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Banking on financial sector reform

A specialist in rural microfinance, **Dr Hans Dieter Seibel** is professor emeritus at the University of Cologne in Germany and a board member of the Luxembourg-based European Microfinance Platform. Recently he visited as part of a European Union delegation that jointly organised a workshop in Yangon on the development of the financial sector. The Myanmar Times spoke to Dr Seibel after he presented a paper titled ‘Role of the Financial Sector in Supporting Economic Growth and Poverty Reduction’ at the November 7-8 workshop

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Dr Hans Dieter Seibel (back row, third right) and other participants pose for a photo following a November 7-8 workshop at Yangon’s Chatrium Hotel.
Pic: Thet Htoo

How would you describe Myanmar’s financial sector?

The financial sector in Myanmar – its banking sector, the central bank, microfinance – is functioning way below its potential. The main reason for that seems to be that it is being held back by the government, by legislation. The government is restraining the potential of the private banks, of the public banks, that is the agricultural bank in particular, of the microfinance institutions, by imposing very restrictive laws. The sector is not very well regulated. It is not very well supervised.

The basic concept of the financial sector is financial intermediation. That means collecting deposits or other financial resources on the one hand and then converting them into credit. And there has to be [a] bond, of course, between the two. [But] the great advantage of putting emphasis on the deposit taking, not on credit-only, is that deposits are unlimited. And therefore there [can be] unlimited growth of credit. This has one other advantage. If a bank takes deposits, then it is accountable to its depositors. Only when the loans are repaid can the financial institution repay the depositors. So [the institution] has to make sure the loans are repaid.

What should the priorities be in terms of revitalising the financial sector?

Liberalisation! If we put it into a single term, it is liberalisation. Government has to relax the laws, give the power of decision making back to the banks, give it to the microfinance institutions, give it to the village funds. The government has to liberalise the system and has to give the autonomy to the central bank, and first of all autonomy to the private banks, autonomy to the microfinance institutions and the village banks. And autonomy means autonomy in management, autonomy in governance, autonomy in interest rate determination, autonomy in all financial processes.

Financial management is not the business of the government. This is the experience made in dozens and dozens of countries. If a country doesn't obey that law, it pays the heavy price of under-development … that makes the poor poorer, it makes the country poor, it makes the financial institutions poorer. But liberalisation, yes, you will also need a framework, a regulatory framework. And that regulatory framework has to be prepared in cooperation between the central bank, Ministry of Finance and … all the institutions involved. They have to enter into a consultative process and work out the terms because there is no set of terms that you can see and take from the text books.

One development that we've seen is the government pushing microfinance as a tool for poverty reduction.

Liberalisation also pertains to the microfinance law. What I understand is that once you put a cap on interest rates in microfinance, this means it is restraining their growth. What you need is the growth of microfinance institutions, growth of its outreach so that every person in the countryside has the possibility of depositing their savings in local institutions and getting a loan. And in addition to that, getting some insurance, getting payment services, getting remittances, all this has to be packed into this.

The second point here is that, when microfinance institutions are restrained, [when] the law sets or defines the limit of microcredit – that is very dangerous. I think microcredit [should be] permitted to every financial institution. Banks must be permitted to provide microcredit, microloans. Microfinance institutions ... [and] village funds must be permitted. If we set a limit that means we are excluding all the powerful institutions. So I think the government has to engage in dialogue with other countries in the region, with Vietnam, with Indonesia, with Malaysia, with countries that have … in the past paid a very high price for wrong, inappropriate policies.

What is the main challenge in reforming the financial sector?

Here again it depends on the political will. We have to convince the government to come up with the political will to reform its institutions and to liberalise the system, strengthen the central bank, strengthen the private banks, government banks and microfinance institutions. The political will – that is the key to everything. And for that, the government has to be well advised. I realise that in this country there are a lot of good advisers.

What path is financial sector development likely to take then?

Well, there is no answer to this because it all depends on the government's political will, the interaction with other stakeholders and the consultation process. But one thing we have to realise is that the development of a financial sector is not a matter of years, it is a matter of decades. It doesn't mean we must develop the financial sector right away, within two or three years. I think we have to be realistic. Economic development, economic growth and development of the banking sector is a lengthy process.

But at the same time we have seen examples in countries where decisions have been taken very quickly and have been implemented very quickly; decisions with regard to opening the markets, introducing a market economy … reforming the banking sector. The prime example here I think is Vietnam, where on the one hand the government and the central bank took a very strong role in reforming the system, the economy and the banking sector, [and] on the other hand this process took place very quickly. So we have some examples where it [occurs] very quickly. But we shouldn't be too optimistic; in most countries economic reform takes a long time but some countries do it quickly. Why? Because the political will was there.

Does the policy need to be tailored to the country's conditions?

Yes, that's right. It has to be worked out in a way which is appropriate to the country to get suitable terms for the regulatory framework. When we are talking about Myanmar, we have to make sure the right methodology has been used. We can compare with countries in the region because many countries in the region have gone through positive experiences and through negative experiences. And there is a lot of research on this.

And how about your experiences in Myanmar on this trip?

I must say I was very much delighted by the level of the presentations and discussions here and the experts from Myanmar. [I was] really impressed. I listened to their presentations and felt that [Myanmar] doesn't need someone like me to come from outside. The people here in Myanmar [and] in the region, the government has to listen to them. And I want to add one more thing: I think the government has in fact started to listen.

Note: Typographical errors corrected