PART III

Road Map and Proposals

Chapter 6

Designing a "Road Map" for Microfinance

A Proposed Country Action Agenda for Myanmar

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

Goal

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

Vision Statement

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

Mission Statement

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

Basic Principles

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

- Large and deep outreach

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

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

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

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

Proposed Strategies

6. The following are suggested strategies that could be discussed and approved by the authorities and other stakeholders in microfinance development:
   - Maintaining a focus on the poor

     The Government of Myanmar, JICA and other donors will strive to maintain focus on the poor clients in order to avoid "mission drift" but without sacrificing financial sustainability of MFIs.
   - Facilitating an enabling policy, legal and regulatory environment

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

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

- Building an efficient core of microfinance technicians and training centers

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

- Promoting sector-wide performance standards

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

- Promoting sustained linkages to commercial capital

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

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

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

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

Role of the Government

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

Time Frame of the Road Map

11. Short-term period of one to two years
    - Identify within the first three or four months a focal ministry to oversee microfinance development in Myanmar. The focal point could be either the Ministry of Finance and Revenue or the Ministry of Cooperatives.
    - The first task of the focal ministry is to shepherd the formulation and agreement on a national strategy on microfinance. The focal ministry will work with the microfinance network in formulating a national strategy for microfinance. The national strategy shall be a policy declaration for microfinance which will be officially adopted by Myanmar government. The national strategy shall provide the framework for future policy directions and policy adjustment initiatives. The process of preparing the national strategy paper and building consensus for eventual adoption will entail a period of six

months to eighteen months, depending on the level of expertise and cooperation of the working group members. In order to accelerate the process, it is advisable that the working group be guided by JICA experts in formulating the National Strategy for Microfinance.

- The focal ministry shall immediately organise two separate working groups to address specific and urgent issues that need immediate attention. These are: a) identifying or creating a legal structure for the registration of microfinance institutions, especially NGOs and semi-formal groups and associations; b) crafting a policy declaration allowing microfinance players to charge market-oriented rates of interest.
- The working groups shall be formed in close collaboration with the private sector players. Membership in the working group shall consist of representatives from government line ministries and agencies as well as representatives of NGOs, Saving and Credit Cooperative Societies and banks engaged in microfinance and donors. Membership shall be as broad-based as possible. The output of the first working group is a draft to amend an existing law or a draft to create a new law for registration of microfinance institutions. The output of the second working group is a draft policy declaration on market-oriented interest rates for microfinance.
- Alternatively, if it is not feasible to have two separate working groups working simultaneously on their respective assignments, the issues can be taken sequentially by one working group[1].
- On the second year of this proposed CAAM, the government ministries will work closely with representatives from the private sector to formulate sector-wide performance standards for microfinance. Government will lend support towards development and adoption of standard chart of accounts for each sub-sector player, preparation of accounting manuals, and securing sector-wide agreement on the definition of terms, financial ratios and adjustments in microfinance. Government representatives will participate in working groups organised by the private sector-led microfinance network to formulate performance standards and supported by JICA microfinance experts.

12. Medium-term period of 3 to 6 years
    - With necessary coordination among relevant ministries, the government authorities involved in overseeing microfinance activities shall promote the adoption of performance standards for all the major players in microfinance. At this time, the National Strategy for Microfinance is expected to be in place as a policy declaration.

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

- The government shall support an initiative from the microfinance network to prepare a code of ethics and a code of practice for MFIs. The objective of the two codes is to encourage and promote ethical behaviour in lending amongst the major players.
- Government agencies will now build their own capacities for supervision and regulation of microfinance activities. This will entail training on peculiarities and best practices in microfinance as well as exposure visits to countries in Asia where supervision of microfinance players is actively undertaken.

Role of the Private Sector

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

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

Role of Commercial and Development Banks

15. Commercial and development banks could provide wholesale funds to good performing retail MFIs in Myanmar. It is unlikely that banks will engage in retail microfinance in the near term given their respective vision, mission and goals[2]. However, they have a potential role as suppliers of lending funds or liquidity for MFIs. Retail MFIs will also need the participation of commercial banks as depository banks. On the other hand, through the Myanmar Bankers Association commercial banks could share their skills in financial management, internal audit and customer relations management with retail MFIs in order to enhance the latter's management systems and skills in the areas mentioned.

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

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

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

18. The capacity-building for microfinance intended for three open-type Saving and Credit Cooperative Societies in Mandalay and Sagaing can start in the first year of the implementation of the CAAM. The start of implementation shall depend largely on the availability of funds for the project. The proposed guarantee fund, if found absolutely necessary by the three societies, is proposed to be established on the second year of project implementation. The second project activity to build the training capacity for microfinance of the three regional cooperative colleges namely, Sagaing Regional Cooperative College, Mandalay Regional Cooperative College, and the Yangon Cooperative Degree College can commence on the latter part of the first year of implementation of CAAM. The activities

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

shall include curriculum development, development of training materials, training of trainers and actual testing of curriculum and training materials. Work on the second year onwards will be the conduct of training courses for practitioners and trainers' training courses. Further refinements and enhancements of the course curricula will be undertaken periodically after sufficient experience and feedback have been gathered during the conduct of the training courses. Improvements in the training facilities or infrastructure of the three cooperative colleges are to be undertaken in phases from year 2 onwards.

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

Timeframe for the Implementation of Model Projects for NGOs

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

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

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

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

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

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

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

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

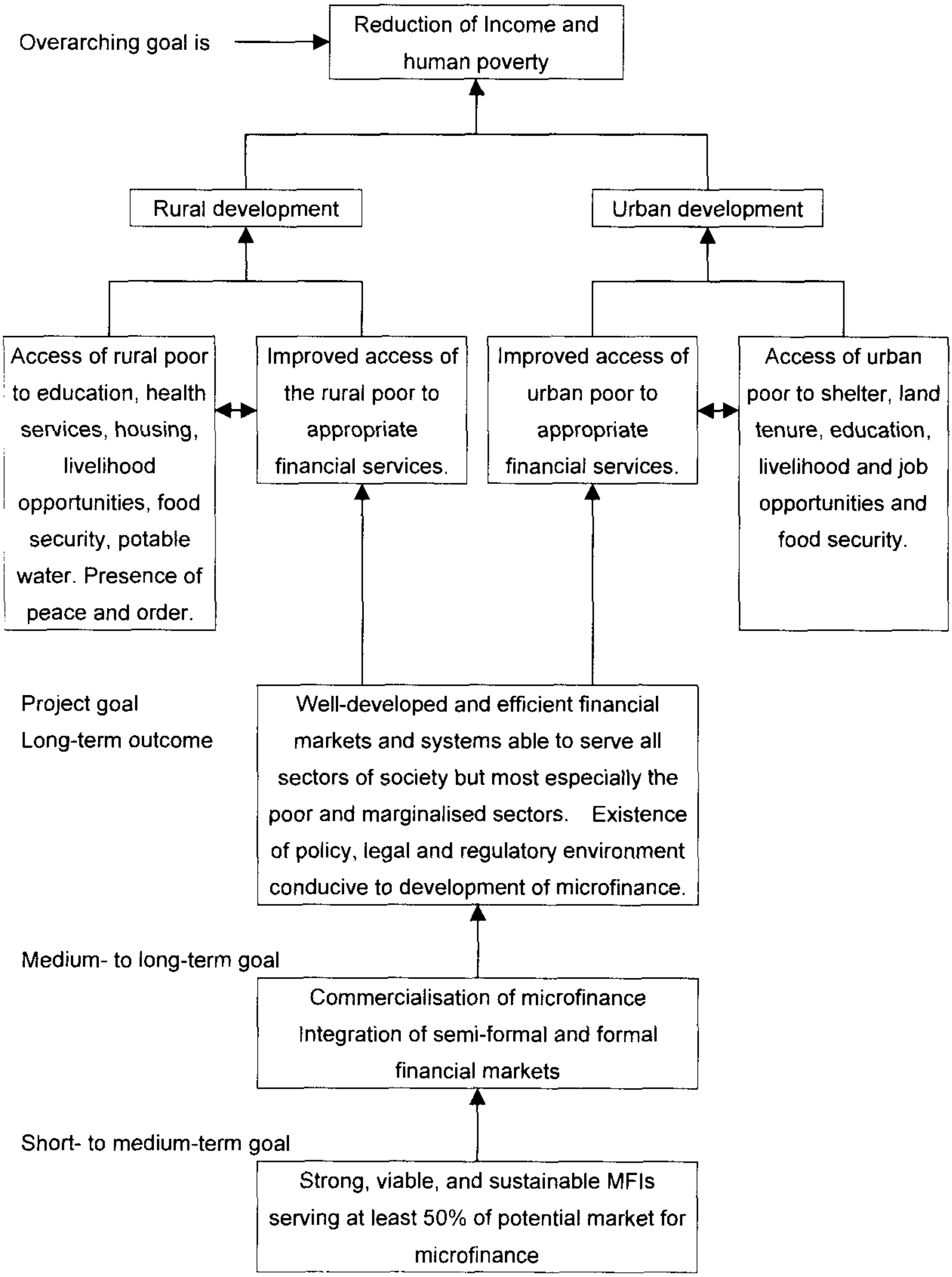
Role of Donors and Possible Assistance from Japan

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

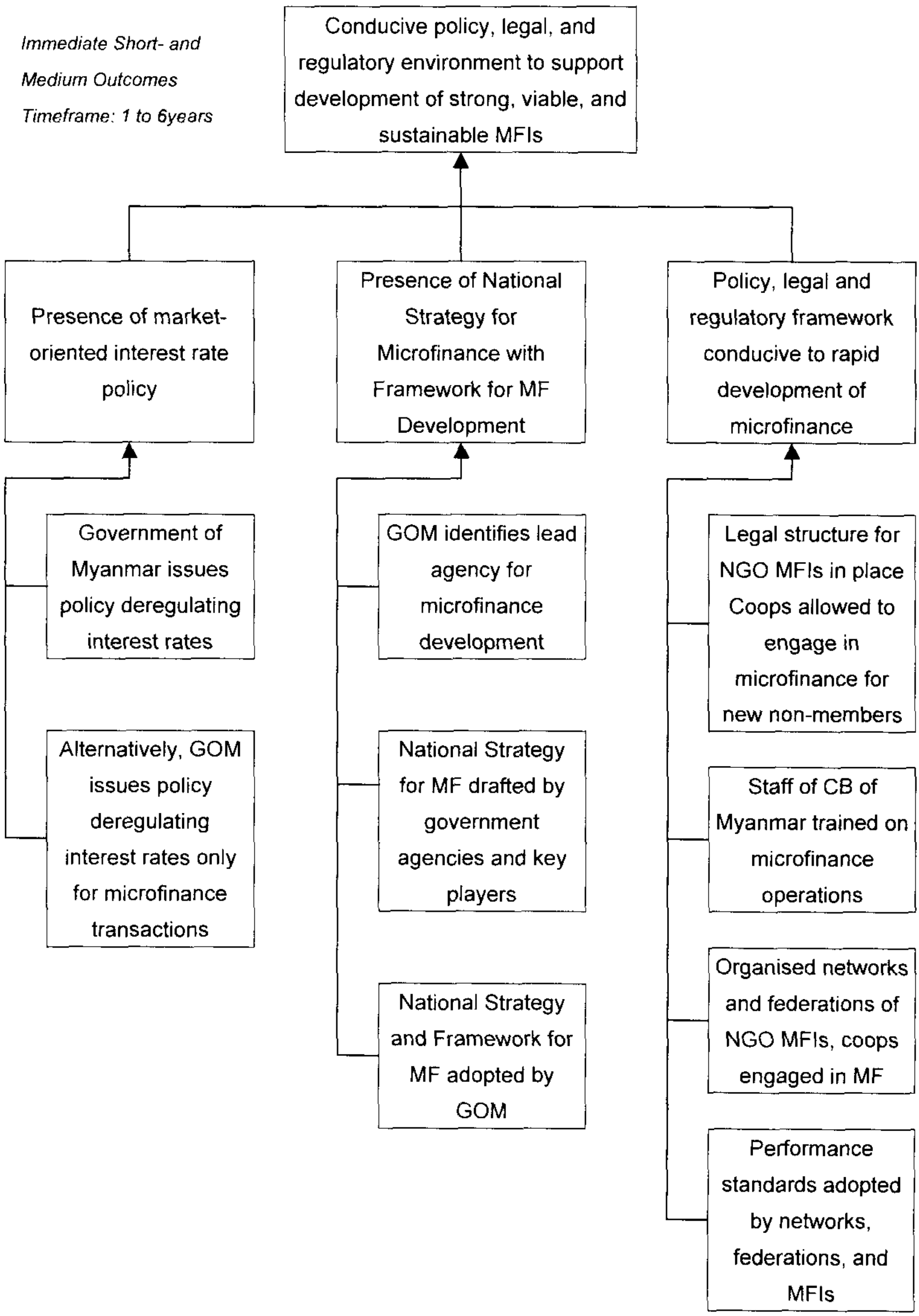
29. It is recommended that the Myanmar stakeholders of microfinance initiate dialogue with international donors in view of establishing or strengthening collaboration, based on the vision to pursue the dual mission of microfinance, i.e. extending the outreach and achieving the sustainability. Through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

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

Draft "Road Map" for Microfinance Development in Myanmar

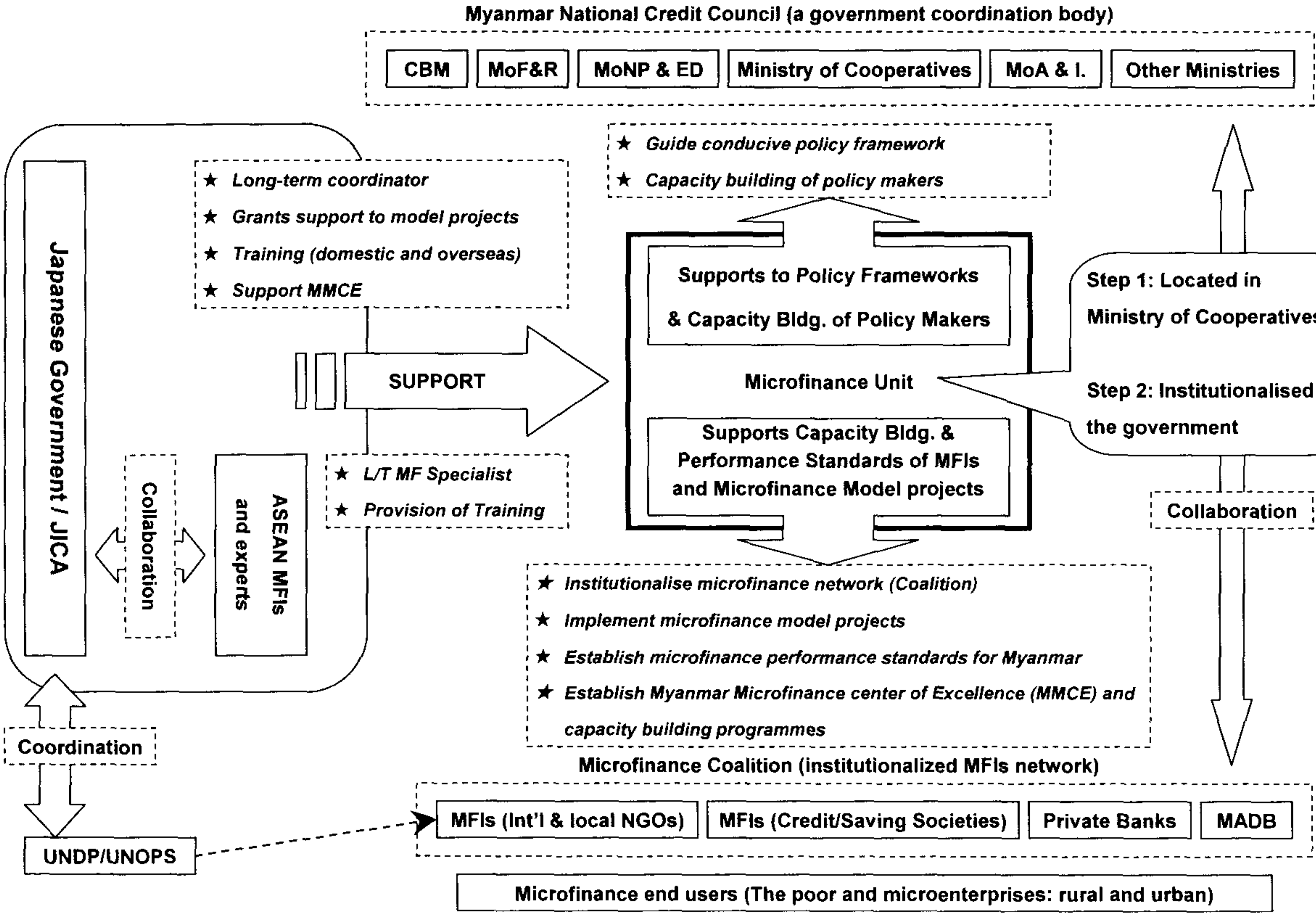


OUTCOMES	• Conductive policy, legal and regulatory environment for microfinance • Market-oriented interest rate policy • Adoption of National Strategy for Microfinance	• Replication of successful models of MF delivery • Efficient management/leadership developed • Trained operations staff • Governance of MFIs strengthened	• Presence of strong Institutions involved in capacity building of MFIs • Presence of strong networks and federations • Adoption of performance standards by major players.
	↑	↑	↑
	<u>Activities/subprojects:</u> 1. Lobbying/advocacy for policy changes 2. *Formulation of National* Strategy for Microfinance 3. Organising government agencies and practitioners to draft National Strategy Technical group to draft policies 4. Workshops to adopt strategies and policies 5. Amending or creating laws to allow registration of local NGOs for MF 6. Capacity building of Central Bank of Myanmar and other concerned government agencies	<u>Activities/subprojects:</u> 1. Seminar on various microfinance methodologies (e.g., *Grameen, ASA, etc.)* 2. Expansion of existing microfinance projects, e.g. UNDP/ installation of new microfinance projects in new areas 3. Visits to successful MFIs in Cambodia, Indonesia and Bangladesh 4. Training sessions (indicative only, to be co-determined with Government of Myanmar and MFIs) on: • Governance of MFIs • Financial Monitoring Systems (MIS) • Financial ratios • Managing Delinquency Training conducted in cooperation with local training institutions	<u>Activities/subprojects:</u> 1. Strengthen institutions such as CBI and Cooperative College for *capacity building of* MFIs/clients 2. Organise, strengthen networks and federations 3. Formulation of standard chart of accounts and accounting manual 4. Training on the standard chart of accounts and accounting manual 5. Formulation and adoption of Standards 6. Training on performance standards


Immediate Short- and
Medium Outcomes
Timeframe: 1 to 6years
Conducive policy, legal, and regulatory environment to support development of strong, viable, and sustainable MFIs
Presence of market-oriented interest rate policy
Presence of National Strategy for Microfinance with Framework for MF Development
Policy, legal and regulatory framework conducive to rapid development of microfinance
Government of Myanmar issues policy deregulating interest rates
Alternatively, GOM issues policy deregulating interest rates only for microfinance transactions
GOM identifies lead agency for microfinance development
National Strategy for MF drafted by government agencies and key players
National Strategy and Framework for MF adopted by GOM
Legal structure for NGO MFIs in place Coops allowed to engage in microfinance for new non-members
Staff of CB of Myanmar trained on microfinance operations
Organised networks and federations of NGO MFIs, coops engaged in MF
Performance standards adopted by networks, federations, and MFIs

Building Sustainable Microfinance Systems in Myanmar

(Proposed Structure of Follow-Up Project from 2003)



Chapter 7

Legal and Regulatory Framework

Pressing Needs for Legalisation of MFIs

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

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

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

4. In this chapter which focuses on the legal and regulatory framework, the JICA microfinance team reiterates this position. The team's basic approach has three components: (a) legalisation of existing organisations to sustain operations as an upfront issue to be resolved if found feasible under current legal frameworks of the country to solve the problem; (b) building the policy makers' and regulators' capacities of monitoring microfinance performance while ensuring that appropriate industry standards and information exchange between the government and the private sectors (the practitioners) should prevail to crafting inappropriate

laws and regulation; and (c) mid-term or long-term effort to formulate an appropriate legal and regulatory framework, including building the capacity to regulate.

Microfinance under Existing Legal Frameworks

Saving and Credit Cooperative Societies

5. More in-depth field interviews and observations indicate that Saving and Credit Cooperative Societies have no problem with legal registration. Saving and Credit Cooperative Societies are legal entities. As such they can engage in microfinance operations after appropriate training and capacity building. It seems that the interest rate ceiling imposed under the Money Lenders Act (1945) would not apply to Saving and Credit Cooperative Societies. Field interviews and research revealed two mechanisms that eliminate the problem of interest rate restriction on Saving and Credit Cooperative Societies. The first is the landmark decision of the High Court (Mandalay) that affirmed the legality of interest rates imposed by a Saving and Credit Cooperative Society to its borrower at the rate of 3% per month[1]. The High Court stated that "the plaintiff (that is, the Saving and Credit Cooperative Society) was not concerned with Money Lenders Act (1945). . . The judgment passed by the previous Law Court referring to Money Lenders Act was not correct." The High Court further stated that "according to the contract" the borrower who borrowed a sum of money "at an interest rate of 3% per month . .. was responsible to pursue the terms and conditions of the contract." Thus, this means that the said Money Lenders Act (1945) does not apply to the credit business or operations of the Saving and Credit Cooperative Societies, more specifically to the level of interest rate they can charge borrowers.

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

7. Based on the High Court decision, there seems to be no impediment to Saving and Credit Cooperative Societies to charge market-oriented interest rates that are necessary for

[1] Discussed in detail in Chapter 5 of this report.

sustainable microfinance operations. It appears that the Saving and Credit Cooperative Societies are not subject to the law and regulations on Financial Institutions Law, including the ceiling on interest rate regulations. If so, a policy statement from the authorities in this regard will pave the way for the expected involvement of Saving and Credit Cooperative Societies in microfinance without need of changing or amending the particular law governing those societies.

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

Non-governmental organisations (NGOs) and associations

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

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

11. A survey report prepared by local Myanmar experts states that of a total number of 17

NGOs, two UN affiliates (UNDCP and UNCHR) and four INGOs made a memorandum of understanding with the Government of the Union of Myanmar and also with the Ministries of Health and Social Welfare, while seven INGOs have been functioning under the registration with the Ministries of Home Affairs and Cooperatives. The rest (four INGOs) are working under the contract with the UNOPS.

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

13. The bottom line is that for the development of the nascent "microfinance industry" in the country, there appears to be no substitute to the formal recognition of NGOs/associations as legal entities allowed to engage in sustainable microfinance activities and operations without a legal challenge[2]. Without the formal legal recognition, the NGOs/associations shall continue to operate "legally" only under special MOUs or agreements with certain line Ministries and broadly under a humanitarian context. Special MOUs or agreements have an expiry date in some future time and their renewal is a discretionary matter. This constrains their expansion plans and the further development of microfinance operations and activities.

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

15. The question now is whether it is possible to use the current legal frameworks for the establishment of NGOs/associations that can engage in microfinance. As stated by the local

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

microfinance team, "one of the currently outstanding issues in microfinance organisations today is the relevant application of a comprehensive set of financial laws and regulations and reporting, monitoring and evaluation system."[3] The local microfinance team further states that "many microfinance organisations now on the fringes of existing rules and regulations on one hand especially should be subject to banking regulations and supervisions. On the other hand, information and feedback is very useful for the Government to consider the process of how to develop and modify the existing rules and regulations through the feedback reports for monitoring and evaluation process." However, this statement seems to presuppose the legal registration of NGOs/associations that would be engaged in microfinance. This is because unless those NGOs/associations are legal entities registered under some legal framework and not merely under a "special agreement" there would be nothing to "subject to banking rules and regulations."

16. Unless the non-governmental organisations (NGOs) and associations operating under special agreements have an appropriate formal legal framework, they face the threat of being subjected to banking rules and regulations that may have little to do with sustainable microfinance[4]. It is admitted though by the local experts/researchers that a feedback process, in other words, open communication between the Government and those entities will be a useful mechanism for developing an appropriate legal and regulatory framework.

17. This points to the need for the Government and the emerging microfinance organisations, that is, the afore-cited NGOs/associations/practitioners to work for a formal legal registration of microfinance organisations. At present, the microfinance organisations (MFOs) are considered "semi-formal financial institutions not regulated by banking authorities in

[3] "A Study on Saving and Credit Cooperative Societies, Cooperative Degree College, Regional College and Training School and Microfinance Organizations," survey report submitted by the JICA local microfinance team to the Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy, 15 August 2002.

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

pursuance of the banking laws and regulations."[5] But it was pointed out by the local experts/ researchers that "even semiformal institutions are usually in need of being registered for their entities subject to all relevant regular laws.[6]"

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

19. The positive side of the current situation is the opportunity given to the country to craft an enabling legal framework that would lay down the basis for sustainable microfinance in the country and to the extent possible drawing from so-called best practices. An appropriate enabling legal framework could also pave the way for the entry of international NGOs in the local microfinance markets drawn by the potential to reach a vast number of microenterprises in the country in a sustainable manner. The INGOs could bring much needed managerial expertise and financial capital for microenterprise development.

Options for a Legal Framework

20. A few practical options are available for local policy makers to address this lack: (i) amendment of existing laws to accommodate the microfinance operation of NGO-MFIs; (ii) passage of a new law allowing the creation of a new category of NGOs providing financial services; (iii) registration of the microfinance project as a trust fund or a foundation with official confirmation or policy statement on its application to MFIs if needed; (iv) official confirmation or policy statement affirming or supporting the operations of NGO-MFOs

5 Survey report of the JICA local microfinance team. The local microfinance team calls those NGOs/ associations currently engaged in some form of microfinance operations as "microfinance organisations (MFOs)."

6 Local microfinance team of experts

and/or overriding the limitation on the type of services NGOs can offer/provide; and (v) official or policy statement affirming that the Money Lenders Act does not cover the Saving and Credit Cooperative Societies.

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

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

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

24. Enactment of a new law recognising MFOs/MFIs. Another option is for the government to enact a new law recognising and allowing the legal registration of organisation/associations/

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

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

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

27. Inapplicability of the Money Lenders Act (1945) to Savings and Credit Cooperative Societies. There is great merit in having a clear and direct statement that complements the High Court landmark decision regarding the inapplicability of the Money Lenders Act to credit and

savings cooperative societies. As earlier observed, those societies can be legally registered; they can even establish equally legally registered pawnshops. Such statement would therefore boost the opportunities and decisions of Saving and Credit Cooperative Societies to be involved in microfinance.

Building Policy Makers' and Regulators' Capacities

28. Effective regulation and supervision are a matter of building sufficient capability. At this time, there is no capacity to regulate and supervise microfinance in the current stage of development. Moreover, there is yet no sizeable mass of viable microfinance institutions that will require regulation and supervision. However, this is not to say that building policy makers' and regulators' capacities is not important. Rather, the present time presents the opportunity for the future regulator, e.g., Central Bank of Myanmar, to start the long process of building capacity. Meetings with government ministries and agencies involved in microfinance revealed the deep desire to build local capacity in regulating and supervising microfinance in the future when the occasion and justification for regulation and supervision of microfinance institutions shall have been established. Meanwhile, local microfinance practitioners, that is INGOs involved in microfinance, local associations/foundations have the responsibility to adapt the best practices in microfinance.

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

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

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

and sustainability of MFIs. This calls for a consistent advocacy of this view with the Government and practitioners.

32. Another issue that has to be clarified with the Government, the Central Bank of Myanmar and practitioners is the promotion of microfinance. There are no clear-cut, guiding principles on this issue as the experience of various countries vary. In some countries such as India and Indonesia, the regulators provide to some extent promotional support. This contrasts with the practice in Bolivia where there is a clear delineation of roles where the regulator's main role is to create an enabling environment for MFIs. Promotion is basically a task borne by the government[7]. Where human resource expertise is scarce, it is sometimes the case that both promotional and regulatory roles are initially lodged in one government entity. However, this may stand in the way of developing early enough an arms-length regulatory and supervisory stance vis-à-vis MFIs. Because circumstances differ across countries, it will be useful to discuss this and other pertinent issues with various stakeholders, including donors such as JICA, in order to have a coherent and consistent road map for microfinance in this country.

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

34. From this perspective, the design of a legal and regulatory framework for microfinance in Myanmar should consider the factors for sustainable microfinance in the future. Hannig and Braun (2000) say that the major concern is how to ensure sound and safe microfinance operations in the long term. They maintain that the design of a regulatory framework must be based on a strategic perspective to set the market parameters for the future as a foundation for sustainable growth. We believe that it is the regulator's duty to anticipate and prevent the worst-case scenario, rather than simply legalise current practices.

[7] See Hannig and Omar (2000).

Establishing Performance Standards[8]

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

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

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

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

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[8] Performance standards are discussed in detail in Chapter 9 of this report.

Information Exchange between Government and Practitioners

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

40. Field observations and experiences shared among participants in the (formal or informal) forum could be the source of pertinent decisions and policy-enhancing measures that will strengthen the microfinance industry and expand outreach to a greater number of poor households.

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

Chapter 8

Establishment of a Body for Credit Policy Coordination for Microfinance Development

Introduction

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

The Nature of Microfinance

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

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

The Microfinance Environment in Myanmar

The Role of MADB in Rural Finance

4. Provision of agricultural credit to the peasants is the main responsibility of Myanma Agricultural Development Bank (MADB). The main aim of the Bank is to effectively support the development of agricultural, livestock and rural socioeconomic enterprises in the country

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

5. Under the programme for development of border area and national races, loans at a concessionary interest rate of one percent for plantation crops in Chin State as for poppy substitute in *Wa* region, same rate for draft cattle, carts and farm machineries in *Kabaw* Valley have been provided with special fund allotted by the government. By the way MADB, a state-owned bank, continues as a major source of institutional credit for small-scale farmers to bring about all round development of agriculture in the country.

The role of INGOs in microfinance

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

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

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

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

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

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

Local Microfinance Providers

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

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

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

The Impact of Microfinance

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

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

Lessons Learnt from the Philippines

17. The effective and fruitful experiences are gained from the Philippine study tour. The strong encouragement and law enforcement by the Philippine government towards the goal of

poverty alleviation and rural development are very outstanding. We have experienced the active role of the Ministry of Finance in Financial Sector reforms especially in microfinance. Opening a separate department to deal with microfinancial matters, the Central Bank of Philippines shows keen interest for the promotion of microfinance in line with government's policy.

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

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

Study Tour Experiences from the Philippines and Background

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

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

22. During the late 1970s and early 1980s, the performance of those DCPs programmes was at failure due to following weaknesses:
    - Not effective in reducing poverty
    - No positive effects on investment and production
    - Weaken the ability of financial market for financial mobilisation
    - The type of lending was inefficient in boosting development efforts
    - Serious causes on loan recovery problems
    - Allegation of corruptions
    - Financial burdens to the government
    - Waste of fund out of Government's budget allocation

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

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

Policy Environment for Microfinance

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

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

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

Current Position of MFIs in the Philippines

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

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

MFIs Legal Framework in the Philippines

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

31. The formal sectors institutions directly or indirectly providing microfinance services consist of commercial banks, thrift Banks, non-stock saving and loan associations. Thrift banks,

cooperative banks finance companies, private lending investors and pawnshops, credit unions and savings and credit cooperatives are included in the formal sector although they are outside the coverage of General Banking Law and the jurisdiction of BSP. Private-owned commercial banks, thrift banks, non-stock saving and loan associations, rural banks, finance companies are registered and licensed at BSP. Private lending investors and pawnshop are registered at the State Special Exchange Commission (SEC). Traders, input suppliers, and moneylenders constitute the informal segment of the microfinance market in the Philippines. In recent years, Philippine government has highly recognised the role of micro-finance to be in pursuance and relevance of national policy adopted in 1997.

The Role of Bangko Sentral Ng Philippinas

32. The Central Bank of the Philippines was established in 1949. The Monetary Board authorities pursued the repressive financial sector policies; exchange controls, selected credit policies; funding to preferred sector and used the BSP's discount window for allocation of subsidised credit to private banks, cap on interest rates and direct involvement of government financial and non-financial institutions in providing credit to target sectors.

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

The Establishment of National Credit Council in Myanmar

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

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

taken into consideration:

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

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

Myanmar National Credit Council

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

organisations are to be taken into consideration:

(1) Representative of the Ministry of Finance and Revenue

(2) Representative of the Ministry of Planning & Economic Development

(3) Representative of the Ministry of Cooperatives

(4) Representative of the Ministry of Home Affairs

(5) Representative of the Ministry of Progress of Border Areas and National Races Development Affairs

(6) Representative of the Ministry of Agriculture and Irrigation

(7) The Representative of the Central Bank of Myanmar

(8) The Representative of Bankers' Association

(9) The Representative of Central Law office

(10) Director General of the Cooperatives

Chapter 9

Microfinance Coalition and Performance Standards

The Advantage of a Microfinance Network

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

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

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

4. In the case of the Philippines, like-minded microfinance NGOs initiated the formation of the Coalition for Microfinance Standards in 1996. The Coalition has a focused agenda: the

formulation of Performance Standards for Microfinance Players. At that time, it was felt by the leading microfinance players that the industry needed to develop standards by which players will measure their performance. Standards were seen as an attempt to professionalise the industry, and raise overall industry performance. Stakeholders also believed that adherence to performance standards will raise the credibility of the industry among donors, loan fund providers, investors and even among microfinance clients.

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

The Advantage of a Similar Network in Myanmar

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

7. At this stage of microfinance development in Myanmar, there is no institution or agency that functions as a repository of information for microfinance in Myanmar. INGOS, experienced players in microfinance operate their respective projects in the way they know best, having gained considerable experience in microfinance operations in other countries before coming to Myanmar. New entrants, that is, local practitioners, on the other hand,

have expressed their desire for information on how to deliver microfinance in a cost-effective manner and to have the capability for sustainable microfinance. They are aware that the demand for microfinance is large while resources to meet the demand are very limited and should, therefore, be efficiently used.

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

Step by Step Formation of a Microfinance Network

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

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

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

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

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

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

Pro-forma Work Programme of the Network

14. The JICA microfinance team hereby proposes a step by step process to build a proactive, credible and productive microfinance network for Myanmar. The network's major activities:
    - Identification and agreement on a binding set of core beliefs and principles in the practice of microfinance;
    - Definition of a common work agenda which is the promotion and development of the microfinance industry;
    - Definition of the structure of membership in the network and agreement on the operating rules and procedures in the network;
    - Establishment of an accurate database on microfinance practice in Myanmar. It will be important to supplement and improve the initial inventory of NGOs and Saving and Credit Cooperative Societies produced by JICA in Phase Two[1];
    - Formulation and promotion of performance standards for microfinance;
    - Advocacy for the establishment of the legal and regulatory infrastructure favourable to microfinance development in Myanmar and other policy change initiatives for

[1] This initial work programme is merely illustrative and is subject to the validation and approval by members of the microfinance network.

microfinance development.

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

Proposed Network Activities for the next Six Months

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

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

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

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

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

Proposed Activities for Months 7 to 12

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

Activities for Year 2 and Year 3

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

23. In year 2 (months 13 to 24), the technical working groups should ideally come into agreement on the following: standard definition of financial terms, ratios and adjustments in microfinance, standard financial reporting formats, and standard chart of accounts. The

network shall be assisted by JICA microfinance experts in the task and processes needed. Activities during the year will include meetings within technical working groups and sub-groups, regional consultations and building consensus and agreements.

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

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

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

Activities in Year 4

27. In order to address possible ruinous competition and credit pollution arising from new entrants with little knowledge of microfinance best practices and standards, the network will draft a Code of Ethics or Code of Conduct for microfinance institutions. After securing consensus

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

Activities in Year 5 and 6

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

The Need for Performance Standards

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

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

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

Establishing Performance Standards

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

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

consultations, continuing dialogues and information dissemination.

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

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

Proposed Performance Standards

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

	Low Score	High Score
a) No. of active borrowers and savers		
For group lending		
For individual lending		
b) Portfolio at risk > 30 days		
c) Adequacy of loan loss reserve		
Risk coverage ratio		
d) Operating expense ratio		
e) Operational self-sufficiency ratio		
f) Financial self-sufficiency ratio (including adjustments for inflation)		

g) Return on equity
h) Equity to asset ratio
i) Current ratio
j) Savings to loan ratio
k) Number of active borrowers per loan officer

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

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

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

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

Chapter 10

Microfinance Model Projects as "Breakthroughs"

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

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

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

4. Given the potential in microfinance development in the country that was determined in the previous JICA microfinance study, it looks important to mainstream microfinance projects

by establishing "model projects" based on an explicit "financial sustainability approach" while retaining a poverty focus. Expanding microfinance operations by donor support contributes a lot in boosting this industry. The opportunity for expansion in a financially sustainable manner is there, hence, the "model projects to be implemented with donor support that would further demonstrate and establish best practices in microfinance.

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

6. At present, the three INGOs contracted by UNDP/UNOPS are concentrated in selected townships of the Delta Zone, Dry Zone, and Shan State. The covered areas are characterised by poor infrastructure and communication facilities and other constraints. Other INGOs operate in Chin State, Yangon, Mandalay and selected townships of different divisions; however, their outreach is likewise not extensive and sustainability has yet to be attained.

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

8. The indigenous Saving and Credit Cooperative Societies were charging the same or even higher rates. The authorities have not exposed explicit views on this matter, since the interest rates charged by Saving and Credit Cooperative Societies are not subject to Financial Institution Law. This benevolent attitude may be viewed as positive to microfinance, perhaps reflecting the government's belief that microfinance is a good instrument for poverty

alleviation as has been demonstrated in countries such as Bangladesh, Cambodia and the Philippines, etc., The authorities appear to have acknowledged the fact that the financial requirements of poor households are better served by these projects than by usurious moneylenders.

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

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

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

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

* JICA Microfinance Experts Estimates

12. In order to attain a greater impact on poor communities in a financially sustainable manner, the JICA microfinance team proposes that JICA should support pilot "model projects" in strategic areas, such as in Yangon Division and Mandalay/Sagaing Divisions[1]. The JICA microfinance team conducted field visits in these areas in order to get first hand information on the performance and potential of some Saving and Credit Cooperative Societies in microfinance. These two areas are being proposed for the following reasons:
    - These two divisions cover both urban and rural areas that have a significant number of poor households;
    - Strong presence of local and international organisations that have gained good experience in microfinance and have expressed commitment to expand operations, thus, posing a

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

strong potential for further growth;

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

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

International NGOs

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

15. To illustrate a high feasibility to invite reputable microfinance providers in strategic area, the following example of a pre-feasibility study recently conducted by one of the INGOs is quite resourceful. This study was envisaged based on a perception that urban areas in Myanmar have high potential in developing sustainable microfinance operations. Underlying observations for this view appear to include: (a) UNDP-contracted INGOs have proven that microfinance is very possible in remote areas where the population density is low and natural and economic conditions are tough; (b) by nature, the urban area is much more populated, hence it conceives higher chances for extending more efficient financial services. According

to this pre-feasibility study, a microfinance programme in Yangon District may be sustained only in three years' term after the initiation. The essence of this indicative pre-feasibility study is summarised below, and detailed projections by the use of 'micro-fin' model are attached in Annex 1.

An Indicative Microfinance Projection by an INGO for Five Years (summary)

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

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

Local NGOs

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

17. Another example of local NGO that could be recommended is the MMCWA not only because of its strategic significance, but also its potential wide outreach. It is hoped that if MMCWA will be able to participate in the microfinance pilot projects after acquiring sufficient capacities and is able to successfully implement microfinance operations, then more poor women

could be benefited because of their present outreach and influence, however, the institutional and financial information of MMCWA need to be further collected to ascertain this preliminary view.

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

Saving and Credit Cooperative Societies

19. In the Mandalay and Sagaing Divisions, it is recommended that the pilot project be implemented by selected Saving and Credit Cooperative Societies since they have attained a measure of success in their microfinance operations even without the benefit of training and technical assistance. Field visits have identified the potential of Saving and Credit Cooperative Societies because of their innovativeness by adopting key best practices such as:
    - Levying market interest rates (ranging from 3-7% per month);
    - Targeting different market sectors, i.e., lending to poor members and community at large;
    - Flexibility in repayment terms (daily, weekly, monthly);
    - Provision of graduated loan amounts (small to big);
    - Presence of trainable management and staff;
    - Good governance;
    - Adequate record and financial bookkeeping systems, and,
    - Promotion of savings mobilisation.

20. Their microfinance operations can benefit from further capability building and exposure to other successful microfinance institutions. The JICA microfinance team noted the commitment of their key staff and boards of directors to learn and adhere to best practices in microfinance. In fact, on its own, one of the recommended Saving and Credit Cooperative Societies (Shwe Thanlar General Business and Services, Monywa Township, Sagaing Division) has established a pawnshop in its bid to attain financial viability. This can be interpreted as a strategy to build financial viability through responsive product development.

21. The JICA microfinance team, therefore, recommends the following Saving and Credit Cooperative Societies as strong candidates to implement the pilot test:
    - Shwe Thanlar General Business and Services, Sagaing Division
    - Pyin Oo Lwin Market Vendors Saving and Credit Cooperative Society, Mandalay Division
    - Ya Za Soe Saving and Credit Cooperative Society, Mandalay Division

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

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

24. The existence of Regional Cooperative Colleges in Mandalay and Sagaing Divisions makes the recommended areas for the JICA pilot project strategic and potentially viable. The JICA pilot project can draw on the resources of those Regional Cooperative Colleges to train management and staff. On the other hand, the Regional Cooperative Colleges have shown great interest in training the cooperatives in microfinance. Although these colleges have also a lot to learn in microfinance, they possess the facilities to provide basic training courses,

e.g., accounting, financial management. The added advantage of these recommended Saving and Credit Cooperative Societies is the very strong support given to them by local authorities as well as by the Ministry of Cooperatives.

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

Yangon Microfinance Programme Summary Sheet						
Particulars		Year 1	Year 2	Year 3	Year 4	Year 5
		FY03	**FY04**	**FY05**	**FY06**	**FY07**
Branches	Within	4	4	2	2	-
	Cumu	4	8	10	12	12
Active Borrowers	Within	16.000	16,860	7.755	9,069	8.267
	Cumu	16,000	31.860	39.615	48,684	56,951
Loan Outstanding		261,487	720.695	1,465,859	2.076.006	2.650.302
Programme Staff		74	144	182	230	265
Admin Staff		14	16	16	17	17
Operation Cost (x)		94,130	160.795	206,385	242.715	169.480
Cost Recovery (y)		71.934	218.550	457.321	733,059	974,589
Net Subsidy; x-y		(22,196)	57.755	250,936	490,344	805.109
Fund Requirement (A)		357,726	425.814	498,196	91,546	0
Operational Sustainability		71%	116%	173%	210%	225%
Financial Sustainability		33%	72%	120%	157%	177%
ROA		-14%	5%	15%	19%	20%
AROE		-60%	-14%	7%	16%	19%
Technical Assistance(B)		116,400	116.400	116.400	116,400	116,400
OH 15%(C)		14.120	24,119	30.958	36.407	40.422
Total Fund Requirement(A+B+C)		488.246	566.333	645.554	244,353	156.822
Total funding requirements in 5 years						2.101.308

Note:

1. This worksheet is summary of major finding of credit programme design by MICROFIN loan Projecdtion Software.
2. Balance sheet, income statement, ratios along with operational sustainability, financial sustainability, ROA, and AORE are attached in next four worksheets.

	Summary Output Report Balance Sheet	Year 1 FY03	Year 2 FY04	Year 3 FY05	Year 4 FY06	Year 5 FY07
1.01	ASSETS *					
1.02	Cash in bank and near cash	41.396	108.286	193.500	252.625	304.000
1.03	Net portfolio outstanding	261,847	720.695	1,465.859	2,076,006	2,650.302
1.04	Short-term Inv. & other curr ass	0	0	0	2,671	158,169
1.05	Net fixed assets	50.245	60.545	59.525	57.035	44.600
1.06	Long-term invest. & other LT assets	0	0	0	0	0
1.07	TOTAL ASSETS	353.488	889.526	1,718.883	2,388,338	3,157.070
1.08						
1.09	LIABILITIES *					
1.10	Savings deposits	29,450	109,761	248.370	442.662	670,753
1.11	Concessional loans	0	0	0	0	0
1.12	Commercial loans	0	0	0	0	0
1.13	Other liabilities	0	0	0	0	0
1.14	TOTAL LIABILITIES	29.450	109,761	248.370	442.662	670.753
1.15						
1.16	EQUITY *					
1.17	Accum. donated equity. prev. periods	0	353,726	779.540	1,277,736	1,369,282
1.18	Donated equity. current period	353.726	425.814	498.196	91.546	0
1.19	Shareholder equity (less div pmt)	0	0	0	0	0
1.20	Accumulated net surplus	(29.688)	224	192.778	576,394	1,117.036
1.21	TOTAL EQUITY	324,038	779,764	1,470.513	1,945.676	2,486,318
1.22						
1.23	TOTAL LIABILITIES AND EQUITY	353.488	889,526	1,718,883	2,388,338	3,157,070
1.24	Balance sheet verification	(0)	(0)	(0)	(0)	(0)
	Income Statement					
2.01	Total financial income	71,934	218.550	457.321	733.059	974,589
2.02	Total financial costs	2.461	14,611	37.635	76.333	126,265
2.03	Gross financial margin	69.472	203.938	419.686	656.725	848.324
2.04	Provision for loan losses	5.030	13,232	20.747	30.394	38,202
2.05	Net financial margin	64.442	190,707	398.939	626.332	810,122
2.06	Program operating exp	34.805	87,205	130.130	163.365	190,035
2.07	Administrative operating exp	59,325	73.590	76.255	79,350	79,445
2.08	Amount of taxes paid	0	0	0	0	0
2.09	Net income from operations (after taxes)	(29,688)	29.912	192.554	383.617	540.642
2.10	Grant income	353.726	425.814	498.196	91,546	0
2.11	Excess of income over expenses	324.038	455,726	690.749	475.163	540.642
2.12						

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

	Ratio Analysis					
4.01						
4.02	Portfolio quality					
4.03						
4.04	Portfolio at Risk > 0 days	2.8%	2.8%	3.0%	3.4%	3.3%
4.05	Loan loss reserve ratio	0.0%	0.0%	0.0%	0.0%	0.0%
4.06	Loan write-off ratio	2.9%	2.5%	1.9%	1.7%	1.6%
4.07						
4.08						
4.09						
4.10	Profitability					
4.11						
4.12	Operational sustainability, after-tax *	71%	116%	173%	210%	224.6%
4.13	Financial sustainability, after-tax *	33%	72%	120%	157%	177.1%
4.14	Adj. after-tax return on performing assets *	-69.8%	-14.1%	6.0%	13.4%	15.7%
4.15	Adj. after-tax return on equity (AROE) *	-60.2%	-14.2%	7.0%	15.6%	19.2%
4.16						
4.17						

4.18						
4.19	**Solvency**					
4.20						
4.21	Equity multiplier *	1.09	1.14	1.17	1.23	127.0%
4.22	Quick ratio	10.3	7.6	6.7	5.3	464.0%
4.23						
4.24						
4.26	**Efficiency & Productivity**					
4.27						
4.28	Yield on portfolio (annualized) *	42.2%	41.6%	44.1%	41.3%	41.3%
4.29	Operating cost ratio *	55.2%	30.6%	19.9%	13.7%	11.4%
4.30	Borrowers per CSP *	296	306	300	295	300
4.31	Portfolio per CSP	4.849	6.930	11.105	12.582	13,949
4.32	Average cost of debt (annualized)	0.0%	0.0%	0.0%	0.0%	0.0%
4.33	Overhead percentage *	63.0%	45.8%	36.9%	32.7%	29.5%
4.34	CSP as % of total staff` *	51%	61%	65%	66%	67.9%
4.35	Program other op costs / portfolio	2.6%	1.6%	1.2%	0.9%	0.7%
4.36	Net FA per branch/programme staff person	104	229	216	188	155
4.37	Admin-level other op exp / portfolio	11.6%	4.1%	2.1%	1.3%	1.0%
4.38	Net fixed assets / admin staff	2.561	1,837	1,588	1,254	1,007
4.39						
4.40						
4.41						
4.42	**Growth and Outreach**					
4.43						
4.44	**Lending**					
4.45	Total loan portfolio *	261.847	720.695	1.465.859	2.076.006	2.650.302
4.46	Overall growth in portfolio	0.0%	175.2%	103.4%	41.6%	27.7%
4.47	Number of active loans *	16.000	31,860	39.615	48.684	56,951
4.48	Overall growth in loans	0.0%	99.1%	24.3%	22.9%	17.0%
4.49	Client dropout rate	0%	5%	6%	8%	9.3%