

PART II

MICROFINANCE INSTITUTIONS AND COOPERATIVES

4. Performance of NGOs and Donor-funded Projects
Paving the Way towards Sustainable Microfinance in Myanmar

5. Saving and Credit Cooperative Societies
Upgrading Indigenous Financial Systems

Chapter 4

Performance of NGOs and Donor-funded Projects: *Paving the Way towards Sustainable Microfinance in Myanmar*

1. This chapter reports on a quick survey of microfinance institutions (MFIs), principally NGOs, conducted by the local counterpart team of the JICA Microfinance Team. The survey was conducted in July and August 2002.

2. The objective of the survey is to draw a landscape of the microfinance sub-sector in Myanmar. The survey sought to identify the major players, the areas where they operate, their target markets, current outreach and operational and financial performance. In addition, the survey asked respondents to identify perceived constraints in the implementation and expansion of current savings and credit programs. The respondents were also asked to identify areas for capacity building required to improve the performance of their microfinance operations¹.

3. There were a total of eighteen (18) NGO MFIs that responded to the survey. Fifteen (15) of these NGOs provided the data and information for this study. Three UNDP-assisted projects were unable to provide sufficient financial information on their respective programs. The list of survey respondents is as follows:

Microfinance-focused international NGOs

1. PACT
2. GRET
3. Grameen Trust

Other International NGOs (with multiple programs)

4. Save the Children Foundation (USA) – SCFUSA
5. Association of Medical Doctors of Asia (AMDA)
6. Association for Aid and Relief (AAR)
7. World Vision (Myanmar)
8. GRET (Chin)

UNDP- assisted Projects

9. Community Development in Remote Township (CDRT)
10. UN Drug Control Program (UNDCP)
11. UN High Commissioner for Refugees (UNHCR) Committee.

Local NGOs

12. Young Men's Christian Association (YMCA)
13. Young Women's Christian Association (YWCA)
14. Myanmar Council of Churches
15. Myanmar Baptist Convention
16. Caritas (Shan)
17. Caritas (Kayah)
18. Thiri May Women's Development Cooperative Society Ltd.

¹ The first and second-level analysis of the survey responses and the tables were prepared by the local microfinance team with guidance from the JICA Microfinance Team.

Information provided by the respondents were as of the end of the calendar year 2001 or fiscal year, which in the latter's case, referred mostly to end of March 2002.

INSTITUTIONAL CHARACTERISTICS

Microfinance INGOs

4. The 3 INGOs operate under a special agreement between the government and the UNDP/UNOPS. The latter provide funding and overall supervision over the 3 projects managed separately by the 3 INGOs. UNDP/UNOPS provide funds under a program called Human Development Initiative (HDI) undertaken in phases over the last 5-year period. The third phase ended in early 2002 and the fourth phase was supposed to begin in July 2002. At the end of the third phase, Grameen opted not to renew its contract with UNDP/UNOPS. The latter has temporarily assumed management over the microfinance operations formerly run by Grameen. Since the Projects are still waiting for Government final approval on the launching of Phase 4, expansion of the 3 projects—in terms of clients served and townships covered—cannot proceed as planned.

5. The three microfinance-focused INGOs have been operating in Myanmar for five years since 1997. The 3 INGOs have a total of 350 staff members with PACT having the highest number of staff at 171, followed by GRAMEEN at 104 and GRET with the lowest number of staff at 75. Total number of field workers for the 3 INGOs is 248, with PACT having the highest number at 121 and GRET the lowest number at 43.

Multipurpose INGOs

6. The 5 multipurpose INGOs have an aggregate number of 90 staff involved in microfinance programs with World Vision (WV) having the highest number at 26 and SCFUSA and AMDA with the lowest number at 5 each. Total field staff is 35 with WV having the highest number at 14 and AMDA with the lowest number at 2. The number of years of their involvement in microfinance ranges from 6 months to 7 years.

Local NGOs

7. The seven (7) local NGOs reported a total number of 47 staff involved in microfinance programs. The Myanmar Baptist Convention, YWCA and the MCC have a combined staff of 38 while the remaining 4 local NGOs employed the remaining 9 staff. Total field staff employed is 27 and the 3 dominant players among the local NGOs employed 20 of this number. The local NGOs have been operating for a period of one to 8 years with an average number of years in operation of 4 years.

UNDP-assisted Projects

8. The three UNDP-assisted projects did not employ separate staff for microfinance subprojects. They employed project officers who handled a variety of programs that included the provision of credit. The UNDP projects have an average period of 5.6 years in operations.

9. Table 1 shows the numbers of years in operation, number of townships covered and number of staff of the NGO respondents.

Table 1. Institutional Characteristics of Micro-Finance NGOs

Items	Micro-Finance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
No of Respondents	3	3	5	7	18
No of Townships Covered	11	31	9	20	71
Age Range	5 yrs.	4 - 6 yrs.	6 months - 7 yrs.	1 - 8 yrs.	6 months - 8 yrs.
Average Age	5 yrs.	5.6 yrs.	2.8 yrs.	4.1 yrs.	4 yrs.
No of Micro-Finance	350	NA	90 *	47	NA
Staff			*	*	
Average No of Micro-Finance Staff	116.6	NA	18 *	6.7	NA
No of Field Workers	248	NA	53 *	27	NA
Average No of Loan Officers	82.6	NA	10.6 *	3.9	NA

Remark:

* AAR and YMCA have no separate staff for Microfinance activity.

GEOGRAPHIC PRESENCE

10. The 3 INGOs that dominate the microfinance field in Myanmar cover 11 townships out of a total number of 330 townships in the whole country. PACT is operating in one township each in Magway, Mandalay and Sagaing divisions. GRET covers 5 townships in Shan State while Grameen Trust operates in 3 townships in the Ayeyarwaddy division.

11. The 5 multipurpose INGOs operate in 9 townships in Yangon and Mandalay divisions and Chin State. The 7 local NGOs reported that they operate in 20 townships in several areas of the country. The 3 UNDP-assisted projects reported that their operations are in 31 townships located in 3 northern states and in Shan State.

12. With the exception of the 3 UNDP-assisted projects, the 15 international and local NGOs are present in 40 townships out of a total number of 330 townships in Myanmar. The survey respondents are operating in only 12% of the total number of townships in the country.

13. Table 2 shows the areas where the respondents are present.

Table 2. Geographic Presence of Micro-Finance Operations

State / Division	Micro-Finance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
Kachin State	0	2	1	1	4
Kayah State	0	0	1	2	3
Kayin State	0	0	1	2	3
Chin State	0	1	2	1	4
Mon State	0	0	1	2	3
Rakhine State	0	2	1	1	4
Shan State	1	2	1	3	7
Ayeyarwaddy Division	1	1	1	2	5
Sagaing Division	1	1	1	1	4
Tanintharyi Division	0	0	1	1	2
Magway Division	1	1	1	1	4
Bago Division	0	0	1	2	3
Yangon Division	0	0	3	3	6
Mandalay Division	1	1	3	3	8

LEGAL REGISTRATION AND COVER

14. The 3 microfinance INGOs operate under an agreement between the Government of Myanmar and the UNDP/UNOPS. Three of the multipurpose INGOs have Memorandums of Understanding (MOUs) with the Ministry of Health while one INGO has a MOU with the Ministry of Social Welfare and the other INGO has a MOU with the Myanmar Agriculture Services. Six of the seven local NGOs are registered with the Ministry of Home Affairs/Ministry of Religious Affairs while the remaining institution is registered with the Ministry of Cooperatives.

15. The variety of agreements, MOUs and number of government agencies involved in registration of MFIs indicate that there is no single government agency in Myanmar where one can register a microfinance operation or program. More often than not, the microfinance operation or program typically comes as a sub-component of a larger intervention by the INGO concerned, that is, an INGO chiefly involved in implementing health programs may use microfinance as a convenient entry point to establish rapport and mutual understanding with the host community.

16. Table 3 shows the type of legal cover or registration of the NGOs.

Table 3. Type of Legal Registration / Cover

Registration / MOU	Micro-Finance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
Ministry of Home Affairs/ Ministry of Religious Affairs				6	6
Ministry of Health			3		3
Ministry of Social Welfare			1		1
Ministry of Co-Operative Government		2		1	1
Myanmar Agriculture Services			1		1
UNOPS	3	1			4

PROFILE OF THE TARGET MARKET

17. All the survey respondents profess to target the poor as clients of their respective microfinance programs. The three microfinance INGOs are concentrated in serving women of rural poor households. The multipurpose INGOs serve both rural and urban poor households. Local NGOs also have rural and urban poor households as clients of their programs. Table 4 shows the profile of clients of MFIs in Myanmar. Women of rural poor households dominate the market for microfinance services essentially because they are the target clients of the three INGOs that are responsible for 87% of the total number of microfinance clients in Myanmar.

Table 4. Profile of Target Sectors

Target Sector	Micro-Finance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
Poorest	3	2			5
Rural Poor	3	2	3	5	13
Rural Poor (Women Focus)	3		2	5	10
Urban Poor			3	2	5
Urban Poor (Women Focus)			3	2	5
Women (Rural)	3	2	3	5	13
Women (Urban)			2	2	4
Women Headed HH	3	2	1	6	12
Market Vendors	3		4	6	13
Disabled	3		2		5
Small Farmers	3	2	2	5	12
Micro Entrepreneurs	3	1	6	7	17
Landless Agri Worker	3	3	3	1	10
Drivers / Operators				1	1
Fisher Folk	3	2			5

Christians			1	6	7
Livestock Breeding	3	2	5	6	16
Returnee Families		1			1
Drug Addict area		1			1

SOURCES OF FUNDS

18. The 3 INGOs sourced their loan funds and operating funds from UNDP/UNOPS. The 5 multipurpose INGOs secured their funds from foreign donor grants and from their own internal sources, basically foreign grants. One of these INGOs also received a small grant from UNDP. Local NGOs reported that their funding source is basically internal funds. One local NGO obtained a soft loan from a foreign source.

19. Table 5 shows the sources of funds reported by the survey respondents.

Table 5. Fund Sources of Micro-Finance NGOs

Sources	Micro-Finance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
Foreign Donor - Grant		2	3		5
Foreign Donor - Loan				1	1
Local Donor - Grant					0
Local - Loan					0
Local NGO					0
Banks - Loan					0
National Government					0
Ministry - Grant					
National Government					0
Ministry - Loan					
Local Authorities - Grant					0
Local Authorities - Loan					0
Internal / Own Fund			4	5	9
UNDP/UNOPS	3	2	1		6
Saving/ Share/ Deposit				1	1

METHODOLOGICAL PRACTICES

Lending Modalities Used

20. The NGO/MFIs in Myanmar employ both group-based approach and individual lending in their credit program. The dominant lending modality is the group-based approach as this is the

modality employed by the three INGOs. The multipurpose INGOs and other local NGOs employ a combination of individual and group-based lending in their credit programs. Table 6 shows the lending methodologies prevalent among NGOs in Myanmar.

Table 6. Lending Modalities Used

Lending Modalities	Micro-Finance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
Individual	0	1	2	4	7
Group Based Approach	3	4	4	5	16
Loans to Other Organizations	0	0	0	0	0

LOAN TERMS AND CONDITIONS

Microfinance INGOs

21. The loan period is generally 12 months with GRET providing also 6-month loans. Minimum loan size is 12,000 Kyats for PACT, 16,000 Kyats for GRET and 15,000 Kyats for Grameen. Maximum loan size is 60,000 Kyats for PACT, 58,000 Kyats for GRET, and 50,000 Kyats for Grameen. The minimum and maximum loan sizes indicate that the 3 INGOs are serving relatively poor people.

22. The effective interest rates range from 38.5% to 45% per annum. Repayment mode is weekly for Grameen, bi-weekly for PACT and monthly for GRET.

23. PACT and GRET charge 50 Kyats as membership fee. The 3 INGOs also charge fees for passbooks ranging from 25 Kyats to 50 Kyats.

24. The 3 INGOs also offer other loan products in addition to the general or normal loans. These loan products are labeled as extra loan, micro and small enterprise loan and emergency loan. The aggregate loans outstanding of the other loan products comprise a very small portion of the total loan portfolio of the 3 INGOs. Interest rates of the loan products are similar to the general loan. Loan sizes are significantly larger for the micro and small enterprise loans. Loan periods of 12 to 24 months are applicable to small enterprise loans.

25. Table 7.1 shows the loans terms and conditions of the 3 microfinance INGOs.

Table 7.1 Loan Terms and Conditions for Micro-Finance INGOs

Description		PACT	GRET	GRAMEEN
General / Normal Loan	Interest Rate (per annum)			
	Nominal rate	22.50%	45%	20.00%
	Effective rate	45.00%	45%	38.50%
	Other Charges			
	- Membeship Fee	50 Ks	50 Ks	Nil
	- Group Fund	100 Ks (per loan)*	Nil	Nil
	- Welfare Fund	75 Ks (per mem/yr)	Nil	Nil
	- Passbook Fee	25 Ks *1	50 Ks	50 Ks
	Loan Term	12 months	6 - 12 months	12 months
	Min Loan Size	12,000	16,000	15,000
	Max Loan Size	60,000	58,000	50,000
Repayment Mode	Bi weekly	Monthly *3	Weekly	
Extra Loan	Interest Rate (per annum)			
	Nominal rate	22.50%	45%	20%
	Effective rate	45%	45%	38.50%
	Other Charges			
	- Loan Application	Nil	50 Ks	Nil
	- Group Fund	100 Ks per loan	Nil	Nil
	Loan Term	12 months	6 - 12 months	12 months
	Min Loan Size	10,000	6,000	40,000
	Max Loan Size	10,000	6,000	40,000
	Repayment Mode	Bi weekly	Monthly *3	Weekly
	Micro and Small Enterprise Loan	Interest Rate	22.50%	45%
(% per annum)		(Flat)		
Other Charges				
- Loan Application		Nil	50 Ks	Nil
- Passbook Fee		25 Ks	Nil	Nil
- Group Fund		100 Ks per loan	Nil	Nil
Loan Term		20 months *2	12 months	12 - 24 months
Min Loan Size		80,000	50,000	100,000
Max Loan Size		250,000	150,000	100,000
Repayment Mode		Bi weekly	Monthly *3	Weekly
Emergency Loan (GRET)	Interest Rate	Nil	45%	0%
Group Fund Loan (GRAMEEN)	(% per annum)			
	Other Charges			

- Loan Application	Nil	50 Ks	Nil
Loan Term	Nil	3 months	Flexible
Min Loan Size	Nil	4,000	Half of Saving
Max Loan Size	Nil	4,000	Half of Saving
Repayment Mode	Nil	Monthly *3	Weekly

Remarks:

* - Group Fund is collected starting from second cycle loan

*1 - One passbook can be used for two loans

*2 - Only interest is collected for the first four installments (2 months)

*3 - Interest is collected monthly and principal is collected at the end of due month for first and second cycle loan.
From third cycle onwards, interest is monthly, while principal is in two installments.

UNDP-Assisted Projects

26. The three projects assisted by UNDP operate under special circumstances. The Community Development for Remote Townships (CDRT) operate in Rakhine, Chin and Kachin States. The UNHCR project is in Northern Rakhine state while the UN Drug Control Program is active in areas of Shan and Kachin states. All three projects undertake development and livelihood programs for communities experiencing difficult conditions. The provision of credit is a small part of the overall program of the three projects. There is little evidence to indicate that the credit programs under these projects will become viable and sustainable in the near future. Financial and operational records for the credit program are not reported separately thereby making it difficult to manage the credit program. Indicators of best practice in microfinance are not regularly tracked. Similar projects of this type are generally more inclined to measure amount of loans disbursed and number of beneficiaries rather than recovery of loans.

27. Table 7.2 shows the loan terms and conditions of the credit programs undertaken by the three UN projects. Loan sizes vary from 5,000 Kyats to 200,000 Kyats with loan periods ranging from less than 10 months to 12 months. Repayment mode is weekly or monthly. Interest rates vary from 0% to 60%. Those charging zero or very minimal interest rates are more concerned with outreach to a larger number of poor households, hence, maintaining cost-recovering interest rates are a secondary objective.

Table 7.2 Loan Terms and Conditions for UNDP Assisted Project

Description	CDRT	UNHCR	UNDCP
General / Normal			
Interest Rate	Market oriented rate*4	0%	Market oriented rate
(% per annum)		Conditional Grant	
Other Charges			
- Member Fee	5 - 50 Ks *4	Nil	Nil
Loan Term	<= 10 months	<=12 months	12 months
Min Loan Size	100 Ks *5	5,000 Ks	10,000 Ks
Max Loan Size	180,000 Ks *5	10,000 Ks	200,000 Ks
Repayment Mode	Weekly	Equal instalments	Flexible

		(principal) Monthly (interest)	within 10 months	
Hybrid Group Loan	Interest Rate (% per annum)	Nil	Market oriented rate *4	Nil
	Loan Term	Nil	Flexible	Nil
	Min Loan Size	Nil	Flexible	Nil
	Max Loan Size	Nil	Flexible	Nil
	Avg Loan Size	Nil	Flexible	Nil
	Repayment Mode	Nil	Flexible	Nil
Hire Purchase Scheme	Interest Rate (% per annum)	Nil	0%	Nil

	Loan Term	Nil	6- 12 months	Nil
	Min Loan Size	Nil	5,000 Ks	Nil
	Max Loan Size	Nil	*5	Nil
	Avg Loan Size	Nil		Nil
	Repayment Mode	Nil	Down Payment plus Biweekly	Nil
Partnership Finance Arrangement	Interest Rate (% per annum)	Nil	0%	Nil
	Other Charges - Member Fee	Nil	Nil	Nil
	Profit & Loss Sharing	Nil	Agency: 43.91% Borrowers: 59.09%	Nil
	Loan Term	Nil	2 - 4 months	Nil
	Min Loan Size	Nil	Flexible	Nil
	Max Loan Size	Nil	Flexible	Nil

	Average Loan Size	Nil	Flexible	Nil
	Repayment Mode	Nil	Flexible	Nil
Rotation Saving & Credit Association / Partnership Finance Group Loan	Interest Rate (% per annum)	Nil	0%	Nil
	Loan Term	Nil	6 months	Nil
	Min Loan Size	Nil	10,000 Ks	Nil
	Max Loan Size	Nil	10,000 Ks	Nil
	Repayment Mode	Nil	Weekly	Nil

Remarks:

*4 - Decided by Borrowers

*5 - Based on Type of Loan (consumption loan, health loan, educational loan, IG loan, asset creation loan)

Other INGOs

28. Table 7.3 shows the loan terms and conditions imposed by other INGOs for their respective credit programs. These INGOs are charging market rates that will allow them to recover costs and eventually move them towards financial sustainability.

29. Loan period is generally from 6 to 12 months with the exception of the Association for Aid and Relief (AAR) which allows loan periods that stretch from 1 to 3 years. Minimum loan size range from 1,500 to 20,000 Kyats. WV provide a maximum loan size of 500,000 Kyats.

Table 7.3 Loan Terms and Condition for Other INGOs

Description		Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
General / Normal Loan	Interest Rate (% per annum)	Market oriented rate (Flat)	15% (Flat)	0%	Market oriented rate (Flat)	Market oriented rate (Decline)
	- For Group Fund	Market oriented rate	15%		Market oriented rate	Market oriented rate
	- For Organization	Nil	Nil	Nil	2% on loan (up front)	Nil
	Service Charges (%) (Up front)	Nil	Nil	Nil	2% on loan (up front)	Nil
	Other Charges					
	- Contract Fee	Nil	Nil	Nil	Nil	Nil
	- Membership Fee	Nil	Nil	Nil	Nil	100 Ks
	- Passbook Fee	100 Ks per loan	100 Ks	Nil	Nil	Nil
	Loan Term	6 months	12 months	1-3 Yrs (Flexible)	6 months	Max 12 months
	Min Loan Size	10,000 Ks	10,000 Ks	1,500 Ks	20,000 Ks	9,000 Ks
	Max Loan Size	10,000 Ks	10,000 Ks	35,000 Ks	500,000 Ks	12,000 Ks
	Repayment Mode	Weekly	Bi-weekly	Flexible	Weekly	Monthly *3
Special Loan	Interest Rate (% per annum)	Nil	Nil	Nil	Nil	Market oriented rate (Decline)
	- For Group Fund	Nil	Nil	Nil	Nil	Nil
	- For Organization	Nil	Nil	Nil	Nil	Market oriented rate
	Service Charges (%) (Up front)	Nil	Nil	Nil	Nil	Nil
	Other Charges					
	- Contract Fee	Nil	Nil	Nil	Nil	Nil
- Membership Fee	Nil	Nil	Nil	Nil	200 Ks	

	- Passbook Fee	Nil	Nil	Nil	Nil	Nil
	Loan Term	Nil	Nil	Nil	Nil	Max 12 months
	Min Loan Size	Nil	Nil	Nil	Nil	25,000 Ks
	Max Loan Size	Nil	Nil	Nil	Nil	26,000 Ks
	Repayment Mode	Nil	Nil	Nil	Nil	Monthly *3
Performance Loan	Interest Rate (% per annum)	Nil	Nil	Nil	Nil	Market oriented rate (Decline)
	- For Group Fund	Nil	Nil	Nil	Nil	
	- For Organization	Nil	Nil	Nil	Nil	Market oriented rate
	Service Charges (%) (Up front)	Nil	Nil	Nil	Nil	Nil
	Other Charges	Nil	Nil	Nil	Nil	
	- Contract Fee	Nil	Nil	Nil	Nil	Nil
	- Membership Fee	Nil	Nil	Nil	Nil	100 Ks
	- Passbook Fee	Nil	Nil	Nil	Nil	Nil
	Loan Term	Nil	Nil	Nil	Nil	Max 12 months
	Min Loan Size	Nil	Nil	Nil	Nil	13,000 Ks
	Max Loan Size	Nil	Nil	Nil	Nil	16,000 Ks
	Repayment Mode	Nil	Nil	Nil	Nil	Monthly *3
Emergency Loan	Interest Rate (% per annum)	Nil	Nil	Nil	Nil	Market oriented rate (Decline)
	- For Group Fund	Nil	Nil	Nil	Nil	
	- For Organization	Nil	Nil	Nil	Nil	Market oriented rate
	Service Charges (%) (Up front)	Nil	Nil	Nil	Nil	Nil
	Other Charges	Nil	Nil	Nil	Nil	
	- Contract Fee	Nil	Nil	Nil	Nil	Nil
	- Membership Fee	Nil	Nil	Nil	Nil	Nil
	- Passbook Fee	Nil	Nil	Nil	Nil	Nil
	Loan Term	Nil	Nil	Nil	Nil	Max 4 months
	Min Loan Size	Nil	Nil	Nil	Nil	3,000 Ks
	Max Loan Size	Nil	Nil	Nil	Nil	3,000 Ks
	Repayment Mode	Nil	Nil	Nil	Nil	Monthly *3

Local NGOs

30. Interest rates charged are within the negotiated interest rates with 4 NGOs computing the interest rate on the declining balance of the principal. The loan period is generally six months with the exception of the Baptist Convention which has a loan period of 20 months and Caritas Shan state which has a loan period of 3 years.

31. Minimum loan sizes vary from 2,500 Kyats to 50,000 Kyats. Maximum loan sizes vary from 30,000 Kyats to 300,000 Kyats.

32. Table 7.4 shows a summary of the loan terms and conditions of local NGOs.

Table 7.4 Loan Terms and Conditions for Local NGOs

Description		YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
General / Normal Loan	Interest Rate (% per annum)	0%	Market oriented rate (Decline)	Market oriented rate (Decline)	Market oriented rate (Decline)	Market oriented rate	Market oriented rate (Decline)	Market oriented rate
	- For Group Fund			Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate	
	- For Organization		Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate
	Service Charge (%) (Upfront)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Other Charges							
	- Contract Fee	Nil	Nil	Nil	50Ks/group	Nil	Nil	Nil
	- Member Fee	Nil	Nil	Nil	Nil	50 Ks	Nil	Nil
	- Passbook Fee	Nil	Nil	Nil	Nil	50 Ks	25 Ks	Nil
	Loan Term	20 months	6 - 12 months	3 yrs	6 months	6 months	6 months	20 months
	Min Loan Size	10,000 Ks	50,000 Ks	50,000 Ks	-	2,500 Ks	5,000 Ks	5,000 Ks
Max Loan Size	30,000 Ks	300,000 Ks	300,000 Ks	6,500 Ks	2,500 Ks	50,000 Ks	20,000 Ks	
Avg Loan Size	20,000 Ks	150,000 Ks	175,000 Ks	-	2,500 Ks	30,000 Ks	10,000 Ks	
Repayment Mode	Monthly (10 installments)	Monthly	6 monthly	6 monthly	Flexible	Flexible	Monthly	

SAVINGS PRODUCTS

33. In view of the NGO structure of the organizations, the savings side of the microfinance coin is given very scant attention by the NGOs. NGOs commonly collect compulsory savings at a fixed percentage of the loan principal. Among the respondents to this survey, the 3 microfinance INGOs

pay relatively high saving rates on compulsory savings ranging from 15% for Grameen, 25% for PACT, and 27% for GRET. GRET is starting to accept voluntary savings from its borrowers.

34. Among the multipurpose INGOs, only AMDA collects compulsory savings and pays 8% interest on the savings. Local NGOs like MCC, YWCA and MBC also collect compulsory savings. Among the 3 NGOs, only MBC pays 10% rate on client savings.

35. Table 8.1 to 8.4 show the features of savings products of the survey respondents.

Table 8.1 Savings Practices of Micro-Finance INGOs

Description		PACT	GRET	GRAMEEN
Interest on Saving (% per annum)	Compulsory	25%	27%	15%
	Voluntary	Nil	27%	Nil
Saving				
Compulsory	Number	49,826	25,802	25,439
	Amount (Kyat)	118,388,911	13,908,850	53,083,267
Voluntary	Number	Nil	Nil	Nil
	Amount (Kyat)	Nil	Nil	Nil

Table 8.2 Savings Practices of UNDP Assisted Projects

Description		CDRT	UNHCR	UNDCP
Interest on Saving (% per annum)	Compulsory	0%	0%	Nil
	Voluntary	Nil	Nil	*6
Saving				
Compulsory	Number	NA	NA	NA
	Amount (Kyat)	NA	NA	NA
Voluntary	Number	NA	NA	NA
	Amount (Kyat)	NA	NA	NA

Remarks:

*6 - Interest on saving is decided by Borrowers

NA - Not Available

Table 8.3 Savings Practices of Other INGOs

Description		Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Interest on Saving (% per annum)	Compulsory	Nil	8%	Nil	Nil	Nil
	Voluntary	Nil	Nil	Nil	0% *	
Saving						
Compulsory	Number	Nil	935	Nil	Nil	Nil
	Amount (Kyat)	Nil	73,640	Nil	Nil	Nil

Voluntary	Number Amount (Kyat)	Nil	Nil	Nil	3728*	40
		Nil	Nil	Nil	*	18,020

Remark

* - Saving amount is deposited in Bank by the group members. The group members themselves manage bank transaction.

Table 8.4 Saving Practices of Local NGOs

Description		YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Interest on Saving (% per annum)	Compulsory	Nil	Nil	Nil	Nil	0%	0%	10%
	Voluntary	Nil	12%	Nil	Nil	Nil	Nil	Nil
Interest on Deposit (% per annum)		Nil	Market oriented rate	Nil	Nil	Nil	Nil	Nil
Compulsory Saving	Number	Nil	Nil	Nil	Nil	400	450	297
	Amount (Kyat)	Nil	Nil	Nil	Nil	960,000	1,259,500	796,400
Voluntary Saving	Number	Nil	9	Nil	Nil	Nil	Nil	Nil
	Amount (Kyat)	Nil	58,000	Nil	Nil	Nil	Nil	Nil

INSTITUTIONAL PERFORMANCE INDICATORS

Outreach Indicators

36. Table 9.1 to 9.5 show the outreach indicators of the NGO respondents arranged according to peer groupings. The 3 micro-finance INGOs collectively dominate the microfinance market in Myanmar in terms of the number of active clients and value of loans outstanding. As a group, the 3 INGOs constitute 87% of the total outreach of the respondents and likewise 87% of the value of loan outstanding. The 3 INGOs have had a number of years experience in managing microfinance programs in other countries of Asia. Hence, it is to be expected that the said INGOs have acquired the necessary management systems to successfully run microfinance programs.

37. The 3 INGOs have shown that microfinance programs in Myanmar can be undertaken in a viable manner. New entrants to the sector are well advised to closely study and learn from the actual experience of the 3 INGOs on the ground before starting their own programs in Myanmar.

38. The dominance of the 3 INGOs of the market for microfinance in Myanmar is shown in Table 9.1. Gross revenue from lending operations is 411 million kyats and represent 93% total gross revenue of institutions that reported financial data. The 3 INGOs also have total assets of 1.7 billion kyats representening 92% of total assets of survey respondents. Outreach indicators for the other respondents are shown on Tables 9.2 to 9.5.

Table 9.1 Selected Performance Indicators as of end 2001

Description	Micro-Finance INGOs	% of Total	UNDP Assisted Projects	% of Total	Other INGOs	% of Total	Local INGOs	% of Total
No of Active Clients	94,724	87%	NA		11,021	10%	3,464	3%
Loan Portfolio Outstanding	1,420,613,201	87%	NA		185,851,225	11%	14,902,100	2%
Value of outstanding Savings	185,381,028	98%	NA		91,660	-	3,073,900	2%
Gross Revenue	411,000,664	93%	NA		25,463,481	6%	4,771,656	1%

Net Financial Margin or Net Operating Income	392,587,735		NA		NA		NA	
Loan Loss Provision	7,615,590		NA		NA		NA	
Net Income after Expenses	185,344,322		NA		(1,538,745)		(6,933,367)	
Total Assets	1,739,419,638	92%	NA		129,765,544	7%	31,036,988	1%
Total Liabilities	188,411,957		NA		11,522,278		12,648,900	
Net Worth	1,524,281,136		NA		118,243,265		12,210,000	

Remarks:

1. Other INGOs

Saving Outstanding

- Value of Saving Outstanding for World Vision is not available because borrowers manage depositing in Bank by themselves.

Gross Revenue

- AAR and World Vision are unable to provide Gross Revenue.

Net Financial Margin and Loan Loss Provision

- All other INGOs could not give this information.

Net Income after Expenses, Total Assets and Total Net Worth

- Except AMDA, all other INGOs did not provide.

Total Liabilities

- All other INGOs, except Save the Children and AMDA did not provide.

2. Local INGOs

Net Income

- Received the data on this information from all Local INGOs, except Caritas (Kayah).

Total Assets

- Thiri May and Myanmar Baptist Convention figure did not include.

Net Worth

- Total Net Worth figure is not included for Local INGOs as Thiri May, Caritas (Shan), Caritas (Kayah) and Myanmar Baptist Convention

Table 9.2 Outreach Indicators - Micro-Finance INGOs

Description	PACT	GRET	GRAMEEN
No of Active Borrowers	49,165	20,457	25,102
Percentage of Women Clients	98.08%	82.4%	100%
No of Active Savers	49,826	25,802	25,439
Percentage of Women Savers	98.08%	82.4%	100%
Value of Outstanding Loan Portfolio	639,954,101	467,186,100	313,473,000
Value of outstanding Saving Accounts	118,388,911	13,908,850	53,083,267

Table 9.3 Outreach Indicators - UNDP Assisted Projects

Description	CDRT	UNHCR	UNDCP
No of Active Borrowers	NA	1531	NA
Percentage of Women Clients	95%	52.3%	NA
No of Active Savers	NA	1531	NA
Percentage of Women Savers	95%	52.3%	NA
Value of Outstanding Loan Portfolio	NA	NA	NA
Value of outstanding Saving Accounts	NA	NA	NA

Table 9.4 Outreach Indicators other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
No of Active Borrowers	200	788	66	3,728	6,239
Percentage of Women Clients	100%	100%	54.8%	70%	38%
No of Active Savers	0	935	0	3,728	40
Percentage of Women Savers	0	100%	0	70%	NA
Value of Outstanding Loan Portfolio	1,674,800	4,145,600	652,709	109,835,901	69,542,215
Value of outstanding Saving Accounts	0	73,640	0	*	18,020

Remark

* The group members deposit saving amount in Bank

Table 9.5 Outreach Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
No of Active Borrowers	75	18	1,000	1,235	400	550	186
Percentage of Women Clients	90%	NA	NA	30%	96.25%	100%	90%
No of Active Savers	0	9	0	0	400	550	297
Percentage of Women Savers	0	NA	0	0	96.25%	100%	90%
Value of Outstanding Loan Portfolio	600,000	3,350,000	1,666,600	6,857,500	250,000	520,000	1,658,000
Value of outstanding Saving Accounts	0	58,000	0	0	960,000	1,259,500	796,400

39. The total number of active borrowers reported for all respondents is 109,209 while the value of loan outstanding is over 1.6 billion Kyats. As earlier mentioned, the 3 INGOs combined constitute 87% of outreach and also 87% of the total loan portfolio reported. Women clients represent 95% of the total number of clients.

Portfolio Quality Indicators

40. The following discussion on Portfolio Quality Indicators is drawn from the survey report of the local microfinance team. It is submitted that the portfolio performance should be validated in the future in view of the JICA Microfinance Team's findings that at least two factors prevent the calculation of comparable financial ratios². The three factors are as follows:

- ✓ There is no standard chart of accounts among the NGOs.
- ✓ There is no commonly accepted accounting practices.
- ✓ There is no commonly accepted performance standards.

41. The absence of a common language among the NGOs makes it difficult to compare the financial performance among peer groups through the portfolio quality indicators, the efficiency and productivity indicators, the sustainability indicators and the financial solvency indicators reported here.

42. The 3 INGOs however, have a common financial reporting format required by UNDP/UNOPS. The financial reports of the 3 INGOs appear to conform with internationally accepted reporting formats for institutions engaged in microfinance. This survey was unable to validate whether the repayment rates and portfolio at risk as reported by the 3 INGOs conform to internationally accepted definitions.

43. The 3 INGOs report a repayment rate of close to 100% with portfolio at risk ratio of less than or close to 1%.

² The same observation was made during field interviews of selected credit and savings cooperative societies.

44. Among multipurpose INGOs, two are experiencing 100% repayment rate, the third has 99.15% repayment rate while the fourth has close to 80% repayment rate, while the fifth reports a 91.66% repayment rate.

45. Five of the local NGOs are reporting 100% or close to 100% repayment rates. YMCA has a 60% repayment rate while MCC is experiencing a 75% repayment rate.

46. UNHCR reports a repayment rate of 85% on its credit program. CDRT and UNDCP have no indicators on the quality of their loan portfolios.

47. Table 10.1 to 10.4 show the portfolio quality indicators for the NGOs included in this survey.

Table 10.1 Portfolio Quality Indicators - Micro-Finance INGOs

Description	PACT	GRET	GRAMEEN
Repayment Rate	99.09%	99.17%	100%
Portfolio At Risk	1.19%	NA	0%
Past Due Rate	1.19%	0.43%	0%

Table 10.2 Portfolio Quality Indicators – UNDP Assisted Projects

Description	CDRT	UNHCR	UNDCP
Repayment Rate	NA	85%	NA
Portfolio At Risk	NA	NA	NA
Past Due Rate	NA	NA	NA

Table 10.3 Portfolio Quality Indicators - other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Repayment Rate	100%	100%	79.89%	99.15%	91.66%
Portfolio At Risk	NA	NA	NA	NA	NA
Past Due Rate	0%	0%	12.7%	1.91%	8.34%

Table 10.4 Portfolio Quality Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Repayment Rate	60%	100%	100%	100%	75%	99.36%	100%
Portfolio At Risk	NA	NA	NA	NA	NA	NA	NA
Past Due Rate	NA	0%	0%	0%	0%	3.85%	0%

Efficiency and Productivity Indicators

48. Efficiency and productivity indicators for the 3 microfinance INGOs are comparable to standards of best practice in other Asian countries. The number of active borrowers per field worker for the 3 INGOs range from close to 300 to 475. The loan portfolio per field worker range from 3.7 M Kyats to 10.8 M Kyats. The ratio of field staff to total staff range from 57% to 81 %.

49. The operating cost ratio is close to 35% for Grameen. The operating cost ratios for PACT and GRET are 16.38% and 16.95% respectively. The international standard for this ratio is lower than 25%. Efficient MFIs in Bangladesh have operating cost ratios of 12% to 16%. The top 5 most efficient MFIs tracked by MicroRate in South America have operating cost ratios of 11.6% to 13.8%.

50. Among multipurpose INGOs, World Vision is now moving towards improved efficiency indicators. WV has been operating its microfinance program since 1998 while the 2 others in this group started in January 2002. AAR commenced its microfinance program in September 2000.

51. Among local NGOs, Caritas (Kayah) is showing higher productivity and efficiency ratios among its peer group. The operating cost ratios of the local NGOs are relatively high compared with NGOs that have longer periods of operations. This is to be expected considering that some of the NGOs started their microfinance programs only in early 2002.

Table 11.1 to 11.4 show the efficiency and productivity indicators per group.

Table 11.1 Efficiency and Productivity Indicators - Micro-Finance INGOs

Description	PACT	GRET	GRAMEEN
Active borrowers per Field Workers	406.32	475.74	298.83
Active Borrowers (No.)	49,165	20,457	25,102
Field Workers (No.)	121	43	84
Loan Portfolio per Field Workers	5,288,877	10,864,793	3,731,821
Loan Portfolio (Kyat)	639,954,101	467,186,100	313,473,000
Field Worker (No.)	121	43	84
Field Workers as a % of Total Staff	70.76%	57.33%	80.77%
Field Workers (No.)	121	43	84
Total Staffs (No.)	171	75	104
Operating Cost Ratio (in percent)	16.38%	16.95%	34.72%
Operating Cost (kyat)	74,750,255	55,163,117	77,330,031
Average Loan Portfolio (kyat)	456,256,956	325,470,400	222,732,434

Table 11.2 Efficiency and Productivity Indicators - UNDP Assisted Projects

Description	CDRT	UNHCR	UNDCP
Active borrowers per Field Workers	NA	NA	NA
Active Borrowers (No.)	NA	1531	NA
Loan Officers/Human Development Facilitator (No.)	66	NA	NA
Loan Portfolio per Loan Officers	NA	NA	NA
Loan Portfolio (kyat)	NA	NA	NA
Loan Officers/Human Development Facilitator (No.)	66	NA	NA
Loan Officers as a % of Total Staff	85.71%	NA	NA
Loan Officers/Human Development Facilitator (No.)	66	NA	NA
Total Staffs (No.)	77	NA	NA
Operating Cost Ratio (in percent)	NA	NA	NA
Operating Cost (kyat)	NA	NA	NA
Average Loan Portfolio (kyat)	NA	NA	NA

Table 11.3 Efficiency and Productivity Indicators - Other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Active borrowers per Field Workers	50	394	4.4	266.29	346.61
Active Borrowers (No.)	200	788	66	3,728	6,239
Field Workers (No.)	4	2	15(*7)	14	18
Loan Portfolio per Field Workers	418,700	2,072,800	43,514	7,845,422	3,863,456
Loan Portfolio (kyat)	1,674,800	4,145,600	652,709	109,835,901	69,542,215
Field Workers (No.)	4	2	15(*7)	14	18
Field Worker as a % of Total Staff	80%	40%	93.75%	53.85%	47.37%
Field Workers (No.)	4	2	15 (*7)	14	18
Total Staffs (No.)	5	5	16	26	38
Operating Cost Ratio (in percent)	15.43%	11.73%	NA	NA	36.78%
Operating Cost (kyat)	258,455	486,510	NA	NA	25,578,376
Average Loan Portfolio (kyat)	1,674,800	4,145,600	NA	NA	69,542,215

Remark:*7 – No separate staffs for Micro-Finance Activities

Table 11.4 Efficiency and Productivity Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Active borrowers per Field Workers	25	18	500	1,235	80	78.57	23.25
Active Borrowers (No.)	75	18	1,000	1,235	400	550	186
Field Workers (No.)	3 (*7)	1	2	1	5	7	8
Loan Portfolio per Field Workers	200,000	3,350,000	833,300	6,857,500	50,000	74,286	207,250
Loan Portfolio (kyat)	600,000	3,350,000	1,666,600	6,857,500	250,000	520,000	1,658,000
Field Workers (No.)	3 (*7)	1	2	1	5	7	8
Field Workers as a % of Total Staff	60%	100%	100%	100%	55.6%	63.6%	44.4%
Field Workers (No.)	3 (*7)	1	2	1	5	7	8
Total Staffs (No.)	5 (*7)	1	2	1	9	11	18
Operating Cost Ratio (in Percent)	66.67%	21.73%	15%	NA	48%	372.12%	130.28%
Operating Cost (kyat)	400,000	727,950	249,988	NA	120,000	1,935,000	2,160,000
Total Loan Portfolio (kyat)	600,000	3,350,000	1,666,600	6,857,500	250,000	520,000	1,658,000

Sustainability Indicators

52. The 3 INGOs are able to sufficiently cover operating expenses, interest expense on client deposits and loan loss provisions from their financial income on loans and investments. The operational self-sufficiency of the 3 INGOs are 227% for PACT, 210% for GRET and 117% for Grameen. Such ratios are comparable and even exceed the operational self-sufficiency ratios of good performing MFIs in Bangladesh and the Philippines at similar stages of development.

53. The inflation rate obtaining in Myanmar over the last 2 years has the effect of drastically lowering the financial self-sufficiency ratios obtained by the 3 INGOs. There is no official inflation rate published by the government. Estimates of the inflation rate range from 35% to 60% using the rate of increase in the prices of food items. On the basis of an estimated rate of inflation of 35%, the financial self-sufficiency ratios for the 3 INGOs are 72% for PACT, 76% for GRET and 47% for Grameen. The financial self-sufficiency ratios would have exceeded 100% for both PACT and GRET had the inflation rate been 10% or lower. This would have qualified both institutions in the league of high performing institutions operating in other countries of Asia.

54. Among the five multipurpose INGOs, GRET Chin is showing remarkable progress with an operational self-sufficiency ratio of 98.7%. SCFUSA has an OSS ratio of 34% while AMDA reports a ratio 28%.

55. Among the seven local NGOs, three are having OSS ratios exceeding 100%.

Tables 12.1 to 12.4 show the operational self-sufficiency and financial self-sufficiency ratios of the survey respondents.

Table 12.1 Sustainability Indicators - Micro-Finance INGOs

Description	PACT	GRET	GRAMEEN
Operational Self Sufficiency Ratio	227.40%	209.64%	117.38%
Financial Income on Loan Fees and Investment	187,289,241	126,133,846	97,577,577
Total Operating Expense	82,360,170	60,168,040	83,128,022
- Operating Expense			
- Interest Expense			
- Loan Loss			
Financial Self Sufficiency Ratio (35% Inflation Rate)	71.91%	76.34%	46.91%
Financial Self Sufficiency Ratio (60% Inflation Rate)	49.43%	52.73%	33.4%
Savings to Loan Ratio	18.5%	2.98%	16.93%
Total Amount of Saving outstanding	118,388,911	13,908,850	53,083,267
Total amount of Loan Outstanding	639,954,101	467,186,100	313,473,000

Table 12.2 Sustainability Indicators - UNDP Assisted Projects

Description	CDRT	UNHCR	UNDCP	FAO
Operational Self Sufficiency Ratio	NA	NA	NA	NA
Operating Income				
Total Operating Expense				
- Operating Expense				
- Loan Loss Provision				
- Interest on Saving Cost				
- Interest on Borrowing Cost				
Financial Self Sufficiency Ratio	NA	NA	NA	NA
Savings to Loan Ratio (outstanding)	NA	NA	NA	NA
Total Amount of Saving outstanding				
Total amount of Loan Outstanding				

Table 12.3 Sustainability Indicators - other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Operational Self Sufficiency Ratio	33.86%	28.3%	NA	NA	98.7%
Operating Income	87,500	137,660	NA	NA	25,238,321
Total Operating Expense	258,455	486,510	NA	NA	25,578,376
-Operating Expense					
- Loan Loss Provision					
- Interest on Saving Cost					
- Interest on Borrowing Cost					
Financial Self Sufficiency Ratio	NA	NA	NA	NA	NA
Savings to Loan Ratio (outstanding)	0	1.78%	0	*	0.026%
Total Amount of Saving outstanding	0	73,640	0	*	18,020
Total amount of Loan Outstanding	1,674,800	4,145,600	652,709	109,835,901	69,542,215

Remark

* - The group members deposit saving amount in Bank.

Table 12.4 Sustainability Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Operational Self Sufficiency Ratio	0%	124.23%	200%	NA	183.33%	62.6%	2.44%
Operating Income	0	904,330	499,976	1,936,100	220,000	1,211,250	52,800
Total Operating Expense	400,000	727,950	249,988	NA	120,000	1,935,000	2,160,000
-Operating Expense							
- Loan Loss Provision							
- Interest on Saving Cost							
- Interest on Borrowing Cost							
Financial Self Sufficiency Ratio	NA	NA	NA	NA	NA	NA	NA
Savings to Loan Ratio (outstanding)	0	1.7%	0	0	384%	242.2%	48.03%
Total Amount of Saving outstanding	0	58,000	0	0	960,000	1,259,500	796,400
Total amount of Loan Outstanding	600,000	3,350,000	1,666,600	6,857,500	250,000	520,000	1,658,000

Financial Solvency Indicators

56. The capital adequacy ratios of the 3 microfinance INGOs range from 82% to 97%. This high ratio is principally due to the donated equity provided by UNDP to the 3 INGOs. In the event that

the 3 INGOs can be registered as separate corporate entities in the future, they can leverage their large equity base to borrow funds to increase client outreach and raise their loan portfolios. Their current ratios are also very high, allowing them sufficient flexibility to borrow funds from commercial sources at some time in the future.

57. The donated equity of UNDP/UNOPS is recognized in the balance sheets submitted by the 3 INGOs regularly to UNDP/UNOPS. It remains to be seen whether UNDP/UNOPS equity or advances will be officially transferred to local entities when the three projects are registered as separate corporate entities with their own Board in the future.

58. Among local NGOs, YWCA stands out as a highly leveraged institution with a capital adequacy ratio of only 5.73%. Its current ratio stands at 1.0. YWCA will require substantial infusion of equity funding if it intends to undertake an expansion of its microfinance program. MCC has a capital adequacy ratio of 66% and a current ratio of 2.93. In the absence of adequate financial records, the solvency indicators for most NGOs could not be tracked.

Table 13.1 to 13.4 show financial solvency indicators for the NGOs that responded to this survey.

Table 13.1 Financial Solvency Indicators - Micro-Finance INGOs

Description	PACT	GRET	GRAMEEN
Capital Adequacy	84.57%	97.22%	82.44%
Total Equity	649,044,398	486,440,540.87	388,796,197
Total Asset	767,433,309	500,349,390.87	471,636,938
Liquidity / Current Ratio	6.36	35.39	8.28
Current Asset	752,471,665	492,217,954	464,611,129
Current Liabilities	118,388,911	13,908,850	56,114,196

Table 13.2 Financial Solvency Indicators - UNDP Assisted Projects

Description	CDRT	UNHCR	UNDCP
Capital Adequacy	NA	NA	NA
Total Equity			
Total Asset			
Liquidity / Current Ratio	NA	NA	NA
Current Asset			
Current Liabilities			

Table 13.3 Financial Solvency Indicators - other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Capital Adequacy	NA	99.42%	NA	NA	90.22%
Total Equity	NA	12,657,660	NA	NA	105,585,605
Total Asset	NA	12,731,300	NA	NA	117,034,244
Liquidity / Current Ratio	NA	138.67	NA	NA	10.06
Current Asset	NA	10,211,300	NA	NA	115,245,626

Current Liabilities	0	73,640	NA	NA	11,448,638
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Table 13.4 Financial Solvency Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Capital Adequacy	100%	NA	NA	NA	65.96%	5.73%	NA
Total Equity	10,000,000	NA	NA	NA	1,860,000	350,000	NA

Total Asset	10,000,000	NA	5,249,988	6,857,500	2,820,000	6,109,500	NA
Liquidity / Current Ratio	-	NA	-	-	2.93	1.00	NA
Current Asset	3,000,000	NA	5,249,988	6,857,500	2,820,000	5,769,500	NA
Current Liabilities	0	3,373,000	0	0	960,000	5,759,500	2,556,400

Profitability Indicators

59. The 3 INGOs have return on assets ratio of 18.69%, 17.99% and 3.61% respectively for PACT, GRET and Grameen. The return on equity is 21.71%, 18.42% and 4.25% respectively for PACT, GRET and Grameen. The return on equity of PACT and GRET compares favorably with high performing MFIs in Bolivia and Peru that exhibit ROEs of 20.7% and 18% respectively for each country.

60. With the exception of Caritas (Shan) and Caritas (Kayah), the other NGOs are still incurring losses. Most of the other NGOs are new in the business and have not reached a sufficient number of clients and volume of loan portfolio able to generate revenue that would at least cover costs of operations.

61. Tables 14.1 to 14.4 show the profitability indicators for the NGOs covered by this survey.

Table 14.1 Profitability Indicators - Micro-Finance INGOs

Description	PACT	GRET	GRAMEEN
Return on Assets	18.69%	17.99%	3.61%
Net Income	104,929,071	65,963,806	14,449,455
Average Assets	561,297,864	366,654,328	400,403,594
Return on Equity	21.71%	18.42%	4.25%
Net Income	104,929,071	65,963,806	14,449,455
Average Equity	483,266,208	358,097,278	340,091,324

Table 14.2 Profitability Indicators - UNDP Assisted Projects

Description	CDRT	UNHCR	UNDCP
Return on Assets	NA	NA	NA
Net Income			
Average Assets			
Return on Equity	NA	NA	NA
Net Income			
Average Equity			

Table 14.3 Profitability Indicators - other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Return on Assets	NA	-18.8%	NA	NA	
Net Income	NA	(1,198,691)	NA	NA	(340,054)
Average Assets	NA	6,365,650	NA	NA	NA
Return on Equity	NA	-18.9%	NA	NA	NA
Net Income	NA	(1,198,691)	NA	NA	(340,054)
Average Equity	NA	6,328,830	NA	NA	NA

Table 14.4 Profitability Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Return on Assets	-6.40%	NA	4.76%	NA	-4.96%	-42.95%	NA
Net Income	(640,000)	162,395	249,988	NA	(140,000)	(2,623,750)	(3,942,000)
Total Assets	10,000,000	NA	5,249,988	6,857,500	2,820,000	6,109,500	NA
Return on Equity	-6.40%	NA	NA	NA	-7.53%	-749.64%	NA
Net Income	(640,000)	162,395	249,988	NA	(140,000)	(2,623,750)	(3,942,000)
Total Equity	10,000,000	NA	NA	NA	1,860,000	350,000	NA

CONSTRAINTS IN CREDIT AND SAVINGS PROGRAMS

62. Respondents to the survey were asked if they see some constraints in the implementation and expansion of their current credit and savings programs. Constraints identified by the respondents are shown below.

External to the MFIs

1. Absence of a legal framework for NGO's to establish, register and operate a microfinance program.

2. There is a perceived anxiety over the appropriateness of charging interest rates above the ceiling rates imposed by the government, i.e., 15% on loans and 10% on savings deposits.
3. In the case of INGOs, expanding to new areas not covered by original agreement with government require the permission of authorities.
4. The high rate of inflation obtaining in the country results in a negative savings rate for clients.
5. High inflation rate negatively affects financial sustainability. The value of the original equity investment is substantially reduced when compared to base year figures.
6. Low population densities in remote areas, the semi-arid environment and poor state of infrastructure substantially raise operating costs.
7. There is great anxiety that donor money for microfinance as well as for development aid is dwindling.
8. Social intermediation for poor clients takes a longer process due to the low literacy rate of clients. The longer process results in higher costs to the MFI.

Internal to MFIs

1. Funds for on-lending are becoming insufficient.
2. Internal systems are not well developed to support expansion of programs.
3. There is lack of knowledgeable or qualified Board members that will provide adequate policy direction and supervision over microfinance operations.

HUMAN RESOURCE CAPABILITY BUILDING NEEDS

63. Survey respondents were also asked to identify their capacity building requirements. MFIs indicated their need for technical assistance in the following areas.

1. How to prepare a business plan.
2. How to manage and control loan delinquencies.
3. Designing and maintaining an appropriate management information system.
4. Designing and implementing simple and cost-effective loans and savings programs.
5. Understanding best practices in financial management.
6. Designing appropriate monitoring and evaluation tools.
7. How to conduct an effective participatory rural appraisal.
8. Exposure trips to successful projects in Myanmar.

CONCLUSIONS

64. The NGO microfinance sector in Myanmar is still in its embryonic stage. Majority of NGOs are into microfinance operations for only five years or less.

65. Microfinance INGOs brought in their expertise and experience obtained in undertaking microfinance programs in their home countries or in other countries of Asia.

66. Geographic presence of the NGOs is limited to a total of 40 townships, excluding the 31 townships covered by special UN assisted projects. The coverage represents 12% of the total number of 330 townships in Myanmar.
67. There is evidence that the NGO microfinance sector target the poorer members of society as clients of their microfinance programs. Rural poor women represent 95% of the total number of clients.
68. There is no single government agency handling the legal registration of NGOs engaged in microfinance. NGOs operate under MOUs entered into with various ministries, and thus, operate only under special agreements.
69. There is no existing legal framework that will allow the establishment and registration of NGOs engaged in microfinance.
70. The microfinance sector is dominated by 3 international NGOs namely, PACT, GRET and Grameen. These INGOs operate under an agreement between the UNDP/ UNOPS and the Government of Myanmar.
71. The operational and financial performance of the 3 INGOs are comparable to the performance of NGOs in Cambodia, Vietnam and the Philippines at similar stages of development. A big challenge facing the 3 INGOs is how to make a smooth transition from being UNDP-supervised projects to local organizations with a vision to become large sustainable institutions in Myanmar.
72. Group lending approach is the preferred credit delivery methodology. However, some NGOs are also providing individual lending. Loan terms are generally over a 6 to 12-month period.
73. NGO MFIs charge market rates of interest on loans, INGOs pay market rates on compulsory savings accounts of clients.
74. Sources of funds for on-lending and operational expenses are generally from outside the country and in the form of donor grants.
75. Local NGOs require assistance in building their internal capacities to serve more clients and grow to become sustainable institutions.
76. There is a great need to develop a common standard chart of accounts and observe a set of generally accepted accounting principles and practices.
77. International NGOs will also require technical assistance in their transition from a project-based operation to a local microfinance entity with own local Board and management staff.
78. There is definitely a wide room for new entrants to the microfinance sector in Myanmar. The sector is still on the take-off stage.

Chapter 5

Saving and Credit Cooperative Societies ***Upgrading Indigenous Financial Systems***

1. This chapter has two parts: (a) the extensive field research survey of selected open type Saving and Credit Cooperative Societies of the JICA Microfinance Team in Shan State, Mandalay and Sagaing Divisions and (b) the survey result of the JICA Local Microfinance Team regarding open type Saving and Credit Cooperative Societies in Myanmar which further substantiate the findings of the JICA Microfinance Team that Saving and Credit Cooperative Societies has a strong potential as the third pillar of the microfinance industry in Myanmar.

Survey of Selected Societies in Shan State, Mandalay and Sagaing Divisions

2. Recognizing the Saving and Credit Cooperative Societies as the third pillar of microfinance development in Myanmar, the JICA Microfinance Team conducted extensive field research in Shan State, Mandalay, and Sagaing Divisions to establish performance and current practices and determine their potential for microfinance. Nine selected Saving and Credit Cooperative Societies, three from each state/division, were visited upon recommendation of the Government and microfinance practitioners¹. The following were the Team's initial findings:

General Information

3. Most of the nine Saving and Credit Cooperative Societies have been in existence for 5 to 10 years already. The size of membership varies from society to society, ranging from 60 up to more than 2,000 members. All these nine societies have an open type of membership and most of them have vendors and shop owners as members. The Team also noted that the majority of the members are women coming from both rural and urban areas. The societies also informed the Team that most of their members were from poor households. This is indicated by the size of membership share to gain entry into the Saving and Credit Cooperative Society. With the exception of the Mighty Open Saving and Credit Cooperative Societies in Shan State (100,000 Kyats per share), the price of a share to become a full member is an affordable amount ranging from 500 Kyats to 10,000 Kyats per share per member.

4. Table 1 presents general information on the nine selected societies interviewed by the Team.

¹ A parallel effort is the field survey conducted by the Myanmar counterpart local team to establish an inventory of the Saving and Credit Cooperative Societies involved in credit and savings programme. The Myanmar local team reported that the survey was done only in one state and five divisions because of time constraint. There are a total number of 1,433 societies with 326,021 members in that state and five divisions. The Myanmar local counterpart team interviewed a total of 34 Saving and Credit Cooperative Societies. For details, the reader is referred to "A Study on Saving and Cooperative Societies, Cooperative Degree College, Regional College and Training School and Microfinance Organizations," Survey Report (draft) under the Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy, August 15, 2002.

Table 1. General Information on Selected Saving and Credit Cooperative Societies in ShanState, Sagaing and Mandalay Divisions

ITEM	Sagaing Division			Shan State			Mandalay		
	A	B	C	D	E	F	G	H	I
1. Date Organized	October, 1993	November, 1993	July, 2000	December, 1995	January, 1994	January, 2002	December, 1992	September, 1995	December, 1996
2. No. of Members	138	200	41 - permanent 80 - short/term	172	223	60	641	2,128	282
3. Type of members	Vendors/ Shop owners	Vendors/ Shop owners	Vendors/ Shop owners	All walks of life	Shop owners/ Vendors	Shop owners/ Vendors	Shop owners	Vendors, employees retirees	Retired employees, Vendors
4. Type of Society	Open	Open	Open	Open	Open	Open	Open	Open	Open
5. Membership (Male/Female)	75% Female	75% Female	Majority Female	Mostly Female	Mostly Female	Majority Female	Majority Female	65% Female	35% Female
6. Value of One Share	1,000 Kyats	500 Kyats	10,000 Kyats		2,500 Kyats	100,000 Kyats(permane nt) 1,000 Kyats(Tempora ry)			

Lending Terms and Conditions

5. Out of the 9 Saving and Credit Cooperative Societies , 3 societies (2 from Sagaing and 1 in Mandalay) offer 3 types of loans to members as well as to the non-members. The six other societies offer only multi-purpose loans. The maximum loan amounts given to the borrower of these societies are determined either by (a) the amount of their shares/savings (i.e. 3 to 10 times the amount of savings depending on the credit and financial policy of the concerned society) or (b) the type of collateral offered to the society. If a collateral is not required, 2 guarantors' signature is a necessary condition to get whatever type of loan. Loan maturity varies from one month to one year depending on the type of loan and credit policy of the concerned society.
6. The repayment modality varies from society to society. This could be daily, monthly or end of the cycle depending on the type of loan or the credit policy of the society.
7. Interest rates vary from society to society. It appears that all the nine societies interviewed have adopted interest rates that exceed the ceiling rate of 15% per annum established by the government. Some charge interest rates ranging from 2% to 5% per month. In addition, some societies charge extra fees or upfront fees.
8. In Shan State, two societies charge only 12% and 15% per annum. The interest rate is either collected in advance or calculated on a flat basis and thus, collected together with the loan principal per amortization. This seems to be the prevalent practice and is commonly known to and apparently sanctioned by the local authorities and the officers of the Ministry of Cooperative in-charge of the division/state.
9. Table2 presents the details of the lending terms and conditions of the nine selected Saving and Credit Cooperative Societies. The reported repayment rates on their loan are rather high.

Table 2. Lending Terms of Selected Saving and Credit Cooperative Societies in Shan, Sagaing and Mandalay Divisions

Item	Sagaing Division			Shan State			Mandalay		
	A	B	C	D	E	F	G	H	I
1. Kinds of Loans	40 days loan Monthly loans Long term loans	40 days loan Emergency loan 4 month loan	Small business loan	Operates a pawnshop business	General Loan	General loan	Small Shop Owners For members Non-members Institutional loan	General loan	General loan
2. Loan Ceiling	40 days loan: 4X of Savings Monthly Loan: based on 30% of collateral value (max. ** Kyats Long term loan: Maximum of ** kyats with vehicle as collateral.	40 days loan: 4X of Savings Emergency loan: 4X of Savings and Share 4 month loan: 4X of Savings and Share	10X of share (maximum of 45,000 kyats)	500,000 kyats	6X of Shares	10X of share	Small Shop Owners: Maximum of 50,000 kyats For members/ Non-members: Maximum of **kyats Institutional loan: -	5X of Savings	3X of Share
3. Loan Duration	40 days loan: 40 days Monthly loan: 6 Months	40 days loan: 40 days Emergency loan: 6 Months	One month	6 months	60 days or 90 days	28 days	Small Shop Owners: 30 Or 60 days For Members/ Non-Members:	10 months	6-10 months

							1 year		
	Long term loan: 1 year	4 months loan: 4 months							
4. Interest rate	Market oriented rate (based on declining balance)	Market oriented rate (depending on loan)	Market oriented rate	Market oriented rate	12%/annum (Interest collected in adv.)	15%/annum (flat)	Small Shop Owners: 1.5% (flat) For Members/ Non-Members: 2.5% (flat) Institutional: 2%/month	1.75%/month plus upfront fees of 1.25%	1.25%/month plus 1.7% per month welfare fees
5. Repayment Modality	40 days loan: daily Monthly Loan: monthly Long term loan: monthly	40 days loan: daily Emergency loan: daily 4 months loan: ballooning payment	Daily	Monthly installment or ballooning payment	Daily	Daily	Small Shop Owners: daily For Members/ Non-Members: end of cycle Institutional: end of cycle	Monthly	Monthly

10. The JICA Microfinance Team also noted that one Saving and Credit Cooperative Societies was ordered to stop its lending operations in 1997 after having been found to have charged 3% per month interest on loans to its members. The order to stop lending operations encouraged members to stop paying their loans and this led to a serious loan delinquency problem. To recover the loans, the Board of Directors decided to file court cases against the delinquent members. The High Court decided in April 2001 in favor of the society. Accordingly, the delinquent members were asked to pay their loans with the 3% interest rate per month.

11. The High Court ruled that there is nothing illegal in the interest charges since the Saving and Credit Cooperative Societies concerned is neither subject to the Moneylenders Act nor the Financial Institution Law. The required ceiling on interest rate has been mandated under these laws. The landmark court ruling has strengthened the current position of the Saving and Credit Cooperative Societies to continue to charge their members interest rates that exceed the ceiling rate of 15% imposed by the government on financial institutions. They need flexible interest rates to maintain their viability given varying risks in their respective areas of operations.

12. Annex 5.1 shows the ruling of the High Court with reference to the above case.

Savings Terms and Conditions

13. Three societies require compulsory savings through a loan deduction ranging in amount from 1 to 4% depending on the financial policy of the society. Except for one society, Shwe Than Lar, all the rest accept voluntary savings. However, four societies have stopped accepting voluntary savings from non-members. These societies said that this practice has been disallowed by the Ministry of Cooperatives. They also stopped for a practical reason: the high financial cost of deposits from non-members since these non-members deposit relatively huge amounts of money to the Saving and Credit Cooperative Societies.

14. Voluntary savings can be withdrawn anytime. However, compulsory savings can be withdrawn only after the loans have been fully paid or upon resignation from the society or termination of membership in the society, in all cases following certain policies laid down by the society.

15. Interest rates on savings vary from society to society, ranging from 9% to 15% per annum. Table 3 presents the details of the savings terms and conditions of the selected societies from Shan State, Sagaing and Mandalay Divisions.

Table 3. Savings Terms and Conditions of Selected Saving and Credit Cooperative Societies in Shan State, Sagaing and Mandalay Divisions.

Item	Sagaing			Shan State			Mandalay		
	A	B	C	D	E	F	G	H	I
1. Members Voluntary Savings	Yes (No maximum amount)	Yes	No	N/D	Yes	Yes	Yes	Yes	Yes
2. Compulsory Savings	No, now no more accept	4% loan deduction in 40 days loan	1% of loan amount	N/D	2% of loan amount	No	No	No	Yes, 10,000 kyats minimum.
3. Non-Members Savings	Before, now no more accept	No	No	N/D		Yes	Yes	Yes	No
4. Savings Withdrawal	Yes	Yes	Yes	N/D	Yes	Yes	Yes	Yes	Yes, if more than 500,000 kyats.
5. Interest rate	9%/annum	2.5%/month	1%/month	N/D	1%-0.75%/month	10%/annum	15%/annum	1.25%/month	10%/annum

Full Time Professional Staff and Emoluments

16. All the nine Saving and Credit Cooperative Societies interviewed have their own full time professional staff ranging in number from 2 to 15. Pyin Oo Lwin Saving and Credit Cooperative Societies has the biggest number of staff because of the size of its operations. The JICA Microfinance Team observed that its operations and set up is almost like those of a bank in the country. Likewise, with the exception of two Saving and Credit Cooperative Societies in Sagaing Division (Myit Tar Mon and Pa Day Tha) with staff qualifications of 10 standard grade, all the seven societies claimed that all their staff members are graduates from universities and colleges. A number of them have earned their degrees through distance learning education offered by local institutions. Moreover, all the staff members have received some form of training about cooperative management either from cooperatives they were formerly working for or from the present society where they are currently working.

17. The staff salary ranges from 4,000 to 10,000 Kyats per month. However, most of the Saving and Credit Cooperative Societies interviewed said that they also provide annual bonus and monthly welfare fund to staff ranging in amounts from 1,000 to 3,000 Kyats. Some societies also provide an annual uniform allowance, monthly ration of rice and cooking oil. One society even pays for the education of staff members who are interested to pursue higher learning. One society that owns a pawnshop gives overtime pay to its staff.

18. Compared to salaried government employees, the staff of these societies have better compensation packages. This indicates that these societies earn enough from their credit operations to enable them to really take good care of their staff. Appropriate salaries and other incentives motivate staff members to perform better and allow them to keep their trained and experienced staff members.

19. Table 4 shows the details of the compensation package, number of staff, and educational attainment of staff of the selected Saving and Credit Cooperative Societies interviewed.

Table 4. Full Time Professional Staff Salary Range and Educational Qualification of Selected Saving and Credit Cooperative Societies

Item	Sagaing			Shan State			Mandalay		
	A	B	C	D	E	F	G	H	I
1. No. of full time professional staff	2	2	4	5	7	3	15	6	-
2. Educational Attainment	Pass 10 standard grade	Pass 9-10 standard grade	All have BA degrees	All have BA degrees	All except one have BA degrees	N/D	Majority are University/College graduates	All have University degrees	-
3. Salary and compensation package (Average)	5,000 kyats/month	4,000 kyats/month	5,000 to 7,000 kyats/month	5,000 to 10,000 kyats/month plus bonus and other welfare benefits	4,800 to 7,200 kyats/month plus bonus and other welfare benefits	5,000 kyats/month plus bonus.	4,000 to 10,500 kyats/month plus bonus and other welfare benefits	6,000 kyats/month Plus bonus	-
4. Training in Cooperatives (either from former coops they are working or present coop)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	-

Governance

20. All the societies interviewed have very active and functioning Boards of Directors (BOD). They have regular monthly meetings and as the need arises, special meetings are called. One of the noticeable features of these societies is that most of the BOD members work full time in their respective societies and receive the corresponding compensation package. The majority of the BOD members in the nine societies interviewed, especially the chairmen and managing directors, have extensive experiences in cooperative management since almost all of them used to work in cooperative societies in the past either as manager, chairperson or professional staff.
21. Most of the BOD members working full time, especially those with big operations, have a very high compensation package ranging from 10,000 to as high as 40,000 Kyats per month plus monthly welfare fund and yearly bonus. Their compensation package is comparable to or within the range of the package of local staff of INGOs.
22. This shows that societies with relatively large-scale operations have the capacity to pay reasonable and substantial salaries and benefits to full time BOD members and their professional staff. Full time work and payment of corresponding salaries to members of the board of directors are a departure from the usual practice of rendering voluntary work and receipt of allowances by board members in similar societies in other developing countries.
23. The majority of the BOD members claimed that as BOD members, they do not take loans from their societies. This is a good practice in contrast to the experiences in other developing countries where board members and management take relatively huge amounts of loans from their own societies.
24. Table 5 shows the governance structure of the selected Saving and Credit Cooperative Societies interviewed.

Table 5. Governance of the Selected Saving and Credit Cooperative Societies in Shan State, Sagaing and Mandalay Division.

Item	Sagaing			Shan State			Mandalay		
	A	B	C	D	E	F	G	H	I
1. No. of BOD	5	5	4	7	5	5	9	9	5
2. No. of full time BOD working in the Society	5	2	4	1	2	3	5	7	4
3. Experiences	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4. Compensation Package	3,500 kyats/month	2,500 kyats/month	8,000 - 10,000 kyats/month plus bonus	40,000 kyats/month plus Bonus	7,500 kyats/full time BOD and 250 kyats/day for part time BOD. Yearly bonus of all BOD	5,000 kyats for full time BOD, plus bonus	9,000 kyats for full time BOD and 4,500 kyats for the part time BOD.	Have salary but amount were not stated	3,000 - 3,500 kyats/month plus monthly welfare fund and yearly bonus

Pawnshop Operations

25. The Team notes a phenomenon that seems to be unique to Myanmar Saving and Credit Cooperative Societies. In other developing countries, cooperative societies are concerned solely with their operation as societies. Two Saving and Credit Cooperative Societies have established their own pawnshop business and these have been legally registered. These are the Shwe Than Lar Saving and Credit Cooperative Societies in Sagaing Division and Shan Naychi Saving and Credit Cooperative Societies in Shan State. Both these two societies have applied and legally registered their pawnshops under the Ministry of Border Area Development. Annually, they apply for a license to operate as a matter of procedure. This process renews their business permit that allows them to operate legally.

26. The Shwe Than Lar charges borrowers market oriented interest rate and accepts pawns like a bicycle or any other kind of pawn except gold because according to the BOD, the society does not have the technical capacity to appraise gold. The loan maturity is 3 months but the loans can be renewed. It is observed that their pawnshop operations cater to the poorest sector of the community. The average size of loan ranges from 9,000 to 10,000 Kyats per borrower. On the other hand, the Shan Naychi Saving and Credit Cooperative Societies accepts gold or any other type of acceptable pawn. The society charges market oriented rate and the loan is payable in 6 months; it is also renewable. The society also caters both to the middle class and poorer sector of the community.

27. There are potential constraints for the pawnshop to be engaged in microfinance activities since the regulations prohibit pawnshop to give loans without collateral. However, as observed, the pawns given are usually symbolic or nominal in value, e.g., old bicycles, appliances or equipments. So that the pawnshops of those societies can continue providing financial assistance to the poor, a guarantee fund to borrowers who will not be able to provide the required collateral may be established. According to the societies, setting up of the guarantee fund can be done and through this mechanism, the pawnshop can lend to poor borrowers without violating the regulations that prohibit lending without collateral. The guarantee fund shall secure the loans given without the usual or traditional collateral required by the regulations. Thus, microfinance of the society through the pawnshop can be undertaken. It is noted that the borrowers of the pawnshop can deposit their savings to the society.

Survey Results of the Open Saving and Credit Cooperative Societies in Myanmar²

28. According to the records of the Ministry of Cooperatives as of 2001, there are 1,921 Saving and Credit Cooperative Societies in Myanmar with a membership of more than 425,000. Of this, about 139 Saving and Credit Cooperative Societies are open type with a membership of 10,097 (Ministry of Cooperatives Report, 2001). For purposes of this study, the Local Microfinance Team has decided to focus its research on the open type Saving and Credit Cooperative Societies since they have more potential in pursuing and expanding microfinance operations to reach the poorer segment of the society.

29. Due to time constraints, peace and order situation, and proximity of the open Saving and Credit Cooperative Societies, the Local Microfinance Team surveyed 34 out of 139 open type Saving and Credit Cooperative Societies which represent 24% of the sample size. The Team

² This section is from the results of the survey done by the Local Microfinance Team.

conducted the survey on 12 societies in Ayeyarwaddy, Bago, Magway Divisions, 19 societies in Sagaing and Mandalay Divisions; and 3 in Yangon Division.

30. The following are the survey results:

Legal Registration and Years in Operations

31. All the 34 surveyed societies have been registered with the Ministry of Cooperatives as open type Saving and Credit Cooperative Societies. Majority of the societies have been operating for more than 5 years with the earliest society starting in 1992 and the latest in 2000. Table B.1 presents the names of the societies, their year of registration and number of years in operations.

Table B.1. Name of societies, year of registration, and year of operations

No	Name	Registered year	Service life (years)	No	Name	Registered year	Service life (years)
1.	Toe Tet Ye	1992	10	18.	Shwe Pyi Nywe Pyi	1994	8
2.	Oak ship pin	1992	10	19.	Wun tho Bazaar Coop	1994	8
3.	Myin Mu Bazaar Coop	1992	10	20.	Pada Myar	1994	8
4.	Kume Bazaar Coop	1993	9	21.	Yaung Chi Oo	1994	8
5.	Mandalay Bazaar Coop	1993	9	22.	Ye ta khun	1994	8
6.	Chan Aye Bazaar Coop	1993	9	23.	Myo Thit Bazaar	1995	7
7.	Shwe Pyi Soe	1993	9	24.	Wet Let	1995	7
8.	Aye Mya Thidar	1993	9	25.	Pa dauk min	1995	7
9.	Padethar	1993	9	26.	Kade kadar	1995	7
10.	Kawlin Bazaar Coop	1993	9	27.	Ya Za Soe	1995	7
11.	Myoma Bazaar (MGW)	1993	9	28.	Phyo We Aung	1996	6
12.	Yatana	1993	9	29.	Lan Thit	1996	6
13.	Pyon Lwin	1993	9	30.	Taung Za Latt	1996	6
14.	Nan Myint	1994	8	31.	People's Bazaar	1996	6
15.	Mani si thu	1994	8	32.	Khar taw mi	1996	3
16.	Mya nan dar	1994	8	33.	Shwe Bon San	1999	2
17.	Century High Grade	1994	8	34.	Shwe Than Lar	2000	9

Loan Collateral

32. Out of 34 Saving and Credit Cooperative Societies surveyed, six do not require collateral while the rest demand collateral from members borrowing loans from the societies. The collateral required could be in any of the following forms or combination thereof: signature or presence of co-guarantors, immovable properties such as land, buildings, shops, and movable properties such as motorbikes, bicycles, television, video and other appliances depending on the credit policy of the respective societies. Among the respondents, 19 (34%) are using co-

guarantors; land, 11 (20%); and, shops, 11 (20%) as the most common form of collateral as presented in Table B.2.

Table B.2. Form of Collateral on Loan

Description	Frequency / No. of Co-operatives	Percentage
Real estate	3	5%
Selling booth	11	20%
Building	9	16%
Personal property (Bicycle, TV)	2	4%
Land	11	20%
Co-guarantors	19	35%
Total	55	100%

Note: Some societies have one or more loan products and may require different collateral

Loan Interest Rates

33. Based on the survey of 34 Saving and Credit Cooperative Societies, some societies offer more than 2 loan products. Some charge upfront fees. Loan repayment is daily, weekly or even monthly together with the principal payments, depending on the credit policy of the concerned society. From the survey, the interest charged by societies varies from a rate as low as 12% to as high as 84% per annum depending on the type of the loan products. Among the respondents, 17 societies (41%) charge from 25% to 36% per annum, 8 (14%) charge from 37% to 48%, 6 (11%) charge 49% to 60% as presented in Table B.3. In summary, this demonstrates that (25-60%) of the societies are reasonably charging their clients to the cover the cost of their funds and operations costs.

Table B.3. Interest Rates Charged on Loans

Description	Frequency / No. of Co-operatives	Percentage
Below 12%	0	0%
12% - 18%	4	10%
19% - 24%	3	7%
25% - 36%	17	41%
37% - 48%	8	20%
49% - 60%	6	15%
61% - 72%	2	5%
73% - 84%	1	2%
Total	41	100%

Note: Some cooperatives have more than one loan product

Loan Duration

34. Some Saving and Credit Cooperative Societies offer more than one kind of loan product and for each loan product, the loan duration varies depending on the credit policy of the

concerned society. The survey results revealed that loan duration for different loan products varies from one month to 4 years. The target clients of societies are mostly the market vendors and micro-entrepreneurs. But some societies have a variety of clients such as market vendors, urban poor, drivers/operators, micro-entrepreneurs, women and even small farmers in the rural areas. It was noticed that in the case of market vendors most societies offer three different kinds of loans by maturity or loan duration: daily, monthly and emergency loan products. Most societies offer to ordinary clients two different kinds of loans: ordinary and emergency type of loan.

35. Among the respondents, 12 societies (27%) offer 30 days to 40 days loan to clients; six (13%), have 3-month loan duration; and five (11%) have a 12-month loan duration as presented in Table B.4. From the survey, the big loans ranges from 400,000 and above for local entrepreneurs and has longer duration from one to four years.

Table B.4. Loan Periods

Description	Frequency / No. of Co-operatives	Percentage
Less than 30 days	0	0%
30 days – one month	4	9%
40 days	12	27%
2 months	3	7%
3 months	6	13%
4 months	1	2%
5 months	1	2%
6 months	3	7%
8 months	0	0%
10 months	2	4%
12 months	5	11%
18 months	1	2%
20 months	4	9%
2 years	1	2%
4 years	1	2%
Contract agreement	1	2%
Total	45	100%

Note: Some societies have one or more products

Repayment Modality

36. Among the respondents, 17, (35%) are practicing daily collections; 17(35%), monthly collections; and, 6 (13%) annual collections as presented in Table B.5. It must be noted that most of the daily and monthly payments are coming from the regular loans of the members who are most of the time the small vendors and micro-entrepreneurs. Those paying annually are mostly the big entrepreneurs/businessmen.

Table B.5. Frequency of Repayment

Description	Frequency / No. of Co-operatives	Percentage
Daily	17	35%
Every 5 th day	1	2%
Weekly	0	0%
Bi-weekly	0	0%
Monthly	17	35%
Every 40 th day	2	4%
Quarterly	3	6%
Semi-annually	0	0%
Annually	6	13%
Flexible (within 6 months)	1	2%
Contract agreement	1	2%
Total	48	100%

Note: Some societies have one or more loan products

Loan Size

37. The survey revealed that the average minimum amount of loan ranges from 5,000 to 10,000 Kyats per member while the average maximum amount ranges from 2 to 5 Million Kyats. The policy for the amount of loan varies from society to society. Some societies will require hard collateral such as immovable properties (land, building) for bigger amount of loans but for small amounts of loans, they will only require co-guarantors (normally 2 persons). In other cases, the loan amount is based on the amount of shares and deposits of the members. Table B. 6 presents information on the loan sizes.

Table B.6 . Loan Sizes of Saving and Credit Cooperative Societies

Description	Frequency / No. of Co-operatives	Percentage
Minimum Loan Size		
1,000 – 2,000	3	7%
2,001 - 3000	6	13%
3,001 – 5,000	8	17%
5,001 – 10,000	12	26%
10,001 – 20,000	6	13%
20,001 – 50,000	5	11%
Above 50,000	6	13%
Total	46	100%
Maximum Loan Size		
5,000 – 10,000	2	5%
10,001 – 20,000	4	9%
20,001 – 30,000	3	7%
30,001 – 50,000	2	5%
50,001 – 1,00,000	8	18%
1,00,001 – 2,00,000	5	11%
2,00,001 – 5,00,000	12	27%
5,00,001 – 10,00,000	1	2%

10,00,001 – 20,00,000	2	5%
20,00,001 – 40,00,000	3	7%
Above 40,00,000	2	5%
Total	44	100%

Note: Some societies have one or more loan products

Interest Paid on Shares and Savings

38. Nineteen Saving and Credit Cooperative Societies out of 34 responded that they pay interest earning on share capital ranging from 4% to 36% per annum with 4 societies (21%) paying 18% per annum. As for compulsory savings, of the 25 respondents, 7 societies (28%) are paying 12% per annum while others are paying from 5% to as high 48% per annum. As for voluntary savings, of the 25 respondents, 6 (24%) are paying 12% per annum, 5 (20%) are paying 24% per annum while the others are paying interest ranging from 5% to as high as 48% per annum. Table B.7 presents the response of societies on interest rates paid on share capital, compulsory and voluntary savings.

Table B.7. Interest Rates Paid on Share Capital, Compulsory and Voluntary Savings

Description	Share Capital No of Co-op	Compulsory Saving No of Co-op	Voluntary Saving No of Co-op
Below 4%			
4%	1		
5%	1	1	1
6%		1	2
9%		2	2
10%			1
12%	1	7	6
14%	2	2	
15%	1	1	1
16%	1		
18%	4	2	
20%	1		
24%	3	3	5
25%		1	1
27%	2		
30%	1		
33%			1
36%	1	3	3
48%		2	2
Total	19	25	25

39. During the course of the survey, the respondents informed the Local Microfinance Team that most Saving and Credit Cooperative Societies are giving higher interest payments to share capital and savings compared to the official savings interest rate of the bank at 10% per annum so that “they can attract more working capital”. It is also worth noting that societies that already have more than 10 million Kyats of working capital no longer accept savings or deposits since

the regulations set by the Ministry of Cooperatives only allow societies to have a working capital limit of not more than 10 million kyats.

40. In terms of the value of the shares, the value of the director's shares varies from a range of 500 kyats to 300,000 kyats while the value of the member's share ranges from 500 kyats to 100,000 kyats depending on the societies' agreed regulations.

41. However, it is also worth noting that two societies surveyed differentiate the shares into two categories: director's shares and member's shares. According to the Local Microfinance Team *"It is just like discrimination on the members not to become a director in the society."* Though the ownership of the society should be in the hands of the members, they are not allowed to participate in the decision-making process and in managing their own resources. According to their current practice, a director's share varies from kyats 1,00,000 to kyats 3,00,000. The loan to a director is four or eight times the amount of share capital.

42. The system of having two types of share capital in those societies undermines the status and integrity of the BOD since the members of the BOD should be representative of and responsive to the members, the real owners, of the societies. In addition, well-to-do members who can afford to buy more shares become the decision makers in the societies and the poor members remain to be ordinary members without voice and access to and participation in the decision-making process.

Governance

43. Fourteen Saving and Credit Cooperative Societies (41%) have 5 BOD members, 8 (24%) have 3 BOD members, 4 (12%) have 4 BOD members, and the rest have 6 to 9 BOD members in their societies. Table B. 8 presents the number of BOD members of the 34 societies.

Table B.8. Number of Actual Members of the Board of Directors at the Time of Survey

Description	Frequency / No. of Co-operatives	Percentage
3	8	24%
4	4	12%
5	14	41%
6	3	9%
7	3	9%
8	1	3%
9	1	3%
Total	34	100%

44. The Board of Directors (BOD) is elected through the annual general assembly meeting. The elected BOD then elects from among themselves the chairman, vice-chairman, managing director, secretary, auditor and other posts as the need arises. A board director has a tenure of four years and he can be re-elected again after the four-year tenure during the general assembly. The usual practice is for the old board members to prepare before the general assembly meeting a nomination list of the potential new board members in collaboration with the Township Cooperative Department concerned. This nomination list is presented to the members at the annual/plenary meeting who then elect the members of the board. This practice ensures the

election only of those in the list since the members can choose the new set of members of the BOD only from that list. Accordingly this practice does not give an equal opportunity to other members of the society to be elected. This centralized and top-down approach to the election of board members has been practiced since the 1960s. Accordingly, the policy is that a society should have an odd number of BOD members starting from 3 members but as of the time of the survey, some societies have not yet filled up the vacancies (due to resignations or death of some BOD members).

Membership Size

45. The 34 Saving and Credit Cooperative Societies surveyed have a total membership size of 11,018 with Mandalay societies having the highest number of outreach. Active borrowers total 7,214 with Mandalay having the highest followed by Sagaing Division. The aggregate total savers is 10,710 with Mandalay having more than half of the savers. Table B.9 presents the number of members, borrowers and savers by division.

Table B.9. No. of Borrowers/Members/Clients and Savers

Division	No. of Co-op	No. of Members	No. of Borrowers	No of Savers
Ayeyarwaddy	4	579	441	579
Yangon	3	322	120	244
Bago	2	188	103	137
Magwe	3	572	440	572
Mandalay	13	6,842	4,737	6,405
Sagaing	9	2,515	1,373	2,773
Total	34	11,018	7,214	10,710

46. In terms of membership age, 11 Saving and Credit Cooperative Societies (32%) have an average membership of 51-100 members and 13 societies (38%) have an average membership of 101-200. Table B.10 presents the range of members, savers and frequency per society.

Table B.10 . Range of Members/Borrowers/Savers and their Frequency

Range	No. of Members (frequency)	No. of Borrowers (frequency)	No. of Savers (frequency)
Less than 50	0	4	2
51 – 100	11	13	9
101 – 200	13	8	13
201 – 300	2	4	2
301 – 500	3	2	3
501 – 1,000	3	2	3
Above 1,000	2	1	2
Total	34	34	34

Portfolio Quality and Profitability

47. The Pyin Oo Lwin Saving and Credit Cooperative Societies is the biggest society with total outstanding loans of around 870 million kyats with more than 1.1 billion in savings deposits. It posted an income of more than 5 million kyats as of 2001. Three very stable societies with assets more than 100 million kyats have a joined loan outstanding of more than 320 million kyats and savings of more than 380 million kyats with an aggregate income of less than 800,000 kyats. Five unstable societies have total loan outstanding of 350 million kyats with an aggregate savings of less than 300 million kyats and has posted a loss of more than 28 million kyats as of 2001. Other societies (25) have a total outstanding loan of 77 million kyats and savings mobilized of more than 56 million kyats and aggregated posted and income of around 890,000 kyats. Table B.11 and the following tables present the aggregate total loan, savings portfolio, asset and income of the 34 societies.

Table B.11. Aggregate Figures of 34 Saving and Credit Cooperative Societies (Kyat Figures in Millions)

Description	Billion Kyats Co-operative (1)	% of Total	Stable Cooperatives with Assets in Excess of 100 Million Kyats (3)	% of Total	Unstable Cooperatives having Assets in Excess of 100 Million Kyats (5)	% of Total	All Other Cooperatives with Assets of Less Than 17 Million Kyats (25)	% of Total
No. of Members	641	5.82%	2,422	21.98%	4,105	37.26%	3,850	34.94%
No. of Borrowers	641	8.88%	1,600	22.18%	2,010	27.86%	2,963	41.07%
No. of Savers	641	5.98%	2,399	22.40%	3,926	36.66%	3,744	34.96%
Figures below in Million Kyats								
Total Assets	1,202.46	36.97%	784.06	24.11%	1,135.46	34.91%	130.16	4.00%
Loan Outstanding	873.19	53.72%	324.60	19.97%	350.54	21.57%	77.06	4.74%
Savings Deposits (Total)	1,158.07	61.12%	381.38	20.13%	298.84	15.77%	56.31	2.97%
- Voluntary								
- Compulsory								
- Special								
Share Capital	2.05	0.82%	14.44	5.81%	212.61	85.51%	19.53	7.85%
Operating Income	239.34	41.98%	192.76	33.81%	94.79	16.63%	43.18	7.57%
Operating Expense	234.33	39.58%	191.97	32.43%	123.35	20.84%	42.29	7.14%
Net Income	5.02		0.79		- 28.55		0.89	

Table B.12. Billion Kyats Co-operative

Description	Billion Kyats Co-operative	
	Amount (kyats in millions) / Number	% of Total
No. of Members	641	5.82%
No. of Borrowers	641	8.88%
No. of Savers	641	5.98%

<u>Figures below in Million Kyats</u>		
Total Assets	1,202.46	36.97%
Loan Outstanding	873.19	53.72%
Savings Deposits (Total)	1,158.07	61.12%
- Voluntary		
- Compulsory		
- Special		
Share Capital	2.05	0.82%
Operating Income	239.34	41.98%
Operating Expense	234.33	39.58%
Net Income	5.02	

**Table B.13. Stable Cooperatives with Assets in Excess of 100 Million Kyats
(Three Saving and Credit Cooperative Societies)**

Description	Amount (kyats) / Number			Total for 3 cooperatives	% of Total
	H	J	K		
Location (Division)	Mandalay	Yangon	Yangon		
No. of Members	2,200	96	126	2,422	21.98%
No. of Borrowers	1,540	30	30	1,600	22.18%
No. of Savers	2,200	73	126	2,399	22.40%
<u>Figures below in Million Kyats</u>					
Total Assets	222.98	239.31	321.78	784.06	24.11%
Loan Outstanding	141.24	181.80	1.56	324.60	19.97%
Savings Deposits (Total)	215.04	154.57	11.77	381.38	20.13%
- Voluntary					
- Compulsory					
- Special					
Share Capital	2.54	9.90	2.00	14.44	5.81%
Operating Income	71.35	58.38	63.03	192.76	33.81%
Operating Expense	71.30	57.97	62.70	191.97	32.43%
Net Income	0.05	0.42	0.33	0.79	

Table B.14 Unstable Saving and Credit Cooperative Societies having Assets in Excess of 100 Million Kyats (Five Cooperatives)

Description	Amount (kyats) / Number					Total for 5 cooperatives	% of Total
	L	M	N	O	P		
Location (Division)	Mandalay	Mandalay	Mandalay	Sagaing	Sagaing		
No. of Members	764	1,892	72	434	943	4,105	37.26%
No. of Borrowers	434	992	54	262	268	2,010	27.86%
No. of Savers	327	1,892	72	692	943	3,926	36.66%
Figures below in Million Kyats							
Total Assets	298.89	127.31	116.20	395.94	197.12	1,135.46	34.91%
Loan Outstanding	51.73	76.97	110.08	48.78	62.98	350.54	21.57%
Savings Deposits (Total)	150.32	1.89	35.11	41.15	70.37	298.84	15.77%
- Voluntary							
- Compulsory							
- Special							
Share Capital	74.60	0	35.08	37.42	65.52	212.61	85.51%
Operating Income	18.31	24.74	0	25.03	26.71	94.79	16.63%
Operating Expense	45.39	25.94	0.31	25.00	26.70	123.35	20.84%
Net Income	- 27.08	- 1.20	- 0.31	0.03	0.01	- 28.55	

Table B. 15. All Other Saving and Credit Cooperative Societies with Assets of Less Than 17 Million Kyats

Description	Amount (kyats) / Number					
	Company (1)	Company (2)	Company (3)	Company (4)	Company (5)	Company (6)
Location (Division)	Ayeyarwaddy	Ayeyarwaddy	Ayeyarwaddy	Ayeyarwaddy	Bago	Bago
No. of Members	93	96	184	206	51	137
No. of Borrowers	43	96	184	118	51	52
No. of Savers	93	96	184	206	0	137
Figures below in Million Kyats						
Total Assets	0.16	5.86	12.09	3.70	0.04	0.34
Loan Outstanding	0.11	5.71	7.49	0.79	0	0.23
Savings Deposits (Total)	0.07	1.02	6.58	3.19	0	0.18
- Voluntary						
- Compulsory						
- Special						
Share Capital	0.03	0.71	0	0.41	0.03	0.07
Operating Income	0.08	1.95	6.00	0.94	0.01	0.11
Operating Expense	0.07	1.93	5.91	0.93	0.01	0.10
Net Income	0.01	0.02	0.09	0.01	0	0.01

Description	Amount (kyats) / Number						
	Company (7)	Company (8)	Company (9)	Company (10)	Company (11)	Company (12)	Company (13)
Location (Division)	Magway	Magway	Magway	Mandalay	Mandalay	Mandalay	Mandalay
No. of Members	378	98	96	96	76	123	93
No. of Borrowers	269	75	96	96	67	55	93
No. of Savers	378	98	96	96	76	123	93
Figures below in Million Kyats							
Total Assets	16.34	0.99	2.84	5.59	2.13	3.95	6.78
Loan Outstanding	15.53	0.74	0.54	4.59	1.65	1.78	4.08
Savings Deposits (Total)	5.19	0.79	2.24	1.69	0.14	3.13	0.93
- Voluntary							
- Compulsory							
- Special							
Share Capital	1.36	0.05	0.05	0.10	1.32	0.65	0.62
Operating Income	3.40	0.16	0.59	2.66	0.33	1.29	2.92
Operating Expense	3.69	0.14	0.58	2.36	0.32	1.26	2.89

Net Income	- 0.29	0.02	0.02	0.29	0.02	0.03	0.03
Description	Amount (kyats) / Number						
	Company (14)	Company (15)	Company (16)	Company (17)	Company (18)	Company (19)	Company (20)
Location (Division)	Mandalay	Mandalay	Mandalay	Mandalay	Sagaing	Sagaing	Sagaing
No. of Members	141	184	443	117	111	173	116
No. of Borrowers	104	137	423	101	111	59	88
No. of Savers	141	184	443	117	111	173	116
Figures below in Million Kyats							
Total Assets	1.15	11.99	6.29	8.13	4.48	3.04	5.20
Loan Outstanding	0	0	4.93	5.59	3.27	2.11	0
Savings Deposits (Total)	0.67	1.82	4.56	2.37	1.33	0.59	3.12
- Voluntary							
- Compulsory							
- Special							
Share Capital	0.53	0.46	4.00	0.06	0.11	0.09	0.18
Operating Income	0.31	3.57	1.28	2.24	1.36	1.51	1.48
Operating Expense	0.29	3.54	1.16	2.22	1.29	1.47	1.27
Net Income	0.03	0.03	0.13	0.02	0.06	0.05	0.21

Description	Amount (kyats) / Number						
	Company (21)	Company (22)	Company (23)	Company (24)	Company (25)	Total for 25 Cooperatives	% of Total
Location (Division)	Sagaing	Sagaing	Sagaing	Sagaing	Yangon		
No. of Members	264	130	200	144	100	3,850	34.94%
No. of Borrowers	264	120	160	41	60	2,963	41.07%
No. of Savers	264	130	200	144	45	3,744	34.96%
Figures below in Million Kyats							
Total Assets	7.17	0.35	8.39	6.27	6.88	130.16	4.00%
Loan Outstanding	5.57	0.26	NA	5.28	6.79	77.06	4.74%
Savings Deposits (Total)	1.93	0.23	3.52	4.29	6.71	56.31	2.97%
- Voluntary							
- Compulsory							
- Special							
Share Capital	1.53	0.06	1.27	3.49	2.40	19.53	7.85%
Operating Income	2.99	0.06	2.12	3.36	2.47	43.18	7.57%
Operating Expense	2.92	0.06	2.10	3.35	2.44	42.29	7.14%
Net Income	0.08	0.00	0.02	0.01	0.03	0.89	

48. The JICA Microfinance Team notes that while there are data gathered for the repayment rates, delinquency rates, portfolio at risk and other financial indicators, the data are not too reliable since the Saving and Credit Cooperative Societies surveyed do not have a standard chart of accounts, a common set of performance standards that make comparison among cooperative societies meaningful, etc. Some are not very familiar with the formula while others lack the data to have an accurate determination of these financial indicators/ratios.

49. This further strengthens the observation that for the cooperative sector to become the third pillar of microfinance industry in Myanmar, the societies have to start to observe a set of performance standards. Creation of those standards for the cooperative sector is therefore imperative. Moreover, it is worth noting that the Ministry of Cooperative requires Saving and Credit Cooperative Societies only to submit monthly, quarterly and annual balance sheet and profit and loss statement to the Ministry. Ratio analysis is no longer required compared to the practice before 1992 where cooperatives are highly regulated and controlled. This means that before 1992, according to the Ministry of Cooperatives Officials, the cooperatives are more conscious and aware of the financial health of their organization since they are required to analyze their financial status using the standard financial ratios and through these ratios, they become the basis for the staff of the Ministry in monitoring and supervision. It is also worth noting to say that most societies declare very low income or no income or even loss so they can evade taxes (35%). As a practice, most societies set up reserve fund, welfare fund, bonuses, and, donations among others so that they are able to avoid taxes. This also shows that in the survey, the true income of the Saving and Credit Cooperative Societies are not really reflected.

Staff and its Efficiency

50. The survey also revealed that all of the Saving and Credit Cooperative Societies surveyed have full time staff ranging from 1 to 15 depending on the size of the operations of societies. However, the average size of the staff range from 3-5 full time staff. The loan staff to active borrowers ratio ranges from as low as 30 to as high as 992. However, the average ratio ranges from 50 to 150. This shows that the societies have a strong potential to increase their efficiency following the standard practice of 300 to 400 active borrowers to loan officer in the microfinance industry. The loan outstanding per loan staff range from as low as 14,000 kyats to as high as 5 million kyats. However, the average ranges from 500,000 to 1,000,000 kyats per loan officer.

Findings of the Field Visits and Survey, Potentials and Challenges of the Cooperative Sector

51. The following summarizes the findings of the field visits and survey:

The financial landscape for the 34 Saving and Credit Cooperative Societies covered by the survey is dominated by nine Saving and Credit Cooperative Societies in terms of assets, number of members, savers, borrowers, loans outstanding, savings deposits and share capital. From this group of 9 cooperatives, Pyin Oo Lwin Market Saving and Credit Cooperative Societies in Mandalay stands out as the best performing cooperative society and may be in the best financial position to expand into microfinance.

Five of the nine Saving and Credit Cooperative Societies are experiencing serious liquidity problems and need to undergo a rehabilitation program. Three of these 5 coops are in Mandalay division while the two others are in Sagaing division.

There is a concentration of better performing cooperatives in the Mandalay and Sagaing divisions despite the financial troubles encountered by the 5 Saving and Credit Cooperative Societies with significantly large resources.

Saving and Credit Cooperative Societies that operate in township markets are performing better compared to cooperatives not similarly situated. Market-based operations are able to capture the fast cash turnover obtaining in township markets.

Saving and Credit Cooperative Societies that operate a pawnshop business are able to perform better in financial terms compared to a majority of the cooperatives.

Saving and Credit Cooperative Societies are able to charge market rates of interest on loans ranging from 15% to 84%. A majority of the cooperatives covered by the survey charge from 18% to 48% per annum.

There is a proliferation of small undercapitalized cooperatives. 25 out of 34 Saving and Credit Cooperative Societies have assets ranging from a low of 43,000 kyats to 16 million kyats. Majority of the Saving and Credit Cooperative Societies have assets ranging from six million to 12 million kyats.

Members of the Board of Directors of certain Societies have large investments in the cooperatives. They invest their money in expectation of fair returns on their investments in the form of dividends. Saving and Credit Cooperative Societies appear to perform better financially when members of the BOD have large investment in the cooperative.

A directive from the former Minister for Cooperatives to limit the amount of share capital for each cooperative to under 10 million kyats is limiting the growth potential of cooperatives.

52. Based on the relevant findings on the survey, the cooperative sector particularly the Saving and Credit Cooperative Societies have the potential of becoming a third pillar of development of the microfinance industry in the Myanmar. In Myanmar, there are two types of Saving and Credit Cooperative Societies: Open and Closed Type of Memberships. The open type of membership societies can accept anybody (from all walks of life) while the closed type of membership societies will only accept one type of membership and very exclusive (ie employees, factory workers). If given the proper training, technical assistance, and some provision for financial capital, many of the present 139 open Saving and Credit Cooperative Societies, with 1,500 members per society, could be engaged in sustainable microfinance operations. The total potential magnitude of outreach for microfinance is 208,500 clients. Moreover, the closed-type Saving and Credit Cooperative Societies indicated that if given the chance they are also willing to expand their services to the poor through microfinance. With 500 clients per closed-type society and 1,782 of those societies currently registered, the potential reach is a total of 891,000 individuals. This means that the combining the existing open and closed type Saving and Credit Cooperative Societies has the potential to reach more than one million poor clients.

53. Many of those open and closed-type Saving and Credit Cooperative Societies are located in remote townships and most of the time they are the only financial vehicle of the community in those areas. These societies are also able to mobilize big amounts of savings and their operations cost are not as high compared with INGOs/LNGOs. These societies also have existing full time staff and many have full time BOD members working in their respective societies.

54. However, it must be noted that there also important challenges in the sector that need to be addressed to insure that these societies are able to deliver their services effectively and efficiently to the poor in their community such as but not limited to the following:

- ✓ Improving Governance of BOD.
- ✓ Enhancing Internal Controls.
- ✓ Strengthening External Audit by the Ministry.
- ✓ Development of Performance Standards for Excellence
- ✓ Review and Clarification of the Taxation of Cooperatives
- ✓ Interest Rate Cap Regulation
- ✓ Bookkeeping System and Financial Management
- ✓ Systematic and Rigorous HRD program for BOD and Staff in the area of Microfinance.
- ✓ Lifting the 10 M Kyats Working Capital Limits
- ✓ Changing lending policy that is currently based on share capital and savings in the society

Role of the Ministry of Cooperatives

55. Since the cooperative sector is under the supervision of the Ministry of Cooperatives, it is crucial to build the Ministry's capacity for microfinance especially with respect to the creation and implementation of performance standards for those Saving and Credit Cooperative Societies. The Minister of the Ministry of Cooperatives has expressed his interest and support in creating and maintaining microfinance standards for the cooperative sector that will be involved in microfinance. It is therefore imperative to provide training and technical assistance to the officials and staff in microfinance especially in the areas of financial management to include financial ratio analyses, internationally accepted accounting and bookkeeping system, audit and controls, and best practices in microfinance tried and tested methodologies (ASA, Grameen Bank, CARD Bank, Village Banking), among others. There is also a need to strengthen the MIS, M&E system of the Ministry of the cooperatives. The department under the Ministry that is appropriate for such capacity building is the cooperative department.

Conclusion and Recommendation

56. The findings of the JICA Microfinance Team in the field visits indicated that there is a strong potential for Saving and Credit Cooperative Societies in Myanmar to be the third pillar of microfinance development in Myanmar³. The Team notes that all these societies on their own initiative and guided by their experiences are initially demonstrating and implementing important fundamental principles in microfinance such as: reasonable (market-oriented) interest rates, presence of professional staff, repayment modality (daily, monthly), record keeping, and functioning BOD among others.

57. The JICA Microfinance Team is convinced that given proper orientation and training in microfinance selected Saving and Credit Cooperative Societies could constitute a strong pillar of microfinance development in the country. In fact, almost all of them have indicated their interest to learn and implement the key essentials and fundamentals of microfinance. Some of the societies interviewed even stated that they do not need funds to continue with their respective operations as they have enough funds because of very strong savings mobilization. They, thus, expressed that what they need is technical assistance and training so that their capacity for sustainable operations may be enhanced. They have also expressed their plan to expand their credit operations so that they may reach poor households.

³ The other two pillars are the NGOs and the local banks. Please see Chapter 1.

58. The societies admitted that they have to strengthen financial management capabilities, among others. The Team noted the great need and demand for training in very critical areas of operations and financial management. For example, it was noticed during the course of the field interviews that the societies have different understanding and interpretation of loan repayment rates, calculation of loans outstanding, determination of past due loans, among others. This is the reason for the difficulty in determining key financial ratios of each society. But beneath the apparent reason is the fact that the Saving and Credit Cooperative Societies, including the INGOs, local associations do not share a common and standard chart of accounts, accounting manual to guide operations and financial management and thus, the lack of a common language precludes the calculation and comparison of meaningful financial ratios.

59. A hallmark of sustainable microfinance is the provision of transparent information that is fairly stated, accessible, usable and comparable. For information to be fairly stated, Saving and Credit Cooperative Societies should have a standard chart of accounts and properly defined and observed accounting rules and principles. The interested user, e.g., the cooperative member, the management, donor community, the government should have access to the information in a form that is usable for the purpose of the user. For example, the management should be able to use it to properly direct the society. Comparability of financial status and performance is important so that performance and results of operation may be compared and guide the concerned party to work for further improvement. It is also a good instrument for promoting financial discipline among the Saving and Credit Cooperative Societies.

60. The ownership of pawnshops by the two Saving and Credit Cooperative Societies has demonstrated the ingenuity of the Myanmar people. The government has pronounced that cooperatives should not charge interest rates higher than 15% per annum. The creative response was to establish legally their own pawnshop business that can charge interest rates above the 15% ceiling. Thus, without violating any regulation or rule on interest rates, they are able to address the credit needs of members and the rest of the community and at the same time address their own financial and organizational sustainability needs, through a creative mechanism such as owning a pawnshop. The pawnshop operations could be the platform for building capacity in microfinance. An immediate advantage is the fact that pawnshop credit practices such as the level of interest rates imposed on borrowers are legal and accepted by the local community where the Saving and Credit Cooperative Societies operate their respective pawnshops.

ANNEX 5.1. High Court Re: Decision on Delinquent Borrowers

HIGH COURT

Judgment

When the said Limited sued against the above-mentioned (4) persons in order to recover the arrears of k. 702504/ owned by the said society in pursuance of the contract, the Law Court passed the sanction to settle only the amount k. 386596/ at a annual interest rate of 14% for the period of suing date to degree passing date. Since the Limited could not get back the claimed amount of k. 702504/, it put forward the appeal to a High Court.

In the letter of appeal, the contestant borrowed k. 300000/ from the Limited after having saved k 100000/, and he was being indebtedness with k. 702504/ including principal and interest. In this case, one of the contestants has been U ****'s wife, and U ***** and Daw ***** have been the personal guarantors in this contract.

Previously, the contestants had counterclaimed that the said Limited has been a Saving and Credit Cooperative Societies without any license from the Central Bank for loan disbursement, and the amount of k. 400,000/, four times of the contestant's share contribution was not available, and the other contestants, U **** and Daw ***** who were personal guarantors should not be accused.

The plaintiff's advocate rebutted that the Limited is a Saving and Credit Cooperative Societies and it is not subject to "Monetary Lenders Act (1945) according to the sanction 2 (3) and exemption (d); in pursuance of the Limited rules and regulations, saving rate is 2% while lending rate is 3% and service charge is accordingly only 1%. However, the previous law court approved only 14% annual interest rate, affecting the Limited. Hence, all arrears should be settled up to the date of actual repayment on loan outstanding at an interest rate charged by the Limited.

The contestant's advocate also counterclaimed that the degree passed by the previous law court was not just against the Cooperative Law, but pursuant to the interest rate fixed by Money Lenders Act. Since the Limited was a money lending society, it had no other way but to pursue the law judgment of Money Lenders Act (1945). Finally, the advocate argued to declare the appeal invalid.

In this case, having registered at the Ministry of Cooperatives, the Limited has been functioning the saving & credit activities is quite clear with reference to the exhibit (nya) in court. It should not be implied that the Limited has been inclusive of Money Lenders Act {section 2 (3) & exception (d)}. Accordingly, the judgment passed by the previous law court with reference to Money Lenders Act is assumed irrelevant. In addition, in spite of having offset the principal and interest receivable amount of U **** on his share contribution with reference to auditor's report, the degree of previous law court to offset the receivables of U **** is double offset and irrelevant. With reference to these evidences, the degree passed by the previous Law Court is found out incorrect. Accordingly, the contestant U **** has a right to enjoy the benefits on his share contribution whereas he is responsible to settle his contractual obligations. It is found out that the annual lending interest rate of 14% approved by the previous law court is not pursuant to civil code 34 and Law Office manual sanction 173.

Hence the judgment is passed that, having permitted this appeal case, the degree & judgment passed by Divisional Law Office is cancelled, and the plaintiff's Cooperative Society

Limited has a right to get the contractual obligations of k. 702504/ at annual interest rate of 9% for the period of suing date to the degree passing date from the contestant U****.

By/ -----
Justice

ANOTHER SAMPLE CASE OF HIGH COURT Judgment

The judgment passed by Law Office by the civil suit gave win to U ****over the said Limited who claimed k. 516755/ from U ****. According to this judgment, U **** had to settle only k. 400,000 on which annual interest was to be paid at 14% for the period of suing date to degree passing date. Due to the un-satisfaction, the Limited put forward this letter of Appeal to High Court.

As regards this case, the all contestants did not attend the Law Court. The plaintiff's advocate argued that the judgment passed by the previous office was on the amount k. 400,000/ not on k. 516,755, so the Limited lost k. 116,755/. Since the Limited had been legally established, it taking responsibilities for all liabilities under contractual obligations, so it was entitled with receivables in pursuance of the contractual obligations. The judgment that the interest more than the principal should not be allowed was legally wrong.

The absent contestants did not counterclaim anything regarding this case.

In this case, the Cooperative Society Limited had been registered for saving & credit business with reference to exhibit (a) in court. According to the exhibits in court, the Limited's member U **** borrowed k. 200,000/ at an interest rate of 3% from the Limited while his share of contribution and saving were k. 50,000 and k. 900 respectively. Having cleared the accounts of U **** for all receivables and payables, net payment of U **** to the Limited was k. 516,755/ with reference to the exhibit of auditor's report. In the judgment passed by the previous law court, it was mentioned that the interest more than the principal should not be allowed with reference to Money Lenders Act (1945), sanction (12). However, the statements mentioned in the said Act under sanction 2 (3) & exception (d) could not be concerned with this case. It was clear that U **** had the contractual obligations to the Limited according to the terms and conditions mentioned in the contract between the Limited and U ****. Consequently, the allowance of previous Law Court's judgment to alleviate the financial burden of U **** was not relevant. In addition, the annual interest rate of 14% for the period from suing date to degree passing date could not be assumed right.

Hence, this appeal case was permitted and the judgment & degree passed by the previous Law Court was cancelled. The plaintiff Century was entitled with the loan outstanding of k. 516,755/ from the contestant U **** at an annual rate of 9% for the period of suing date to degree passing date.

By/ -----
Justice

ANOTHER SAMPLE CASE FROM HIGH COURT

Judgment

A Saving and Credit Cooperative Society sued against the four contestants including Daw **** to get back the amount of k 1,114,096/ including the principal & interest according to the contract. Divisional Law Court passed the judgment that having deducted the paid amount of k. 387,123/ from k. 800,000/ (principal and interest), the outstanding balance of k. 412,877 was to be settled by Daw ****, and the annual interest rate was 14% on the said outstanding balance for the period of suing date to degree passing date. Since the judgment of Divisional Law Court, but it was not successful. So the special appeal was put forward again to the Special Tribunal of High Court which accepted for hearing.

The contestants including Daw **** did not attend to argue at the said Tribunal. In this case, the Cooperative Society Limited had been registered and operating saving & credit business. Having paid the share contribution of k. 100,000/, Daw **** borrowed k. 400,000/ from the Limited with the personal guarantee of three contestants. Having cleared the accounts of Daw **** for all receivables and payables, net payment of Daw **** to the Limited was k. 1,114,096/ with reference to the exhibit of auditor's report. In the judgment passed by the previous Law court, the claimed amount of k. 1,114,096/ was not allowed only k. 800,000/ was passed and then settlement amount k. 387,123/ had to be deducted again from k. 800,000/.

It was prescribed that Money Lenders Act (1945) sanction 2 (5) (3) (d) was not concerned with Cooperative Society, Insurance Company or loan disbursed by pension fund of Insurance Society. Hence, the plaintiff Cooperative Society Limited was not concerned with Money Lenders Act (1945) and it was no need of pursuing the said Act. The judgment passed by the previous Law Court referring to Money Lenders Act (1945) was not correct.

According to the contract-dated 15.2.94, Daw **** borrowed k. 400,000/ at an interest rate of 3% per month from the Limited. According to the contract Daw **** was responsible to pursue the terms and conditions of the contract.

Hence, the amount of k. 1,114,096/ claimed by the Limited had to be settled by Daw ****.

Therefore, the Special Tribunal of Divisional High Court passed the decree that the contestant Daw **** was obliged to pay the arrears of k. 1,114,096/ (principal and interest) at an annual rate of 9% for the period of suing date to degree passing date to the plaintiff Limited.

By/ -----
Deputy Attorney General

By/-----
Justice

By/-----
Justice

PART III

ROAD MAP AND PROPOSALS

6. Designing a “Road Map” for Microfinance
A Proposed Country Action Agenda for Myanmar
7. Legal and Regulatory Framework
Pressing Needs for Legalization of MFIs
8. Establishment of a Body for Credit Policy Coordination for
Microfinance Development
9. Microfinance Coalition and Performance Standards
10. Microfinance Model Projects as “Breakthroughs”
11. ‘Myanmar Microfinance Center of Excellence (MMCE)’ and
Capacity Building Programs

Chapter 6

Designing a “Road Map” for Microfinance *A Proposed Country Action Agenda for Myanmar*

1. The chapter proposes an action agenda for microfinance development in Myanmar. The proposed action agenda includes a draft statement of vision, mission, and goal, working principles or beliefs, strategies to be employed, roles of major players and activities and projects. The action agenda presented herein can be used as a basis for a detailed country business plan for microfinance development in Myanmar as may be determined by the Government of Myanmar and donors in the future. Thus, the chapter presents a “road map” that can provide a systematic and deliberate way to develop microfinance in the country.

Goal

2. The proposed Country Action Agenda for Microfinance (CAAM) will have as its overarching goal the significant reduction of poverty incidence in Myanmar in some future date to be determined by the authorities given the socio-economic-political context of the country. The main point of the chapter is that future plans to reduce poverty in a very significant way should take into account the huge potential of microfinance as a poverty-reducing instrument or mechanism.

Vision Statement

3. The JICA Microfinance Team proposes as the CAAM’s vision statement articulated the following: Well-developed, efficient and integrated financial markets and systems that serve all sectors of Myanmar society but most especially the poor/marginalized. The vision shall be realized through a joint effort and close collaboration between the government, the private sector and the donor community.

Mission Statement

4. The CAAM will have as its mission statement the following: The collective mission of all public and private entities engaged in microfinance in Myanmar is the reduction of poverty through equitable access to financial services by all sectors of society.

Basic Principles

5. The mission statement shall be pursued in accordance to the following well-recognized microfinance principles:

- Large and Deep Outreach

Microfinance seeks to improve the lives of a large number of the poor and thus, microfinance services shall be inclusive.

- Sustainability

Microfinance institutions should be able to cover their full costs so that they may be able to serve their clients over the long term in a sustained way.

- Client Focus

Microfinance shall provide maximum service at a minimum cost by providing demand-driven products and services.

- Innovation

Microfinance institutions shall continue to innovate in order to provide efficient and effective services to more people, especially poorer people.

Proposed Strategies

6. The following are suggested strategies that could be discussed and approved by the authorities and other stakeholders in microfinance development:

- Maintaining a focus on the poor

The Government of Myanmar, JICA and other donors will strive to maintain focus on the poor clients in order to avoid “mission drift” but without sacrificing financial sustainability of MFIs.

- Facilitating an enabling policy, legal and regulatory environment.

The Microfinance Team will continue with the work on facilitating an enabling policy, legal and regulatory environment for microfinance in Myanmar. Without an enabling policy, legal and regulatory environment, it would be extremely difficult to develop strong, viable and sustainable MFIs in Myanmar. The government and private sector both are convinced of the policy adjustments with relevant modifications are needed to develop a vibrant and efficient microfinance sector. Certain laws may need amendments or revisions. Alternatively, new laws may be crafted to take into account the peculiarities of microfinance activities.

- Expanding institutional capacity of MFIs

MFIs need to build their institutional capacities before they can serve large numbers of poor people. Management systems and skills need to be continuously upgraded to meet the challenge of expanding financial services to poor people. In this respect, MFIs in Myanmar need grant funding to build their capacity before they can handle large volumes of financing. MFIs require technical assistance to make the transition from start-up projects to financially sustainable institutions. Some MFIs need further assistance in making the transition to a formal financial intermediary.

- Building an efficient core of microfinance technicians and training centers

A critical obstacle to expanding the microfinance sector in Myanmar is scarcity of knowledgeable microfinance technicians to help MFIs develop their financial and project management systems. There is a critical need to build a corps of knowledgeable microfinance technicians in Myanmar. JICA could help ease the shortage by supporting training of trainers and providing technical assistance in improving current training institutions in Myanmar. The need can be partly addressed by improving the capacity of training centers or institutes to deliver appropriate training courses to practitioners and potential staff of MFIs.

- Promoting sector-wide performance standards.

MFI's and donors in Myanmar should work together to formulate, promote and adopt consistent performance standards to raise the quality of the sector's performance. Thus, the government, the private sector players and the donor community, chiefly JICA and UNDP will work together to formulate, promote and adopt appropriate and consistent performance standards in order to raise the quality of the sector's performance towards greater outreach and sustainability. High performance levels of the microfinance sector will help attract private investments and donors to the sector. Better sector performance will raise the impact of every yen of aid invested in the sector.

- Promoting sustained linkages to commercial capital.

In the future, MFIs in Myanmar have to learn how to commercialize microfinance operations. They cannot hope to rely forever on donor funds to provide the liquidity for lending operation and capacity building. A more sustainable source will be the commercial markets and possibly, the deposit market once the appropriate regulatory environment for MFIs has been established.

7. Microfinance development can be analogous to the development of an efficient and effective railroad system. The government builds the railroad tracks, that is, the civil works and other infrastructure to pave the way for the private sector to efficient operate and maintain the locomotives or passenger coaches, and to provide attendant services in a cost-effective manner. To ensure that consumer welfare is upheld, the government provides an efficient regulatory and legal framework for the railway system, e.g., tariffs are reviewed and sanctioned, health and safety standards are implemented, etc.

8. Thus, there is no substitute to a collaborative and joint partnership between the government, private sector including commercial banks, and donors in order to accelerate microfinance development in the country. The "Road Map" is shown in the Figure at the end of this chapter:

9. On the government side, the major players in microfinance development are: the Central Bank of Myanmar, Ministry of Finance and Revenue, Ministry of Cooperatives, Ministry of Planning and state-owned development banks such as MADB. The major players on the private sector side are: banks, financing companies, open-type Saving and Credit Cooperative Societies, local and international NGOs. NGOs ideally should be microfinance-focused NGOs but multi-service NGOs could also have an important role as well. The private sector side will enlist the support of private donors and multilateral institutions to finance activities and provide technical assistance on microfinance development.

Role of the Government

10. The major role of the government is to create a policy, legal and regulatory environment conducive to the development of strong, and sustainable microfinance institutions that are privately led. It is strongly proposed that government ministries and agencies, with clear understanding of their role, undertake the following activities enumerated in paragraphs 11 and 12:

Time Frame of the Road Map

11. Short-term period of one to two years

- Identify within the first three or four months a focal ministry to oversee microfinance development in Myanmar. The focal point could be either the Ministry of Finance and Revenue or the Ministry of Cooperatives.
- The first task of the focal ministry is to shepherd the formulation and agreement on a National Strategy on Microfinance. The focal ministry will work with the microfinance network in formulating a National Strategy for Microfinance. The National Strategy shall be a policy declaration for microfinance which will be officially adopted by Myanmar government. The National Strategy shall provide the framework for future policy directions and policy adjustment initiatives. The process of preparing the National Strategy paper and building consensus for eventual adoption will entail a period of six months to eighteen months, depending on the level of expertise and cooperation of the working group members. In order to accelerate the process, it is advisable that the working group be guided by JICA experts in formulating the National Strategy for Microfinance.
- The focal ministry shall immediately organize two separate working groups to address specific and urgent issues that need immediate attention. These are: a) identifying or creating a legal structure for the registration of microfinance institutions, especially NGOs and semi-formal groups and associations; b) crafting a policy declaration allowing microfinance players to charge market-oriented rates of interest.
- The working groups shall be formed in close collaboration with the private sector players. Membership in the working group shall consist of representatives from government line ministries and agencies as well as representatives of NGOs, Saving and Credit Cooperative Societies and banks engaged in microfinance and donors. Membership shall be as broad-based as possible. The output of the first working group is a draft to amend an existing law or a draft to create a new law for registration of microfinance institutions. The output of the second working group is a draft policy declaration on market-oriented interest rates for microfinance.
- Alternatively, if it is not feasible to have two separate working groups working simultaneously on their respective assignments, the issues can be taken sequentially by one working group¹.
- On the second year of this proposed CAAM, the government ministries will work closely with representatives from the private sector to formulate sector-wide performance standards for microfinance. Government will lend support towards development and adoption of standard chart of accounts for each sub-sector player, preparation of accounting manuals, and securing sector-wide agreement on the definition of terms, financial ratios and adjustments in microfinance. Government representatives will participate in working groups organized by the private sector-led microfinance network to formulate performance standards and supported by JICA microfinance experts.

12. Medium-term period of 3 to 6 years

¹ In view of the limitation of the country on microfinance experts/technicians.

- With necessary coordination among relevant ministries, the government authorities involved in overseeing microfinance activities shall promote the adoption of performance standards for all the major players in microfinance. At this time, the National Strategy for Microfinance is expected to be in place as a policy declaration.
- The government shall support an initiative from the microfinance network to prepare a Code of Ethics and a Code of Practice for MFIs. The objective of the two codes is to encourage and promote ethical behavior in lending amongst the major players.
- Government agencies will now build their own capacities for supervision and regulation of microfinance activities. This will entail training on peculiarities and best practices in microfinance as well as exposure visits to countries in Asia where supervision of microfinance players is actively undertaken.

Role of the Private Sector

13. The role of the private financial markets is to deliver efficient financial services to the people, especially the poor in a sustainable manner. It is incumbent on them to build their own capacity to fulfill this role in a sustainable way, raise and provide wholesale/retails funds to the economy and become the real engine for growth and development of the economy in general and of microfinance industry in particular. Three institutional structures have earlier been identified as the 3 pillars of microfinance growth and development at the retail level. They are as follows: (a) private banks, which may include MADB depending on government's policy decision, (b) open-type Saving and Credit Cooperative Societies and (c) microfinance NGOs. Each of these institutional types is expected to be a member of a formal or informal association/forum for information exchange and possibly advocacy work. For microfinance development, individual institutions from each of the 3 pillars of microfinance could form a national network that would collaborate in introducing reform measures as well as engage in information exchange on best practices in microfinance. The list of activities to be pursued by the proposed network and the timeframe are explained in detail in Chapter 9 of this report. The microfinance network shall be the principal forum to be used by the major players in advocating for policy change and in promoting sector-wide performance standards. The formation of the microfinance network should ideally be done on the first 3 to 6 months of this proposed CAAM.

14. It cannot be overemphasized that accelerating the pace of microfinance development in Myanmar will depend greatly on a policy declaration allowing market-oriented interest rates for microfinance lending and establishing a legal structure for the registration of NGOs engaged in microfinance. The first year work load of the proposed network should include the resolution of these urgent issues.

Role of Commercial and Development Banks

15. Commercial and development banks could provide wholesale funds to good performing retail MFIs in Myanmar. It is unlikely that banks will engage in retail microfinance in the near term given their respective vision, mission and goals². However, they have a potential role as suppliers of lending funds or liquidity for MFIs. Retail MFIs will also need the participation of commercial banks as depository banks. On the other hand, through the Myanmar Bankers Association commercial banks could share their skills in financial management, internal audit and customer relations management with retail MFIs in order to enhance the latter's management systems and skills in the areas mentioned.

16. To enhance public awareness about the potential of microfinance to reduce poverty in Myanmar, the Myanmar Bankers Association could conduct an annual search for outstanding microentrepreneurs in Myanmar. The Awards program is proposed to be accompanied with a public relations campaign. The Central Bank of Myanmar can provide moral support for the conduct of an awards program for microentrepreneurs. Such a program is proposed to commence on the third year of the CAAM.

Timeframe for the Implementation of Model Projects for Saving and Credit Cooperatives Societies

17. The proposed model projects for Saving and Credit Cooperative Societies are discussed in more detail in Chapter 10 of this report.

18. The capacity-building for microfinance intended for three open-type Saving and Credit Cooperative Societies in Mandalay and Sagaing can start in the first year of the implementation of the CAAM. The start of implementation shall depend largely on the availability of funds for the project. The proposed guarantee fund, if found absolutely necessary by the three societies, is proposed to be established on the second year of project implementation. The second project activity to build the training capacity for microfinance of the three regional cooperative colleges namely, Sagaing Regional Cooperative College, Mandalay Regional Cooperative College, and the Yangon Cooperative Degree College can commence on the latter part of the first year of implementation of CAAM. The activities shall include curriculum development, development of training materials, training of trainers and actual testing of curriculum and training materials. Work on the second year onwards will be the conduct of training courses for practitioners and trainers' training courses. Further refinements and enhancements of the course curricula will be undertaken periodically after sufficient experience and feedback have been gathered during the conduct of the training courses. Improvements in the training facilities or infrastructure of the three cooperative colleges are to be undertaken in phases from year 2 onwards.

19. The participation of the Cooperative Promoters Bank in a pilot project in the Yangon division will depend on the presence of a policy declaration allowing market-oriented interest rates for poverty lending. Implementation of pilot project with the Cooperative Promoters Bank can be timed with the implementation of a model project for NGOs in the Yangon division.

² Private bank managers and staff who are not familiar with microfinance will obviously need to learn about the peculiarities of lending to poor clients.

Timeframe for the Implementation of Model Projects for NGOs

20. The role of NGOs in accelerating the pace of microfinance growth and development is to build institutional capacities for greater outreach and sustainability, participate in formulating and promoting sectorwide performance standards, initiate policy changes or policy reform and nurturing a culture of innovation in reaching extremely poor clients.

21. In the first year of implementation of the CAAM, NGOs shall be urged to collaborate with other players in organizing a microfinance network. Representatives of NGOs are expected to actively participate in working groups that will advocate for policy changes. Details of the activities of the proposed microfinance network are found in the last section of Chapter 9.

22. Consistent with the NGOs' role to nurture a culture of innovation, NGOs may introduce a credit delivery methodology developed by ASA of Bangladesh in a pilot area in Yangon. The ASA methodology has been proven to be cost-efficient and has shown remarkable progress towards sustainability of branch operations within twelve months of operations. Adoption of the ASA model by major players could provide the spark that could fast track the growth of outreach for microfinance clients in Myanmar. Implementation of the model project for NGOs in Yangon can start at the end of the first year of the implementation of the CAAM.

23. To enhance the management, supervisory and technical skills of the staff of NGOs, a complementary project to build the training capacity of CBI is being proposed. The proposed project is also explained in detail in Chapter 10. The proposed assistance to CBI can commence on the second year of implementation of the CAAM.

24. Managing the transition of the three project-based UNDP microfinance projects into local microfinance organizations with its own Board is proposed to be another project. The dominant position of the three INGOs and their projects in the microfinance sector necessitates that the transition of the three UNDP-initiated projects be carefully managed and supervised. Such preemptive action will help avoid a backlash to the sector in case one of the projects encounter managerial and financial problems after the turnover of the operations to a local institution. This proposed project on the transition of the three UNDP-initiated projects can commence once a legal structure for registration of microfinance NGOs is put into place.

25. The Country Action Agenda for Microfinance in Myanmar will need the active support of the government and all the major players engaged in microfinance. Building a consensus and a groundswell of support for the country action agenda is in itself a major undertaking. This can be done through consultations, workshops, conduct of regional forums and continuous dialogues among government agencies concerned and the private sector players. Press releases in newspapers of general circulation could help in the public awareness of microfinance and its potential role in poverty reduction. Greater understanding among the public will help build a consensus on the country action agenda for microfinance. Identifying a "champion" for microfinance among the highest authorities can accelerate consensus building on the proposed CAAM.

26. The proposed CAAM is by no means complete. At best, the proposed CAAM provide a skeletal framework and talking points for further discussion. The major players are expected to provide flesh, blood and soul to the proposed framework.

27. The preparation of detailed project proposals to support applications for financial support from potential donors will follow after a consensus on the action agenda has been obtained from the major players in microfinance.

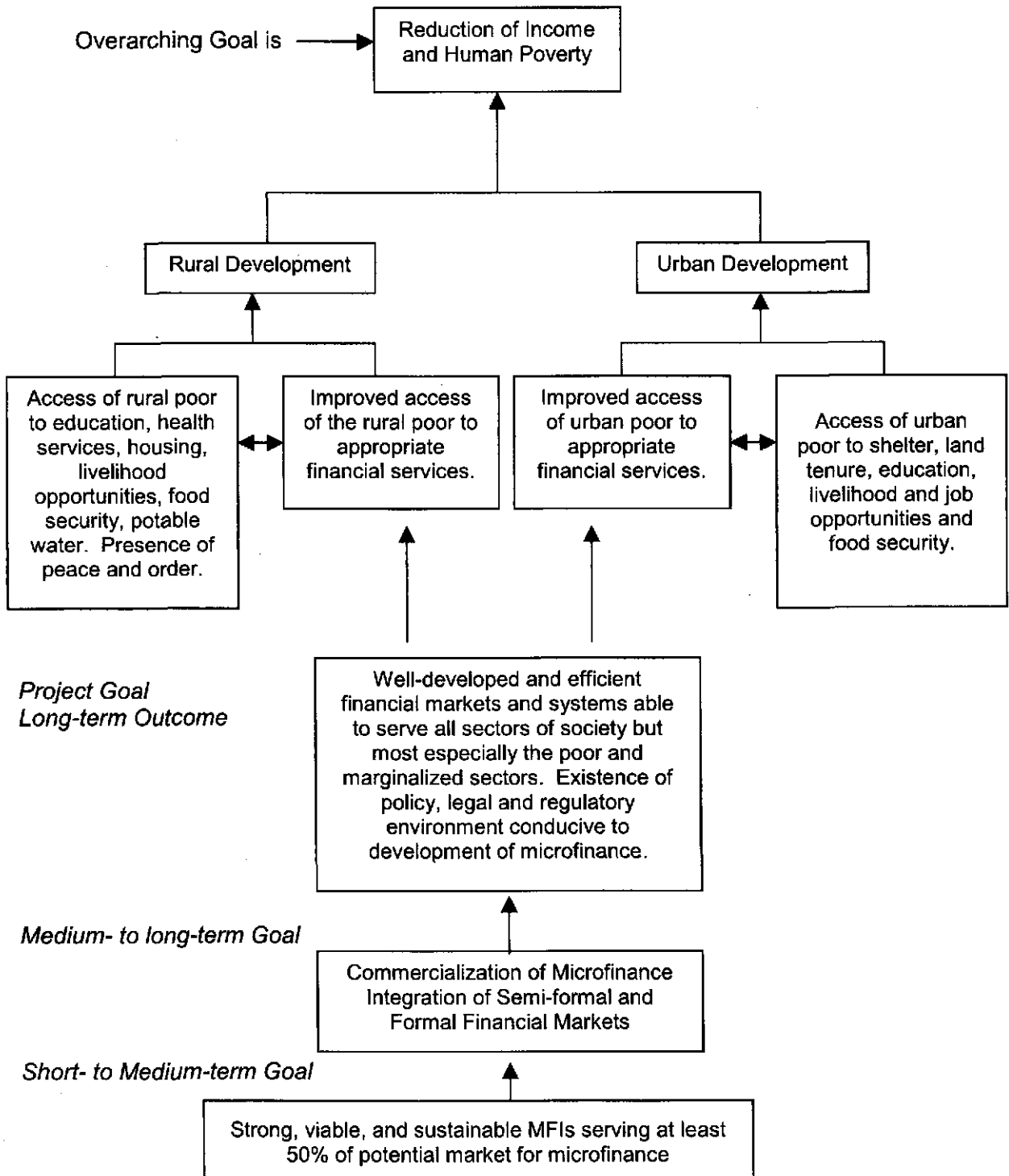
Role of Donors and Possible Assistance from Japan

28. In Myanmar, the international donors' presence is currently limited. However, as economic structural adjustments proceed in many areas, it is expected that the interactions between the Myanmar government and stakeholders and international donors will be substantially increased. In the field of microfinance, a good start has already been initiated by UNDP/UNOPS and the Myanmar government under the humanitarian umbrella of Human Development Initiative (HDI) project in the three countryside areas.

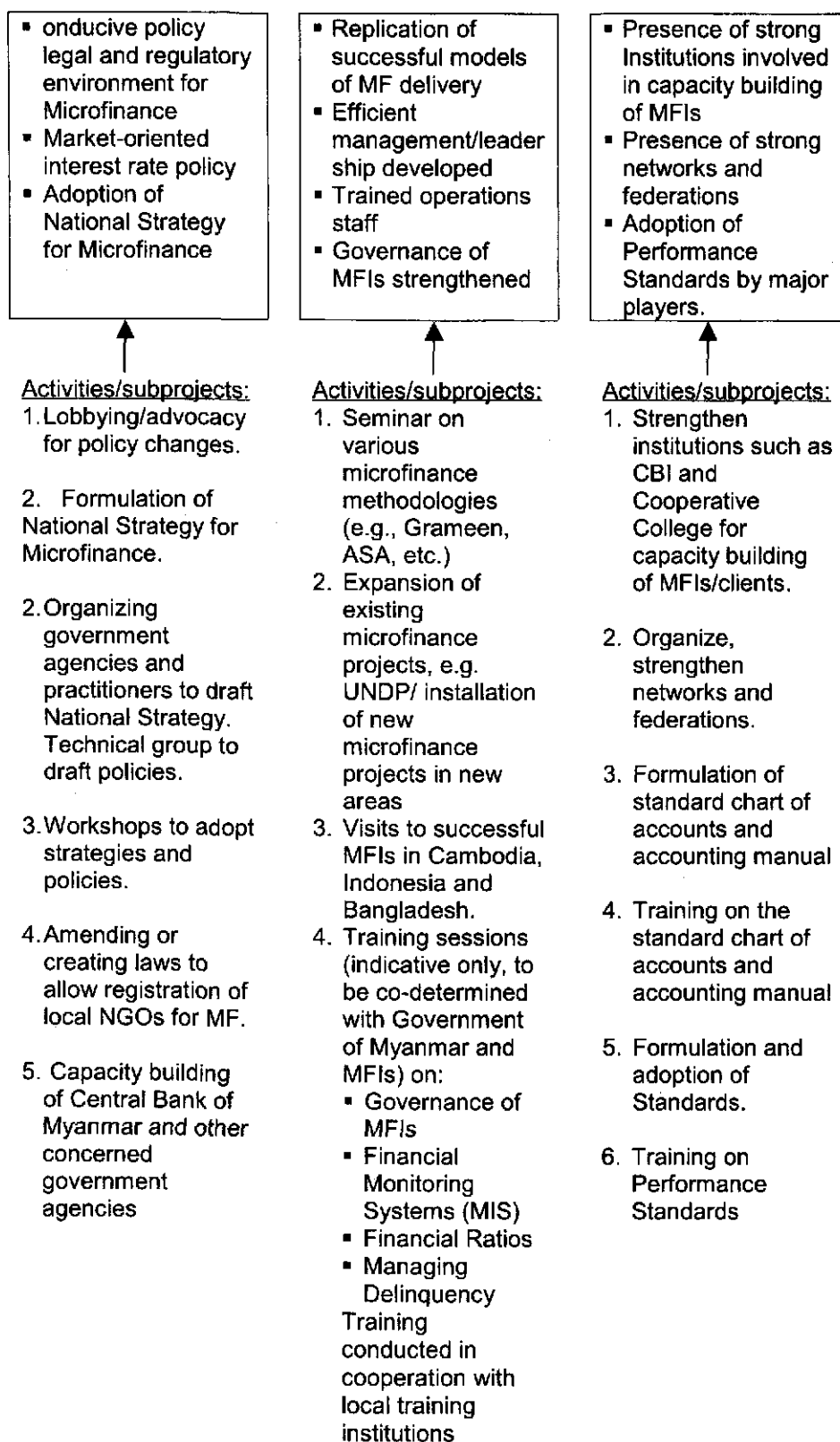
29. It is recommended that the Myanmar stakeholders of microfinance initiate dialogue with international donors in view of establishing or strengthening collaboration, based on the vision to pursue the dual mission of microfinance, i.e. extending the outreach and achieving the sustainability. Through sharing a process to establish a national strategy and country action agenda, such a dialogue would result in fruitful outcomes to Myanmar stakeholders of microfinance, such as funds support, introduction of best practices, and support to capacity building.

30. Supposed that such a sharing process be ensured between the Myanmar government and interested donors in microfinance, there would be many areas for collaboration between them, including the role of Japan. As expanded follow-up activities from 2003, suggested assistance from Japan could include, but not in an exhaustively: (i) supports to establishing and functioning a preparatory government unit of microfinance by sending long-term coordinator and/or advisor and providing equipments; (ii) grant supports to 'Microfinance Model Projects'; (iii) supports to creation and implementation of systematic training programs (both in Myanmar and other Asian countries); and (iv) supports to establishing and operating 'Myanmar Microfinance Center of Excellence (MMCE)'. The details of project proposals are elaborated in the following chapters. With a purpose to promote discussion, a proposed scheme on possible Japan's assistance is attached in the Annex of this chapter

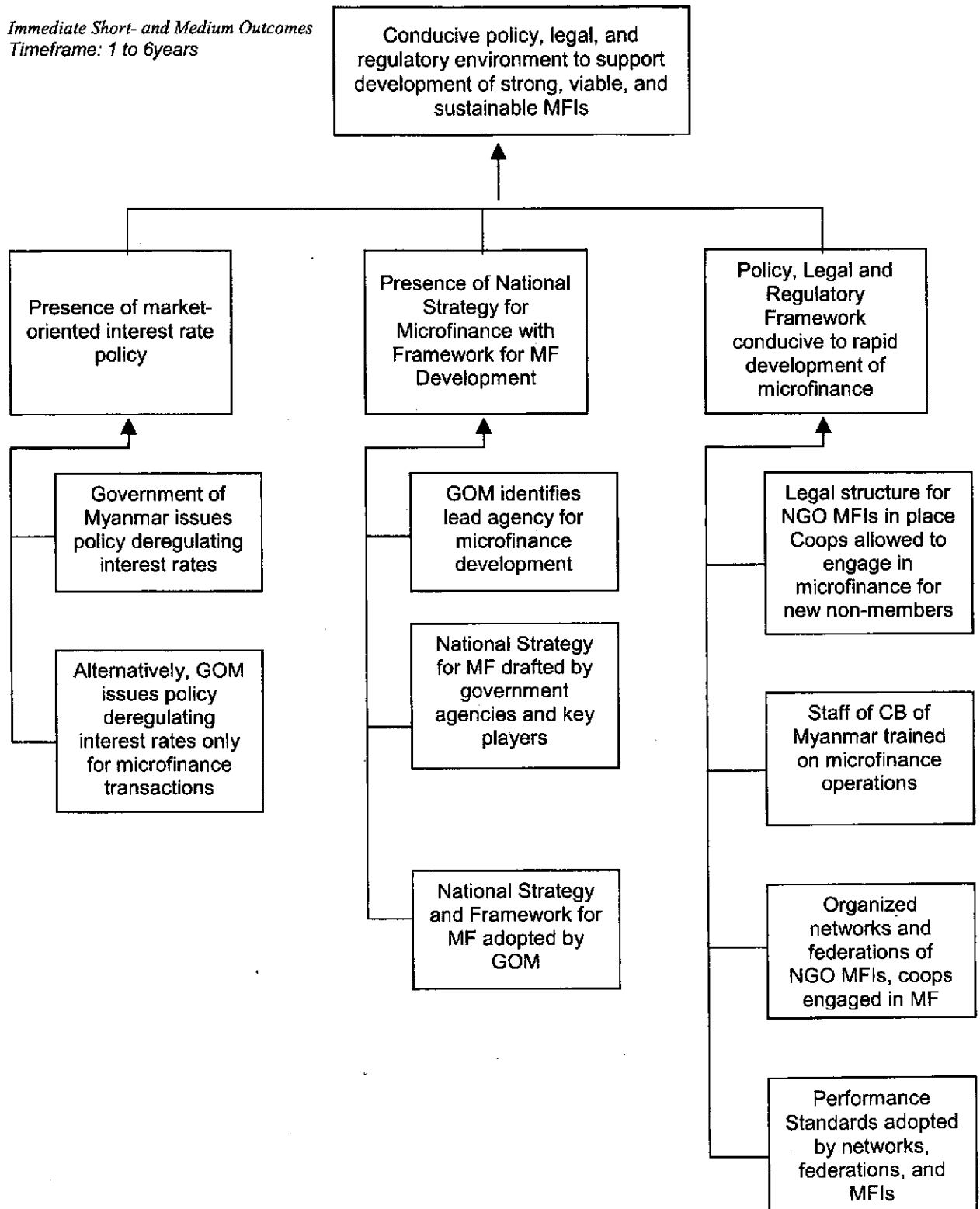
Draft "Road Map" for Microfinance Development in Myanmar



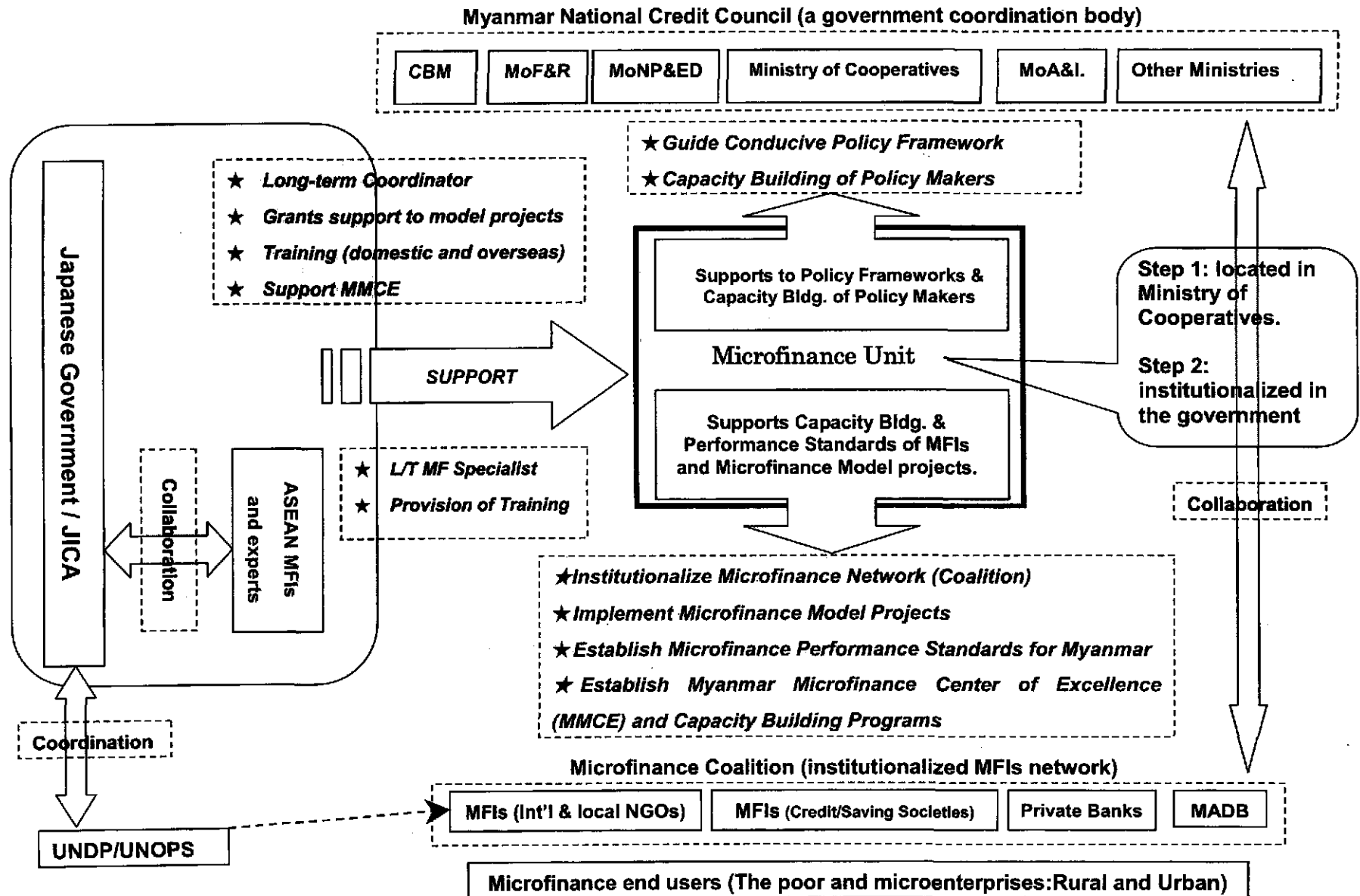
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Immediate Short- and Medium Outcomes
Timeframe: 1 to 6 years



Building Sustainable Microfinance Systems in Myanmar
(Proposed Structure of Follow-Up Project from 2003)



Chapter 7

Legal and Regulatory Framework *Pressing Needs for Legalization of MFIs*

1. Chapter 1 showed the status of microfinance in the country and its development prospects and discussed how the legal and regulatory framework could be a binding constraint to its development unless it is appropriately formulated and handled. A principal conclusion is that great care should be taken in crafting a legal and regulatory framework for the nascent microfinance industry. The stance should be toward allowing the establishment of MFIs that are financially sustainable and can have greater outreach to the poor households. Inappropriate legal and regulatory framework can stifle the initiatives of local NGOs, INGOs and other local organizations and associations to develop into sustainable institutions.

2. The design of an appropriate legal and regulatory framework has to be carefully done and this takes time. Hennig and Omar (2000) note that “the design of a regulatory framework and the development of supervisory instruments and procedures are complex and consist of mutual learning processes and ongoing innovation. A hastily passed, but inadequate regulatory framework is a waste of time and resources which would only delay the creation of suitable conditions for microfinance development. Although microfinance has been a subject of debate in numerous countries for nearly a decade, the issue of microfinance regulations remains unsolved. There is no standard model available that could be imported and implemented. In contrast, the available success stories in this field clearly show that the regulatory framework for microfinance has to be tailored to the specific country conditions under which microfinance institutions operate”.

3. Thus, the main thrusts in the current stage of microfinance development in Myanmar should be: (a) institution building, that is, strengthening of existing organizations implementing microfinance programs and expansion of microfinance projects when feasible and (b) the legalization of existing organizations implementing microfinance programs and/or projects. Regulation is a future event when there are viable MFIs to regulate and when the capacity to regulate and supervise would have been achieved.

4. In this chapter which focuses on the legal and regulatory framework, the JICA Microfinance Team reiterates this position. The Team’s basic approach has three components: (a) legalization of existing organizations to sustain operations as an upfront issue to be resolved if found feasible under current legal frameworks of the country to solve the problem; (b) building the policy makers’ and regulators’ capacities of monitoring microfinance performance while ensuring that appropriate industry standards and information exchange between the government and the private sectors (the practitioners) should prevail to crafting inappropriate laws and regulation; and (c) mid-term or long-term effort to formulate an appropriate legal and regulatory framework, including building the capacity to regulate.

Microfinance under existing legal frameworks

Saving and Credit Cooperative Societies

5. More in-depth field interviews and observations indicate that Saving and Credit Cooperative Societies have no problem with legal registration. Saving and Credit Cooperative Societies are legal entities. As such they can engage in microfinance operations after appropriate training and capacity building. It seems that the interest rate ceiling imposed under the Money Lenders Act (1945) would not apply to Saving and Credit Cooperative Societies. Field interviews and research revealed two mechanisms that eliminate the problem of interest rate restriction on Saving and Credit Cooperative Societies. The first is the landmark decision of the High Court (Mandalay) that affirmed the legality of interest rates imposed by a Saving

and Credit Cooperative Society to its borrower at the rate of 3% per month¹. The High Court stated that “the plaintiff (that is, the Saving and Credit Cooperative Society) was not concerned with Money Lenders Act (1945). . . The judgment passed by the previous Law Court referring to Money Lenders Act was not correct.” The High Court further stated that “according to the contract” the borrower who borrowed a sum of money “at an interest rate of 3% per month . . . was responsible to pursue the terms and conditions of the contract.” Thus, this means that the said Money Lenders Act (1945) does not apply to the credit business or operations of the Saving and Credit Cooperative Societies, more specifically to the level of interest rate they can charge borrowers.

6. The second mechanism is to provide micro-loans to poor clientele is the establishment and operation of pawnshops that are legally recognized and licensed entities. There is no restriction on licensed pawnshops to charge market-oriented interest rates, giving an important advantage to pawnshops as potential microfinance institutions or organizations given appropriate training and capacity building on microfinance. Chapter 5 of the present Report discusses this phenomenon in greater detail.

7. Based on the High Court decision, there seems to be no impediment to Saving and Credit Cooperative Societies to charge market-oriented interest rates that are necessary for sustainable microfinance operations. It appears that the Saving and Credit Cooperative Societies are not subject to the law and regulations on Financial Institutions Law, including the ceiling on interest rate regulations. If so, a policy statement from the authorities in this regard will pave the way for the expected involvement of Saving and Credit Cooperative Societies in microfinance without need of changing or amending the particular law governing those societies.

8. The pawnshop-approach represents a second best but workable solution but the ideal situation is for the Saving and Credit Cooperative Societies to be directly engaged in microfinance. Hence, if the pawnshop-approach is taken as the way for Saving and Credit Cooperative Societies to engage themselves in microfinance the principal task will consist of providing the appropriate training and capacity building on microfinance to the members of the board of Saving and Credit Cooperative Societies and the management and staff members of pawnshops organized by those Saving and Credit Cooperative Societies.

Non-governmental organizations (NGOs) and associations

9. As indicated in the first Report of the JICA Microfinance Team a critical concern is to vest legal authority to non-formal entities such as NGOs and similarly structured entities such as local associations to engage in microfinance activities and practices and pursue credit and financial policies that make for sustainable microfinance without *fear of legal challenge*. Thus, the main effort consists of the registration of various NGOs, associations and organizations as legal entities that can implement microfinance programs. This was a major recommendation of the first Report.

10. At present, the NGOs concerned and other similar entities have been allowed to operate albeit under a “special umbrella” such as that provided to (a) UNDP-funded microfinance projects in Dry Zone, Chin State and Delta area and (b) NGOs/associations under special agreements with certain government ministries usually in the context of a humanitarian approach, e.g., special agreement with Ministry of Health to implement a health project with a microfinance sub-component. The special agreements are the legal cover or basis that enables

¹ Discussed in detail in Chapter 5 of this Report.

those NGOs/entities to operate as de facto microfinance organizations (MFOs) and charge market-oriented interest rates.

11. A Survey Report prepared by local Myanmar experts states that of a total number of 17 NGOs, two UN affiliates (UNDCP and UNCHR) and 4 INGOs made a Memorandum of Understanding with the Government of the Union of Myanmar and also with the Ministries of Health and Social Welfare, while 7 INGOs have been functioning under the registration with the Ministries of Home Affairs and Cooperatives. The rest (4 INGOs) are working under the contract with the UNOPS.

12. The Team's observations and analysis indicate that for microfinance to develop further, the country has to move from the "special agreement" modality that is, from a mere permissive and somewhat liberal attitude given to NGOs and other similar entities to engage in microfinance programs and operations, charge market-oriented interest rates, etc., to a more formal approach, that is, having definite rules and regulations for the registration and operation of NGOs, etc, as legal entities that can engage in microfinance activities/operations.

13. The bottom line is that for the development of the nascent "microfinance industry" in the country, there appears to be no substitute to the formal recognition of NGOs/associations as legal entities allowed to engage in sustainable microfinance activities and operations without a legal challenge². Without the formal legal recognition, the NGOs/associations shall continue to operate "legally" only under special MOUs or agreements with certain line Ministries and broadly under a humanitarian context. Special MOUs or agreements have an expiry date in some future time and their renewal is a discretionary matter. This constrains their expansion plans and the further development of microfinance operations and activities.

14. Related to this is the fact that microfinance could be a secondary priority of some of those NGOs/associations because of the very nature of their special agreement with a given government ministry, e.g., their existence is chiefly for humanitarian purposes. This could result to a constrained development of microfinance in those NGOs/associations to the prejudice of thousands of microenterprises that could be potential beneficiaries of a more dynamic microfinance operation. Thus, it would be better for the NGOs/associations to have a legal basis for their microfinance operation that is more secure and more firm than the current special agreements.

15. The question now is whether it is possible to use the current legal frameworks for the establishment of NGOs/associations that can engage in microfinance. As stated by the Local Microfinance Team, "one of the currently outstanding issues in microfinance organizations today is the relevant application of a comprehensive set of financial laws and regulations and reporting, monitoring and evaluation system."³ The Local Microfinance Team further states that "many microfinance organizations now on the fringes of existing rules and regulations on one hand especially should be subject to banking regulations and supervisions. On the other hand, information and feedback is very useful for the Government to consider the process of how to develop and modify the existing rules and regulations through the feedback reports for

² An important element of sustainable microfinance is the ability of the MFI to charge market-oriented interest rates.

³ A Study on Saving and Credit Cooperative Societies, Cooperative Degree College, Regional College and Training School and Microfinance Organizations," Survey Report submitted by the JICA Local Microfinance Team to the Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy, August 15, 2002.

monitoring and evaluation process.” However, this statement seems to presuppose the legal registration of NGOs/associations that would be engaged in microfinance. This is because unless those NGOs/associations are legal entities registered under some legal framework and not merely under a “special agreement” there would be nothing to “subject to banking rules and regulations.

16. Unless the non-governmental organizations (NGOs) and associations operating under special agreements have an appropriate formal legal framework, they face the threat of being subjected to banking rules and regulations that may have little to do with sustainable microfinance⁴. It is admitted though by the local experts/researchers that a feedback process, in other words, open communication between the Government and those entities will be a useful mechanism for developing an appropriate legal and regulatory framework.

17. This points to the need for the Government and the emerging microfinance organizations, that is, the afore-cited NGOs/associations/practitioners to work for a formal legal registration of microfinance organizations. At present, the microfinance organizations (MFOs) are considered “semi-formal financial institutions not regulated by Banking Authorities in pursuance of the Banking Laws and Regulations.”⁵ But it was pointed out by the local experts/researchers that “even semiformal institutions are usually in need of being registered for their entities subject to all relevant regular laws.”⁶

18. A cursory review of existing laws, e.g., financial institutions law; organization law, indicates their inadequacy in meeting the purpose of registering NGOs/associations that are officially and legally sanctioned to engage in microfinance operations. Part of the reason is that the very limited local experience in microfinance, this being a phenomenon introduced to the country by the three UNDP (microfinance) projects. Thus, the legal framework is unable to respond to the felt need for the recognition of the entities concerned as formal and legal microfinance organizations. The lack of an appropriate enabling legal framework and the relatively weak managerial environment for the existing NGO-MFOs bars the entry of managerial expertise (except by way of “special agreements”) and financial capital for microenterprise development.

19. The positive side of the current situation is the opportunity given to the country to craft an enabling legal framework that would lay down the basis for sustainable microfinance in the

⁴ The other main problem is the interest rate restrictions but this is not discussed in this Chapter. The First Report has adequately discussed this issue. The experience of MFOs/NGOs/associations leads to the necessity of reviewing the current policy on capping interest rates at 15% per annum when field data revealed that sustainable microfinance operations would only be possible under a regime of flexible interest rates. Field observations noted the ingenious way local practitioners have found a way out of the interest rate constraint, e.g., Saving and Credit Cooperative Societies organizing and owning pawnshops. These are done under existing legal frameworks. However, there is always the fear that there uneasiness of policy makers over flexible interest rates could lead to decision to apply the interest rate restriction even to semi-formal entities engaged in lending activities. The present equilibrium becomes somewhat unstable and this constrains future expansion plans of MFOs/practitioners.

⁵ Survey Report of the JICA Local Microfinance Team. The Local Microfinance Team calls those NGOs/associations currently engaged in some form of microfinance operations as “microfinance organizations (MFOs).”

⁶ Local Microfinance Team of Experts

country and to the extent possible drawing from so-called best practices. An appropriate enabling legal framework could also pave the way for the entry of international NGOs in the local microfinance markets drawn by the potential to reach a vast number of microenterprises in the country in a sustainable manner. The INGOs could bring much needed managerial expertise and financial capital for microenterprise development.

Options for a legal framework

20. A few practical options are available for local policy makers to address this lack: (i) amendment of existing laws to accommodate the microfinance operation of NGO-MFIs; (ii) passage of a new law allowing the creation of a new category of NGOs providing financial services; (iii) registration of the microfinance project as a Trust Fund or a foundation with official confirmation or policy statement on its application to MFIs if needed; (iv) official confirmation or policy statement affirming or supporting the operations of NGO-MFOs and/or overriding the limitation on the type of services NGOs can offer/provide; and (v) official or policy statement affirming that the Money Lenders Act does not cover the Saving and Credit Cooperative Societies.

21. Local effort should therefore be directed toward evaluating the practicability of the proposed options or other options. The adoption of any of these initial options or other similar options will of course depend on the political willingness of policy makers to change the legal landscape affecting potential microfinance providers. The ultimate objective of the policy or legal change is to create an enabling environment for microfinance providers/practitioners subject to conformance with industry standards and reporting system on NGO-MFO financial and operating performance to ensure consumer welfare and adherence to the responsibility of monetary officials over the stability of the financial system.

22. The options are not necessarily mutually exclusive. However, adoption of at least one of them is believed to be necessary to establish the firm legal footing of NGO-MFO operations.

23. **Amendment of existing laws.** Amendment of the financial institution's law to recognize the organizations/associations now implementing microfinance projects as specialized credit intermediaries governed by the Financial Institutions Law appears as one of several options. Recognition of the MFOs/MFIs as such will immediately clear the path for those MFOs/MFIs to function as legitimate financial/credit institutions. The immediate drawback of this option is that recognition of the MFO or MFI as a specialized credit intermediary or even a specialized financial institution under the Financial Institutions Law puts it immediately as one of the financial or credit institutions directly regulated and supervised by the Central Bank of Myanmar and more specifically, subject to the interest rate ceiling impose on financial institutions. The JICA Microfinance Team has observed that this is an inopportune time to introduce regulation and supervision over microfinance institutions/organizations given their current state of development and the lack of capacity to regulate and supervise. The immediate task is to provide MFOs/MFIs the legal basis for operation as sustainable microfinance institutions. Chapter 1 has stressed this point. Now an amendment of the Financial Institutions Law may solve the problem of legal registration of MFOs/MFIs but may equally introduce a difficult constraint to further development of microfinance in Myanmar.

24. Enactment of a new law recognizing MFOs/MFIs. Another option is for the government to enact a new law recognizing and allowing the legal registration of organization/associations/projects implementing microfinance and providing them the necessary authority to function as credit intermediaries. This is an attractive option because everything can start from a clean slate, so to speak. The new law can provide for the authority of MFOs/MFIs to function as legitimate credit institutions/intermediaries, charge cost-recovering or flexible interest rates, engage perhaps in a limited deposit-taking (from members only) activity, etc. The potential problem with providing limited deposit taking authority, even if only from members, is the negative reaction of banks who may be affected by the loss of potential clients, especially those that deposit with the banks and the Central Bank of Myanmar's fiduciary concern. On the other hand, the authorities should weigh the benefit of starting from a clean slate and the cost of the banks' reaction (and even of the Saving and Credit Cooperative Societies) and the possible fiduciary concern of the Central Bank. However, if limited deposit taking is not made part of the new law, then the fiduciary concern becomes moot and academic. The other issue concerns the potential competition to the banks that MFIs/MFOs will provide in the credit markets. However, on closer look, the banks may not really complain about the micro-credits provided by the MFIs/MFOs because these serve a different market. The point of complaint might be the flexible interest rates that may be allowed to MFOs/MFIs by the enacted special law.

25. It is submitted that the lack of a limited deposit-taking authority would not necessarily put at risk the viability of the operations of the MFOs/MFIs. In other words, the priority should be the legal recognition and registration of those MFOs/MFIs as credit institutions

26. Another problem that may arise is the risk of the inclusion of certain provisions in the new law that may prejudice microfinance development. There is always the risk that legislators may use the special law as a vehicle to advance parochial or political interest. For example, there could be a provision where the MFOs/MFIs are legally mandated to provide microcredits to politically-targeted groups, e.g., an interest group in the community. There may be a provision that caps the lending interest rate to certain groups. Thus, loan quotas, capped interest rates or a combination of these two may find their way into the special legislation in exchange for the legal registration of MFOs/MFIs. This is a serious concern and a drawback of this option.

27. Inapplicability of the Money Lenders Act (1945) to Credit and Savings Cooperative Societies. There is great merit in having a clear and direct statement that complements the High Court landmark decision regarding the inapplicability of the Money Lenders Act to credit and savings cooperative societies. As earlier observed, those societies can be legally registered; they can even establish equally legally registered pawnshops. Such statement would therefore boost the opportunities and decisions of Saving and Credit Cooperative Societies to be involved in microfinance.

Building policy makers' and regulators' capacities

28. Effective regulation and supervision are a matter of building sufficient capability. At this time, there is no capacity to regulate and supervise microfinance in the current stage of development. Moreover, there is yet no sizeable mass of viable microfinance institutions that will require regulation and supervision. However, this is not to say that building policy makers' and regulators' capacities is not important. Rather, the present time presents the opportunity for the future regulator, e.g., Central Bank of Myanmar, to start the long process of building capacity. Meetings with government ministries and agencies involved in microfinance revealed

the deep desire to build local capacity in regulating and supervising microfinance in the future when the occasion and justification for regulation and supervision of microfinance institutions shall have been established. Meanwhile, local microfinance practitioners, that is INGOs involved in microfinance, local associations/foundations have the responsibility to adapt the best practices in microfinance.

29. To build this capacity, field exposure to regulation and supervision as practiced in other countries where microfinance is more developed, intensive training, setting up of adequate institutional structures and budget are necessary.

30. Donor agencies such as UNDP and JICA can play a major role in helping build the regulatory and supervisory capacity for microfinance in Myanmar. Capacity building courses and field exposure, assistance in product development and technology transfer, provision of international experts to do in-house training, among others, are some of the areas where donor expertise and resources can be fruitfully utilized.

31. Early in the attempt to build regulatory and supervisory capacities, it will be important to establish to policy makers that effective regulation and supervision that ensure sustainability of MFIs are not necessarily incompatible with the poverty alleviation objectives of microfinance. Sustainable microfinance works for the benefit of the target poor and thus, there is not necessarily a trade-off between the development objectives of poverty alleviation and sustainability of MFIs. This calls for a consistent advocacy of this view with the Government and practitioners.

32. Another issue that has to be clarified with the Government, the Central Bank of Myanmar and practitioners is the promotion of microfinance. There are no clear-cut, guiding principles on this issue as the experience of various countries vary. In some countries such as India and Indonesia, the regulators provide to some extent promotional support. This contrasts with the practice in Bolivia where there is a clear delineation of roles where the regulator's main role is to create an enabling environment for MFIs. Promotion is basically a task borne by the government⁷. Where human resource expertise is scarce, it is sometimes the case that both promotional and regulatory roles are initially lodged in one government entity. However, this may stand in the way of developing early enough an arms-length regulatory and supervisory stance vis-a-vis MFIs. Because circumstances differ across countries, it will be useful to discuss this and other pertinent issues with various stakeholders, including donors such as JICA, in order to have a coherent and consistent road map for microfinance in this country.

33. On the efficiency issue, it can be expected that practitioners will want to exercise flexibility and innovation which are the hallmarks of successful microfinance operations on the one hand. NGO-MFOs-MFIs have increased (some have prospered) under an unregulated environment and away from the scrutiny of government regulators/supervisors. On the other, regulators and supervisors will work for a legal and regulatory framework that emphasizes or ensures the safety and soundness of the MFIs. The latter will sometimes adopt a conservative and traditional approach to regulation and supervision. This is an area for mutual learning of the Government and practitioners with assistance from donor agencies such as JICA.

34. From this perspective, the design of a legal and regulatory framework for microfinance in Myanmar should consider the factors for sustainable microfinance in the future. Hannig and Braun (2000) say that the major concern is how to ensure sound and safe microfinance operations in the long term. They maintain that the design of a regulatory framework must be

⁷ See Hannig and Omar (2000).

based on a strategic perspective to set the market parameters for the future as a foundation for sustainable growth. We believe that it is the regulator's duty to anticipate and prevent the worst-case scenario, rather than simply legalise current practices.

Establishing performance standards⁸

35. Regulation and supervision are not yet warranted in the current stage of development of microfinance in Myanmar. However, this does not preclude the importance of starting the establishment of benchmarking and performance standards for the microfinance industry. The performance standards are a basic financial infrastructure that shall strengthen the microfinance industry and help clients make informed choices on which MFO/MFI to do business with.

36. It is now commonly known that microfinance is not the same as traditional banking. Microfinance is about innovative products for poor clientele, the use of unconventional collateral, e.g., cash flow based lending, character lending, etc., rapid turnover of loans, short loan maturities, peer pressure to enforce discipline among groups, etc. There is great flexibility and innovation in microfinance practices and a wide array of lending methodologies but there is a great need to ensuring the quality of microfinance institutions.

37. To ensure the quality of MFOs/MFIs/NGOs in Myanmar, there is a need for MFOs/NGOs/associations in the country to adhere to a set of performance standards that provide critical information required by donors, clients, the government and the management of those organizations. Performance standards serve both external and internal objectives and may function as a screening and sorting mechanism to discriminate between sustainable and unsustainable MFOs.

38. The establishment of a set of performance standards should be complemented by a periodic information disclosure of MFOs/MFIs, that is, their respective balance sheets and portfolio statements for scrutiny by the market. This will put a premium on good performance. The publication of reliable and relevant data has to be ensured to give the information disclosure credibility. There is thus, a need, to have reliable and accurate information/data on MFOs/MFIs. Standard chart of accounts, accounting standards and accounting manual for MFOs/MFIs are major prerequisites for the establishment of performance standards and for credible disclosure of data.

Information exchange between government and practitioners

39. The establishment of an open communication system, e.g., through a "Microfinance Forum," that engages the Government, practitioners, experts, donors and other interested stakeholders in a continuing dialog in a formal or informal setting is indispensable for further development of microfinance in Myanmar. The Philippines and Cambodia, among others, have effectively used this mechanism to ventilate issues affecting microfinance in their respective countries and to arrive at agreements, conclusions and recommendations, etc through a consensus-building effort displayed in such forums.

40. Field observations and experiences shared among participants in the (formal or informal) forum could be the source of pertinent decisions and policy-enhancing measures that

⁸ Performance standards are discussed in detail in Chapter 9 of this Report.

will strengthen the microfinance industry and expand outreach to a greater number of poor households.

41. Other avenues for information exchange should be explored and utilized if found feasible, e.g., seminar, workshops, lectures, publication and circulation of micro-finance industry data and field experiences, etc. The greater the public and the various stakeholders' awareness of the performance, situation, outstanding issues faced by the nascent microfinance industry in the country, the better are the chances of having reform measures introduced. Again, the experience of other developing countries that have flourishing microfinance industries can serve as a proof that information exchange is an indispensable tool to further improve microfinance.