

Part II

Microfinance Institutions and Cooperatives

Chapter 4. Performance of NGOs and Donor-funded Projects
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Chapter 4

Performance of NGOs and Donor-funded Projects

Paving the Way towards Sustainable Microfinance

in Myanmar

1. This chapter reports on a quick survey of microfinance institutions (MFIs), principally NGOs, conducted by the local counterpart team of the JICA Microfinance Team. The survey was conducted in July and August 2002.
2. The objective of the survey is to draw a landscape of the microfinance sub-sector in Myanmar. The survey sought to identify the major players, the areas where they operate, their target markets, current outreach and operational and financial performance. In addition, the survey asked respondents to identify perceived constraints in the implementation and expansion of current savings and credit programmes. The respondents were also asked to identify areas for capacity building required to improve the performance of their microfinance operations¹.
3. There were a total of eighteen (18) NGO MFIs that responded to the survey. Fifteen (15) of these NGOs provided the data and information for this study. Three UNDP-assisted projects were unable to provide sufficient financial information on their respective programmes. The list of survey respondents is as follows:

Microfinance-focused international NGOs

1. PACT
2. GRET
3. Grameen Trust

Other International NGOs (with multiple programmes)

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

UNDP- assisted Projects

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

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

Local NGOs

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

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

Institutional Characteristics

Microfinance INGOs

4. The three INGOs operate under a special agreement between the government and the UNDP/UNOPS. The latter provide funding and overall supervision over the 3 projects managed separately by the three INGOs. UNDP/UNOPS provide funds under a programme called Human Development Initiative (HDI) undertaken in phases over the last 5-year period. The third phase ended in early 2002 and the fourth phase was supposed to begin in July 2002. At the end of the third phase, Grameen opted not to renew its contract with UNDP/UNOPS. The latter has temporarily assumed management over the microfinance operations formerly run by Grameen. Since the Projects are still waiting for Government final approval on the launching of Phase 4, expansion of the 3 projects—in terms of clients served and townships covered—cannot proceed as planned.
5. The three microfinance-focused INGOs have been operating in Myanmar for five years since 1997. The three INGOs have a total of 350 staff members with PACT having the highest number of staff at 171, followed by Grameen at 104 and GRET with the lowest number of staff at 75. Total number of field workers for the three INGOs is 248, with PACT having the highest number at 121 and GRET the lowest number at 43.

Multipurpose INGOs

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

Local NGOs

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

UNDP-assisted projects

8. The three UNDP-assisted projects did not employ separate staff for microfinance subprojects. They employed project officers who handled a variety of programmes that included the provision of credit. The UNDP projects have an average period of 5.6 years in operations.
9. Table 1 shows the numbers of years in operation, number of townships covered and number of staff of the NGO respondents.

Table 1. Institutional Characteristics of Microfinance NGOs

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

Remark:

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

Geographic Presence

10. The 3 INGOs that dominate the microfinance field in Myanmar cover 11 townships out of a total number of 330 townships in the whole country. PACT is operating in one township each in Magway, Mandalay and Sagaing divisions. GRET covers 5 townships in Shan State while Grameen Trust operates in 3 townships in the Ayeyarwaddy division.
11. The five multipurpose INGOs operate in 9 townships in Yangon and Mandalay divisions and Chin State. The 7 local NGOs reported that they operate in 20 townships in several areas of the country. The three UNDP-assisted projects reported that their operations are in 31 townships located in 3 northern states and in Shan State.
12. With the exception of the three UNDP-assisted projects, the 15 international and local NGOs are present in 40 townships out of a total number of 330 townships in Myanmar. The survey respondents are operating in only 12% of the total number of townships in the country.
13. Table 2 shows the areas where the respondents are present.

Table 2. Geographic Presence of Microfinance Operations

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

Legal Registration and Cover

14. The three microfinance INGOs operate under an agreement between the Government of Myanmar and the UNDP/UNOPS. Three of the multipurpose INGOs have Memorandums of Understanding (MOUs) with the Ministry of Health while one INGO has a MOU with the Ministry of Social Welfare and the other INGO has a MOU with the Myanmar Agriculture Services. Six of the seven local NGOs are registered with the Ministry of Home Affairs/ Ministry of Religious Affairs while the remaining institution is registered with the Ministry of Cooperatives.
15. The variety of agreements, MOUs and number of government agencies involved in registration of MFIs indicate that there is no single government agency in Myanmar where one can register a microfinance operation or programme. More often than not, the microfinance operation or programme typically comes as a sub-component of a larger intervention by the INGO concerned, that is, an INGO chiefly involved in implementing health programmes may use microfinance as a convenient entry point to establish rapport and mutual understanding with the host community.
16. Table 3 shows the type of legal cover or registration of the NGOs.

Table 3. Type of Legal Registration / Cover

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

Profile of the Target Market

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

Table 4. Profile of Target Sectors

Target Sector	Microfinance INGOs	UNDP Assisted Projects	Other INGOs	Local NGOs	Total
Poorest	3	2			5
Rural Poor	3	2	3	5	13
Rural Poor (Women Focus)	3		2	5	10
Urban Poor			3	2	5
Urban Poor (Women Focus)			3	2	5
Women (Rural)	3	2	3	5	13
Women (Urban)			2	2	4
Women Headed HH	3	2	1	6	12
Market Vendors	3		4	6	13
Disabled	3		2		5
Small Farmers	3	2	2	5	12
Micro Entrepreneurs	3	1	6	7	17
Landless Agri Worker	3	3	3	1	10
Drivers / Operators				1	1
Fisher Folk	3	2			5
Christians			1	6	7
Livestock Breeding	3	2	5	6	16
Returnee Families		1			1
Drug Addict Area		1			1

Sources of Funds

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

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

Table 5. Fund Sources of Microfinance NGOs

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

Methodological Practices

Lending Modalities Used

20. The NGO/MFIs in Myanmar employ both group-based approach and individual lending in their credit programme. The dominant lending modality is the group-based approach as this is the modality employed by the three INGOs. The multipurpose INGOs and other local NGOs employ a combination of individual and group-based lending in their credit programmes. Table 6 shows the lending methodologies prevalent among NGOs in Myanmar.

Table 6. Lending Modalities Used

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

Loan Terms and Conditions

Microfinance INGOs

21. The loan period is generally 12 months with GRET providing also 6-month loans. Minimum loan size is 12,000 kyats for PACT, 16,000 kyats for GRET and 15,000 kyats for Grameen. Maximum loan size is 60,000 kyats for PACT, 58,000 kyats for GRET, and 50,000 kyats for Grameen. The minimum and maximum loan sizes indicate that the three INGOs are serving relatively poor people.
22. The effective interest rates range from 38.5% to 45% per annum. Repayment mode is weekly for Grameen, bi-weekly for PACT and monthly for GRET.
23. PACT and GRET charge 50 Kyats as membership fee. The three INGOs also charge fees for passbooks ranging from 25 Kyats to 50 Kyats.
24. The three INGOs also offer other loan products in addition to the general or normal loans. These loan products are labeled as extra loan, micro and small enterprise loan and emergency loan. The aggregate loans outstanding of the other loan products comprise a very small portion of the total loan portfolio of the three INGOs. Interest rates of the loan products are similar to the general loan. Loan sizes are significantly larger for the micro and small enterprise loans. Loan periods of 12 to 24 months are applicable to small enterprise loans.
25. Table 7.1 shows the loans terms and conditions of the three microfinance INGOs.

Table 7.1 Loan Terms and Conditions for Microfinance INGOs

	Description	PACT	GRET	Grameen
General / Normal Loan	Interest rate (per annum)			
	Nominal rate	22.50%	45%	20.00%
	Effective rate	45.00%	45%	38.50%
	Other charges			
	- Membeship fee	50 Ks	50 Ks	Nil
	- Group fund	100 Ks (per loan)*	Nil	Nil
	- Welfare fund	75 Ks (per mem/yr)	Nil	Nil
	- Passbook fee	25 Ks *1	50 Ks	50 Ks
	Loan term	12 months	6 - 12 months	12 months
	Min loan size	12,000	16,000	15,000
	Max loan size	60,000	58,000	50,000
	Repayment mode	Bi weekly	Monthly *3	Weekly
	Extra Loan	Interest rate (per annum)		
Nominal rate		22.50%	45%	20%
Effective rate		45%	45%	38.50%
Other charges				
- Loan application		Nil	50 Ks	Nil
- Group fund		100 Ks per loan	Nil	Nil
Loan term		12 months	6 - 12 months	12 months
Min loan size		10,000	6,000	40,000
Max loan size		10,000	6,000	40,000
Repayment mode	Bi-weekly	Monthly *3	Weekly	
Micro and Small Enterprise Loan	Interest rate (% per annum)	22.50% (Flat)	45%	38.50%
	Other charges			
	- Loan application	Nil	50 Ks	Nil
	- Passbook fee	25 Ks	Nil	Nil
	- Group fund	100 Ks per loan	Nil	Nil
	Loan term	20 months *2	12 months	12 - 24 months
	Min loan size	80,000	50,000	100,000
	Max loan size	250,000	150,000	100,000
Repayment mode	Bi-weekly	Monthly *3	Weekly	
Emergency Loan (GRET) Group Fund Loan (Grameen)	Interest rate (% per annum)	Nil	45%	0%
	Other charges			
	- Loan application	Nil	50 Ks	Nil
	Loan term	Nil	3 months	Flexible
	Min loan size	Nil	4,000	Half of Saving
	Max loan size	Nil	4,000	Half of Saving
Repayment mode	Nil	Monthly *3	Weekly	

Remarks:

- * - Group Fund is collected starting from second cycle loan
- *1 - One passbook can be used for two loans
- *2 - Only interest is collected for the first four installments (2 months)
- *3 - Interest is collected monthly and principal is collected at the end of due month for first and second cycle loan.

From third cycle onwards, interest is monthly, while principal is in two installments.

UNDP-assisted projects

26. The three projects assisted by UNDP operate under special circumstances. The Community Development for Remote Townships (CDRT) operate in Rakhine, Chin and Kachin States. The UNHCR project is in Northern Rakhine State while the UN Drug Control Programme is active in areas of Shan and Kachin States. All three projects undertake development and livelihood programmes for communities experiencing difficult conditions. The provision of credit is a small part of the overall programme of the three projects. There is little evidence to indicate that the credit programmes under these projects will become viable and sustainable in the near future. Financial and operational records for the credit programme are not reported separately thereby making it difficult to manage the credit programme. Indicators of best practice in microfinance are not regularly tracked. Similar projects of this type are generally more inclined to measure amount of loans disbursed and number of beneficiaries rather than recovery of loans.
27. Table 7.2 shows the loan terms and conditions of the credit programmes undertaken by the three UN projects. Loan sizes vary from 5,000 kyats to 200,000 kyats with loan periods ranging from less than 10 months to 12 months. Repayment mode is weekly or monthly. Interest rates vary from 0% to 60%. Those charging zero or very minimal interest rates are more concerned with outreach to a larger number of poor households, hence, maintaining cost-recovering interest rates are a secondary objective.

Table 7.2 Loan Terms and Conditions for UNDP Assisted Project

Description	CDRT	UNHCR	UNDCP
General / Normal	Interest rate (% per annum)	Market oriented rate*4	0% Conditional grant
	Other charges		Market oriented rate
	- Member fee	5 - 50 Ks *4	Nil
	Loan term	<= 10 months	<=12 months
	Min loan size	100 Ks *5	5.000 Ks
	Max loan size	180.000 Ks *5	10.000 Ks
	Repayment mode	Weekly (principal) Monthly (interest)	Equal instalments within 10 months
Hybrid Group Loan	Interest rate (% per annum)	Nil	Market oriented rate *4
	Loan term	Nil	Flexible
	Min loan size	Nil	Flexible
	Max loan size	Nil	Flexible
	Avg loan size	Nil	Flexible
	Repayment mode	Nil	Flexible
Hire Purchase Scheme	Interest rate (% per annum)	Nil	0%
	Loan term	Nil	6- 12 months
	Min loan size	Nil	5.000 Ks
	Max loan size	Nil	*5
	Avg loan size	Nil	
	Repayment mode	Nil	Down payment plus biweekly
Partnership Finance Arrangement	Interest rate (% per annum)	Nil	0%
	Other charges		
	- Member fee	Nil	Nil
	Profit & loss sharing	Nil	Agency: 43.91% Borrowers: 59.09%
	Loan term	Nil	2 - 4 months
	Min loan size	Nil	Flexible
	Max loan size	Nil	Flexible
Rotation Saving & Credit Association / Partnership Finance Group Loan	Average loan size	Nil	Flexible
	Repayment mode	Nil	Flexible
	Interest rate (% per annum)	Nil	0%
	Loan term	Nil	6 months
	Min loan size	Nil	10.000 Ks
	Max loan size	Nil	10.000 Ks
	Repayment mode	Nil	Weekly

Remarks:

*4 - Decided by Borrowers

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

Other INGOs

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

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

Table 7.3 Loan Terms and Condition for Other INGOs

Description		Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRFT (Chin)
General / Normal Loan	Interest rate (% per annum)	Market oriented rate (flat)	15% (flat)	0%	Market oriented rate (flat)	Market oriented rate (decline)
	- For group fund					
	- For organisation	Market oriented rate	15%		Market oriented rate	Market oriented rate
	Service charges (%) (up front)	Nil	Nil	Nil	2% on loan (up front)	Nil
	Other charges					
	- Contract fee	Nil	Nil	Nil	Nil	Nil
	- Membership fee	Nil	Nil	Nil	Nil	100 Ks
	- Passbook fee	100 Ks per loan	100 Ks	Nil	Nil	Nil
	Loan term	6 months	12 months	1-3 Yrs (flexible)	6 months	Max 12 months
	Min loan size	10,000 Ks	10,000 Ks	1,500 Ks	20,000 Ks	9,000 Ks
	Max loan size	10,000 Ks	10,000 Ks	35,000 Ks	500,000 Ks	12,000 Ks
Repayment mode	Weekly	Bi-weekly	Flexible	Weekly	Monthly *3	
Special Loan	Interest rate (% per annum)	Nil	Nil	Nil	Nil	Market oriented rate (decline)
	- For group fund	Nil	Nil	Nil	Nil	Nil
	- For organisation	Nil	Nil	Nil	Nil	Market oriented rate
	Service charges (%) (up front)	Nil	Nil	Nil	Nil	Nil
	Other charges					
	- Contract fee	Nil	Nil	Nil	Nil	Nil
	- Membership fee	Nil	Nil	Nil	Nil	200 Ks
	- Passbook fee	Nil	Nil	Nil	Nil	Nil
	Loan term	Nil	Nil	Nil	Nil	Max 12 months
	Min loan size	Nil	Nil	Nil	Nil	25,000 Ks
	Max loan size	Nil	Nil	Nil	Nil	26,000 Ks
Repayment mode	Nil	Nil	Nil	Nil	Monthly *3	
Performance Loan	Interest rate (% per annum)	Nil	Nil	Nil	Nil	Market oriented rate (decline)
	- For group fund	Nil	Nil	Nil	Nil	
	- For organisation	Nil	Nil	Nil	Nil	Market oriented rate
	Service charges (%) (up front)	Nil	Nil	Nil	Nil	Nil
	Other charges	Nil	Nil	Nil	Nil	
	- Contract fee	Nil	Nil	Nil	Nil	Nil
	- Membership fee	Nil	Nil	Nil	Nil	100 Ks
	- Passbook fee	Nil	Nil	Nil	Nil	Nil
	Loan term	Nil	Nil	Nil	Nil	Max 12 months
	Min loan size	Nil	Nil	Nil	Nil	13,000 Ks
	Max loan size	Nil	Nil	Nil	Nil	16,000 Ks
Repayment mode	Nil	Nil	Nil	Nil	Monthly *3	
Emergency Loan	Interest rate (% per annum)	Nil	Nil	Nil	Nil	Market oriented rate (decline)
	- For group fund	Nil	Nil	Nil	Nil	
	- For organisation	Nil	Nil	Nil	Nil	Market oriented rate
	Service charges (%) (up front)	Nil	Nil	Nil	Nil	Nil
	Other charges	Nil	Nil	Nil	Nil	
	- Contract fee	Nil	Nil	Nil	Nil	Nil
	- Membership fee	Nil	Nil	Nil	Nil	Nil
	- Passbook fee	Nil	Nil	Nil	Nil	Nil
	Loan term	Nil	Nil	Nil	Nil	Max 4 months
	Min loan size	Nil	Nil	Nil	Nil	3,000 Ks
	Max loan size	Nil	Nil	Nil	Nil	3,000 Ks
Repayment mode	Nil	Nil	Nil	Nil	Monthly *3	

Local NGOs

30. Interest rates charged are within the negotiated interest rates with four NGOs computing the interest rate on the declining balance of the principal. The loan period is generally six months with the exception of the Baptist Convention which has a loan period of 20 months and Caritas Shan State which has a loan period of 3 years.
31. Minimum loan sizes vary from 2,500 kyats to 50,000 kyats. Maximum loan sizes vary from 30,000 kyats to 300,000 kyats.
32. Table 7.4 shows a summary of the loan terms and conditions of local NGOs.

Table 7.4 Loan Terms and Conditions for Local NGOs

Description		YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
General/Normal Loan	Interest rate (% per annum)	0%	Market oriented rate (decline)	Market oriented rate (decline)	Market oriented rate (decline)	Market oriented rate	Market oriented rate (decline)	Market oriented rate
	- For group fund			Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate	
	- For organisation		Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate	Market oriented rate
	Service charge (%) (up front)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Other charges							
	- Contract fee	Nil	Nil	Nil	50Ks/group	Nil	Nil	Nil
	- Member fee	Nil	Nil	Nil	Nil	50 Ks	Nil	Nil
	- Passbook fee	Nil	Nil	Nil	Nil	50 Ks	25 Ks	Nil
	Loan term	20 months	6 - 12 months	3 yrs	6 months	6 months	6 months	20 months
	Min loan size	10,000 Ks	50,000 Ks	50,000 Ks	-	2,500 Ks	5,000 Ks	5,000 Ks
	Max loan size	30,000 Ks	300,000 Ks	300,000 Ks	6,500 Ks	2,500 Ks	50,000 Ks	20,000 Ks
	Avg loan size	20,000 Ks	150,000 Ks	175,000 Ks	-	2,500 Ks	30,000 Ks	10,000 Ks
	Repayment mode	Monthly (10 installments)	Monthly	6 monthly	6 monthly	Flexible	Flexible	Monthly

Savings Products

33. In view of the NGO structure of the organisations, the savings side of the microfinance coin is given very scant attention by the NGOs. NGOs commonly collect compulsory savings at a fixed percentage of the loan principal. Among the respondents to this survey, the three microfinance INGOs pay relatively high saving rates on compulsory savings ranging from

15% for Grameen, 25% for PACT, and 27% for GRET. GRET is starting to accept voluntary savings from its borrowers.

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

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

Table 8.1 Savings Practices of Microfinance INGOs

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

Table 8.2 Savings Practices of UNDP Assisted Projects

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

Remarks:

*6 - Interest on saving is decided by Borrowers

NA – Not Available

Table 8.3 Savings Practices of Other INGOs

Description		Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Interest on Saving (% per annum)	Compulsory	Nil	8%	Nil	Nil	Nil
	Voluntary	Nil	Nil	Nil	0% *	
Saving						
Compulsory	Number	Nil	935	Nil	Nil	Nil
	Amount (Kyat)	Nil	73,640	Nil	Nil	Nil
Voluntary	Number	Nil	Nil	Nil	3728*	40
	Amount (Kyat)	Nil	Nil	Nil	*	18,020

Remark

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

Table 8.4 Saving Practices of Local NGOs

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

Institutional Performance Indicators

Outreach indicators

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

37. The three INGOs have shown that microfinance programmes in Myanmar can be undertaken in a viable manner. New entrants to the sector are well advised to closely study and learn from the actual experience of the three INGOs on the ground before starting their own programmes in Myanmar.
38. The dominance of the three INGOs of the market for microfinance in Myanmar is shown in Table 9.1. Gross revenue from lending operations is 411 million kyats and represent 93% total gross revenue of institutions that reported financial data. The three INGOs also have total assets of 1.7 billion kyats representing 92% of total assets of survey respondents. Outreach indicators for the other respondents are shown on Tables 9.2 to 9.5.

Table 9.1 Selected Performance Indicators as of end 2001

Description	Microfinance INGOs	% of Total	UNDP Assisted Projects	% of Total	Other INGOs	% of Total	Local INGOs	% of Total
No of Active Clients	94,724	87%	NA		11,021	10%	3,464	3%
Loan Portfolio Outstanding	1,420,613,201	87%	NA		185,851,225	11%	14,902,100	2%
Value of outstanding Savings	185,381,028	98%	NA		91,660	-	3,073,900	2%
Gross Revenue	411,000,664	93%	NA		25,463,481	6%	4,771,656	1%
Net Financial Margin or Net Operating Income	392,587,735		NA		NA		NA	
Loan Loss Provision	7,615,590		NA		NA		NA	
Net Income after Expenses	185,344,322		NA		(1,538,745)		(6,933,367)	
Total Assets	1,739,419,638	92%	NA		129,765,544	7%	31,036,988	1%
Total Liabilities	188,411,957		NA		11,522,278		12,648,900	
Net Worth	1,524,281,136		NA		118,243,265		12,210,000	

Remarks:

1. Other NGOs

Saving outstanding

- Value of saving outstanding for World Vision is not available because borrowers manage depositing in bank by themselves.

Gross revenue

- AAR and World Vision are unable to provide gross revenue.

Net financial margin and loan loss provision

- All other INGOs could not give this information.

Net income after expenses, total assets and total net worth

- Except AMDA, all other INGOs did not provide.

Total liabilities

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

2. Local NGOs

Net income

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

Total assets

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

Net worth

- Total net worth figure is not included for local NGOs as Thiri May, Caritas (Shan), Caritas (Kayah) and Myanmar Baptist Convention

Table 9.2 Outreach Indicators - Microfinance INGOs

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

Table 9.3 Outreach Indicators - UNDP Assisted Projects

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

Table 9.4 Outreach Indicators other INGOs

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

Remark

* The group members deposit saving amount in bank

Table 9.5 Outreach Indicators - Local NGOs

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

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

Portfolio quality indicators

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

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

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

² The same observation was made during field interviews of selected Savings and Credit Cooperative Societies.

42. The three INGOs however, have a common financial reporting format required by UNDP/ UNOPS. The financial reports of the three INGOs appear to conform with internationally accepted reporting formats for institutions engaged in microfinance. This survey was unable to validate whether the repayment rates and portfolio at risk as reported by the three INGOs conform to internationally accepted definitions.
43. The three INGOs report a repayment rate of close to 100% with portfolio at risk ratio of less than or close to 1%.
44. Among multipurpose INGOs, two are experiencing 100% repayment rate, the third has 99.15% repayment rate while the fourth has close to 80% repayment rate, while the fifth reports a 91.66% repayment rate.
45. Five of the local NGOs are reporting 100% or close to 100% repayment rates. YMCA has a 60% repayment rate while MCC is experiencing a 75% repayment rate.
46. UNHCR reports a repayment rate of 85% on its credit programme. CDRT and UNDCP have no indicators on the quality of their loan portfolios.
47. Table 10.1 to 10.4 show the portfolio quality indicators for the NGOs included in this survey.

Table 10.1 Portfolio Quality Indicators - Microfinance INGOs

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

Table 10.2 Portfolio Quality Indicators – UNDP Assisted Projects

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

Table 10.3 Portfolio Quality Indicators - Other INGOs

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

Table 10.4 Portfolio Quality Indicators - Local NGOs

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

Efficiency and productivity indicators

48. Efficiency and productivity indicators for the three microfinance INGOs are comparable to standards of best practice in other Asian countries. The number of active borrowers per field worker for the three INGOs range from close to 300 to 475. The loan portfolio per field worker range from 3.7 M kyats to 10.8 M kyats .The ratio of field staff to total staff range from 57% to 81 %.
49. The operating cost ratio is close to 35% for Grameen. The operating cost ratios for PACT and GRET are 16.38% and 16.95% respectively. The international standard for this ratio is lower than 25%. Efficient MFIs in Bangladesh have operating cost ratios of 12% to 16%. The top 5 most efficient MFIs tracked by MicroRate in South America have operating cost ratios of 11.6% to 13.8%.
50. Among multipurpose INGOs, World Vision is now moving towards improved efficiency indicators. WV has been operating its microfinance programme since 1998 while the 2 others in this group started in January 2002. AAR commenced its microfinance programme in September 2000.
51. Among local NGOs, Caritas (Kayah) is showing higher productivity and efficiency ratios

among its peer group. The operating cost ratios of the local NGOs are relatively high compared with NGOs that have longer periods of operations. This is to be expected considering that some of the NGOs started their microfinance programmes only in early 2002.

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

Table 11.1 Efficiency and Productivity Indicators - Microfinance INGOs

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

Table 11.2 Efficiency and Productivity Indicators - UNDP Assisted Projects

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

Table 11.3 Efficiency and Productivity Indicators - Other INGOs

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

Remark: *7 – No separate staffs for Microfinance Activities

Table 11.4 Efficiency and Productivity Indicators - Local NGOs

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

Sustainability indicators

52. The three INGOs are able to sufficiently cover operating expenses, interest expense on client deposits and loan loss provisions from their financial income on loans and investments. The operational self-sufficiency of the three INGOs are 227% for PACT, 210% for GRET and 117% for Grameen. Such ratios are comparable and even exceed the operational self-

sufficiency ratios of good performing MFIs in Bangladesh and the Philippines at similar stages of development.

53. The inflation rate obtaining in Myanmar over the last 2 years has the effect of drastically lowering the financial self-sufficiency ratios obtained by the three INGOs. There is no official inflation rate published by the government. Estimates of the inflation rate range from 35% to 60% using the rate of increase in the prices of food items. On the basis of an estimated rate of inflation of 35%, the financial self-sufficiency ratios for the three INGOs are 72% for PACT, 76% for GRET and 47% for Grameen. The financial self-sufficiency ratios would have exceeded 100% for both PACT and GRET had the inflation rate been 10% or lower. This would have qualified both institutions in the league of high performing institutions operating in other countries of Asia.
54. Among the five multipurpose INGOs, GRET Chin is showing remarkable progress with an operational self-sufficiency ratio of 98.7%. SCFUSA has an OSS ratio of 34% while AMDA reports a ratio 28%.
55. Among the seven local NGOs, three are having OSS ratios exceeding 100%.
Tables 12.1 to 12.4 show the operational self-sufficiency and financial self-sufficiency ratios of the survey respondents.

Table 12.1 Sustainability Indicators - Microfinance INGOs

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

Table 12.2 Sustainability Indicators - UNDP Assisted Projects

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

Table 12.3 Sustainability Indicators - Other INGOs

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

Remark

* - The group members deposit saving amount in Bank.

Table 12.4 Sustainability Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Operational Self Sufficiency Ratio	0%	124.23%	200%	NA	183.33%	62.6%	2.44%
Operating Income	0	904.330	499.976	1.936.100	220.000	1,211.250	52.800
Total Operating Expense	400.000	727.950	249.988	NA	120.000	1.935.000	2.160.000
- Operating Expense							
- Loan Loss Provision							
- Interest on Saving Cost							
- Interest on Borrowing Cost							
Financial Self Sufficiency Ratio	NA	NA	NA	NA	NA	NA	NA
Savings to Loan Ratio (outstanding)	0	1.7%	0	0	384%	242.2%	48.03%
Total Amount of Saving outstanding	0	58.000	0	0	960.000	1.259.500	796.400
Total amount of Loan Outstanding	600.000	3.350.000	1.666.600	6.857.500	250.000	520.000	1.658.000

Financial solvency indicators

56. The capital adequacy ratios of the three microfinance INGOs range from 82% to 97%. This high ratio is principally due to the donated equity provided by UNDP to the three INGOs. In the event that the three INGOs can be registered as separate corporate entities in the future, they can leverage their large equity base to borrow funds to increase client outreach and raise their loan portfolios. Their current ratios are also very high, allowing them sufficient flexibility to borrow funds from commercial sources at some time in the future.
57. The donated equity of UNDP/UNOPS is recognised in the balance sheets submitted by the three INGOs regularly to UNDP/UNOPS. It remains to be seen whether UNDP/UNOPS equity or advances will be officially transferred to local entities when the three projects are registered as separate corporate entities with their own board in the future.
58. Among local NGOs, YWCA stands out as a highly leveraged institution with a capital adequacy ratio of only 5.73%. Its current ratio stands at 1.0. YWCA will require substantial infusion of equity funding if it intends to undertake an expansion of its microfinance programme. MCC has a capital adequacy ratio of 66% and a current ratio of 2.93. In the absence of adequate financial records, the solvency indicators for most NGOs could not be tracked.

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

Table 13.1 Financial Solvency Indicators - Microfinance INGOs

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

Table 13.2 Financial Solvency Indicators - UNDP Assisted Projects

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

Table 13.3 Financial Solvency Indicators - Other INGOs

Description	Save the Children (US)	Association of Medical Doctor of Asia	Association for Aids and Relief	World Vision (Myanmar)	GRET (Chin)
Capital Adequacy	NA	99.42%	NA	NA	90.22%
Total Equity	NA	12,657,660	NA	NA	105,585,605
Total Asset	NA	12,731,300	NA	NA	117,034,244
Liquidity / Current Ratio	NA	138.67	NA	NA	10.06
Current Asset	NA	10,211,300	NA	NA	115,245,626
Current Liabilities	0	73,640	NA	NA	11,448,638

Table 13.4 Financial Solvency Indicators - Local NGOs

Description	YMCA	Thiri May	Caritas (Shan)	Caritas (Kayah)	MCC	YWCA	Myanmar Baptist Convention
Capital Adequacy	100%	NA	NA	NA	65.96%	5.73%	NA
Total Equity	10,000,000	NA	NA	NA	1,860,000	350,000	NA
Total Asset	10,000,000	NA	5,249,988	6,857,500	2,820,000	6,109,500	NA
Liquidity / Current Ratio	-	NA	-	-	2.93	1.00	NA
Current Asset	3,000,000	NA	5,249,988	6,857,500	2,820,000	5,769,500	NA
Current Liabilities	0	3,373,000	0	0	960,000	5,759,500	2,556,400

Profitability indicators

59. The three INGOs have return on assets ratio of 18.69%, 17.99% and 3.61% respectively for PACT, GRET and Grameen. The return on equity is 21.71%, 18.42% and 4.25% respectively for PACT, GRET and Grameen. The return on equity of PACT and GRET compares favourably with high performing MFIs in Bolivia and Peru that exhibit ROEs of 20.7% and 18% respectively for each country.
60. With the exception of Caritas (Shan) and Caritas (Kayah), the other NGOs are still incurring losses. Most of the other NGOs are new in the business and have not reached a sufficient number of clients and volume of loan portfolio able to generate revenue that would at least cover costs of operations.
61. Tables 14.1 to 14.4 show the profitability indicators for the NGOs covered by this survey.

Table 14.1 Profitability Indicators - Microfinance INGOs

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

Table 14.2 Profitability Indicators - UNDP Assisted Projects

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

Table 14.3 Profitability Indicators - Other INGOs

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

Table 14.4 Profitability Indicators - Local NGOs

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

Constraints in Credit and Savings Programmes

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

External to the MFIs

1. Absence of a legal framework for NGO's to establish, register and operate a microfinance programme.
2. There is a perceived anxiety over the appropriateness of charging interest rates above the ceiling rates imposed by the government, i.e., 15% on loans and 10% on savings deposits.
3. In the case of INGOs, expanding to new areas not covered by original agreement with government require the permission of authorities.
4. The high rate of inflation obtaining in the country results in a negative savings rate for clients.

5. High inflation rate negatively affects financial sustainability. The value of the original equity investment is substantially reduced when compared to base year figures.
6. Low population densities in remote areas, the semi-arid environment and poor state of infrastructure substantially raise operating costs.
7. There is great anxiety that donor money for microfinance as well as for development aid is dwindling.
8. Social intermediation for poor clients takes a longer process due to the low literacy rate of clients. The longer process results in higher costs to the MFI.

Internal to MFIs

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

Human Resource Capability Building Needs

63. Survey respondents were also asked to identify their capacity building requirements. MFIs indicated their need for technical assistance in the following areas.
1. How to prepare a business plan.
 2. How to manage and control loan delinquencies.
 3. Designing and maintaining an appropriate management information system.
 4. Designing and implementing simple and cost-effective loans and savings programmes.
 5. Understanding best practices in financial management.
 6. Designing appropriate monitoring and evaluation tools.
 7. How to conduct an effective participatory rural appraisal.
 8. Exposure trips to successful projects in Myanmar.

Conclusions

64. The NGO microfinance sector in Myanmar is still in its embryonic stage. Majority of NGOs are into microfinance operations for only five years or less.
65. Microfinance INGOs brought in their expertise and experience obtained in undertaking microfinance programme in their home countries or in other countries of Asia.

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

grow to become sustainable institutions.

76. There is a great need to develop a common standard chart of accounts and observe a set of generally accepted accounting principles and practices.
77. International NGOs will also require technical assistance in their transition from a project-based operation to a local microfinance entity with own local board and management staff.
78. There is definitely a wide room for new entrants to the microfinance sector in Myanmar. The sector is still on the take-off stage.

Chapter 5

Saving and Credit Cooperative Societies

Upgrading Indigenous Financial Systems

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

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

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

General Information

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

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

affordable amount ranging from 500 kyats to 10,000 kyats per share per member.

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

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

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

Lending Terms and Conditions

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

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

Item	Sagaing Division			Shan State			Mandalay		
	A	B	C	D	E	F	G	H	I
1. Kinds of Loans	40 day loan Monthly loans Long term loans	40 day loan Emergency loan 4 month loan	Small business loan	Operates a pawnshop business	General Loan	General loan	Small shop owners For members Non-members Institutional loan	General loan	General loan
2. Loan Ceiling	40 day loan: 4X of savings Monthly Loan: based on 30% of collateral value (max. ** Kyats Long term loan: Maximum of ** kyats with vehicle as collateral.	40 day loan: 4X of savings Emergency loan: 4X of savings and share 4 month loan: 4X of savings and share	10X of share (maximum of 45,000 kyats)	500,000 kyats	6X of shares	10X of share	Small shop owners: Maximum of 50,000 kyats For members/ Non-members: Maximum of **kyats Institutional loan: -	5X of savings	3X of share
3. Loan Duration	40 day loan: 40 days Monthly loan: 6 months Long term loan: 1 year	40 day loan: 40 days Emergency loan: 6 months 4 month loan: 4 months	One month	6 months	60 days or 90 days	28 days	Small shop owners: 30 or 60 days For Members/ Non-Members: 1 year	10 months	6-10 months
4. Interest Rate	Market oriented rate (based on declining balance)	Market oriented rate (depending on loan)	Market oriented rate	Market oriented rate	12%/annum (Interest collected in adv.)	15%/annum (flat)	Small shop owners: 1.5% (flat) For members/ Non-members: 2.5% (flat) Institutional: 2%/month	1.75%/month plus upfront fees of 1.25%	1.25%/month plus 1.7% per month welfare fees
5. Repayment Modality	40 day loan: daily Monthly Loan: monthly Long term loan: monthly	40 day loan: daily Emergency loan: daily 4 month loan: ballooning payment	Daily	Monthly installment or ballooning payment	Daily	Daily	Small shop owners: daily For members/ Non-members: end of cycle Institutional: end of cycle	Monthly	Monthly

10. The JICA microfinance team also noted that one Saving and Credit Cooperative Societies was ordered to stop its lending operations in 1997 after having been found to have charged 3% per month interest on loans to its members. The order to stop lending operations encouraged members to stop paying their loans and this led to a serious loan delinquency problem. To recover the loans, the board of directors decided to file court cases against the delinquent members. The High Court decided in April 2001 in favour of the society. Accordingly, the delinquent members were asked to pay their loans with the 3% interest rate per month.
11. The High Court ruled that there is nothing illegal in the interest charges since the Saving and Credit Cooperative Societies concerned is neither subject to the Moneylenders Act nor the Financial Institution Law. The required ceiling on interest rate has been mandated under these laws. The landmark court ruling has strengthened the current position of the Saving and Credit Cooperative Societies to continue to charge their members interest rates that exceed the ceiling rate of 15% imposed by the government on financial institutions. They need flexible interest rates to maintain their viability given varying risks in their respective areas of operations.
12. Annex 5.1 shows the ruling of the High Court with reference to the above case.

Savings Terms and Conditions

13. Three societies require compulsory savings through a loan deduction ranging in amount from 1 to 4% depending on the financial policy of the society. Except for one society, Shwe Than Lar, all the rest accept voluntary savings. However, four societies have stopped accepting voluntary savings from non-members. These societies said that this practice has been disallowed by the Ministry of Cooperatives. They also stopped for a practical reason: the high financial cost of deposits from non-members since these non-members deposit relatively huge amounts of money to the Saving and Credit Cooperative Societies.
14. Voluntary savings can be withdrawn anytime. However, compulsory savings can be withdrawn only after the loans have been fully paid or upon resignation from the society or termination of membership in the society, in all cases following certain policies laid down by the society.

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

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

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

Full Time Professional Staff and Emoluments

16. All the nine Saving and Credit Cooperative Societies interviewed have their own full time professional staff ranging in number from 2 to 15. Pyin Oo Lwin Saving and Credit Cooperative Societies has the biggest number of staff because of the size of its operations. The JICA Microfinance Team observed that its operations and set up is almost like those of a bank in the country. Likewise, with the exception of two Saving and Credit Cooperative Societies in Sagaing Division (Myit Tar Mon and Pa Day Tha) with staff qualifications of 10 standard grade, all the seven societies claimed that all their staff members are graduates from universities and colleges. A number of them have earned their degrees through distance learning education offered by local institutions. Moreover, all the staff members have received some form of training about cooperative management either from cooperatives they were formerly working for or from the present society where they are currently working.
17. The staff salary ranges from 4,000 to 10,000 kyats per month. However, most of the Saving and Credit Cooperative Societies interviewed said that they also provide annual bonus and monthly welfare fund to staff ranging in amounts from 1,000 to 3,000 kyats. Some societies also provide an annual uniform allowance, monthly ration of rice and cooking oil. One society even pays for the education of staff members who are interested to pursue higher learning. One society that owns a pawnshop gives overtime pay to its staff.
18. Compared to salaried government employees, the staff of these societies have better compensation packages. This indicates that these societies earn enough from their credit operations to enable them to really take good care of their staff. Appropriate salaries and other incentives motivate staff members to perform better and allow them to keep their trained and experienced staff members.
19. Table 4 shows the details of the compensation package, number of staff, and educational attainment of staff of the selected Saving and Credit Cooperative Societies interviewed.

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

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

Governance

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

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

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

Pawnshop Operations

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

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

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

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

28. According to the records of the Ministry of Cooperatives as of 2001, there are 1,921 Saving and Credit Cooperative Societies in Myanmar with a membership of more than 425,000. Of this, about 139 Saving and Credit Cooperative Societies are open type with a membership of 10,097 (Ministry of Cooperatives Report, 2001). For purposes of this study, the local microfinance team has decided to focus its research on the open type Saving and Credit Cooperative Societies since they have more potential in pursuing and expanding microfinance operations to reach the poorer segment of the society.
29. Due to time constraints, peace and order situation, and proximity of the open Saving and Credit Cooperative Societies, the local microfinance team surveyed 34 out of 139 open type Saving and Credit Cooperative Societies which represent 24% of the sample size. The team conducted the survey on 12 societies in Ayeyarwaddy, Bago, Magway Divisions, 19 societies in Sagaing and Mandalay Divisions; and 3 in Yangon Division.
30. The following are the survey results:

Legal Registration and Years in Operations

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

² This section is from the results of the survey done by the local microfinance team.

Table B.1. Name of Societies, Year of Registration, and Year of Operations

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

Loan Collateral

32. Out of 34 Saving and Credit Cooperative Societies surveyed, six do not require collateral while the rest demand collateral from members borrowing loans from the societies. The collateral required could be in any of the following forms or combination thereof: signature or presence of co-guarantors, immovable properties such as land, buildings, shops, and movable properties such as motorbikes, bicycles, television, video and other appliances depending on the credit policy of the respective societies. Among the respondents, 19 (34%) are using co-guarantors; land, 11 (20%); and, shops, 11 (20%) as the most common form of collateral as presented in Table B.2.

Table B.2. Form of Collateral on Loan

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

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

Loan Interest Rates

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

Table B.3. Interest Rates Charged on Loans

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

Note: Some cooperatives have more than one loan product

Loan Duration

34. Some Saving and Credit Cooperative Societies offer more than one kind of loan product and for each loan product, the loan duration varies depending on the credit policy of the concerned society. The survey results revealed that loan duration for different loan products varies from one month to 4 years. The target clients of societies are mostly the market vendors and micro-entrepreneurs. But some societies have a variety of clients such as market vendors, urban poor, drivers/operators, micro-entrepreneurs, women and even small farmers in the rural areas. It was noticed that in the case of market vendors most societies offer three different kinds of loans by maturity or loan duration: daily, monthly and emergency loan products. Most societies offer to ordinary clients two different kinds of loans: ordinary and emergency type of loan.
35. Among the respondents, 12 societies (27%) offer 30 days to 40 days loan to clients; six (13%), have 3-month loan duration; and five (11%) have a 12-month loan duration as presented in Table B.4. From the survey, the big loans ranges from 400,000 and above for local entrepreneurs and has longer duration from one to four years.

Table B.4. Loan Periods

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

Note: Some societies have one or more products

Repayment Modality

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

Table B.5. Frequency of Repayment

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

Note: Some societies have one or more loan products

Loan Size

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

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

Description	Frequency / No. of Co-operatives	Percentage
Minimum Loan Size		
1,000 – 2,000	3	7%
2,001 - 3000	6	13%
3,001 – 5,000	8	17%
5,001 – 10,000	12	26%
10,001 – 20,000	6	13%
20,001 – 50,000	5	11%
Above 50,000	6	13%
Total	46	100%
Maximum Loan Size		
5,000 – 10,000	2	5%
10,001 – 20,000	4	9%
20,001 – 30,000	3	7%
30,001 – 50,000	2	5%
50,001 – 1,00,000	8	18%
1,00,001 – 2,00,000	5	11%
2,00,001 – 5,00,000	12	27%
5,00,001 – 10,00,000	1	2%
10,00,001 – 20,00,000	2	5%
20,00,001 – 40,00,000	3	7%
Above 40,00,000	2	5%
Total	44	100%

Note: Some societies have one or more loan products

Interest Paid on Shares and Savings

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

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

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

39. During the course of the survey, the respondents informed the local microfinance team that most Saving and Credit Cooperative Societies are giving higher interest payments to share capital and savings compared to the official savings interest rate of the bank at 10% per annum so that “they can attract more working capital”. It is also worth noting that societies that already have more than 10 million kyats of working capital no longer accept savings or deposits since the regulations set by the Ministry of Cooperatives only allow societies to have a working capital limit of not more than 10 million kyats.
40. In terms of the value of the shares, the value of the director’s shares varies from a range of 500 kyats to 300,000 kyats while the value of the member’s share ranges from 500 kyats to 100,000 kyats depending on the societies’ agreed regulations.
41. However, it is also worth noting that two societies surveyed differentiate the shares into two categories: director’s shares and member’s shares. According to the local microfinance team “It is just like discrimination on the members not to become a director in the society.”

Though the ownership of the society should be in the hands of the members, they are not allowed to participate in the decision-making process and in managing their own resources. According to their current practice, a director's share varies from kyats 1,00,000 to kyats 3,00,000. The loan to a director is four or eight times the amount of share capital.

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

Governance

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

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

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

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

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

Membership Size

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

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

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

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

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

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

Portfolio Quality and Profitability

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

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

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

Table B.12. Billion Kyats Co-operative

Description	Billion Kyats Co-operative	
	Amount (kyats in millions) / Number	% of Total
No. of Members	641	5.82%
No. of Borrowers	641	8.88%
No. of Savers	641	5.98%
Figures below in million kyats		
Total Assets	1,202.46	36.97%
Loan Outstanding	873.19	53.72%
Savings Deposits (Total)	1,158.07	61.12%
- Voluntary		
- Compulsory		
- Special		
Share Capital	2.05	0.82%
Operating Income	239.34	41.98%
Operating Expense	234.33	39.58%
Net Income	5.02	

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

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

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

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

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

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

Description	Amount (kyats) / Number						
	Company (7)	Company (8)	Company (9)	Company (10)	Company (11)	Company (12)	Company (13)
Location (Division)	Magway	Magway	Magway	Mandalay	Mandalay	Mandalay	Mandalay
No. of Members	378	98	96	96	76	123	93
No. of Borrowers	269	75	96	96	67	55	93
No. of Savers	378	98	96	96	76	123	93
Figures below in million kyats							
Total Assets	16.34	0.99	2.84	5.59	2.13	3.95	6.78
Loan Outstanding	15.53	0.74	0.54	4.59	1.65	1.78	4.08
Savings Deposits (Total)	5.19	0.79	2.24	1.69	0.14	3.13	0.93
- Voluntary							
- Compulsory							
- Special							
Share Capital	1.36	0.05	0.05	0.10	1.32	0.65	0.62
Operating Income	3.40	0.16	0.59	2.66	0.33	1.29	2.92
Operating Expense	3.69	0.14	0.58	2.36	0.32	1.26	2.89
Net Income	- 0.29	0.02	0.02	0.29	0.02	0.03	0.03

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

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

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

49. This further strengthens the observation that for the cooperative sector to become the third

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

Staff and its Efficiency

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

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

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

The financial landscape for the 34 Saving and Credit Cooperative Societies covered by the survey is dominated by nine Saving and Credit Cooperative Societies in terms of assets, number of members, savers, borrowers, loans outstanding, savings deposits and share capital. From this group of 9 cooperatives, Pyin Oo Lwin Market Saving and Credit Cooperative

Societies in Mandalay stands out as the best performing cooperative society and may be in the best financial position to expand into microfinance.

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

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

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

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

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

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

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

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

52. Based on the relevant findings on the survey, the cooperative sector particularly the Saving and Credit Cooperative Societies have the potential of becoming a third pillar of development of the microfinance industry in the Myanmar. In Myanmar, there are two types of Saving and Credit Cooperative Societies: open and closed type of memberships. The open type of membership societies can accept anybody (from all walks of life) while the closed type of membership societies will only accept one type of membership and very exclusive (ie employees, factory workers). If given the proper training, technical assistance, and some provision for financial capital, many of the present 139 open Saving and Credit Cooperative

Societies, with 1,500 members per society, could be engaged in sustainable microfinance operations. The total potential magnitude of outreach for microfinance is 208,500 clients. Moreover, the closed-type Saving and Credit Cooperative Societies indicated that if given the chance they are also willing to expand their services to the poor through microfinance. With 500 clients per closed-type society and 1,782 of those societies currently registered, the potential reach is a total of *is* 891,000 individuals. This means that the combining the existing open and closed type Saving and Credit Cooperative Societies has the potential to reach more than one million poor clients.

53. Many of those open and closed-type Saving and Credit Cooperative Societies are located in remote townships and most of the time they are the only financial vehicle of the community in those areas. These societies are also able to mobilise big amounts of savings and their operations cost are not as high compared with INGOs/LNGOs. These societies also have existing full time staff and many have full time BOD members working in their respective societies.
54. However, it must be noted that there also important challenges in the sector that need to be addressed to insure that these societies are able to deliver their services effectively and efficiently to the poor in their community such as but not limited to the following:
- Improving governance of BOD.
 - Enhancing internal controls.
 - Strengthening external audit by the ministry.
 - Development of performance standards for excellence
 - Review and clarification of the taxation of cooperatives
 - Interest rate cap regulation
 - Bookkeeping system and financial management
 - Systematic and rigorous HRD programme for BOD and staff in the area of microfinance.
 - Lifting the 10 M kyats working capital limits
 - Changing lending policy that is currently based on share capital and savings in the society

Role of the Ministry of Cooperatives

55. Since the cooperative sector is under the supervision of the Ministry of Cooperatives, it is crucial to build the Ministry's capacity for microfinance especially with respect to the creation

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

Conclusion and Recommendation

56. The findings of the JICA microfinance team in the field visits indicated that there is a strong potential for Saving and Credit Cooperative Societies in Myanmar to be the third pillar of microfinance development in Myanmar³. The team notes that all these societies on their own initiative and guided by their experiences are initially demonstrating and implementing important fundamental principles in microfinance such as: reasonable (market-oriented) interest rates, presence of professional staff, repayment modality (daily, monthly), record keeping, and functioning BOD among others.
57. The JICA microfinance team is convinced that given proper orientation and training in microfinance selected Saving and Credit Cooperative Societies could constitute a strong pillar of microfinance development in the country. In fact, almost all of them have indicated their interest to learn and implement the key essentials and fundamentals of microfinance. Some of the societies interviewed even stated that they do not need funds to continue with their respective operations as they have enough funds because of very strong savings mobilisation. They, thus, expressed that what they need is technical assistance and training so that their capacity for sustainable operations may be enhanced. They have also expressed their plan to expand their credit operations so that they may reach poor households.
58. The societies admitted that they have to strengthen financial management capabilities, among others. The Team noted the *great need and demand for training in very critical areas of operations and financial management*. For example, it was noticed during the course of the

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

field interviews that the societies have different understanding and interpretation of loan repayment rates, calculation of loans outstanding, determination of past due loans, among others. This is the reason for the difficulty in determining key financial ratios of each society. But beneath the apparent reason is the fact that the Saving and Credit Cooperative Societies, including the INGOs, local associations do not share a common and standard chart of accounts, accounting manual to guide operations and financial management and thus, the lack of a common language precludes the calculation and comparison of meaningful financial ratios.

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

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

Annex 5.1. High Court Re: Decision on Delinquent Borrowers

High Court

Judgment

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

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

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

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

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

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

Hence the judgment is passed that, having permitted this appeal case, the degree & judgment passed by Divisional Law Office is cancelled, and the plaintiff's Cooperative Society Limited has a right to get the contractual obligations of k. 702504/ at annual interest rate of 9% for the period of suing date to the degree passing date from the contestant U****.

By/ _____
Justice

Another Sample Case of High Court

Judgment

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

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

than the principal should not be allowed was legally wrong.

The absent contestants did not counterclaim anything regarding this case.

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

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

By/ _____
Justice

Another Sample Case from High Court

Judgment

A Saving and Credit Cooperative Society sued against the four contestants including Daw **** to get back the amount of k 1,114,096/ including the principal & interest according to the contract. Divisional Law Court passed the judgment that having deducted the paid amount of k. 387,123/ from k. 800,000/ (principal and interest), the outstanding balance of k. 412,877 was to be settled by Daw ****, and the annual interest rate was 14% on the said outstanding balance for the

period of suing date to degree passing date. Since the judgment of Divisional Law Court, but it was not successful. So the special appeal was put forward again to the Special Tribunal of High Court which accepted for hearing.

The contestants including Daw **** did not attend to argue at the said Tribunal.

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

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

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

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

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

By/ _____
Deputy Attorney General

By/ _____
Justice

By/ _____
Justice

