

ความยั่งยืนและการขยายบริการของสถาบันการเงินชุมชนที่ดำเนินการโดยฝ่ายศาสนจักรของชาวคะฉิ่นใน

ประเทศพม่า



นางสาว เสง ญู พัน

ศูนย์วิทยพัทยากร

จุฬาลงกรณ์มหาวิทยาลัย

วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาศิลปศาสตรมหาบัณฑิต


สาขาวิชาการพัฒนาระหว่างประเทศ

คณะรัฐศาสตร์ จุฬาลงกรณ์มหาวิทยาลัย

ปีการศึกษา 2553

ลิขสิทธิ์ของจุฬาลงกรณ์มหาวิทยาลัย

SUSTAINABILITY AND OUTREACH OF A KACHIN CHURCH  
MICROFINANCE INSTITUTION IN BURMA



Ms. Seng Nu Pan

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

A Thesis Submitted in Partial Fulfillment of the Requirements  
for the Degree of Mater of Arts in International Development Studies  
Faculty of Political Science

Chulalongkorn University

Academic year 2010

Copyright of Chulalongkorn University

Thesis title       SUSTAINABILITY AND OUTREACH OF A KACHIN  
                          CHURCH MICROFINANCE INSTITUTION IN BURMA

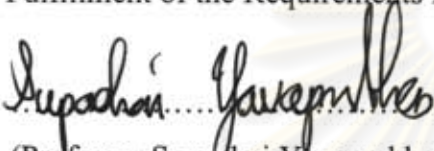
By                    Ms. Seng Nu Pan

Field of Study     International Development Studies

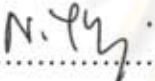
Thesis Advisor    Carl Nigel Middleton, Ph.D.

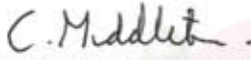
---

Accepted by the Faculty of Political Science, Chulalongkorn University in  
Partial Fulfillment of the Requirements for the Master's Degree.

 .....Dean of Faculty of Political Science  
(Professor Supachai Yavaprabhas, Ph.D.)

#### THESIS COMMITTEE

 .....Chairperson  
(Naruemon Thabchumpon, Ph.D.)

 .....Thesis Advisor  
(Carl Nigel Middleton, Ph.D.)

 .....External Examiner  
(Mya Than, Ph.D.)

จุฬาลงกรณ์มหาวิทยาลัย

เซง นู พัน: ความยั่งยืนและการขยายบริการของสถาบันการเงินชุมชนที่ดำเนินการโดย  
ฝ่ายศาสนจักรของชาวคะฉิ่นในประเทศพม่า (SUSTAINABILITY AND  
OUTREACH OF A KACHIN CHURCH MICROFINANCE INSTITUTION  
IN BURMA) อ. ที่ปริกษาวิทยานิพนธ์หลัก: ดร. คาร์ล มิดเดิลตัน, 115 หน้า.

ในปัจจุบัน รูปแบบของธนาคารประชาชนหรือธนาคารกรามีนของ มูหมัด ยูนูส ได้รับความสนใจเพิ่มมากขึ้นในประเทศพม่าเพื่อเป็นแนวทางต่อสู้กับปัญหาความยากจน ถึงกระนั้น การศึกษาเกี่ยวกับสถาบันการเงินชุมชนขนาดย่อมของประเทศพม่ายังไม่เป็นที่ปรากฏ วิทยานิพนธ์เล่มนี้ จึงมุ่งศึกษาการประเมินความยั่งยืนและการขยายบริการของสถาบันการเงินขนาดย่อมที่ดำเนินการ โดยฝ่ายศาสนจักรทางภาคเหนือของประเทศพม่า รวมทั้งศึกษาทัศนคติและความรู้สึกของผู้ที่มีต่อผลกระทบที่เกิดขึ้นระหว่างความยั่งยืนและการขยายบริการของสถาบันการเงินและอิทธิพลเรื่องทุนทางสังคมจากฝ่ายศาสนจักร

ระบบเครดิตยูเนียนของศาสนจักรดำเนินการอย่างยั่งยืน แต่ไม่มีความยั่งยืนด้านการเงิน เนื่องจากการบริหารจัดการที่ไม่มีประสิทธิภาพ โครงสร้างองค์กรไม่แข็งแรง วิธีการจัดการเงินกู้ไม่เหมาะสม การกระจายข้อมูลข่าวสารไม่ทั่วถึง การทุจริตของผู้กู้ยืม ลักษณะทางวัฒนธรรมของชาวคะฉิ่นต่อกิจกรรมเล็กๆที่สร้างรายได้ รวมถึงสภาพแวดล้อมทางการเมืองและเศรษฐกิจในประเทศพม่า การศึกษาพบว่า ศาสนจักรต้องเลือกระหว่างความยั่งยืนของระบบหรือการเข้าถึงกลุ่มคนยากจน มีผู้กู้ยืมเพียงร้อยละ 30 เท่านั้นที่สามารถจ่ายเงินคืนได้ เนื่องจากผู้กู้มักจะใช้เงินกู้ในการบริโภคมากกว่าที่จะนำไปลงทุนประกอบอาชีพ

บทบาทด้านต้นทุนทางสังคมของศาสนจักร ในด้านความยั่งยืนและการขยายบริการนั้นมีความซับซ้อนเนื่องจากมันสามารถช่วยเรื่องชำระหนี้หรือประนอมหนี้ได้ อย่างไรก็ตาม ระบบเครดิตยูเนียนได้ช่วยบรรเทาปัญหาความยากจนแก่สมาชิกศาสนจักรบางส่วน โดยการพัฒนาทรัพยากรมนุษย์และสนับสนุนเงินทุนแก่ผู้ประกอบการขนาดย่อมซึ่งสมาชิกเห็นพ้องกันว่าสิ่งเหล่านี้เป็นบริการทางการเงินที่ดีที่สุด

สาขาวิชา การพัฒนาระหว่างประเทศ  
ปีการศึกษา 2553

ลายมือชื่อนิสิต.....

ลายมือชื่ออาจารย์ที่ปรึกษา.....



C. Middleton

## 5281007324: MAJOR INTERNATIONAL DEVELOPMENT STUDIES  
 KEYWORDS: MICROFINANCE, SUSTAINABILITY/OUTREACH/SOCIAL  
 CAPITAL

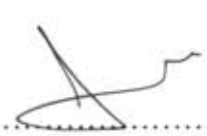
SENG NU PAN: SUSTAINABILITY AND OUTREACH OF A KACHIN  
 CHURCH MICROFINANCE INSTITUTION IN BURMA  
 THESIS ADVISOR: CARL MIDDLETON, Ph.D., 115 pp.

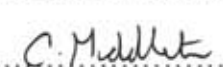
There is increasing interest in Muhammad Yunus's Grameen Bank microfinance model as a means of addressing the needs of Burma's poverty, but there have been no studies of locally led micro-finance institutions (MFIs) in Burma. This study assesses the sustainability and outreach of a church-run microfinance institution in northern Burma bringing to the fore borrowers' perspectives on impacts by examining the tensions between sustainability and outreach, and the influence of church social capital.

The credit union is operationally sustainable but it is not financially sustainable due to poor management, weak organizational structure, inappropriate loan methodology, imperfect information, borrower deception, Kachin cultural values about small income-generating activities, and the broader political and economic environment in Burma. The study finds that the credit union faces a trade-off between sustainability and its outreach to the poor. It attains only 30% repayment rates as most borrowers, particularly the poor often use their loans for consumption rather than generation incomes leaving them entrenched in debt rather than helping them escape from poverty.

The role of church social capital in sustainability and outreach is complex as it can facilitate outreach and compromise repayment rates. Yet despite its imperfections, the credit union does help alleviate the poverty of some church members by allowing them to develop human capital and financing micro-enterprises. Church members consider it the best provider of financial services in their locale.

Field of study: International  
 Development Studies  
 Academic year: 2010

Student's signature:  .....

Advisor's signature:  .....

## ACKNOWLEDGEMENTS

I thank many people who helped me with completing this thesis. I am grateful to my supervisor Carl for his continuous support, commitment, and hard work to have a better thesis. Without his assistance, this journey would have been harder and the final product would not have been better. I express my gratitude to Curt for his assistance, patience, and all the support he has given me to complete the thesis. Above all, I owe so much gratitude to my grandmother who teaches me how to work hard and has supported me all along to realize my dreams. Without her support and love, things would have been harder. I thank Sean for his passion for microfinance in Burma and his encouragement, and support for my thesis topic.

I am grateful to my thesis committee members, Ajarn Nauruemon and Ajarn Mya Than, for giving me useful advice for field research and being there when I needed help. I would like to express my gratitude to Chris, our program officer, for his patience and prompt responses to my emails and helping me with formatting and giving me advice. I thank Khun Ohm, our course coordinator, for his friendly support and reminder emails about the thesis deadlines and throughout the study. I am grateful to Khun Jeab and Khun Oh for their assistance with thesis procedure and process.

I feel blessed to have such a great group of classmates, my wonderful friends, who I met during this study and who motivate me to work hard and to do better. I am grateful to all of them for their support and for making the thesis process less painful. I am grateful to Ma San Latt for her concise and clear instructions on thesis process and advice. I appreciate Matoom's help with translation and feel grateful to her.

Last, but not least, I owe so much to the interviewees, particularly defaulters, who were brave and strong enough to share their feelings about debts and to be vulnerable. I am grateful to all who contributed to completing thesis. I am responsible for all the shortcomings and weaknesses in the thesis.

## CONTENTS

	<b>Page</b>
<b>ABSTRACT (THAI)</b> .....	<b>iv</b>
<b>ABSTRACT (ENGLISH)</b> .....	<b>v</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>vi</b>
<b>CONTENTS</b> .....	<b>vii</b>
<b>LIST OF TABLES</b> .....	<b>xi</b>
<b>LIST OF FIGURES</b> .....	<b>xii</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>xiii</b>
<b>CHAPTER I INTRODUCTION</b> .....	<b>1</b>
1.1 Introduction.....	1
1.2 Background of the Study.....	1
1.2.1 Microfinance Institutions (MFIs) .....	1
1.2.2 MFIs in Burma.....	3
1.3 Statement of the Problem.....	3
1.4 Research Questions.....	3
1.5 Objectives of Research.....	4
1.6 Hypothesis.....	4
1.7 Conceptual Framework.....	5
1.8 Research Methodology.....	8
1.8.1 Resources.....	8
1.8.2 Understanding the Institutional Arrangement of MRBCCU.....	9
1.8.3 Sampling.....	9
1.8.4 Measurement of Church Social Capital and its Role in Loan Repayment.....	10
1.8.5 Measurement of Outreach.....	12
1.8.6 Evaluation of Sustainability.....	12
1.9 Ethical Issues.....	12
1.10 Research Scope.....	13
1.11 Significance of the Research.....	13

1.12 Research Limitations.....	14
<b>CHAPTER II LITERATURE REVIEW.....</b>	<b>15</b>
2.1 Introduction.....	15
2.2 Microfinance.....	15
2.3 Welfarist and Institutionalist Approaches to Microfinance.....	16
2.4 Trade-offs between Sustainability and Outreach? .....	18
2.4.1 Proponents of trade-off between Sustainability and Outreach.....	18
2.4.2 Disputants of the Trade off between Sustainability and Outreach.....	20
2.5 A Critical Microfinance Triangle.....	21
2.6 Key Factors for Repayment Rate.....	23
2.7 Key Factors for Default.....	24
2.8 Challenges to Achieving Sustainability.....	25
2.9 Three Empirical Case Studies.....	27
2.9.1 Sustainability and Outreach of the Grameen Bank.....	27
2.9.2 Loan Methodologies of the Grameen Bank.....	28
2.9.3 Sustainability and Outreach of BancoSol.....	31
2.9.4 Loan Methodologies of BancoSol.....	32
2.9.5 Sustainability and Outreach of Bank Rakyat Indonesia (BRI).....	32
2.9.6 Loan Methodologies of BRI.....	32
2.10 Microfinance in Burma.....	33
2.11 Conclusion.....	34
<b>CHAPTER III FINANCIAL SERVICES IN MUNG RAWT, THE KACHIN STATE, BURMA.....</b>	<b>36</b>
3.1 Introduction.....	36
3.2 Introduction to MRBCCU.....	40
3.2.1 Delivery of Financial Services.....	42
3.2.2 Changes in MRBCCU.....	45
3.3 Formal Financial Services in Mung Rawt.....	47
3.3.1 Myanmar Economic Bank (MEB) .....	49



3.3.2 <i>Zay thamawayama athin</i> or <i>Zay thama</i> Market Cooperative Enterprise Team.....	49
3.3.3 Quarter-led MFIs.....	50
3.4 Informal Sources of Loans and Savings in Mung Rawt.....	52
3.4.1 Rotating Savings and Credit Associations (ROSCAs )or <i>Su kyay</i> .....	54
3.4.3 Informal Moneylenders.....	57
3.4.4 Debt Cycle? .....	57
3.5 Conclusion.....	58

#### **CHAPTER IV IMPACT OF MRBCCU's MANAGEMENT AND ORGANIZATIONAL STRUCTURE ON SUSTAINABILITY AND OUTREACH.....60**

4.1 Introduction.....	60
4.2 Organizational Structure.....	61
4.3 Loan Delivery Process.....	62
4.4 Accountability.....	64
4.5 Transparency and Feedback Mechanisms.....	65
4.6 Leadership Skills of the MRBCCU Staff.....	66
4.7 Five Aspects of Outreach: Worth; Cost, Breath, Gender, Depth.....	66
4.8 Non-Borrowers: Voluntary or Involuntary Exclusion?.....	72
4.9 Conclusion.....	73

#### **CHAPTER V IMPACT OF THE LOANS..... 75**

5.1 Introduction.....	75
5.2 The Use of MRBCCU Loans among Regular Payers and Defaulters.....	75
5.2.1 Use of Loans by Regular Payers and their Impacts.....	76
5.2.2 Use of Loans by Defaulters and Their Impacts.....	77
5.3 Perceptions and Feelings of the Regular Payers and Defaulters.....	79
5.4 Kachin Cultural values.....	83
5.5 Burma's Political and Economic Circumstances.....	83
5.6 Conclusion.....	84

<b>CHAPTER VI THE ROLE OF CHURCH SOCIAL CAPITAL IN SUSTAINABILITY AND OUTREACH.....</b>	<b>86</b>
6.1 Introduction.....	86
6.2 Participation in Church Activities.....	87
6.3 Information about Reputation.....	88
6.4 Trust.....	89
6.4.1 Trust of the MRBCCU Staff towards Borrowers.....	90
6.4.2 Trust of the Borrowers and Depositors towards the MRBCCU.....	90
6.5 Reciprocity.....	91
6.5.1 Reciprocity of the MRBCCU towards Borrowers.....	93
6.5.2 Reciprocity of the Borrowers.....	93
6.6 Conclusion.....	94
<b>CHAPTER VII CONCLUSION AND RECOMMENDATIONS.....</b>	<b>95</b>
7.1 Conclusion.....	95
7.2 Recommendations.....	97
7.2.1 Loan Methodology.....	98
7.2.2 Management and Organizational structure.....	99
<b>REFERENCES.....</b>	<b>101</b>
<b>APPENDICES.....</b>	<b>106</b>
<b>APPENDIX A.....</b>	<b>107</b>
<b>APPENDIX B.....</b>	<b>108</b>
<b>APPENDIX C.....</b>	<b>109</b>
<b>APPENDIX D.....</b>	<b>110</b>
<b>APPENDIX E.....</b>	<b>111</b>
<b>BIOGRAPHY.....</b>	<b>115</b>

## LIST OF TABLES

<b>Table</b>	<b>Page</b>
1 From Grameen I to Grameen II .....	30
2 General Information about the MRBCCU.....	43
3 Changes in MRBCC.....	46
4 Formal Financial Services in Mung Rawt.....	48
5 Informal Financial Services in Mung Rawt.....	53
6 Comparison between YMCA and MRBCCU .....	56
7 Different Characteristics between Regular Payers and Defaulters.....	79
8 Allocation of the Profits of MRBCCU.....	107
9 Balance Sheet of MRBCCU (09/2009-02/2010) .....	108
10 Income and Expense of MRBCCU (09/2008-02/2009) .....	109
11 Balance Sheet of MRBCCU (09/2008-02/2009) .....	109
12 Allocation of Profit (09/2008-02/2009) .....	110

ศูนย์วิทยพัทยากร  
จุฬาลงกรณ์มหาวิทยาลัย

## LIST OF FIGURES

<b>Figure</b>	<b>Page</b>
1 Conceptual Framework for the Sustainability and Outreach of MRBCCU .....	8
2 Sampling of Interviewees.....	10
3 Marginal Returns on the Very Poor and the Better-off Borrowers.....	19
4 A Critical Microfinance Triangle.....	22
5 Economic Activity by Occupational Category in the Kachin State.....	39
6 Mung Rawt Church under the Structure of the KBC.....	41
7 Access to Formal and Informal financial services by a Church Member.....	57
8 Organizational Structure of MRBCCU.....	61
9 Process of Monthly Loan Disbursement.....	62
10 Trend of the Number of New Loans at MRBCCU.....	70
11 Loan Use by Interviewed Regular Payers and Defaulters.....	76
12 Tithes Use.....	88
13 Reciprocity within Church.....	92

ศูนย์วิทยทรัพยากร  
 จุฬาลงกรณ์มหาวิทยาลัย

## LIST OF ABBREVIATIONS

BRI	Bank Rakyat Indonesia
CGAP	Consultative Group to Assist the Poor
IGOs	Intergovernmental Organizations
INGOs	International Non-governmental Organizations
KBC	Kachin Baptist Convention
KTC	Kachin Theological College
MAI	Ministry of Agriculture and Irrigation
MDM	Medecins du Monde
MEB	Myanmar Economic Bank
MIX	Microfinance Information Exchange
MSF	Medecins Sans Frontier
MFI	Microfinance Institution
MPPC	Myanmar Philadelphia Pentecostal Church
MRBCCU	Mung Rawt Baptist Church Credit Union
NGOs	Non-governmental Organizations
ROE	Return on Equity
UNDP	The United Nations Development Programme
USDA	Union of Solidarity and Development Association
USAID	United States Agency for International Development
ROSCAs	Rotating Savings and Credit Associations
YMCA	Young Men's Christian Association

# CHAPTER I

## INTRODUCTION

### 1.1 Introduction

This thesis assesses the sustainability and outreach of the Mung Rawt<sup>1</sup> Baptist Church Credit Union (MRBCCU) in the Kachin State, northern Burma<sup>2</sup>. This chapter introduces the main ideas, concepts, and research gaps that lead to the thesis' study on a locally-led microfinance institution (MFI) in the Kachin state, Burma. It also elaborates the contentious debate about the relationship between sustainability and outreach to the very poor.

The chapter presents the thesis' research questions, objectives, hypotheses, conceptual framework, and methodology of the study. It concludes with a discussion of the study's significance and research limitations.

### 1.2 Background of the Study

#### 1.2.1 Microfinance Institutions (MFIs)

Following the success story of the Grameen Bank in Bangladesh, microfinance has become a well-known tool for providing financial services to the poor who are unable to access the formal banking system. There are 1,000 to 2,500 microfinance institutions with some 74 million borrowers in over 100 different countries (Sengupta and Aubuchon, 2008: 10). Microfinance is growing at the rate of 15 to 30 percent annually (Ledgerwood and White, 2006: xxxi).

A contentious debate persists about MFIs' sustainability and outreach to the very poor (Meyer, 2002: 4; Tucker, 2001: 108; Otero, 1999: 14). They argue that in pursuit of sustainability the MFIs that are not subsidized may be forced to limit the number of loans to the poorest, who tend to be the riskiest and costliest of borrowers.

---

<sup>1</sup> The name of the town is changed to protect the security of the church's informal credit union.

<sup>2</sup> Burma is also known as Myanmar. This thesis uses Burma, rather than Myanmar.

Globally, as many as one billion people live on less than one dollar per day, and as such are cash poor (Morduch, 1999: 1569). Many of these people could potentially benefit from MFIs - but there are not enough donors to support the provisions of MFI services to them (Schicks, 2007: 558; Schreiner, 2002: 600). The founder of Grameen Bank, Muhammad Yunus, noted, the biggest factor constraining the expansion of new MFIs is a shortage of subsidies that would allow them to survive the establishment phase (Yunus, 2007: 70).

Sustainability is a crucial aspect of MFIs ability “to deliver cost-effective, quality financial services to their poor clients on a permanent basis” so that they are not left “in much the same position as they were before” (Wright, 2000: 64). Navajas et al (2000) argues that unsustainable MFIs “inflict costs on the poor in the future in excess of the gains enjoyed by the poor now” (Navajas et al, 2000: 335). Schreiner (2002) argues that sustainability “produces the strongest incentives to improve social benefits through time” (Schreiner, 2002: 600). Yunus (2007) also stressed the importance of sustainable MFIs because he believes that mobilized savings from depositors will free the MFIs from dependence on donor money or subsidies and will allow them to use savings to provide financial services to the poor (Yunus, 2007: 71).

Many studies focus on whether and how MFIs should pursue sustainability, and provide policy analysis on the pros and cons of subsidies and sustainability. For instance, Marr (2002) argues that in the pursuit of sustainability MFIs end up excluding the poorest and actually create more poverty as they intensively seek to attain high repayment rates through group-based schemes, which impose severe sanctions on borrowers and destroy the social capital of borrowers in the process (Marr, 2002). However, these studies tend to ignore the fact that many locally-led MFIs are self-sufficient by necessity as they lack access to subsidies.

### **1.2.2 MFIs in Burma**

There is an extensive body of research on microfinance programs throughout the world but MFIs in Burma remain under-researched and poorly understood, even though the presence of MFIs within Burma has been growing. Studies about microfinance in Burma have focused exclusively on MFIs led by international non-governmental organizations (INGOs) and intergovernmental organizations (see Turnell, 2009; May Si Si Aung, 2005). No research has been conducted on locally-led MFIs that operate without any financial subsidies or external technical support. To fill this significant knowledge gap and to understand more about the relationship between sustainability, outreach, and impacts of the loans, this thesis assesses to examine a church led credit union.

### **1.3 Statement of the Problem**

In Burma, microfinance schemes led by the United Nations Development Program (UNDP) and other foreign NGOs have failed to become self-sufficient and therefore continue to rely on subsidies. Remarkably, MRBCCU operates without outside financial support. It is crucial to investigate how this particular MFI, run by the local church, is able to operate without any support or subsidy from the outside. Clearly, there is the potential for significant learning for all MFIs in Burma from this example. The existing church social capital helps mobilize voluntary savings that enable the church credit union to provide loans to those who need money.

### **1.4 Research Questions**

How does MRBCCU perform in terms of sustainability and outreach? Is there a trade-off between the two?



Sub-questions:

- 1) What is the MRBCCU's management and organizational structure with regard to decision-making strategies, loan delivery process, accountability, transparency and feedback mechanisms? How do these factors impact upon outreach and sustainability?
- 2) Is the MRBCCU successful in its outreach, including to the very poor?
- 3) What are the impacts of loans on borrowers?
- 4) Is the church social capital a key factor in achieving repayment and outreach?

### 1.5 Objectives of Research

- To understand how the MRBCCU's management and organizational structure impact upon its outreach and sustainability;
- To determine the extent to which the MFI has reached the very poor;
- To assess the impact of loans on the welfare of borrowers and the MRBCCU in terms of sustainability and outreach;
- To examine the role of church social capital in achieving repayment rates and outreach;

### 1.6 Hypothesis<sup>3</sup>

The church social capital is a key factor behind MRBCCU's operational sustainability<sup>4</sup>. However, MRBCCU is not financially sustainable due to its weak

---

<sup>3</sup> The original thesis hypothesis was “MRBCCU is near-sustainable because of the high level of social capital combined with access to China border market and the lack of natural disasters. There is a trade-off between sustainability and outreach as the MFI excludes the poor and only reach the richest of the poor.” This was based on initial information available before the field work from one source. The hypothesis is revised as some of the initial information was found to be inaccurate during the fieldwork.

<sup>4</sup> For definitions, see section 1.7.

organizational structure and management, asymmetric information, Kachin cultural values, and poor macroeconomic and political environment.

There is a trade-off between sustainability and outreach because reaching the poor entails high-risk loans resulting in high default rates. The impacts of the loans, outreach and sustainability impacts one another.

### **1.7 Conceptual Framework**

The key concepts of this research are sustainability, outreach, the very poor, and social capital (see figure 1.1). The dependent variables are sustainability and outreach, whereas the independent variables are church social capital, and institutional arrangements including loan methodology, accountability, transparency, and asymmetric information.

**Sustainability** is differentiated into two levels: operational sustainability and financial sustainability. Operational sustainability refers to the existence of sufficient operating income to cover the MFI's daily operating costs including staff salaries, office supplies, loan losses and other operating costs without any subsidies (Meyer, 2002: 4). Financial sustainability is a higher level of sustainability, which takes a longer-term view. According to Meyer (2002: 4), to be financially sustainable, an MFI must cover its financial costs, account for inflation and other fees, buffer against shocks, and eliminate subsidies that are unsustainable in the long-run. In this thesis, I take financial sustainability as sound practices within an MFI, in terms of loan methodology, organizational structure and management, a high level of outreach, high repayment rate, and having profits to cover all the MFI's operations and to buffer against shocks such that the MFI can endure and continue to operate in the long run. In the case of MFIs in Burma, such as MRBCCU, the calculation of inflation over interest rates is not applicable because there is no accurate available information on the inflation rate in Burma.

**Outreach** is defined in terms of depth, worth to users, cost to users, breadth, length and scope of outputs (Navajas, Schreiner, Meyer, Gonzalez-Vega and Rodriguez-Meza, 2000: 333).

- 1) *Depth* is the outreach of the MFI to reach the very poor.
- 2) *Worth to users* refers to “how much a borrower is willing to pay for a loan” (Navajas et al, 2000: 335).
- 3) *Cost to users* is the “cost of a loan to borrowers” such as interest rates, and other transaction costs including time, transportation, food, taxes and documents.
- 4) *Breadth* is the total number of users.
- 5) *Length* is the length of time that a MFI operates (Schreiner, 2002: 596). Recently established MFI’s (i.e; of short length) may be perceived as less stable and thus have a harder time in achieving repayment from borrowers who anticipate the MFI’s short-term failure.
- 6) *Scope* is the type of financial services that an MFI offers to its members, such as deposits and loans. Scope also refers to an MFI’s ability to meet the demands and needs of the poor by providing the services that they need.

In this research, the “**very poor**” are defined as those who earn less than one dollar per day, live in poor quality shelter such as a bamboo house with a thatched roof, and are challenged in meeting basic survival needs for food and clothing. Defining the very poor is complex because perceptions of poverty vary across different cultures and contexts. This research adapts the *Microfinance Poverty Assessment Tool* developed by the Consultative Group to Assist the Poor (CGAP), which is supported by the World Bank (Henry et al, 2003). Henry et al assert that the tool provides “a flexible definition of poverty that can be adapted to fit local perceptions and conditions of poverty” (Henry et al, 2003: 1).

**Social capital** is a concept which conveys the notion that social networks and social connections can be used as resources or capital for development. Social capital

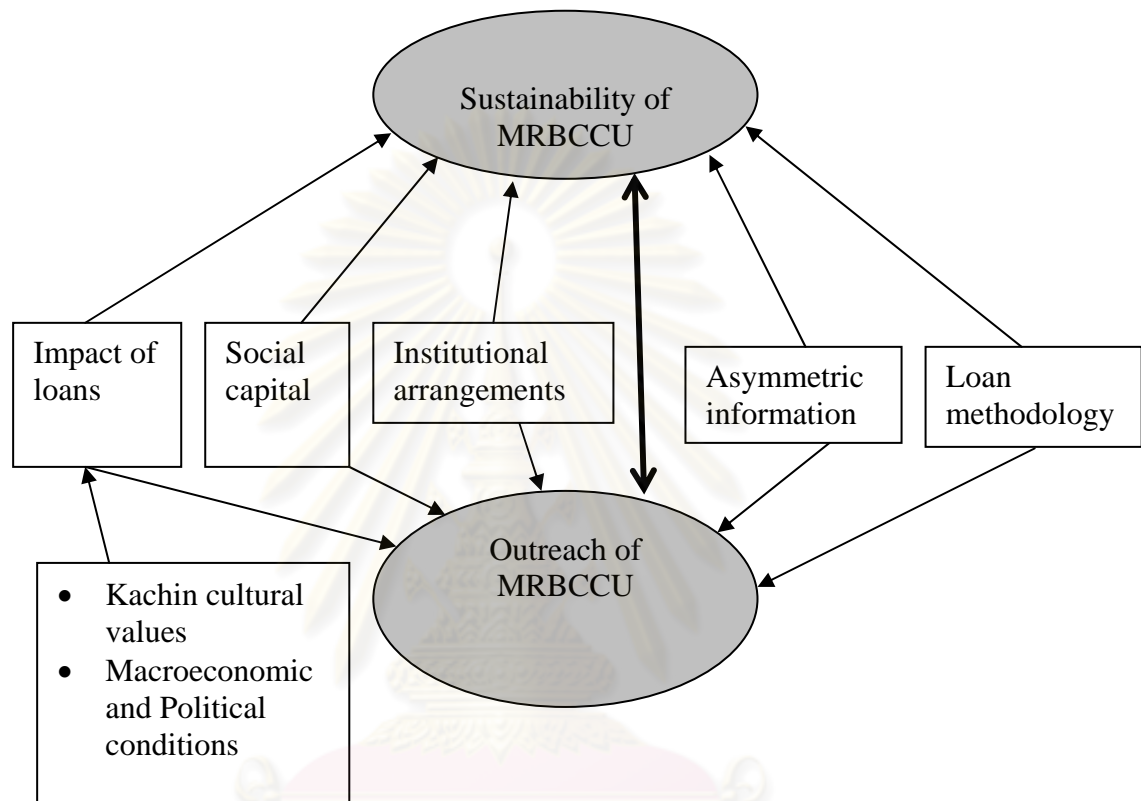
consists of trust, social networking, reciprocity, reputation, shared norms and values (Field, 2003: 21). More generally and in the context of MFI borrowers, social capital can be used to impose sanctions on “would-be free-riders” or those who fail to comply with shared norms and values (Field, 2003: 24). Social capital is hard to measure as many aspects of social capital are abstract and hard to define. This study evaluates five dimensions of social capital: participation; information about reputation; trust; and reciprocity.

The unit of analysis for this thesis is the Kachin Baptist church in Mung Rawt. The level of analysis is a micro study of an institution and individuals within it. The research is deductive (i.e., a hypothesis was formulated prior to the field research which was then used to test the hypothesis).



ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

**Figure 1.1 Conceptual Framework for the Sustainability and Outreach of MRBCCU**



## 1.8 Research Methodology

### 1.8.1 Resources

This study relied on both primary and secondary sources of information. Secondary sources included: books, academic journal articles, websites, and reports. Primary sources were collected through field research that involved quantitative and qualitative research methods using the Kachin and Burmese languages including semi-structured questionnaires, expert interviews, personal communication such as emails and online chats, participant observation, and ethnography.

### **1.8.2 Understanding the Institutional Arrangement of MRBCCU**

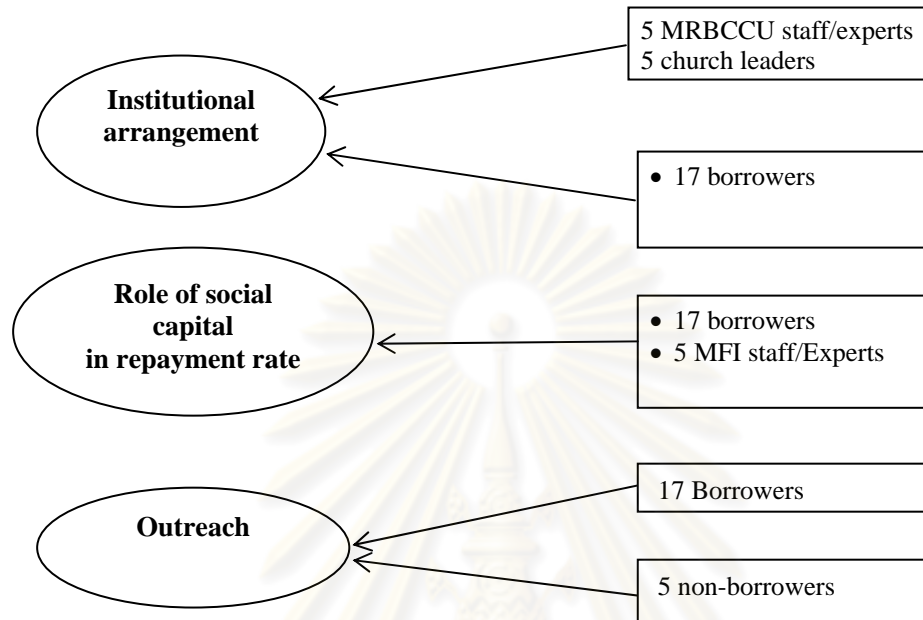
The author interviewed MRBCCU staff and key informants using semi-structured questionnaires to understand the organizational structure, loan methodology, decision-making strategies, feedback mechanisms, and how these contribute towards sustainability and outreach. The key informants were the MFI leader, clerk, financial accountant, and an NGO worker.

### **1.8.3 Sampling**

Five geographic zones with the highest percentage of borrowers were identified using the information provided by the MRBCCU staff. Within these areas, 17 borrowers plus 5 non-borrowers were selected at random on the basis of their availability (see figure 1.2).

ศูนย์วิทยพัทพยาบาล  
จุฬาลงกรณ์มหาวิทยาลัย

**Figure 1.2 Sampling of Interviewees**



#### **1.8.4 Measurement of Church Social Capital and its Role in Loan Repayment**

This study adapted the World Bank’s “Measuring Social Capital” questionnaire developed by Grootaert et al (2004) to emphasize the five dimensions of social capital: participation in church activities; information about reputation; trust; and reciprocity.

As social capital is an abstract conceptual variable, face-to-face interviews were conducted using semi-structured questionnaires. In addition, the study relied on participant observation of church activities to better understand the borrowers’ involvement in church activities. Church activities included:

1. Sunday Worship service (~ 500 people)
2. Women's Fellowship Seminars (~ 35 people)
3. Youth Fellowship Seminars in the evening (~ 27 people)
4. Group Prayer Cells (~ 25 people)
5. Rainy Season Biblical Training (~ 90 people)
6. Wednesday Worship Service (~ 90 people)
7. Church Planning Workshop<sup>5</sup> (~ 30 people)
8. Annual Home Prayer Cells (~ 60 people)

Participation in church activities was evaluated through interviews with MRBCCU members to understand the perceived importance of the church's role in their lives and how this affects decision-making about joining the MRBCCU and repayment. Information about reputation was measured by asking borrowers and MFI staff about how well they knew each other and how they acquire reputations of others.

Trust was assessed through interviews with MRBCCU staff and borrowers. MRBCCU staff were asked whether or not borrowers were trustworthy in repaying loans, and borrowers were asked whether or not they trust the MFI staff. As the concept of trust is elusive and abstract, answers for trust were based on the perceptions of interviewees. The participant observation in the Church Planning Workshop also offered information on the degree of church members' trust and perceptions of the church pastors, deacons and group leaders.

Reciprocity was assessed by interviewing MRBCCU staff, borrowers, and the church pastors about the credit union's reciprocity towards its members, borrowers' incentives to repay loans, and the level of reciprocity among church members and the church.

---

<sup>5</sup> The workshop is the first attempt by the church to hear the opinions and feelings of the congregation over church leaders including pastors, deacons, executive committee, and others.



### **1.8.5 Measurement of Outreach**

Four paid MFI staff were interviewed to examine the outreach of the credit union. The five<sup>6</sup> key dimensions of outreach were determined: *worth to users; costs to users; breadth; gender; and depth.*

### **1.8.6 Evaluation of Sustainability**

Operational sustainability was determined by whether or not the MRBCCU receive financial subsidies from outside. Financial sustainability is measured through the analysis of sound practices within an MFI in terms of loan methodology, organizational structure and management, a high level of outreach, high repayment rate, and having profits to cover all the MFI's operations and to buffer against shocks such that the MFI can endure and continue to operate in the long run.

Face-to-face interviews with the MRBCCU staff were conducted to identify other issues that might affect sustainability. Borrowers were interviewed to assess the usefulness of their loans, the loan's impact, as well as factors that determine whether a MRBCCU member becomes either a repeat borrower or a dropout (i.e., borrowers stop using the MFI's services).

### **1.9 Ethical Issues**

Every interviewee for this study was informed of the purpose of the research. They participated in the research voluntarily. As interviewees shared sensitive

---

<sup>6</sup> Length is not assessed because it is not applicable to the MRBCCU and it is not possible to predict length of a church-led MFI. Scope of outreach is also not necessary to measure because the MRBCCU offers only savings and loans services to all church members.

personal information, their privacy has been protected by keeping their names anonymous and confidential. As MRBCCU is not registered, its name has been changed.

### **1.10 Research Scope**

The research focused on sustainability and outreach of the institution and its impacts members. The research surveyed church's members who resided within the church's administrative territory between 2005 and 2010 (i.e., the period of MRBCCU's operation). The field research was conducted over a one-month period in July 2010.

### **1.11 Significance of the Research**

Although there are many studies on microfinance, relatively few scholars have researched microfinance in Burma and no researchers have studied locally implemented MFIs in the Kachin State, Burma.

This study contributes new research findings on the sustainability and outreach of local-led MFIs in Burma. The research will also be useful to MRBCCU to identify gaps in knowledge and assist the institution to function more efficiently and effectively.

This study's findings, including its assessment of sustainability and outreach to the very poor, may offer valuable lessons to other locally-led MFIs which are being established in the Kachin state and elsewhere in Burma.

### 1.12 Research Limitations

This study's main constraint was access to borrowers. Some borrowers are internal migrants who work along the China border town and in gold mining areas, and therefore are only rarely at home in Mung Rawt. Field research was conducted during the rainy season in July, a peak period of activity for most borrowers who engage in agricultural activities. Furthermore, some borrowers were inaccessible due to flooding.

As this was also a period of peak agricultural activity, many borrowers were only available at night. It was challenging to keep them focused on the interview because they were distracted by the Korean drama series from the government television channels. In some cases, this resulted in interviews being rushed. The author considered interviewing borrowers on Sundays when they attended church and other worship services and when they have more free time, but decided against this so as not to upset people who did not want to be reminded of their loans or debts on days of worship and rest.

Finally, the author had only partial access to MRBCCU's self-reported financial accounts, none of which are computerized. The MFI staff did not feel comfortable showing all their books to the author, saying that they had too many books.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provides an overview of microfinance and MFIs in Burma, the contentious debate about the relationship between sustainability and outreach, and two different approaches to microfinance. It then discusses the three most prominent and successful MFIs in the world: the Grameen Bank in Bangladesh; BancoSol in Bolivia; and Bank Rakyat Indonesia (BRI). The chapter then elaborates key factors for sustainability and outreach, and concludes with a discussion of the main challenges to sustainability and outreach.

#### **2.2 Microfinance**

Microcredit and microfinance are slightly different from one another although practitioners and scholars tend to use them synonymously. Microcredit refers to the provision of small loans to the poor who lack collateral and are therefore not considered creditworthy by formal commercial banks (Armendariz and Morduch, 2005: 14). Microfinance, on the other hand, includes the provision of small loans, savings services, insurance, and other banking services (Armendariz and Morduch, 2005: 14; Robinson, 2001: 9).

MFIs use social collateral or capital, rather than the material collateral, to guarantee loans. Social capital consists of trust, reciprocity, information, and norms. Horizontal social capital exists among agents of the same status and power, while vertical social capital exists among unequal agents with hierarchical relations (Dowla, 2006: 116). The role of vertical and horizontal social capital is crucial in attaining high repayment rates as members are either pressured by their peers or bank staff to regularly repay their loans.

Some scholars, such as Marguerite Robinson, argue that commercial MFIs sustain themselves financially and become self-sufficient by providing loans to “economically active” poor and by achieving greater outreach. By contrast, non-profit poverty-alleviating MFIs are dependent on funds and in this sense are not sustainable (Robinson, 2001). In other words, she argues that reaching the very poor entails high risks and costs to the sustainability of MFIs.

Muhammad Yunus, the founder of the Grameen Bank, however, criticizes the profit-based MFIs because such schemes operate like conventional banks by providing loans with very high interest rates to the more wealthy of the poor (Yunus, 2007: 69). Yunus asserts, “Make all the profit you want from your middle-class customers ... but don’t apply the same thinking to the poor. If you lend to the poor, do it without concern for profit” (Yunus, 2007: 69).

Researchers, including Robinson, however, argue that the very poor do not have the entrepreneurial skills to make effective use of loans and thus provision of loans to the very poor entails high risks for both the borrowers and the MFI. Robinson adds that very poor people also lack basic infrastructure and access to markets that are necessary in order to make effective use of loans and to repay the principal and interest. Therefore, MFIs, both commercial and not-for-profit, face obstacles of low repayment rates due to outreach to the very poor (Robinson, 2001: 20). Moreover, Robinson argues, it is not the responsibility of MFIs to alleviate such poverty and reach the very poor, but rather such responsibility falls upon the government, donor agencies, and private charities.

### **2.3 Welfarist and Institutionalist Approaches to Microfinance**

Two main normative approaches for assessing MFI’s performance are the welfarist and the institutionalist approaches<sup>7</sup> (Bhatt and Shui-Yan, 2001; Schicks,

---

<sup>7</sup> Welfarist and institutionalist approaches are also referred to poverty and sustainability approaches respectively (Edward and Olsen, 2006: 31; Schreiner, 2002: 591).

2007; Olivares-Polanco, 2005: 48; Woller and Woodworth, 2001). The welfarist approach focuses on alleviation of poverty and reaching the poorest of the poor, and thereby maximizes MFI's welfare impact (Schreiner, 2002: 591; Bhatt and Shui-Yan, 2001). Schreiner argues that the welfarist approach puts "a very high weight on the poorest and little or no weight on anyone else" (Schreiner 2002: 597). By contrast, the institutionalist approach focuses on providing financial services to "large number of poor people on a sustainable basis," thereby broadening the number of borrowers (Bhatt and Shui-Yan, 2001). The institutionalist approach is "more willing to make trade-offs between the poorest and the less-poor" (Schreiner, 2002: 597). Christen argues that sustainable MFIs' "initial mission was not reaching the poorest of the poor" but rather "to generate employment in the urban microenterprise sector" (qtd. in Olivares-Polanco, 2005: 55).

Schicks distinguishes MFIs as either sustainable MFIs, such as BancoSol from Bolivia, or "charitable" MFIs, such as the Grameen Bank in Bangladesh (Schicks, 2007). Sustainable MFIs' main goals are to provide "profitable high quality financial services to low-income people in need of financial services, whereas charitable MFIs main goals are to provide financial services to the poor in order to alleviate poverty.

Although this distinction about the different approaches and types of MFI may be useful in theory, in reality MFIs often do not work in such clear-cut ways. As Schicks notes, such differentiation is "artificial" and represents "an abstraction from a large continuum of institutional types in reality" (Schicks, 2007: 560). Some MFIs, including MRBCCU, adopts both welfarist and institutionalist approaches as their mission is to reduce poverty and yet they lack access to subsidies and so they must become sustainable. Many researchers and practitioners urge for the need of both types of MFIs as they carry out different social missions and reach different target groups (Bhatt and Shui-Yan, 2001; Schicks, 2007: 565).

## 2.4 Trade-offs between Sustainability and Outreach?

Debate persists about the relationship between sustainability and outreach to the very poor. Most experts agree that there is a relationship between sustainability and outreach, but disagree about its nature. Some argue that a trade-off exists between sustainability and outreach to the poor, while others argue that a complementary relationship exists, and still others argue that sustainability is a means to achieve outreach to the poor (Meyer, 2002: 4; Rhyne, 1998: 7; Tucker, 2001: 108; Otero, 1999: 14).

### 2.4.1 Proponents of trade-off between Sustainability and Outreach

A variety of factors are attributed to the inverse relationship between sustainability and outreach to the very poor. Some scholars argue that sustainable MFIs cannot reach the very poor because small loans for them are costly and because the very poor are risky and lack entrepreneurial skills (Maes and Basu, 2002: 72; Paxton, Graham, and Thraen, 2000; Robinson, 2002: 20; Tucker, 2001: 111). They argue that the poor tend to use loans to smooth their consumption due to their low and irregular income, and are therefore unable to use their loans for “promotional” activities (McGuire and Conroy, 2000: 99; Montgomery and Weiss, 2005: 6). The poor also voluntarily exclude themselves from borrowing (Maes and Basu, 2002: 72). In addition, they argue that very poor are more likely to be excluded as peer members in a solidarity group<sup>8</sup>. Bank staff may also exclude the very poor because they are worried about default (Montgomery and Weiss, 2005: 6).

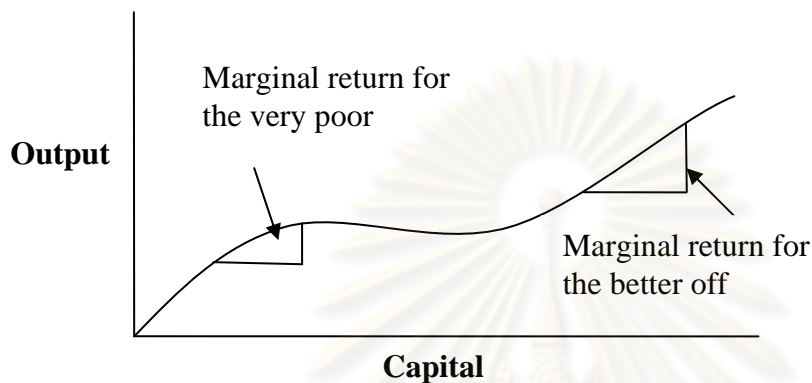
The same school of thought argues that the very poor may not be able to afford the high interest rates charged by the MFIs as marginal returns on small loans are lower than those received by better-off borrowers as shown in figure 2.1 (Montgomery and Weiss, 2005: 6; Armendariz and Morduch, 2005: 19). Therefore,

---

<sup>8</sup> This grouping is a well-known loan methodology applied in Grameen style MFIs in order to create peer social pressure. Three to five members form a group and guarantee one another's loans.

they are more likely to get into financial difficulties when they borrow money (Montgomery and Weiss, 2005: 6).

Figure 2.1 Marginal Returns on the Very Poor and the Better-off borrowers



Source: Armendariz and Morduch, 2005: 19

Note: Output is the outcome or result of the capital investment. Capital is the money the borrower uses for investment.

Von Pischke (1996) argues that all types of MFIs “face a trade-off between outreach and sustainability within a medium-term horizon such as three to five years [after establishment]”. Pischke calls such a trade-off “common sense” because he believes “not everyone is creditworthy” or “capable of repaying a lender” (Pischke, 1996: 227). He adds, “At some point the outreach shoe begins to pinch the sustainability foot; later it cripples it” (Von Pischke, 1996: 228).

David Hulme (2007) disregards the “rhetoric” that microfinance is for the very poor and that MFIs can be sustainable by reaching the poor. He is blunt about the trade-off between sustainability and outreach to the very poor. Hulme asserts, “MFIs virtually never work for the poorest ... and many MFIs have high proportions of clients who are non-poor ... Those who present microfinance as a magic bullet to reduce poverty ... [are] simple-minded” (Hulme, 2007: 20-21).



Hulme argues, “MFIs have created a myth that poor always manage to repay their loans because of their ability to exploit business opportunities. This is nonsense ... we should call microcredit ‘microdebt’” (Hulme, 2007: 19). Hulme argues that many MFI dropouts felt threatened by their peers, staff, and the police, and believed that they were in danger of having their possessions confiscated or being the victims of physical violence (Hulme, 2007: 20). In addition, indebted borrowers suffer from “the internalization of guilt (or shame) to an extreme of irrationality” (Ditcher, 2007: 15). Such guilt or shame “becomes externalized as anger, resentment and even violence towards others” (Ditcher, 2007: 15). Thus, indebted persons end up feeling “unequal in stature, unempowered, diminished, and could even undergo a loss of identity. One possible result of this is suicide” (Ditcher, 2007: 14).

These scholars, however, attempt to represent absolute reality and truth about what works and what does not work with the very poor, leaving the very poor behind the curtain. These studies fail to bring the direct words or expressions of the very poor borrowers or non-borrowers, but merely mention the very poor as voiceless people and objects of study.

#### **2.4.2 Disputants of the Trade off between Sustainability and Outreach**

The disputants argue that greater outreach to the poor helps create financial sustainability. Sustainability also enables the MFIs to reach large numbers of poor in the long run and yield high repayment rates. In addition, borrowers have incentives to repay loans because they expect to receive future services from the sustainable MFIs (Mersland and Strom; 2010: 35; Navajas et al, 2000: 335; Rhyne, 1999: 7; Tucker, 2001: 108). Contrary to Hulme and Ditcher, Khandker claims, “microcredit programs

have been able to reach the poor and enhance productivity and human capital by generating self-employment opportunities” (Khandker, 1998: 146).

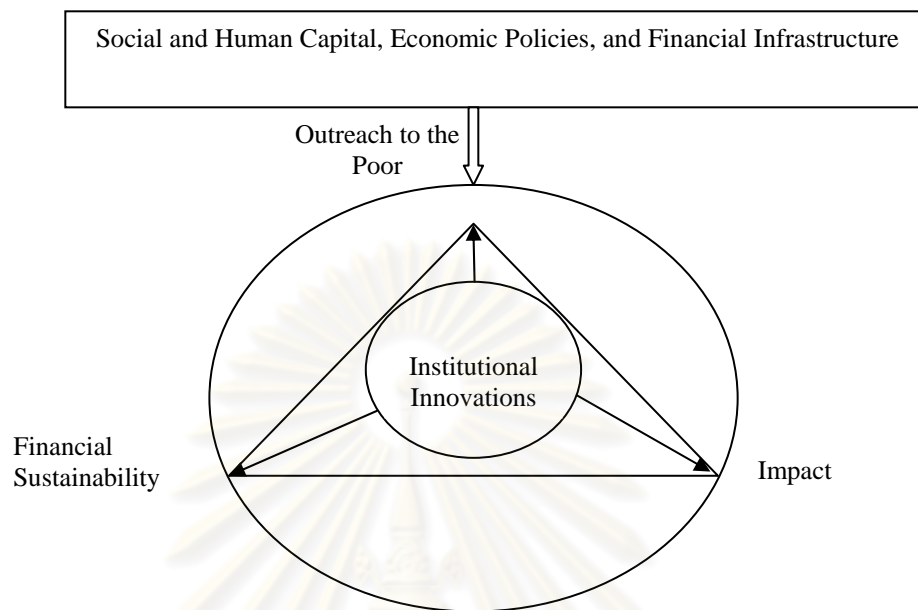
Elisabeth Rhyne argues that outreach to the poor is the end goal of MFIs, while sustainability is the means to achieve it (Rhyne, 1999: 7; Otero, 1999: 14). Consequently, Rhyne argues that commercialized sustainable MFIs are better at serving the poorest because such institutions tend to be more efficient and to seek new markets for their services to gain higher profits (qtd. in Mersland and Strom, 2010: 28).

### **2.5 A Critical Microfinance Triangle**

Manfred Zeller and Richard Meyer (2002) developed a “critical microfinance triangle” in order to analyze the performance of MFIs (qtd. in Meyer, 2002: 2). The three critical components of the triangle are financial sustainability, outreach to the poor, and impact (see figure 2.2).

ศูนย์วิทยพัทพยาบาล  
จุฬาลงกรณ์มหาวิทยาลัย

**Figure 2.2 A Critical Microfinance Triangle**



The outside of the triangle is the environment that affects the performance of the MFI (Meyer, 2002: 2). The environment refers to the economic policies of the country, the social and human capital, and the quality of the financial infrastructure. The inner circle represents the MFI's innovations in "technology, policies, organization, and management that affect how well each objective is met" (Meyer, 2002: 2).

The MFI's sustainability has two dimensions: operational sustainability and financial sustainability (Sengupta and Aubuchon, 2008: 22). Microfinance Information Exchange (MIX) defines sustainability as "an organization's ability to cover costs" which can be measured along a continuum ranging from not sustainable to financially sustainable (Microfinance Information Exchange, 2010).

When MFIs operate without subsidies they tend to charge high interest rates and tend to offer loans to the marginally poor rather than the very poor in order to

reduce risks and maximize repayment rates (Sengupta and Aubuchon, 2008: 21). This creates ‘a dichotomy between financial independence and poverty alleviation’.

Measuring impact on borrowers is “the most difficult and controversial aspect of performance evaluation” due to the methodological problems and high costs of doing research (Meyer, 2002: 5). Meyer claims that “the most important evidence of impact should be whether or not MFI clients continue to use the services” (Meyer, 2002: 5). The underlying assumption is that if borrowers continue to use the services, the benefits of borrowing outweigh the costs. Accordingly, Meyer argues that measuring impacts should center on the impacts on MFIs’ services to the poor, not the impacts on clients. Because it overlooks what happens with borrowers and their loans, and neglects the impacts of loans on borrowers in terms of mental well-being and self-esteem, it puts borrowers in a black-box.

## **2.6 Key Factors for Repayment Rate**

The two most successful microfinance institutions, Grameen Bank and Bank Rakyat Indonesia (BRI), use three key common principles in their loan methodologies (McGuire et al, 1998: 9). First, they create convenient office locations and simple application procedures for borrowers so that borrowers feel that the benefits are higher than the costs. Second, they use decentralized approvals and have the borrowers handle the loan processes. Third, they use self-selected grouping and progressive lending, compulsory savings, incentives for borrowers who repay regularly, and ‘intensive motivation and supervision of borrowers’ (McGuire et al, 1998: 9).

Joint liability through group solidarity helps each borrower of the group guarantee one another’s repayments of their loans. Joint liability encourages members to form a group with people they trust, thereby providing screening for the MFI, which lacks a history of the creditworthiness of potential borrowers.

Progressive lending helps borrowers repay their loans by offering “small initial loans, with the promise of future credit for timely repayment” (Sengupta and Aubuchon, 2008: 20). In addition, penalties can be used for late repayment by using threats to cut off future loans, or to cut off interest rates on compulsory savings (Morduch, 1999: 1582).

Frequent weekly repayments may also help maintain high repayment rates and help borrowers with their saving difficulties, including “seasonality of income, family members dropping by to borrow funds, or discretionary spending” (Sengupta and Aubuchon, 2008: 20).

Another mechanism for ensuring repayment is through nontraditional collateral with “notional value” to the borrower. A bank may not be able to sell such collateral without a high transaction cost, but it “would be even more difficult and costly for the family to do without [it]” (Sengupta and Aubuchon, 2008: 21).

## **2.7 Key Factors for Default**

The World Bank highlights three factors that contribute to overdue loans: borrowers’ failure to use the loans for productive purposes; the ‘failure of investments undertaken’; and poor ‘repayment ethics’ (Padmanabhan, 1988: 67). Causes of defaults can be measured at several levels: the borrower level, the MFI level, and the economy level. (Padmanabhan, 1988: 68-69).

Factors that contribute to default at the borrower level are:

- bad loans to unwilling borrowers who become inefficient producers and defaulters;
- use of loans in ‘non-essential consumption’;
- failure in investment undertaken due to natural disasters;
- borrowers’ use of various financial services which get priority in repayment;

- use of loans for contingencies, such as death and sickness;
- lack of incentive for repayment;
- low level of real interest rate; and
- borrowers who are “politically powerful” committing strategic default.

The causes of default at the MFI level include:

- poor quality of loan officers and their capacity to determine effective borrowers due to the lack of incentives for staff good performance;
- ‘absence of supporting services’ or failure to advise borrowers;
- inappropriate repayment schedules;
- lack of sanctions against defaulters;
- lack of frequent contact with borrowers;
- lack of education or advice for borrowers;
- absence of sound book-keeping; and
- declining loan portfolios that reduce borrowers’ trust about the sustainability of the MFI and expectations about future loans (Padmanabhan, 1988: 68-69).

Marr argues that the root cause of default rates is information asymmetries (Marr, 2002: 20). Asymmetric information between MFIs and borrowers occurs as MFIs do not know what causes the borrowers’ default. Because of information asymmetries, MFIs are “unable to observe whether default is due to a negative economic shock or strategic default by the borrower” (Tedeschi, 2006: 88). Stiglitz and Weiss (1981) elaborate that lenders or banks have “imperfect information” as they have difficulties in identifying borrowers who are creditworthy and more likely to repay loans (Stiglitz and Weiss, 1981: 393). They write, “the bank is not able to directly control all the actions of borrowers” (Stiglitz and Weiss, 1981: 394).

## **2.8 Challenges to Achieving Sustainability**

At the institutional level, MFIs with lack of *accountability and transparency* face hurdles in achieving sustainability. MFIs need to design “a system of

accountability that works for both program officials and borrowers ... and must therefore ensure a socially conscious and transparent system” (Khandker, 1998: 154).

The *macro-economic and political environment* of a country affects the sustainability of MFIs. For instance, Turnell notes that Burma’s weak financial sector and high inflation impede sustainability of MFIs (Turnell, 2009). In addition, *a lack of good governance and lack of freedom to set interest rates* also impede the success of sustainability (Conroy, 2003: 154-155).

“Easy” donor money, *subsidies*, or a “perpetual source of support”, creates *moral hazard* for both staff and borrowers even though it may enable the MFI to reach the very poor by charging lower interest rates (Navajas et al, 2000: 336; Seibel and Torres, 1999: 126). Morduch, Rutherford, and Ruthven (2009) give as an example of moral hazard how “being insured for one’s health may also change one’s behavior” (Morduch, Rutherford, and Ruthven, 2009: 88). In the case of MFIs, when both staff and borrowers know that they will receive grants or subsidies from donors they have fewer motivations to work hard for high repayment. In addition, subsidies also become a substitute for local savings, as staff may not work hard to mobilize savings so as to build a sustainable MFI (Seibel and Torres, 1999: 126).

### **2.8.1 Educational Loans**

The types of financial contracts and services made available to borrowers are significant to the sustainability of MFIs because different types of loans enable the institution to meet the varying demands of its borrowers. For instance, the Grameen Bank offers student educational loans with zero percent interest during the period of study and 5 percent after the degree (Yunus, 2007: 65). Yunus claims, “We are creating a completely new generation that will be well equipped to take their families way out of the reach of poverty” (Yunus, 2007: 60).

One of the sixteen social goals of the Grameen Bank is, to “educate our children and ensure that they can earn to pay for their education” (Yunus, 2007: 59). Accordingly, the Grameen Bank encourages both borrowers and staff to send their children to schools by giving over 30,000 scholarships every year to the children of the borrowers. It also set up the Grameen Education and Scholarship Management Program that invites donors to contribute a minimum of \$750 for scholarships (Yunus, 2007: 91). Yunus claims that some of the borrowers’ children become “doctors, engineers, college teachers, and other professionals” (Yunus, 2007: 60). Providing such educational loans to borrowers can, thus, help maximize both the welfare of the borrowers’ families and the sustainability of the MFIs.

## **2.9 Three Empirical Case Studies**

This section elaborates the sustainability and outreach of the well-known MFIs: the Grameen Bank from Bangladesh, BancoSol from Bolivia, and Bank Rakyat Indonesia (BRI) (Morduch, 1999: 1573-1578; Schicks, 2007: 553-557).

### **2.9.1 Sustainability and Outreach of the Grameen Bank**

Many practitioners and researchers agree that the Grameen Bank has had great success in reaching the very poor and has thereby fulfilled its social mission in terms of depth of outreach (Morduch, 1999: 1575, Schicks, 2007: 558).

However, many, including Morduch and Robinson, argue that the Grameen Bank’s remarkable outreach is only possible through subsidized loans (Morduch, 1999: 1575; Robinson, 2001: 95). Robison (2001) argues that unlike BRI and BancoSol, the Grameen Bank does not emphasize “full cost recovery and commercial funding, hallmarks of the microfinance revolution” (Robison, 2001: 95).

Like most MFIs, the Grameen Bank received financial support until 1996. It received “\$175 million in subsidies, including both direct donations and “soft”



donations such as soft loans, implicit subsidies through equity holdings, and delayed loan loss provision” (Sengupta and Aubuchon, 2008: 22). Japan’s Overseas Economic Cooperation Fund loaned Grameen Bank \$30 million at 1 percent interest rate for 30 years (McGuire, 1998: 96). Bangladesh Bank also gave the Grameen Bank \$145 million between 1993 and 1994 at 6 percent interest rate. Since 1994, Grameen Bank has also issued bonds backed by the government. In addition, nationalized commercial banks bought \$360 million of bonds from the Grameen Bank, as they can be used for statutory liquidity requirements.

Whilst subsidization may have been the case before, nowadays Grameen Bank’s new branches rely only on savings from borrowers and non-borrowers to run their banking business sustainably from “day 1” (Yunus, 2007: 65). Yunus asserts that within twelve months, most new branches achieve sustainability by mobilizing deposits for loans (Yunus, 2007: 72). Yunus claims, “Grameen is especially proud of its self-reliance ... Grameen does not anticipate any need to solicit donor money or even take new loans from internal or external sources in the future” (Yunus, 1999: 235). Borrowers currently own 93 percent of Grameen Bank, with the remainder owned by the government (Yunus, 1999: 235).

### **2.9.2 Loan Methodologies of the Grameen Bank**

The quality of loan methodology is important to attain high repayment rates and reach the poor. As MFIs generally do not require collateral, methodologies such as joint liability through solidarity group lending, progressive and dynamic loans, and compulsory savings are utilized to ensure repayment and provide peer pressure (Yunus, 1999: 63).

Potential Grameen Bank members are required to attend a one-week training to learn about the bank’s policies and then pass an exam about the bank’s lending policies. According to Yunus, the exam is a way of screening those who really need the loan and who are serious about making money with the small loans.

The Grameen Bank uses a progressive lending method in that two members of the five grouping receive the first loan. If the two members pay back their loans regularly for the first six weeks, then the next two members will receive loans. If they pay back their loans, the last member will receive a loan. The first loan is normally about \$25 over a one-year period at an interest rate of 16 percent. Two percent of the loan is repaid weekly.

The Bank use close monitoring by both bank workers and peers to ensure repayment rate. Bank workers meet with borrowers weekly to make sure they use their loans wisely. Most borrowers are women based on the rationale that women face extreme poverty and that they are likely to use loans more efficiently than men (Yunus, 1999: 72).

The Grameen Bank requires the borrowers give 0.5 percent of every loan to an “emergency fund” in case of default, death, or other emergency issues (Morduch, 1999: 1585). In addition, borrowers have to deposit 5 percent of the loan in the group fund for a “group tax” the purpose of which is to increase savings. Yunus describes this practice as *mushti chaal* - “a handful of rice” that a mother sets aside for contingencies (Counts, 2008: 61). The members can borrow up to half of the fund without interest rates for a fixed term (Morduch, 1999: 1585). Before 1995, borrowers were not able to withdraw their group tax upon leaving. Now, they can withdraw their “forced savings” if they repay all their loans.

As shown in table 2.1, in recent years, the Grameen Bank has changed some of its techniques, calling the changes Grameen II “in order to serve its customers and their needs most effectively” (Yunus, 2007: 63). The Grameen II techniques are more flexible in terms of loan duration, repayment schedules, and installment size, and are more active in mobilizing savings from both borrowers and non-borrowers.

**Table 2.1 From Grameen I to Grameen II: A More Flexible, Responsive System**

Grameen I	Grameen II	Reason for Change
No provision to save for pension.	Borrower deposits a fixed monthly amount in Grameen pension scheme.	To help borrowers build a nest egg for retirement
Fixed, one-size-fits-all savings program	Varied savings plans to fit members' individual needs	To encourage saving for special needs and long-term economic benefit
No initiative to collect savings from nonmembers	Active campaigns to collect savings from nonmembers	To enable the bank to self-fund future loans
Mostly one-year loans with fixed installment amounts.	Loan duration and installment size may vary.	To allow borrowers to tailor loan products to individual needs and changing circumstances
Common loan ceiling	Individual loan ceilings are based on savings and others.	To reward and incentivize good borrowing and repayment
Family responsible for loan of deceased borrower	Special savings fund ensures that outstanding loans are paid off after death.	To alleviate borrowers' fears of leaving debt behind after death
Borrower becomes defaulter if loan is not repaid in 52 weeks.	Borrower becomes defaulter if repayment schedule is not met within six months.	To create an early warning signal of potential borrower problems
Funds for new bank branches borrowed from head office at 12 percent interest.	New branches are self-funding from day 1, using savings from borrowers and non-borrowers.	To ensure that branches become self-sufficient quickly

Source: Yunus, 2007: 64

The Grameen Bank applies incentive systems to improve staff performance. The Bank uses a five-star evaluation system for staff and branches (Yunus, 2007: 13). If a staff member achieves 100 percent repayment rate for his unit, which consists of 600 borrowers, he will get a green star. A second blue star is for the employee who generates profits for his unit. A third violet star is awarded when savings are greater than outstanding loans. A fourth brown star is awarded when all borrowers' children go to school. A final red star is awarded when all borrowers escape from poverty (Yunus, 2007: 14).

### **2.9.3 Sustainability and Outreach of BancoSol**

BancoSol from Bolivia was established as an NGO project in 1987 and became a bank in 1992. The bank does not receive any subsidies and has earned returns on equity (ROE) since 1998. It achieves sustainability and breadth of outreach, but falls short in the depth of its outreach thereby resulting in a trade-off relationship between sustainability and outreach (Morduch, 1999: 1576; Schreiner, 2002).

The mission of BancoSol is not to reach the very poor but to provide good banking services to urban dwellers, “the richest of the poor” or “poorest of the richest”, yet who are in need of microfinance (Morduch, 1999: 1576; Navajas et al, 2000: 342; Schicks, 2007: 558). This approach finds support among some scholars who argue that the most important mission of MFIs should not be whether they reach the poorest of the poor, but “whether they reached the poorest of those who demanded loans and who were creditworthy” (Navajas et al, 2000: 342).

Despite the trade-off between sustainability and outreach, BancoSol is able to cover five aspects of outreach: worth, cost, breadth, long length, and scope while often unsustainable MFIs fail to cover these five aspects of outreach and cover only depth in reaching the poor (Schreiner, 2002: 597-598).

#### **2.9.4 Loan Methodologies of BancoSol**

BancoSol uses “solidarity groups” of three to seven members and disburses loans to all members simultaneously (Morduch, 1999: 1576). BancoSol emphasizes solidarity groups to achieve high repayment (Morduch, 1999: 1586). Unlike the Grameen Bank, BancoSol charges high interest rates to cover its operational and financial costs. Its annual interest rate on loans was between 12% and 22% in 2007 (MIX, 2010). The average loan size is \$1,700. The repayment schedules are flexible with both weekly and monthly options. Loan durations are also flexible, ranging from one month to two years (Morduch, 1999: 1576).

#### **2.9.5 Sustainability and Outreach of Bank Rakyat Indonesia (BRI)**

BRI is a state-owned bank. BRI stopped accepting subsidies since 1988 and has since been financially self-sustainable (Yaron, 1997: 122). Like BancoSol, BRI does not regard itself as providing social services, but rather providing financial services to earn a profit (Morduch, 1999: 1578). BRI requires full collateral from every borrower, and thereby excludes the very poor.

#### **2.9.6 Loan Methodologies of BRI**

The bank targets rural low and middle-income households (Yaron, 1997: 132). Unlike the Grameen Bank and BancoSol, BRI lends to individuals (Morduch, 1999: 1577). As mentioned above, BRI uses full collateral that may or may not be expensive but significant and essential to family members (Sengupta and Aubuchon, 2008: 21). Usually, collateral is land (Yaron, 1997: 135). Although BRI requires collateral, it emphasizes dynamic incentives to achieve high repayment (Morduch, 1999: 1586).

The repayment schedules of BRI are monthly or quarterly (Yaron, 1997: 135). Loan duration varies from one to three years. The monthly interest rate on loans is 1.5 percent.

The bank applies penalties for late repayment as the borrowers lose 0.5 percent per month interest rates benefits from the original loan amount that the bank provides (Yaron, 1997: 135). In addition, unreliable borrowers are denied future loans. As a last resort, the bank will repossess the collateral of defaulters (Yaron, 1997: 136).

Incentives for staff are used to increase the bank's performance. Good performance of the staff is assessed by 'unit profits, loan portfolio quality, and savings mobilization' (Yaron, 1997: 124). Staff can enjoy 10 percent of a unit's profits and bonuses per year (Yaron, 1997: 124).

## **2.10 Microfinance in Burma**

MFIs in Burma are led by intergovernmental organizations (IGOs), international non-governmental organizations (INGOs), and local Burmese civil society. However, there are almost no literature studies on MFIs in Burma (see section 1.1.2).

One of the obstacles that MFIs in Burma face is a lack of legal status. The Burma's Money Lenders Act (1945) restricts high interest rates by stipulating that the total interest rate on a loan should never exceed the recovery of the principal sum. This makes MFIs vulnerable, as their activities are technically illegal (Turnell, 2009: 337). In addition, the sustainability of microfinance schemes established in Burma's Irrawaddy Delta has been hampered by natural disasters. For instance, Cyclone Nargis in 2008 affected five MFIs led by the UNDP in Labutta in the Irrawaddy (United Nations Development Programme, 2008). Others argue that subsidized MFIs like the UNDP projects in the Irrawaddy Delta face difficulties in achieving

sustainability due to moral hazard in which both borrowers and bank staff act irresponsibly and take unnecessary risks because they receive and expect assistance or subsidies (Robinson, 2001; Seibel and Torres, 1999).

## **2.11 Conclusion**

Literature studies on sustainability and outreach show that practitioners and researchers have polemical arguments about the nature of the relationship, and argue about which approach is the best. Despite the increasing extensive studies on microfinance throughout the world, the industry still needs to establish standardized measurements and procedures to assess the successes and pitfalls of microfinance, so that a more accurate and comprehensive conclusion about the status of microfinance can be drawn and therefore improved.

Polarization over the challenges and benefits of microfinance do help critically examine and understand microfinance better. Yet, due to incomplete data and therefore conflicting analysis, practitioners, researchers, and donors become like blind men touching different parts of an elephant and describing it incorrectly from their own perspective instead of linking their observations together to realize the complete picture.

Literature studies on microfinance in Burma are almost nonexistent. Therefore, in the case of Burma, it becomes even harder to build a general picture of the benefits and challenges of microfinance for both institutions and borrowers. Furthermore, no research has been undertaken on locally-led MFIs in Burma, despite their apparent growth throughout the country.

Reflecting on the studies undertaken to date, they largely fail to regard the borrowers themselves as active and alive beings whose voices are recognized as significant. Instead, existing studies generally treat the borrowers as study objects.

They conduct sophisticated economic research methodologies that allow for various economic calculations thus generating analysis, conclusions and recommendations by the researchers. It seems that rather than let the borrowers speak out directly for themselves, these studies seek to portray and represent the very poor borrowers without ever listening to their actual voices. This thesis, therefore, seeks to shed light on how borrowers actually perceive the benefits and impacts of their loans. Most MFI literature focuses on economic indicators, such as loan repayment rates, income generating activities and income levels, but then often ignores the borrowers' emotional wellbeing. Such studies conceal the part where borrowers suffer and struggle to repay their loans in cases where, due to mismanagement or misfortune, the loans have failed to support activities that allow for the loan to be readily paid back. The reported "success stories" of MFI high repayment rates do not necessarily tell the full story of the feelings and struggles of borrowers who make such things happen.

This thesis is also about a locally-led MFI that does not receive any outside subsidies and has been created through a bottom-up approach. This thesis attempts to present the borrowers as beings and active participants who are out there alive, not behind the curtain, and who are capable of expressing their feelings and perceptions on the benefits or costs from their MFI loans directly, rather than the author predicting and speculating over what benefits they received.

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย



## CHAPTER III

### FINANCIAL SERVICES IN MUNG RAWT, THE KACHIN STATE, BURMA

#### 3.1 Introduction

This chapter provides a brief background on Mung Rawt town and an overview of the formal and informal financial services therein. After elaborating MRBCCU, it provides a brief overview of other formal and informal banking mechanisms and compares their relative merits and shortcomings from the perspective of Mung Rawt church members. The research finds that from the perspective of its members MRBCCU provides the best loans and savings services.



ศูนย์วิทยพัทยากร  
จุฬาลงกรณ์มหาวิทยาลัย

### 3.1 Livelihoods of People in Mung Rawt, Kachin State, Burma

Map 3.1 Kachin State, Burma



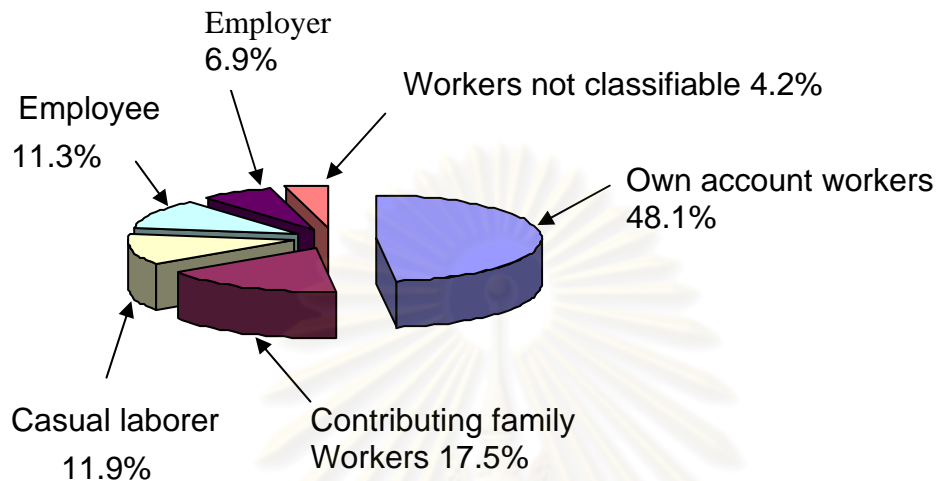
Source: CIA the World Factbook,2010; & Map Zones

Mung Rawt town is located in the center of Kachin state in northern Burma. It has a population of approximately 160,000 people that is comprised principally of Kachins, Shans and Burmans, with a smaller number of immigrants from China, India and Nepal. Prior to the government's monopoly on the mining and trading of jade in the late 1990s, Mung Rawt was a prosperous and busy town due to its proximity to the jade mining area of Hpakant.

Most of the economic activities in Mung Rawt are in the informal sector and some of the economic activities entail corruption and risks. Accordingly, measuring the economic status of the people is almost impossible because family households' incomes fluctuate dramatically and constantly. The availability of wage employment in Mung Rawt is sparse and only a few people have such jobs. However, the UNDP in Burma collects some data on economic activities in collaboration with the government's Ministry of National Planning and Economic Development (UNDP, 2007: 59). The UNDP's entitled "Integrated Household Living Conditions Survey in Myanmar," shows that in Kachin State the highest proportion of the population are "own account workers," (in other words self-employed workers) (figure 3.1). The study also finds that employment in the formal sector of economic activity in Kachin state is quite low (18.2%).

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

Figure 3.1 Economic Activities by Occupational Category in the Kachin State



In Mung Rawt, some residents earn a living by importing durable goods from China such as motorbikes, clothes, and other house appliances. Others export resources from the Kachin state, including jade, teak, and cows. Kachins and Shans also engage in foraging, slash and burn agriculture (*taung-ya*), wet-season rice farming, and orchard cultivation. Many people also raise livestock such as cows, buffalos, pigs, and chickens, mostly on a small scale.

Kachins generally do not engage in small income-generating activities, such as selling snacks, dishes, and other cooked food on the street, as they regard such activities as inferior or alien; none of the Kachins are street vendors. However, some Kachins do engage in selling vegetables or fruits from their orchards and the forest at the market.

Internal migration within Burma from Mung Rawt is high; people go to Hpakant for jade trading and to other parts of the Kachin state, including the Danai Hugawng Valley for gold mining and trading. Some people also go near to the Burma-China border to work on banana plantations in Shadan Pa, while others drive

three-wheeled taxis in Laiza, a border town. Some people also engage in illegal logging near the Burma-China border.

Out-migration from Mung Rawt, particularly to Thailand and Malaysia, has also increased due to the lack of economic opportunities in Burma. Such migrants often remit money back to their families, providing an important boost to family incomes.

### 3.2 Introduction to MRBCCU

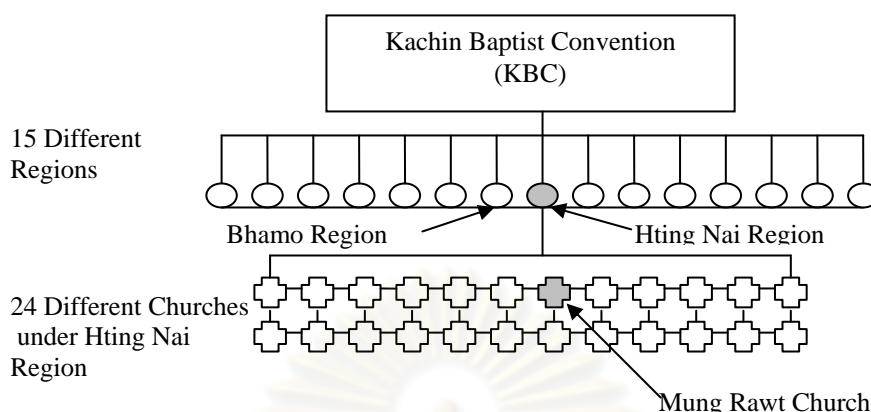
MRBCCU is a member-owned credit union. It is five years old, making it a young<sup>9</sup> MFI according to the classification scheme of MicroBanking Bulletin (2009). The launch of the MRBCCU was first initiated when Mung Rawt church's senior reverend, who leads the church, learned about the success of the Bhamo church<sup>10</sup> MFI and requested its staff to provide technical support to Mung Rawt Church in 2005. As shown in figure 3.2, Mung Rawt church exists under the structure of the Kachin Baptist Convention (KBC), which oversees about 350 Kachin churches under 15 different regions in Kachin State (See figure 3.2).

---

<sup>9</sup> MicroBanking Bulletin has three stages of MFIs: *new*, *young*, and *mature* (a *new* MFI is from 1 to 4 years, a *young* MFI is from 5 to 8 years, and a *mature* MFI is over 8 years).

<sup>10</sup> Bhamo church is under Bhamo region, which is also under the Kachin Baptist Convention (KBC) in the Kachin state, Burma (See figure 3.1).

**Figure 3.2 Mung Rawt Church under the Structure of the KBC**



In 2005, three trainers from Bhamo church provided a 3-day intensive training to about 20 members of the Mung Rawt church. In August 2005, the MRBCCU was officially established with a subsidy of \$20<sup>11</sup> from Mung Rawt church's Development Committee to cover the cost of stationery. The MRBCCU started with about \$1,000 in savings from depositors. The then leader of the MFI also loaned \$40 to MRBCCU to cover the initial operation costs. A year after its inception, the MFI was able to repay the \$20 back to the church and \$40 to the leader and in doing so became fully operationally sustainable.

The MRBCCU's pamphlet states that its official goal is "*To increase economy and develop through savings and loans services that is carried out with unity, maturity, and righteousness*". The pamphlet identifies the program's objectives as follows:

- 1) All church members including the "grassroots" shall learn how to save money
- 2) Those who see good opportunities to make money but do not have enough capital shall receive loans
- 3) All shall learn how to manage their money and respect disciplines

<sup>11</sup> In this thesis, the US dollars are used for simplicity. The Burmese currency is the *kyat*. The exchange rate is approximately US\$1 = 1,000 *kyats*

The cover of the MRBCCU pamphlet states “*Money solves the problems and hardships that every being faces*”. The catchword of the MRBCCU is “*For you: MRBCCU*”. Then, it states, “*MRBCCU will help your economic well being.*”

The stated MRBCCU objectives do not include reaching the poor or the very poor; it aims to reach church members. The MRBCCU also does not state that its objective is to ensure a high repayment rate. The pamphlets are distributed mostly on the anniversary of the MRBCCU in August, or at the office when potential members would like to know more about the MRBCCU.

### 3.2.1 Delivery of Financial Services

The total cost of membership for MRBCCU is \$11. The membership fee is 50 cents and the expense of the banking book is about 50 cents, while the required capital investment is about \$10. Borrowers used to receive a one-day training about the procedure for financial services, rules and regulations during the first few years of the MFI’s operation. However, the MFI stopped providing such trainings because they assume that borrowers now understand the system.

The MRBCCU uses an individual lending strategy by which two additional members guarantee a borrower’s loan<sup>12</sup>. Table 3.1 shows the general information on MRBCCU.

---

<sup>12</sup> Individual loans are granted on the need of individuals. Solidarity grouping (c.f. Grameen Bank) requires every member of the group guarantee for repayment of the loans.

**Table 3.1 General Information about the MRBCCU (as of July 2010)**

Year of establishment	August, 2005
Number of members	432
Number of borrowers	240
Annual interest rate on loans	36%
Annual interest rate on savings	24%
Percentage of repeat borrowers	30%
Percentage of regular payers	30%
Percentage of borrowers with income generating activities	30%
Repayment rate	30%
Principal loan	\$13,100
Compulsory savings	\$17,290
Voluntary Savings	\$12,132. 5
Average loan size	\$300
Loan sizes	\$0<- \$5,000
Ceiling on Voluntary Savings	\$ 1,500
Total number of loans	576
Financial services	Loans, voluntary, and compulsory savings
Target clients	The “grassroots” and all church members
Individual/groups lending	Individual Lending
Progressive lending	None
Dynamic loans	None
Incentives for borrowers	<ul style="list-style-type: none"> <li>• Symbolic prizes for regular payers</li> <li>• No compulsory savings for regular payers</li> </ul>
Loan duration	One year
Repayment schedule	<ul style="list-style-type: none"> <li>• Fixed monthly interest rates repayment</li> <li>• Flexible principal repayment schedule/installment</li> </ul>



Confiscation of property	None
Use of subsidies	None except technical support
Depth of outreach	Mostly the poor from rural area
Ownership	100% ownership by members (Independent of donors)
Number of paid staff	Four
Number of staff	10 including the four paid staff
Incentives for staff	None

As shown in table 3.1, loans vary in amount. Members can borrow up to two times the amount of their compulsory savings<sup>13</sup>. Therefore, the amount of the loans can be as small as \$15 or less. However, most borrowers deposit \$100 and receive \$200 or \$300 as they prefer this amount. The poor will only receive small loan sizes that are under \$500. The average loan size is \$300. Only about ten borrowers receive loans of between \$1,000 and \$5,000. The MRBCCU amends policy and adjusts loan sizes based on the individual borrower's income generating activities and income level.

Those that receive the large loan sizes over \$1,000 are usually entrepreneurs or organizations. Organizations with loans over \$1,000 require a recommendation letter from the organization with their office stamp alongside a document of the meeting minutes that reached the decision on the need for the loan. In addition, the leader, secretary, or the treasurer of the organization has to request the loan in person.

As illustrated in table 3.1, loan agreements specify full repayment after one year with fixed monthly payments of calculated interest rate and a flexible repayment schedule of the principal installment. The MRBCCU sends reminder letters and visits borrowers only when they fail to make their monthly interest payments. Therefore,

---

<sup>13</sup> Although a borrower can receive up to two times the amount of their compulsory savings in theory, MRBCCU changes this policy, as they do not want to lend the full amount to those who do not seem trustworthy. In addition, some trusted repeat borrowers are not required to have compulsory savings.

some borrowers only pay interest while making no repayment on the principal, even after one year has passed.

Deposits are capped at \$1,500. Depositors can withdraw their money at any time if the amount is below \$500. Those who want to withdraw a larger amount must provide advance notice of one to three weeks. Depositors receive their interest payments semiannually.

### 3.2.2 Changes in MRBCCU

Inflation is high in Burma. The UNDP estimates that it may be as high as 40% (Turnell, 2009). As table 3.2 indicates, the *lending interest rates* of the MRBCCU have also been high. After three years of operation, however, the interest rates have been adjusted downwards, due to competition with other MFIs in Mung Rawt as well as concerns raised by the MFI's members.

ศูนย์วิทยพัทพากร  
จุฬาลงกรณ์มหาวิทยาลัย

Table 3.2 Changes in MRBCCU

	<b>MRBCCU (2005-2009)</b>	<b>MRBCCU (2009-up to present)</b>
<b>Monthly interest rates on Loans</b>	5% (monthly)	3% (monthly)
<b>Monthly interest rates on Savings</b>	3% (monthly)	2% (monthly)
<b>Interest rates on compulsory savings</b>	50% of the spread	None (because interest rate was reduced to 3% from 5%)
<b>Maximum number of Borrowers From each house</b>	Two family members	Only one
<b>Compulsory savings and Loan size</b>	1/3 of the loan	Depends on the borrowers' income levels and income generating activities.
<b>Fine for defaulters</b>	2%	None
<b>Restrictions on withdrawals</b>	One week advance notice	Two to three weeks advance notice if above \$500
<b>Office Hours</b>	First sixth days of every month	Every weekday
<b>Guarantors</b>	Two MRBCCU members	One MRBCCU member and one family member.

The monthly interest rate on loans was 5 percent until 2009, which is equivalent to an annual nominal interest rate of 60 percent. Since September 2009, however, the monthly interest rate has been reduced to 3 percent, which is equivalent to an annual nominal interest rate of 36 percent. Before this change, borrowers were paid interest on their compulsory savings, effectively lowering the monthly interest rate on their principal. With the shift from MRBCCU I to MRBCCU II, monthly interest rates on savings were also reduced from 3 percent to 2 percent. However, the interest rate on savings is still higher than other MFIs and the government bank in Mung Rawt.

Before September 2009, MRBCCU charged a 2 percent fine for failure to repay interest on time, raising the total interest rate to 7 percent. In response to complaints from the borrowers, the MRBCCU stopped charging fines in September 2009.

### **3.3 Formal Financial Services in Mung Rawt**

In Mung Rawt, most people are involuntarily excluded from the formal banking system. There is only one legal bank, the government-owned Myanmar Economic Bank. Other formal services of credit include MFIs operated by quarters<sup>14</sup> and *Zay thama* (see Table 3.3). Two legal pawnshops also provide loans to people.

---

<sup>14</sup> Quarters are local administrative units in a town, which are called as *yat kwet* in Burmese.

**Table 3.3 Formal Financial Services in Mung Rawt**

<b>Names</b>	<b>Loans I* rate</b>	<b>Repayment schedule</b>	<b>Loan duration</b>	<b>Loan size</b>	<b>Savings I* rate</b>	<b>Savings sizes</b>	<b>Required notice for withdrawal</b>
<b>Myanmar Economic Bank`</b>	7.2 %	Monthly	1 year	\$5000- \$10,000	12 %	\$10- \$400,000	None
<i>Zay thama</i>	24%	Daily	100 days	\$500	18%	“Unlimited”	One month if over \$1,000
<b>Quarter-led MFIs</b>	30%	Monthly	6 months	\$100- \$500	18%	\$100- \$2,000	Time deposits
<b>Pawn Shops (2)</b>	60%	Monthly	6 months	Varies	N/A	N/A	N/A

Note1: I\* = annual interest rate.

Note2: The gray-shaded areas indicate the sources of saving services. *Zay thama* limits deposits when they have problems paying interest.

### 3.3.1 Myanmar Economic Bank (MEB)

The Myanmar Economic Bank (MEB) only provides loans to wealthy borrowers with collateral. It offers savings services to all, although these saving services are widely perceived to be of a poor quality. The MEB is so inefficient that even money transfers are troublesome for clients; one church member claimed that a \$100 money transfer arranged by the MEB was disbursed through three appointments rather than one, so she will not use the MEB again. Another client, an NGO worker, said that he has to use the MEB for grant transfers for safety reason, but complained that he had to give donations festivals from his deposits.<sup>15</sup>

Many church members are unaware of the existence of the MEB. The clerk of the MEB said that only six borrowers out of Mung Rawt population received loans with the minimum loan size of \$5,000, as they are able to offer high-value collaterals, such as cars, houses, and other valuable property. Therefore, poor or middle-class people are unable to access loans from the MEB, and none of the church members have loans from the MEB. As indicated in table 3.1, the MEB only offers 12% interest rate on savings so almost none of the church members deposit their money there.

### 3.3.2 *Zay thamawayama athin* or *Zay thama* Market Cooperative Enterprise Team

*Zay* in Burmese means market, *thamawayama* means co-operative, and *a-thin* means team. *Zay thamawayama a-thin* provides saving services to all, but caters loan services only to members with stalls or shops at the market, and is well-known as *zay thama*. There is only one *zay thama* in Mung Rawt. The office is located in the market. It charges an annual interest rate of 24% on loans and 18% on deposits.

---

<sup>15</sup> A NGO worker in Mung Rawt in discussion with the author in July 2010

Loans are issued to groups of three to five members. Repayments are made on a daily basis. The *Zay thama* does not offer progressive or dynamic loans. There are about four full-time staff. One of the staff claimed that repayment rates are almost 100 percent.<sup>16</sup> She said that the *zay thama* does not cap the size of its deposits and the operational money is about \$300,000. It offers a savings interest rate of 18%, which is only half of that of the MRBCCU.

During an interview with the staff, she stated that anybody can save money with the *zay thama*. However, a former depositor said that she had to withdraw her savings as one of the *zay thama* staff had complained “*you guys are just taking the interest rate and a bunch of people are like this, so we are having a hard time paying you back your interest rates.*” This interviewee now deposits her money at the MRBCCU.<sup>17</sup>

### 3.3.3 Quarter-led MFIs

There are about five quarter-led MFIs run by quarter former secretaries, pensioners, and members of the Union of Solidarity and Development Association (USDA) which is a government mass organization that has since transferred itself into a political party. The government backs these MFIs. Some of these MFIs received their start up capital from the MEB during their establishment phase or from the deposits of members. The quarter-led MFIs have operated since 2005, the same year that MRBCCU was established.

The interest rates of all quarter-led MFIs have gradually decreased due to the government’s instructions or orders to reduce them. The initial annual interest rate on loans was 72% from 2006 to 2008, which decreased to 60% from 2008 to 2009. As of April 2010, the annual interest rate becomes as low as 30%.

---

<sup>16</sup> In an interview with the author at the office of *zay thama* in July 2010

<sup>17</sup> A Burmese migrant worker from Mung Rawt in Thailand in conversation with the author, August 2010

These quarter-led MFIs use solidarity groups of five people who will guarantee one another and pay for one another in case of loan default. The borrowers have to own a house and be a member of the respective quarter. The borrowers have to submit photocopies of their household document, also known as form 10, their national registration card (NRC), and two passport photos.

In case of loan default, the chairperson of a quarter-led MFI said, “*We will sue them at court and will confiscate their property if the borrower refuses to pay. We can do this because we are regulated by the government.*”<sup>18</sup> He proudly claimed that “*We use the profits of this MFI to realize the five goals of the government’s development project for villages, including education, health, and infrastructure.*”<sup>19</sup> While talking about the quarter-led MFI, he was on and off his cell phone and talking loudly on the phone. The leader of the quarter MFI said that all of their borrowers are women.

### **3.3.4 Government Regulated Pawnshops**

There are two legal pawnshops in Mung Rawt. Borrowers must provide collateral. Clients are able to receive loans below the value of their collateral. Pawnshops charge a monthly interest rate of 5%. Clients must redeem their pawned collateral within six months, or extend the duration by repaying the due interest. Failure to pay the interest results in the loss of the client’s collateral.

The most common form of collateral is gold jewelry, which serves as a common means of savings money given the stability of gold prices in the midst of Burma’s high inflation. Gold jewelry is a common status symbol in Burma.

---

<sup>18</sup> In an interview with the author at the office of a Quarter MFI in July, 2010

<sup>19</sup> The author interviewed both leader and secretary of a quarter MFI at their office in July 2010.



### 3.4 Informal Sources of Loans and Savings in Mung Rawt

MRBCCU, detailed above in section 3.2, is the only informal civil society-led institution in Mung Rawt that provides both loans and savings services to its members. In this section, other forms of informal borrowing and saving services available in Mung Rawt are detailed (see table 3.4).



**Table 3.4 Informal Sources of Loans and Savings in Mung Rawt**

<b>Names</b>	<b>Loans I* rate</b>	<b>Repayment schedule</b>	<b>Loan duration</b>	<b>Loan sizes</b>	<b>Savings I* rate</b>	<b>Savings sizes</b>	<b>Withdrawal schedule</b>
<b>Church</b>	36%	Monthly	One year	\$500-\$5,000	24%	\$10- \$1500	1–3 weeks
<i>Su kyay</i> ROSCAs	N/A	N/A	N/A	N/A	N/A	Varies	By turn
<b>YMCA (ceased)</b>	48%	Weekly	6 months or one year	\$10-\$50	N/A	50 cents weekly	After loan repayment
<i>Nayt pyan toe</i>	240%	Daily (fixed)	1 month	Varies	N/A	N/A	N/A
<b>Relatives</b>	None	Varies	Varies	Varies	N/A	N/A	N/A
<b>Neighbors</b>	0%- 240%	Varies	Varies	Varies	N/A	N/A	N/A
<b>Gold Jewelries</b>	N/A	N/A	N/A	N/A	N/A	Varies	N/A
<b>Livestock</b>	N/A	N/A	N/A	N/A	N/A	Varies	N/A

Note: The gray-shaded areas indicate the sources of savings services. Young Men's Christian Association (YMCA) microcredit program stopped operating in 2009. ROSCAs are Rotating Savings and Credit Associations.

### 3.4.1 Rotating Savings and Credit Associations (ROSCAs )or *Su kyay*

Literally translated, *su* means save and *kyay* means fees. Around the world, *su kyay* is well-known as rotating savings and credit associations (ROSCAs). In *su kyay*, about 10 to 20 members with high social capital and similar careers, especially sellers, jointly put money into a “pot” to save that is then shared in turn by the members. The treasurer or chairperson receives the first pot, with members then drawing lots to determine the subsequent recipients.

The savings rate is about \$2 per day, so a member in a group with 20 members will receive \$400 in 10 days. As members are required to pay fixed installments daily, those with daily incomes, particularly sellers or shopkeepers, are more likely to get involved. Only women are involved in the ROSCAs in Mung Rawt. Others with irregular incomes are excluded from this group. A church member who is a vegetable seller said that she was involved in a ROSCA, and she deposits her money from the ROSCA at the MRBCCU in order to earn interest.<sup>20</sup>

The inherent risk of a ROSCA is that those who receive the first pots of money will disappear or fail to provide a share to the remaining members. Therefore, ROSCA groups are only formed amongst people with a high level of trust between each other, and who are able to work together for long-term mutual benefit.

### 3.4.2 Young Men’s Christian Association (YMCA) Microcredit Program

Although the microcredit operation of the YMCA Mung Rawt stopped its operation, it appear to be a great success as it achieves both sustainability and outreach to the very poor. The loan methodologies of the YMCA were similar to that of the Grameen Bank. The clerk of the YMCA, who was responsible for disbursing the loans, collecting money, and accounting, said that it achieved almost 100% repayment rates.<sup>21</sup> The clerk ensured a systematic and proper screening process,

---

<sup>20</sup> A woman church member in discussion with the author, July 2010

<sup>21</sup> A clerk in discussion with the author, July, 2010

whereby YMCA staff had four meetings with a potential borrower before disbursing a loan. During the first meeting, the staff explained the rules and regulations of the MFI. Then, during the second meeting, the staff asked the potential borrower to provide their address, photocopies of their national registration card and household documents (form 10), and two passport photos. During the third meeting, the potential borrower filled out the application forms. After this meeting, the MFI staff would undertake an investigation about the potential borrower by visiting their neighbors and asking whether the borrower was creditworthy and had too many debts. Although the initial loan was only \$20, this entire screening process was followed rigorously.

The YMCA offered dynamic loans of up to a maximum of \$50<sup>22</sup>. It did not discriminate against any borrowers based on their nationalities or religions. However, only women were eligible for loans. There were no progressive loans, but borrowers in each group guaranteed each another's repayment. The borrowers were the poor and the very poor who were engaged in income-generating activities such as selling fried snacks on the street and trading pigs. The repayment schedule was weekly; the clerk would visit the head of the five-member groupings to collect repayment.

Out of all MFIs in Mung Rawt, only the YMCA MFI used dynamic loans, provided very small loan sizes, and reached the very poor. Occasionally the YMCA provided free trainings to teach borrowers how to make snacks to sell.

Unlike the MRBCCU, which achieves only 30% repayment rate (see chapter V), the YMCA attained almost a 100% repayment rate. There are significant differences over loan methodologies between the MRBCCU and the YMCA (table 3.5)

---

<sup>22</sup> Dynamic loans are an incentive for borrowers to repay, as they will continue to receive larger loans only after they repay their previous loans in full and on time

**Table 3.5 Comparison between YMCA and MRBCCU loan methodologies**

	<b>YMCA</b>	<b>MRBCCU</b>
<b>Average loan size</b>	\$20	\$300
<b>Dynamic loans</b>	From \$20 to \$50	Not specific: “faithful” borrowers can receive the amount they request
<b>Repayment schedule</b>	Weekly	Monthly
<b>Interest rates and principal Installment and schedule</b>	<ul style="list-style-type: none"> <li>• Fixed interest rates</li> <li>• Fixed principal installment</li> </ul>	<ul style="list-style-type: none"> <li>• Fixed interest rates</li> <li>• Flexible principal installment and repayment</li> </ul>
<b>Duration to receive loans</b>	One month with four weekly appointments	Takes 5 days with no appointments
<b>Location for loan repayment</b>	Borrowers’ homes	At the office
<b>Selection criteria</b>	No discrimination over ethnicity, religion, church, denomination, and quarter (administrative unit) except gender	Members are limited by ethnicity, religion, church, and denomination

The YMCA’s borrowers were the very poor who engage in income-generating activities such as selling snacks on the streets or vending jobs that many Kachins consider as inferior, including those who borrow from MRBCCU. The repayment schedule was very frequent (weekly) and solidarity grouping assured the repayment by each member. Loan sizes were the smallest ones among the MFIs in Mung Rawt. Only a few Church members were borrowers from the YMCA micro-credit service.

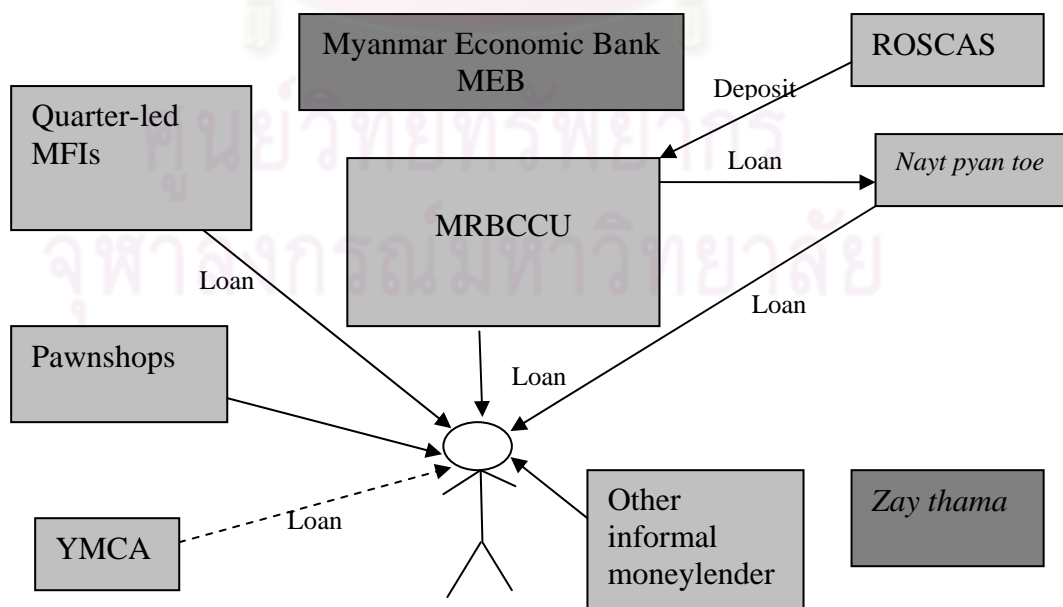
### 3.4.3 Informal Moneylenders

A well-known informal moneylender service called *nayt pyan toe*, which means “daily repayment,” offers an effective annual interest rate of 240%. Borrowers pay daily small fixed installments, which include the interest and the principal. *Nayt pyan toe* does not provide a savings services, and the moneylender can be anybody. Mostly, this sort of loaning arrangement is done by and for sellers.

### 3.4.4 Debt Cycle?

As shown in figure 3.3, most Mung Rawt Kachin Baptist church member has access to loans from the MRBCCU, quarter-led MFIs, pawnshops, and other informal moneylenders, including *nayt pyan toe* and neighbors. Some borrowers interviewed end up in a debt cycle as they borrow money from others to repay their previous loans, and become stuck in a vicious cycle of debts from different sources.

**Figure 3.3 Access by MRBCCU borrowers to formal and informal financial services in Mung Rawt**



The survey undertaken did not incorporate interviews with all the church members to understand their wider loan use patterns from different borrowers and the extent of their loans use services. However, from the key informant interviews and 22 borrowers and non-borrowers, it was learned that none of the church members are eligible to access loans from Myanmar Economic Bank (MEB), which has only six outstanding loans. The YMCA stopped operating in 2009. Most church members do not have stalls at the market so they are ineligible to borrow money from *zay thama*.

Three MRBCCU borrowers interviewed used loans from the quarter-led MFIs, and two of them repaid their loans to the quarter MFI before they repaid their loans to the MRBCCU. On the other hand, another MRBCCU member used her loans to fund an informal money lending service (*nayt pyan toe*) and charged 20% monthly interest rates to vegetable sellers, including another MRBCCU borrower.

People in Mung Rawt tend to prefer pawnshops to other informal moneylenders, as the interest rate is lower and it does not require dealing with other people, thereby preserving their dignity. When people cannot redeem their jewelry, they can also go sell their receipts of the jewelries, which show the date and value of the jewelries, to the gold shop where they bought them. Then, they redeem their gold jewelries from the pawnshops.

### 3.5 Conclusion

Most church members do not use the formal regulated government bank MEB as they find it inconvenient and inefficient, and prefer to use the MRBCCU. Some church members also take loans from the quarter-led MFIs. However, as the quarter-led MFIs use threats to attain a high repayment rate, people are cautious and in general are afraid to borrow from this service.

In terms of loans, most church members prefer to borrow from the MRBCCU because they are afraid of the quarter-led MFIs' threats to confiscate defaulters' houses and to sue them in the court. On the other hand, they expect the MRBCCU to show love, mercy, and leniency in case of default.

In order to recover debts, the MRBCCU uses the existing church institution and social capital by occasionally reminding the borrowers about their debts during the Sunday plenary worship services, and sending defaulters reminder letters at the beginning of every month. Therefore, while the quarter-led MFI punishes its defaulters through tangible measures in the courts, the MRBCCU punishes its defaulters through intangible measures.

Despite its collapse due to corruption, the YMCA microcredit program appears to demonstrate that outreach of loans to the very poor in the form of very small loan sizes with a frequent fixed repayment schedule and installment, and fixed compulsory savings can actually help attain sustainability. Its success was also partly due to the desperation of the poor and very poor borrowers to develop income-generating activities in order to earn income and support their families and the commitment of the staff.

This survey of formal and informal financial services in Mung Rawt reveals that people have fewer options for savings than for accessing loans. People also protect their savings informally by investing in gold jewelries and livestock, in particular pigs.

Of the three institutional savings services: the Myanmar Economic Bank, the quarter-led MFIs, and the MRBCCU, the MRBCCU offers the best interest rates on savings so its outreach to depositors is the best. In terms of loans to the borrowers, MRBCCU reaches the church members, as it does not use physical threats and possesses high social capital through the church.



**CHAPTER IV**

**IMPACT OF MRBCCU's MANAGEMENT AND ORGANIZATIONAL  
STRUCTURE ON SUSTAINABILITY AND OUTREACH**

**4.1 Introduction**

This chapter explores how MRBCCU's management and organizational structure impact on outreach and sustainability. It argues that quick and easy loan procedures enable short-term outreach. However, the staff's performance in assessing loans and ensuring repayment is poor due to a weak incentive and penalty system. In addition, the MRBCCU's organizational structure does not provide a clear division of labor or feedback mechanisms, has weak accountability, and lacks transparency. Consequently, staff often approve risky loans, ignore their responsibility to monitor loan usage, and fail to apply an incentive system to ensure repayment. However, MRBCCU has a skillful leader who is capable of making changes to the credit union and enforcing discipline on borrowers which may contribute to long term financial sustainability.

This chapter also assesses the MRBCCU's outreach according to five aspects: worth, cost, breadth, gender, and depth. The research finds that the MRBCCU increases indicators of worth, cost, breadth and gender in the short term due to its quick and easy loan procedures. In the long run, however, these aspects of outreach decrease as borrowers cannot repay their loans on time. In addition, the MRBCCU does not have great depth of outreach because of its loan methodology, which requires compulsory savings of one third to one half of loan amounts, its use of individual lending rather than solidarity grouping, and repayment schedules and installment sizes that do not cater to the very poor (see chapter III).

Because of its failure to reach the very poor, the findings of this study indicate that there is a trade-off between sustainability and outreach to the very poor. MRBCCU is operationally sustainable as it continues to function and does not receive

any financial subsidies, but at the same time, it is unable to reach the very poor because doing so is more costly. Poor borrowers are more likely to be defaulters as they use their loans to smooth consumption, rather than invest the loan productively to expand their micro-enterprises and generate income; they then become stuck with debt and feel regretful about their loans (see chapter V).

## 4.2 Organizational Structure

The MRBCCU lacks a clear organizational structure (See figure 4.1). It does not have a Board of Directors, a central office or branches. Rather, a single committee manages and operates MRBCCU. The committee, which also acts as the loan assessment team, changes the MRBCCU's policies and regulations almost every year.

The committee is comprised of people from three different groups: paid MRBCCU staff, the church's Development Committee, and group leaders from the church's administrative areas. The committee members include the leader of the church Development Committee, two church group leaders, four deacons, and four paid staff.

**Figure 4.1 Organizational Structure of MRBCCU**



The four paid staff are the MFI leader, who is the wife of the reverend; the deputy leader, who is the deacon and deputy secretary of the church; the accountant, who works for the Ministry of Agriculture and Irrigation (MAI); and the clerk, who used to be the church clerk.

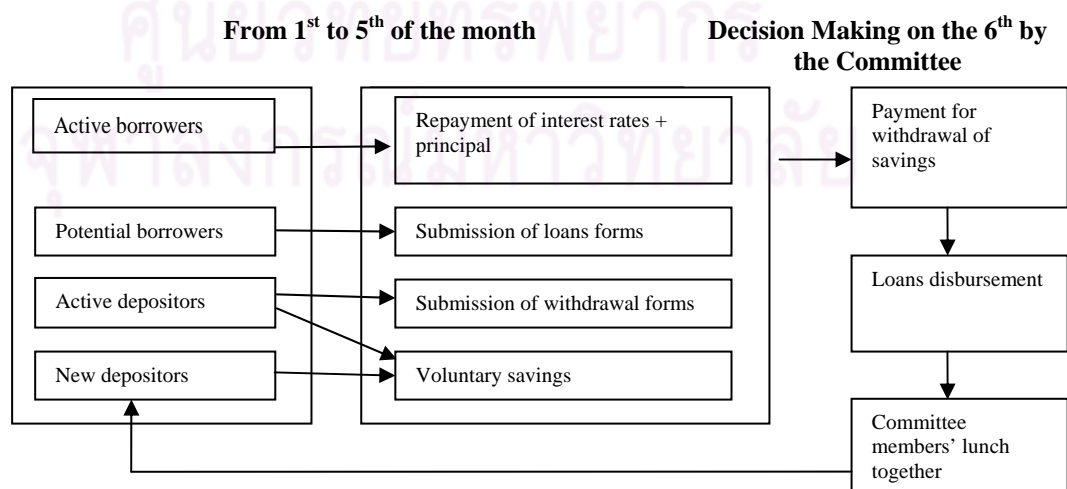
The clerk works from 10 am to 2 pm every weekday, for which she receives a regular salary of \$30.50 per month. The other staff members work from the 1<sup>st</sup> to the 6<sup>th</sup> of the month when the credit union collects payment, issues loans, allows withdrawals and makes administrative decisions. As compensation, they receive 40% of the MFI's profits on a semi-annual basis, which amounts to payments of between \$10 and \$30 per month.

The committee members work for one day per month for the disbursement of loans. The committee members, as well as the church pastors and deacons, receive presents every August to mark the anniversary of MRBCCU. The value of each present costs around \$5 and therefore represents a gesture of gratitude to the committee members rather than a financial reward.

### 4.3 Loan Delivery Process

About 10 to 20 potential borrowers apply for loans each month. It takes about five days to process loans (see figure 4.2).

**Figure 4.2 Process of Monthly Loan Disbursement**



As figure 4.2 illustrates, active borrowers repay their loans, and active and new depositors provide voluntary savings that contribute to cash supply of MRBCCU. On the other hand, some active depositors submit forms for withdrawal of their savings and potential borrowers submit loans forms. On the sixth of every month, the committee meets for three to five hours to make decisions about loan disbursement based on the amount of money they receive from active borrowers and depositors, and the amount of money that they have to disburse as determined by withdrawal forms. The committee performs this decision-making process in a one-day meeting that lasts between three to five hours.

The criteria for issuing loans to borrowers include the reputation of the applicant, their involvement in church activities, their income, and the declared purpose of the loan. One of the committee members<sup>23</sup> claimed, *“It’s very rare for us to reject loans to applicants because it is a church thing and we don’t want to upset church members.”* He added that *“Some applicants are opportunists ... they ask for loans which are way above their level of income generating activities. We just give them the amount which is less than they ask for, and we apologize<sup>24</sup> to those with bad reputations or who are unreliable with money.”*

Although MRBCCU rejects a few people, sometimes, some qualified borrowers must also wait for a month to receive loans because MRBCCU lacks sufficient capital. On the one hand, quick and easy loan procedures facilitate outreach (see chapter IV for details). On the other hand, the committee ends up giving bad loans to those who are already in debt and who lack the ability to generate income contributing to high default rates.

---

<sup>23</sup> The author’s interview with a committee member, July, 2010.

<sup>24</sup> He implies that they reject the loans by using the word “apologize”.

#### 4.4 Accountability

MRBCCU is characterized by low accountability. There is not a clear division of labor among staff and decisions are made jointly. Consequently, nobody is held individually accountable for screening, monitoring, loan applications and pressuring borrowers to repay. Eugene Versluysen (1999) argues that collective decision-making in credit unions “undermines accountability and creates poor governance ... [and] many unions have inadequate accounting and reporting standards” (p. 52). Versluysen argues that many credit unions lack the skills and expertise for ‘proper regulation or supervision’ (Versluysen, 1999: 52).

The lack of incentives and penalties for the staff reduces their motivation to provide the best services to achieve outreach and sustainability. The four MRBCCU paid staff are in principle responsible for pressuring borrowers to repay their loans. However, in practice, the staff do not monitor the use of loans nor do they provide advice to the borrowers. Instead, the staff wait at MFI office for repayments to arrive and visit borrowers only when they default for more than four months and then keep sending reminder letters to defaulters at the beginning of every month.

Some borrowers also lack accountability, as they are “fake borrowers”, meaning that they borrow money, which they pass on to other members or non-members. This arrangement reduces the fake borrower’s sense of responsibility, which they accord to the unofficial borrower.

As a basis aspect of accountability, MRBCCU should maintain a reserve so that they provide withdrawals to depositors and cushion against cash shocks. However, it disburses almost all of its savings, keeping only a few hundred dollars at the office.

Weak accountability hurts not only the credit union but also the borrowers. Fake borrowers get away easily without being held accountable for their acts. Some

borrowers end up taking loans, which they do not know how to use efficiently or productively. This leads to a low repayment rate and scares away potential borrowers resulting in shallow outreach. Poor staff performance is, therefore, partly responsible for the defaulting borrowers and dropouts, who have had a bad experience in using their loans, and who may not borrow again even if they are able to repay their existing debt.

#### **4.5 Transparency and Feedback Mechanisms**

Transparency includes openness, disclosure, and clear communication between the credit union, its members, and the church leaders. The MRBCCU is weak in reporting its accounting, performance indicators, and operational expenses to its members and church leaders although staff were willing to share some information with the author about their accounting. They do not share such information with borrowers as a matter of routine.

Some MRBCCU members expressed their dissatisfaction about the criteria for determining loan size, the lack of transparency about how profits are used and staff salaries.<sup>25</sup> MRBCCU's lack of transparency has created confusion, misunderstanding, and mistrust.

Feedback mechanisms could help bridge the information and knowledge gap between the MRBCCU and its members. Without two-way communication, the program cannot sustain itself, as members will quit or become indifferent to the MRBCCU. The members are the owners of the MRBCCU and are therefore entitled to have a voice in the operation of the MRBCCU.

---

<sup>25</sup> The church core member who is the group leader and wife of a reverend told the author that church leaders were left out of the MRBCCU's process and procedure such that they do not know what is happening with the program. She also said that some MRBCCU members come and complain to her about the different loan sizes and the opaqueness of the staff's salaries.

The credit union does not have a formal complaint or feedback mechanism for its members although the members can talk informally to one of the paid staff about their concerns. For instance, members can discuss interest rates, loan methodologies, or inconveniences with the staff, who then note advice or complaints and bring them up at the MRBCCU committee meetings. On the anniversary of the MRBCCU, members also have a chance to ask staff questions about institutional performance and to express their concerns. MRBCCU members may also complain directly to church leaders about staff or loan methodologies.

Informal mechanisms, however, marginalize many borrowers who are afraid to state their complaints individually or who prefer to raise their concerns anonymously. Some borrowers, particularly defaulters, do not even dare to go to the MFI office or church, as they feel ashamed and scared.

#### **4.6 Leadership Skills of the MRBCCU Staff**

The leader of the MRBCCU has worked for the program since its establishment in 2005. She has provided strong leadership by promoting strict discipline and using innovative and flexible loan methodologies to adjust to changing circumstances and the demands of its members. The leader is aware that the MRBCCU cannot use the exact loan methodology as the Bhamo church or other MFIs because microfinance is sensitive to different contexts and circumstances.

#### **4.7 Five Aspects of Outreach: Worth; Cost, Breath, Gender, Depth**

##### **Worth of Outreach to Members**

Worth of outreach is a measurement of members' willingness to pay for a service, which is based on the financial contract, and constraints and opportunities (Schreiner, 2002: 592). Worth to members incorporates considerations of the loan size, loan duration, repayment schedule and installment size, and whether it matches

the needs of the borrower (see chapter III for details about loan methodology). As Schreiner points out, measurement of worth to clients is difficult because worth depends on subjective gains and because one cannot predict, “what would have happened in the absence of microfinance” (Schreiner, 2002: 592).

MRBCCU borrowers use their loans<sup>26</sup> to expand their microenterprises, to diversify their sources of income, to raise livestock, to trade seasonal fruits, and to smooth consumption, particularly to pay tuition fees for the matriculation exam. Reflecting the worth of loan, a repeat borrower<sup>27</sup> said:

*An easy loan with very low interest rates helps to solve all kinds of problems. The MRBCCU does not require gold or other things as collateral. I also do not need to feel embarrassed about receiving loans, which preserves my dignity. I get the loan that I need in full.*

The worth of the loans to borrowers in terms of the interest rates offered is high, as they pay only 3% interest per month. Informal moneylenders charge borrowers 20% interest per month on loans. The only other available lending service is the quarter-led MFIs that threaten borrowers with property confiscation and law suits if loans are not repaid (see chapter III).

At MRBCCU, the borrowers also have a flexible principal repayment schedule and variable installment sizes so that they can do their income-generating activities more freely. Borrowers also have absolute freedom in using their loans, as the MFI staff and guarantors do not monitor loan use. However, the worth of loans to borrowers decreases if, after the use of the loans, they are unable to repay their loans and have only gained short-term consumption benefits rather than longer-term productive gains (see chapter V).

---

<sup>26</sup> The average loan size is \$300.

<sup>27</sup> In an interview with the author in July 2010



The worth of outreach to depositors is that they can earn 2 percent monthly interest rates semi-annually. For church members, the MRBCCU is overall the best option to save their money in terms of interest rates and withdrawal schemes (see chapter III).

### **Cost of Outreach to Members**

Cost of outreach to members includes price costs and transaction costs (Schreiner, 2002:593). Price costs are the fees or the cash that the members pay to the MRBCCU. Such price costs become the revenue for the credit union (Schreiner, 2002: 593). Transaction costs are ‘non-cash opportunity costs’ including costs for transportation, food, taxes, and documents that borrowers spend to receive loans. Borrowers have low price costs and low transaction costs.

The price cost for the MRBCCU membership fee is \$15. The borrowers are required to have compulsory savings with the MRBCCU that are a third to one half of the loan amount. Borrowers fill out a brief one-page application form and then wait for five days to receive their loan. Sometimes, they do not receive the amount they asked for in full and some of them can wait for another month to have the amount in full<sup>28</sup> (see chapter IV).

Each borrower needs two guarantors – one MRBCCU member and one family member. The office is located at the church, which is at the centre of the town and close to the areas where most borrowers live. Therefore, whilst there is no financial cost for transportation or food, there is an opportunity cost in the time invested. Borrowers do not have to pay taxes.

---

<sup>28</sup> When MRBCCU does not have enough revenue from repayment or voluntary savings, they cannot disburse loans to every applicant. In this case, the staff ask some of the applicants to wait for a month.

Net gain is defined as the “willingness to pay – the highest cost that a client would agree to bear for a financial contract minus the cost borne” (Schreiner, 2002: 593). Repeat borrowers’ net gain on loans is probably positive, as they continue to demand more loans. Repeat borrowers are more likely to take loans and then return their loans as soon as possible. 30% of MRBCCU’s borrowers are repeat borrowers. These borrowers use their loans to expand their microenterprise and use them productively.

However, the net gain to defaulters who have largely used their loan for short-term consumption is likely to be negative, as the loan is not invested productively. The defaulters who use their loans for their children’s education may have positive net gain in the long term even though they suffer from the debts in the short term (see chapter V). In these cases, the cost of receiving the loans is low but the cost of repaying the loans and the related emotional suffering is high as borrowers do not generate money with the loans. All interviewed defaulters perceive that the cost of their loans was higher than their worth as they felt “*miserable*” about their outstanding debt and inability to escape from their creditors because they participate in church social activities.

### **Breadth of Outreach**

The breadth of MFI outreach refers to the number of the MFI’s members. MRBCCU has 432 members: 240 are borrowers<sup>29</sup> and 192 are depositors of voluntary savings. As only one member from each family household is eligible to borrow money, this means that most of the households<sup>30</sup> in Mung Rawt are involved in the MRBCCU. Sometimes, borrowers and depositors overlap.

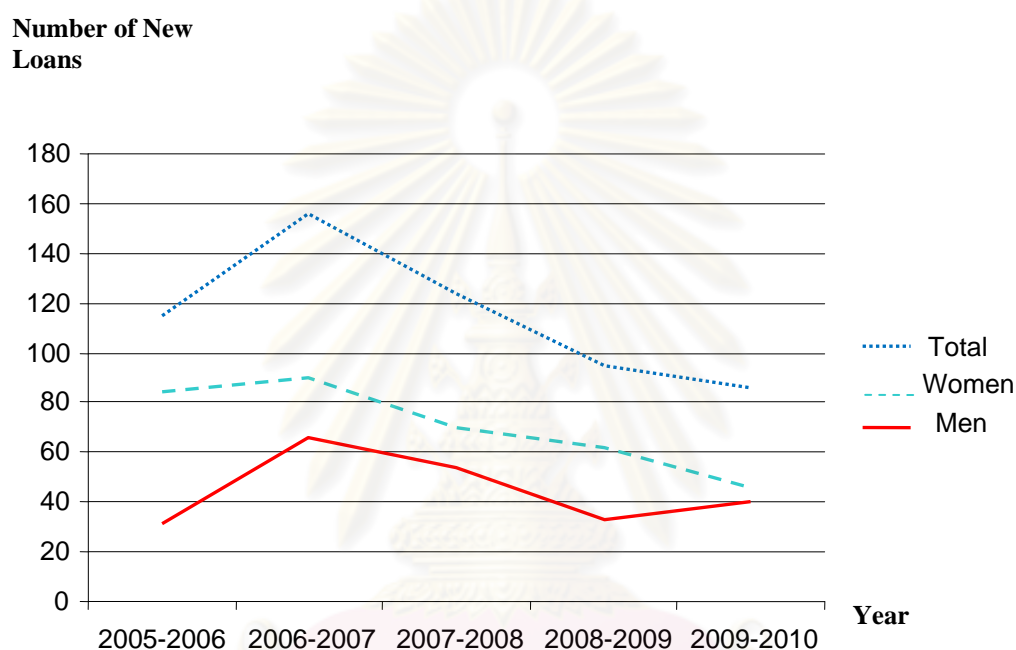
---

<sup>29</sup> This number of borrowers does not indicate, however, that they are all active borrowers. It means that 240 people have borrowing accounts with MRBCCU and have used the loan service at least once. The total number of loans disbursed since 2005 is 576.

<sup>30</sup> There are 436 households under church.

It is found that MRBCCU's quick and easy loan procedure resulted in a large number of borrowers (high breadth of outreach) when the MFI was first established, although the number of borrowers has decreased over time (figure 4.3).

**Figure 4.3 Trend of the Number of New Loans at MRBCCU<sup>31</sup>**



Loans have declined in part because some borrowers have become stuck with their existing loans and are therefore unable to receive new loans. Currently, about 74 borrowers are unable to repay their loans. As only one family member is eligible to receive a loan per household, this means that about 74 households are not allowed to receive new loans at the moment. Furthermore, the MRBCCU is unlikely to disburse new loans to such defaulters and all the interviewed defaulters claim that they will not borrow money again from the MRBCCU as they have already suffered enough.

<sup>31</sup> The clerk of the MRBCCU provided this data to the author in July, 2010.

## Gender

As shown in figure 4.3, women are more likely to be borrowers than men. However, the gap between the number of female and male borrowers is decreasing over time. The reason for this narrowing gap is due to the high defaults by female borrowers and the MRBCCU's regulation that only one family member is allowed to receive loan.

## Depth of Outreach

Depth of outreach measures whether a MFI is able to reach the very poor<sup>32</sup> or not. The MRBCCU does not achieve a high depth of outreach; whilst it is able to reach “the poor” and “the better off”, it does not reach “the very poor”. Out of the five chosen geographic groups for the research, most family households have access to the MRBCCU services. Only a few poor households lack access to the services. When interviewed, one of the poor non-borrowers said, *“we don't have any basic foundation, so what would we do with the loans with interest rates.”* Although there is no systematic survey on the poverty level of the all church family households, it seems that only a few family households, as few as 10%, are “very poor”.<sup>33</sup>

The concept of poverty for borrowers is relative and culturally sensitive. Ten out of the 17 borrowers interviewed identified themselves as “poor”. Most MRBCCU's borrowers are from rural areas and about 70% of the borrowers are poor people who struggle to make ends meet<sup>34</sup>. Unlike Grameen Bank borrowers, all MRBCCU borrowers own land and a house. They, however, face hardships, when family members become sick and when their children reach tenth standard as boarding schools cost at least \$300 per year in Mung Rawt.

---

<sup>32</sup> In this research, the very poor are defined as those who earn less than one dollar per day, live in poor quality shelter such as a bamboo house with a thatched roof, and are challenged in meeting basic survival needs for food and clothing.

<sup>33</sup> This conclusion is drawn from the author's personal observation.

<sup>34</sup> The leader, clerk, and accountant told the author during the interview in July 2010.

Five out of the 17 interviewees lack access to electricity, and live in a small house made of thatch and bamboo. It is hard to measure the income levels of the interviewed borrowers, as they do not have regular incomes. However, most spend about \$100 per month for food.

The borrowers in general tend to raise livestock, particularly pigs, to buffer against shocks and generate income. They are more likely to be vegetables sellers, farmers, and internal migrants who sell goods in gold mines in different parts of Kachin state. Lending to its poor borrowers entails costs to the MRBCCU, as these borrowers are more likely to default<sup>35</sup> as they often use their loans to smooth consumption and then try to repay them with irregular income from family members.

The MRBCCU does not reach the very poor as its institutional arrangements do not cater to the needs of the very poor who require very small loans, a frequent weekly repayment schedule, and solidarity grouping for peer pressure to encourage repayment (as was the case with the YMCA MFI loan methodology). The very poor may also not have money available for compulsory savings, and may not feel confident enough to assume loans with interest rates.

#### **4.8 Non-Borrowers: Voluntary or Involuntary Exclusion?**

Most non-borrowers are voluntarily excluded. However, very poor non-borrowers are involuntarily excluded as elaborated in section 4.4. Some very poor church members may not be active in the church's activities and thus be unaware of MRBCCU, may also feel less confident to take out the loans, and the staff may not feel comfortable to disburse loans to such people.

---

<sup>35</sup> This observation is based on the field research and interviews with the leader, clerk, deputy leader, and accountant.

Others attach prejudices and stigma to loans and debts or feel embarrassed to be in debt so they voluntarily exclude themselves. Some women came to borrow money from the MRBCCU but their husbands prevented them from borrowing as they did not want to lose face.<sup>36</sup>

Some middle-class people simply do not need the loans as they already have their own regular incomes. They then become depositors at the MRBCCU. These members tend to be NGOs workers<sup>37</sup>, government employees, traders, and the sellers who use ROSCAs. One of the NGO workers<sup>38</sup> said “*I don’t borrow money from the MRBCCU because I just don’t need money.*”

#### **4.9 Conclusion**

The MRBCCU’s shortcomings include the absence of a clear organizational structure, weak accountability, a poor division of labor and a failure to provide incentives and penalties to staff members in order to boost performance. The MRBCCU issues loans in a quick and easy fashion that is often to the detriment of the borrowers as well as the institution’s long-term sustainability.

The performance of the MFI could be improved by strengthening the skills of the staff through intensive trainings and seminars on microfinance. Their commitment and motivation could also be improved through the introduction of incentives schemes for individual good performance. Organizational division of labor, accountability, and transparency should be strengthened. Finally, the MFI staff could devote more of their time and energy to improving the social and economic conditions of borrowers by visiting them often, not just when they default.

---

<sup>36</sup> The leader of the MRBCCU told the author during the interview in July, 2010.

<sup>37</sup> Four INGOs in Mung Rawt: Myitta Foundation, Medecins Sans Frontier (MSF), Medecins du Monde (MDM), and YMCA

<sup>38</sup> In an interview with the author in July 2010

MRBCCU could adopt a flexible loan methodology that is adapted to different borrowers' needs. It could also apply the YMCA's proven loan application process in order to ensure that borrowers are creditworthy, which would also be to the advantage of the poor and very poor who are at present excluded but who may potentially be considered credit-worthy if more thorough assessment procedures were in place.

In terms of outreach, MRBCCU achieves worth, cost, breadth, and gender in the short term. However, in the long run, the disbursement of quick and easy loans with no supervision or advice by staff together with the inefficient use of loans did not help borrowers nor the credit union to be sustainable. With only limited provision of services to the very poor, MRBCCU has not achieved deep outreach.



ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

## **CHAPTER V**

### **IMPACT OF THE LOANS**

#### **5.1 Introduction**

This chapter assesses loan use and its impact on borrowers. It then analyzes the impacts of loans on the sustainability and outreach of the MRBCCU. It also identifies forms of deception used by borrowers, and discusses the implications of the MRBCCU staffs' negligence over the effective use of loans and lack of provision of advice. The chapter contextualizes the use of loans within Burma's political and economic environment, and sheds light on the role that Kachin cultural values play in determining the forms of income-generating activities pursued through MRBCCU loans.

A significant majority of borrowers uses their loans for education, particularly matriculation exam, and then attempt to repay their loans through other sources of incomes. These borrowers are more likely to become dropouts as they often have a poor credit history and have had negative experiences with debt before. The impacts of MRBCCU's loans on borrowers affect the MFI's outreach and threaten its long-term sustainability.

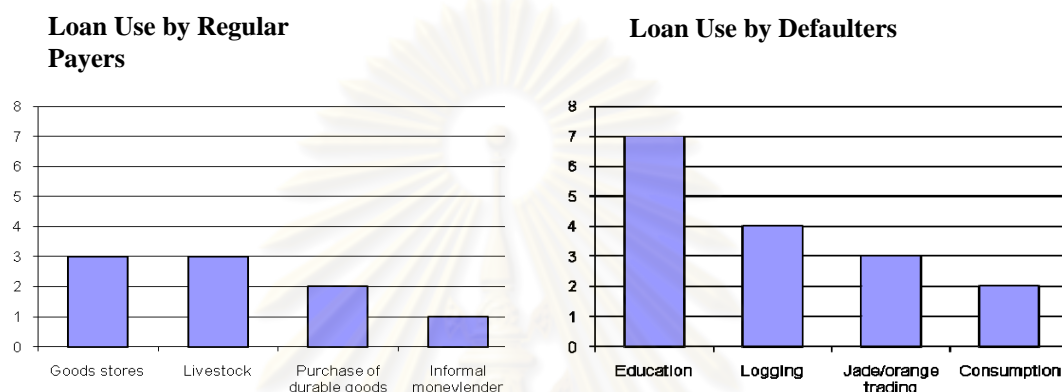
#### **5.2 The Use of MRBCCU Loans among Regular Payers and Defaulters**

Regular payers use their loans for income generating activities, such as expanding their microenterprises, trading goods, and raising livestock. Defaulters, on the other hand, use their loans to smooth consumption, including paying for education and medical expenses (see figure 5.1).<sup>1</sup> The MRBCCU leader, accountant, and committee members estimate that about only 30% of the total borrowers use their loans for income generating activities.



As shown in figure 5.1, of the 17 interviewed borrowers<sup>39</sup>, only nine borrowers had been able to repay their loans. This finding is consistent with the MFI staff's perception that about 30% of the borrowers repay their loans regularly.

**Figure 5.1 Use of Loans by Interviewed Regular Payers and Defaulters**



Note: The number in the y-axis indicates the number of borrowers.

### 5.2.1 Use of Loans by Regular Payers and their Impacts

Regular payers or “faithful borrowers” have regular sources of income such as a store, a teaching job, or experiences in making money in the past. Regular payers used their loans to expand their microenterprises, for example to give piano lessons after buying a musical keyboard, or to raise pigs. Their net gain, which is worth minus cost, was higher so they became repeat borrowers (see chapter IV).

Some of these regular payers use their loans to pay the license fee for a three-wheeled taxi. The license costs about \$600, which is one third of the actual price of the car. Without a license, government officials will confiscate the car. Three borrowers became the owners of three-wheeled taxis that operate in towns near China's border after they received a \$1,000 loan from the MRBCCU to buy a taxi. They repay \$100 per month to the MRBCCU. Before accessing the loans, they had to

<sup>39</sup> These 17 borrowers held 25 accounts because some borrowers held more than one account. One interviewee held two accounts while another held five accounts and the other held four accounts.

pay \$100 per month for the rental fees to the owners. Another regular borrower used her loans to pay for her children's matriculation exams, and to buy musical keyboards. She is repaying her loans from teaching others to play keyboard.

### 5.2.2 Use of Loans by Defaulters and Their Impacts

As shown in figure 5.1, defaulters mostly use their loans for forms of consumption, particularly boarding school tuition fees for their children to pass matriculation exams<sup>40</sup>, food, medical expenses<sup>41</sup>, and other social events, including weddings and funerals. They then attempt to repay their loans by raising livestock or remittances, and other casual work. They become stuck with their loans due to monthly interest payments.

As indicated in figure 5.1, some defaulters also use their loans for risky businesses ventures including illegal logging and jade trading, which offer the possibility of high returns, but also require expenditure on bribes. Profiting from illegal logging is like a lottery; if the loggers can successfully transport their logs to China without government confiscation, then they can make tens of thousands of dollars.<sup>42</sup> To do this, loggers pay custom officers substantial bribes to pass through their posts. Jade trading likewise involves bribing custom officers.<sup>43</sup>

Some borrowers seek to deceive the MRBCCU staff. The MRBCCU accountant said that about 50 borrowers have deceived the MFI staff by borrowing money on behalf of other MRBCCU members. Such cases occur due to borrowers' dishonesty and the existence of 'imperfect information,' whereby creditors cannot completely know the motives and circumstances of borrowers. In such cases, the

---

<sup>40</sup> These tuition fees for boarding school in Mung Rawt cost from \$300 to \$600. Throughout Burma, the costs vary from \$300 to \$2,000.

<sup>41</sup> The use of loan for emergency health care is included in consumption in figure 6.1.

<sup>42</sup> The author talked to a logger in July 2010.

<sup>43</sup> One of the interviewees told the author that brokers charge \$8 for 1.6 kg of jade to pass to China. Brokers pay money to all custom offices so that they will not check their cars.

MRBCCU staff's effort to pressure the actual loan borrowers is futile because they have not used the loans themselves and so do not consider it to be their responsibility.

A defaulter with five different accounts under MRBCCU used all the money to support her children's education. Her four children have already passed their matriculation exams and are now attending university. Another defaulter with two accounts used her loan for jade trading and lost all her money.

### **5.2.3 Different Characteristics between Regular Payers and Defaulters**

As summarized in table 6.1 below, some common characteristics distinguish regular payers from defaulters. Regular payers have only one source of loans, have regular incomes from other family members, and have already established microenterprises prior to receiving loans. In addition, regular payers use only one account, do not use deceptions to attain additional loans, and often become repeat borrowers.

ศูนย์วิทยพัชกร  
จุฬาลงกรณ์มหาวิทยาลัย

**Table 5.1 Different Characteristics between Regular Payers and Defaulters**

<b>Characteristics of Regular Payers</b>	<b>Characteristics of defaulters</b>
1) Borrow from only one source.	1) Borrow from multiple sources.
2) Use loans for income generating activities, and have income generating activities prior to borrowing.	2) Use loans for consumption such as food, education, medical expenses and social events, including weddings and funerals.
3) Have regular income from other family members.	3) Have irregular income from family members, or no other income.
4) Are more likely to be repeat borrowers.	4) Are more likely to be long-term defaulters.
5) Use only one account (only one credit book with his or her name).	5) Tend to have more account books (uses other peoples' credit books).

### **5.3 Perceptions and Feelings of the Regular Payers and Defaulters**

Feelings and perceptions about the usefulness of the loans varies significantly among regular payers and defaulters (see Box 6.1).

### Box 5.1 Feelings of Regular Payers and Defaulters

#### Regular Payers

*“I consider this MFI as very useful and good for those who need capital and who have hard lives like us.”*

*“With these loans from the MRBCCU I supported all four of my kids’ boarding school tuition fees and now all of them have passed the matriculation exam. I can also buy more musical keyboards so that I can earn a higher income from teaching children how to play”*

#### Defaulters

*“I feel regretful about the loan and I will never use it again. I feel ashamed, apologetic, and ah na that I don’t even feel like going to church.”*

*“I feel ashamed and do not dare to show my face to the MFI staff. I will definitely repay the loan because I have to see these faces [the MFI staff] from the sun rise. I wish I could even repay now.”*

Regular payers feel grateful to the MRBCCU for low interest rates and the lack of collateral requirements, and the MFI is very useful and convenient. On the other hand, defaulting borrowers feel regretful about the use of the loans and express their sadness and shame, feeling *ah na*<sup>44</sup>, their nightmares and fear of further debt, their feelings of being constrained by the debt, and their decision to not borrow again.

Defaulters are overwhelmed with their debts. They have a strong intention to repay their loans rather than make a “strategic default,” which is when a borrower has an unwillingness to repay their loan despite having the capability to do so (Tedeschi, 2006: 88). Instead, they commit what K.P. Padmanabhan calls “delinquencies”, meaning they delay repayment (Padmanabhan, 1988: 66). In the short term, defaulters or borrowers with delinquencies suffer emotionally. This situation also affects the

---

<sup>44</sup> A Burmese expression for the feeling in which one is inhibited by consideration for the other and a desire not to bother or trouble them. It is similar to Thai word “*kreng jai*”.

sustainability of the MRBCCU. In other words, the impact of loans really is of critical importance to the sustainability and outreach of the MRBCCU.



ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

### Box 5.2 A Defaulter's Feelings about her Loan

Doi Roi\* is a 51 year old widow whose husband infected her with HIV/AIDS. She borrowed money from the MRBCCU by borrowing \$100 from her neighbor to pay compulsory saving to the MRBCCU. She said, *"I wanted to make the best use of the loan and improve our lives, but ended up in a bad situation."* Her face was pale and wrinkle. It was evening time and getting dark, but she did not want to stop what she was saying, and would not light the candles.

*"I wake up with nightmares because I feel so bad about the debts, I intended to use the loan for my small vegetable trading business, but my husband got very sick and had to be hospitalized. So, I used the loan for the hospital fees and food at home ... as I was not able to trade vegetables any more."* She sat in her wooden chair and let me sit next to her. She used many gestures and often touched her heart when she was talking. She continued, *"I also used naye pyan toe [informal money lending] to recover from debt, but I couldn't start my vegetable trading again."*

It was the rainy season and there were holes in her thatched roof. She said, *"The roof also needs to be fixed and we had to put some buckets on the floor to catch water when it rains"*. *"I don't know what to say to the MFI staff, but only apologize to them all the time. I receive the reminder letter every month,"* she continued, *"I don't know what else to do because we are struggling here to have enough food and really don't have money to repay the loans yet ... I once went to the MRBCCU office and told them to take my house for my loans, but they refused to take it."* She spoke softly despite her sad feelings and regrets. As she noticed me taking notes in the dark, she asked one of her teenage daughters to light a candle.

Doi Roi recently renounced the Mung Rawt Church and joined another church. The author asked her whether her decision had to do with loans from the MRBCCU. She said, *"It had nothing to do with it. I received much support from the reverends and church members. The senior reverend also talked to me for three days regarding my decision about joining another church."* I asked her which church it was and she took a calendar hanging on the wall and showed it to me. It was Myanmar Philadelphia Pentecostal Church (MPPC). She mentioned that a core church member helped her pawn her house as collateral. She said, *"I heard that some [Mung Rawt] church members spreading rumors that I joined MPPC because of assistance and provision of food. But that is not true...I did receive a lot of support from Mung Rawt church but did not understand more about holy spirits as I do now from MPPC and all my family members like my brother and sister already joined the MPPC, so I needed to join them."* After that, she started talking about her religion and spiritual life by grabbing her bible from the table. She then flipped it over and showed it to me. While she was talking about the religion, her face lightened and looked hopeful. She started to smile a lot and looked happier. She said, *"I am praying a lot for my debts as well and also fast often. Hopefully my brother, who is working at the banana plantation in Shadan Pa at the China border, will be able to help us repay all the loans"*. *"I pray every day and am getting ready to go to heaven someday."*

\*This is a pseudonym.

#### **5.4 Kachin Cultural values**

Kachin attitudes and cultural values toward livelihoods are important as they impact the use of loans. Kachin in Mung Rawt are not interested to sell snacks on the street, work as vendors or trishaw drivers. They see such work as belonging to Burmans or ethnic groups other than the Kachin. They prefer to undertake risky businesses such as jade trading or illegal logging, and long-term investments such as raising pigs, or foraging that does not require any capital, or seasonal work. They trade seasonal economic fruits, such as dog fruits, oranges, and watermelons. This cultural bias leaves the Kachin with a relatively limited number of income-generating opportunities.

#### **5.5 Burma's Political and Economic Circumstances**

Due to the absence of even basic health care and education services, borrowers end up using their loans to cover basic needs. For example, parents have to invest at least \$300 for their children's matriculation exams due to Burma's inefficient public education system. In addition, because of the poor condition of physical infrastructure, transportation and communication is also challenging, meaning that people face structural obstacles to trade and make money.

Kachin state has an abundance of natural resources, such as jade, gold, teak, and fertile land, yet people do not enjoy the full benefits of these resources due to corruption, lack of property rights, and restrictions on freedom of expression and movement (Turnell, 2009: 342). It is well-documented that government officials in Burma are corrupt and expect to receive bribes regularly; For example, people have to pay "tea money" to government officials just to perform their official duties.

The root causes of this economic mismanagement include corruption and bribery, oppression, lack of property rights, lack of political stability, lack of sound



macroeconomic policies, lack of sound investment environment, and the government's reluctance to support development schemes, including MFI schemes (Turnell, 2009). In the case of MRBCCU, borrowers undertake risky business, such as logging and jade trading that involve bribery, corruption, and other uncertainties over which they do not have any control. Ultimately, such an inefficient and corrupt system creates a broken society and a vicious cycle of poverty for the vast majority of the population. This overarching context also inhibits the effective use of MRBCCU loans.

## 5.6 Conclusion

The findings suggest that borrowers with entrepreneurial skills and high human capital are more likely to use their loans productively for income-generating activities and therefore to enjoy benefit from the loans. Defaulters, on the other hand, end up using their loans to pay for their consumption or to invest in education. Political and economic circumstances in Burma, and Kachin cultural values, can also hinder the effective use of loans.

Defaulters who spend their loan on their children's education do gain long-term benefits, as it increases human capital and the welfare of the family. The short-term impacts of loans on defaulters are, however, emotional suffering as they are embedded in church (see chapter VI). Regular payers, however, who spend their loans strategically and carefully enjoy the most benefits as they enjoy short-term and long-term benefits.

Some bad loans are approved by MRBCCU staff due to "imperfect information," such as borrowers' use of deception to receive loans on behalf of others. This situation, however, is also due to in part the poor institutional staff performance including the poor quality of screening, monitoring, and providing advice to borrowers.

Some borrowers simply lacked skills to make money regardless of their socio-economic status. The only difference is that borrowers with poor innate skills to make money, but with better socio-economic status can repay their loans because they have money available from other sources of regular incomes or family members in case their undertaken business fails.

Whether the impacts of loans are good or bad not only affects the borrowers themselves, but also affects the sustainability and outreach of the MRBCCU. Defaulting borrowers often do not want to receive more loans as they perceive few benefits, thus resulting in a lower level of outreach and sustainability for the MFI. Likewise, MRBCCU will not grant loans to such defaulters. Therefore, the impacts of the loans themselves, MFI sustainability, and MFI outreach reinforce one another and can affect one another either positively or negatively.



ศูนย์วิทยพัทพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

## **CHAPTER VI**

### **THE ROLE OF CHURCH SOCIAL CAPITAL IN SUSTAINABILITY AND OUTREACH**

#### **6.1 Introduction**

This study's initial hypothesis about was that the MRBCCU attained a high repayment rate due to high church social capital.<sup>45</sup> The findings, however, suggest that the MFI actually experiences a low repayment rate as its borrowers use their loans for consumption, education and other activities, which do not immediately generate income. The initial claim by the MRBCCU staff of high repayment rate is misleading because she considered defaults as loans, which have been written off. Only four loans are so classified. By contrast, MRBCCU's data indicates that 74 borrowers are in arrears for more than four months.

Church social capital is created through participation in church activities, information about reputation, trust, and reciprocity. MRBCCU is able to operate without any financial subsidies without collateral requirement and official legal recognition.

Church social capital can facilitate or compromise repayment. MRBCCU staff do not apply strict screening procedures as it may compromise church social capital. Borrowers feel a strong sense of obligation to repay their loans because they want to preserve their social capital with the church, but they also expect the MRBCCU staff to act with "Jesus' love", and be lenient and merciful. Perhaps as a consequence, they tend to repay loans to quarter-led MFIs first.

---

<sup>45</sup> As elaborated in section 1.7.4, the author attended all of the church's activities during the one-month field research to better understand church social capital.

## 6.2 Participation in Church Activities

Congregation's participation in church activities is high. Most borrowers attend Sunday worship services particularly plenary worship service, and other services (see box 6.1). However, the MRBCCU does not provide a social setting for borrowers to gather to share their experience and to do microfinance activities together, in part because it lacks joint-liability contracts through solidarity grouping.

### Box 6.1 Church Sunday and Week-day Worship Services

#### Worship Services

- 1) Men fellowship seminars
- 2) Women fellowship seminars
- 3) Youth fellowship seminars
- 4) Junior church worship service
- 5) Sunday school
- 6) Annual home prayer cells
- 7) Battalion worship service
- 8) Plenary worship service

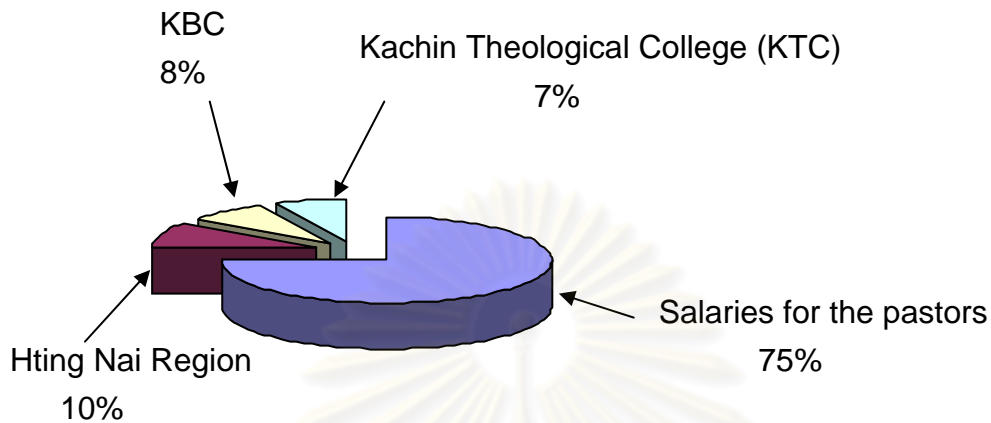
#### Week-day Church Activities

- 1) Wednesday worship service
- 2) Weekly group prayer cells
- 3) Raining season biblical study
- 4) Dawn prayer\*
- 5) Prayer group\*

\* The church receives offerings from each worship service except dawn prayers and the prayer group.

Every week, the total offerings amount to between \$200 and \$600. The church receives around \$4,000 in total from tithes every month. Some farmers also offer their paddy to the church for tithes. The leader of Hting Nai<sup>46</sup> Region Development Committee explained the details about the division of tithes (see figure 6.1).

<sup>46</sup> See figure 3.1 in section 3.2 regarding the structure of the Kachin Baptist Convention (KBC) and how Mung Rawt church is situated therein.

**Figure 6.1 Tithes Use**

Church pastors, deacons, and group leaders lead other social activities including weddings, funerals, birth certificates ceremonies, birthdays, thanksgivings, anniversaries and memorial services.

Doi Roi, a former church member who renounced the church was socially excluded, as she cannot join the church religious ceremonies and other social ceremonies that involve pastors and church members (see box 5.2). For instance, she did not join many church and social activities, which were held at her neighbors' houses. Consequently, the lack of participation weakened the social ties and bonds between her and other church members. On the other hand, church members build bonding and bridging social capital among them through participation in such events. The frequency and importance of such activities allow the church to gather information about members' reputation, to build trust and foster reciprocity.

### 6.3 Information about Reputation

Church social and religious activities provide opportunities to assess the reputation of MRBCCU members and the staff. The MRBCCU leader said that

deacons and group leaders act as “detectives” to provide information on trustworthiness and reputation about potential borrowers. MFI committee members also make their lending decisions based on whether potential borrowers are active in church activities or well-known (see chapter IV). However, they do not carry out investigations in depth about the reputation of the potential borrowers, for instance, by visiting their homes or talking to their neighbors. Despite this, one of the MFI committee members claimed, “*Our assessment team has staff who know all church members from the 20 administrative groups and know their characteristics and their attitudes*”<sup>47</sup>.

Church members, including “laymen”, pastors, deacons, and group leaders learn about one another’s reputation through participation in private social activities. For instance, at weekly and annual home prayer cells, the hosts announce information about their family members for prayers. The food that the host household provides reflects the income level, and reveals assets and property. Information about debts also spreads by word of mouth when people gather at church activities.

Such information about reputation becomes an asset for screening and helps pressure defaulters to repay their loans who are worried about their reputations and dignity. However, the MRBCCU does not efficiently use information about reputation because it does not use incentives or penalties for both staff and borrowers.

#### **6.4 Trust**

Trust is a crucial element of a successful MFI because borrowers lack credit histories and collateral. This section assesses trust from both members and staff’s perspectives.

---

<sup>47</sup> A committee member in conversation with the author in July, 2010

#### 6.4.1 Trust of the MRBCCU Staff towards Borrowers

MRBCCU generally loans money to only church members, as it trusts the church members to repay their loans. MRBCCU places a greater trust in the better off borrowers who have regular incomes and operate microenterprises to whom it tends to provide larger loans while smaller loans of under \$500 are made to the poor and very poor.

MRBCCU's trust towards borrowers has evolved as it has encountered many fake borrowers who borrow money on behalf of others. In these cases, the staff feel cheated by both the official borrowers and the hidden borrowers who use the money under different names. The leader of the MRBCCU labels such borrowers "magicians". The deputy leader of the MRBCCU said, "*the corrupt behavior and injustice of our government permeate even among the Christian believers as these borrowers apply Burmese strategies and Burmese styles*".

#### 6.4.2 Trust of the Borrowers and Depositors towards the MRBCCU

Borrowers prefer the MRBCCU to the quarter-led MFIs because they trust the credit union to have love, mercy, and leniency upon them<sup>48</sup>. In contrast, the quarter-led MFIs use threats. Even when church members end up borrowing money from the quarter-led MFIs, they repay their loan as quickly as possible. The chairman<sup>49</sup> of the quarter-led MFI said that "*borrowers don't respect the MRBCCU because it is not licensed by the government.*"

---

<sup>48</sup> Some of the interviewed borrowers mentioned that they were even afraid to use loans from the quarter-led MFIs.

<sup>49</sup> The chairman told the author during the interview in July 2010.

Borrowers' trust towards the MRBCCU varies. Repeat borrowers who can repay their loans regularly are able to sustain their trust towards the MFI. However, defaulters tend to complain about the MFI staff and regard the staff as "*creditors who are only into getting their money back from them*". Lack of transparency about accounting, use of profits, staff salaries, and different loan sizes also weakens some borrowers' trust towards the MRBCCU.

2% additional interest rates on defaulters as fines<sup>50</sup> weakened their trust in the MRBCCU as borrowers perceived that such punishment makes their lives more difficult and made them stuck in a cycle of debt and that the credit union lacked "*Jesus' love,*" and only focused on regulations and discipline.

## 6.5 Reciprocity

The Kachin word that many church leaders and members use during worship services and their informal conversations is "*ap nawng*" which means "serve" or "submit" to the church and God. For instance, a church member is involved in many church activities by providing labor, time, money, and other costs voluntarily and calls such altruistic acts as *ap nawng*. Many church members are willing to *ap nawng* and regard such altruistic acts as valuable and take pride in them. This *ap nawng* is a form of reciprocity between church members and pastors, deacons, and group leaders.

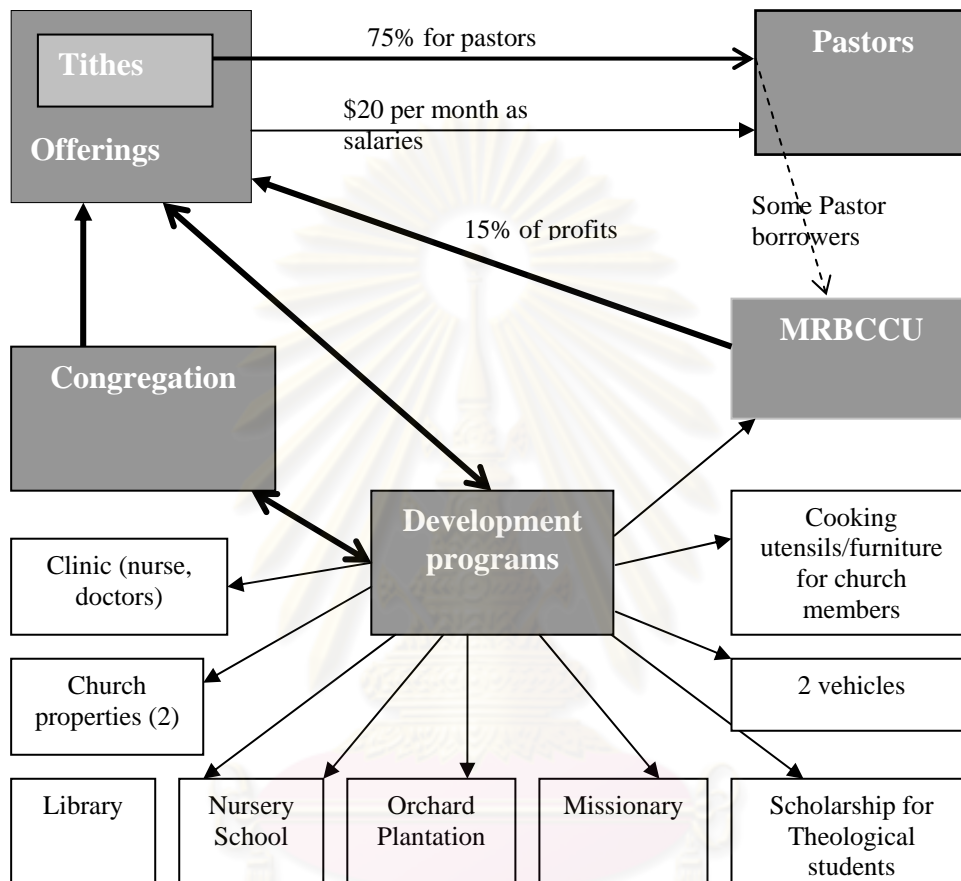
Figure 6.2 shows how the church members and pastors reciprocate one another through *ap nawng* to the church. The former provides offerings, voluntary labor, and other altruistic work for the church while the latter reciprocate such acts through the provisions of religious, social, and economic services for the church members.

---

<sup>50</sup> MRBCCU stopped charging fines on late repayments in September 2009 after receiving repeated complaints from MFI members.



**Figure 6.2 Reciprocity within Church**



This reciprocity within the church reveals that the congregation and the church have a symbiotic relationship, as they depend on one another for their survival and reciprocate one another through church activities.

In addition to providing scholarships to theological students, the church and MRBCCU could provide educational support to church members whose children will take the matriculation exam or attend university by offering scholarship, grants, and low interest loans. Such loans should not have strict loan duration, as borrowers may not be able to repay their loans until their children graduate and earn an income.

### **6.5.1 Reciprocity of the MRBCCU towards Borrowers**

The MRBCCU rewards “faithful borrowers” who repay their loans regularly at its anniversary. Such borrowers are not required to have compulsory savings, which serve a form of collateral.

The MRBCCU, however, punishes defaulters by sending reminder letters to their homes every month. In addition, MRBCCU occasionally requests the church secretary to ask borrowers to repay their loans during the Sunday plenary worship service. The MRBCCU staff sometimes go to delinquent borrowers’ homes to have repayment.

The MRBCCU sets aside 10% of the profits under a “Member Case Fund” to help its members for emergency and disasters cases (see appendix A for details). The MRBCCU gives \$10 to its borrowers, \$5 to its depositors when they face such emergency cases. The MRBCCU also gives 15% of its profits to the church to reciprocate for its support.

### **6.5.2 Reciprocity of the Borrowers**

All borrowers acknowledge that the MRBCCU provides a relatively low interest rate compared to informal moneylenders. Borrowers understand that they are using a pool of money collected from many voluntary depositors and that in return they are supposed to pay interests to depositors. Regarding the defaulters’ intention to repay their loans, a MRBCCU committee member said:

*Borrowers repay interest rates or the principal to the MFI not because they are afraid of fines. Borrowers don’t repay the loans to the MFI not because they don’t want to. Borrowers want to repay their loans so much. After all, they come to the MFI for help in the first place because they trust the MFI*

*staff and rely on them. But, the MFI staff keep talking about discipline and regulations and totally forget about “Jesus’ love”.*

Despite their intention and a strong sense of obligation to repay their loans, some defaulters are unable to do so as they use all their incomes to smooth consumption. However, some defaulters complain that charging interest rates is against the bible’s teachings. In response to such complaints, the senior reverend<sup>51</sup> of the church said, *“other informal lenders charge 20%, but this MRBCCU loans the money with very low interest [ 3%] with the intention that church members can learn how to manage their money and learn how to save.”*

## **6.6 Conclusion**

Church social capital including trust, reciprocity, participation in church activities, and information about reputation are invaluable assets for the church. However, the role of church social capital in repayment rates and outreach is complex. On the one hand, the church social capital facilitates the MRBCCU to gain depositors’ trust and reach the church members. On the other hand, the church social capital hampers MRBCCU to apply strict disciplines in screening and pressuring. Borrowers also expect “Jesus’ love”, mercy, and leniency from the MRBCCU and thereby pay their loans only after their repayment to quarter-led MFIs. Defaulters’ embeddedness and entrenchment in church religious, social, and economic activities create constant reminders, a strong sense obligation to repay, and guilt about their loans.

---

<sup>51</sup> The reverend told the author during the conversation in July 2010.

## CHAPTER VII

### CONCLUSION AND RECOMMENDATIONS

#### 7.1 Conclusion

This thesis assesses MRBCCU in terms of sustainability and outreach to the very poor, examines the role of church social capital in repayment rates and outreach, and discusses the perspectives of borrowers on the benefits of the loans. The MRBCCU achieved operational sustainability because it does not receive any financial subsidies and operates at a profit. However, it is not financially sustainable because of high default rates, poor management, weak organizational structure, inappropriate loan methodology, imperfect information, borrower deception, Kachin cultural values regarding small income-generating activities, and the broader political and economic environment in Burma.

This study finds that there is a trade-off between sustainability and outreach to the poor. MRBCCU does not achieve outreach to the very poor because of costly small loans, risks, and the high compulsory savings requirement that amount to one third to a half of the value of their loans. On the other hand, the current poor borrowers disrupt the operational sustainability of MRBCCU as they tend to be defaulters and do not their loans productively, but rather to smooth consumption. Poor borrowers tend to be indebted to more people than better off borrowers, which leaves them in a debt cycle. In contrast, better off borrowers use their loans productively to expand their microenterprises. However, none of the interviewed borrowers including regular payers and better off borrowers have started their microenterprises with the loans from MRBCCU, but they use the loans to expand their already established microenterprises. These regular payers become repeat borrowers and help sustain the MRBCCU through their regular repayments.

Weak management and the unclear organizational structure of MRBCCU create poor performance on sustainability and outreach. The MRBCCU does not have a clear division of labor, lacks clear accountability or an incentive system for both

staff and borrowers, and lack transparency and formal feedback mechanisms. The MRBCCU's loan methodology is also partly responsible for the bad loans and high default rate due to the role of symbolic and perfunctory guarantors who rarely pressure the guarantees as there are no incentives or penalties for them to do so.

The role church social capital in repayment rates and outreach is complex because the church social capital facilitates outreach and hampers repayment rates. Because of church social capital, MRBCCU receives depositors' trust and high voluntary savings from them and reach the borrowers. However, it hampers the MRBCCU to apply strict disciplines in screening and pressuring because the staff do not want to compromise the church social capital and because borrowers also expect "Jesus' love", mercy, and leniency from the MRBCCU staff. Therefore, some borrowers end up paying their loans to quarter-led MFIs first. On the other hand, defaulters' embeddedness and entrenchment in church religious, social, and economic activities create constant reminders about their loans, a strong sense obligation to repay, and guilt about their loans.

In the short term, the MRBCCU has succeeded in four aspects of outreach, namely: worth, cost, breadth, and women's participation. However, it fails to sustain such objectives in the long run because borrowers do not have efficient use of the loans and thereby receive no net gain or positive impacts from the loans due to the lack of advice and support from the MRBCCU, imperfect information, fake borrowers, Kachin cultural values about small income generating activities, and broader macroeconomic and political environment. Defaulters have nightmares and feel 'ashamed', '*ah na*', 'scared', 'apologetic', and express their 'regret' about their loans. All the interviewed defaulting borrowers claim that they will not use the MRBCCU's loans again. Because of this, the MRBCCU fails to achieve worth, cost, breath, and gender in the long term.

Despite its flaws, the MRBCCU provides the best financial services to its church members in Mung Rawt. Borrowers enjoy low interest rates which are a

fraction of that charged by informal moneylenders. Unlike other government-led banks and MFIs, MRBCCU does not threaten defaulters with confiscation or prosecution if loans are defaulted. Similarly, depositors receive the best services from MRBCCU as it provides the highest interest rates and offers convenient services including semi-annual interest payments rather than annual ones.

Although some defaulters who use their loans for investment in education feel ashamed and apologetic in the short term, such investment will help increase the human capital of their family members and thereby boost the future welfare of their families. It is significant that local people are capable of running the program without any financial help from international donors, NGOs or the government. In spite of its imperfect strategies and operation, the MRBCCU helps church members by developing human capital and financing micro-enterprises.

## **7.2 Recommendations**

Loan methodology, management, and organizational structure are significant factors to maximize MFI outreach, to ensure effective use of loans by borrowers, and to achieve sustainability for both borrowers and the MRBCCU. An inappropriate loan methodology, including lack of an incentive and penalty system, inappropriate loan sizes, and incorrect selection of flexible versus fixed repayment schedules and individual versus group lending, can all undermine the effective use of the loans, the repayment rates of borrowers, and whether an MFI's outreach is to the very poor or the better off. Strong organizational structure and management, including a clear division of labor, incentive system, accountability, transparency and feedback mechanisms, and leadership skills, is essential to maximize the impacts of loans to borrowers and achieve sustainability and outreach of an MFI.

Although the following section prescribes recommendations to improve the performance of the MRBCCU, the credit union should be sensitive towards the church members, who expect "Jesus' love" and leniency from the church. As the

quick and easy loan system is presently embedded in the MRBCCU and is reflected in the expectations of its members, dramatic changes may be counterproductive. Therefore, the MRBCCU should consult with members before it makes significant changes to its loan methodology and should implement changes in a cautious and systematic manner.

### 7.2.1 Loan Methodology

The MRBCCU should have a clear set of *criteria* for assessing potential borrowers. The criteria should include investigations into the borrowers' background regarding *past work experience* and *other sources of loans*. The YMCA microfinance program used these criteria for assessment to screen the very poor for loans as small as \$20.

The credit union should provide *different repayment schedules and installments*, together with *solidarity grouping* where appropriate, based on borrowers' socio-economic status. The YMCA microcredit program provides evidence that such loan methodologies enable the MFI to reach the very poor and attain high repayment rates. Some defaulters may be able to repay their loans on time only with frequent repayment schedules, a fixed installment, and lower compulsory savings requirements. In addition, this arrangement must assess each defaulter individually and continue to provide loans to defaulters who deserve a second chance. In other words, the credit union should seek to *attract some dropout borrowers* through different repayment schedules and installment arrangements. Otherwise, the credit union may dramatically reduce its pool of eligible borrowers.

The MRBCCU should also make effective and *efficient use of guarantors*. Guarantors must accept a responsibility for the borrowers' repayment of the loan. In order to enforce this, the MRBCCU should adopt an *incentives and penalties system*. Furthermore, guarantors should not be allowed to guarantee more than 2 members, or else the whole purpose of insurance becomes useless.

MRBCCU should consider giving educational loans to borrowers in a manner similar to the Grameen Bank (section 2.8.1). These loans should have lower interest rates and longer duration. Furthermore, the MRBCCU should directly pay the tuition fees in order to avoid fake borrowers or other forms of deception by borrowers. If the loan is for university education or other vocational trainings, the credit union should talk to the students and receive their commitment that they will repay their money when they have income.

Finally, the MRBCCU should maintain a *reserve* of deposits at the office, rather than disbursing all of the MFI's revenues to borrowers. Without such a reserve, the credit union could face instability or bankruptcy if too many depositors want to withdraw their savings simultaneously.

### **7.2.2 Management and Organizational structure**

The credit union should have *a clear organizational structure* to ensure effective decision-making, rather than having the MRBCCU committee do everything as a group. Delineating clear layers within the organization will help define each staff's role, responsibility and, therefore, their *accountability*.

Alongside *accountability* and *a clear division of labor*, an *incentive* system should be set up to boost the staffs' performance; rewards should be given for better performance, but staff should also be more accountable for the bad loans that they make. An incentive system and accountability will help solve the problem of high default rates, as staff will innovate to ensure high repayment.

The credit union should also establish an effective formal *feedback* mechanism as a first step towards improving accountability. The union should also reveal its financial performance, operations, and use of profits to members, thus improving its *transparency*. The current opaque nature of the MFI's operation spurs doubts in members.



In addition, staff should have *more contact* with their borrowers so that the borrowers themselves are held accountable for the use of their loans and do not misuse their loans. The staff should also help the borrowers to *organize informal skill and knowledge-sharing meetings amongst peers and MFI staff* that help promote the effective use of loans and build social capital. In order to do so, the MFI staff should increase the number of days that they work for the MFI, which at present is only a few days per month. Staff should also receive more *training* regarding microfinance so that they can strengthen their skills and hence improve their performance.



ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

## REFERENCES

- Armendariz, B., and Morduch, J. (2005). *The economics of microfinance*. United States of America: Massachusetts Institute of Technology.
- Aung, M. S. S. (2005). *Impact of micro-credit programs upon economic and social conditions of women in rural and urban communities in Myanmar*. Master's Thesis, International Development Studies, Faculty of Political Science, Chulalongkorn University.
- Bhatt, N., and Shui-Yan, T. (2001). Delivering Microfinance in Developing Countries: Controversies and Policy Perspectives. *Policy Studies Journal* 29(2): 319.
- Conning, J. (1999). Outreach, sustainability and leverage in monitored and peer-monitored lending. *Journal of Development Economics* 60: 51-77.
- Convoy, J. (2003). The Challenges of microfinancing in Southeast Asia. In N. Freeman (Ed). *Financing Southeast Asia's economic development*. Singapore: Institute of Southeast Asian Studies.
- Counts, A. (2008). *Small loans, big dreams*. New Jersey: John Wiley & Sons.
- Ditcher, T. (2007). Can microcredit make an already slippery slope more slippery? Some lessons from the social meaning of debt. In T. Ditcher and M. Harper (eds.), *What's wrong with microfinance?*, pp.9-17. United Kingdom: Intermediate Technology Publications.
- Dowla, A. (2006). In credit we trust: Building social capital by Grameen Bank in Bangladesh. *The Journal of Socio-Economics* 35: 102–122.
- Edward, P., and Olsen, W. (2006). Paradigms and reality in micro-finance: The Indian case. *Perspectives on global development & technology* 5(1/2): 31-54.
- Field, J. (2003). *Social capital*. London: Routledge.
- Godquin, M. (2004). Microfinance repayment performance in Bangladesh: How to improve the allocation of loans by MFIs. *World Development* 32(11): 1909-1926.
- Grameen Bank. (2010). 10 Indicators. Credit delivery system. General questions on Grameen Bank. Performance indicators & ratio analysis. Available from: <http://www.grameen.com/> [2010, June]

- Grootaert, C., Narayan, D., Jones, V., and Woolcock, M. (2004). Measuring social capital: An integrated questionnaire. World Bank Working Paper No. 18.
- Henry, C., Sharma, M., Lapenu, C., and Zeller, M. (2003). *Microfinance poverty assessment tool*. Technical tools series no. 5. Washington DC: Consultative Group to Assist the Poor (CGAP)/ the World Bank.
- Hossain, M. (1988). *Credit for alleviation of rural poverty: The Grameen Bank in Bangladesh*. Washington DC: International Food Policy Research Institute.
- Hulme, D. (2007). Is microcredit good for poor people? A note on the dark side of microfinance. In T. Ditcher & M. Harper (ed.), *What's wrong with microfinance?*, pp.19-22. United Kingdom: Intermediate Technology Publications.
- Khandker, S. R. (1998). *Fighting poverty with microcredit: Experience in Bangladesh*. Oxford: Oxford University Press.
- Kubo, K., Fukui, R., and Mieno, F. (2009). The financial sector during the transition to a market economy in Myanmar. In K. Fujita, F. Mieno & I. Okamoto (ed.), *The economic sector during the transition to a market economy in Myanmar*, pp.128-165. Singapore: National University of Singapore.
- Ledgerwood, J., and White, V. (2006). *Transforming microfinance institutions: Providing full financial services to the poor*. Washington DC: World Bank.
- Maes, J., and Basu, M. (2002). Building economic self-reliance: Trickle up's microenterprise seed capital for the extreme poor in rural India. *Journal of Microfinance* 7(2): 71-99.
- Marr, A. (2002). A challenge to the orthodoxy concerning microfinance and poverty reduction. Paper prepared for the *Meeting of the Network on Inequality and Poverty (NIP)* to be held in Madrid, Spain on October 10th, 2002.
- McGuire, P. B., Conroy, J. D., and Thapa, G. B. (1998). *Getting the framework right: Policy and regulation for microfinance in Asia*. Australia: The Foundation for Development Cooperation.
- McGuire, P. B., and Conroy, J. D. (2000). The microfinance phenomenon. *Asia-Pacific Review* 7(1): 90-108.

- Mersland, R., and Strom, R. (2010). Microfinance mission drift? *World Development* 38(1): 28-36.
- Meyer, R. (2002). Track record of financial institutions in assisting the poor in Asia. *ADB Institute Research Paper 49*.
- MicroBanking Bulletin. (2010). MFI benchmark analysis [Online]. Available from: <http://www.themix.org/microbanking-bulletin/mbb-issue-no-19-december-2009> [2010, June]
- MIX. (2010). Glossary of terms. BancoSol [Online]. Available from: <http://www.themix.org/about-microfinance/>[2010, June]
- Montgomery, H., and Weiss, J. (2005). *Great expectations: Microfinance and poverty reduction in Asia and Latin America*. Manila: Asian Development Bank.
- Morduch, J. (1999). The microfinance promise. *Journal of Economic Literature* xxxvii: 1569-1614.
- Morduch, J. (2000). The microfinance schism. *World Development* 28(4): 617-629.
- Morduch, J., Rutherford, S., and Ruthven, O. (2009). *Portfolios of the poor: How the world's poor live on \$2 a day*. New Jersey: Princeton University Press.
- Navajas, S., Schreiner, M., Meyer, R. L., Gonzalez-Vega, C., and Rodriguez-Meza, J. (2000). Microcredit and the poorest of the poor: Theory and evidence from Bolivia. *World Development* 28(2): 333-346.
- Organization for Economic Co-operation and Development (OECD). (2010). Glossary of statistical terms [Online]. Available from: <http://stats.oecd.org/glossary/search.asp>[2010, September]
- Olivares-Polanco, F. (2005). Commercializing microfinance and deepening outreach? Empirical evidence from Latin America. *Journal of Microfinance* 7(2): 47-69.
- Otero, M. (1999). Bringing development back into microfinance. *Journal of Microfinance* 1(1): 8-19.
- Padmanabhan, K. P. (1988). Chapter 10 Delinquencies and default problems. In *Rural credit: Lessons for rural bankers and policy makers*, pp.66-77. London: Intermediate Technology Publications.
- Rahim, A. (2001). *Managing conflict in organizations*. 3<sup>rd</sup> ed. The USA: Afzalur Rahim.

- Rhyne, E. (1998). The yin and yang of microfinance: Reaching the poor and sustainability. *MicroBanking Bulletin* 2: 6-9.
- Robinson, M. (2001). *The microfinance revolution: Sustainable finance for the poor lessons from Indonesia: the emerging industry*. Washington DC: World Bank.
- Robinson, M. (2006). Mobilizing savings from the public. In J. Ledgerwood & V. White (eds.), *Transforming microfinance institutions: Providing full financial services to the poor*, pp.3-20. Washington DC: World Bank.
- Schicks, J. (2007). Developmental impact and coexistence of sustainable and charitable microfinance institutions: Analysing BancoSol and Grameen Bank. *European Journal of Development Research* 19(4): 551-568.
- Schreiner, M. (2002). Aspects of outreach: A framework for discussion of the social benefits of microfinance. *Journal of International Development* 14: 591-603.
- Seibel, H. D., and Torres, D. (1999). Are Grameen replications sustainable, and do they reach the poor?: The Case of CARD Rural Bank in the Philippines. *Journal of Microfinance* 1(1): 117-130.
- Sengupta, R., and Aubuchon, C. (2008). The microfinance revolution: An overview. *Review* 90(1): 9-30.
- Stiglitz, J., and Weiss, A. (1981). Credit Rationing in Markets with Imperfect Information. *American Economic Review* 71(3): 393.
- Tedeschi, G. A. (2006). Here today, gone tomorrow: Can dynamic incentives make microfinance more flexible? *Journal of Development Economics* 80: 84-105.
- Tucker, M. (2001). Financial performance of selected microfinance institutions: Benching marking progress to sustainability. *Journal of Microfinance* 3(1): 107-123.
- Turnell, S. (2009). *Fiery dragons: Banks, moneylenders and microfinance in Burma*. Copenhagen: Nordic Institute of Asian Studies.
- United Nations Development Programme. (2007). *Integrated household living conditions survey in Myanmar*[Online]r. Available from: [http://www.mm.undp.org/UNDP\\_Publication\\_PDF/IHLCA-Poverty%20survey.pdf](http://www.mm.undp.org/UNDP_Publication_PDF/IHLCA-Poverty%20survey.pdf)[2010, September]

- United Nations Development Programme. (2008). UNDP supports cyclone Nargis survivors [Online]. Available from: <http://content.undp.org/go/newsroom/2008/may/undp-supports-cyclone-nargis-survivors.en> [2010, August]
- Versluysen, E. (1999). *Defying the odds: Banking for the poor*. USA: Kumarian Press.
- Von Pischke, J. D. (1996). Measuring the trade-off between outreach and sustainability of microenterprise lenders. *Journal of International Development* 8(2): 225-239.
- Woller, G., and Woodworth, W. (2001). Microcredit as a Grass-Roots Policy for International Development. *Policy Studies Journal* 29(2): 267.
- Wright, G. (2000). Replication: Regressive reproduction or progressive evolution? *Journal of Microfinance* 2(2): 61-82.
- Yaron, J. (1997). *Rural finance: issues, design, and best practices*. Environmentally and Socially Sustainable Development Studies and Monographs Series 14. Washington DC: World Bank.
- Yunus, M. (1999). *Banker to the poor: Micro-lending and the battle against world poverty*. The United States: PublicAffairs.
- Yunus, M. (2007). *Creating a world without poverty: Social business and the future of capitalism*. The United States: Public Affairs.



**APPENDICES**

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

## APPENDIX A

### Allocation of the Profits of MRBCCU

2005-09	Percentage	2009-up to the present	Percentage
Compulsory Savings	50%	Staff Salaries and auditors	40%
Staff Salaries and auditors	20%	Member Case (flexible) <sup>52</sup>	20%
Mung Rawt Church	10%	Mung Rawt Church	15%
Foundation Fund	10%	Foundation Fund <sup>53</sup>	15%
Member Case	10%	General including food, office supplies, and transportation expense	10%

ศูนย์วิทยพัชกร  
จุฬาลงกรณ์มหาวิทยาลัย

<sup>52</sup> This member case is not fixed. If the allocation for the member case is not used, then it is added to foundation fund.

<sup>53</sup> The MFI has not decided how to use this foundation fund even though it has about 5059.923 dollars. This fund is also disbursed to others as loans to generate income and profits.



## APPENDIX B

### Balance Sheet of MRBCCU (09/2009 – 02/ 2010)

<b>Income</b>		<b>Expense</b>	
Savings	\$17741	Saving	\$12745.9
Share income	\$1981	Share withdrawn	\$3242
Membership fees	\$17	Interest rates on share	\$5330.756
Saving Book fees	\$21	Interest rates on savings	\$23
Borrowing/Saving forms fees	\$8	Staff salary for clerk (for 3 months)	\$90
Income from loan repayment	\$13039	Office supplies	\$144.2
Income from interest rates	\$7617.17	Committee expense including transportation and 2 dollars per diam to visit clients per day	\$54.8
Three-wheeled Car	\$1900	Loans	\$21030
<b>Total</b>	\$42324.17	Expense on buying Safe Box	\$180
<b>Open Balance</b>	\$1760.475	Thermo	\$4.5
<b>Grand total</b>	\$44084.645	Member Case	\$10
		<b>Total</b>	\$42855.156
		<b>Balance</b>	\$1229489
		<b>Grand Total</b>	\$44084.645

### APPENDIX C

#### Income and Expense of MRBCCU ( 09/2008-02/2009)

##### Income

Interest Rates on loans	\$9710.9
Fines on late repayment 2%	\$211.58
Income from the sale of savings and loans books	\$41
Sale of forms	\$0.9
<b>Total</b>	<b>\$9964.38</b>
<b>Grand Total</b>	<b>\$9964.38</b>

##### Expense

Interest rates on Savings	\$7946.341
Committee (assessment team) expense on food	\$9.6
Office supplies (stationery)	\$98.7
General expense	\$32
<b>Total</b>	<b>\$8086.641</b>
<b>Profit</b>	<b>\$1877.739</b>
<b>Grand Total</b>	<b>\$9964.38</b>

#### Balance Sheet of MRBCCU (09/ 2008-02/ 2009)

Asset		Liabilities	
Membership Fees	\$7	1. Remaining Loans	\$67453.4
Remaining Savings	\$43241.99	2. Closing Balance	\$470.947
Remaining Share	\$12629	<b>Grand Total</b>	<b>\$67924.347</b>
Foundation Fund	\$1326.723		
General	\$890.754		
Membership Fees	\$4.8		
Profit	\$1877.739		
Interest rates on saving	\$7946.341		
<b>Grand Total</b>	<b>\$67924.347</b>		

### APPENDIX D

#### Allocation of Profit (09/2008-02/2009)

Mung Rawt Church	15%	\$281.66
Staff Salaries	20%	\$375.54 \$7
General	5%	\$93.887
Foundation Fund	10%	\$187.77 5
Interest rates on Share	50%	\$938.87
<b>Total</b>		<b>\$1877.7 39</b>

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

**APPENDIX E**  
**PHOTOS**



MRBCCU Office at the church library

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย



A Regular Payer's Goods Store in Mung Rawt: She has borrowed 5 times from the MRBCCU.

ศูนย์วิทยพัชกร  
จุฬาลงกรณ์มหาวิทยาลัย



A Regular Payer's Stall near the small market: She has borrowed 3 times from the MRBCCU.

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย



A Regular Borrower displaying her jades that she trades from Hpakant to China

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

## BIOGRAPHY

Seng Nu Pan studied international relations at Webster University Thailand graduating *summa cum laude*. She works part time as a translator. She worked as a psycho-social counselor for Medecin du Monde in Myitkyina. She was also a voluntary English teacher in Burma. She is interested in international politics and law.



ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย