

# Chapter 1

## Introduction

### 1.1 Background and Rationale

There are about three billion people, approximately half of the world's population, living on an income of less than two dollars a day. Among these poor communities, one child in five does not live to see his or her fifth birthday (Barr, 2005).

In developing countries, microfinance is one of the development tools used to reduce poverty. Unlike charity donations, microfinance can help even beggars to become entrepreneurs (Yunus, 2009)<sup>1</sup>. Dr Yunus set up the Grameen Bank in Bangladesh to provide mainly savings and small loans, and later decided to raise interest rates high enough to cover the organization's expenses. The borrowers organized themselves into groups of five people. The institution became a bank in 1983. By 2008 it operated in almost 36,000 villages and served more than 3.5 million people (Planet Finance, 2008). The organization provides small loans to poor households who lack suitable access to financial services for their self-employment activities. In some countries, the microfinance institutions (MFIs) provide other financial services, such as insurance and remittances.

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<sup>1</sup> Dr. Mohammad Yunus is a Bangladeshi banker and economist who developed the concept of microcredit. He is the founder of the Grameen Bank, which provides loans to entrepreneurs too poor to qualify for traditional bank loans. He and the bank were jointly awarded the Nobel Peace Prize in 2006.

The United Nations Organization (UNO) stated that world poverty must have begun to decline by 2015, and microfinance has been seen as one of the most important mechanisms that will help to facilitate this. The UNO declared 2005 as 'micro-credit year', in order to focus on microfinance activities all over the world.

A lack of capital needed to generate income is the major constraint on the poor throughout the world, and so the provision of credit can be an effective tool as part of a poverty reduction strategy. It is expected that people's consumption patterns will smooth-out, if they can access saving services. Furthermore, they should be able to manage their risk better, if they can gain access to insurance facilities. These savings can then be used, not only for future consumption, but also for emergencies, future investments, education for their children and social activities. For example, it might encourage a street vendor to become a micro-enterprise businessman.

Most studies have shown that women are empowered after they have accessed credit from these microfinance programs. It is assumed that the benefits will be more sustainable when the microfinance services reach out to women. Moreover, child nutrition and education, shelter and general welfare, family health care and household sanitation, are all measurable indicators showing an improvement in poor households after the receipt of microfinance (Gaiha & Thapa, 2006).

Microfinance services can also contribute to the improvement of resource allocation, the promotion of markets, and the adoption of improved technology. Thus, microfinance helps to promote economic growth and development (Asian Development Bank, 2000).

Mutual development then takes place between the microfinance institutions and the borrowers, that is, the financial sustainability of the microfinance institution

as well as an improvement in the borrowers' welfare, is important for both the supply and demand sides of the program.

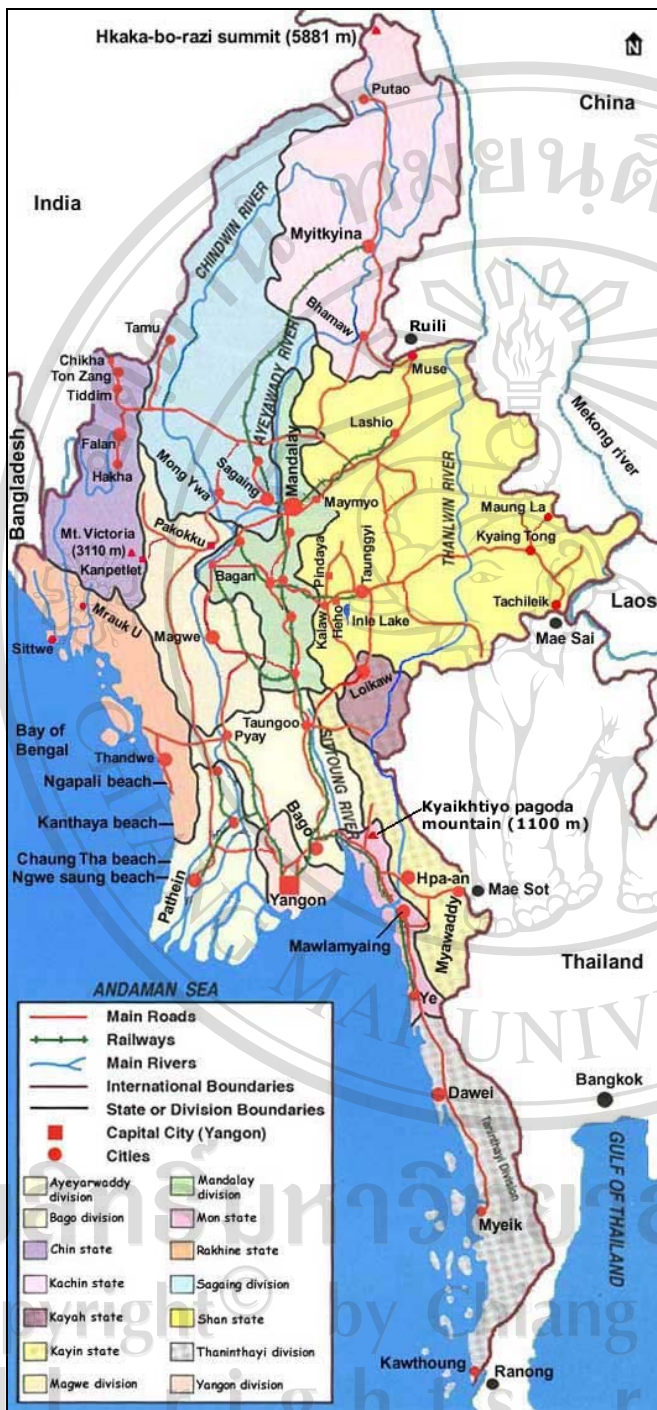
### 1.1.1 Myanmar

Myanmar is one of the developing countries in the world. It is located in the main land South East Asia. According to the Central Statistical Organization (CSO) of Myanmar, the area of land is 676,578 km<sup>2</sup>.

It is divided into seven states and seven divisions with Kachin, Kayah, Karen, Chin, Burman, Mon, Rakhine and Shan. Apart from Burman, the others are the ethnic minorities. The country has been ruled by the military government, the State Peace and Development Council (SPDC) since 1997 (Foreign & Common Wealth Office, 2008). Myanmar also had a chance to enter into the Association of South East Asian Nations (ASEAN) in 1997.

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Figure 1.1: Map of Myanmar



Source: Asterism Travels & Tours – Myanmar

The country is rich in natural resources; the natural gas and the timber. The highest income that the country receives is from the export of natural gas to its neighboring country, Thailand. However, people of Myanmar do not get benefits and majority of the population is still poor especially in the rural areas. Electricity is not available even in the urban areas of the former capital, Yangon.

Moreover, in Myanmar the gap between the urban and rural is huge. In general, most of the people living in the rural areas have insufficient income and are substantially low to meet the expenditure even for the minimum requirements for their basic living. Due to the income is not sufficient to meet consumption expenditure, a family has to eat less, reduce standard of living, take children out of school, make wife and children and other family members work so forth. These are happening in the rural areas with greater frequency and becoming serious. The people are not getting a balanced diet and moreover, even children are not getting a diet that promotes their mental and physical development. As the economic status is very poor, the people living in the rural areas are lack of knowledge in health and education.

The country's data is limited, unreliable and incomplete since there is no official census since 1983. International Monetary Fund (IMF) estimates that Myanmar's population is 57.6 million in 2007. According to the United Nations Development Program (UNDP), the annual population growth rate is 0.8 percent, the adult literacy rate is 89.9 percent, the infant mortality rate is 75 deaths per 1000 live births and the life expectancy is 60.8 years in 2005.

Although the military government claimed that the annual growth rate was 13.2 percent in 2005-2006, the IMF estimates 5.5 percent growth rate, GDP per capita is US dollar 239, the inflation rate is 40 percent respectively in 2007.

The economy of Myanmar relies on the natural resources mainly on the agriculture, livestock and fisheries and forestry. According to the data from U.S. Department of States, it exports US dollar 5.9 billion in 2007; natural gas 45.5 percent, agricultural products 17.4 percent, teak and forest products 9.6 percent, precious and semi-precious stones 9.5 percent, and garments 4.8 percent. The major import items are lubricant oil and diesel 16.9 percent, textiles and fabrics 10 percent, palm 9 percent, machinery parts 8.7 percent, cars 6.9 percent, and steel, iron, and bars 6.4 percent. 35 percent of GDP is constituted by trade and services.

In May 2008, the rice bowl of Myanmar, Delta Region is damaged by the cyclone Nargis.

Regarding the government expenditure, Myanmar spends only 1.4 percent of GDP on health and education whereas the defense is the highest. The United Nations Children's Fund (UNICEF) reports that Myanmar's health system is the second-worst in the world after Sierra Leone (Turnell, 2008).

**Table 1.1:** Sectoral Structure of Myanmar's Economy (Contribution to GDP Percent)

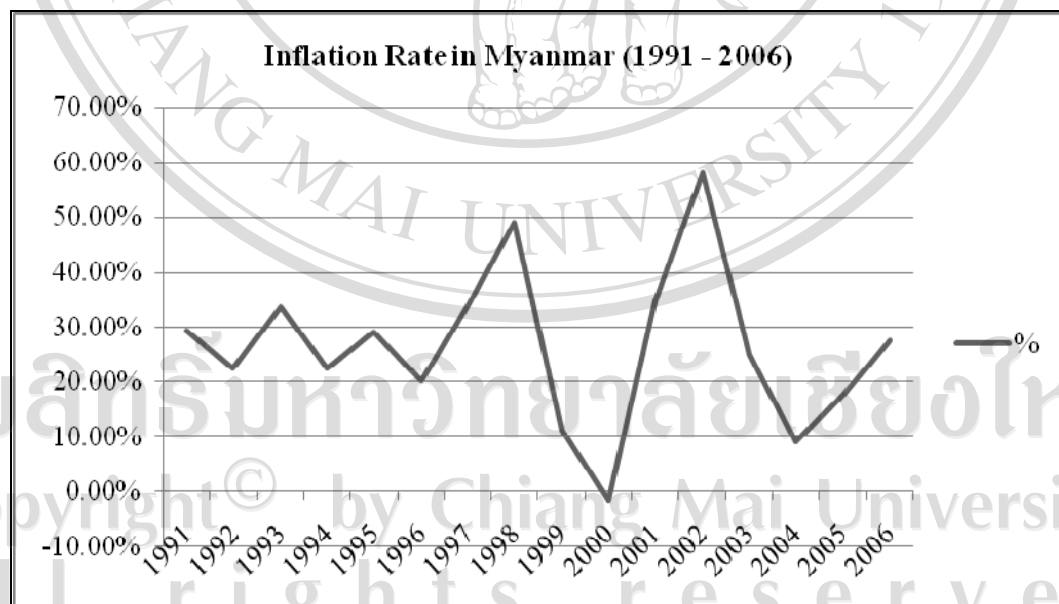
Sector	Myanmar	China	Thailand	Vietnam	Cambodia	Bangladesh
Agriculture, Livestock, Fishing and Forestry	47	13	10	21	33	19
Manufacturing and Processing	13	42	35	21	22	16
Services: Trade, Communications, Finance	27	40	46	38	38	55

Source: Asian Development Bank (2007) (Turnell, 2008)

It can be clearly seen that the agricultural sector contributes the highest GDP of the country i.e., two-third of country's labor force is in that sector. However, the agricultural practices remain traditional and the modern technology is not accessible for the majority of farmers. Besides, most of the small-scale farmers have no access to new varieties of seeds, fertilizer and credit for their capital investment.

The land is also owned by the state. The profit on agricultural production has been declined by the lack of adequate price incentives. Furthermore, limited access to credit; paddy has to be sold by quota-based which is below the market prices; poor transportation to the market place and the rising fertilizer prices are the main constraints for the grassroots farmers.

**Figure 1.2:** Annual Percent Change (Average Consumer Prices) of Inflation in Myanmar (1991 - 2006)



Source: International Monetary Fund (IMF), World Economic Outlook (WEO)

The inflation rate is fluctuated over the decades. During 2002 it reaches the peak at 58 percent. The estimated annual inflation 30 percent makes the poverty

situation worse. As for the average household, it spends 65 percent of income on food. The poverty and the food insecurity happened in the country because of the unstable prices of essential goods.

### 1.1.2 Poverty in Myanmar

According to the Human Development Index ranking of the United Nations Development Program, in 2007/8 Myanmar was ranked 132 out of 177 countries. Seventy percent of people lived in rural areas, and the annual inflation rate was estimated to be 30 to 40 percent, makes already poor people even poorer, since 65 percent of their income had to be spent on food.

The quality of living standards is usually measured in terms of poverty. A broad definition of poverty obviously calls for a more complex and far-reaching statistical measurement scheme than currently exists for most countries. However, there are many obstacles to promoting poverty reduction in Myanmar, since the country is ruled by a military dictatorship, and the Government does not want to accept the real-life situation. Thus, the United Nations agencies and the non-governmental organizations are currently implementing programs to help alleviate the difficulties of the rural poor, though they are not under the control of the Government when doing so.

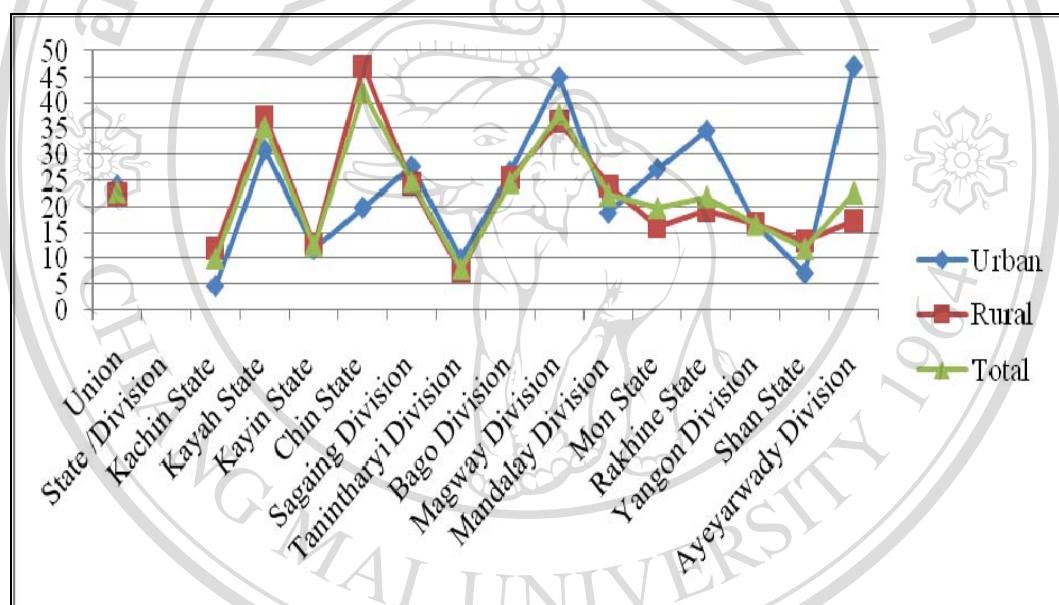
Poverty is also perceived as the consequence of economic, social and environmental policies, as well as of the behavioral strategies of individuals and households. Households start out with a stock of assets or endowments that they translate into entitlements through an exchange mapping process. The exchange mapping process involves analyzing the social, political and economic environments that positively or negatively affect the transformation of household endowments into



the goods and services needed to enjoy a decent human life. Poverty is ultimately the result of insufficient entitlements, defined as a broad package of rights that include health, education and freedom (Ulimwengu, 2008).

The official data on poverty compiled in October 2001 by the Ministry of National Planning and Economic Development, showed that 42.1 percent of those in Chin State were officially in poverty, the highest in the country.

**Figure 1.3:** Poverty Rate in Myanmar (2001)



Source: The Government of the Union of Myanmar. Ministry of National Planning and Economic Development.

### 1.1.3 Microfinance Programs in Myanmar

The poverty of households can be diminished if there is a small amount of credit in the community. Numerous studies have proved that microcredit programs are the right type of support to provide, in order to empower people to become entrepreneurs.

In Myanmar, microfinance programs were initiated by the United

Nations Development Program (UNDP) and its collaborator, the United Nations Office for Project Services (UNOPS), in 1997. The Dry Zone, Delta and Shan State were selected as the pilot project areas. These projects were implemented by the international non-governmental organizations (INGOs) PACT/Myanmar, Group de Recherche et Exchange (GRET) and Grameen Trust, who all contracted with the UNDP and UNOPS.

According to the 2006 annual report of PACT/Myanmar, active borrowers from these three INGOs added up to 215,329 in September 2006. There were seventeen local NGOs and international NGOs involved in the microfinance sector in 2007. Among them, Save the Children (with about 11,000 active clients) and World Vision (with about 4500 active clients), implemented large-scale microfinance programs in the urban areas of Yangon, the former capital of Myanmar (Than, 2007).

There are currently no legal microfinance institutions in Myanmar, due to the restrictions of the Myanmar Government. Consequently, international aid to Myanmar has been limited over the years, when compared to other, similar developing countries.

However, the microfinance program of the UNDP and INGOs in Myanmar has achieved financial sustainability, despite the fact that demands on the informal financial sector are higher than elsewhere, because it is the only source of credit for the majority of the rural poor.

In May 2008, Cyclone Nargis hit the Irrawaddy Delta, the rice bowl of Myanmar. The farmers in that area then needed external credit for their consumption requirements and to help with the recovery of their farming businesses. The grants as well as microfinance programs were planned to provided by the United Nations (UN)

agencies, the Association of Southeast Asian Nations (ASEAN) and the Myanmar government for the rehabilitation and restoring the livelihoods of the farmers. Thus, the demand of the microfinance programs is considerably high in Myanmar.

#### **1.1.4 Chin State of Myanmar**

Chin is a mountainous region which borders India and Bangladesh to the west. Kalaymyo is the gateway to Chin State. The central mountain range in the state lies north to south, where altitudes range from 5,000 to 9,000 feet above sea level. According to the Central Statistical Organization (CSO) Myanmar, the total land area of Chin State is 93,289 square kilometers, which represents 13.97 percent of the total land area of Myanmar.

In Chin State, the Chin language is commonly used to communicate between people and even in the Government sector as well. Moreover, regarding religion in the state, over 90 percent of the Chin people are Christians, and as such they have at least one common belief system. Thus, according to their religious beliefs, one tenth of their wealth or income should be donated to good causes, which helps generate significant village development funds.

Even though many villages are located on hill tops and set far apart from each other, religion is a common grounding that enhances the process of integrating people, and makes them feel closer to one another. The population density is on average, six people per one square kilometer. The urban and rural populations in terms of percentages represent 14.6 percent and 85.4 percent respectively.

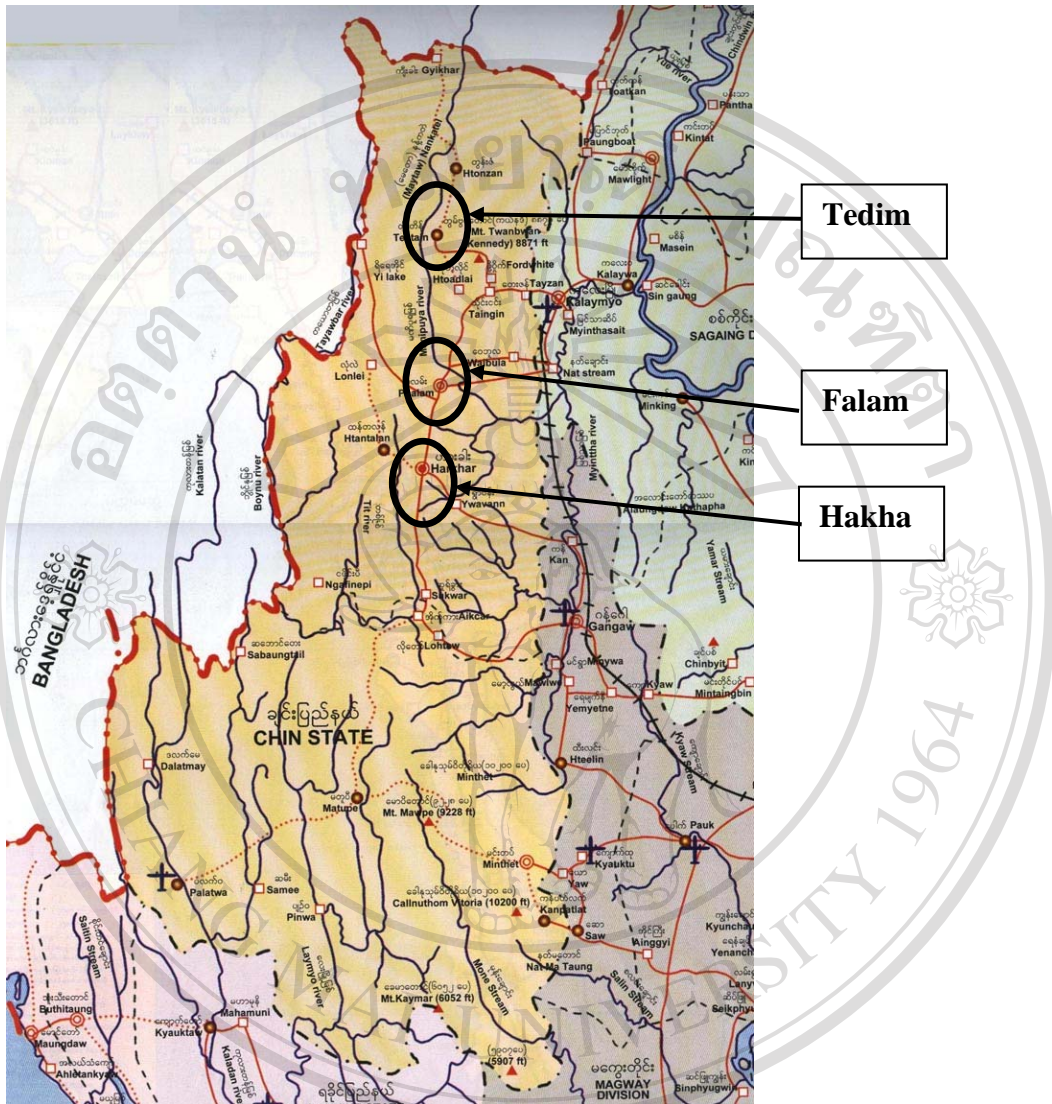
#### **1.1.5 Chin-Microfinance Institution (Chin-MFI)**

Chin-Microfinance Institution (Chin-MFI) has been one of the projects implemented under the umbrella of the UNDP (United Nations Development

Program) projects in northern Chin State. From 1995 to 1997, an experimentation phase was implemented, in order to test the financial services in the Chin context. Twenty village credit schemes were initiated, in Hakha and Tedim townships during 1997. Furthermore, between 1998 and 2000, the microfinance program was extended to Falam township, in order to increase the coverage of the households, as well as to build a self-reliant financial institution for the community. By the end of 2000, Chin-MFI had evolved from dealing with twenty village credit schemes, to 84, and had significantly increased its portfolio and its operational self-sufficiency.

The loan system used is based on the mutual guarantees of each of the groups of five members. Loan use is free and most of the members invest in breeding and agricultural activities. Moreover, Chin-MFI provides training, technical support and financial assistance to the network of village credit schemes.

Figure 1.4: Map of Chin State



Source: Myanmar.Net

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## 1.2 Significance of the Study

Compared with other States and Divisions in Myanmar, Chin State has the poorest infrastructure, the most important factor influencing trade. The majority of northern Chin people are farmers, and most of the farm products are grown for self-consumption. The majority of families do not have a regular income.

It is therefore assumed that the role of Chin-MFI is vital and crucial in northern Chin State.

## 1.3 Objectives of the Study

The purpose of this study is to evaluate the client welfare outcomes of the Chin-MFI. Although it has already gained financial self-sufficiency, whether the process and institutional outcomes correlate with client welfare needs to be studied further.

The objectives of the study are as follows:

- To study the use of Chin-MFI loans on the income generation activities in northern Chin State, and
- To examine whether this income generation has had a significant impact on the household welfare of the poor who have access to Chin-MFI loans.

## 1.4 Hypothesis and Methodology

The aim of this study is to test the hypothesis that participation in microfinance loans to help income generation activities, contributes to the household welfare of the microfinance participants.

The impact assessment methodology adopted in this study is the method that Coleman used in his study in 1999. The survey was conducted in twelve villages, with

246 households, in Hakha, Falam and Tedim villages respectively. There were two kinds of groups set up: a *treatment group* and a *control group*. The *treatment group* included the members who had at least two loan cycles. Since it was difficult to find non-members in the program's villages, new members of the new village credit schemes were used as the *control group*.

This study focuses on the economic development activities linked to the loans, especially income, expenditure and self-employment. Since the hypothesis I use comes from the theory, this study uses the deductive approach by using primary data to produce the empirical results.

### **1.5 Scope of the Study**

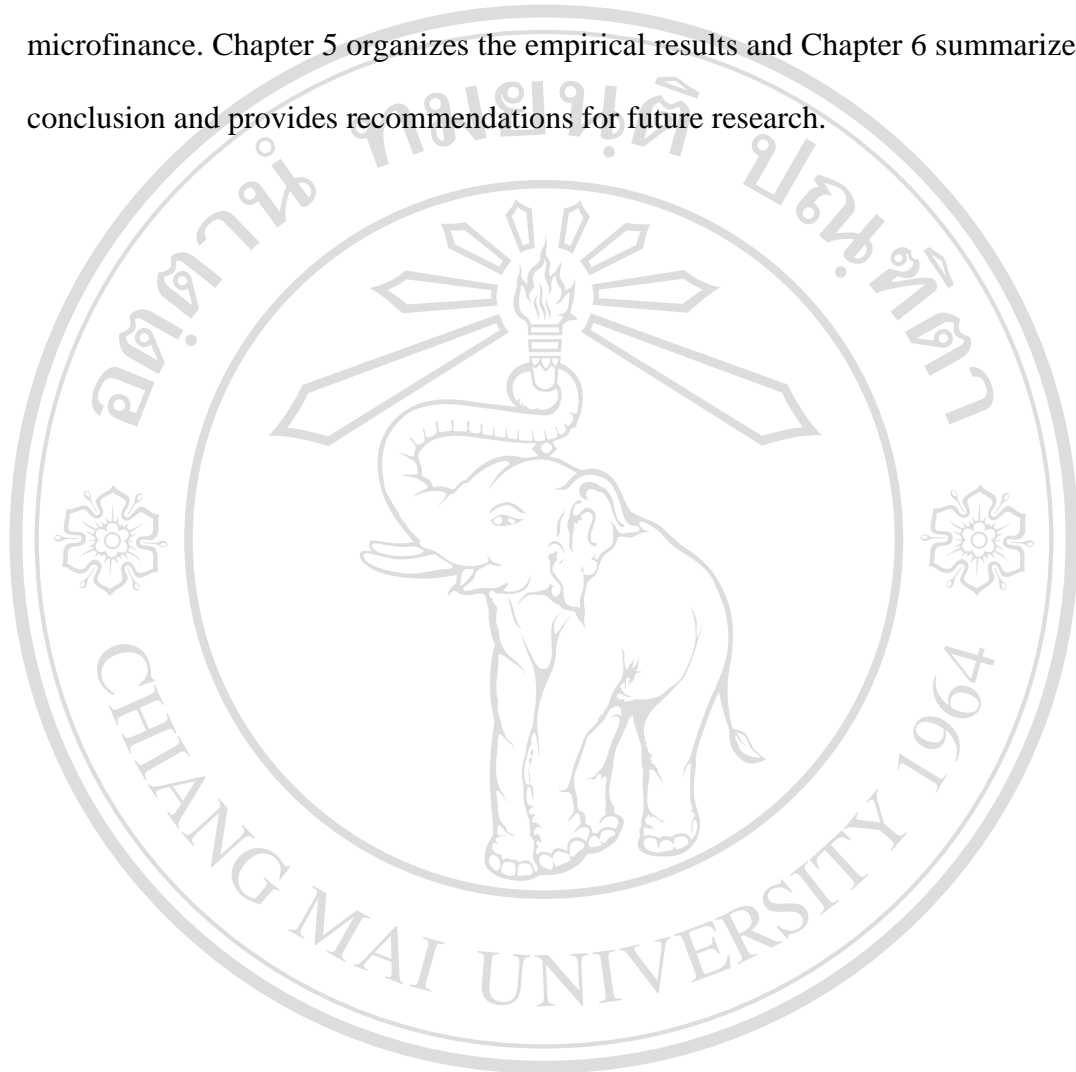
Since there is no baseline data, the impact assessment can tell the short-term benefits instead of the long-term impact on households. Besides, the official country's data cannot be used since it is not reliable and incomplete. Theories are one of the limitations for the theoretical framework since there is no particular theory in microfinance field yet. A translator is needed while collecting the data because Chin people do not speak Myanmar language. The limited time and budget cannot make the researcher to interview more than 200 households.

However, according to the researcher's experience, Chin people are willingly providing detail information especially on income. The annual income is not complicated to calculate since the sources of income are from agricultural, breeding and labor work in India that are frequency-based and easy to recall.

### **1.6 The Structure of the Paper**

The paper is organized into six chapters. The first chapter presents the introduction to the study. Chapter 2 describes the theoretical framework, and reviews

the related literature. The research design and the methodology used for the data analysis are explained in Chapter 3 and Chapter 4 presents the background to microfinance. Chapter 5 organizes the empirical results and Chapter 6 summarizes the conclusion and provides recommendations for future research.



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