Charltons - Myanmar Highlights - 14 November 2018

[online version](https://www.charltonsmyanmar.com/central-bank-of-myanmar-issues-notification-permitting-foreign-banks-to-provide-wholesale-banking-services-to-myanmar-businesses/)

Central Bank of Myanmar issues notification permitting foreign banks to provide wholesale banking services to Myanmar businessesCentral Bank of Myanmar issues notification permitting foreign banks to provide wholesale banking services to Myanmar businesses

Pursuant to Central Bank of Myanmar (“**CBM**”) Notification No. 6/2018, foreign banks in Myanmar will be permitted to provide commercial services, putting them on a more equal footing with the countries local banks.  According to CBM Vice-Governor. U Soe Thein, a further implementing notification will soon be issued to deal with technical issues and to set out the exact scope of the banking services foreign banks will be permitted to provide.  Local businesses have welcomed the move, which comes after the CBM permitted foreign banks to provide export financing in December 2017, followed by banking services related to the provision of export financing earlier this year.   Until now foreign banks have been limited to lending to foreign entities in foreign currencies only. There are now branches of 13 international banks from China, Japan, Singapore, India, Malaysia and Vietnam listed with the CBM, while 49 other banks have established representative offices in Myanmar. The CBM’s decision comes at a time when the US dollar is expected to rise further in value against the Myanmar Kyat with the US Federal Reserve widely expected to raise interest rates in the near future.  The move is expected to encourage competition and provide growth opportunities in the banking sector at a time when demand for credit is expected to rise. For example, several local banks have already started to provide mortgage loans to finance housing investments, which has the potential to be a fast-growing market. According to the ASEAN+3 Macroeconomic Research Office (“**AMRO**”), the Myanmar banking sector also stands to gain from lending more to the manufacturing sector. Due to a restriction on loan terms, credit to the private sector has mainly gone to agriculture, trade and service activities, which accounted for 59% of total outstanding loans as of the 31 October 2017, while loans to manufacturing companies accounted for just 10%.  On the downside, rapid growth in credit has led to deterioration in bank asset quality and profitability, with non-performing loans (“**NPLs**”) on the rise over the past four years. According to AMRO Myanmar banks are now also adjusting to a stricter regulatory regime. Since the CBM announced new prudential regulations for the sector in July 2018, credit growth slowed to 23.4% in March 2018 from 33.5% one year ago.  (Source: [*https://www.mmtimes.com/news/central-bank-allows-foreign-banks-lend-local-businesses.html*](https://www.mmtimes.com/news/central-bank-allows-foreign-banks-lend-local-businesses.html); 12 November 2018)

**Myanmar Government enters into agreement with** **CITIC to develop Kyaukphyu SEZ**

The Myanmar Government and the China International Trust and Investment Corporation (“**CITIC**”) have finalised a framework agreement in respect to the development of the Kyaukphyu Special Economic Zone (“**Kyaukphyu SEZ**”) in Rakhine State. The project will give China access to the Bay of Bengal while enhancing its regional connectivity as part of Beijing’s Belt and Road Initiative (“**BRI**”). Thanks to its strategic location between China, India and ASEAN the Kyaukphyu SEZ is uniquely positioned to serve as a trade corridor connecting the three economies. Identifying the Kyaukphyu SEZ project, which includes a deep seaport, as a part of the BRI, Commerce Minister U Than Myint described the signing of the agreement between the Kyaukphyu SEZ Management Committee and CITIC was an “initial success”. According to the initial master plan, the Kyaukphyu SEZ will cover a total of 520 hectares — 20 hectares are to be allocated to the port area, 100 will be designated towards the development of housing and 400 towards the development of an industrial park. 50% of the industrial land is to be allocated to fishery related businesses, 30% to garment factories and the remainder to other small and medium sized enterprises. In 2015, CITIC struck a shareholders agreement (“**2015 Agreement**”) with the previous Myanmar government of President Thein Sein.  Pursuant to the 2015 Agreement the Chinese developer was to take an 85% stake in the project and Myanmar the minority stake. Critics of the project raised concerns that the deal could lead Myanmar into a debt-trap with China. After subsequent negotiations following the coming to power of the NLD government, China agreed that Myanmar would hold a 30% stake in the project. The 2015 Agreement had envisaged capital investment of between US$9 - 10 billion, but current SEZ chairman Deputy Planning and Finance Minister U Set Aung that the two sides had since agreed that the project could be completed with reduced capital funding. CITIC chairman Chang Zhenming said the framework agreement reflected the Myanmar Government’s wish to promote economic and social development in Kyaukphyu and attract foreign investment. According to the framework agreement, a joint Myanmar-Chinese consortium will have concession rights to operate the port. The first phase of the project would be carried out after environmental and social impact assessments have been completed. Phase 1 will involve the construction of two jetties with a total investment of not more than US$1.3 billion. The project is for a term of 50 years. Once the seaport and Kyaukphyu SEZ are in operation, they are expected to provide 100,000 jobs for local people. According to CITIC, the Government will earn US$7.8 billion in revenue from the Kyaukphyu SEZ and US$6.5 billion from deep seaport. (Source: [*https://www.irrawaddy.com/news/burma/govt-inks-agreement-chinese-firm-develop-kyaukphyu-sez.html*](https://www.irrawaddy.com/news/burma/govt-inks-agreement-chinese-firm-develop-kyaukphyu-sez.html); 8 November 2018)

**KM Terminal & Logistics and Resource Group open Myanmar’s first dry ports**

KM Terminal & Logistics Ltd (“**KM**”) and the Myanmar-owned Resource Group (“**RG**”) have officially opened two separate dry port projects in Ywar Thar Gyi, Yangon and Myit Nge, Mandalay. A dry port is an inland intermodal terminal directly connected by road or rail. Freight trains will run from Ywar Thargyi to a second dry port in Myit Nge, Mandalay, which KM will also own and operate. KM has said it has invested over US$50 million (or approximately Kyats 78 billion) in both ports. KM is a joint-venture 70% owned by the Kerry Logistics Group and 30% owned by its Myanmar partner Mother Logistics Limited.  Myanmar-owned RG has invested US$40 million in a similar project under which freight trains will run from its Ywar Thar Gyi dry port in Yangon to its Myit Nge dry port in Mandalay, according to RG. The two projects are expected to improve Myanmar’s logistics network. The Yangon dry ports will handle cargo directly transferred from the Yangon river ports and Thilawa ports and help to alleviate traffic congestion on the roads. It will also speed up the flow of cargo between vessels and major land transportation networks, which adds value for consignees and exporters.  U Myint Maw, managing director of RG, said the ports will help to streamline trade flows and decrease logistics costs. In 2017, Myanma Railways, which operates under the authority of the Ministry of Transport and Communications, signed agreements with KM and RG to construct the dry ports under a build, operate and transfer system.  Myanmar ranks 137 out of 160 countries on the World Bank’s logistics performance index 2018. (Source: [*https://www.mmtimes.com/news/myanmars-first-dry-port-opens-business.html*](https://www.mmtimes.com/news/myanmars-first-dry-port-opens-business.html); 12 November)

**EME Myanmar takes significant minority stakes in CarsDB, Joosk**

Myanmar-focused early-stage venture capital firm Emerging Markets Entrepreneurs (“**EME Myanmar**”) Myanmar, has taken a significant minority stake investment in CarsDB, an online platform for trading new and used cars, and Joosk Pte. Limited, a digital animation and illustration company, according to an announcement. The new fund, EME Myanmar, was launched last month by UMJ Ikeya Investment Ltd, a Myanmar-focused investment firm with backers including Emerging Markets Investment Advisors (“**EMIA**”), United Managers Japan, the Dutch Good Growth Fund and Singapore-based angel investor, Dr. Yit Fan Wong. This portal previously reported that EME Myanmar, with an initial corpus of nearly US$3 million, is looking for investments of between US$50,000 and US$200,000 with options to make follow-on rounds in promising companies. The investment in CarsDB is a joint investment between EME Myanmar, which led the round, and another investor. In 2014, the classifieds portal secured its first round from Australian-listed investment firm Frontier Digital Ventures. EME Myanmar is also seeking to leverage on its partners, Oway for vehicle hire, and GL AMMK, which owns exclusive rights to finance Honda bikes in Myanmar, for auto financing. Oway, GL-AMMK and Bagan Innovation Technology are among the investments of UMJ Ikeya. Joosk – known for its animation series Gwen University and ‘Bee Bee and Friends’ – has previously received investment from Ikeya Capital Management. Its clients include institutions like World Bank, UNICEF and WFP. EME Myanmar is looking to support Joosk with business development, financial analysis and B2B sales. EME Myanmar announced it will facilitate the digital distribution of Joosk’s upcoming app through the platforms of Bagan Innovation Technology. Other early-stage investment firms such as Seed Myanmar, Rockstart Impact and Seedstars are among those aiming to support the development of the startup ecosystem of Myanmar.  (Source: *https://www.dealstreetasia.com/stories/eme-myanmar-takes-significant-minority-stakes-in-carsdb-joosk-110618/*; 7 November 2018)

**SGX-listed Yoma Strategic Holdings acquires franchise for Auntie Anne’s pretzel chain**

Myanmar-focused SGX-listed Yoma Strategic Holdings Ltd has entered into a franchise agreement with US - based FOCUS Brands Inc., in respect to the Auntie Anne’s pretzel brand. Auntie Anne’s is currently available across almost 30 countries in Asia.  According to Melvyn Pun, CEO of Yoma Strategic “We are seeing considerable growth in the market for freshly baked goods. While many street vendors do offer traditional Myanmar alternatives, the addition of an iconic international brand will only enrich the local foodscape”. With the first Auntie Anne’s outlet is expected to be located in Yangon. FOCUS Brands Inc. intents to expand its presence across Myanmar over the next five years. FOCUS Brands Inc. is also the franchisor and operator of over 6,000 ice-cream shops, bakeries, restaurants and cafes under brands such as Carvel, Cinnabon, Jamba Juice and Schlotzsky’s. Yoma Strategic is the Myanmar franchisee for restaurant brands KFC and Little Sheep Hotpot.  (Source: [*https://www.dealstreetasia.com/stories/yoma-auntie-annes-new-day-seedstars-110677/*](https://www.dealstreetasia.com/stories/yoma-auntie-annes-new-day-seedstars-110677/); 8 November 2018)

**Myanmar’s Rent 2 Own secures US$6m funding from DEG, agRIF and Daiwa PI Partners**

Rent 2 Own (Myanmar) Ltd, (“**Rent 2 Own**”) a motorcycle rental service, has raised US$6 million in new funding from Germany’s development finance institution Deutsche Investitions - und Entwicklungsgesellschaft mbH (“**DEG**”), and agRIF, an impact-focused fund managed by global impact asset manager Incofin Investment Management. Daiwa PI Partners, an investment arm of Daiwa Securities Group, is also taking a stake in Rent 2 Own by buying out an existing shareholder. Launched in January 2016, Rent 2 Own rent motorcycles for a monthly fee, which covers maintenance and insurance. Users can upgrade from an old motorcycle and/or purchase the bike during the duration of the contract. Rent 2 Own expects to use the proceeds from the latest funding for its next phase of expansion. “In the next five years, Rent 2 Own plans to serve approximately 400,000 active clients”. Headquartered in Yangon, Rent 2 Own claims it has served approximately 70,000 clients through 34 branches across Myanmar, with coverage spanning the Ayeyarwaddy Region to Shan state. It plans to open more than 150 new branches to achieve its five-year target. Prior to the current funding round, Rent 2 Own had raised a US$4 million equity investment from a pool of investors including trusts, boutique investment firms, and a number of small private seed investors. Rent 2 Own anticipates a strong growth for Myanmar’s motorcycle market over the next few years as witnessed in Vietnam, Thailand and Indonesia in the past decades. The investment in Rent 2 Own is the third investment in Myanmar for Daiwa PI Partners after internet service provider Frontiir and travel company Oway. (Source: *https://www.dealstreetasia.com/stories/myanmar-rent2own-deg-daiwa-pi-110514/*; 5 November 2018)

This newsletter is for information purposes only.

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at unsubscribe@charltonslaw.com

Charltons - Myanmar Highlights - 14 November 2018