Chapter 4

Microfinance

4.1 Microfinance and Household Welfare

Microfinance is defined by the Consultative Group to Assist the Poor (CGAP) as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers who identify themselves as "microfinance institutions" (MFIs). These institutions commonly tend to use methods developed over the last 30 years, to deliver very small loans to unsalaried borrowers and taking little or no collateral.

In the 1970s, microfinance programs in Bangladesh, Brazil and a few other countries, provided small loans to groups of poor women in order for them to invest in microenterprises. The members of the groups guaranteed each other for the repayments of all the members. Consequently, the services provided by the microfinance institutions were able to develop like banks, as the business model was sustainable and there were no subsidies required.

The way that the microfinance institutions provide services to poor households is through the provision of collateral-free lending, a small loan size, a requirement for only small amounts of savings, a group or individual-based lending and savings scheme, peer monitoring, targeted lending, a market interest rate policy and social intermediation.

The expected impacts of microfinance projects on households can be separated into two categories: short-term and long term. In the short term, the microfinance loan supports the consumption, employment, income and level of poverty of the household in its community, and in the long-term, the improvement in household assets, human capital, social capital and community assets, are supported..

Mutual support between the microfinance institutions and borrowers is important for the sustainability of the program. It is said that the institution will be sustainable, if the interest on the loan covers all the operational costs. The concept of microfinance is that the poor use credit for their income generation activities. Then, the returns they gain from using the credit for investment, contributes to the building of assets such as buying land, which then gives them future security. Moreover, women are encouraged to seek self-employment after receiving a loan from these microfinance programs.

The development concept of microfinance differs from donations and grants. The loans have to be repaid in due time. Furthermore, the level of capital needs to be sustained, and must not face any deficiency, as the small amount of interest on the loan has to be charged in order to cover the cost of capital, operating expenses and sometimes the loss of loans, should any exist.

According to United Nations Development Programme (UNDP) policy, the MFIs should not form management teams dedicated to microfinance purposes nor act between the MFIs and the borrowers regarding loans or to collect repayments. Also, they should not take care of and control the micro financing funds. Instead, MFIs should form borrowers into small groups, which must then be collectively responsible for pledging the loans and repayments, which means to say that micro financing not only provides credit to the poor, but also encourages the poor to take responsibility and to be self-reliance. Moreover, the INGOs and MFIs usually provide training and education on basic accounting knowledge, on how to make savings for the repayments, and sometimes even provide the necessary technology to the borrowers.

Hence, the idea is that borrowers improve their lives by using the microfinance loans and at the same time, the loans are paid back to the MFIs, since most of the programs are based on mutual guarantees among the groups. However, the main role of the MFIs is to monitor and guide the borrower groups along the right track.

Some MFIs provide finance related services, such as savings, insurance and money transfers. However, there have been few empirical studies on their impact. Although MFIs can provide long-term, stable credit access when clients have both a willingness and ability to meet scheduled loan repayments, it can be said that the clients are not graduated from the program.

Although the financial risk involved should be considered by the MFIs, it is also very important for the institutions to design a loan size which is sufficient enough for the borrowers to use to invest effectively. Also, a market place is needed for the farmers to sell the crops and vegetables from their farms. An unexpected market shock might be a direct risk for the borrowers and an indirect risk for the institution. If the market situation is stable, the borrowers can gain a return without any risks, so that the MFI loan that they applied for can be said to have achieved an improvement in household welfare, and have led to an improvement in income.

It might be argued that those who apply for a loan for their own consumption are not productive. However, microfinance loan should be flexible according to the needs of the borrowers. The welfare of the household cannot be improved, without first releasing it from poverty.

Figure 4.1: The Pattern of Microfinance Loan Used for the Income Generation

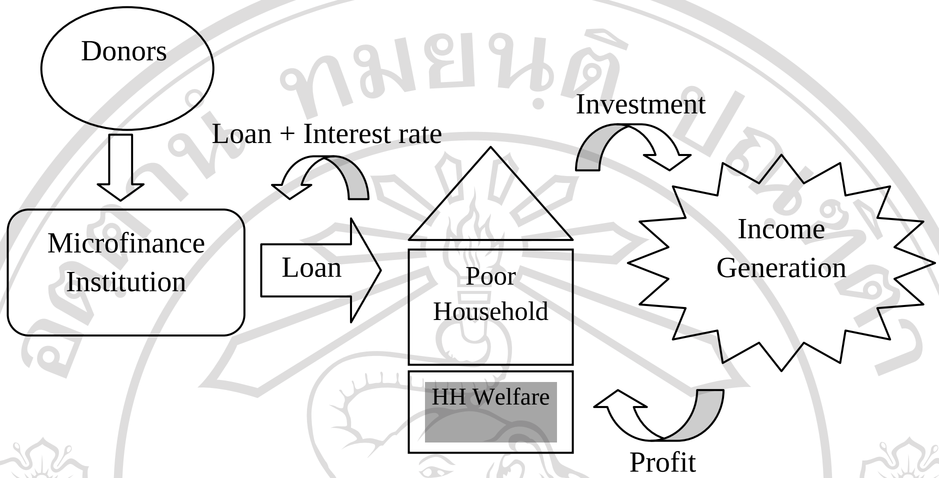

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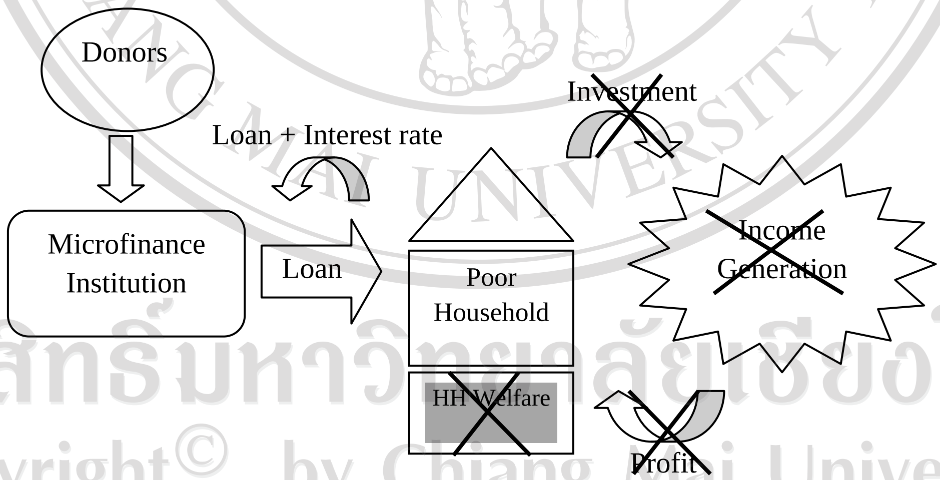
Figure 4.2: The Pattern of Microfinance Loan Used for the Consumption



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4.2 Formal Financial Sector in Myanmar

The structure of the financial sector in Myanmar includes the Central Bank of Myanmar, five state-owned banks and twenty private banks. Twenty domestic private banks are granted permission by the Central Bank of Myanmar to carry out commercial banking activities.

The state-owned commercial banks are the Myanmar Economic Bank (MEB), the Myanmar Investment and Commercial Bank (MICB), the Myanmar Foreign Trade Bank (MFTB), the Myanmar Agricultural Development Bank (MADB) and the Myanmar Industrial Development Bank.

Among these banks, the Myanmar Economic Bank (MEB) is the state-owned commercial bank for the big projects of economic enterprises, cooperatives and private commercial and investment entities, offering a fifteen to seventeen percent per annum interest rate. Material guarantees are needed to get a loan from the MEB; therefore, it is beyond the reach of the poor to get capital investment for their business activities.

4.2.1 Myanmar Agriculture and Rural Development Bank (MADB)

Myanmar Agricultural and Rural Development Bank (MADB) is to promote agricultural, livestock and rural society economic enterprise including processing, production, storage distributions and marketing relating to agro and livestock-based industries. There are 14 regional offices, 164 branches and 48 agency offices for long term credit for crop production, salt production, livestock, fish and dairy farming etc.

The current lending rate per annum is 17 percent (21 percent in 1997) and the interest rate per annum on saving deposit is 12 percent. The lending system is changed from village bank system to group lending system since 1998.

The savers get 10 percent interest on their deposits and the savers are allowed to borrow four times of their savings at 15 percent interest concerning the farm development (Myanmar Bank Information, 2008).

Table 4.1: MADB Seasonal Loans 2003-2004 (Kyat/Acre)

Crop	Loan size available	Estimated production costs	Available loans as proportion of production cost (average 9 percent)
Paddy	2,000 – 8,000	50,000 – 65,000	9
Peanuts	2,000 – 4000	60,000	5
Sesame	1,500 – 3,000	50,000	5
Maize	1,500 – 3000	50,000	5
Pulses	1,000 – 2,000	50,000	3
Sugarcane	2,000	100,000	2

Source: FAO and profiles of Burma's Banks 2006

4.2.2 Yangon City Development Committee (YCDC)

This microfinance project is developed and managed by the Yangon City Development Committee (YCDC), and was initiated in the 16^{th} of June in 2006. The main objective of this project is to finance short term loans, with a low interest rate, to the transient bazaar sellers who sell in the markets organized and controlled by the YCDC Markets Department, to invest in the goods required for their daily sales activities.

Under the YCDC Markets Department, there are a total of 157 markets located in four districts: the Eastern, Western, Southern and Northern Districts. The total number of transient bazaar sellers in these markets is estimated to be 1855.

The top-down hierarchy of the management structure of the YCDC is, at the top, the City Mayor, then the Department Head of the Markets Department, who is directly concerned with and responsible for the project. Moreover the District Section Heads, the Market Superintendents and the market stall tax collectors, are the other key personnel within the whole mechanism of the project.

In the first year of operation, during the 2006/2007 budget year, the project was initiated and tested as a pilot project. It started with 120 transient bazaar sellers (TBSs), from twelve of the selected markets out of the total of 157.

The standard qualifications required for a TBS to obtain a loan have been set out in guide lines, and the concerned authorities have to act accordingly. The TBS who is entitled to a loan, receives a minimum of 20,000 Kyats for a month, with an interest rate of three percent per month. The loan and interest are added up, and the total is divided by 30 days, so that a daily amount can be paid back by the bazaar seller to the market superintendent, on a daily basis. In 2007/2008 budget year the loan fund was raised to 20 million Kyats and the number of TBSs to receive a loan was also increased to 240, whereas the amount of the loans stayed the same at 20,000 Kyats per person per month. The scheme covered 113 markets out of the total of 157 that year.

In the 2008/2009 (1/4/2008 to 31/3/2009) budget year, short term loans were provided to the TBSs, as well as to some of the market stall owners. The total amount of the loan was 600 million Kyats, provided to 9859 personnel across 148 markets. The interest rate charged by the YCDC collected 49.64 million Kyats.

In the 2009/2010 budgetary year, the loan budget has been increased to 1200 million Kyats, double the previous budgetary year.

To the able to get a loan the TBS or market stall owner has to meet the standard qualification criteria and furthermore, should have two guarantors. If a TBS pays back his or her liabilities in good time, he or she can get a second loan. Up to this point there is no loss on the capital.

According to reports, the capital has been funded by the Union Solidarity and Development Association (USDA). Nonetheless, the Yangon City Mayor is an executive committee member of the USDA.

4.3 Informal Financial Sector in Myanmar

Non-banking institutions such as microfinance institutions set up by NGOs and UN agencies are available as informal financial institutions in rural areas. The interest rate depends on the organization. Moreover, pawn shops registered by both the Government and the private sector also exist in every township. Since the formal institutions do not support rural people, the majority of the rural poor rely on informal money lenders in their community, who charge interest rates of ten to 30 percent per month. However, poor people are not able to obtain loans, because the loans mechanism is based on a requirement for collateral to be provided.

Microfinance in Myanmar is different from in other countries. One of the major restrictions for the institutions is obtaining a formal legal basis, though they can be implemented as 'humanitarian' projects. The INGOs such as Save the Children, World Vision and PACT/Myanmar, have implemented microfinance schemes in both rural and semi-urban areas, covering vast numbers of people. The targeted groups for these schemes are mostly poor women. They provide training on topics such as income generation activities and basic accounting. The intervention of the program is sometimes attached with other development programs, such as those focused on health and agriculture.

4.4 Financial Sectors in Chin State

The majority of the poor in the rural areas rely on informal credit sources for their daily consumption and production inputs, such as from credit provided by donors or by friends and relatives in their community.

State banks such as the Myanmar Economic Bank (MEB) and Myanmar Agriculture Development Bank (MADB), are available as a formal financial sector in Chin State. However, the majority of the poor cannot access loans from these banks, since a material guarantee is required.

As a result, the Chin Microfinance Institution (Chin-MFI), the Community Development for Remote Townships (CDRT) project (a United Nations Development Program scheme), and relatives and friends in the villages are the informal financial providers.

There are no money lenders lending large amounts of money in Chin State. The poor go to the rich through a social relationship when they need money. A house or land deed is provided to the lender as security for the loan. The monthly interest rate is normally five percent of the loan. The duration of the loan is unlimited, and there is no formal written agreement. The poor, who cannot pay the interest amount, can also set up some of their agricultural products, such as vegetables and rice, as collateral for the money lender.

The most common type of saving in Chin State is a non-cash saving, such as maintaining the house, investing in the children's education and weaving fabrics for the families.

Table 4.2: Financial Providers in Northern Chin State (as of 2007)

	Formal	Informal	
	State Bank	Financial institutions	Informal credit
Financial providers	Myanmar Economic Bank Myanmar Agricultural and Rural Development Bank	Chin-Microfinance Institution (Chin-MFI) Community Development for Remote Township Projects (CDRT)	Relatives and friends
Target groups	Farmers	All poor in rural	Relatives and friends
Requirement to get loan	Collateral needed	Group members guarantee needed	Collateral needed

Source: Chin-MFI

4.4.1 Chin-Microfinance Institution (Chin-MFI)

The mission statement of the Chin-MFI states that the organization's aim is to improve the livelihood of the Chin rural household, through permanent access to appropriate financial services, services that allows the development of their economic activities.

The objectives of Chin-MFI are as follows:

- To give saving and credit services access to the poor families who cannot give guarantee to Banks or other loan suppliers
- To increase the livelihood of the villagers, through the development of income generation

- To implement sustainable financial savings and credit aiming at a long-term development
- To provide education on the management of economic activities and understanding of market economy
- To improve the livelihood of Chin rural households by creating a permanent access to appropriate financial services.
- To provide education to the poor on the management of economic activities and understanding of market economy.

Chin-MFI has a capacity building program for its clients, normally farmers, in terms of cash management, livestock breeding (pig and chicken breeding) and fruit processing. It also empowers the clients in addition to providing loan capital.

The loan system is based on a group, mutual guarantee. The borrowers form a group of five members, which is called a Village Credit Scheme (VCS), in order to get the loan. Each group selects a leader who is the responsible for the group, and all the group leaders form the Management Committee (MC) at the village level. The responsibility of the MC is to monitor the VCS, the recruitment of borrowers' and to resolve problems faced by the VCS. Furthermore, the MC gives suggestions to the MFI for the improvement of the operation. After the MC is formed, a chairman, secretary and treasurer are elected by the villagers, according to a secret ballot. This is then called the Credit Committee (CC), which is responsible for submitting loan application forms to the MC, for loan delivery, and for repayment collection at the village level. It must have at least 40 members (eight of which are VCS), for a village to receive a Chin-MFI loan.

The use of the loan is free for the borrowers. There are no nonproductive loans such as education loans, health care loans and other emergency loans. The interest rate on the loan is set at 3.75 percent per month. Saving is compulsory, and the return is only two percent per month on the deposit. However, savings are very low. The borrowers are often unwilling to save because of inflation.

The Chin-MFI provides five different kinds of loan: a normal loan, a performance loan, a special loan, an individual loan and a block credit. The individual loans started in 2005. Block credit loans are for urban participants only. The first three types of loans require a guarantee and are meant for those carrying out vegetable growing, small trading and breeding. The size of the loan increases according to the performance of the participants.

Apart from the individual loan, the other three types of loans (normal loan, performance loan and special loan) need a group guarantee. The group of five members can be formed flexibly, and is then fixed for the purpose of 100 percent repayment. This also encourages team work to solve the problem.

The financial resources that the Chin-MFI uses for its credit, comes from subsidies from the UNDP (1995-2002) and from the Japanese Embassy (2001-2003). During the project's life, a total of 191,032 US Dollars and 4,508,153 Kyat were received as loan subsidies from the UNDP. No specific term and conditions for repayment were mentioned, or even developed by the UNDP. From 2001 to 2003, the Chin-MFI received 3,467,788 Kyat as loan capital from the Japanese Embassy, and other limited financial support from the Australian Embassy and the Stromme Foundation. Since then, there have been no financial subsidies from any other donors (Chin-MFI, 2006).

A thesis on the sustainability of the Chin-MFI was conducted by Than

(2007), which focused on the development of management strategies. An analysis on the improvement of participant households still needs to be done, to assess the effectiveness of the microfinance institution.

According to Chin-MFI data, the total loan outstanding was 240,020,000 Kyat (1200 Kyat = 1 US Dollar) as at January 2008. The scheme has reached 72 village credit schemes, with 782 groups. There are 1590 active borrowers in Hakha, 1302 active borrowers in Falam, and 811 active borrowers in Tedim.

Table 4.3: Financial Products of Chin-MFI

Name	Normal	Performance	Special	Individual
Loan size (Kyat)	50,000	70,000	100,000	200,000
US$	(40 US$)	(60 US$)	(80 USS)	(160 US$)
1 US $ = 1,200 Kyat				

Source: Chin-MFI Annual Report (2006)

Table 4.4: Status of Chin-MFI as of January 2008

Description	Hakha	Falam	Tedim	Chin-MFI
Households in the villages	3,060	2,197	2,493	7,750
Number of men	724	673	398	1,795
Number of women	1,158	722	425	2,305
Total members	**1,882**	**1,395**	**823**	**4,100**
Active borrowers	1,590	1,302	811	3,703
Number of groups	366	257	159	782
Coverage ratio	61.5 percent	63.5 percent	33.0 percent	52.9 percent
Percentage of women involvement	61.5 percent	51.8 percent	51.6 percent	56.2 percent
Projects distribution of members	1,882	1,395	823	4,100
Breeding	1,468	743	637	2,848
Cultivation	239	485	21	745
Trading	87	81	113	281
Production	52	8	12	72
Mixed	36	78	40	154

Source: Chin-MFI (2008)

Table 4.5: Eligibility Conditions Standardized by Chin-MFI

	Normal loan	Performance loan	Special loan	Individual loan
Loan amount (Kyat)	50,000	70,000	100,000	200,000
Interest rate	3.75 percent per month			
Loan application fees	200 Kyat	200 Kyat	400 Kyat	400 Kyat
Type of guarantee	Mutual guarantee (group of five)	Mutual guarantee (group of five)	Mutual guarantee (group of three to five)	Collateral guarantee
Time between application and distribution	2 days	2 days	4 months	1 month
Purpose	Breeding, vegetable growing, small trading			
Eligibility conditions	More than 18 years old, sound mind, permanent resident, member of group of five, saving plus loan application fee	Same condition as for the normal loan plus having been a borrower for at least two loan cycles Never delayed repayments for more than 2 months Good performance	At least 2 loan cycles Financial survey Approval by MC Approval by staff	Borrowers who have already taken out a special loan

Source: Chin-MFI