

CHAPTER I

INTRODUCTION

1.1 Introduction

This thesis assesses the sustainability and outreach of the Mung Rawt¹ Baptist Church Credit Union (MRBCCU) in the Kachin State, northern Burma². This chapter introduces the main ideas, concepts, and research gaps that lead to the thesis' study on a locally-led microfinance institution (MFI) in the Kachin state, Burma. It also elaborates the contentious debate about the relationship between sustainability and outreach to the very poor.

The chapter presents the thesis' research questions, objectives, hypotheses, conceptual framework, and methodology of the study. It concludes with a discussion of the study's significance and research limitations.

1.2 Background of the Study

1.2.1 Microfinance Institutions (MFIs)

Following the success story of the Grameen Bank in Bangladesh, microfinance has become a well-known tool for providing financial services to the poor who are unable to access the formal banking system. There are 1,000 to 2,500 microfinance institutions with some 74 million borrowers in over 100 different countries (Sengupta and Aubuchon, 2008: 10). Microfinance is growing at the rate of 15 to 30 percent annually (Ledgerwood and White, 2006: xxxi).

A contentious debate persists about MFIs' sustainability and outreach to the very poor (Meyer, 2002: 4; Tucker, 2001: 108; Otero, 1999: 14). They argue that in pursuit of sustainability the MFIs that are not subsidized may be forced to limit the number of loans to the poorest, who tend to be the riskiest and costliest of borrowers.

¹ The name of the town is changed to protect the security of the church's informal credit union.

² Burma is also known as Myanmar. This thesis uses Burma, rather than Myanmar.

Globally, as many as one billion people live on less than one dollar per day, and as such are cash poor (Morduch, 1999: 1569). Many of these people could potentially benefit from MFIs - but there are not enough donors to support the provisions of MFI services to them (Schicks, 2007: 558; Schreiner, 2002: 600). The founder of Grameen Bank, Muhammad Yunus, noted, the biggest factor constraining the expansion of new MFIs is a shortage of subsidies that would allow them to survive the establishment phase (Yunus, 2007: 70).

Sustainability is a crucial aspect of MFIs ability “to deliver cost-effective, quality financial services to their poor clients on a permanent basis” so that they are not left “in much the same position as they were before” (Wright, 2000: 64). Navajas et al (2000) argues that unsustainable MFIs “inflict costs on the poor in the future in excess of the gains enjoyed by the poor now” (Navajas et al, 2000: 335). Schreiner (2002) argues that sustainability “produces the strongest incentives to improve social benefits through time” (Schreiner, 2002: 600). Yunus (2007) also stressed the importance of sustainable MFIs because he believes that mobilized savings from depositors will free the MFIs from dependence on donor money or subsidies and will allow them to use savings to provide financial services to the poor (Yunus, 2007: 71).

Many studies focus on whether and how MFIs should pursue sustainability, and provide policy analysis on the pros and cons of subsidies and sustainability. For instance, Marr (2002) argues that in the pursuit of sustainability MFIs end up excluding the poorest and actually create more poverty as they intensively seek to attain high repayment rates through group-based schemes, which impose severe sanctions on borrowers and destroy the social capital of borrowers in the process (Marr, 2002). However, these studies tend to ignore the fact that many locally-led MFIs are self-sufficient by necessity as they lack access to subsidies.

1.2.2 MFIs in Burma

There is an extensive body of research on microfinance programs throughout the world but MFIs in Burma remain under-researched and poorly understood, even though the presence of MFIs within Burma has been growing. Studies about microfinance in Burma have focused exclusively on MFIs led by international non-governmental organizations (INGOs) and intergovernmental organizations (see Turnell, 2009; May Si Si Aung, 2005). No research has been conducted on locally-led MFIs that operate without any financial subsidies or external technical support. To fill this significant knowledge gap and to understand more about the relationship between sustainability, outreach, and impacts of the loans, this thesis assesses to examine a church led credit union.

1.3 Statement of the Problem

In Burma, microfinance schemes led by the United Nations Development Program (UNDP) and other foreign NGOs have failed to become self-sufficient and therefore continue to rely on subsidies. Remarkably, MRBCCU operates without outside financial support. It is crucial to investigate how this particular MFI, run by the local church, is able to operate without any support or subsidy from the outside. Clearly, there is the potential for significant learning for all MFIs in Burma from this example. The existing church social capital helps mobilize voluntary savings that enable the church credit union to provide loans to those who need money.

1.4 Research Questions

How does MRBCCU perform in terms of sustainability and outreach? Is there a trade-off between the two?

Sub-questions:

- 1) What is the MRBCCU's management and organizational structure with regard to decision-making strategies, loan delivery process, accountability, transparency and feedback mechanisms? How do these factors impact upon outreach and sustainability?
- 2) Is the MRBCCU successful in its outreach, including to the very poor?
- 3) What are the impacts of loans on borrowers?
- 4) Is the church social capital a key factor in achieving repayment and outreach?

1.5 Objectives of Research

- To understand how the MRBCCU's management and organizational structure impact upon its outreach and sustainability;
- To determine the extent to which the MFI has reached the very poor;
- To assess the impact of loans on the welfare of borrowers and the MRBCCU in terms of sustainability and outreach;
- To examine the role of church social capital in achieving repayment rates and outreach;

1.6 Hypothesis³

The church social capital is a key factor behind MRBCCU's operational sustainability⁴. However, MRBCCU is not financially sustainable due to its weak

³ The original thesis hypothesis was "MRBCCU is near-sustainable because of the high level of social capital combined with access to China border market and the lack of natural disasters. There is a trade-off between sustainability and outreach as the MFI excludes the poor and only reach the richest of the poor." This was based on initial information available before the field work from one source. The hypothesis is revised as some of the initial information was found to be inaccurate during the fieldwork.

⁴ For definitions, see section 1.7.

organizational structure and management, asymmetric information, Kachin cultural values, and poor macroeconomic and political environment.

There is a trade-off between sustainability and outreach because reaching the poor entails high-risk loans resulting in high default rates. The impacts of the loans, outreach and sustainability impacts one another.

1.7 Conceptual Framework

The key concepts of this research are sustainability, outreach, the very poor, and social capital (see figure 1.1). The dependent variables are sustainability and outreach, whereas the independent variables are church social capital, and institutional arrangements including loan methodology, accountability, transparency, and asymmetric information.

Sustainability is differentiated into two levels: operational sustainability and financial sustainability. Operational sustainability refers to the existence of sufficient operating income to cover the MFI's daily operating costs including staff salaries, office supplies, loan losses and other operating costs without any subsidies (Meyer, 2002: 4). Financial sustainability is a higher level of sustainability, which takes a longer-term view. According to Meyer (2002: 4), to be financially sustainable, an MFI must cover its financial costs, account for inflation and other fees, buffer against shocks, and eliminate subsidies that are unsustainable in the long-run. In this thesis, I take financial sustainability as sound practices within an MFI, in terms of loan methodology, organizational structure and management, a high level of outreach, high repayment rate, and having profits to cover all the MFI's operations and to buffer against shocks such that the MFI can endure and continue to operate in the long run. In the case of MFIs in Burma, such as MRBCCU, the calculation of inflation over interest rates is not applicable because there is no accurate available information on the inflation rate in Burma.

Outreach is defined in terms of depth, worth to users, cost to users, breadth, length and scope of outputs (Navajas, Schreiner, Meyer, Gonzalez-Vega and Rodriguez-Meza, 2000: 333).

- 1) *Depth* is the outreach of the MFI to reach the very poor.
- 2) *Worth to users* refers to “how much a borrower is willing to pay for a loan” (Navajas et al, 2000: 335).
- 3) *Cost to users* is the “cost of a loan to borrowers” such as interest rates, and other transaction costs including time, transportation, food, taxes and documents.
- 4) *Breadth* is the total number of users.
- 5) *Length* is the length of time that a MFI operates (Schreiner, 2002: 596).
Recently established MFI’s (i.e; of short length) may be perceived as less stable and thus have a harder time in achieving repayment from borrowers who anticipate the MFI’s short-term failure.
- 6) *Scope* is the type of financial services that an MFI offers to its members, such as deposits and loans. Scope also refers to an MFI’s ability to meet the demands and needs of the poor by providing the services that they need.

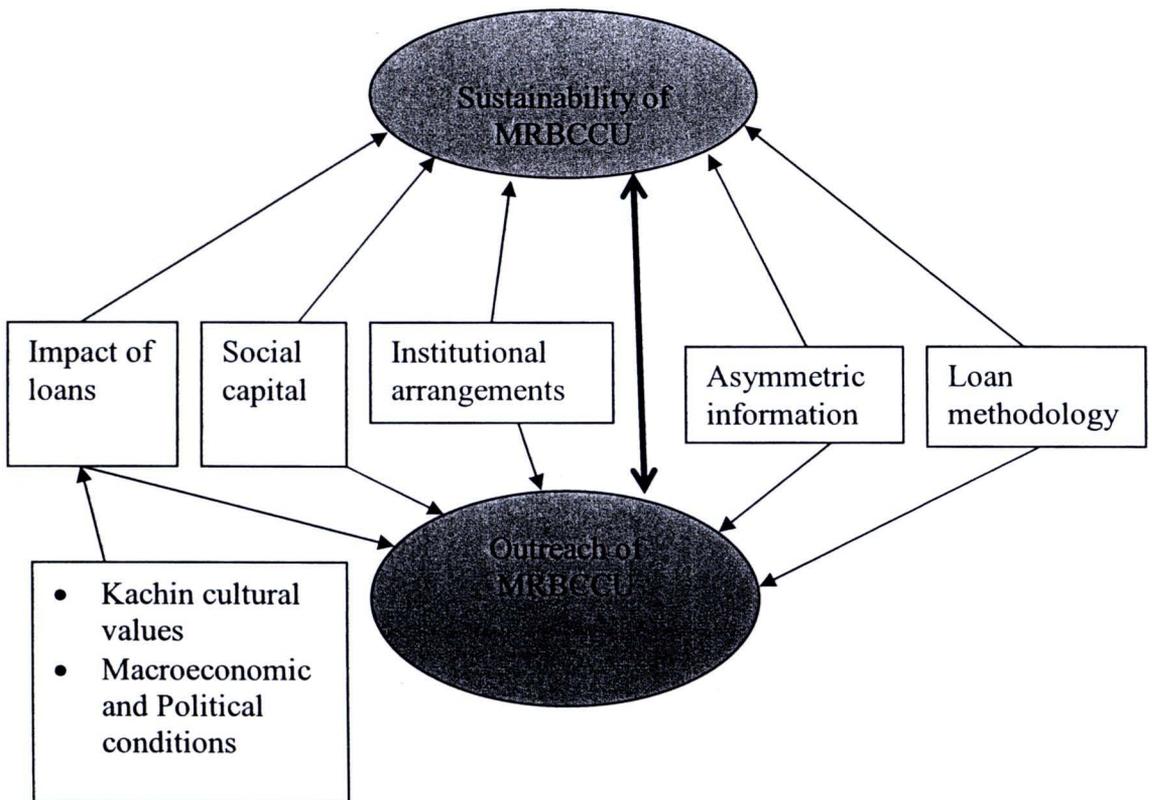
In this research, the “**very poor**” are defined as those who earn less than one dollar per day, live in poor quality shelter such as a bamboo house with a thatched roof, and are challenged in meeting basic survival needs for food and clothing. Defining the very poor is complex because perceptions of poverty vary across different cultures and contexts. This research adapts the *Microfinance Poverty Assessment Tool* developed by the Consultative Group to Assist the Poor (CGAP), which is supported by the World Bank (Henry et al, 2003). Henry et al assert that the tool provides “a flexible definition of poverty that can be adapted to fit local perceptions and conditions of poverty” (Henry et al, 2003: 1).

Social capital is a concept which conveys the notion that social networks and social connections can be used as resources or capital for development. Social capital

consists of trust, social networking, reciprocity, reputation, shared norms and values (Field, 2003: 21). More generally and in the context of MFI borrowers, social capital can be used to impose sanctions on “would-be free-riders” or those who fail to comply with shared norms and values (Field, 2003: 24). Social capital is hard to measure as many aspects of social capital are abstract and hard to define. This study evaluates five dimensions of social capital: participation; information about reputation; trust; and reciprocity.

The unit of analysis for this thesis is the Kachin Baptist church in Mung Rawt. The level of analysis is a micro study of an institution and individuals within it. The research is deductive (i.e., a hypothesis was formulated prior to the field research which was then used to test the hypothesis).

Figure 1.1 Conceptual Framework for the Sustainability and Outreach of MRBCCU



1.8 Research Methodology

1.8.1 Resources

This study relied on both primary and secondary sources of information. Secondary sources included: books, academic journal articles, websites, and reports. Primary sources were collected through field research that involved quantitative and qualitative research methods using the Kachin and Burmese languages including semi-structured questionnaires, expert interviews, personal communication such as emails and online chats, participant observation, and ethnography.

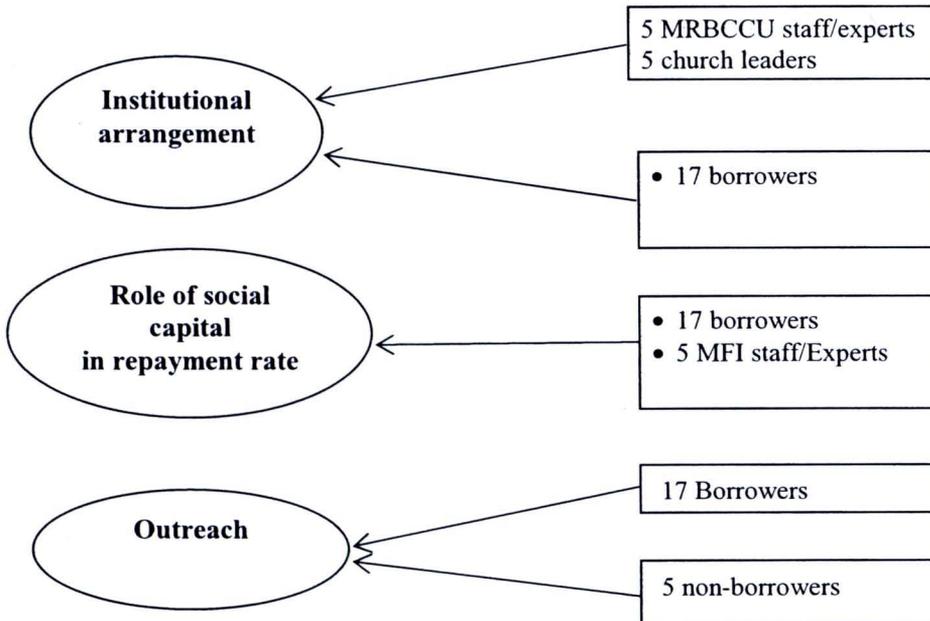
1.8.2 Understanding the Institutional Arrangement of MRBCCU

The author interviewed MRBCCU staff and key informants using semi-structured questionnaires to understand the organizational structure, loan methodology, decision-making strategies, feedback mechanisms, and how these contribute towards sustainability and outreach. The key informants were the MFI leader, clerk, financial accountant, and an NGO worker.

1.8.3 Sampling

Five geographic zones with the highest percentage of borrowers were identified using the information provided by the MRBCCU staff. Within these areas, 17 borrowers plus 5 non-borrowers were selected at random on the basis of their availability (see figure 1.2).

Figure 1.2 Sampling of Interviewees



1.8.4 Measurement of Church Social Capital and its Role in Loan Repayment

This study adapted the World Bank's "Measuring Social Capital" questionnaire developed by Grootaert et al (2004) to emphasize the five dimensions of social capital: participation in church activities; information about reputation; trust; and reciprocity.

As social capital is an abstract conceptual variable, face-to-face interviews were conducted using semi-structured questionnaires. In addition, the study relied on participant observation of church activities to better understand the borrowers' involvement in church activities. Church activities included:

1. Sunday Worship service (~ 500 people)
2. Women's Fellowship Seminars (~ 35 people)
3. Youth Fellowship Seminars in the evening (~ 27 people)
4. Group Prayer Cells (~ 25 people)
5. Rainy Season Biblical Training (~ 90 people)
6. Wednesday Worship Service (~ 90 people)
7. Church Planning Workshop⁵ (~ 30 people)
8. Annual Home Prayer Cells (~ 60 people)

Participation in church activities was evaluated through interviews with MRBCCU members to understand the perceived importance of the church's role in their lives and how this affects decision-making about joining the MRBCCU and repayment. Information about reputation was measured by asking borrowers and MFI staff about how well they knew each other and how they acquire reputations of others.

Trust was assessed through interviews with MRBCCU staff and borrowers. MRBCCU staff were asked whether or not borrowers were trustworthy in repaying loans, and borrowers were asked whether or not they trust the MFI staff. As the concept of trust is elusive and abstract, answers for trust were based on the perceptions of interviewees. The participant observation in the Church Planning Workshop also offered information on the degree of church members' trust and perceptions of the church pastors, deacons and group leaders.

Reciprocity was assessed by interviewing MRBCCU staff, borrowers, and the church pastors about the credit union's reciprocity towards its members, borrowers' incentives to repay loans, and the level of reciprocity among church members and the church.

⁵ The workshop is the first attempt by the church to hear the opinions and feelings of the congregation over church leaders including pastors, deacons, executive committee, and others.

1.8.5 Measurement of Outreach

Four paid MFI staff were interviewed to examine the outreach of the credit union. The five⁶ key dimensions of outreach were determined: *worth to users; costs to users; breadth; gender; and depth.*

1.8.6 Evaluation of Sustainability

Operational sustainability was determined by whether or not the MRBCCU receive financial subsidies from outside. Financial sustainability is measured through the analysis of sound practices within an MFI in terms of loan methodology, organizational structure and management, a high level of outreach, high repayment rate, and having profits to cover all the MFI's operations and to buffer against shocks such that the MFI can endure and continue to operate in the long run.

Face-to-face interviews with the MRBCCU staff were conducted to identify other issues that might affect sustainability. Borrowers were interviewed to assess the usefulness of their loans, the loan's impact, as well as factors that determine whether a MRBCCU member becomes either a repeat borrower or a dropout (i.e., borrowers stop using the MFI's services).

1.9 Ethical Issues

Every interviewee for this study was informed of the purpose of the research. They participated in the research voluntarily. As interviewees shared sensitive

⁶ Length is not assessed because it is not applicable to the MRBCCU and it is not possible to predict length of a church-led MFI. Scope of outreach is also not necessary to measure because the MRBCCU offers only savings and loans services to all church members.

personal information, their privacy has been protected by keeping their names anonymous and confidential. As MRBCCU is not registered, its name has been changed.

1.10 Research Scope

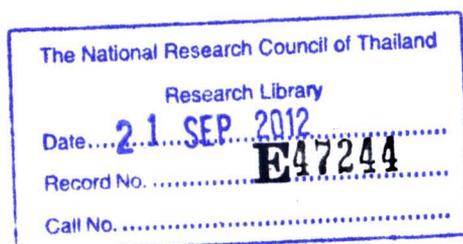
The research focused on sustainability and outreach of the institution and its impacts members. The research surveyed church's members who resided within the church's administrative territory between 2005 and 2010 (i.e., the period of MRBCCU's operation). The field research was conducted over a one-month period in July 2010.

1.11 Significance of the Research

Although there are many studies on microfinance, relatively few scholars have researched microfinance in Burma and no researchers have studied locally implemented MFIs in the Kachin State, Burma.

This study contributes new research findings on the sustainability and outreach of local-led MFIs in Burma. The research will also be useful to MRBCCU to identify gaps in knowledge and assist the institution to function more efficiently and effectively.

This study's findings, including its assessment of sustainability and outreach to the very poor, may offer valuable lessons to other locally-led MFIs which are being established in the Kachin state and elsewhere in Burma.



1.12 Research Limitations

This study's main constraint was access to borrowers. Some borrowers are internal migrants who work along the China border town and in gold mining areas, and therefore are only rarely at home in Mung Rawt. Field research was conducted during the rainy season in July, a peak period of activity for most borrowers who engage in agricultural activities. Furthermore, some borrowers were inaccessible due to flooding.

As this was also a period of peak agricultural activity, many borrowers were only available at night. It was challenging to keep them focused on the interview because they were distracted by the Korean drama series from the government television channels. In some cases, this resulted in interviews being rushed. The author considered interviewing borrowers on Sundays when they attended church and other worship services and when they have more free time, but decided against this so as not to upset people who did not want to be reminded of their loans or debts on days of worship and rest.

Finally, the author had only partial access to MRBCCU's self-reported financial accounts, none of which are computerized. The MFI staff did not feel comfortable showing all their books to the author, saying that they had too many books.