Profiles of Burma's Banks

Sean Turnell
sturnell@efs.mq.edu.au

Following the banking crisis of 2002/03, the already opaque world of Burma's banks became even murkier. Determining the current state of play of this sector is, accordingly, extraordinarily difficult and more than usually dependent upon conjecture, rumours, and other imperfect substitutes for knowledge. In the following, we attempt to distil what we know about Burma's banks into a series of sketches of each. We begin with an examination of the state-owned institutions that once more dominate, before investigating each of the surviving private banks that once seemed to have much promise. The information employed below comes from a great variety of sources, some of which can be (and are) openly acknowledged, but many of which have been entrusted to BEW on condition of confidentiality. We would like, nonetheless, to thank all of those who have helped us peer (however imperfectly) into the dark corners of Burma's banking sector.

The State-Owned Banks

In 1963 Burma's financial system was nationalised, and in 1969 all of the nationalised banks were merged into the monolithic 'Peoples' Bank of the Union of Burma'.[1] It shortened its name in 1972 to the Union of Burma Bank. In 1975, this monolith was broken up (under the auspices of the 'Bank Law', 1975):

- The Union Bank of Burma was established as the central bank
- The Myanma Foreign Trade Bank was created to monopolise foreign exchange dealings
- The Myanma Economic Bank was formed as the primary deposit-taking and general banking institution
- The Myanma Agricultural Bank was formed to service agriculture; and
- Insurance services were allocated to a state monopoly, the Myanmar Insurance Corporation.

Two more state-owned financial institutions were created in 1989 and 1993 respectively, when the 'Myanma Investment and Commercial Bank' (MICB), and the 'Myanma Small Loans Enterprise' (MSLE) were carved out of the Myanma Economic Bank. The MICB was created to provide corporate and investment banking services, while the MSLE functions essentially as a state-owned 'pawn shop'. As shall be examined in detail below, Burma's state-owned banking sector was transformed in 1990 with the passing of three pieces of legislation: *The Central Bank of Myanmar Law,* the *Financial Institutions of Myanmar Law,* and *the Myanmar Agricultural and Rural Development Bank Law.*

The Individual Banks

[1] Broad institutional details of Burma's state banking sector can be found at the government's official web 'gateway', www.myanmar.com/gov/trade/fin.htm (accessed 3 August 2005). This source is otherwise, however, neither particularly reliable nor up to date.

The Central Bank of Myanmar

The Central Bank of Myanmar (CBM) was established on 2 July 1990 under its own Act, the Central Bank of Myanmar Law (CBML), 1990 (State Law and Order Restoration Law No.15/90). This Law of establishment had the effect of repealing the relevant central bank articles of the Bank Law (Pyithu Hluttaw Law No.9, 1975), and gives the CBM 'all the powers generally conferred upon a central bank'. Ultimate authority within the CBM rests with a Board of Directors of seven members, consisting of the CBM Governor, Deputy Governor, one member appointed by the Ministry of Finance and Revenue and four other members appointed by the government. At present the Board comprises Kyaw Kyaw Maung (Governor of the CBM), Than Nyein (Deputy Governor), and directors Daw Ommar Sein (Research and Training Department, CBM), Maung Maung (Internal Audit and Bank Supervision Department, CBM), Nay Aye (Administration Department, CBM) and Hla Myint (Currency Department, CBM). There is currently one unfilled vacancy on the Board.[2]

The CBM enjoys little operational autonomy from the government and, whilst it has most of the formal 'toolbox' of monetary instruments, in Burma's underdeveloped financial system these are largely ineffective. The most potent of the CBM's monetary policy powers are its controls over the interest rates that formal financial institutions are permitted to apply. These controls specify that commercial banks in Burma charge lending interest rates that are no higher than 6 per cent above the CBM's reference rate, and pay upon deposits an interest rate that is no lower than 3 per cent below this rate. Currently the CBM rate stands at 12 per cent (a rate that has applied since 1 April 2006), thus yielding a maximum lending rate in Burma of 18 per cent per annum, and a minimum deposit rate of 9 per cent. Given Burma's fiscal difficulties, the CBM's primary role in practice is as the provider of funds to the government. This function entirely negates any ability the CBM has in controlling inflation in Burma.

Table 1: CBM Lending to Government, Banks & Inflation (*Kyat* millions)

Year	Central Bank Lending to Government	Money Supply	CBM Lending to Commercial Banks	Inflation (% p.a.)**
1999	331,425	345,765	19,602	34
2000	447,581	464,968	15,918	49
2001	675,040	701,153	21,576	11
2002	892,581	1,009,471	38,732	21
2003	1,262,588	1,186,104	93,952	57
2004	1,686,341	1,487,655	55,280	37
2005	2,165,154	1,953,375	11,169	20
2006*	2,281,046	2,072,815	26,471	47

**As at end-February, **Average, estimate EIU (2006): Sources: IMF (2006), Myanmar Central Statistical Office (MCSO 2006), EIU (2006)*

Table 1 above provides some relevant data regarding the CBM's role as a 'cash-box' for government spending, and its consequences. The CBM's lending to the government (column

[2] Information regarding the composition of the CBM's Board, and the Bank's senior management broadly, is available at the website of SEACEN (South East Asian Central Banks Research and Training Centre), www.seacen.org/bankwatch/myanmar.pdf. The CBM has been a member of SEACEN since 1982.

1 above) is the primary driver of the country's rapidly increasing money supply which, in turn, is a principal cause of the country's high and chronic inflation. The inflation estimates in Table 1 are, moreover, likely to understate the true rate of inflation in Burma since they are estimates of increases in the price of consumer goods in Rangoon only. Elsewhere prices for many commodities tend to be considerably higher, and inflationary pressures are often disguised via the simple unavailability of goods. As noted elsewhere by this author, the CBM performed poorly during the 2002/03 financial crisis in Burma – the final column above reveals the support it did provide in the form of loans to selected private banks.[3]

Burma's *formal*, fixed, exchange rate regime (which pegs the *kyat* at a value of 1 kyat to 8.5085 of the IMF's 'Special Drawing Rights', yielding a more or less constant K6:$US1) is managed by the CBM – specifically, by the 'Controller of Foreign Exchange' of its Exchange Management Department. As noted below, *formal* day-to-day trading of the *kyat* is the exclusive domain of the Myanma Foreign Trade Bank and the Myanma Industrial and Commercial Bank.

The CBM is the responsible agency in Burma for 'licensing, inspecting, supervising and regulating financial institutions', and for generally ensuring their soundness and solvency (Article 57, CBML). Such a supervisory role is assumed by most central banks around the world, and it is primarily to international regulatory templates that the CBM adheres. The most important of these is the CBM's interpretation and adaptation of the Basel Capital Accord. Originally designed through the Bank for International Settlements (BIS) for the banking systems of the rich, industrial world (and specifically the so-called G-10 countries), the Basel Capital Accord quickly became the accepted benchmark for all banks everywhere.[4]

At the heart of the Basel Capital Accord is the idea that capital (ultimately the net worth of a bank and, accordingly, the funds committed to it by its owners) acts as a 'buffer' against excessive risk taking and the losses that might result from this. In the words of the World Bank (2002:80), '[o]ne way of ensuring that owners retain prudent risk-taking incentives is to require them to have a significant amount of their own money at risk'. Of course, should the worst occur, the existence of capital can also allow a bank to continue to operate until problems are resolved, and provides a degree of assurance that it will honour obligations to depositors and other creditors.

The Basel Capital Accord established that banks should meet a capital-to-risk-weighted-assets ratio of 8 per cent - a ratio calculated by dividing a bank's capital base by its risk-*weighted* exposures. The Accord required that one half of this ratio (i.e. 4 per cent of capital) must take the form of 'Tier 1' capital (so-called core capital, consisting of those capital elements that are the most permanent and unrestricted commitment of funds by the owners). Risk weighting of assets was specified, according to various categories, to reflect

[3] More details of many of the issues here can be found in Turnell (2003, 2006a, 2006b).

[4] For a critical assessment of the use of the Basel framework in emerging market economies, see Rojas-Suarez (2002). A new Basel accord, so-called 'Basel 2', is currently being implemented in many countries. Basel 2 involves a greater use of banks' internal systems and credit rating agencies, with a smaller role for objective rules. A number of commentators, including de Krivoy (2000) and Rojas-Suarez above, have questioned its usefulness for developing countries. This author shares their reservations, and agrees that a rules-based approach, with the original Basel framework at its core, remains the best option for a country such as Burma.

(largely) the relative risk of the counter-party involved. The higher the risk, the higher the risk-weight, and the more capital a bank must set aside. Under the standard Basel Accord, *maximum* capital has to be set aside for exposures to private sector entities and individuals, but lower risk weights are granted to governments and state-owned enterprises. Of course this is but one area where what might work for the G-10 countries may not be so relevant universally, and in situations (such as Burma's) where the state and its agencies might be the least trustworthy of borrowers.

As noted, the CBM applies the Basel Capital Accord in its supervision of Burma's private banks. Article 31 of the Financial Institutions of Myanmar Law (FIML) specifies that the 'relation between the risk-weighted assets and the capital and reserves of a financial institution shall not exceed ten times'. In language more familiar to that of the Basel capital accords, this implies a minimum capital adequacy ratio of 10 per cent. This is, of course, a more stringent requirement than that specified by Basel's 8 per cent, but not an inappropriate one in a more risky financial environment such as Burma's (such higher required ratios are employed in many developing countries). Details of the risk weights applied by the CBM have not been made available publicly, but given its approximation of the Basel Accord more broadly, it is reasonable to presume they vary little (formally) from international norms.

In addition to the basic Basel capital requirements, the CBM imposes other regulations on banks – many of which are in keeping with core international standards of bank supervision, and some of which (more below) are peculiarities of arrangements in Burma. The most important of the bank regulations are:

- *Liquidity* - Under Articles 58-59 of the CBML (and accompanying 'Instruction No.4'), banks in Burma are required to hold liquid assets against liabilities of a ratio of not less than 20 per cent. Such liquid assets can include currency, cash on deposit at the CBM, government bonds, gold, and cash held in current accounts at other banks.

- *Reserve requirements* - Under Article 58 of the CBML, banks in Burma are required to set aside 10 per cent of demand deposits, and 5 per cent of time deposits, as reserves. Seventy-five per cent of these reserves in turn must be deposited with the CBM, whilst the remaining 25 per cent can be held as cash. However, as a ceiling on these reserves, in normal times their total should not exceed 35 per cent of a bank's liabilities (though the CBM has the discretion of relaxing this ceiling when warranted).

  In addition to these liability reserves, Article 11(d) of the FIML includes the requirement that banks set aside 25 per cent of their net profits each year 'in a general reserve account until this account reaches 100 per cent of its paid-up capital'.

  Should any of these reserve ratio requirements be breached, the CBM is authorized to levy 0.2 per cent of any shortfall in daily fines until compliance is restored (CBML, Article 60).

- *Limits on individual borrowers* - Under Article 32 of the FIML, banks in Burma are not permitted to lend in excess of 10 per cent of their capital (plus reserves) to any single borrower (enterprise, individual or group).[5] As a further limit upon large exposures that may dominate a bank's balance sheet, the same Article stipulates that no single borrower should 'account for more than 30 per cent' of a bank's total loan portfolio.

- *Provisioning* - Under Article 11(d) of the FIML (and CBM Instruction No.6), banks are required to make general provisions of 2 per cent of all outstanding loans and advances, as well as specific provisions against doubtful (typically 50 per cent) and bad (100 per cent) debts.

- *Reporting requirements* - Under Article 46 of the FIML, banks in Burma are required to furnish the CBM with the following periodic reports:

    - Weekly:
        - Reserve position
        - Liquidity ratio
    - Monthly:
        - Balance sheet of assets and liabilities
        - Income statement
        - Capital adequacy ratio
    - Quarterly:
        - Statement of non-performing loans
    - Yearly:
        - Annual report
        - Auditors report

- *Connected lending* - Under Articles 39 – 43 of the FIML, a number of restrictions are imposed on Burma's banks in making loans to 'related parties' (defined as employees of a bank; members of its audit committee; companies and individuals with an equity stake in the bank that equals or exceeds 10 per cent of its share capital; other companies owned by a bank's principal shareholders). Such restrictions include the requirement that the express permission of a bank's Board of Directors be given before a loan is granted, and a general requirement that such a 'related' loan not exceed 5 per cent of a bank's capital. Meanwhile, Article 42 outlaws the granting of 'special privileges' to related parties, including the provision of loans that 'would not be carried out…with other customers', and the charging of interest rates below those available to unrelated parties.

- *'New' gearing ratio* - In 2004, in the wake of the banking crisis that devastated Burma's banks in the preceding two years, the CBM introduced new regulations (under the broad provisions of Article 57 of the CBML) that requires banks to maintain a ratio of total deposits to paid-up capital of no greater than 7 to 1. This requirement is similar to the 'gearing' or 'leverage' ratios universally applied to banks prior to the

[5] The website of Burma's Ministry of Finance and Revenue mistakenly lists this single borrower limit as 20 per cent of a bank's capital – a mistake repeated by the IMF (1999).

Basel Accords (though such ratios were invariably in terms of assets to capital rather than deposits).

- *Branches* - Banks in Burma must get the permission of the CBM to establish new branches and agencies. Likewise, changes to the location of existing branches and agencies must be given prior sanction (Article 19, FIML).

- *Fees and charges* - Under Article 61(d) of the CBML, the CBM can determine the nature and magnitude of all fees and charges applied by banks.

- *Interest rate ceilings* - Amongst the most controversial of all the controls upon banks in Burma are those regulating maximum and minimum interest rates that can be charged and paid. Under Article 61 of the CBML (and Regulations 12 and 13 of the Regulations for Financial Institutions), the interest rates that banks must pay on savings and time deposits must not be less than 3 per cent below, the Central Bank rate. Whilst the maximum interest rates on loans must not be more than 6 per cent above the Central Bank rate. As noted, in April 2006 the Central Bank rate was raised to 12 per cent (from 10 per cent), implying minimum and maximum deposit and lending rates of 9 and 18 per cent, respectively.

Most of the *formal* regulations above are reasonable, indeed prudent, for a country such as Burma. Burma's adoption of a 10 per cent minimum capital adequacy ratio for banks is, as noted, above that of the Basle Accord but it is appropriate in a financial system as underdeveloped and as volatile as Burma's. Such a premium above the Basel minimum is also consistent with most developing countries, and with the practices of Burma's neighbours. Likewise, the specification of a *formal* liquidity ratio (20 per cent), a practice abandoned in a number of highly sophisticated financial systems, is entirely appropriate in an environment such as Burma's where confidence in banks is fragile, and where cash transactions dominate. The reserve requirements on various deposit categories, the limits on exposures to single borrowers, the general and specific provisions rules and the *formal* reporting requirements – all are similarly consistent with 'best practice' in financial settings such as those in Burma and/or are entirely suitable to its circumstances.

Such an assessment cannot be made, however, of the other measures, whose effect is to inhibit sustainable banking in Burma while yielding little or nothing in the way of prudential safeguards. The requirement, for instance, that banks hold 25 per cent of annual profits up to the point that they accumulate to match capital, is a particularly regressive requirement – which not only effectively 'doubles' the capital requirement on banks, but disproportionately punishes the (most prudent) banks with the greatest capital.

Equally problematic, though its effects are difficult to judge, is the most recent requirement that Burma's banks adhere to a gearing ratio of deposits to paid-up capital of 7:1. It is not possible to be too precise on the impact of this measure, since (depending on the nature of a particular bank and its balance sheet) it could make certain other regulations redundant (the deposit and profits reserve requirements notably, but possibly even the capital adequacy ratio itself) or, in turn, it could be made redundant by them. Alternatively, however, and this is the matter for most concern, it could 'piggy back' upon the other regulations and thereby create a most restrictive set of capital requirements for Burma's banks indeed. The latter view is held by Myat Thein (2004:12), who suggests that the measure may well count against 'bank runs', but only at the cost of making 'legal [sic] banking unprofitable, and hence, unsustainable'. Myat Thein's conclusion comes from his assessment that, since Burma's banks lend only about 70 per cent of their deposits (the remaining 30 per cent being sanctioned off into required liquid assets and reserves), the CBM's 7:1 deposits/capital ratio is equivalent to an assets/capital gearing ratio (the more common nomenclature) of around 5:1, or 20 per cent. Such gearing ratios historically (in countries such as the United States) have usually been significantly below 10 per cent. The overall effect then is one that potentially greatly restricts the lending abilities of Burma's banks. Unfortunately, the available data on Burma's banks disallows a definitive answer but, anecdotally, there is much in favour of the view that the new measure is a damaging restriction. One bank that seemed to suggest this was the First Private Bank. One of the more successful of Burma's private banks, at its Annual General meeting in 2005 the Bank reported that the 7:1 capital/deposits requirement had forced it into a position of having to ration loans, and even 'hand back' some deposits.[6]

In August 2006, media reports quoting Thein Tun, of Tun Foundation Bank, suggested the CBM had relaxed the 7:1 gearing restriction in favour of a 10:1 ratio.[7]

Other, ad hoc, announcements, laws and decrees continue to be made at various times – usually in response to specific problems and crises, and invariably with little thought given to their implications for the CBM. Examples are legion in the macroeconomic field (including, for instance, the occasional dramatic pay rises for civil servants, the sudden price 'freezes', and so on), but they are not absent at the regulatory level either. One example was the gearing ratio change noted above, another was the announcement in 2002 that banks would no longer be allowed to accept gold as collateral. This was done in an effort to curb speculative activity, but it has greatly impaired the ability of many businesses to borrow to finance 'real' economic activity. Gold is one of a number of traditional 'hedges' against uncertainty that have been used in Burma for centuries. Gold's total exclusion as collateral, instead of simply the insistence on more prudent valuations, robs Burma's financial system of a significant channel for productive lending.

Finally, and as detailed in Turnell (2003), the CBM performed extremely poorly during the 2002/03 banking crisis. From this experience, we can only draw the lesson – eternally relevant to Burma – that what happens 'on the ground' may bear little relation to the country's *formal* 'laws'. Since the end of the crisis, relations between the CBM and the surviving private banks have been strained.

On 3 June 2006, the CBM and its 216 staff were relocated to the new administrative capital of Pyinmana

Myanma Economic Bank

[6] May Thander Win, 'FPB report provides new hope for banking sector', *The Myanmar Times,* 31 October-5 November 2005, vol.15, no.290.

[7] 'Banks claim a solid recovery', *Myanmar Times,* 31 July – 6 August 2006, vol.17, no.327.

Burma's state-owned 'general-banking' enterprise, the Myanma Economic Bank (MEB), took on a new legal identity under the Financial Institutions of Myanmar Law, 1990 (FIML, Articles 62–73, which superseded the relevant Articles of the Bank Law 1975). Its activities continued more or less as before, however, but with greater emphasis on making loans to private enterprises and individuals. Much of these are made to traders of various kinds, particularly of agricultural commodities (around 75 per cent of the Bank's loan portfolio) (FAO 2004b:17). The MEB provides essentially a full range of traditional banking services, including foreign exchange transactions in specially designated branches (most of which are in 'border trade areas'). The MEB is the primary vehicle through which the government issues and redeems its 'Foreign Exchange Certificates' (FECs) – the 'parallel currency' created in 1993 in an attempt to garner foreign reserves for the state through what amounted to an implicit tax on tourists as well as Burmese with access to foreign currency earnings. The FEC system is now only partly in use.[8]

In 2005, the MEB had over 300 full branches and around 40 sub-branch 'saving agencies'.[9] The MEB is regarded by the regime more or less as an arm of policy, and its activities are greatly distorted by its role as a vehicle for the extension of concessionary loans and other forms of largess (through so-called 'State Fund Accounts'). The MEB is the principal provider of finance to state-owned and 'cooperative' enterprises, and has a number of 'social responsibility' roles, including the provision of interest-free housing loans to government employees (via a division of the MEB that goes under the name of the 'Government Employees Bank', but which is not a separate bank as such).

The MEB also lends on government instruction to both the Myanma Agricultural Development Bank (MADB) and the Myanma Small Loans Enterprise (MSLE). Loans to the MADB are levied at a concessional interest rate of 10 per cent per annum, and to the MSLE at 11 per cent (FAO 2004b:17).

Much of the growth in the private banks in the last decade came at the expense of the MEB. The MEB provides relatively poor and indifferent service, with the staff underpaid (causing many to leave to join the private banks). Yet, notwithstanding this, the closure of some of Burma's largest private banks in the wake of the 2002/03 financial crisis has probably reinstated the MEB as Burma's largest bank in terms of assets - as at July 2003 the MEB had around 35,000 loans outstanding for a collective value of around K122 billion. Surprisingly, the MEB admits to a default rate in its loan portfolio of around 18 per cent (FAO 2004b:17).

Myanma Foreign Trade Bank

As with the MEB, the Myanma Foreign Trade Bank (MFTB) was re-established as a legal entity under the FIML in 1990 (Articles 62–73); Under the SLORC/SPDC, the MFTB has been attempting to broaden its activities beyond exclusively dealing in foreign exchange-related activities. To this end it has begun to accept deposits and make advances to individuals and enterprises beyond foreign exchange matters. *Foreign exchange* accounts are restricted to the following categories of individuals, institutions and enterprises:

---

[8] Some of these broad institutional details regarding the MEB are outlined on the website of Burma's Ministry of Finance and Revenue, www.myanmar.com/Ministry/finance/economic page.htm

[9] The latter are located typically in smaller townships, and offer a smaller array of products and services. *ibid.*

- Foreign Embassies and their staff
- United Nations, its agencies, and their *foreign* staff
- Other international organisations and their foreign staff
- Foreign firms and their foreign staff
- Foreign nationals
- Burmese firms and nationals with a justified reason to be a recipient of foreign exchange
- Joint-venture enterprises
- Government ministries and state-owned enterprises

The MFTB has the largest network of correspondent relationships with banks around the world of any of Burma's banks. Because of this, in recent times it has been the Burmese bank most affected by US and EU sanctions against Burma (in the case of the US, these include the suspension of all correspondent accounts with US banks).[10] Notwithstanding its efforts at diversification, the MFTB is primarily concerned with the foreign exchange business of government, government agencies and state-owned enterprises – leaving private sector foreign exchange business to the MICB. The MFTB remains in Rangoon, despite the move of Burma's administrative capital to Pyinmana.

One area of 'private' business in which the MFTB is dominant in Burma is the provision of financial services for expatriates in the country. Such expatriates, which include UN agency and foreign embassy staff, personnel of international NGOs as well as private business people, are required (as the recipients of 'offshore' income) to use the MFTB, at least as the vehicle for their initial payments (after which the use of local and *informal* foreign exchange dealers is very much the norm).[11]

Myanmar Investment and Commercial Bank

The Myanmar Investment and Commercial Bank (MICB) was initially created in 1989 as a unit of the MEB, and only formally became a separate entity under the FIML. The MICB was designed to supply investment and commercial funds to private sector entities during what was predicted to be a 'transition' period prior to the new private banks being able to take on such a role. Branches are limited to Rangoon and Mandalay. The MICB has an almost exclusive 'business focus' – providing *kyat* loans to private domestic businesses and to foreign and joint venture enterprises. The MICB has expended some effort to cultivate deposits, but with little success. Just one reason for this is that the government imposes an 'automatic' tax of 10 per cent on all foreign currency deposits.[12] At one point the MICB had correspondent relationships with banks in 65 countries but, like the MFTB, the MICB's international dealings have been greatly restricted by US and EU financial sanctions.

---

[10] For details of these sanctions, see Turnell (2006a, 2006b).
[11] Information provided privately to the author.
[12] US Department of State, *Doing Business in Burma: A Country Commercial Guide for U.S. Companies,* 2006, www.buyusainfo.net/docs/x_8063704.pdf

The MICB once operated the foreign exchange booths where tourists were required to exchange US dollars for FECs at Burma's international airports in Rangoon and Mandalay. Compulsory FEC exchange ended in August 2003.[13] The MICB remains in Rangoon, post-Pyinmana.

Myanma Agricultural Development Bank

The Myanma Agricultural Development Bank (MADB) was created under the 'Myanma Agricultural and Rural Development Bank Law' (1990), to provide 'banking services' for agriculture. This was simply a modern update of a state agricultural banking apparatus that has existed in Burma since the establishment of the first 'State Agricultural Bank' in 1953. In 1997, the 'Law Amending the Myanma Agricultural and Rural Development Bank Law' was promulgated. The most important change made under this Law was the placing of the MADB under the Department of Agriculture and Irrigation, rather than the Ministry of Planning and Finance. A cosmetic change under this Law was the removal of the word 'Rural' from the MADB's name (FAO 2004b:3).

Technically exempt from the Financial Institutions of Myanmar Law, in practice the MADB does not deviate from its provisions in critical areas, including on the interest rates it pays and charges. The MADB currently has 204 branches throughout Burma (of which 16 are regional 'head offices'), and 48 (sub-branch) agencies (FAO 2004b:4).[14] The MADB makes three types of loans – cultivation loans of up to one year, short-term loans of 1 to 4 years, and long-term loans of 4 to 20 years. In practice, however, the number of term loans is negligible – in 2003/03 a mere 1,615 loans were advanced, to a value of K234 million.

The MADB claims around 1 million active borrowers (17 per cent of rural households), divided amongst 150,000 'borrowing groups'. Such borrowing groups are formed in place of collateral for seasonal loans. They are 'joint liability' groups, and have around 5-10 members. Joint-liability groups rely upon peer-pressure to ensure loan repayments and, certain cautions aside (detailed in Turnell 2005d), are regarded as 'best practice' in many microfinance schemes around the world. Peer pressure, however, relies upon a degree of social capital amongst group members, and a genuine sense of 'grass-roots' cooperation that may not be present in the circumstances of the MADB's borrowing groups. Contrary to best practices, the method by which the MADB disburses loans is a highly centralised process involving approval instructions being passed from the MADB's head office to each State or Division Office; from there to the branches in the townships; and from these to each 'Village Tract Advisory Committee' (VTAC). Membership of the VATCs comprises the 'Village Tract Peace and Development Council' Chairman, the secretary of the village borrowing groups, and the local representatives of the 'Myanma Agricultural Service and the Land Records Department'. Each VATC is the final arbiter of loans to individual borrowers (FAO 2004b:6).

---

[13] Certain basic details of the MICB can be found at the website of Burma's Ministry of Finance and Revenue, www.myanmar.com/Ministry/finance/i&c_page.htm

[14] Some institutional detail of the MADB can be found at various official government websites, including that of the Ministry of Agriculture and Irrigation at http://mission.itu.ch/MISSIONS/Myanmar/e-com/Agri/expind/agri-index/myanmar.com/Ministry/agriculture/Organi/madb.htm.

Table 2: MADB Seasonal Loans 2003-2004 (*Kyats / Acre)*

Crop	Loan Size Available	Estimated Production Costs	Available Loans as Proportion of Production Costs (average %)
Paddy	2,000 – 8,000	50,000 – 65,000	9
Peanuts	2,000 – 4,000	60,000	5
Sesame	1,500 – 3,000	50,000	5
Mustard	1,500	50,000	3
Maize	1,500 – 3,000	50,000	5
Pulses	1,000 – 2,000	50,000	3
Sugarcane	2,000	100,000	2

Source: FAO (2004b:6), and information privately supplied to author

The size of loans is meant to be in proportion to demand and the capacity of borrowers to pay and, in principle, the MADB aims to meet 30 per cent of agriculturalist production costs. In practice, it falls well short of this modest target. The MADB currently lends between K2,000 to K8,000 per acre for paddy, while production costs for the same crop averages between K50-65,000. Given the inadequate size of individual loans, the FAO reports (2004b:6) that it is sometimes the case that two or more borrowers pool their loans, taking turns to use the money in alternate loan periods. Over 80 per cent of all seasonal loans in Burma are for paddy. Table 2 above lists the principal seasonal loans extended by the MADB on various crops, together with the magnitude of these loans (per acre), juxtaposed against the indicative per acre costs of production of each:

The MADB's lending had been declining in recent years in terms of the number of loans issued – from 1.66 million in 1998/99 to 1.23 million 2003/04. Loan volumes had increased across this same five-year period – from K10.4 billion in 1998 to K20.2 billion in 2004 – but this increase disguised a 'real' decrease in funds available when adjusted for the very high inflation over the period. Table 3 below reveals the *real* decrease in MADB loan disbursements, and the average size of these loans from 1998/99 to 2003/04:

Table 3: MADB Seasonal Lending: 1999-2004

Year	Number of Loans	Total Loans Disbursed (*kyat* million)	Average Loan Size (*kyat*)	Inflation (%p.a)	Real Decrease (-) /Increase (+) in Loans Disbursed (%)
1999/00	1,470,665	11,186	7,606	49	-44.9
2000/01	1,444,341	12,124	8,304	11	-3.5
2001/02	1,395,557	12,740	9,129	21	-17.0
2002/03	1,168,413	12,015	10,283	57	-59.4
2003/04	1,233,815	20,150	16,331	37	+22.4

Source: FAO (2004b:7), and author's calculations. Inflation estimates are from EIU (2006)

For financial year 2004/05, the MADB has announced a substantial increase in lending, to K33 billion.[15] The number of borrowers has not been disclosed, but the MADB claims

[15] Win Nyunt Lwin, 'Bank lends K33b to help boost agricultural sector', *The Myanmar Times,* 9-15 May 2005, vol.14, no.265.

seasonal loans have risen to K27 billion and that 'term loans' (that is, non-seasonal loans given for capital investment) have increased dramatically, to K5.7 billion. This latter figure is dominated, however, by a very large advance (K3.7 billion) to a small number of oil palm producers in Tanintharyi Division.[16] All term loans from the MADB must be secured against collateral. Liberal arrays of items are accepted as collateral, except of course the principal asset in the possession of cultivators – their land, as agricultural land remains the property of the state, and accordingly cannot be pledged as collateral.[17] All term loans must also be secured by the pledges of *two* personal guarantors. Table 4 below reveals the very small size of term lending by the MADB – in aggregate and to individual borrowers – the result of which partly explains, as the FAO notes (2004b:8), the low-level of mechanisation in Burmese agriculture:

Table 4: MADB Term Lending 1998/99 – 2002/03

Year	Aggregate Term Lending (*Kyat* million)	No. of Term Loans	Ave. Loan Size (*Kyats*)	Ave. Loan Size ($US)*
1998/99	121.25	802	151,185	443
1999/2000	90.57	473	191,480	383
2000/01	62.60	290	215,862	348
2001/02	277.48	1,321	210,053	217
2002/03	233.83	1,615	144,786	151

**At market exchange rate. Source: FAO (2004b:8), Bradford (2004), EIU (2006) and author's calculations.*

The final column in Table 4 has been included since, considering that Burma itself produces little in the way of capital equipment, the international purchasing power of the MADB loans is the more relevant measure. Of course, even a cursory glance at the figures in this column is sufficient to indicate the difficulties Burmese cultivators would face in attempting to move to more capital-intensive modes of production.

The constraints on MADB lending are a function of the MADB's precarious capital and funding position generally. Of its available loanable funds for 2003/04 of K20.8 billion, K15 billion came from a loan from the central government (at 10 per cent, and via the CBM/MEB), whilst K4.6 billion came from deposits, and K1.2 billion came out of capital and reserves. The MADB claims to have 2 million depositors in Burma, but deposits themselves are greatly constrained. This is almost entirely due to an inept government policy, announced in March 2003 (the end of the banking crisis), of not allowing depositors to withdraw their deposits in all but 'exceptional circumstances', and only then on condition they forfeit all borrowing privileges and leave the Bank (FAO 2004b:5). This policy would discourage any prudent depositor. Table 5 below details the sources of MADB loanable funds, and the real (inflation adjusted) level of deposits:

Table 5: MADB: Source of Funds (*Kyat* millions)

---

[16] *ibid.*

[17] The problem of the inability of Burmese cultivators to use the land they farm as collateral is a long-standing one, dating back to some of the earliest legislation of post-independence Burma – specifically, the 'Land Alienation Act' (1948, as amended 1953).

Year	Deposits (Nominal)	Deposits (Real)*	Funds Provided by CBM/MEB	Capital and Reserves
1998/99	1,374	1,025	6,000	656
1999/2000	1,963	1,317	6,750	843
2000/01	2,404	2,166	7,250	1,004
2001/02	2,837	2,345	7,250	1,084
2002/03	3,730	2,376	5,500	1,150
2003/04	4,616	3,369	15,000	1,206

**Inflation estimates as per Table 2 Source: FAO (2004b:5) and author's calculations*

To the extent that the MADB's funding problems extend from a shortage of capital is likewise a function of poor government policy. In this context, however, the most crippling is a provision of the Act establishing the MADB – a provision that requires the Bank to allocate (at least) 25 per cent of any profits each year to a reserve fund, and transfer the balance to the government in the form of a dividend. In fact, as can be seen from Table 5 below, in practice considerably more of the Bank's profits are transferred to the Government. Paid-up capital is also limited by law – currently to K1 billion. At just $US 1 million (at the market exchange rate), this is grossly inadequate for a bank with the responsibilities given to the MADB. Normally, paid-up capital is augmented by transfers to reserves from any net profits but, as a consequence of the 'dividend' the MADB is required to pay to the government, such capital accumulation through retained earnings is greatly limited here. Table 6 illustrates the MADB's precarious capital situation, and the dilution of its declared profits:

Table 6: MADB Profits, Capital and Reserves 1997/98 – 2002/03 (*Kyat* millions)

Year	Net Profit	Government 'Dividend'	Allocation to Reserves	Paid-Up Capital	Total Capital + Reserves	Total Capital + Reserves (Inflation Adjusted)
1997/98	586	439	146	560	656	490
1998/99	748	561	187	560	843	566
1999/2000	648	486	161	560	1,004	905
2000/01	322	242	80	1,000	1,084	896
2001/02	263	196	66	1,000	1,150	732
2002/03	225	169	56	1,000	1,206	880

Source: FAO (2004b:10-11), EIU (2006) & author's calculations.

As with the interest rate it pays on deposits, the interest rates charged by the MADB on its loans are consistent with the limits imposed on the other banks (currently 18 per cent maximum). This is well below Burma's true inflation rate, meaning again that the Bank's capital position is eroding via a loan portfolio that is losing money in real terms, year by year. In short, with very little capital to begin with, the MADB is being progressively 'decapitalised'.

The operational and financial self-sustainability of the MADB must, however, be further called into question when the Bank's treatment of loan defaults is taken into account. Astonishingly, the MADB has recorded a 100 per cent repayment rate since 1991 – a performance that would be worthy of the most extraordinary accolades were it not for the fact that it was simply due to a policy, likewise adopted in 1991, that 'no loans shall be written off' (FAO 2004b:10). However, if we assume any reasonable level of loan losses, MADB's declared 'profits' would be quickly eliminated. Selecting a *very* conservative loan-loss provision of 5 per cent, for instance, the FAO (2004b:11) finds that the MADB would be only 80 per cent operationally self-sufficient, while a 10 per cent provision would reduce this to 57 per cent.[18] Thailand's 'Bank for Agriculture and Agricultural Cooperatives' (BAAC), which might be regarded as a (albeit better-performing) 'peer' of the MADB, has for several years made loan loss provisions of around 17 per cent of its portfolio.[19] Assuming a similar default provision for the MADB would reduce its operational self-sufficiency ratio to below 25 per cent. Factor inflation into the story and the MADB's resultant *financial* self-sufficiency drops to a disastrous 18 per cent.[20]

In addition to all of the financial inadequacies of the MADB above, the Bank is also greatly hampered by a number of practical problems on the ground. Unlike many other agricultural banks around the world, for instance, the MADB has no 'mobile banks', thus requiring agriculturalists to often travel great distances to MADB branches (FAO 2004a:134). Coupled with a reputation for corruption and 'red tape' in accessing loans, and the small size of loans ultimately disbursed, there is very little incentive for the Burmese farmer to seek to do business with the MADB.

The MADB suffers from a severe shortage of staff trained in rural banking. This is partly a consequence of the low salaries on offer, but it is mostly a consequence of poor recruitment. The MADB does not enjoy independence in recruitment policy. Rather, all key positions are decided by the government-appointed 'Public Service Selection and Training Board'. According to one confidential source, there is no recruitment of experienced bankers at senior operational levels, nor even 'business and accounting majors at the entry level'. Skill gaps in risk management, credit analysis, accounting, auditing, asset valuation, and marketing are chronic within the MADB, and there is little understanding in the Bank of modern rural banking methodologies.

Staff problems and shortages in the MADB are matched, moreover, by a lack of modern infrastructure and communication systems. The MADB's large and disperse branch network is not connected by a common computer system (in 2004 only 30 branches had 'a' computer), and the Bank is unable to transfer funds to or from its head office and branches (for this it relies upon the MEB). Communication between the MADB's branches relies

---

18 A financial institution is said to be *operationally* self sufficient when its income is equal to or greater than its operational expenses plus provisions. A ratio of 100 per cent or more indicates a financial institution is profitable and therefore operationally self-sufficient, a ratio below 100 per cent indicates an entity that is making losses. The ratios calculated here are based on the data for financial year 2001/02.

19 Information on the BAAC's loan-loss provisioning - www.baac.or.th/eng baac/performance/main_perform.htm (accessed 4 August 2006).

20 To be *financially* self-sufficient, a financial institution must not only earn sufficient income to cover operational expenses and provisions, but also the real (inflation-adjusted) cost of its capital.

upon Burma's (unreliable) postal system, a situation that only exacerbates the delays caused by the Bank's cumbersome and overly-centralised decision making process generally (FAO 2004b:9).

Of course, all of the problems of the MADB outlined above are made substantially worse when one considers that it is meant (by the government) to be the *exclusive* lender in rural areas. An astonishingly flawed policy in Burma (from a crowded field!) is that the private banks are *forbidden* to lend for most agricultural purposes. As one multilateral agency notes, such a policy is 'difficult to understand or justify' (FAO 2004a:137).

Myanmar Small Loans Enterprise (MSLE)

The MSLE is a network of 185 pawnshops across Burma.[21] As at 30 September 2003, the MSLE had around 120,000 loans outstanding to a total of K5.4 billion. The MSLE charges 3 per cent per month on its loans (equivalent to around 43 per cent per annum), with the average 'term' around 6 months. The maximum size of loans made by MSLE is up to 40 per cent of the market value of the pledged collateral. Valuations of articles is according to a scale determined by the MSLE's head office The MSLE is itself financed by the MEB, from which it has an overdraft facility to a maximum (in 2004) of K6 billion. The MEB charges 11 per cent per annum on the facility – thus, the MEB part subsidises the MSLEs operations in 'real' (inflation-adjusted) terms (FAO 2004b:31-32).

In addition to the MSLE, private pawnshops are ubiquitous across Burma and are becoming increasingly dominated by Chinese nationals. Private pawnshops charge higher interest rates than the MSLE, and on average around 5 per cent per month (80 per cent per annum). They typically grant larger loans, however, of around 50 per cent of the value of the pledged collateral. Private pawnshops are meant to be licensed but, not surprisingly, a large number are not. Amongst the latter are traders and shops of various kinds whose main line of business is not pawn- broking.

The MSLE and its private counterparts provide a large source of financing for many farmers and rural peasants in Burma, upon which, naturally, data is lacking. Private surveys in selected locations across Burma, however, have indicated that between 10 to 20 per cent of agriculturalists had loans outstanding with pawnshops (FAO 2004b:31-32).

Current 'Private' Banks

The coming to power in 1988 of the State Law and Order Restoration Council (SLORC) supposedly brought with it a change in the direction of Burma's economic trajectory in which the free market was to be encouraged. To this end, SLORC passed a series of laws that were ostensibly about 'liberalizing' the financial sector, the most important of which for the emergence of private commercial banks in Burma was the FIML. A program of reform accompanying the FIML envisaged a liberalizing program that would proceed in three phases:

---

[21] Basic details of the MSLE can be found at the website of the Ministry of Finance and Revenue, www.myanmar.com/Ministry/finance/small_page.htm

Phase 1: Allow domestic private banks and allow foreign banks to open representative offices.

Phase 2: Allow selected domestic banks to form joint ventures with foreign banks.

Phase 3: Allow foreign banks to begin operations in their own right.

No timetable was established for the program. By 1992, however, the first domestic private banks had been established and the first foreign bank representative offices had opened.

From this promising start financial sector reform in Burma, like reform in every other aspect of the nation's political economy, has made very little headway. Though Phase 1 of the program was more or less successfully implemented in terms of its limited goals, phases 2 and 3 have yet to be embarked upon. Together with a great many other limitations to the operation of foreign investors in Burma, foreign banks remain restricted to a representative office role only and many of these have subsequently closed. Four joint venture proposals along the lines envisaged in the Phase 2 reforms have been announced, but only one proceeded to the point that the Central Bank of Myanmar's approval was sought. This approval was not given.

The government's suppression of the formation of joint-venture institutions is not the only way that the government directly inhibits the development of a viable private banking system in the country. As noted above, the government forbids the private banks from lending for agriculture, depriving them (and the likely borrowers) from servicing the single largest sector of Burma's economy. Of course, the banks would probably find such lending to agriculture anyway, given the inability of cultivators in Burma to use their land as collateral.

Perhaps the most damaging way in which specific government action dooms Burma's private banks to irrelevancy (even before the 2002/03 crisis) is via the interest rate controls noted throughout this document. Financial repression has been the main consequence of this policy, but another inimical outcome is the levying of 'fees' by bank loan officers (with and without the approval of bank management) before granting a loan. Information provided to the author includes many stories of such fees, which can amount to 20 per cent or more of the loan principal sought.[22]

A major *leitmotiv* through much of the narratives of the individual banks below will be that of the effects of the 2002/03 banking crisis, the recovery from which has been fitful at best. One interesting fact that has emerged in the post-crisis era, however, is that Burma's surviving private banks are mostly concerned with (and make their profits from) in-country remittance and similar services, rather than traditional financial intermediation.

In August 2006, the Myanmar Banks Association (MBA, more on which below), issued a brief report into the current situation of the banking sector, which received some coverage

---

[22] The author has heard the testimony of a number of borrowers on these informal charges, which are regarded by them as nothing other than bribes. Whether or not a bank's management shares in the spoils seems to vary between banks, and circumstances. The phenomenon is also reported by the FAO in its survey of rural credit in Burma (FAO 2004b:19).

in the press. According to latter, citing the MBA, 2005-2006 had been a period of some recovery, with total loans granted by the private banks up 16 per cent year on year (from K222 billion to K257 billion). In terms of sectoral break-up, 34 per cent of loans were made to traders, 32 per cent to manufacturers, and 32 per cent to service providers with the remaining 11 per cent classified as 'other'. Than Lwin, the former Deputy Governor of the CBM but who was now a consultant to Kanbawza Bank and the current chair of the MBA, most banks currently had a loan to deposit ratio of between 60 to 70 per cent (as noted above, the CBM's limit is 80 per cent). He admitted, however, that hire-purchase schemes and mortgage loans remain unavailable since their suspension in the 2002/03 crisis. A business owner quoted by *The Myanmar Times* in its story on the MBA's report said that it was easier to get loans now from the private banks but, 'it takes time'.[23]

Yoma Bank

Yoma Bank was established in August 1993 by an ethnic-Chinese businessman, Serge Pun. Long-time archrival with the Asia Wealth Bank for the title of Burma's biggest bank, the Yoma Bank's branch network (43 branches) was for many years the largest of all the private banks.[24] For many the 'cleanest' of the major private banks in Burma, Hawke (2004:18) noted that 'there is no evidence that Yoma was knowingly associated with narcotics-trafficking money'. This does not mean, however, that Yoma's banking practices approach orthodoxy in a conventional sense, and the Bank continues to lend vast sums to entities 'connected' with the Pun family and other associates. Nevertheless, it would appear that Yoma has lent in smaller volumes than its peers have to regime leaders. Yoma has been a large lender to various prominent real estate projects in Rangoon, including FMI City and the Pun Hlaing Golf Estate (Hawke 2004:18).

Yoma is jointly majority owned by two of Serge Pun's subsidiary companies - 'First Myanmar Investment Company' (FMI) and the 'Yangon Land Company', which each have a 34.57 per cent stake in the Bank. The balance of shares is held by various family members of Serge Pun, and Yoma Bank senior management. FMI is a general investment holding company, and its shares can be bought in each of Yoma's branches. The Yangon Land Company is a real estate business and developer.

By 2005 Yoma had over 2,200 employees, and as of 31 October 2002, deposits stood at K128 billion and total loans outstanding at K85 billion. Yoma has branches throughout Burma, but has a concentration in Rangoon (15 branches) and Mandalay (5 branches). Yoma has a credit card, 'Yoma Card', which by 2003 had 25,000 cardholders and a claimed 6,000 outlets accepting it. Yoma saw a key business in providing firms with automatic salary payment systems (which would later cause problems during the 2002/03 crisis). Yoma pays interest on deposits based on the minimum monthly balance, but calculates interest on loans according to what it calls the 'Daily Rest Method'. Of course, this is simply daily compound interest, and the wording reflects ancient injunctions in Burma against the compounding of interest charges. Published interest rates paid and charged are otherwise in accordance with CBM limits - however, the 'effective' rate of interest applicable to loans is increased by a compulsory 'Loan Acceptance Fee' of 1 to 2.5 per cent per annum that is charged on all

---

[23] 'Banks claim a solid recovery', *The Myanmar Times,* 31 July – 6 August 2006, vol.17, no.327.

[24] Sources for the information here on Yoma Bank are as indicated, as well as the Bank's website, www.yomabank.com.mm, as well as that privately acquired by the author.

loans. Yoma also charges various other fees, which effectively increase its return on loans – for example, in levying collateral assessment fees and the like.

From the outset, Yoma targeted retail banking, and saw small businesses as its natural clientele. Unusually for a Burmese bank, Yoma has been a strong user of information technology (IT) and, in this context, aligned itself with one of Burma's largest IT firms, Bagan Cybertech.[25] Yoma has established the 'Yoma School of Banking' in conjunction with the Stamford-City Business Institute to educate its staff.

Yoma Bank survived the 2002/03 crisis, but it was forced to both seek assistance from the CBM and to 'liquidate' certain fixed and other assets. The CBM was unhappy with a number of practices of Yoma Bank prior to the crisis, and found that it had acted in ways inconsistent with the FIML. However, Yoma does not have the political 'connections' of banks such as Kanbawza, in contrast to the (even more entrepreneurial) Asia Wealth Bank, it has continued to receive approval to continue operations. Rumours have occasionally surfaced suggesting a possible tie-up between Yoma and the Myawaddy Bank, but nothing concrete along these lines has emerged yet.

Yoma was one of only two banks (the other being the Cooperative Bank) to have a branch in Pyinmana prior to that Township becoming Burma's administrative capital.

For a time Yoma Bank provided funds to the UNDP's Dry Zone Microfinance project (operated by the US non-government aid agency, 'PACT'). Under the arrangement, which was brokered by the FAO and local NGOs, Yoma provided the microfinance scheme with funds at a rate of 10 per cent per annum, allowing the scheme to make substantial profits from its on-lending. Yoma was ordered to cease this activity by the CBM in 2002. At the time of its closure, Yoma had extended loans to the project of K3.33 million. The Bank admits its involvement in the scheme was initially for public relations purposes, but later came to value the link as a precursor to future possibilities for agricultural lending.[26]

Kanbawza Bank

Kanbawza Bank was established on 1 July 1994 in Taunggyi by Aung Ko Win (who also goes under the name of Saya Kyaung). Aung Ko Win is rumoured to be close to SPDC Deputy-Chairman Maung Aye, and many people in Burma regard it as being 'protected' against the charges levied against some of its competitors in the wake of the 2002/03 crisis. Kanbawza Bank gained ground on its rivals in the wake of the crisis, and on most measures is now Burma's second-largest private bank, with 45 branches and nearly 2,000 employees. As at end-2004 the Bank's capital stood at K10.8 billion, and deposits exceeded K70 billion; Its head office is now in Rangoon. The Kanbawza Bank is part of a vast conglomerate that includes the 'Myanmar Billion Group' which has interests in gem trading, mining, trading and distribution, real estate and even a shoe manufacturer. Kanbawza Bank is most often advertised as simply 'KBZ Bank' within Burma, and is one of the few private banks to try to attract the business of expatriates in the country (with little success). Its slogan is rendered

[25] Aung Kyaw Tha, 'Credit cards usher in online shopping', *The Myanmar Times,* 4-10 March 2002, vol.6, no.105.
[26] For details of Yoma's involvement in microfinance in Burma, see Turnell (2005d).

into English as 'Myanmar strength we stand, Kanbawza's generosity grand'.[27] In a number of branches outside of Rangoon, Kanbawza Bank is located in buildings formerly belonging to the 'exchange banks' of the colonial era.

Like Yoma Bank, Kanbawza has a strong focus on retail banking in Burma, and targets small business owners as its natural clientele. It offers the usual ray of retail banking products, including its own series of credit cards. In its advertising, Kanbawza especially promotes its (domestic) remittance services, and is part of a consortium of banks – which also includes Tun Foundation Bank, First Private Bank, Cooperative Bank and the Myawaddy Bank – that allow remittance payments to be made between each others branches. Kanbawza Bank has been especially dominant in lending in the Rangoon property market, but it is also more active than most of the other private banks in lending to small manufacturing and trading firms. Kanbawza Bank is famed for its largesse in many areas, but not least for its sponsorship of Burma's national football team.[28]

As with some of the other private banks, Kanbawza has chafed (albeit privately) under some of the restrictions imposed upon the private banks, especially with respect to foreign exchange activities. Kanbawza was one of two banks (the other was the Yoma Bank, as noted above) that attempted to provide funds to the UNDP's (PACT operated) Dry Zone Microfinance project, until ordered to cease by the CBM in 2002. Like Yoma, Kanbawza's involvement in the microfinance scheme came to be regarded by the Bank as a possible avenue for future, deeper, involvement in rural lending in Burma.

In August 2006, Kanbawza claimed that its deposits had increased by around 20 per cent in the preceding two months – the product, it claimed, of the relaxation of the 7:1 Gearing ratio (above), and the increase in civil servant and military salaries during the year. At the same time Than Lwin, the former Deputy-Governor of the CBM who was now a consultant to Kanbawza (incidentally further illustrating the Bank's 'establishment' credentials), noted that in order to limit non-performing loans, the Bank rarely granted 'a loan if an entrepreneur proposes a new venture without collateral'. This was for a number of reasons, one of which was the recognition (by all the banks) of shortcomings in the work of loan inspectors who, he said, 'were often poorly qualified and lacked experienced'. Than Lwin indicated that most banks now typically made advances that amounted to around 50 per cent of pledged collateral.[29]

First Private Bank (FPB)

Since the 2002/03 crisis, FPB has emerged as one of Burma's most prominent and (if one believes its publicly reported financial statements) most profitable financial institutions. FPB was founded on 6 October 1992 by Dr Sein Maung, who seems to have emerged as the private banking sector's premier spokesperson since the demise of the Asia Wealth Bank and its outspoken chief, Aik Htun. FPB began with authorised capital of K1 billion, but this has

---

[27] This, and much of the following information, is derived from both public and private sources. Included amongst the former is Kanbawza's own website: www.kbzbank.com (accessed 4 August 2006).
[28] *ibid.*
[29] Than Lwin, and the information quoted here, is cited from 'Banks claim a solid recovery', *The Myanmar Times,* 31 July – 6 August 2006, vol.17, no.327.

been increased in two tranches (in 1999 and 2005) to its present level of K5 billion.[30] The latest increase was because of the CBM's new 1:7 capital/deposits ratio, of which Sein Maung has been (implicitly) critical. In an interview in October 2005, Sein Maung even claimed that the FPB had returned deposits because of the need to meet this new ratio.[31] In 2005, the FPB had K17 billion in deposits, 15 branches and 440 employees. Following the latest capital raising it has almost 5,000 shareholders. As noted, Fob's performance since the 2002/03 crisis has been remarkable, and for 2004/05 the Bank reported net profits of K865 million (up from K299 million the previous year). Lending (up nearly 60 per cent year-on-year) was reported as being divided between trading businesses (53 per cent), manufacturing (27 per cent), with the remainder to unspecified 'service' enterprises.[32]

Myanmar Oriental Bank (MOB)

Myanmar Oriental Bank was established 29 July 1993 and now one of Burma's largest private banks. Before the 2002/03 crisis, however, the MOB was in many ways a 'second-tier' player behind the likes of AWB, Mayflower and Yoma. MOB currently has 15 branches across Burma and, immediately before the 2002/03 crisis, had total assets of K23.9 billion, of which K12.7 billion were outstanding loans. MOB lends mostly to traders (46 per cent), manufacturing (25 per cent), services (18 per cent) and relatively small amounts to industry, construction and real estate. At end-2002, MOB had around 75,000 deposit account holders, K20.5 billion of deposits and around 650 employees. The MOB traditionally had one of the highest 'gearing ratios' (capital to assets) of any of the private banks in Burma, signifying its strong entrepreneurial focus. The MOB was one of the first banks to be permitted to recommence operations following the 2002/03 crisis.

Myawaddy Bank

The Myawaddy Bank is officially a private bank, but as an associate enterprise of the 'Union of Myanmar Economic Holdings Company' (UMEH) it at best, can be considered a 'semi-official' institution. Forty percent of the share capital of UMEH is held by the 'Directorate of Procurement of the Ministry of Defence', with the remainder of the shares allocated to serving military personnel, various armed forces' cooperatives and regimental associations, and veterans groups. Management of UMEH resides with senior figures within Burma's armed forces. The Chairman of Myawaddy Bank is Lt-Gen Tin Aye, who is also a member of the SPDC, while the Managing Director of the Bank is a retired military officer, Maj-Gen Win Hlaing. Not surprisingly, the Myawaddy has long been called the 'military bank' in Burma (Mya Maung 1998:92). Myawaddy Bank's Rangoon head office is located in the old Central Bank of Myanmar Building, a demonstration of its establishment status. According to Kyee-Mohn U Thaung, 'when Myawaddy Bank opened on January 4 1991, they declared that there would be no questioning of the depositors…'.[33]

Prior to the 2003 crisis, Myawaddy Bank was not particularly prominent and appeared to function more as a 'corporate treasury' than a bank. Indeed, even in 2005 the Bank's Deputy

---

[30] 'The nation's top 20 banks', *The Myanmar Times,* 4-10 March 2002, vol.6, no.105, and information privately acquired by the author.

[31] May Thander Win, 'FPB report provides new hope for banking sector', *The Myanmar Times,* 31 October-5 November 2005, vol.15, no.290.

[32] 'The nation's top 20 banks', *op.cit.*

[33] Kyee-Mohn U Thaung's comments are reproduced at http://rebound88.tripod.com/gp/eco/eco.html.

Managing Director, Tun Kyi, told the *Myanmar Times* that 'the companies under the UMEHL are major clients of the Myawaddy Bank, which facilitates their working capital and their operations'. However, the difficulties experienced by the other banks since 2003, have provided the Myawaddy with new opportunities. The aforementioned Tun Kyi boasted later that year that customers of the Bank were free to withdraw their deposits at any time and that, more broadly, Myawaddy had been able to offer its products and services throughout the crisis period and beyond – 'which other private banks haven't been able to do'.[34] For the 2004/05 financial year, the Myawaddy Bank claimed strong growth in deposits, with the *kyat* value of 'savings accounts' up 70 per cent year on year, and 'current (checking) accounts' up 72 per cent. Interestingly, it reported increases in the *number* of such accounts rose by only 7 and 4 per cent respectively, suggesting that the Bank's growth in deposits reflected either richer clients, or a rather dramatic change in saving proclivities. As at April 2005, the Myawaddy Bank had loans outstanding of K5.8 billion and deposits of K10.3 billion. In the same month the Myawaddy Bank's Chairman, Lt-Gen Tin Aye, said that the Bank was 'very reliable', pointing to a cash-to-deposits ratio of 58 per cent and a liquidity ratio of 51 per cent.[35]

Myawaddy Bank's loan portfolio is divided between manufacturing and industry (37 per cent), the trading sector (22 per cent), and the balance amongst 'service, foreign trading, construction, transportation, agriculture and other businesses'.[36] The Myawaddy Bank does considerable business with various local and semi-government bodies – including, the Yangon City Development Committee and the Border Areas Development Association.[37]

In 2005, because of its semi-official status, the Myawaddy Bank came under the 'restrictive measures' against Burmese state-owned enterprises levied by the European Union. These measures included travel restrictions to Europe upon the senior officials of such enterprises, as well as prohibitions against investment in them by European individuals and entities. The European travel restrictions affect upon two of Myawaddy Bank's directors, the aforementioned Tun Kyi and Brig. General Win Hlaing (European Union 2005:39).

In May 2006, Myawaddy Bank ostentatiously opened a branch in Pyinmana, the newly announced administrative 'capital' of Burma.[38] Overall, in 2006 Myawaddy Bank has 6 branches – in Rangoon, Mandalay, Monywa, Taunggyi, Phar Kant and Pathein. Tun Kyi says they would like to open more, but was at present stymied from doing so 'in accordance with the rules and instructions of the Central Bank' (sic).[39]

Co-operative Bank

Self-styled as a 'semi-government' bank, the Co-operative Bank could more accurately be described as a completely state-owned institution which operates under the Ministry of Co-

[34] Moe Zaw Myint, 'Banking sector shows signs of recovery after troubled year', *The Myanmar Times,* 22-28 December 2003, Vol.10, No.197.
[35] 'New Building of Myawaddy Bank', *New Light of Myanmar,* 2 May 2005.
[36] May Thandar Win, 'Myawaddy Bank to move Yangon branch', *The Myanmar Times,* April 11-17 2005
[37] Yan Naing Hein, 'Loans ease conversion to CNG for buses', *The Myanmar Times,* 1-7 August 2005, vol.14, no.277.
[38] Aung Lwin Oo, 2006 'A capital error', *The Irrawaddy,* online edition, May 2006, www.irrawaddy.org/aviewer.asp?a=5743&print=yes&c=e.
[39] 'New Building of Myawaddy Bank', *op.cit.*

operatives. The successor to various cooperative financial institutions that date back to the colonial era, the current Co-operative Bank was formed from the merger of three 'apex' co-operative banks on 15 June 2004. The merger of these three, the 'CB Bank' (established 21 August 1992), the Co-operative Farmers Bank' (6 July 1996), and the 'Co-operative Promoters Bank' (6 July 1996), gives the Co-operative Bank 13 branches across Burma and makes it one of Burma's largest banks. The Co-operative Bank had (as at the time of the merger) K24 billion in deposits and K1.5 billion in paid-up capital. It reported a surge in deposits after the worst period of the 2002/03 crisis was over, and claimed a tripling of deposits between February 2003 and June 2004. Lending recommenced in December 2003, following which the Bank's loan portfolio 'increased more than three-fold' according to Khin Maung Aye, the Co-operative Bank's Deputy Chairman and CEO. The latter has often spoken in the Burmese press about a share flotation of the Bank, but this has yet to eventuate.[40] The Co-operative Bank primarily lends to producer and consumer co-operatives of various types.

As noted above, the Cooperative Bank is actually an apex institution that sits atop over 2,000 credit cooperative societies in Burma that have a nominal membership of 4.5 million people, and 'shares and savings amounting to K4.6 billion.[41] In practice, most of these societies are moribund and provide little in the way of credit to their members.

Three Major (But Now Closed) Private Banks

Asia Wealth Bank

Established after many of the other leading banks, on 1 May 1995, but quickly emerged as the industry leader and, for most of the 'reform era', the largest of Burma's private banks. Indeed, by 2002 the AWB had become, in terms of assets, the largest of *all* banks in Burma, though the state-owned MEB continued to have more branches. By 2002 the AWB had 3,000 staff, 39 branches, '1,000 computers' and claimed that its market share of bank-lending in Burma was 45 per cent.[42] AWB was the first and most prominent of the new private banks to pursue 'retail' banking. It was also the first bank in Burma to aggressively pursue the use of information technology, claiming that 25 per cent of its operating costs (some K1.5 billion) were devoted to computerising its retail and back-office services. The AWB was the first bank in Burma to issue credit cards (in 1996). The take-up of credit cards was initially slow, however, with just 4410 being issued by 2001. Their use greatly accelerated in 2002 (the last functional year for the AWB) when 11,580 additional cards were issued (even so, it might be noted that in this aspect the AWB lagged behind Yoma Bank). In 2001, AWB launched an 'online' banking facility.[43]

AWB claimed that its lending portfolio was distributed to manufacturing and industry (40 per cent), traders (30 per cent), agricultural services (8 per cent), construction (6 per cent), hire purchase (6 per cent), and consumer loans (10 per cent). AWB conducted 50 per cent of

---

[40] May Thander Win, 'Billions of kyat flow back to the banks', *The Myanmar Times,* 19-25 July 2004, vol.12, no.225.
[41] Government of the Union of Myanmar (2002)
[42] 'The man with the money', *The Myanmar Times,* 23-29 December 2002, vol.8, no.147
[43] *ibid.* Information here was also gleaned from the AWB's website www.e-commerce.com.mm/AWB - which was subsequently 'taken down' following the bank's closure.

its business in Rangoon, 20 per cent in Mandalay and the rest elsewhere – including 5 per cent in 'border areas'.[44] Others asserted that the AWB's business along the China border, a prime transit point through which Burmese opium went out into the world, was much greater than its public documents suggested. The Bank was also said to be especially connected to Burma's 'leaders of national races', who were prominent recipients of its loans (Hawke 2004:21). More generally, the AWB was especially popular with Burma's ethnic Chinese business community. AWB's largest admitted loan (of K950m) was to a tyre manufacturer in Rangoon. The AWB claimed that it maintained a liquidity ration of 25-30 per cent.[45] At its peak, the AWB was extraordinarily profitable – reporting a return on equity of 54.56 percent for 2000-2001.[46] In the same year, it claimed non-performing loans of a mere 1.29 per cent of its lending portfolio. In 1996, AWB signed a joint-venture agreement with the 'Thai Farmers Bank' but, as noted above, the tie-up did not proceed.[47]

The AWB was founded by Aik Htun, a shadowy figure who emerged in the early 1990s from Kokang, 'an area notorious for opium production' (Maung Maung Oo 2001). Stories linking him to Burma's narcotics trade have never gone away, and he was said to have deep and long-standing links with Kokang 'national race leader' Pheung Kya-shin (Hawke 2004:18). Protests were staged in Thailand in May 2000 when Aik Htun was invited to attend an Asian Development Bank conference in Chiang Mai.[48]

Aik Htun maintained an elaborately constructed public image that belied the stories of his links to Burma's narcotics trade, and in numerous public appearances and press profiles he affected a 'rags to riches' story that chronicled his rise from being the son of a small-farmer from Mon Kaing in the Shan State. The narrative even included the vignette that he walked two miles to school each day, after which he completed his chores on the farm. Aik Htun maintained that he grew rich via a succession of enterprises, beginning with a 'tiny biscuit shop' in downtown Rangoon. He admitted that 'real riches' came to him, however, via his aggressive pursuit of 'border trade' following the 1988 'reforms' of the SLORC/SPDC. Aik Htun headed the 'Olympic Group', one of Burma's leading trading and property development conglomerates, which was very active in investing large sums in residential property and hotel developments in Rangoon. In reality, much of the AWB's loan portfolio consisted of advances to Olympic group affiliates. The AWB's managing director was Aik Htun's son, Aung Zaw Naing, and its chairman was Win Maung.

Aik Htun became the most prominent 'face' of Burma's private banking sector throughout the late 1990s, and up to the AWB's closure in 2003. He often publicly complained of the restrictions imposed on the commercial banks, especially with respect to the prohibition from conducting foreign exchange business. He once said that his business model was based upon targeting the top 10 per cent of Burma's population, and he expressed a desire to 'go

[44] *ibid.*
[45] 'The man with the money', *op.cit,* AWB website
[46] Return cited from AWB website, *op.cit.*
[47] 'The man with the money', *The Myanmar Times,* 23-29 December, vol.8, no.147
[48] News report, *The Irrawaddy,* June 2000, vol.8, no.6.

public' with the bank.[49] Aik Htun chafed at his fellow private bankers, telling one interviewer that he did not 'know why they all closed their mouths about calling for reforms'.[50]

AWB was named by the US treasury in November 2003 as an institution connected to drug trafficking organizations and with 'well-known criminal links'. In December 2003 the SPDC announced the suspension of the AWB's operating licence, and on 31 March 2005 it was formally revoked. Aik Htun continues to head the Olympic Group of companies, and continues to deny any involvement in the narcotics trade. A number of this author's sources (many of high credibility), regard Aik Htun, and the AWB, as the 'fall guy' for the 2002/03 crisis. Politically less connected than competitors such as the Kanbawza and Myawaddy Banks, the AWB's strong links with Burma's economically strong ethnic Chinese business community certainly made it a convenient target. Upon all of this, however, the jury must remain well and truly out.

Myanmar Mayflower Bank

Established 9 June 1994 by Kyaw Win – an ethnic-Chinese business figure and 'former Baptist lay-preacher' (Hawke 2004:18). Kyaw Win was long linked with interests believed to be connected with the narcotics trade, and in 1997 he bought Yangon Airways, before selling it in 2000 to the United Wa State Army (Hawke 2004:18). One of the most innovative and fastest growing of the private banks, from the outset Mayflower had a strong retail-focus. It introduced Burma's first Automatic Teller Machine (ATM), in November 1995. The Mayflower signed a Memorandum of Understanding in 1996 with the 'Siam City Bank' of Thailand to establish a joint venture bank, but nothing subsequently came of it. On 23 July 1996, MMB was authorised to provide international banking services and given a licence to deal in foreign exchange. This was revoked in July 2001, along with all the other private banks hitherto authorised to conduct foreign exchange transactions (Myat Thein 2004:172). A misstep in a story of otherwise seeming growth came in July 1996 when rumours swept Rangoon that Mayflower was on the verge of insolvency. The rumours, which were not true, centred on a story that the Bank's directors had all resigned and that the Chairman of the Bank, U Kyaw Win, had fled to Singapore. The rumours and subsequent panic were sufficiently serious for Burma's then Minister of Finance, Brig. General Win Tin, to appear on 23 July 1996 to refute the rumours. He also declared that the Bank was 'operating in accordance with relevant banking laws and rules' – a claim a later Finance Minister would do a *volte face* upon.[51]

At its peak, Mayflower was the third-largest bank in Burma, and immediately before the 2002/03 crisis had K156.7 billion in assets, of which loans outstanding amounted to K129.1 billion. Lending was concentrated in trading (43 per cent), industry (16 per cent), and services (16 per cent), with the remainder an unspecified mix of consumer and real-estate loans. Deposits stood at K50.9 billion, shared amongst approximately 190,000 depositors. Mayflower had 24 branches throughout Burma, and just over 1,000 employees.[52] Known

---

[49] Aung Kyaw Tha, 'Credit cards usher in online shopping', *The Myanmar Times,* 23-29 December 2002, vol.8, no.147.
[50] 'The man with the money', *op.cit.*
[51] *Myanmar Perspectives,* vol.2, no.8, online edition - www.myanmar.gov.mm/Perspecutive/persp1996/8-96/ECO.htm
[52] 'The nation's top 20 banks', *op.cit.* and information privately acquired by the author.

from very early on by people in Burma as the 'Poppy-Flower Bank', because of suspicions it was involved in money laundering. Much of Mayflower's lending portfolio was made up of loans to 'leaders of national races' and, as such, must have seemed as if they had a degree of government-guarantee (Hawke 2004:21).

In November 2003 the Mayflower Bank was named by the US Treasury (alongside the AWB) as an institution connected to drug trafficking organizations and with 'well-known criminal links', and the following month the SPDC announced the suspension of Mayflower's banking licence. On 31 March 2005, Mayflower's banking licence was revoked. Finally, on 22 February 2006, the Mayflower Bank announced that all remaining depositors would be required to withdraw their funds by the end of the week, and that any remaining deposits would be transferred to the Government.53 Unlike the AWB, the Mayflower Bank has few credible local or international defenders against the charges laid against it with respect to Burma's narcotics business.

Myanmar Universal Bank (MUB)

Another of the large private banks founded by a Sino-Burmese, in this case a businessman who went by the name of Tin Sein (purportedly a resident of Shan State). Tin Sein, and the MUB itself, came to be strongly associated with Wei Hsueh-kang, a Chinese-born businessman (Hang Pang Company) who had been indicted for narcotics-trafficking in both the United States and Thailand, and was believed to be linked to both the opium trade *and* the financing of methamphetamine factories (Hawke 2004:18).

The MUB was established on 23 January 1995. At its peak, before the 2002/03 crisis it had total assets of K19.1 billion, total loans outstanding of K13.0 billion, total deposits of K21 billion and 125,000 depositors. The MUB had a mixed retail/business focus and had 26 branches and around 1,500 employees. Its lending was mostly to traders of various types (53 per cent), with the remainder to a mix of small manufacturers, service and transport enterprises, hire purchase and consumers generally.[54] One of the 'innovative' ways that the MUB tried to attract customers in the early days was to run a 'lucky draw' scheme for regular customers every six months, with prizes of TVs, refrigerators and washing machines.[55]

On 5 August 2005, Tin Sein was arrested (as was the Bank's Managing Director) by the Burmese authorities and troops sealed off the branches of the MUB. Various statements were made by the Burmese authorities to the effect that the Bank was not in compliance with CBM laws, but otherwise no reasons were given for the arrests and branch closures. Rumours linked the events both to the SPDC's desire to appear to be 'getting serious' with regard to money laundering, as well as the strong personal links between the MUB's owners and managers and the just-deposed Prime Minister of Burma, Khin Nyunt.[56]

---

[53] News item in *7 Days News* [Burmese publication], 2 March 2006, vol.5, no.1

[54] 'The nation's top 20 banks', *op.cit.*, and information privately acquired by the author.

[55] The scheme was outlined in the commercial web pages of the Embassy of Myanmar in Geneva, http://mission.itu.ch/MISSIONS/Myanmar/00nlm/n000423.htm

[56] 'Myanmar Universal Bank taken over', *The Irrawaddy,* 9 August 2005, online edition, www.irrawaddy.org, 'Myanmar Universal Bank scam latest', *Democratic Voice of Burma,* 9 August 2005, http://english.dvb.no/news.php?id=5359.

Some Smaller Players

Myanmar Citizens Bank (MCB)

The first 'private' bank to be established (on 2 June 1992) since private banks were nationalised in 1963. In fact, the MCB has long been majority (currently 56.3 per cent) government-owned. In February 2006, however, the MCB announced an 'initial public offering' (IPO), and reported that it had subsequently received 25,200 applications to buy shares. At the same time, it signed an agreement with the Myanmar Securities and Exchange Center to allow for the public trading of its stock.[57] The MCB announced the formation of two joint-venture schemes – in 1996 with Thailand's 'Siam City Bank', and in 1997 with the 'Public Bank' of Malaysia.[58] The MCB has one office (in Rangoon) and just over 100 employees. Immediately prior to the 2002/03 crisis, the MCB had nearly 17,000 depositors, total deposits of K3.6 billion and total loans outstanding of K1.4 billion. The Bank's loan portfolio was allocated to trading enterprises (42 per cent), industry (24 per cent), service operations (15 per cent), transport (8 per cent), consumer loans (5 per cent), agricultural services (4 per cent) and construction (2 per cent).[59]

In August 2006 the Ministry of Commerce (through which the government's shareholding is administered) announced a plan to convert the MCB into an 'import/export' bank to provide financing to Burmese trading firms. To this end, trading firms in Burma would be encouraged to buy shares in the Bank. Little other details were disclosed at the announcement, which took place at the MCB's annual meeting, held for the first time Nay Pyi Taw (Pyinmana).[60]

Yangon City Bank

Yangon City Bank is backed by the 'Yangon City Development Committee' of the municipal authorities in Rangoon. The Yangon City Bank was established on 1 April 1993 and currently has only one office, in Rangoon. Very little is known about the bank, and its operations are on a small scale.

Innwa Bank

Wholly-owned by 'Myanmar Economic Corporation', another of the conglomerates owned by current and former officers of Burma's armed forces. As such, Innwa Bank is regarded both within and outside Burma as a 'semi-official bank'. Established on 28 November 1997, Innwa Bank currently has 10 branches and, according to the 'latest' data available (September 2000), had deposits of K4.9 billion and total loans of 2.0 billion. Because of its ownership and activities, Innwa Bank is subject to the restrictions imposed under the European Union's 'Common Position' on dealings with institutions and individuals materially connected to the SPDC regime.[61]

---

[57] *Flower News* [Burmese publication], 22-28 March 2006, vol.2, no.12.
[58] 'MCB, Public Bank of Malaysia sign MOU to establish joint-venture bank', *The New Light of Myanmar,* 8 March 1997
[59] 'The nation's top 20 banks', *op.cit.*, and information privately supplied to the author.
[60] *Xinhua News,* 21 August 2006.
[61] Details of the 'naming' of Innwa Bank can be found at: http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/l_049/l_04920050222en00370040.pdf

Tun Foundation Bank

Established 14 June 1994 by Thein Tun, another outspoken Burmese business identity who for many years was colloquially known as 'Mr Pepsi' (he was Pepsico's business partner in Burma before that company's withdrawal from the country). Tun Foundation Bank is held in higher regard than most of Burma's banks, and has a number of respected figures on its board. As with a number of banks noted in these pages, Tun Foundation saw its relative position improve following the 2002/03 crisis. For the 2003/04 financial year (the latest publicly available data for the Bank), Tun Foundation Bank saw its deposits increase from K1.8 to K2.5 billion. Tun Foundation Bank has a reputation as a cautious lender, but it is reasonably prominent in lending to various Rangoon real estate developments.

Tun Foundation Bank has strong links with a number of higher education institutions in Burma, but particularly the Yezin University of Agriculture, where it offers a number of undergraduate scholarships. More generally, Thein Tun has a carefully constructed persona in Burma as a philanthropist, and claims that all of Tun Foundation Bank's profits are distributed to various worthy causes.

In August 2006, Tun Foundation Bank announced that, in the calendar year to date, deposits had reason by 18 per cent and that, more generally, the banking sector had at last seen 'significant progress' in its recovery. The Bank's Chairman, Thein Tun, commented at the same time that his Bank was now scrutinising potential borrowers 'more closely' than had been the case before the 2002/03 crisis, but that otherwise lending was now 'back to normal'.[62]

Asia Yangon Bank

Asia Yangon Bank was founded 18 October 1994 and with only one office, in Rangoon. Primarily a wholesale bank, the Asia Yangon Bank lends mostly to manufacturing and processing enterprises (40 per cent), wholesale distributors (33 per cent), transportation enterprises (11 per cent) and retail traders (16 per cent). Given its wholesale focus, Asia Yangon Bank had only 2,800 deposit accounts (K215 million) at the banking sectors 'peak' in late 2002. At that time its loan portfolio stood at K175 million, and total assets at K414 million. The large discrepancy between the latter two numbers suggests the Bank would likely have held a large proportion of its assets in government bonds. Given this, its proportion of loans classified as 'non-performing' in late 2002, of just over 7 per cent, appears strikingly high. At its peak, Asia Yangon Bank had 30 employees at its single office, and it continues to be a modest operation.[63]

Myanmar Industrial Development Bank (MIDB)

This 'semi-government' bank is something of a 'pilot' for what was originally planned as a series of 'industrial development banks' in various 'industrial zones' proposed across Burma. These plans have yet to be realised, and the MIDB currently has three branches (in Rangoon, Mandalay and Meikhtila), and 150 staff. The MIDB was created in 1996 by the 'Myanmar Industrial Development Committee', and was initially financed via a special K2 billon from the CBM, levied at 4 per cent per annum interest (FAO 2004b:1).

[62] 'Banks claim a solid recovery', *Myanmar Times,* 31 July – 6 August 2006, vol.17, no.327

[63] 'The nation's top 20 banks', *op.cit.*, and information privately supplied to the author.

Partly in response to the system-wide contraction in credit in the wake of the 2002/03 crisis, the MIDB has somewhat lifted its profile and activity over recent years. In 2004/05 the MIDB lent K.3.24 billion (up from K660 million the previous year), had deposits of K4.16 billion (K3.7 billion in 2003/04) and reported a net profit for the year of K180 million. As its name implies, the MIDB lends primarily (70 per cent of total lending) to what it calls the 'industry sector' (mostly within the industrial zones), with the remainder primarily to 'private cottage industries'. The FAO reports (2004b:17), that the MIDB 'is not concerned about its profitability' and instead makes advances simply 'for industrial development'. In 2004/05, the MIDB bought K1.45 billion of government bonds - a considerable amount given the size of its lending and total balance sheet. The MIDB reported that non-performing loans amounted to 3.1 per cent of its loan book. The MIDB is majority government-owned as noted, but has 294 'public' shareholders. The Bank's chairman is currently Major-General Saw Lwin, who is also Minister of Industry (2) within the SPDC regime.[64]

Myanmar Livestock & Fisheries Development Bank (MLFDB)

This semi-government bank has, as its name suggests, a limited function centred upon the provision of finance for the livestock and fisheries industries in Burma. It operates under the close supervision of the Ministry of Livestock and Fisheries. The MFLDB was established on 5 February 1996, and (as at June 2006) had 8 branches in mostly coastal and inland fisheries townships. According to one multilateral agency, as at end-March 2003 the MLFDB had loans outstanding of K9.9 billion. The MFLDB accepts deposits from various small enterprises in its target market, but in many ways it functions more as a government funding agency than a bank.[65] The MFLDB has a program to extend cattle raising loans in Chin State.[66]

According to information provided to the author by a number of sources (and in great contrast to the MADB), the MFLDB enjoys a good reputation amongst its clientele.

Sibin Tharyar Yay Bank

Formally classified as a 'semi-official' bank, in fact the Sibin Tharyar Bank is best considered as an instrument of the central government. Established under the 'Ministry of Border Area, National Races and Development Affairs' yet, the Bank has only one branch, in Rangoon. Immediately prior to the 2002/03 crisis, Sibin Tharyar Yay Bank had 3,555 depositors, K960 million in deposits, total assets of K2.3 billion and loans outstanding of K1.8 billion. The Bank says that its lending is made to traders (47 per cent), services (21 per cent), construction (13 per cent), industry (15 per cent) and agricultural services (4 per cent). Sibin Tharyar Yay Bank had 60 employees in its one office in late 2002.67 Its operations clearly were, and remain, modest. The role of the 'border areas Ministry' in the Bank's operations remains unclear.

---

[64] Ye Lwin, 'Bank loans for industrial sector rise by four times', *The Myanmar Times,* 18 July 2005, 'The nation's top 20 banks', *op.cit.,* and information privately gathered by the author.
[65]'The nation's top 20 banks', *op.cit.,* and information privately gathered by the author.
[66] Thein Linn, 'Bank provides cattle loans', *The Myanmar Times,* 19-25 June 2006, vol.17, no.321.
[67] *ibid.*

Yadanabon Bank

Yadanabon Bank, which was founded 11 September 1992 is a very small operation of which very little is known. As far back as 2000 it had K102 million in deposits and loans outstanding of K194 million. The Bank was generally known before the 2002/03 crisis for its conservatism, and the low-scale of its activity.68

Bankers Association

On April 1 1999, Burma's commercial banks came together at the behest of the CBM to establish the 'Myanmar Banks Association'. Its published objectives include the 'nation-building' exhortations universally found in the articles of any organisation in Burma, but they also included measures to facilitate cooperation amongst the country's banks (mostly via the holding of monthly meetings in Rangoon), and the sponsorship of education programs to 'initiate and promote the peoples' habit in dealing with banks'.[69] The Association appears to have played little constructive role during the crisis of 2002/3, when cooperation between Burma's banks was more to be noted by its absence.

Reach Out to China

As this paper was in preparation news broke that Burma's Prime Minister, Soe Win, had held a series of meetings (in Naypyidaw) with the President of the 'China Development Bank' – seeking advice on how to proceed with further bank reform in Burma. Of course, bank reform is a somewhat fitful and imperfect process in China itself, but this is a development worth following.[70]

References

Asian Development Bank (ADB) 2005, *Asian Development Outlook 2005,* Manila: ADB.

Aung Din Taylor, D. 2002, 'Signs of distress: Observations on agriculture, poverty, and the environment in Myanmar', paper delivered to the Conference on Burma: Reconciliation in Myanmar and the Crises of Change, School of Advanced International Affairs, Johns Hopkins University, Washington D.C., 22 November 2002.

Barnes, W. 2001, 'Bank guests close to junta, drug lords', South China Morning Post, 17 May 2001.

Bradford, W. 2004, '*Fiant fruges*? Burma's *sui generis* growth experience', *Burma Economic Watch*, no.2/2004, pp.6-14.

Dapice, D. 2003, 'Current economic conditions in Myanmar and options for sustainable growth', *Global Development and Environment Institute Working Paper* No.03-04, Tufts University.

de Krivoy, R. 2000, 'Reforming bank supervision in developing countries', in E.S. Rosengren and J.S. Jordan (eds), *Building an Infrastructure for Financial Stability,* Federal Reserve Bank of Boston Conference Series, No.44, June, pp.113-133.

Economist Intelligence Unit 2004, *Burma (Myanmar): Country Report,* London: Economist Intelligence Unit.

---

68 *ibid.*

69 Information about the Myanmar Banks Association can be found at the official website of the Ministry of Finance and Revenue, www.myanmar.com/Ministry/finance/central_page.htm

70 'Myanmar asks China for bank help', *Reuters,* 4 August 2006.

Economist Intelligence Unit 2005, *Burma (Myanmar): Country Report,* London: Economist Intelligence Unit.

Economist Intelligence Unit 2006, *Burma (Myanmar): Country Report,* London: Economist Intelligence Unit.

Food and Agriculture Organisation of the United Nations (FAO) 2004a, *Myanmar: Agricultural Sector Review and Investment Strategy. Volume 1: Sector Review,* Rome: FAO.

Food and Agriculture Organisation of the United Nations (FAO) 2004b, *Myanmar: Agricultural Sector Review and Investment Strategy. Working Paper 9: Rural Finance,* Rome: FAO.

Financial Action Task Force 2005, *Annual Report 2004-0,* www.fatf-gafi.org/dataoecd/41/25/34988062.pdf

Financial Action Task Force 2006, *Chairman's Summary, Cape Town Plenary, 15-17 February 2006* ww.fatf-gafi.org/dataoecd/16/23/36174130.pdf

Government of the Union of Myanmar 1990a, *Central Bank of Myanmar Law,* Rangoon: State Law and Order Restoration Council.

Government of the Union of Myanmar 1990b, *Financial Institutions of Myanmar Law,* Rangoon: State Law and Order Restoration Council.

Hawke, B (pseudonym) 2004, 'Burmese banking: The Yangon laundromats burnout explained', *The Irrawaddy,* vol.12, no.4, April: 17-21.

International Monetary Fund (IMF) 1999, *Myanmar: Statistical Appendix*. Washington D.C.: IMF.

International Monetary Fund (IMF) 2006, *International Financial Statistics* (various issues), Washington D.C.: IMF.

Maung Maung Oo (2001), 'Above it all', The Irrawaddy, February, vol.9, no.2, www.irrawaddy.org/February/above%20it%20all.html

Mya Maung 1998, *The Burma Road to Capitalism*. New York: Praeger.

Myanmar Central Statistical Office (MCSO) 2006, *Selected Monthly Indicators,* Rangoon, MCSO www.csostat.gov.mm/

Myat Thein 2004, *Economic Development of Myanmar,* Singapore, Institute of Southeast Asian Studies.

Okamoto, I., Kurita, K., Kurosaki, T. and Fujita, K. 2003, 'Rich Periphery, Poor Center: Myanmar's Rural Economy under Partial Transition to Market Economy, mimeo, Institute of Economic Research, Hitotsubashi University, October.

Parker, C. and Yeni 2006, 'Rangoon agencies await their fate', *The Irrawaddy,* 8 February 2006 www.irrawaddy.org

Rojas-Suarez, L. 2002, 'Can international capital standards strengthen banks in emerging markets?', *Institute for International Economics Working Paper,* no.1-10.

Thawnghmung, Ardeth Maung 2004, *Behind the Teak Curtain: Authoritarianism, Agricultural Policies and Political Legitimacy in Rural Burma*, London: Kegan Paul.

Turnell, S.R. 2002, 'Reforming the banking system in Burma: A survey of the problems and possibilities', *Technical Advisory Network of Burma, Working Papers* 7, Washington D.C.: The Burma Fund.

Turnell, S.R. 2003, 'Myanmar's banking crisis', *ASEAN Economic Bulletin,* vol.20, no.3, December, pp.272-282.

Turnell, S.R. 2004a, 'Burma bank update', *Burma Economic Watch,* no.1/2004.

Turnell, S.R. 2004b 'Fiery Dragons? The *Chettiars* in Burma', International Union of Anthropological and Ethnological Sciences Conference, University of Calcutta, India, 12-15 December 2004.

Turnell, S.R. 2004c, 'Some further developments in Burma's financial sector', *Burma Economic Watch,* No.2/2004.

Turnell, S.R. 2005a, 'The rise and fall of cooperative credit in Colonial Burma', *Macquarie Economics Research Papers,* no.9 2005.

Turnell, S.R. 2005b, 'Central banking at the periphery of the British Emoire: Colonial Burma, 1886 – 1937', *Macquarie Economics Research Papers,* no.11 2005.

Turnell, S.R. 2005c, 'The *Chettiars* in Burma', *Macquarie Economics Research Papers,* no.12 2005.

Turnell, S.R. 2005d, 'A Survey of Microfinance Institutions in Burma' *Burma Economic Watch,* no.1/2005.

Turnell, S.R. 2006a, *Burma's Economic Prospects,* Testimony before the United States Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs, 29 March 2006.

Turnell, S.R. 2006b, 'Burma's economy 2004: Crisis masking stagnation', in T.Wilson (ed), *Burma Update 2004,* Singapore: Institute of Southeast Asian Studies.

United Nations Development Programme (UNDP) 2003, *Human Development Initiative, Myanmar: Report of Independent Assessment Mission,* New York: UNDP.

United Nations Development Programme (UNDP) 2006, *Human Development Initiative, Myanmar: Report of Independent Assessment Mission, 4-29 July 2005,* New York: UNDP.

United States Department of State 2005, *International Narcotics Control Strategy Report,* Washington D.C., State Department www.state.gov/r/pa/prs/ps/2005/43018.htm

Vicary, A.M. 2004, 'The state's incentive structure in Burma's sugar sector and inflated official data: A case study of the industry in Pegu Division', *Burma Economic Watch,* no.2/2004, pp.15-28.

World Bank 2002, *World Development Report 2002: Building Institutions for Markets,* New York, Oxford University Press.

Ye Lwin 2006, 'Traders urged to use Euro for transactions', *The Irrawaddy,* 6-12 February 2006.