Chapter 8

Establishment of a Body for Credit Policy Coordination for Microfinance Development

Introduction

1. This chapter reports on the comparative studies of Philippines and Myanmar microfinance institutions and establishment of the policy making and coordinating body of NCC for market-oriented financial and credit policy with the main tasks of policy formulation, adoption, coalition, standardization, amendments and removal of constraints and weaknesses of the existing financial system. In the context of successful implementation of MFIs projects, the main objectives are poverty alleviation and rural / community development for targeted small poor borrowers.

The Nature of Microfinance

2. Microfinance differs from other forms of finance. Non-collateralized loans are disbursed to solidarity group members. Lenders from microfinance institutions are used to paying visit to borrowers' houses both at the time of disbursement and loan collection. At the time of repayment, loans are collected in small amount accompanied with the tiny amount of savings. Follow on loans are guaranteed based on proper repayment. Each consecutive loan after one cycle by another cycle is gradually increasing higher and higher in amount. Microfinance creates self- employment opportunities by raising the poor people's income through micro-financial services.

3. It especially encourages the empowerment and capacity building of women in particular and other poor in general. Microfinance helps the poor families improve their daily diet, send their children regularly to school, increase their spending more on health care, and alleviate poverty. Generally, microfinance is one of the effective tools for poverty alleviation and rural / community development. In this context, various micro financial service providers are operating various programs in Myanmar.

The Micro-finance Environment in Myanmar

The Role of MADB in Rural Finance

4. Provision of agricultural credit to the peasants is the main responsibility of Myanma Agricultural Development Bank (MADB). The main aim of the Bank is to effectively support the development of agricultural, livestock and rural socioeconomic enterprises in the country by providing banking services. MADB provides seasonal crops production loans, term loans and area development loans. The seasonal loan covers nine major crops such as paddy, ground nut, sesame, mustard, long staple cotton, jute, sugar cane, maize and four kinds of other beans. MADB also provides a portfolio for term loans. They are for farm investment and farm development. Over the last (20) years, (20) portfolios have been disbursed as loans for purchase of farm implements like pump-sets, power tillers, draught cattle, bullock carts, for growing orchard plantation, for solar salt production, for small scale livestock raising and fish farms and integrated farming projects.

5. Under the program for development of border area and national races, loans at a concessionary interest rate of one percent for plantation crops in Chin State as for poppy substitute in ***Wa*** region, same rate for draft cattle, carts and farm machineries in ***Kabaw*** Valley have been provided with special fund allotted by the government. By the way MADB, a State-

owned bank, continues as a major source of institutional credit for small-scale farmers to bring about all round development of agriculture in the country.

The role of INGOs in Microfinance

6. Under the umbrella of 10 UNDP-funded Human Development Initiative projects, Micro-finance project with 3 affiliates in the form of INGO has been operating in 11 townships in three geographically and socio-economically distinct regions of Myanmar. The name of the project is ***Sustainable livelihoods through Microfinance for the poor***. The project aims at providing micro-financial services to rural poor families who are not normally and traditionally entitled with even micro credits from the formal banking system. The overall objective is assisting the poor to improve their living standards by facilitating them for their own creation and promotion of self-reliant micro-income generating opportunities through the provision of small-scale credit.

7. The project is unique in terms of implementation arrangements, as three International NGOs selected by United Nations Office for Projects services (UNOPS) have been implementing in the said three different areas on subcontract basis since 1997. PACT (USA) is an INGO operating at three Townships in Dry Zone, Magwe, Kyaukpadaung, and Chaung U, covering the outreach of 487 villages with 47087 active borrowers. The total loan disbursement is accumulatively about k. 1.6 billion in the period of 1995-2001.

8. Grameen Trust in Ayeyarweddy Delta covers 3 townships and outreach in scale is 567 villages and over 21000 active borrowers. The accumulative loan disbursement up to the year 2001 is over k. 1 billion. The recovery rate is very good and successful now. In case of Southern Shan State, the GRET (France) is facilitating micro-financial services in 5 townships. As of end December 2001, the project covers 347 villages together with about 15000 active borrowers with the total accumulative loan volume of k. 700 million. GRET is striving to be self-sustaining and officially recognized to pay micro-financial service to the needs of rural poor in the Shan State.

9. The pilot project of Center for Integrated Rural Development Asia & Pacific (CIRDAP), funded by Japanese Government has been operating since 1999. Their objectives are capacity building and empowerment of women self help groups through micro-credit, financial and social mobilization. At present, the Directorate of Agricultural Planning is implementing the project and now the process is going on successful in 3 villages.

10. Community Development in Remote Townships Project (CDRT) is being operated by GRET in Chin Hills and border areas. As of end January 2001, 84 village credit schemes had been formed covering over 8000 households with the accumulative loan volume of over K.70 million. All loan cycles have been completely successful by the repayment rate of 100%. They became self- sustainable to run intensively and extensively further in future.

11. During the project term, the beneficiaries concerned earn the following benefits. The income of beneficiaries increases substantially. Their savings are also mobilized as a built-up asset to a certain extent. Their housing conditions also improve. They can send their children regularly to schools for basic education. Their dependence on informal moneylenders also decreases.

Local Microfinance Providers

12. Another institutional source for delivery of credit and saving services are the cooperative societies. There are 1721 cooperative societies with 430,000 members enjoying the total accumulative loan volume of over k. 6 billions. At present, due to the lack of sufficient collateral most of them are unable to borrow loans from state-owned and private banks, the main stream banking institutions, and met difficulties to expand the loan volume as well as outreach.

13. The next source for micro-credit is the licensed pawnshops owned by Small Loan Enterprise and private pawnshops. The ordinary people at low- income brackets are getting micro-loans from those pawnshops against gold collateral at the monthly interest rate of 3% charged by government pawnshop and 3%-5% by private pawnshops. The clients are mostly rural farmers borrowing for buying agricultural inputs as well as home consumption.

14. National NGOs such as YMCA, YWCA, MMCWA, MWEA are also dealing with microfinance activities on pilot basis. Some of them have achieved impressive outreach at the experimental stage (the detail is analyzed in chapter 4). Overall, there are varying degrees in capacities in institutional, financial, and governance aspects among NGOs, cooperatives or pawnshops in delivering efficient financial services to the poor.

The Impact of Micro-Finance

15. Each human being, however poor, might have the essential production skill to ensure his/her survival. Each person is also very keen to acquire and develop basic productive skills for relevant modifications on the products to be more marketable and profitable in the market. The traditional banks have altogether failed to provide the poor who cannot pay collaterals. Access to credit is the most fundamental of all human rights. One can meet the other basic needs like food, shelter, schooling etc, if one has an opportunity to access to credit.

16. Micro credit programs target at the poor has now become a worldwide approach for poverty alleviation. In micro credit programs, material collateral has been now replaced by group responsibilities using social peer pressure. So poor men and women can receive credit for any income generating activity with the agreement to guarantee and monitor the contractual obligations of other group members. Microfinance creates self-employment opportunities by raising the poor people's income. It especially encourages the empowerment and capacity building of women in particular and that of the other poor people in general. Microfinance is the best tool for poverty alleviation and rural / community development for which our country is now striving with great momentum.

<u>Lessons learnt from Philippines</u>

17. The effective and fruitful experiences are gained from Philippines study tour. The strong encouragement and law enforcement by Philippines government towards the goal of poverty alleviation and rural development are very outstanding. We have experienced the active role of the Ministry of Finance in Financial Sector reforms especially in Microfinance. Opening a separate department to deal with micro-financial matters, the Central Bank of Philippines shows keen interest for the promotion of microfinance in line with government's policy.

18. We also found that the directed credit programs (DCPs) carried out by State owned banks and line agencies were terminated and the wholesale micro-financial services were being conducted through LNGOs for poor clients or grass-roots to promote microfinance. Government banks and departments gave up the subsidized lending, which was ineffective and unnecessary workload on the Government. MFIs are obtaining a lot of financial support from International organizations like ADB, Spanish government and UNDP. They have been sustainable and feasible under the favorable Government's interest rate liberalization policy.

19. We also gained the experiential knowledge on the successful achievements made by CARD Bank taking the leading role of Microfinance in Philippines. As a private Bank, CARD does not get tax exemption like MADB. But CARD pays a lot of tax to their government and famous as a chief taxpayer whereas MADB has been paying a lot of yearly financial contribution to the State out of the net profit. Finally, the women participation in self-empowerment and capacity building training is very outstanding in decision-making process in Microfinance of Philippines.

Study Tour Experiences from Philippines and Background

20. Subsidized directed credit programs (DCPs) have a long history in the Philippines. More than 400 years ago, Spain provided such loans in its colonies to stimulate the production of export crops such as tobacco and paddy. Americans likewise promoted various subsidized credit programs in the Philippines towards social and economic development goals. After World War II, the use of subsidized credit expanded rapidly especially in rural and agricultural development programs. In the year 1950s, Directed Credit was the major tool, used to solve the problems of insurgency in rural areas. Aimed at food production in 1960s and early 1970s, those loans were also widely disbursed to promote the production of industrial raw materials, exports and import substitutions. The World Bank and AID (Agency for International Development) eagerly supported in many of these efforts by the late of 1970s.

21. Directed Credit Programs had been the government's policy tool to give target borrowers access to formal credit at subsidized interest rates. It was found out that most of government credit programs were ineffective because it was not really helping the target beneficiaries due to political pressure and very low repayment rate. Even though the government subsidized loans, the people mentality was that the government's loans were no need of paying back. According to these findings, the government decided to stop its lending operation through its line agencies.

22. During the late 1970s and early 1980s, the performance of those DCPs programs was at failure due to following weaknesses: -

- ✓ Not effective in reducing poverty.
- ✓ No positive effects on investment and production.
- ✓ Weaken the ability of financial market for financial mobilization.
- ✓ The type of lending was inefficient in boosting development efforts:
- ✓ Serious causes on loan recovery problems:
- ✓ Allegation of corruptions:
- ✓ Financial burdens to the government:
- ✓ Waste of fund out of Government's budget allocation:

23. The above issues and disadvantages of subsidized DCPs led to start major reforms in financial markets in the early 1980s. Those reforms kept the country away from subsidized credit system to more market-oriented financial-market. Major changes included eliminating most concessionary rediscount lines in the Bangko Sentral ng. Philippinas.

24. These experiences pushed the government to come up with a national strategy on Microfinance (MF). One highlighted strategy is more active participation of the private sector in terms of delivery of microfinance services. The national strategy for MF also states that government line agencies will no longer provide credit fund on retail basis but to identify the private financial sources for wholesale lending. On the other hand, MFIs are allowed to cover their costs by charging interest that will ensure the continuity of the operation and its institutional sustainability. In 1998, two laws were passed for MF - Poverty Alleviation Act and Agricultural and Fisheries Materialization Act.

Policy Environment for Microfinance

25. The policy environment for microfinance is largely dependent on the Government objectives regarding the poverty alleviation through the viable and sustainable financial institutions. In Philippines, the supply led approach through DCPs has played a prominent role in Microfinance entailed large fiscal costs without solving the problem of access to credit by the poor.

26. In order to identify ineffectiveness and inefficiencies, the Government's intervention in the credit market were observed through various studies. Because of those failures, Government should reconsider and introduce new programs in line with the appropriate policy and regulatory framework for the efficient functioning of the markets, allowing the private sectors to participate in the provision of retail financial services to the targeted small borrowers. With this main task of rationalizing DCPs, National Credit Council was established as an interagency body to determine and recommend reforms in 1993 under Credit Policy Improvement Program. As a member of NCC, Bangko Sentral of Philippines had taken a number of promotion activities to support microfinance. NCC within the Ministry of Finance will contribute to the Philippines Government's efforts to rationalize its financial support to DCPs and make credit delivery to the low-income borrowers in line with national strategy for MFIs.

27. Capital source by donors, limited borrowing from commercial source, limited reliance on members' savings and using innovative lending techniques are four characteristics of NGOs in Microfinance. In the 1970s, Directed Credit Programs were mainly implemented in the agriculture sector. Loan-able funds were earmarked for direct available by targeted borrowers at highly concession rates. The funds came from three sources - government budget, special time deposits at the Central Bank and the Central Bank's discounting window. Specialized banks such as rural banks, development banks, and government's financial institutions were extending most of the loans under the DCPs. Massive credit subsidies were provided to bring down the cost of borrowing for target sectors. This resulted in credit rationing of small borrowers. Deposit mobilization was also neglected due to the availability of cheap loan-able fund from the Government.

Current Position of MFIs in Philippines

28. Philippines Microfinance Institutions can be classified into rural banks, credit granting non-governmental organizations, (NGOs), Credit Unions and cooperatives. These institutions cater to the demand of small-scale borrowers for savings business or personal financing. The MFIs market includes market vendors, tricycle operators, petty traders, micro entrepreneurs and other small-scale borrowers. MFIs controlled assets are only four percent of commercial banking assets but have twice as many client outreaches. An important point to consider is among three types of MFIs, Rural Banks and Commercial Banks are under the supervisory body of Bangko Sentral. Credit NGOs are to be registered at the Securities and Exchange Commission. Non-profit and non-stock entities are practically left unregulated. Credit cooperatives are registered at the Cooperative Development Authority. Credit Cooperatives often report good financial performance but verification is difficult.

29. Philippines livelihood programs differ in three aspects. (1) Government line Agencies implements the program in addition to their formal functions, (2) reliance on NGOs to perform banking function and (3) NGOs are subsidized by the Government. The programs serve near poor and non-poor households more than ultra-poor households. Programs are being implemented in the regions better endowed with infrastructure for the residents with above average incomes. The benefit cost ratio of major livelihood programs are unfavorable. The effectiveness on employments and income are negligible. Repayment rates are unsatisfactory due to the lack of willingness-to-pay-back and insufficient debt payment capacity.

MFIs legal Framework in Philippines

30. The Philippines has a wider range of formal, semiformal and informal institutions providing microfinance services to the urban and rural poor. Financial intermediation and credit activities are under the regulatory jurisdiction of Bango Sentral ng Philippinas (BSP). The General Banking Law of 2000 provides adequate room for banks and quasi-banks to have foreign equity content. Limited liability companies, cooperative associations, non-profit foundations and private lending investors are providing microfinance services.

31. The formal sectors institutions directly or indirectly providing microfinance services consist of commercial banks, thrift Banks, non-stock saving and loan associations. Thrift Banks, Cooperative Banks finance Companies, private lending investors and pawnshops, credit unions and savings and credit cooperatives are included in the formal sector although they are outside the coverage of General Banking Law and the jurisdiction of BSP. Private owned Commercial Banks, Thrift Banks, non-stock saving and loan associations, Rural Banks, Finance companies are registered and licensed at BSP. Private lending investors and pawnshop are registered at the State Special Exchange Commission (SEC). Traders, input suppliers, and moneylenders constitute the informal segment of the microfinance market in the Philippines. In recent years, Philippines government has highly recognized the role of micro-finance to be in pursuance and relevance of national policy adopted in 1997.

The Role of Bangko Sentral Ng Philippinas

32. The Central Bank of the Philippines was established in 1949. The Monetary Board authorities pursued the repressive financial sector policies; exchange controls, selected credit policies; funding to preferred sector and used the BSP's discount window for allocation of

subsidized credit to private banks, cap on interest rates and direct involvement of government financial and non-financial institutions in providing credit to target sectors.

33. In the 1980s prior to reform, BSP employed a wide range of repressive legislation measures in 1993 gave BSP independence and a mandate for price stability. Since 1993, some of the most important reforms have included creation of a new and more independent Central Bank, the privatization of Philippines National Bank and the liberalization of the foreign bank entry. Further banking sector reforms will strengthen the financial system and provide better financial services to the general population. BSP has agreed on a sector reform program with IMF and the World Bank.

The Establishment of National Credit Council in Myanmar

34. In Myanmar, there are several service providers for micro credit in the different fields by the different sources of fund, different interest rate settings, and different methodologies, going on with different degree of sustainability and viability.

35. Most of these programs do not have the criteria of outreach and sustainability that will ensure that access to credit for small and marginalized borrowers are met for long term. In the establishment of Myanmar National Credit Council (MNCC), the followings are to be taken into consideration:

- ✓ Development of MFIs in Myanmar reaches the objectives to provide the small scale borrowers access to credit resources, to raise the average loan size and to expand the target clienteles outreach in terms of scale and in depth or the level of poverty.
- ✓ Development of micro-credit program is on its sustainability, its own terms, administrative cost, and other relevant costs through its own operational revenues.
- ✓ To complement the efforts on sustaining of MFIs, by allowing them to adopt cost-recovery based or market based interest rates, directly removing barriers for development, and supporting capacity building of MFIs, etc.
- ✓ Formulation and all adoption of alternative mechanism for the delivery of credit services: allow small borrowers access to credit by tailoring best lending practices to the borrowers' needs: the establishment of an appropriate regulatory and supervisory environment.

36. Microfinance movement in Myanmar is very similar to that of the movement in Philippines where seven varieties of organizations estimated number of 2362 is running their micro-financial services according to their models, well organized under National Credit Council under the Ministry of Finance. In Myanmar, one state owned specialized development Bank and one state owned small loan enterprise are operating with countrywide network. There are also privately owned pawnshops, saving and credit cooperative societies, INGOs, and LNGOS are also financing micro-credit to the small borrowers in different fields all over the country. They are working with their own models of ownership, governance, institutionalization, methodologies and interest rate settings. Those different organizations should improve their methodologies by exploitation of MF technologies, and Myanmar National Credit Council in the Government would support the information exchange among them including success, failures, and promote establishment of performance standards of MFIs.

Myanmar National Credit Council

37. The establishment of Myanmar National Credit Council is to be taken into consideration as a main body for credit policy-making, coordination, and creation of market oriented financial and credit policies under the close supervision of the Ministry of Finance as it is done in many countries including Philippines. It will also monitor the development process - coalition of microfinance agencies and evaluation of each agency according to Myanmar micro financial standards. In the composition of MNCC, the following Ministries & Organizations are to be taken into consideration:

(1) Representative of the Ministry of Finance and Revenue
(2) Representative of the Ministry of Planning & Economic Development
(3) Representative of the Ministry of Cooperatives
(4) Representative of the Ministry of Home Affairs
(5) Representative of the Ministry of Border Area Development
(6) Representative of the Ministry of Agriculture
(7) The Representative of the Central Bank of Myanmar
(8) The Representative of Bankers' Association
(9) The Representative of Central Law office
(10) Director General of the Cooperatives

Chapter 9

Microfinance Coalition and Performance Standards

The Advantage of a Microfinance Network

1. In a number of countries where the microfinance sector has taken off and have flourished, stakeholders have solved the problem of inadequate information on the sector by coming together to form an association composed of practitioners in the field, advocates, regulators, policy makers and donor agencies. These groupings call themselves by various names: networks, alliances, associations or councils. These networks generally start with the objective of sharing information on best practices—what works and what does not work in the field. As the founders feel more comfortable with each other, the association moves on to organize training sessions for the benefit of the network members. The members of the association or network starts to have confidence in each other which triggers interest in developing performance standards for microfinance. The resolve to improve their standing in the local financial markets by developing performance standards leads to gains in terms of credibility in the community.

2. Building a local network of microfinance institutions is an important part of any initiative to make financial systems work for the poor. Apart from serving as a repository of information for the microfinance sector, networks also serve as bridges of information to international networks. Local networks provide a two-way link to networks in both developed and developing countries, further enhancing the wealth of information and experience that could be made available to both practitioners and policy makers. Linked networks that make possible regular and periodic exchange of information have led to meaningful dialogues that have made possible breakthroughs or advances in field practice and policies affecting microfinance.

3. As an illustration, a majority of countries in Africa have formed national networks for microfinance that have greatly benefited practitioners. African national networks have gone further by forming the African Federation of Microfinance Networks (AFMIN). International donors are inclined to support national networks. From the donors' experience, a dollar invested in networks has a greater multiplier effect compared to a dollar invested in one single microfinance player. It is now common knowledge that networks are in a much better position to disseminate valuable information compared to a single institution.

4. In the case of the Philippines, like-minded microfinance NGOs initiated the formation of the Coalition for Microfinance Standards in 1996. The Coalition has a focused agenda: the formulation of Performance Standards for Microfinance Players. At that time, it was felt by the leading microfinance players that the industry needed to develop standards by which players will measure their performance. Standards were seen as an attempt to professionalize the industry, and raise overall industry performance. Stakeholders also believed that adherence to performance standards will raise the credibility of the industry among donors, loan fund providers, investors and even among microfinance clients.

5. The microfinance 'industry in other developing countries such as Bangladesh, the Philippines, Indonesia, etc., is moving at a faster pace than ever. Innovations in service delivery systems in those countries are breaking barriers to microfinance development. Successful innovations are making microfinance operations more cost efficient, sustainable and profitable. In some countries, microfinance operations have moved from margin to mainstream while maintaining their original mission of providing the poor permanent access to client-focused financial services. In short, the current discussion among those who have developed their respective capabilities is how to commercialize microfinance without mission drift. This stage has been reached because of the support provided by microfinance networks or coalitions and the implementation of performance standards that have helped in maintaining financial discipline among microfinance institutions.

The Advantage of a Similar Network in Myanmar

6. The microfinance sector in Myanmar is still in its embryonic stage. Three international NGOs—PACT, GRET, and Grameen are blazing a path towards sustainable microfinance in Myanmar by introducing service delivery methodologies that incorporate international best practices in microfinance. Other international NGOs, as well as local NGOs, are showing some considerable interest in introducing microfinance services and to learn from the experience of more successful programs. In addition to the NGOs, Saving and Credit cooperative societies, which have evolved as indigenous financial systems, are slowly trying to understand how microfinance can work in a big way for their own societies.

7. At this stage of microfinance development in Myanmar, there is no institution or agency that functions as a repository of information for microfinance in Myanmar. INGOS, experienced players in microfinance operate their respective projects in the way they know best, having gained considerable experience in microfinance operations in other countries before coming to Myanmar. New entrants, that is, local practitioners, on the other hand, have expressed their desire for information on how to deliver microfinance in a cost-effective manner and to have the capability for sustainable microfinance. They are aware that the demand for microfinance is large while resources to meet the demand are very limited and should, therefore, be efficiently used.

8. The JICA Microfinance Team proposes that a similar network composed of microfinance players, advocates, donors and representatives of relevant government ministries be organized in the country. Depending on the consensus regarding the network's objectives and work program, it could serve as repository of information on the microfinance industry in Myanmar. It could serve as a coordinating body for capacity-building programs. It could provide a regular forum of exchange of information, experience in microfinance practice in Myanmar, etc. The information such as performance data of microfinance players, among others, may be published by way of a newsletter that shall be disseminated to members and to interested parties. The network could undertake research projects required by government and the players in the industry. It could also link up with international networks to build up a wealth of information and experience that can be made available for use by the microfinance industry in Myanmar.

Step by Step Formation of a Microfinance Network

9. At the outset, it will be good to make membership in the proposed Microfinance Network as broad-based as possible. Membership could be drawn from NGO microfinance practitioners, Saving and Credit cooperative societies, local associations, banks, pawnshops, and government agencies/institutions such as the MADB, Ministry of Cooperatives, Ministry of Agriculture, Ministry of Commerce, Central Bank of Myanmar, etc., INGOs, JICA, UNDP and members of the academe.

10. The participants in the informal seminar-workshop convened through the Capacity Building Initiative could form the core of the network. Alternatively, the 3 INGO UNDP microfinance projects and some of the financially sound Saving and Credit cooperative societies identified in Chapter 5 of this Report and some of the NGOs and local associations identified in Chapter 4 of this Report could form the core.

11. The government agencies may attend the network's meetings, seminars and workshops on their own accord as observers. This is optional because those agencies may not be prepared

yet to take this task. At the opportune time, JICA/UNDP should involve representatives of government agencies whose who attendance and participation in meetings, seminars and workshops shall lead to a better understanding of microfinance in the country and best practices in other countries where microfinance has been shown to be sustainable. These government agencies and institutions shall be instrumental in providing support to future policy and institutional reforms that would benefit the microfinance industry.

12. If the proposed 'microfinance unit' in the government as proposed in Chapter 6 of this Report would materialize, then that unit could be a regular participant in the evolving microfinance network. The informal group could later on evolve as the formal microfinance network in Myanmar.

13. To ensure continuity of interest and involvement in microfinance and microfinance-related activities, there is need to establish a secretariat or small management unit for the Microfinance Network. The secretariat shall consist of technical personnel and administrative assistant to provide support to the Network.

Pro-forma Work Program of the Network

14. The JICA Microfinance Team hereby proposes a step by step process to build a proactive, credible and productive microfinance network for Myanmar. The network's major activities:

- Identification and agreement on a binding set of core beliefs and principles in the practice of microfinance;
- Definition of a common work agenda which is the promotion and development of the microfinance industry;
- Definition of the structure of membership in the network and agreement on the operating rules and procedures in the network;
- Establishment of an accurate database on microfinance practice in Myanmar. It will be important to supplement and improve the initial inventory of NGOs and Saving and Credit cooperative societies produced by JICA in Phase Two[1];
- Formulation and promotion of performance standards for microfinance;
- Advocacy for the establishment of the legal and regulatory infrastructure favorable to microfinance development in Myanmar and other policy change initiatives for microfinance development.

15. The step by step process enumerated hereunder is neither inclusive nor exhaustive. Activities and proposed time frames are enumerated for purposes of providing guideposts to the management of the proposed network. It is expected that members of the network develop a working attitude of flexibility and proactive social entrepreneurship to advance the interests of both the microfinance institutions and the clients who represent the poor in Myanmar.

[1] This initial work program is merely illustrative and is subject to the validation and approval by members of the Microfinance Network.

Proposed Network Activities for the next Six Months

16. It is proposed that JICA and UNDP initiate the formation of the network since the three UNDP projects are showing the way on how sustainable microfinance can work in Myanmar and JICA has provided crucial microfinance advice and analysis to the government and the emerging microfinance community in the country.

17. For practical reasons such as availability of logistics and the need for faster decision-making, the core group is to be composed of representatives from not more than ten to fifteen institutions. From the NGO sub-sector, the core group could be composed initially of representatives from PACT, GRET, Grameen projects, World Vision, SCFUSA, YWCA and Myanmar Council of Churches. The cooperative sub-sector shall be represented by 5 to 7 selected Saving and Credit cooperative societies from the Mandalay and Sagaing divisions. Representatives from UNDP and JICA will join the core group to lend logistical and secretariat support.

18. For the initial 3 months, the core group will be tasked to formulate core beliefs and principles on microfinance development in Myanmar. Other tasks will include: setting short-term goals and objectives, formulating operating rules and procedures and organizing the secretariat which may include hiring of one or two full-time staff.

19. The next 3 months will be devoted to expanding the membership in the network to include government agencies such as the Ministry of Finance and Revenue, the Central Bank of Myanmar, Ministry of Cooperatives if found strategically possible and opportune by the Network core members. Banks such as the MADB, the Cooperative Promoters Bank, and Kanbawza Bank will also be invited to join the network.

20. The network starts as an informal group or network and when the time is ripe and appropriate, it should register as an association of promoters of microfinance in the last six months of a one-year work plan. However, it should not wait for the legal registration before it starts to implement a work program drawn by the membership with expert advice from JICA and/or UNDP.

Proposed Activities for Months 7 to 12

21. The network is expected to coordinate closely with government agencies in formulating policy changes conducive to a favorable environment for microfinance development in Myanmar. The network is proposed to actively participate in formulating an action agenda to address issues on legalization of MFIs and interest rate policy. The network is also expected to provide valuable inputs in the formulation of the proposed national strategy for microfinance. To efficiently work on these issues, it is proposed that the network should establish technical working groups (TWG) to address the issues. A TWG may be composed of 3 to 5 members. Separate TWGs shall be organized to address specific issues: one group on legalization of MFIs, another group on interest rate policy and another group working on the proposed national strategy on microfinance. Alternatively, because of the scarcity of the country's human resources familiar with microfinance, one or two TWGs may suffice. The important thing is for a dedicated TWG to maintain focus on its task and to earnestly work for its resolution.

Activities for Year 2 and Year 3

22. The major output of the network in year 2 and year 3 is the formulation and adoption of performance standards for microfinance institutions in Myanmar. A two-track approach may be undertaken to formulate performance standards. The first tract will be to establish performance standards for NGO MFIs; the second track to establish performance standards for financial cooperatives, that is, the Saving and Credit cooperatives. It is proposed that two separate TWGs be organized within the network to undertake the task of formulating performance standards for each sub-sector.

23. In year 2 (months 13 to 24), the technical working groups should ideally come into agreement on the following: standard definition of financial terms, ratios and adjustments in microfinance, standard financial reporting formats, and standard chart of accounts. The network shall be assisted by JICA Microfinance Experts in the task and processes needed. Activities during the year will include meetings within technical working groups and sub-groups, regional consultations and building consensus and agreements.

24. The first 6 months of year 3 (months 25 to 30) will involve formulation of the performance standards and securing agreement and acceptance of the practitioners of the standards. The next six months of year 3 (months 31 to 36) will include activities related to the promotion and adoption of the standards.

25. To generate continuing interest on and support for the performance standards, country visits for leaders of the network may be organized during years 2 and 3. The leaders of the NGO sector may be encouraged to visit MFIs in Cambodia, Bangladesh and the Philippines. Leaders of the cooperative sector could visit financial cooperatives in the Philippines. During these years, the Myanmar microfinance network shall establish ties with other Asian networks and international networks to enhance lateral learning.

26. Simultaneous activities in years 2 and 3 shall consist of the periodic tracking and evaluation of the performance of the leading ten (10) MFIs in Myanmar. The performance tracking and evaluation shall be undertaken with the assistance of the JICA Microfinance Team who may be asked to perform the initial performance evaluation to identify strengths, weaknesses and opportunities for more growth for the MFIs/MFOs concerned. Initially, the number could be five from the NGO sector and five from the financial cooperative sector. As the industry develops, the tracking of performance could be expanded to 20 in year 3. In year 2, the network will track the performance of the Myanmar 10, expanding this number to Myanmar 20 by year 3. The performance tracking and evaluation will try to identify trends in the capital structure, asset quality, efficiency and productivity indicators and sustainability indicators. Updated performance tracking and evaluation will help the TWGs in the formulation of standards. Once the standards are finalized, these have to be discussed in seminars and workshops to gather acceptance and support for implementation.

Activities in Year 4

27. In order to address possible ruinous competition and credit pollution arising from new entrants with little knowledge of microfinance best practices and standards, the Network will

draft a Code of Ethics or Code of Conduct for Microfinance Institutions. After securing consensus on the Code of Conduct, the network shall push further the issue by drafting a Code of Practice essentially to protect the microfinance client from possible abuses and unfair practices of MFIs. The Code of Practice partakes the nature of a Consumer Protection Act for microfinance. To enforce the Code of Practice, the network together with relevant government agencies, shall help establish an office of ombudsman for microfinance who shall "police" the ranks so to speak and apply such sanctions as may be agreed upon in the Network.

Activities in year 5 and 6

28. The microfinance sector may have performed creditably in years 1 to 4 and is now poised for greater growth at end of year 4. To ensure that the expected greater growth of the sector will not deteriorate into a disastrous implosion for the microfinance sector in Myanmar, the network shall continue with training activities and lateral learning activities with other networks on such topics as market research and impact studies, all with the support of JICA Microfinance Experts. The immediate objective shall be to make market research and impact studies no longer a one-time activity generally required by donors but a regular activity of MFIs desired by their respective Board and management. The long-term objective is to develop a client-friendly culture amongst the MFI Board, management and staff. By developing a client-friendly culture and continuously listening to voices coming from clients through market research and impact studies, MFIs can deepen outreach, improve financial products, and streamline their service delivery systems to the poor in Myanmar. Continuous improvements in all aspects of microfinance operations will help ensure financial sustainability for most MFIs in Myanmar.

The Need for Performance Standards

29. The need for performance standards may not be as obvious as perhaps, assumed. The motivation for establishing performance standards is for the nascent microfinance industry in Myanmar to be able to provide transparent information on MFI performance and status. Transparent information is necessary for efficient management of the microfinance organizations and for effective regulation and supervision in the future. The information on the performance and status of microfinance organizations in Myanmar should be clear, fairly stated and comparable. Comparison of a microfinance organization's performance against some standard/s will provide the information needed to improve future performance.

30. Performance standards will become an indispensable component of the information infrastructure on microfinance in Myanmar that is needed for its further growth and development. They can be used for the internal purpose of the management of the organizations concerned. The performance standards can also be used by external parties such as donors, the government and other interested parties to monitor performance of microfinance practitioners/associations/NGOs and determine what assistance may be needed to improve performance.

31. Thus, one major work for the microfinance network in Myanmar is the establishment and promotion of performance standards. Performance standards are basic financial infrastructures that shall strengthen the microfinance industry and help clients make informed choices on which MFO/MFI to do business with. Performance standards provide critical information required by donors, clients, the government and the management of MFO/MFIs. A project on performance standard supported by JICA will provide a very strong building block for microfinance development in Myanmar. Similarly, the establishment of a network will need funding. JICA

and UNDP may be invited to provide financial assistance to the establishment of such a network with matching funds from the government.

Establishing Performance Standards

32. There is a need to formalize the working structures such as the technical working group and the advisory committee that will actually formulate the standards. First step is to improve the initial database and inventory on microfinance in the country as stated in paragraph 12 above. A crucial activity is the agreement among the Network member of and adoption of standard financial reporting formats, standard chart of accounts, and standard definition of financial terms, ratios and indicators in microfinance. The JICA International Experts in Microfinance could provide technical assistance in this regard.

33. The process of formulating the standards is preceded by the formulation and adoption of standard chart of accounts, standard financial reporting formats, etc. Both of these efforts may take a period of time; say two years, depending on the willingness to follow proper procedures leading to performance standards, e.g., adoption of a standard chart of account and the actual effort to be spent in doing the required work program. While this is going on, there should be a parallel effort to build awareness and consensus on the importance of having performance standards. This could be done through regional and national consultations, continuing dialogues and information dissemination.

34. Then comes the training of microfinance organizations/associations/ institutions focused on performance standards. At this juncture, seminars and conferences where known practitioners from other countries would be invited to speak on industry best practices could take place. Leading microfinance players in Myanmar could also be sent on exposure visits to Bangladesh, the Philippines, Cambodia and Indonesia to study microfinance best practices in those countries.

35. Another important effort is advocacy on the recognition and adoption of performance standards. Donor agencies, government and potential wholesale loan providers such as private banks should be made aware of the Performance Standards. The intention is to generate support and cooperation for the further development of the incipient microfinance industry in the country.

Proposed Performance Standards

36. There is a need to: (a) discuss different items of a set of performance standards for microfinance players in Myanmar and (b) have some form of consensus on the set of performance standards before formulation and training are undertaken. The performance standards should be based on the financial sustainability approach to microfinance operations. A representative set of items for discussion (to be facilitated by an international expert on standards) may be the following:

	Low Score	High Score
a) No. of active borrowers and savers		
For group lending		
For individual lending		

b) Portfolio at risk > 30 days

c) Adequacy of loan loss reserve
Risk coverage ratio

d) Operating expense ratio

e) Operational self-sufficiency ratio

f) Financial self-sufficiency ratio
(including adjustments for inflation)

g) Return on equity

h) Equity to asset ratio

i) Current ratio

j) Savings to loan ratio

k) Number of active borrowers
per loan officer

37. These are suggested items for inclusion in the performance standards and should be subjected to intensive discussions among the practitioners, donors and supporters. Selecting low, middle, and high values for scoring purposes will also be determined by the stakeholders, that is, the members of the proposed Microfinance Network, based on consensus.

38. The Performance Standards may have two key components: (a) indicators of compliance to administrative requirements and management and (b) indicators of financial performance. The first component may provide information on the governance, management and organizational structure of the microfinance organizations. The indicators shall look at systems, policies and procedures utilized by the microfinance organizations and check whether these are adequate for efficient operation and delivery of service to members. The second component shall determine the financial performance of microfinance organizations in terms of major categories of performance, namely, portfolio quality, efficiency and stability of operations, structure of assets.

39. Performance standards for Saving and Credit cooperative societies may have to be separately developed in view of the difference in the operation of those societies vis-a-vis the NGO microfinance practitioners[2]. But this has to be settled within the proposed Microfinance Network.

[2] The Philippine savings and credit cooperatives developed their own performance standards called "PESOS" that drew on PEARLS monitoring system for credit unions developed by the World Council of Credit Unions (WOCCU).

Chapter 10

Microfinance Model Projects as "Breakthroughs"

1. The microfinance industry in Myanmar is still in an embryonic stage. Although the 3 INGOs contracted by UNDP to implement microfinance projects in Myanmar - PACT, GRET and Grameen Trust - have significantly demonstrated that microfinance in the context of Myanmar has the potential to be financially sustainable and organizationally feasible, the combined outreach of these INGOs was only around 106,000 as of December 2001. They are present in only 11 townships representing only 3% of the entire townships in the country. Other initiatives by an estimated 23 local and international organizations are in the rudimentary stage and do not have the capacity to provide sustainable microfinance services. Chapter 1 revealed that the supply of microfinancial services has hardly met the potential demand in Myanmar.

2. The UNDP-funded projects have performed well so far but their outreach is relatively limited given the large population of micro-enterprises and poor households engaged in some form of micro-enterprise activities. The geographical focus of the UNDP-funded projects is also circumscribed by the fact that they are only authorized under a bigger umbrella: HDI project. The UNDP project has a multi-tasking approach, e.g., it is concerned with such diverse things as the environment, sustainable agricultural practices, micro-finance for poverty alleviation, etc. Hence, the natural limitation imposed by the character of the project and the UNDP's agreement with the Government constrains further growth and development of microfinance. Also, given that the presence of international donors that provide funds and technical assistance is scarce, such limitation would seriously hamper development of this emerging sector.

3. In addition, as Chapter 1 and 7 described, there is no legal path for other NGOs to genuinely initiate microfinance undertakings other than under a humanitarian approach. This requires specific memoranda of understanding with line ministries where microfinance normally takes the back seat in terms of project priorities. For example, under a health project, microfinance understandably is not the primary but secondary focus of the project. Microfinance is retained because it is an attractive feature of the project and may facilitate entry of the project in a targeted area. Based on previous field visits, the JICA Microfinance Team established that it is only Chin State GRET project that has initiated a specific microfinance focus without affiliating to any specific humanitarian umbrella.

4. Given the potential in microfinance development in the country that was determined in the previous JICA Microfinance Study, it looks important to mainstream microfinance projects by establishing "model projects" based on an explicit "financial sustainability approach" while retaining a poverty focus. Expanding microfinance operations by donor support contributes a lot in boosting this industry. The opportunity for expansion in a financially sustainable manner is there, hence, the "model projects to be implemented with donor support that would further demonstrate and establish best practices in microfinance.

5. Implementing model projects that could be considered as "breakthroughs" on account of their demonstration of quick success and visibility in society will help to narrow the gap between supply and demand. One overriding feature of these breakthrough microfinance models should be their focus on the twin goals of outreach to the poor and sustainability. It is envisioned that even as a critical mass of microfinance practitioners emerges, the greater number of poor people benefiting from their micro-financial services will bring to the attention of policymakers that indeed microfinance is a potent tool in the alleviation of poverty.

6. At present, the 3 INGOs contracted by UNDP/UNOPS are concentrated in selected townships of the Delta Zone, Dry Zone, and Shan State. The covered areas are characterized by poor infrastructure and communication facilities and other constraints. Other INGOs operate in

Chin State, Yangon, Mandalay and selected townships of different divisions; however, their outreach is likewise not extensive and sustainability has yet to be attained.

7. Many microfinance practitioners in Myanmar identified the regulatory environment as a key constraint to expanding their outreach. For instance, the cap on interest rate prevents them from attaining financial self-sufficiency while the lack of a clear policy on legal registration restrain them from expanding to other areas. However, based on recent field observations by the JICA Microfinance Team in Mandalay and Sagaing Divisions, it was proven that practitioners have potentials to sustain operations by themselves. It was noted that as far as the interest rate was concerned, both the international and local organizations were able to charge an interest rate of 3-5% per month on loans to their clients. In fact, it has become the acceptable practice.

8. The indigenous Saving and Credit Cooperative Societies were charging the same or even higher rates. The authorities have not exposed explicit views on this matter, since the interest rates charged by Saving and Credit Cooperative Societies are not subject to Financial Institution Law. This benevolent attitude may be viewed as positive to microfinance, perhaps reflecting the government's belief that microfinance is a good instrument for poverty alleviation as has been demonstrated in countries such as Bangladesh, Cambodia and the Philippines, etc., The authorities appear to have acknowledged the fact that the financial requirements of poor households are better served by these projects than by usurious moneylenders.

9. The JICA Microfinance Team concluded that due to the limited outreach and inadequate capability of project implementers and weaknesses in the legal and regulatory framework, it would be premature to introduce regulation to a nascent microfinance industry in the country. To build upon the initial gains of the UNDP/UNOPS and other initiatives of local and international organizations, the best strategy to successfully promote the industry is to create awareness on best practices and generate strong support among key government ministries and agencies (for example, Ministry of Finance, Ministry of Cooperatives, Ministry of Agriculture, Central Bank of Myanmar, Myanmar Agricultural and Development Bank, etc). Exposure to working legal and regulatory regimes for microfinance in other countries (Bangladesh, Cambodia, the Philippines, etc.) will also be crucial in shaping up an appropriate legal and regulatory environment for microfinance.

10. Creating awareness and support among different stakeholders, primarily, the Government can be made by having "model projects" that would be implemented from a financial sustainability approach without veering toward the so-called "mission drift", that is, forgetting about objective of microfinance, that is, to provide micro-enterprises and poor households access to microfinance services. In short, in the proposed "model projects" there shall be no trade-off between financial sustainability and provision of micro-financial services to the target clients.

11. Based on the October 2000 statistics of Immigration and Population Department, Myanmar has a total population of more than 49 Million people. From the estimates of the JICA Microfinance Consultants using available statistics, there are about more than 6.2 million poor families of which around 3.1 million families are potential microfinance clients. Mandalay has the highest number of poverty families followed by Ayeyarwaddy, Yangon, Sagaing, Bago and Shan State. Table 1 presents the population profile by state and division.

State/Division	Population	Estimated No. of Household (Average size of 5.5)*	Estimated No. of Poor Household Potential (70%)*	Potential Clients in Microfinance (50% of Poor Households)*
Kachin State	1,272,000	231,300	161,900	80,950
Kayah State	266,000	48,300	33,800	16,900
Kayin State	1,489,000	270,700	189,400	94,700
Chin State	480,000	87,200	61,000	39,500
Sagaing Division	5,488,000	997,800	698,400	349,200
Tanintharyi Division	1,356,000	246,500	172,500	86,250
Bago Division	5,099,000	927,000	648,900	324,450
Magway Division	4,548,000	826,900	578,800	289,400
Mandalay Division	6,574,000	1,195,200	836,600	418,300
Mon State	2,502,000	454,900	318,400	159,200
Rakhine State	2,744,000	498,900	349,200	174,600
Yangon Division	5,560,000	1,010,900	707,600	353,800
Shan State	4,851,000	882,000	617,400	308,700
Ayeyarwaddy Division	6,779,000	1,232,500	862,700	431,350
TOTAL	49,000,800	8,910,000	6,236,600	3,127,300

*JICA MICROFINANCE EXPERTS ESTIMATES

12. In order to attain a greater impact on poor communities in a financially sustainable manner, the JICA Microfinance Team proposes that JICA should support pilot "model projects" in strategic areas, such as in Yangon Division and Mandalay/Sagaing Divisions[1]. The JICA Microfinance Team conducted field visits in these areas in order to get first hand information on the performance and potential of some Saving and Credit Cooperative Societies in microfinance. These two areas are being proposed for the following reasons:

- These two divisions cover both urban and rural areas that have a significant number of poor households;
- Strong presence of local and international organizations that have gained good experience in microfinance and have expressed commitment to expand operations, thus, posing a strong potential for further growth;

[1] This judgment of 'strategic areas' is based on a standpoint for the sake of taking off the microfinance industry at the national basis,as quickly as possible. From such a viewpoint, Yangon and Mandalay/Sagaing divisions are the most feasible areas with least risks, as explained in the following paragraphs. However, this selection does not intend to undermine the importance of rural or remote area in Myanmar, nor indicate its business unavailability. On the contrary, as was described in Chapter 1 and 4, UNDP-contracted INGOs have proven viability of microfinance in remote areas, suggesting that there should be other rural areas where microfinance best practices can be exploited, and hence contribute significantly the economic development and poverty alleviation in those areas. In this sense, it is still relevant to say that other 'model projects' are to be chosen among the rural Myanmar, where microfinance has not been experimented yet.

- Ease of monitoring and supervision of the pilot project since both areas are accessible to transportation facilities;
- High density of population of poor households; and
- Presence of support systems both from government and international organizations such as training facilities, banking services, electricity and other amenities.
- Openness of the practioners to try tested microfinance technology in their organizations.
- Openness of the local authorities to support the microfinance pilot projects in their area.

13. Moreover, there is a high concentration of open Saving and Credit Cooperative Societies (not to mention close type societies) in Mandalay (24 functioning societies) and Sagaing (14 societies) plus the fact that each of these two divisions has a regional cooperative college. Historically, these two divisions have demonstrated that cooperatives as a movement have been very successful. This also due to the fact that not only do the staff and officials from the Ministry of Cooperatives have proven strong capabilities but also that the local authorities have been very supportive of Saving and Credit Cooperative Societies.

International NGOs

14. In Yangon District, the JICA Microfinance Mission Team recommends that the pilot test be implemented by an internationally reputable MFI service provider, e.g., PACT, GRET, etc. that will be selected based on a set of criteria to be jointly determined by the Government of Myanmar and JICA. The idea is to have a competitive selection after a tendering of the project has been done by JICA. This shall ensure that the best offer is given for the funds to be provided by JICA.

15. To illustrate a high feasibility to invite reputable microfinance providers in strategic area, the following example of a pre-feasibility study recently conducted by one of the INGOs is quite resourceful. This study was envisaged based on a perception that urban areas in Myanmar have high potential in developing sustainable microfinance operations. Underlying observations for this view appear to include: (a) UNDP-contracted INGOs have proven that microfinance is very possible in remote areas where the population density is low and natural and economic conditions are tough; (b) By nature, the urban area is much more populated, hence it conceives higher chances for extending more efficient financial services. According to this pre-feasibility study, a microfinance program in Yangon district may be sustained only in three years' term after the initiation. The essence of this indicative pre-feasibility study is summarized below, and detailed projections by the use of 'micro-fin' model are attached in Annex 1.

An indicative microfinance projection by an INGO for five years (summary)

	Year 1	Year2	Year 3	Year 4	Year 5
Branches (cumulative)	4	8	10	12	12
Active borrowers	16,000	31,860	39,615	48,684	56,951
Loan Outstdanding ($US)	261,487	720,695	1,465,859	2,076,006	2,650,302
Staff members	86	160	198	247	282
Operational Sustainability	71%	116%	173%	210%	225%
Financial Sustainability	33%	72%	120%	157%	177%
ROA	-14%	5%	15%	19%	20%
Portfolio at risk > 0 days	2.8%	2.8%	3.0%	3.4%	3.3%

According to this projection, the project will be able to sustain its operations by reaching more than 56,000 clients within five years. The operational sustainability will be attained by the end of Year 2, the financial sustainability by the end of Year 3.

Local NGOs

16. As for the local organizations in Yangon, the JICA Microfinance Team also recommends to support local NGOs. An example for such NGO which has shown indications of practicing best practices in microfinance is YWCA. It has already set up two branches (one in North Okkalapa and one in Pyin Oo Lwin, Mandalay) with more than 2000 clients. YWCA is willing to participate in the pilot project and is confident to reach a 10,000 poor women borrowers in 3-5 years in 3 townships of Yangon (Hlegu, Thingangun, and North Okkalapa). YWCA already has a presence in two townships. Accordingly, the YWCA will concentrate in the poorer villages of these townships.

17. Another example of local NGO that could be recommended is the MMCWA not only because of its strategic significance, but also its potential wide outreach. It is hoped that if MMCWA will be able to participate in the microfinance pilot projects after acquiring sufficient capacities and is able to successfully implement microfinance operations, then more poor women could be benefited because of their present outreach and influence, however, the institutional and financial information of MMCWA need to be further collected to ascertain this preliminary view.

18. Another local organization that could be assisted is the Promoter's Cooperative Bank. However, for the microfinance pilot project to be successful, it needs to get an exemption from Central Bank for the cap on interest rate on loans as this is one of the crucial fundamentals in microfinance best practices.

Saving and Credit Cooperative Societies

19. In the Mandalay and Sagaing Divisions, it is recommended that the pilot project be implemented by selected Saving and Credit Cooperative Societies since they have attained a measure of success in their microfinance operations even without the benefit of training and technical assistance. Field visits have identified the potential of Saving and Credit Cooperative Societies because of their innovativeness by adopting key best practices such as:

- Levying market interest rates (ranging from 3-7% per month);
- Targeting different market sectors, i.e., lending to poor members and community at large;
- Flexibility in repayment terms (daily, weekly, monthly);
- Provision of graduated loan amounts (small to big);
- Presence of trainable management and staff;
- Good governance;
- Adequate record and financial bookkeeping systems, and,
- Promotion of savings mobilization.

20. Their microfinance operations can benefit from further capability building and exposure to other successful microfinance institutions. The JICA Microfinance Team noted the commitment of their key staff and Boards of Directors to learn and adhere to best practices in microfinance. In fact, on its own, one of the recommended Saving and Credit Cooperative

Societies (Shwe Thanlar General Business and Services, Monywa Township, Sagaing Division) has established a pawnshop in its bid to attain financial viability. This can be interpreted as a strategy to build financial viability through responsive product development.

21. The JICA Microfinance Team, therefore, recommends the following Saving and Credit Cooperative Societies as strong candidates to implement the pilot test:

- Shwe Thanlar General Business and Services, Sagaing Division
- Pyin Oo Lwin Market Vendors Saving and Credit Cooperative Society, Mandalay Division
- Ya Za Soe Saving and Credit Cooperative Society, Mandalay Division

22. The JICA Microfinance Team recommends that for each of these Saving and Credit Cooperative Societies, a budget should be secured every year over a period of three years for their revolving fund and operating cost. While savings is a crucial part of the Saving and Credit Cooperative Societies and is a very strong advantage for microfinance, the Team acknowledges the need for a grant budget to support technical trainings, improvements of existing facilities and provision for revolving fund since microfinance is a new concept; its lending technology is quite different from the traditional approaches. Moreover, the field interviews indicate that the traditional approach of Saving and Credit Cooperative Societies is always to get collateral from the borrowers to ensure loan repayment. It is, therefore, the belief of the JICA Microfinance Team that in order to wean the Saving and Credit Cooperative Societies from the traditional collateral mentality, a revolving fund concept could be set up. This will also act as a guarantee fund for outstanding loans. However, the revolving fund could be so designed that the fund would be matched by the savings of the society (on a one to one basis), thereby insuring the increase of the revolving fund. It is estimated that each cooperative with full capacity can reach 10,000 clients by the end of the third year of project implementation.

23. Other selected Saving and Credit Cooperative Societies surveyed and visited by JICA Microfinance Team in Yangon, Mandalay, Sagaing, and Shan States that have potential for microfinance operations will be given access to training and technical assistance in the next phase of JICA project.

24. The existence of Regional Cooperative Colleges in Mandalay and Sagaing Divisions makes the recommended areas for the JICA pilot project strategic and potentially viable. The JICA pilot project can draw on the resources of those Regional Cooperative Colleges to train management and staff. On the other hand, the Regional Cooperative Colleges have shown great interest in training the cooperatives in microfinance. Although these Colleges have also a lot to learn in microfinance, they possess the facilities to provide basic training courses, e.g., accounting, financial management. The added advantage of these recommended Saving and Credit Cooperative Societies is the very strong support given to them by local authorities as well as by the Ministry of Cooperatives.

Annex 1. Indicative Microfinance Projection by an INGO for 5 years

Pact Inc. Yangon Microfinance Program

Summary Sheet

Particulars		Year 1 FY03	Year 2 FY04	Year 3 FY05	Year 4 FY06	Year 5 FY07
Branches	Within	4	4	2	2	-
	Cumu	4	8	10	12	12
Active Borrowers	Within	16,000	16,860	7,755	9,069	8,267
	Cumu	**16,000**	**31,860**	**39,615**	**48,684**	**56,951**
Loan Outstanding		261,487	720,695	1,465,859	2,076,006	2,650,302
Program Staff		74	144	182	230	265
Admin Staff		14	16	16	17	17
Operation Cost (x)		94,130	160,795	206,385	242,715	169,480
Cost Recovery (y)		71,934	218,550	457,321	733,059	974,589
Net Subsidy; x-y		(22,196)	57,755	250,936	490,344	805,109
Fund Requirement (A)		357,726	425,814	498,196	91,546	0
Operational Sustainability		71%	116%	173%	210%	225%
Financial Sustainability		33%	72%	120%	157%	177%
ROA		-14%	5%	15%	19%	20%
AROE		-60%	-14%	7%	16%	19%
Technical Assistance(B)		116,400	116,400	116,400	116,400	116,400
OH 15%(C)		14,120	24,119	30,958	36,407	40,422
Total Fund Requirement(A+B+C)		488,246	566,333	645,554	244,353	156,822
Total funding requirements in 5 years						**2,101,308**

Note:

1. This worksheet is summary of major finding of Credit program design by MICROFIN loan Projecdtion Software.
2. Balancesheet, Income Statement, Ratios along with operational sustainability, financial sustainability, ROA, and AORE are attached in next four worksheets.

	Summary Output Report	Year 1	Year 2	Year 3	Year 4	Year 5
	Balance Sheet	FY03	FY04	FY05	FY06	FY07
1.01	**ASSETS ***					
1.02	Cash in Bank and Near Cash	41,396	108,286	193,500	252,625	304,000
1.03	Net Portfolio Outstanding	261,847	720,695	1,465,859	2,076,006	2,650,302
1.04	Short-term Inv. & other curr ass	0	0	0	2,671	158,169
1.05	Net Fixed Assets	50,245	60,545	59,525	57,035	44,600
1.06	Long-term Invest. & other LT assets	0	0	0	0	0
1.07	**TOTAL ASSETS**	**353,488**	**889,526**	**1,718,883**	**2,388,338**	**3,157,070**
1.08						
1.09	**LIABILITIES ***					
1.10	Savings deposits	29,450	109,761	248,370	442,662	670,753
1.11	Concessional Loans	0	0	0	0	0
1.12	Commercial Loans	0	0	0	0	0
1.13	Other liabilities	0	0	0	0	0
1.14	**TOTAL LIABILITIES**	**29,450**	**109,761**	**248,370**	**442,662**	**670,753**
1.15						
1.16	**EQUITY ***					
1.17	Accum. Donated equity, prev. periods	0	353,726	779,540	1,277,736	1,369,282
1.18	Donated equity, current period	353,726	425,814	498,196	91,546	0
1.19	Shareholder equity (less div pmt)	0	0	0	0	0
1.20	Accumulated net surplus	(29,688)	224	192,778	576,394	1,117,036
1.21	**TOTAL EQUITY**	**324,038**	**779,764**	**1,470,513**	**1,945,676**	**2,486,318**
1.22						
1.23	**TOTAL LIABILITIES AND EQUITY**	**353,488**	**889,526**	**1,718,883**	**2,388,338**	**3,157,070**
1.24	Balance sheet verification	(0)	(0)	(0)	(0)	(0)
	Income Statement					
2.01	Total Financial Income	71,934	218,550	457,321	733,059	974,589
2.02	Total Financial Costs	2,461	14,611	37,635	76,333	126,265
2.03	Gross Financial Margin	69,472	203,938	419,686	656,725	848,324
2.04	Provision for loan losses	5,030	13,232	20,747	30,394	38,202
2.05	Net Financial Margin	64,442	190,707	398,939	626,332	810,122
2.06	Program Operating Exp	34,805	87,205	130,130	163,365	190,035
2.07	Administrative Operating Exp	59,325	73,590	76,255	79,350	79,445
2.08	Amount of taxes paid	0	0	0	0	0
2.09	**Net income from operations (after taxes)**	**(29,688)**	**29,912**	**192,554**	**383,617**	**540,642**
2.10	Grant Income	353,726	425,814	498,196	91,546	0
2.11	**Excess of Income over Expenses**	**324,038**	**455,726**	**690,749**	**475,163**	**540,642**
2.12						

	Ratio Analysis	Year 1 FY-3	Year 2 FY-4	Year 3 FY-5	Year 4 FY-6	Year 5 FY-7	4 Year Total
1.01	**Analysis**						
1.02	Equity Multiplier	1.01	1.01	1.02	1.02	1.03	1.04
1.03	Quick Ratio	79.2	52.1	40.4	33.0	27.7	23.6
1.04							
1.05	Gross Return on Average Performing Assets						
1.06	- Financing Costs *	34.4%	35.5%	36.1%	36.7%	36.0%	36.1%
1.07	= Gross Financial Margin	1.2%	2.4%	3.0%	3.8%	4.7%	3.8%
1.08	- Loan Loss Provisions *	33.2%	33.2%	33.1%	32.9%	31.3%	32.3%
1.09	= Net Financial Margin	2.4%	2.2%	1.6%	1.5%	1.4%	1.6%
1.10	- Operating Costs *	30.8%	31.0%	31.5%	31.3%	29.9%	30.7%
1.11	- Taxes Paid	45.0%	26.1%	16.3%	12.1%	10.0%	14.3%
1.12	= Operating Margin, after-tax (ROA)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1.13	- Adjustments to Operations	-14.2%	4.9%	15.2%	19.2%	20.0%	16.4%
1.14	= Net Margin, after-tax (Adjusted ROA) *	55.6%	18.9%	9.2%	5.8%	4.3%	8.6%
1.15		-69.8%	-14.1%	6.0%	13.4%	15.7%	7.9%
1.16	Operational Sustainability, after-tax *						
1.17	Financial Sustainability, after-tax *	71%	116%	173%	210%	224.6%	183.5%
1.18	Adj. After-tax Return on Equity (AROE)	33%	72%	120%	157%	177.1%	127.9%
1.19		-60.2%	-14.2%	7.0%	15.6%	19.2%	9.1%
1.20							

	Ratio Analysis					
4.01						
4.02	**Portfolio Quality**					
4.03						
4.04	Portfolio at Risk > 0 days	2.8%	2.8%	3.0%	3.4%	3.3%
4.05	Loan Loss Reserve Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
4.06	Loan Write-off Ratio	2.9%	2.5%	1.9%	1.7%	1.6%
4.07						
4.08						
4.09						
4.10	**Profitability**					
4.11						
4.12	Operational Sustainability, after-tax *	71%	116%	173%	210%	224.6%
4.13	Financial Sustainability, after-tax *	33%	72%	120%	157%	177.1%
4.14	Adj. After-tax Return on Performing Assets *	-69.8%	-14.1%	6.0%	13.4%	15.7%
4.15	Adj. After-tax Return on Equity (AROE) *	-60.2%	-14.2%	7.0%	15.6%	19.2%
4.16						

Solvency

Equity Multiplier *	1.09	1.14	1.17	1.23	127.0%
Quick Ratio	10.3	7.6	6.7	5.3	464.0%

Efficiency & Productivity

Yield on Portfolio (annualized) *	42.2%	41.6%	44.1%	41.3%	41.3%
Operating Cost Ratio *	55.2%	30.6%	19.9%	13.7%	11.4%
Borrowers per CSP *	296	306	300	295	300
Portfolio per CSP	4,849	6,930	11,105	12,582	13,949
Average cost of debt (annualized)	0.0%	0.0%	0.0%	0.0%	0.0%
Overhead percentage *	63.0%	45.8%	36.9%	32.7%	29.5%
CSP as % of total staff" *	51%	61%	65%	66%	67.9%
Program Other Op Costs / Portfolio	2.6%	1.6%	1.2%	0.9%	0.7%
Net FA per branch/program staff person	104	229	216	188	155
Admin-level Other Op Exp / Portfolio	11.6%	4.1%	2.1%	1.3%	1.0%
Net fixed assets / Admin staff	2,561	1,837	1,588	1,254	1,007

Growth and Outreach

Lending

Total Loan Portfolio *	261,847	720,695	1,465,859	2,076,006	2,650,302
Overall growth in portfolio	0.0%	175.2%	103.4%	41.6%	27.7%
Number of active loans *	16,000	31,860	39,615	48,684	56,951
Overall growth in loans	0.0%	99.1%	24.3%	22.9%	17.0%
Client dropout rate	0%	5%	6%	8%	9.3%

Chapter 11

'Myanmar Microfinance Center of Excellence (MMCE)' and Capacity Building Programs

1. While the existing micro-credit/microfinance service providers in Myanmar such as INGOs, local NGOs and Saving and Credit Cooperative Societies to some extent have achieved remarkable success in their respective operations given the constraints they face, the JICA Microfinance Team believes that building the capacities of these institutions and other potential players is the key to the growth of the industry in the country. By so doing, the nascent MFIs can expand their outreach and develop cost-effective, sustainable operations. In this regard, the JICA Microfinance Team strongly recommends the establishment of "The Myanmar Microfinance Center of Excellence" (MMCE). An institution such as MMCE will be the principal resource center for microfinance promotion and development.

2. The MMCE is envisioned to be the focal point in a long-term capability building program where international expertise can be made available to the budding microfinance industry in Myanmar even as it gradually increases the domestic capacity to provide technical assistance to microfinance programs and operations. In the future, there shall be an increasing domestic availability of microfinance training courses and programs as the country's training institutions such as the Cooperative Colleges develop their own capabilities.

3. Establishing the Center will gather the limited human resource for microfinance in the country, i.e., teachers and trainers, in one place; make efficient use of existing fixed assets, e.g., buildings; and allow the nascent microfinance industry to draw on a common knowledge and skills pool on microfinance across different sectors, i.e., NGOs, cooperatives, banks, and policymakers (Fukui, 2002). Thus, MMCE is envisaged to have both economies of scale and scope in capability building on microfinance in the country.

4. Because the MMCE is a long term strategy and establishing this on the ground will be an evolutionary process, the Microfinance Team suggests the following phases:

Phase 1. Building the Capacities of Existing Local Training Institutions

5. This will include not only the training of local trainers in the field of microfinance but also improving the existing structures and facilities of the institutions that will be involved. The following are the recommended institutions that will be included under this phase.

6. *Cooperative Sector: Yangon Cooperative Degree College and Sagaing Cooperative College.* These two colleges have existing facilities like lecture rooms, computers, dormitories that can accommodate trainees from the cooperative sector that will be involved in microfinance operations. Moreover, the location of these colleges is very strategic relative to the location of the proposed pilot microfinance projects. Sagaing Cooperative College is just about 30 minutes from Mandalay and very accessible both by land and air. Sagaing is also very near the three Saving and Credit Cooperative Societies being proposed to implement microfinance operations.

7. Sagaing Co-operative Regional College (SCRC) was established in 1996. It used to be a training school. SCRC offers a two-year diploma degree in Business Accounting and Marketing Management. Currently there are around 450 students enrolled. Graduates of this college can earn their bachelor degree through enrolling for another 2 years either in distance education colleges/universities or Institute of Economics in Yangon or the Yangon Cooperative College. SCRC has produced over 600 graduates. Eighty percent of the graduates are working in private companies as sales accountant, accountant, and supervisors among others. The remaining 20% are absorbed either in government or in the cooperative societies.

8. SCRC has 27 full time faculty staff. Average age is 45 years old. Two thirds of the faculty members have at least 15 years of actual work/practice in managing cooperative societies. The college is very strong in accounting and marketing management which are important courses in microfinance capability building programs.

9. SCRC has 4 lecture halls. Each lecture hall has 2 classrooms. Each classroom can accommodate 70 students. There is one assembly hall that can accommodate 400 people. SCRC also has around 30 computers housed in an air-conditioned room. It has dining and dormitory facilities. There are two dormitories (one for males, one for females). A dormitory can accommodate 100 students. The facilities of SCRC is better that the two other cooperative colleges in Mandalay and Yangon which the JICA Microfinance Team has also visited.

10. The Mandalay Regional Cooperative College in Mandalay Division campus has an area of 20.6 acres. It was upgraded into a cooperative college from a cooperative training school in 1992. The student population is 530 students served by 23 faculty members and 44 administration staff. The college offers 3 diploma programs for students: Diploma in Business Accounting; Diploma for Secretary in Enterprise and Diploma in Marketing Management. There are eight major subjects included in the program: economics, mathematics, English, statistics, computer education, business organization, cooperative principles, Myanmar language. The duration of the diploma course is 2 years. Graduates who pass the exam can enroll in Yangon Cooperative College.

11. The Regional College has 5 lecture rooms and one big hall. It has also one dining room and two dormitories for faculty staff. There are no dormitories for students. Students live outside of the campus.

12. The Regional College is more concentrated on academic activities. The mandate of giving training to members of the Board of Directors (BOD) and staff of Saving and Credit Cooperative Societies is lodged with the cooperative training school. However, according to the faculty members interviewed, they can also give training to the Saving and Credit Cooperative Societies' BOD and staff if requested since most of the faculty members have adequate experience in actual cooperative management.

13. On the other hand, the Yangon Cooperative Degree College (YCDC) is within the Yagoon area which will allow microfinance training courses to be conducted for the staff and officials from the Ministry of Cooperatives. At present, YCDC has the capacity of to accommodate 400 students for each academic year. Three year to four year BA degree is awarded to successful students. It has a close relationship with International Cooperative Association (ICA) through the Central Cooperative Society of Myanmar. It must be noted however, the existing facilities need to be improved.

14. The JICA Microfinance Team has noted that some of the current faculty and training staff of Sagaing Regional Cooperative College and Yangon Cooperative Degree College may have the potential to be teachers and trainers on microfinance since many of them have at least 10 to 20 years of actual cooperative management experience. Those faculty members are themselves members of cooperative societies where they have applied their basic knowledge in accounting and financial management. However, their basic knowledge and experience have to be enhanced by exposure to and training in best practices in microfinance. Moreover, the heads of these two institutions have shown great interest and desire to strengthen their faculty and have new course offerings, i.e., training in the area of microfinance.

15. These two institutions have great potential in developing into strong resource centers for microfinance training for the cooperative sector. Once the faculty members shall have been properly trained in microfinance, they could offer courses to microfinance practitioners, i.e., the Saving and Credit Cooperative Societies. They could also build the capacities of the four other Cooperative Colleges in Myanmar in microfinance training. In this way, there will be a satellite of strong institutions that will serve the training needs of the nascent microfinance industry.

16. The training requirements as seen by various microfinance players are shown in Box 11-1 below.

Box 11-1. Capacity Building Program Requirements for Human Resource of Organizations

Requirements for Staff Training

1. Basic knowledge on Micro-Finance Activities and Micro-Finance Methodologies.
2. Technical computation methods being applied in Micro-Finance operations.
3. Bookkeeping, Accounting and Record Keeping.
4. Social Mobilization and Financial Mobilization.
5. Reporting, Monitoring and Evaluation.
6. Financial and Personal Management.
7. PRA and PME (Participatory Rural Appraisal and Participatory Monitoring and Evaluation).
8. Publication of IEC materials (Information, Education and Communication)
9. Exposure trips inside or outside country.
10. Training on software application on Micro-Finance methodologies and information systems for Micro-Finance institutions.

Requirements for Client Training

1. Basic knowledge on Micro-Finance Activities.
2. Bookkeeping and Record Keeping.
3. Vocational Training (to increase their repayment capacity).
4. Leadership Training, Conflict Resolution.
5. Social Mobilization.
6. Meeting minutes writing, and recording.
7. Exposure trips within Myanmar.
8. Basic need training identified by target clients.

Source of Information: Report of Myanmar Local Counterpart Team

17. Annex 11-1 is the survey report of the JICA local microfinance team regarding the cooperative colleges and training schools.

18. *NGO Sector: Capacity Building Initiative (CBI).* The CBI is a joint project undertaking of international and local NGOs in Myanmar that aims to provide training for Myanmar nationals and use local knowledge and expertise in Myanmar to design, implement, and manage more effective development projects. Its long-term vision is to establish a national training institute that will continuously build the local capacities of the NGO sector.

19. As a joint program of INGOs, CBI on its own has no MOU with the government and therefore borrows the legal cover of its secretariat organization, SCF-UK. It has 3 full time staff (one coordinator, one training assistant and one accountant). It has received funding support from several international organizations like Oxfam Grameen Bank, Save the Children UK, Save the Children USA, and other funding institutions. At present, Oxfam UK provides a 2-year funding to CBI to support its operations and activities.

20. CBI is managed through a steering committee composed of 5 INGO representatives (SCF-US, as chairman; SWISSAID; Karamosia International; MSI; and, ADRA). The steering committee meets regularly to provide policy directions and resource mobilization. To assist the full time secretariat in the day- to-day operations, a working committee was formed composed of 6 INGO representatives (SCF-Uk, Chairman; MSF-Holland; CARE Myanmar; ACF; World Vision International; AMI). Almost all of the representatives of the working group are Myanmar nationals.

21. In 2001, CBI conducted 9 trainings. The training courses were attended by 202 participants with 32 coming from 11 local NGOs and 180 from 23 INGOs. The training courses conducted were in the area of community development. Each participant paid US$5 per day for food and snacks.

22. The CBI has its own office and training facilities in Yangon. It has a full-time staff and core of trainers drawn from its own NGO memberships and invited international trainers who bring project-specific expertise. The CBI offers regular training courses for its memberships in the following areas: project management, PRA/RRA, community development, financial management, project proposal preparation, among others. Microfinance is one area that CBI would like to learn and develop because this is one of the expressed training needs of the CBI's membership. During the last JICA Mission in August/September 2002, more than 30 people attended a half-day seminar entitled "Introduction to Best Practices and Performance Standards in Microfinance" organized by CBI for its membership.[1]

23. Annex 11-2 reports the outline of the seminar conducted by the JICA Microfinance Team at CBI.

24. The CBI has a strong potential to be developed as the training arm for microfinance for the NGOs. Although CBI's concern is not only on microfinance but also building the capacities of the local NGOs and local staff of INGOs in management and implementation of development projects. JICA can build a potentially strong microfinance training program through a collaborative effort with CBI.

25. *Myanmars' Bankers' Association.* The mission recognized that another (perhaps, second) pillar of the microfinance industry is the banking sector. The private banks and cooperative banks, and even the government owned bank, MADB have expressed strong interest in understanding and pursuing microfinance as a component of their lending programs during the JICA Microfinance Team's several visits and meetings with the banking sector. In fact, the Team notes that the banking sector has an association called the Myanmar Bankers' Association (headed by the Central Bank Governor). In 2002, the association conducted several basic banking courses like foreign banking, auditing, accounting, bank supervision, money laundering, lending, deposit and bank management among others. The Team notes that by capitalizing on the existing bankers' association and training their trainers in microfinance, it

[1] The speakers are the JICA Microfinance Team members.

will hasten the strengthening of the banking sector in the operationalization of the microfinance operations in Myanmar.

26. As discussed, for the Cooperative Sector, the YCDC in Yangon and SCRC in Sagaing will be the focal institutions to train the trainers and practitioners in the microfinance. For this phase to be operationalized, it is strongly recommended that a core trainer faculty staff (8-10) from each college will be developed and trained in the field of microfinance so that they may in turn train the practitioners (coop managers, loan officers, backroom support staff, and, BODs) in the cooperative sectors.

27. For the NGO sector, CBI as the focal institution to train the NGO practitioners (manager/executive directors, loan officers, backroom support staff, and board of trustees/directors), it is also strongly recommended that a core group of trainers (8-10) will also be trained. They will in turn train the practitioners. For the banking sector, the Mission strongly recommends to train the existing faculty members/trainers of the Myanmar Bankers' Association.

28. The following are the possible capacity building/courses that are being suggested by the JICA Microfinance Team for Phase I for both the trainers (from the CBI, Cooperative Colleges, and Banking Institute) and microfinance practitioners:

29. Basic Management Development Workshop

Module 1. Cost-effective Targeting: the identification and motivation of poor women. Equips the participants with knowledge and skills on how to identify the poorest among the poor and motivate them to get access to credit. Discusses the approach and methodology to ensure that the poorest not only participate in the program but also gain control of the credit resource, a real manifestation of empowerment. Participants are given hands-on exercise on means testing and area mapping.

Module 2. Creating and Maintaining Strong Credit Discipline. Designed to harness the knowledge and skills of field staff in creating and maintaining credit discipline among borrowers so as to ensure proper utilization of loan and high repayment and attendance performances.

Module 3. Financial Management: Financial Control and Cash Flow Management. Designed for Branch Managers and Finance Officers. Discusses the importance of thorough and strictly enforced procedures to minimize/prevent financial abuses given the fact that almost all financial transactions are conducted in the villages between borrowers and field staff without supervision. Key elements on financial management such as financial control and cash flow management towards branch viability were two of the most important aspects given emphasis. A review of loan policies and bookkeeping workshops are done/simulated in order to set the stage for cash flow management. Cash flow management is equally emphasized to ensure that funds are made available when and where needed.

Module 4. Planning, Monitoring and Evaluating Programmes. Focuses on key elements that should be installed for effective monitoring and evaluation of microfinance programs. Provides participants with knowledge and skills in efficient and effective planning; designing of appropriate monitoring tools, forms, and indicators; and assessing whether their organizations are achieving the objectives vis-a-vis targets. Specific output is the revision of work plan/business plan based on realistic assumptions.

30. Advanced Management Development Workshop

Module 5. Modeling Scaling-up Branch Outreach to Viability. Designed to assist management to strengthen their management capacity to be able to scale-up their outreach to the poor and attain financial viability in the shortest possible time.

Module 6. Training Staff for and Synchronizing their Supply with Scaling-up. Scaling up would demand the deployment of competent, well-trained field staff. This module will teach practitioners how to synchronize their human resource with the need in the field.

Module 7. Repayment Crises and Rehabilitation Strategies. This module thoroughly discusses coping and preventive strategies when repayment problems and crisis in membership occur in the institution. Participants learn applied techniques on participative rehabilitation strategies developed and used by Grameen Bank and CASHPOR member institutions.

Module 8. Keeping Your Good Personnel: Enlightened Personnel Management. This module is designed for senior staff to equip them with the knowledge and skills in handling and managing personnel. Keeping good personnel is essential for program continuity as well as viability. Ways to deal with fast staff turn-over is discussed. As well, participants will be able to craft personnel policies critical in achieving organizational targets.

Module 9. Internal Auditing. This module is designed to set up an internal audit system to prevent misuse of funds and fraud and thus, to tighten internal financial control.

31. In addition to the above modules, courses on governance, MIS, action research such as client satisfaction survey and product/service development will also be included in the phase 1.

32. To operationalize Phase 1, it is strongly recommended that a full time microfinance capacity building expert and a core of short term trainers/experts (by subject matter specialist, i.e., financial management, credit and savings methodology, product development, branch management, monitoring and evaluation, accounting and bookkeeping, and MIS among others) be mobilized to insure that the local trainers and practitioners coming from the cooperative sector and NGO sectors are fully equipped with knowledge, skills and attitudes in microfinance operations. There are a number of successful MFIs in Asia from which the JICA and Myanmar can draw full time expertise and short term expatriates such as microfinance practitioners from Bangladesh, the Philippines, Indonesia or India, etc.

33. Under Phase 1, the capability building of the local training institutions will not only be in the form of formal training but also exposure program and study visits to different countries that have sound and successful microfinance experiences both at the policy and operational levels. As a suggestion, the trainers, selected practitioners and policy makers can visit countries like the Philippines to observe CARD Bank and the government's policy on microfinance; and Cambodia regarding its microfinance experiences both at the policy and operational level. For this Phase, the Team recommends that the each exposure trip will compose of 10-15 people for a period of two weeks. It is suggested also that under this Phase, at least one to two exposure programs to different countries are sponsored by JICA every year.

34. The approach suggested in Phase 1 is the trainers' training strategy wherein the core trainers will also be taught curriculum development, module and course development and implementation and evaluation in the field of microfinance. Tested and tried curricula, modules and courses will be implemented but adjustments will be made to suit the context of Myanmar. The frequency and the subject matter/modules (as discussed in the earlier section of this

chapter) will be detailed during the implementation. However, the experiences have shown that the basic management modules in microfinance will be implemented by the first year of implementation. Each module is designed for about a week and implemented every quarter. It is also important to follow on with supervision and guidance from the international experts the progress made by the trainers and practitioners on how they are implementing their learning from the training. During the practitioners' implementation, the trainers with the guidance and supervision of the experts will be provided the necessary technical assistance and advice. From experience, this phase will take at least take two three years.

Phase 2. Establishment of the Myanmar Microfinance Center for Excellence

35. Under this phase, the MMCE will be established as a joint undertaking by the government and JICA. It is envisioned that MMCE will have a distinct personality with a set of full time staff and trainers composed of academicians, policy makers, faculty members coming from the CBI, Cooperative Colleges that have been trained in microfinance under the Phase 1, and practitioners coming from the NGO, banking and cooperative sectors. To vest it formal recognition, it may be advantageous to locate in an academic setting, e.g., in a university such as the University of Yangon.

36. The JICA Microfinance Team proposes that the MMCE be supported by JICA in funding the construction of the physical facilities equipped with training rooms, dormitories and other amenities that are proper for an institute of learning. The MMCE will have a core of full time staff to manage the MMCE. The faculty and core of trainers may serve part-time as they will come mostly from the practitioners and faculty members of cooperative colleges, CBI, Banker's Institute trained in phase 1. In the next stage of its evolution, MMCE might have full-time faculty and core of trainers as the demand for training and development of new skills increases. From experience, establishing this phase will take another 2-3 years

Phase 3. Linkaging the MMCE with International Microfinance Institutes

37. During this phase the MMCE will link with other microfinance institutes in Asia to strengthen its own capabilities and share experiences. The strong microfinance institutes are CARD, Philippines; BRAC, Bangladesh; and, BRI, Indonesia among others. Each of the identified MFIs has their own training institute with proven international experiences and in one or another has been involved in international projects either as direct implementers, trainers, or combination. Under this phase 3, it is envisioned that MMCE as a way to build its internal and international capabilities, exchange of faculty members and staff will be a major component of this Phase. The MMCE will also be tasked to do publications of training and operations manuals, training kits, case studies, researches about microfinance in the country and experiences of other countries. Other kinds of specialized training for the faculty of MMCE will also be provided.

Annex 11-1

Survey Report on Cooperative Colleges and Training Schools by the JICA Local Microfinance Team

Cooperative Colleges and Training Schools

Introduction

A successful Saving and Credit Cooperative Society is a certain type of department which is always continuously dealing with training and educational services. The members of Saving and Credit Cooperative Societies, members of producers' cooperative society should be taught the ways and means to choose and buy suitable products and commodities knowing the actual cost of those things. Moreover, to train and give educational services to the members of marketing cooperatives the way to produce quality products and commodities. Active members of Saving and Credit Cooperative Societies must always learn regularly at training centers, workshops and meetings. Therefore, Cooperative may be defined as economic movement mainly dealing with education and training services. Similarly, Cooperative may also be defined as educational movement mainly dealing with economic activities.

In Myanmar, special attention has been given to education and training from time to time in carrying out the cooperative movement. Under the Ministry of Cooperatives, one degree college (CDC), one central college (CCC) and two regional colleges (CRC) were opened in order to produce qualified students in accountancy, computer application and various aspects of management. Four Cooperative Training Schools and three Commercial training Schools were also opened to give education and training services.

Objectives

With a view to produce technically qualified students in accountancy, computer application and various aspects in management, the courses are designed to fulfill the following objectives:

To train the employees, Board of Directors of the Saving and Credit Cooperative Societies and young citizens competent for the promotion of economic capabilities.

To train the students and give chance to youths to be able to comprehend the cooperative principles and practices.

To provide students who passed the Basic Education High School Examination with the knowledge of market-oriented economic system.

To create opportunities to study for the advanced know-how at home and abroad.

To play a supporting role in education sector and training the staff for the State in formulating the market-oriented economic system.

To set up a good relationship with international organizations such as International Cooperative Alliance, UN Agencies etc., also with the cooperative colleges within the region.

Various Courses

At Yangon Cooperative Degree College, Accountancy, Managements, Economics, Statistics, Commercial laws and regulations, Computer application are given as the compulsory subjects. The duration of the courses is three years and B. A. (Business Science) Degree is awarded. Since Central Cooperative Society in Myanmar has become a member of ICA, a close relationship between Central Cooperative College and ICA (ROAP) and other organization is expected to build up in the field of technical cooperation and development. There are five diploma courses in secretary-ship for financial management at the Central Cooperative College at Phaungyi in Hlegu Township. The duration of each course is 2 years.

Three diplomas in Secretary-ship for Enterprise, Business Accounting, Marketing Management courses and two certificates, Bookkeeping and Accountancy, salesmanship courses are available at two Cooperative Regional College in Mandalay and Sagaing.

Apart from the major subjects for Diploma courses which can be specialized in second year, there are eight compulsory subjects; Statistics, English, Myanmar, Mathematics, Cooperative, Computer Application and Business Organization and Elementary Accounting.

With a view to run the Cooperative business activities effectively and successfully in line with the market oriented economy, various courses needed for the Executive Committee members (BOD) and staffs of Saving and Credit Cooperative Societies are being provided at three cooperative training schools in Pathein, Moulamyaing and Taungyi. For outsiders four certificate courses in Bookkeeping and Accountancy, Business Accounting, Computer Studies and Computerized Accounting Courses are provided. For Departmental staffs and BOD, workshops and on job skillfulness training modules are applied and certificates are awarded to their respective courses. Advanced Accountancy, Principle and Functions of Management, Marketing Management, Financial Management, Personal Management, Production Management, Auditing and Cost Accounting subjects are provided for departmental society's staffs and BOD members.

All courses are designed to have eight months in classrooms and one-month field assignment to business enterprises for practical applications and gained knowledge and skill special programmes for outstanding students are arranged as study visits to foreign countries upon the respective foreign countries invitation.

At three Cooperative Commercial Training Schools, five types of full time courses are given for secretary-ship, Bookkeeping and Accountancy, Computer application, Shorthand typing and office business skills, techniques and procedures. Part time courses on Bookkeeping and Accountancy, Computer, typing in Myanmar/English Language proficiency courses are also available.

Human Resource Development

Human Resource Development Center was established under the Yangon Cooperative Degree Colleges. Branch School was opened at the Cooperatives Trade Center at the corner of Saya San Road and University Avenue in Bahan Township on 30th August 2000. The International Academy Association of republic of Korea has offered teaching aid including computers, foreign language labs and sports equipment. The Chairman of Myanmar Education Committee opened the Diploma courses on 30th August 2000. 200 students have already gained the English Language Diploma Course and also 200 students already gained the Computer Diploma Course. And the Diploma course has been still opening there.

Provision of Educational Services at Township Level

Provision of educational services through lectures method to 10% targeted members of the societies reach 113%. Extension services given through pamphlets, periodicals, magazines, television and radio are effective up to 121%. Training on Auditing courses reach 156%, discussion on the cooperative theory, 154%. Guideline on working procedure courses for departmental staffs is 130% and higher grade auditing reach 67%.

Faculty members

Each and every faculty members of the colleges has at least twenty years services in Cooperative Departments and holds a Bachelor degree from either Institute of Economics or other Universities with further studies of Master Degrees, Diplomas and Certificates from Universities at home and abroad. The teaching staffs of Regional Colleges, Training Schools, and Commercial Training Schools are also very efficient in their teaching professions holding respective degrees.

Facilities and Capacity

At present, Yangon Degree College has the capacity of accommodating 400 students for each academic year. The cooperative regional Colleges have the capacity of accommodating 300 students yearly. The Training Schools and Commercial Schools have the capacity of accepting 200 students yearly. Lecture rooms and buildings are enough for respective number of students at each teaching centers.

The college and training schools have their libraries with special collection of reference books on economics, management statistics, entrepreneurial studies, financial, banking, marketing and accounting provided for faculty members as well as students. Modern teaching equipments such as audio-visual aids, computers and secretarial apparatuses are also provided. Students will have the opportunity to learn respective subjects by participative learning methods among which, case studies business games, group discussion and role-plays will be most frequent.

Recommendations

Cooperative education and training essential for the executive committee members and staff to feed the increasing demand of management and technical skill to run business efficiently and successfully. The Regional College is occupied and engaged with the regular courses. Only short courses (not more than 3 weeks) can be provided during the vacation. Only interested personals should be trained and be entrusted with the organizational management of Saving and Credit Cooperative Societies.

Microfinance is a subject very new to our Cooperative Training Schools. Lecturers and tutors should be given short courses and participate in Microfinance workshops and seminars.

Modern teaching aids equipment and materials should be provided. Books, pamphlets and periodicals should be supplied to our library for reference to gain international experiences.

To become effective cooperative training courses for EC members and staffs of cooperatives, enough funds to cover management and administrative cost should be provided. Teachers should be allowed honorarium fees as reward for their achievement.

As for Yangon Cooperative Degree College aims in training youths to become technically and managerially skilful personal as per demand of the market oriented economy having a plan to upgrade the degree college to University in the very near future, more teaching staff members and modern teaching aids should be provided.

Annex 11-2

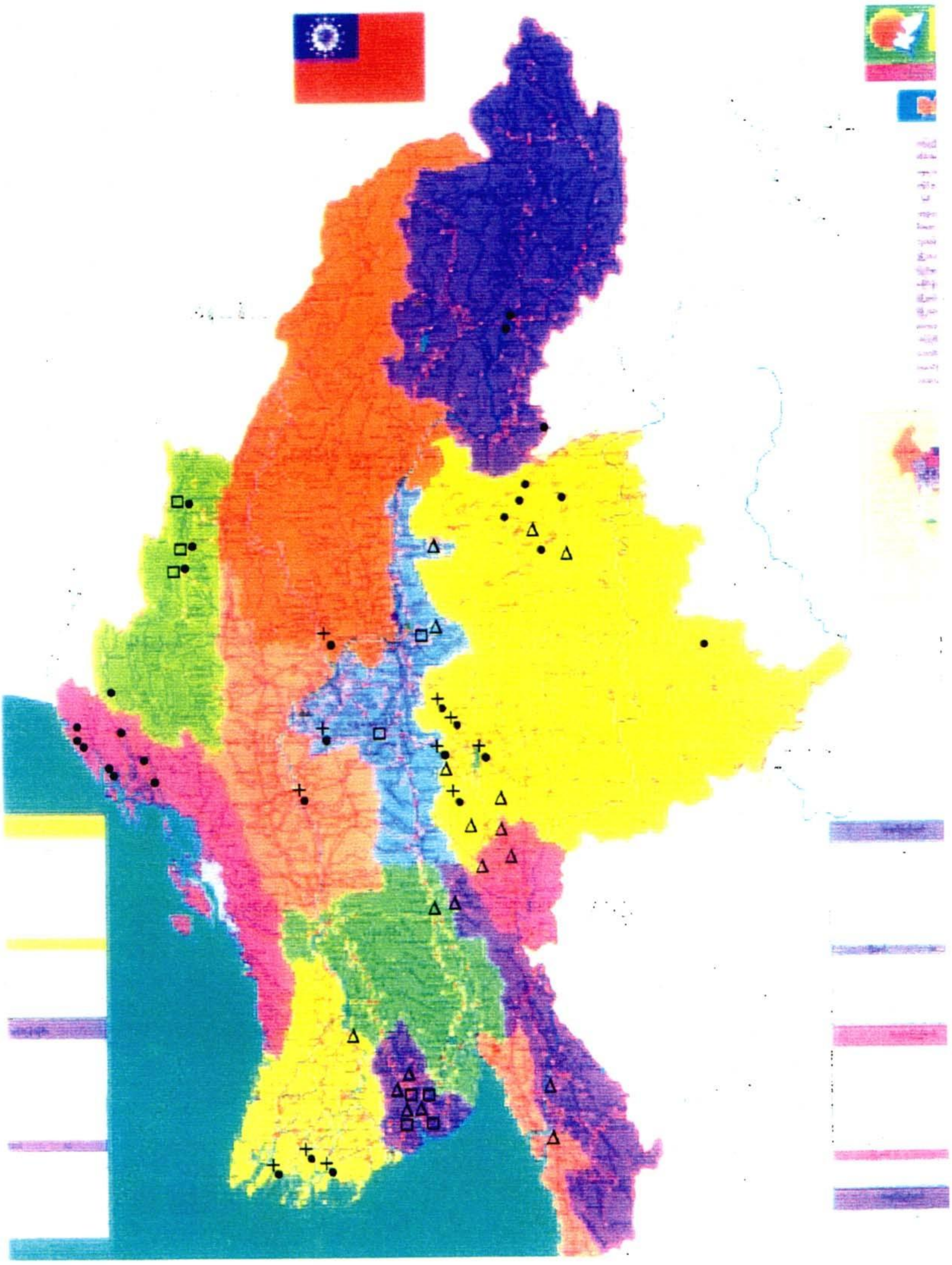
Highlights of the CBI Seminar, September 3, 2002

Myanmar- Japan Joint Micro-finance Seminar with INGOS
Introduction to the Best Practices in Microfinance

Agenda

1. Opening Remarks by Mr. Ryu Fukui, Task Force member, Deputy Director General, Development Bank of Japan
2. Presentation on Comparative Experiences of CARD, Philippine and TYM, Vietnam by Dr. Aris Alip, JICA MicroFinance Consultant, Chairman and Managing Director, CARD Bank.
3. Presentation Lessons Learned from the Case Presentation of CARD in Philippines and TYM in Vietnam by Mr. Ed Garcia, JICA Micro-Finance Consultant, Executive Director, Micro-Finance Council of the Philippines.
4. General Discussion

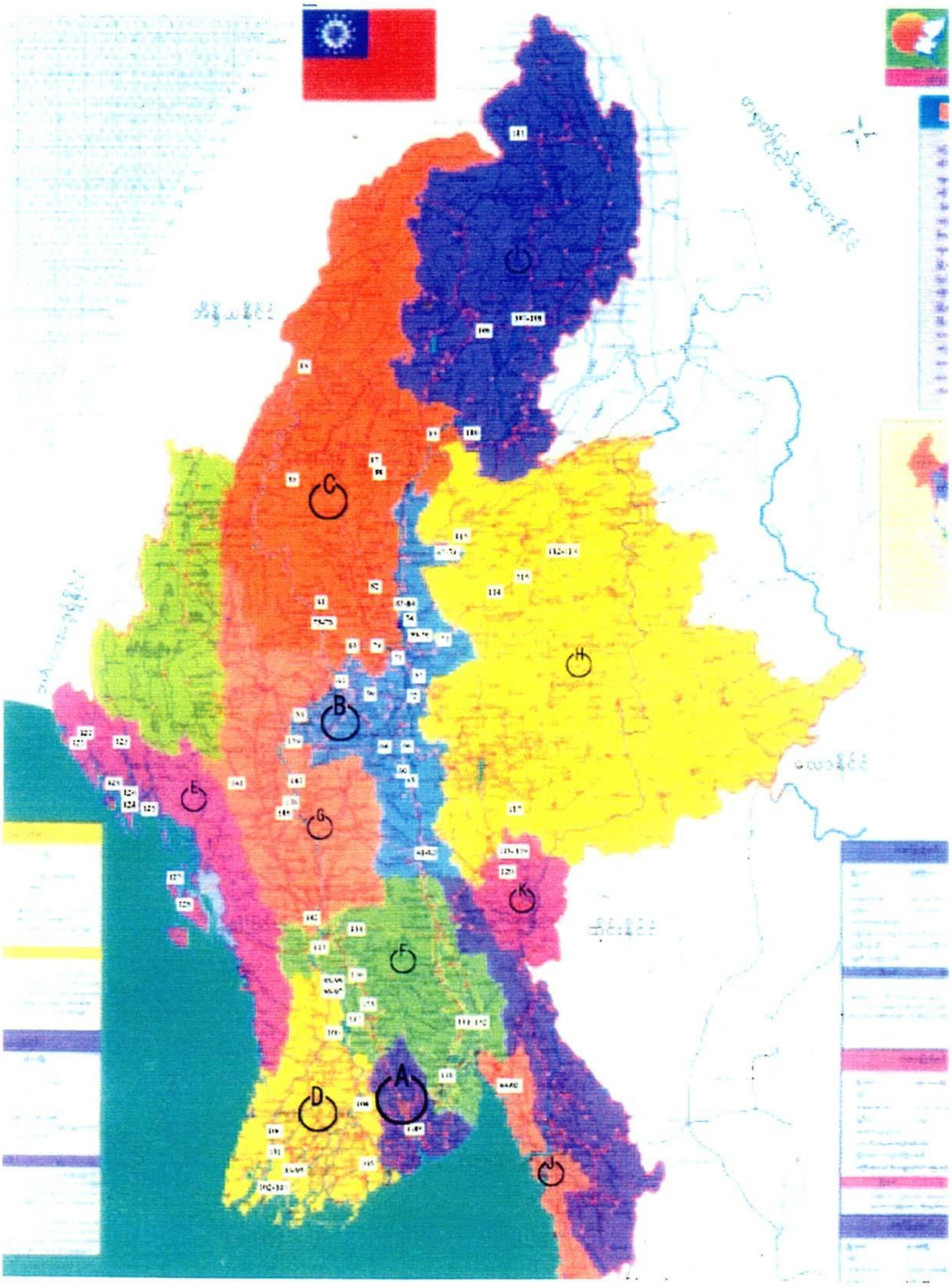
Location of NGOs Involved in Microfinance



Legend

+ Micro-Finance INGO
● UNDP Assisted Project
□ Other INGO
Δ Local NGO

Location of Open-type Saving & Credit Cooperative Societies



A. Yangon	- 49 societies	G. Magyay	- 6 societies
B. Mandalay	- 25 societies	H. Shan	- 6 societies
C. Sagaing	- 15 societies	I. Kachin	- 5 societies
D. Ayeyarwaddy	- 14 societies	J. Mon	- 3 societies
E. Rakhine	- 9 societies	K. Kayah	- 3 societies
F. Bago	- 8 societies	Total	- 143 societies

Joint Study Team Members for Financial Sector Study under Fiscal and Monetary Policy Working Group

MYANMAR SIDE

FMWG and Experts	**Name**	**Title**
Leader	U Than Lwin*	Deputy Governor The Central Bank of Myanmar
Taskforce Member	U Hla Maung* (Chap. 2&8)	Advisor, Ambassador (Rtd.) Ministry of Foreign Affairs
Taskforce Member	U Kyi Shein*	Advisor Ministry of Finance and Revenue
Taskforce Member	Dr. Khin San Yee* (Chap. 2)	Associate Professor Institute of Economics
Supporting Member	Daw Yin Yin Mya* (Chap. 2)	Deputy Director The Central Bank of Myanmar
Microfinance Expert	U Ohn Lwin*	Advisor Myanmar Agricultural Development Bank
Microfinance Expert	U Sein Myint*	
Legal Expert	U Ba Kyaning	
Financial Expert	Daw Khin May Shin	
Assistant Researcher (Microfinance Sector)	U Tin Myint*	
Assistant Researcher (Microfinance Sector)	Hnin War War Win*	
Assistant Researcher (Microfinance Sector)	Thi Da Myint*	
Assistant Researcher (Legal Sector)	U Aye Hlaing	
Assistant Researcher (Banking Sector)	Daw Aye Sandar Win	

JAPANESE SIDE

FMWG and Consultants	**Name**	**Title**
Leader	Prof. Takehiko Kondo	Dean, College of Asia Pacific Management Ritsumeikan Asia Pacific University
Taskforce Member	Prof. Hideki Esho	Professor, Faculty of Economics Hosei University,

* Asterisks indicate main contributers to the report. Parentheses indicate chapter titles for which the individuals named were in charge.

Taskforce Member	Dr. Fumiharu Mieno	Associate Professor, Faculty of Economics Hosei University
Taskforce Member	Mr. Ryu Fukui* (Executive Summary, Chap. 3,6&8)	Deputy Director General International Cooperation Department Development Bank of Japan
Supporting Member	Ms. Yoko Honda* (Chap. 3)	Research Assistant International Cooperation Department Development Bank of Japan
JICA Consultant	Mr. Hirohiko Sekiya*	Senior Researcher International Bureau Japan Economic Research Institute
JICA Consultant	Mr. Masahisa Koyama	Executive Vice President Japan Economic Research Institute
JICA Consultant	Mr. Toshiyuki Katagiri	Director General International Bureau Japan Economic Research Institute
JICA Consultant	Mr. Takao Aiba	Senior Economist International Bureau Japan Economic Research Institute
JICA Consultant	Ms. Eri Habu	Chief Policy Analyst Policy Studies Department International Division UFJ Institute Ltd.
JICA Consultant	Dr. Gilberto M. Llanto* (Chap. 1,4,5,6,7,9&11)	Chairman, Board of Advisers CARD Bank (CARD Rural Bank, Inc.)
JICA Consultant	Dr. Jaime Aristotle B. Alip* (Chap. 1,5,6,7,10&11)	Chairman and Managing Director CARD Bank (CARD Rural Bank, Inc.)
JICA Consultant	Mr. Edgardo F. Garcia* (Chap. 4,6&9)	Executive Director Microfinance Council of the Philippines, Inc.
JICA Coordinator	Mr. Naoki Takeuchi	Economist International Bureau Japan Economic Research Institute
JICA Coordinator	Ms. Maiko Sudo*	International Bureau Japan Economic Research Institute
Assistant Researcher	Ms. Mading Seng Ja*	International Bureau Japan Economic Research Institute

* Asterisks indicate main contributers to the report. Parentheses indicate chapter titles for which the individuals named were in charge.