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Myanmar Arrives on the Financial Inclusion Map

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Myanmar holds a potential that few emerging markets offer today. Given the low development levels of the local banking sector, access to foreign investors remains complicated.

Myanmar is the latest frontier market to pique the interest of investors. With its natural resources, large population and vast development needs, the country – formally known as Burma – has potential, one that not many emerging markets offer today.

While it might be tempting to see in Myanmar the next Indonesia or Vietnam, Cambodia – a country that has experienced runaway development since the end of the Khmer Rouge regime – would be a more pertinent comparison. Its economy continues to flourish, largely supported by its microfinance sector.

Cambodia as an example

When the country finally declared peace in 1991, after 10 years of Vietnamese occupation, Cambodia was on its knees, its financial sector completely decimated. The government allowed international non-governmental organizations (NGOs) and other bilateral and multilateral organizations to enter the market and participate in the country's recovery. Many of these organizations developed microfinance programs as part of broader services covering health, education and, notably, infrastructure development. With good governance and abundant funding provided by these foreign institutions, coupled with an enabling regulatory environment set up by the National Bank of Cambodia, many of these NGOs were able to transform into regulated financial institutions in the early 2000s, with talented Cambodians determined to revive their country from the ashes at their heads.

Microfinance, a pillar of development

Today, the nine most important microfinance institutions (MFIs) in Cambodia, including the largest bank in the country (founded in the early 1990s as an NGO funded by the United Nations Development Programme and the International Labour Organization), represent 90% of financial services to individuals, with 2.2 million clients and a loan portfolio of approximately US$ 5.7 billion (as at 16 June). Foreign investors have played a crucial role in this impressive growth. The country is characterized by underdeveloped local capital markets but a favorable regulatory environment; and its currency pegged to the US dollar. Its GDP per capita has more than tripled, from US$ 1,100 in 2000 to US$ 3,500 in 2015 (World Bank); and about 50% of households now have access to financial services. Thus, with a population of nearly 16 million inhabitants, in a little more than ten years concerns have shifted from financial inclusion to a possible oversupply. However, supported by an effective credit bureau, a strong regulatory framework and well-managed microfinance institutions, Cambodia's microfinance sector remains a bright spot in the country's development.

A developing framework

Myanmar's doors remained closed for 50 years, only cracking open in 2011. As in Cambodia, Myanmar's opening started with a population lacking access to financial services and skills in this area – it is estimated that 70% of the adult population is financially excluded or resorts to informal financing; and only 12% of young people have a bank account. Local banks predominately serve commercial and high net worth clients, giving MFIs the opportunity to serve the 50% of the population living on less than US$ 2 a day. Since the implementation of microfinance regulations and the formal grating of licenses in 2011, more than 250 MFIs have been established, including more than 20 in foreign hands, with profiles very similar to those of their peers in Cambodia.

Hungry for change

Given the country's needs, MFIs could become the driving force behind the Myanmar's retail finance segment. The only downside compared to Cambodia is its investment framework, which is still under development in Myanmar, complicating access by foreign investors. Therefore, given the local banking sector's low level of development, MFIs face restricted financing flows, which is slowing growth despite strong demand for transparent financial services. But regulations will gradually evolve.

And if, in the short term, it is unlikely that Myanmar's micro, small and medium enterprise financing sector will see the same meteoric growth as that of its Cambodian counterpart, optimism is clearly warranted: Myanmar's inhabitants, who a few years ago could barely imagine having a democratically elected government, crave further change. This market is worth watching.