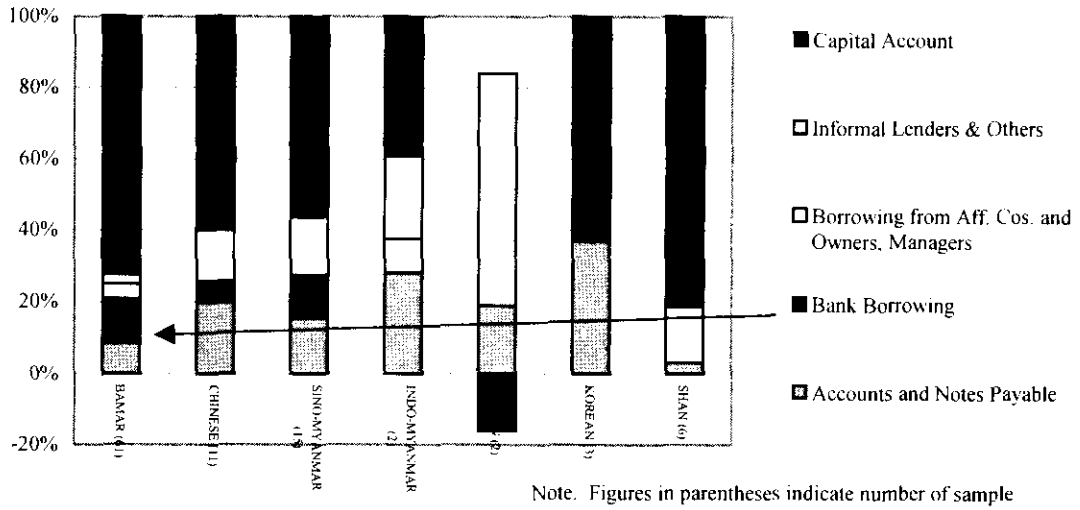
A. Balance Sheet

		Bamar	Non-Bamar
	No. of Companies	24	16
	No. of Samples	61	39
A1	Accounts & Notes Receivable	12.3%	11.6%
A2	Investment and Loans to Affiliated Cos.	0.7%	9.8%
A3	Premises and Equipment	54.2%	40.3%
A4	Other Assets	32.9%	30.7%
A5	**Total Assets**	**100.0%**	**92.3%**
L1	Accounts and Notes Payable	8.6%	16.9%
L2	Bank Borrowing	12.3%	5.7%
	No. of Null Samples	32	31
L3	Borrowing from Affiliated Companies	1.1%	4.2%
L4	Borrowing from Owners & Managers	3.0%	8.0%
L5	Borrowing from Informal Lenders	0.4%	0.1%
L6	Other Liabilities	2.3%	6.6%
L7	**Total Liabilities**	**27.7%**	**41.5%**
C1	Paid-up Capital	54.7%	38.3%
C2	Retained Earnings	11.9%	6.9%
C3	Additional Paid-in Capital and Others	4.2%	9.5%
C4	**Total Capital Account**	**70.7%**	**54.7%**
LC	**Total Liabilities and Capital Accounts**	**98%**	**96%**

B. Self-finance Usage of Initial Capital

	Bamar	Non-Bamar
Total No. of Companies	23	15
For 100% Self-financing for Initial Capital	15	6
For 0% Self-financing for Initial Capital	1	2
Average of Self-finance Share over Total Assets	89.4%	75.7%

Figure 3.3 Capital Structure Classified by Ethnicity of Owners



Note. Figures in parentheses indicate number of sample

4.3.6 Other attributes

4.3.6.1 We attempted two other classifications: education level of owners and firm's legal status. For these questions, we designed the questionnaire as a single choice from four or five options. Tables 3.10 and 3.11 summarise the basic figures categorised by the attributes.

4.3.6.2 For the education level of the owners, "Degree Holders" account for over half of the responses, and only one firm chose "Diploma Holder". Focusing on the comparison between "Degree Holders" and "High School", the former has a slightly higher rate of bank borrowing than the latter. However, the latter is higher in leverage rate due to actively utilising other liability methods, particularly anonymous "other liabilities". We can see a similar tendency in "Money Flow for Equipment Investment" (Table C), which indicates that 50% of those in the category of "High School" use "other" sources of funds.

For the firm's legal status, those in the category of "private limited" accounted for half of the responses. We found two characteristics in capital structure. First, in a comparison between "private limited" and "partnership", the former is higher than the latter in both bank borrowing and leverage rate. Second, although the sample is relatively small, those in the category of "co-operative limited" have an extraordinarily high rate of bank borrowing as well as a high leverage rate.

Table 3.10 Classified by Education Level of Owners

A. Balance Sheet

		Degree	High School	Diploma Holder	Others
	No. of Companies	30	6	1	3
	No. of Samples	71	18	3	8
A1	Accounts & Notes Receivable	12.8%	8.4%	47.3%	0.1%
A2	Investment and Loans to Affiliated Cos.	3.1%	12.6%	0.0%	0.0%
A3	Premises and Equipment	51.7%	46.2%	44.3%	30.0%
A4	Other Assets	32.6%	16.8%	8.4%	69.9%
A5	**Total Assets**	**100.1%**	**84.0%**	**100.0%**	**100.0%**
L1	Accounts and Notes Payable	12.4%	14.0%	5.3%	4.7%
L2	Bank Borrowing	10.5%	8.5%	24.2%	0.0%
	No. of Null Samples	41	13	1	2
L3	Borrowing from Affiliated Companies	2.2%	4.1%	0.0%	0.0%
L4	Borrowing from Owners & Managers	3.0%	5.6%	0.0%	22.6%
L5	Borrowing from Informal Lenders	0.4%	0.0%	0.0%	0.0%
L6	Other Liabilities	2.0%	14.5%	0.0%	0.0%
L7	**Total Liabilities**	**30.6%**	**46.7%**	**29.5%**	**27.3%**
C1	Paid-up Capital	52.7%	39.4%	69.9%	21.5%
C2	Retained Earnings	11.4%	5.0%	0.6%	10.3%
C3	Additional Paid-in Capital and Others	3.8%	0.0%	0.0%	40.8%
C4	**Total Capital Account**	**67.9%**	**44.4%**	**70.5%**	**72.7%**
LC		**98%**	**91%**	**100%**	**100%**

Note. "Diploma Holder" includes "Technical Certificate".

B. Self-finance Usage of Initial Capital

	Degree	High School	Diploma Holder	Others
Total No. of Companies	27	7	1	3
For 100% Self-financing for Initial Capital	0	0	0	1
For 0% Self-financing for Initial Capital	0	0	0	0
Average of Self-finance Share over Total Assets	87.2%	67.9%	100.0%	87.0%

C. Money Flow for Equipment Investment

	Degree	High School
Investment from Related Cos.	2.7%	50.0%
Investment from Owners	67.2%	0.0%
Bank Borrowing	27.1%	0.0%
Others	3.0%	50.0%
Total No. of Samples	14	4

Table 3.11 Classified by Legal Status

A. Balance Sheet

		Private Limited	Partner-ship	Co-operative Limited	Sole Proprietor ship	Family Owned
	No. of Companies	23	4	2	5	6
	No. of Samples	58	10	6	10	16
A1	Accounts & Notes Receivable	10.5%	14.6%	23.3%	15.3%	9.7%
A2	Investment and Loans to Affiliated Cos.	4.1%	17.7%	2.3%	0.0%	0.4%
A3	Premises and Equipment	56.0%	26.2%	28.9%	32.3%	54.3%
A4	Other Assets	29.6%	11.4%	45.5%	52.5%	35.6%
A5	**Total Assets**	**100.2%**	**70.0%**	**100.0%**	**100.0%**	**100.0%**
L1	Accounts and Notes Payable	11.5%	16.7%	28.4%	10.7%	5.0%
L2	Bank Borrowing	10.2%	3.4%	34.3%	0.0%	8.4%
	No. of Null Samples	35	7	0	10	11
L3	Borrowing from Affiliated Companies	3.6%	0.3%	0.0%	0.0%	1.2%
L4	Borrowing from Owners & Managers	5.4%	0.7%	0.0%	18.1%	0.0%
L5	Borrowing from Informal Lenders	0.5%	0.0%	0.0%	0.0%	0.0%
L6	Other Liabilities	5.0%	1.0%	8.9%	0.0%	2.9%
L7	**Total Liabilities**	**36.1%**	**22.1%**	**71.6%**	**28.8%**	**17.4%**
C1	Paid-up Capital	48.0%	58.0%	16.2%	58.0%	49.3%
C2	Retained Earnings	5.0%	3.0%	12.2%	12.2%	29.3%
C3	Additional Paid-in Capital and Others	9.9%	0.0%	0.0%	1.0%	4.0%
C4	**Total Capital Account**	**64.1%**	**59.0%**	**28.4%**	**71.2%**	**82.6%**
LC		**100%**	**81%**	**100%**	**100%**	**100%**

B. Self-finance Usage of Initial Capital

	Private Limited	Partner-ship	Co-operative Limited	Sole Proprietor ship	Family Owned
Total No. of Companies	22	4	2	5	5
For 100% Self-financing for Initial Capital	0	0	2	5	0
For 0% Self-financing for Initial Capital	0	0	0	0	0
Average of Self-finance Share over Total Assets	81.4%	75.0%	100.0%	100.0%	80.0%

C. Money Flow for Equipment Investment

	Private Limited	Partner-ship	Co-operative Limited	Sole Proprietor ship	Family Owned
Investment from Related Cos.	14.9%		0.0%		
Investment from Owners	47.6%		89.9%		
Bank Borrowing	22.5%		10.1%		
Others	15.1%		0.0%		
Total No. of Samples	16		2		

4.4 Financial Conditions of the Firms —Conjectured from Observations—

4.4.1 We can summarise the general features of financial conditions of Myanmar firms from our observations. First, bank loans in general do not play a major role in corporate financing of private manufacturing companies. The share of bank loans out of total assets is only about 10%, which is much lower than other East Asian countries. Financial intermediation activities of the banking sector seem to be in a state of inertia.

4.4.2 Second, a substantial demand for funds exists in the market. There are particular companies that actively utilise bank loans as a means for their investments, accounting for a fairly high share of bank loans out of total assets.

4.4.3 Third, the relationship between accessibility of bank loans and size of firm is not linear. Medium-sized firms are more active in bank borrowing than large-sized firms, who use bank loans for their operations and investments. However, they also retain ample self-capital, balancing the optimal combination.

4.4.4 Lastly, a firm's accessibility to bank loans is mainly determined by non-economic factors, including the ethnicity or job history of the owners. The education level of the owners is also significant.

4.5 Conclusion

We tentatively conclude our analysis. The utilisation of bank loans as a source of funds in Myanmar manufacturing firms is extremely minor and there is great disparity in the usage of bank loans among the firms. The availability of bank loans is largely determined by informal and non-economic factors. In other words, the bank loan market exists in a scattered manner along with the corresponding "scattered social capital". This condition can also be expressed as a market suffering from a broad range of credit rationing.

The main cause of the malfunctioning financial market does not stem from a lack of demand for bank loans. Investment seems substantially active; firms raise funds for their equipment investment by various other means. The most important cause of the malfunction is the lack of financial intermediation of the banking sector

The reason for financial intermediation failure resulting in such wide market failure does not

seem simple; there must be complicated and structural reasons. First, a negative real interest rate brings about insatiability of macroeconomies, which is the most basic factor. Second, various irrational banking regulations, such as the "matching deposit", impede the operational efficiency of the banks. Lastly, the inadequacy of the legal system is a serious obstacle to daily financial transactions.

Policy reforms for banking sector development should be the first priority for solving the problems of corporate financing.

Part III

Conclusions and Implications

Section 5. Implications for Banking Sector Reforms

Now we can draw some preliminary implications for banking sector reform from our surveys.

5.1 Stabilisation of Macroeconomy: A Precondition for a Healthy Banking Sector

Macroeconomic stability is a prerequisite to implementing healthy financial intermediary activity for promoting deposits and investments by the private sector. Unification of exchange rates, fiscal sector reforms including the reform of SEEs, and financial reforms to enhance the independence of the CBM will be necessary.

5.2 Mobilisation of Savings

Without mobilising savings in a big way it is impossible to enhance the intermediary capacity of banks. To do so, financial restraints should be avoided: achieve positive real interest rates by restraining inflation, which is crucial to controlling budgetary deficits. To control budgetary deficits it is necessary to (1) separate the SFA into the administrative budget and the SEE budget and (2) secure autonomy for the CBM.

In addition, branch expansion of private commercial banks is necessary to enhance the banking habits of the people. The CBM must support a positive branch expansion policy.

5.3 Deregulation of Lending Activities

Many companies cannot borrow money from private banks, which have extremely restricted lending policies. Loans are on a short-term basis only and the lending amount is limited by the value of collateral such as land, buildings, and machinery. The government also requires matching deposits for private banks when they want to lend money on a long-term basis. Banks lend money up to a maximum of about 30-40% of collateral. Small-scale companies/factories are not able to borrow money from the banks simply because they do not have enough collateral.

Such conservative attitudes of lenders are a result of a rational response to given policy environments. They try to adapt themselves to highly regulated and underdeveloped financial markets. In other words, once policy environments change, then it is highly plausible that the lending practices of private banks will change accordingly.

5.4 Enhancement of Intermediary Capacity of Private Banks

At the same time, the following measures could be considered to enhance the financial

intermediary capacity of private banks. First, private banks should be permitted by an independent CBM to grant long-term loans, deal in foreign exchange, clear trade through L/C and extend trade financing to local firms. Second, financial infrastructures such as computerisation and technical expertise of banking personnel should be developed.

5.5 Capital Market

There are a few aggressive companies that look for long-term loans from financial institutions (Case No. 6) or to raise funds from the capital market (Case No. 9). These companies have the biggest potential as catalysts for further economic development. It would be advantageous for the government to create a more favourable policy environment to promote these aggressive attitudes. There are also some companies that want to become public limited companies.

FMI (First Myanmar Investment Company Limited) is a model company. Established in 1992, it was the first investment company in Myanmar and is one of the most active and successful public limited companies in Myanmar today. FMI sells and buys their own shares through the company's trading room as well as through 33 branches of the Yoma Bank, a FMI group bank. The number of FMI shareholders is 3,700. FMI invests its funds in six different spheres of activity. They pay a fairy high dividend of 20% to the shareholders every year. The parent company of FMI is SPA (Serge Pun & Associates (Myanmar) Limited), a private limited company. SPA runs 23 companies in seven areas, including real estate development, financial services, manufacturing and value-added industry, leisure and service-related development, infrastructure development, management and consultancy services, and trading and wholesale distribution. FMI and the Yoma Bank are representative SPA group companies.

Developing a capital for Myanmar is an important task and the first step in achieving this goal is to promulgate the Securities Law.

Appendix. Results of Interview-based Survey

In August 2001, we visited sixteen companies/factories in Yangon and Mandalay as a preliminary field study and conducted interviews with the owners/managers of these establishments. Most of the factories visited in Yangon are large private manufacturing factories employing more than 100 workers. However, those in Mandalay are not necessarily large factories; some of them are only small workshops. Some of the visited companies are Japanese joint venture companies or SEE or trading companies.

Here we summarise the financial behaviour of each company/factory/workshop and their attitudes and ideas concerning banks.

Company No. 1

The total number of employees in this factory is 500 and the total number employed in the company, which has four factories, is 3,500. They produce garments for export on a CMP basis. This is a family-owned private limited company with nine shareholders. They borrow money from the AWB on a short-term basis, but the borrowed money has been rolled over and used for investment in the plant and machinery. The amount of bank borrowing occupies 40% of the total assets and the interest rate is 15%. They want to borrow more money from the banks because the inflation rate is higher than the interest rate. They think that the government banks are strict, old-fashioned and time consuming. On the other hand, they think that the private banks are modernised, and that their services are faster than the government banks. They have current accounts with the MICB, MFTB, and AWB.

Company No. 2

The total employment of this company is 1,050. They have only one factory. They produce garments for export on a CMP basis. This is a private limited company with four shareholders that are family members and friends. An elder brother of the managing director runs a soap factory. The company owner was able to borrow 10-20% of his investment fund from this elder brother when he started the business. Now this company borrows from the Myanmar Oriental Bank (MOB) on a short-term basis and it is rolled over. The interest rate is 15%, and the amount of bank borrowing occupies 10-20% of the total assets. They do not need to borrow more money from the banks. They think that the government banks are extremely inefficient. They have current accounts with the MICB and MOB.

Company No. 3

The total employment of this company/factory is 1,200. This is a private limited company. They

produce garments for export on a CMP as well as FOB basis. There is only one shareholder, a pure Bamar. However, the actual owner of this company is a Korean. They borrow from the AWB on a short-term basis. The interest rate is 1.7% per month, and the amount of bank borrowing occupies 5-7% of the total assets. They also borrow money from their friends at an interest rate of 5-7% per month. They think that the private banks are not kind enough and are reluctant to lend money to this company. On the other hand, they are satisfied with the government foreign exchange banks. They have current accounts with the MICB, MFTB, Yoma Bank, and AWB. They keep financial assets in U.S. dollars. When they pay wages to the workers, they use brokers to exchange FEC to kyats.

Company No. 4

The total employment of this company/factory is 1,050. This company is a spin-off of a construction company. This is a private limited company that produces garments for export on a CMP basis. The number of shareholders is five, consisting of family members and friends. They borrow money from the AWB on a short-term basis for working capital requirements. The interest rate is 15% with a 1% commission charge. The amount of bank borrowing accounts for 4% of the total assets. When they started this business the initial investment funds came from the owner's construction business. When they raise funds, they prefer to use their own funds first, then to obtain advances from foreign companies, and finally to borrow from banks. They want to be a public limited company in the future. They have current accounts with the MICB and AWB.

Company No. 5

The total employment of this factory is 1,000. They produce garments for export on a CMP and FOB basis. This company has another factory that produces shoes for export. This is a private limited company with fourteen shareholders. They borrow money from the Yoma Bank and AWB on a short-term basis at an interest rate of 15%. The amount of bank. They think that it is difficult to borrow money from banks, but it is not necessary for them to borrow more. They have a current account with the MICB.

Company No. 6

The total employment of this company is 229. They produce garments for export on a CMP basis. This is a private limited company with three shareholders: 2 family members and 1 foreigner (from Germany). They do not borrow any money from the banks because their foreign partner supplies plants and machinery to this factory. However, they want a long-term loan for 3-5 years if possible. They have current accounts with the MICB, AWB, and banks in Thailand as well as

in Singapore. They think that the private banks of Myanmar do not have enough expertise.

Company No. 7

The total employment of this company/factory is 50. They produce wheat flour for the domestic market. This is not a large factory, although it is the biggest wheat flour mill in Mandalay. This is a partnership company with five partners. They do not borrow any money from the banks. They have current accounts with the AWB and MEB.

Company No. 8

The total employment of this cotton spinning company/factory is 300. This is a family business; however, they have a Chinese partner who supplies the machinery. The value of the machinery from China accounts for 50% of the total assets. Their products are sold in the domestic market. They borrow money from the AWB on a short-term basis, but the funds are rolled over for five years. The interest rate is 20%. They think that banks are inefficient because long-term loans are not available. They have a current account with the AWB.

Company No. 9

The total employment of this company/factory is 210. They produce teak wood products for foreign as well as domestic markets. This is a family owned private limited company with two shareholders. The owners of this company/factory run another nine companies related to the cement industry, banking, and so on. They obtained a bank loan from the MICB to buy land from the government when they started this business. The interest rate was 15%. They also have a rolled-over short-term loan from the AWB. The interest rate was initially 21%, but it was gradually reduced to the present 15%. They do not trust banks and want to reduce bank borrowing. They think that banks have no expertise. They think that finance companies such as FMI are much more dependable than banks, because FMI has more expertise and good management. They have current accounts with the MFTB, MICB, AWB and Yutanabon Bank.

Company No. 10

The total employment of this company/factory is only 85, but among the private companies this one is the biggest of the walking tractor manufacturers. Their products are sold in the domestic market. This is a family-owned private limited company with five shareholders.

They used to borrow very small amounts on a short-term basis from the AWB. Today they do not borrow any money from the banks. They have a current account with the AWB.

Company No. 11

The total number of employees in this workshop is 25. They produce soap manufacturing machinery for the domestic market. This is a private workshop. They do not borrow any money from the banks nor do they want to borrow any money from the banks. They have a current account with the Yoma Bank.

Company No. 12

The total employment of this company/factory is 10. They produce wheat flower for the domestic market. This is a private limited company. They do not want to borrow money from the banks. They have current accounts with the Kanbawza Bank, Myanmar Universal Bank, and AWB.

Company No. 13

The total employment of this company/factory is 300. This is a joint venture company that produces pencils and cosmetics for domestic as well as foreign markets. The number of shareholders is seven: 2 Japanese and 5 Myanmar. They have a short-term loan from a bank at an interest rate of 15%. Their collateral is trade bills and buildings. They think that personal ties with bank managers are the most important deciding factor in whether or not they are able to obtain loans. They have current accounts with the MICB and MFTB.

Company No. 14

The total employment of this factory is 550. It is a part of SEE, but a Japanese company runs the factory. They produce teak products for export on a CMP basis. One hundred percent of their products are exported to Japan under the name of SEE. The plants are imported from Japan and treated as an investment in SEE. They have a current account with the MFTB.

Company No. 15

This company is a subsidiary of a Japanese company. They produce software for domestic as well as foreign markets. The total employment is 17 and there is one shareholder. They have a current account with the MICB.

Company No. 16

This company is a joint venture between Japan and Myanmar. This is a trading company exporting shrimp. They borrow on a short-term basis from the AWB at an interest rate of 17%, including the commission. They think that personal ties with the bank manager are very important when borrowing money from banks. They have current accounts with the MICB and AWB.