

## CHAPTER III

### FINANCIAL SERVICES IN MUNG RAWT, THE KACHIN STATE, BURMA

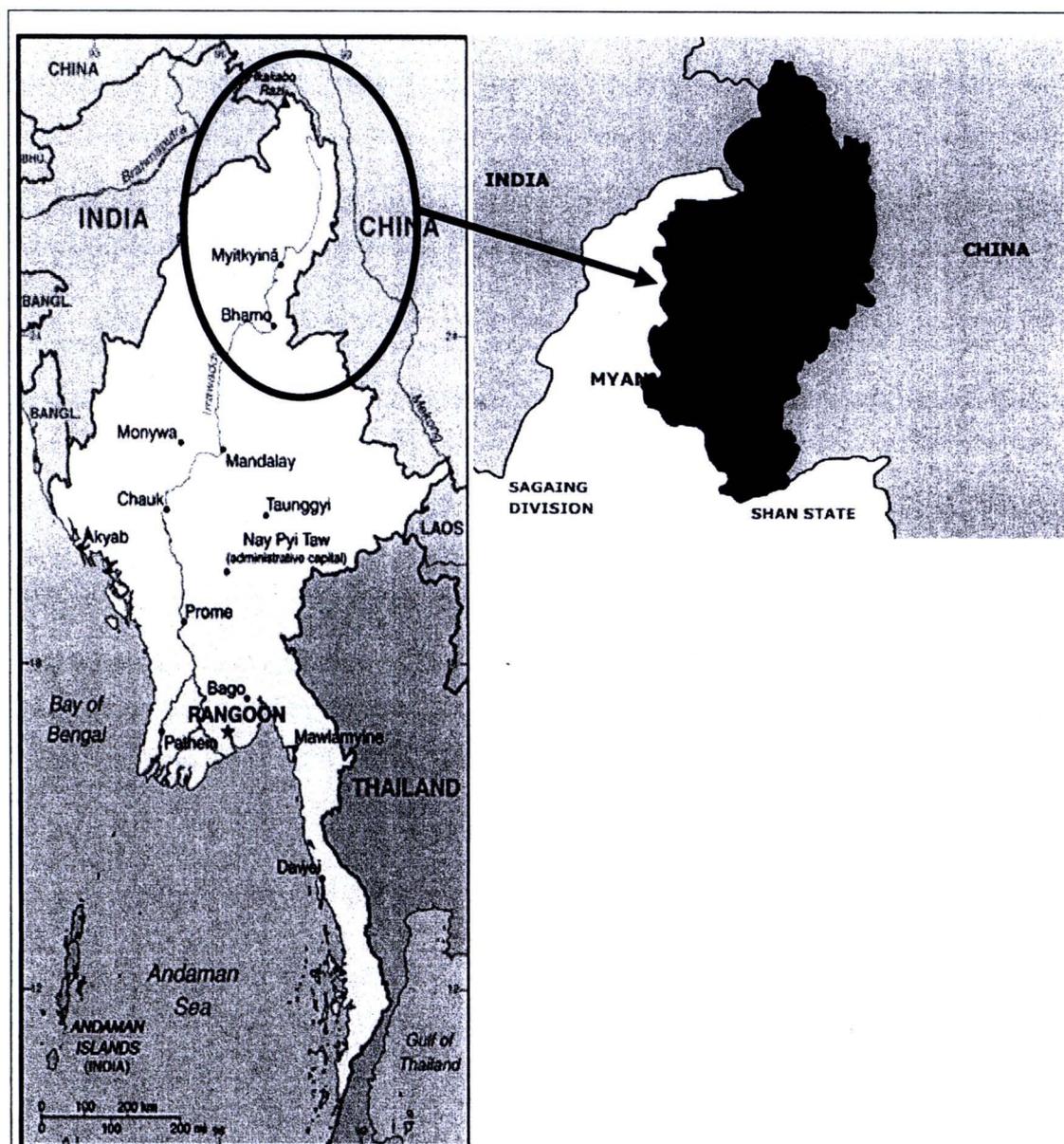
#### 3.1 Introduction

This chapter provides a brief background on Mung Rawt town and an overview of the formal and informal financial services therein. After elaborating MRBCCU, it provides a brief overview of other formal and informal banking mechanisms and compares their relative merits and shortcomings from the perspective of Mung Rawt church members. The research finds that from the perspective of its members MRBCCU provides the best loans and savings services.



### 3.1 Livelihoods of People in Mung Rawt, Kachin State, Burma

Map 3.1 Kachin State, Burma

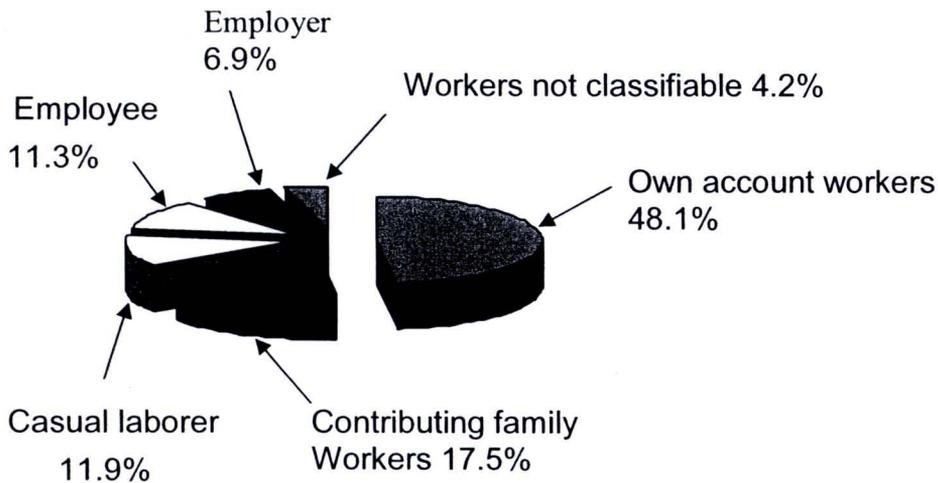


Source: CIA the World Factbook, 2010; & Map Zones

Mung Rawt town is located in the center of Kachin state in northern Burma. It has a population of approximately 160,000 people that is comprised principally of Kachins, Shans and Burmans, with a smaller number of immigrants from China, India and Nepal. Prior to the government's monopoly on the mining and trading of jade in the late 1990s, Mung Rawt was a prosperous and busy town due to its proximity to the jade mining area of Hpakant.

Most of the economic activities in Mung Rawt are in the informal sector and some of the economic activities entail corruption and risks. Accordingly, measuring the economic status of the people is almost impossible because family households' incomes fluctuate dramatically and constantly. The availability of wage employment in Mung Rawt is sparse and only a few people have such jobs. However, the UNDP in Burma collects some data on economic activities in collaboration with the government's Ministry of National Planning and Economic Development (UNDP, 2007: 59). The UNDP's entitled "Integrated Household Living Conditions Survey in Myanmar," shows that in Kachin State the highest proportion of the population are "own account workers," (in other words self-employed workers) (figure 3.1). The study also finds that employment in the formal sector of economic activity in Kachin state is quite low (18.2%).

Figure 3.1 Economic Activities by Occupational Category in the Kachin State



In Mung Rawt, some residents earn a living by importing durable goods from China such as motorbikes, clothes, and other house appliances. Others export resources from the Kachin state, including jade, teak, and cows. Kachins and Shans also engage in foraging, slash and burn agriculture (*taung-ya*), wet-season rice farming, and orchard cultivation. Many people also raise livestock such as cows, buffalos, pigs, and chickens, mostly on a small scale.

Kachins generally do not engage in small income-generating activities, such as selling snacks, dishes, and other cooked food on the street, as they regard such activities as inferior or alien; none of the Kachins are street vendors. However, some Kachins do engage in selling vegetables or fruits from their orchards and the forest at the market.

Internal migration within Burma from Mung Rawt is high; people go to Hpakant for jade trading and to other parts of the Kachin state, including the Danai Hugawng Valley for gold mining and trading. Some people also go near to the Burma-China border to work on banana plantations in Shadan Pa, while others drive

three-wheeled taxis in Laiza, a border town. Some people also engage in illegal logging near the Burma-China border.

Out-migration from Mung Rawt, particularly to Thailand and Malaysia, has also increased due to the lack of economic opportunities in Burma. Such migrants often remit money back to their families, providing an important boost to family incomes.

### 3.2 Introduction to MRBCCU

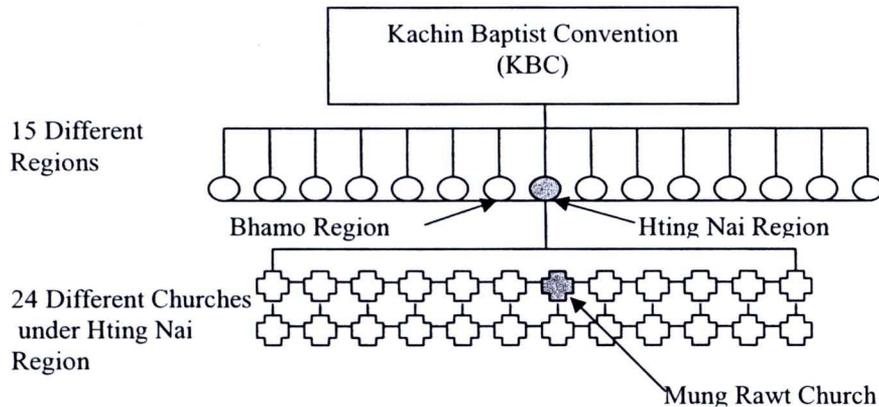
MRBCCU is a member-owned credit union. It is five years old, making it a young<sup>9</sup> MFI according to the classification scheme of MicroBanking Bulletin (2009). The launch of the MRBCCU was first initiated when Mung Rawt church's senior reverend, who leads the church, learned about the success of the Bhamo church<sup>10</sup> MFI and requested its staff to provide technical support to Mung Rawt Church in 2005. As shown in figure 3.2, Mung Rawt church exists under the structure of the Kachin Baptist Convention (KBC), which oversees about 350 Kachin churches under 15 different regions in Kachin State (See figure 3.2).

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<sup>9</sup> MicroBanking Bulletin has three stages of MFIs: *new*, *young*, and *mature* (a *new* MFI is from 1 to 4 years, a *young* MFI is from 5 to 8 years, and a *mature* MFI is over 8 years).

<sup>10</sup> Bhamo church is under Bhamo region, which is also under the Kachin Baptist Convention (KBC) in the Kachin state, Burma (See figure 3.1).

**Figure 3.2 Mung Rawt Church under the Structure of the KBC**



In 2005, three trainers from Bhamo church provided a 3-day intensive training to about 20 members of the Mung Rawt church. In August 2005, the MRBCCU was officially established with a subsidy of \$20<sup>11</sup> from Mung Rawt church's Development Committee to cover the cost of stationery. The MRBCCU started with about \$1,000 in savings from depositors. The then leader of the MFI also loaned \$40 to MRBCCU to cover the initial operation costs. A year after its inception, the MFI was able to repay the \$20 back to the church and \$40 to the leader and in doing so became fully operationally sustainable.

The MRBCCU's pamphlet states that its official goal is "*To increase economy and develop through savings and loans services that is carried out with unity, maturity, and righteousness*". The pamphlet identifies the program's objectives as follows:

- 1) All church members including the "grassroots" shall learn how to save money
- 2) Those who see good opportunities to make money but do not have enough capital shall receive loans
- 3) All shall learn how to manage their money and respect disciplines

<sup>11</sup> In this thesis, the US dollars are used for simplicity. The Burmese currency is the *kyat*. The exchange rate is approximately US\$1 = 1,000 *kyats*

The cover of the MRBCCU pamphlet states “*Money solves the problems and hardships that every being faces*”. The catchword of the MRBCCU is “*For you: MRBCCU*”. Then, it states, “*MRBCCU will help your economic well being.*”

The stated MRBCCU objectives do not include reaching the poor or the very poor; it aims to reach church members. The MRBCCU also does not state that its objective is to ensure a high repayment rate. The pamphlets are distributed mostly on the anniversary of the MRBCCU in August, or at the office when potential members would like to know more about the MRBCCU.

### **3.2.1 Delivery of Financial Services**

The total cost of membership for MRBCCU is \$11. The membership fee is 50 cents and the expense of the banking book is about 50 cents, while the required capital investment is about \$10. Borrowers used to receive a one-day training about the procedure for financial services, rules and regulations during the first few years of the MFI’s operation. However, the MFI stopped providing such trainings because they assume that borrowers now understand the system.

The MRBCCU uses an individual lending strategy by which two additional members guarantee a borrower’s loan<sup>12</sup>. Table 3.1 shows the general information on MRBCCU.

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<sup>12</sup> Individual loans are granted on the need of individuals. Solidarity grouping (c.f. Grameen Bank) requires every member of the group guarantee for repayment of the loans.

**Table 3.1 General Information about the MRBCCU (as of July 2010)**

Year of establishment	August, 2005
Number of members	432
Number of borrowers	240
Annual interest rate on loans	36%
Annual interest rate on savings	24%
Percentage of repeat borrowers	30%
Percentage of regular payers	30%
Percentage of borrowers with income generating activities	30%
Repayment rate	30%
Principal loan	\$13,100
Compulsory savings	\$17,290
Voluntary Savings	\$12,132. 5
Average loan size	\$300
Loan sizes	\$0<- \$5,000
Ceiling on Voluntary Savings	\$ 1,500
Total number of loans	576
Financial services	Loans, voluntary, and compulsory savings
Target clients	The “grassroots” and all church members
Individual/groups lending	Individual Lending
Progressive lending	None
Dynamic loans	None
Incentives for borrowers	<ul style="list-style-type: none"> <li>• Symbolic prizes for regular payers</li> <li>• No compulsory savings for regular payers</li> </ul>
Loan duration	One year
Repayment schedule	<ul style="list-style-type: none"> <li>• Fixed monthly interest rates repayment</li> <li>• Flexible principal repayment schedule/installment</li> </ul>

Confiscation of property	None
Use of subsidies	None except technical support
Depth of outreach	Mostly the poor from rural area
Ownership	100% ownership by members (Independent of donors)
Number of paid staff	Four
Number of staff	10 including the four paid staff
Incentives for staff	None

As shown in table 3.1, loans vary in amount. Members can borrow up to two times the amount of their compulsory savings<sup>13</sup>. Therefore, the amount of the loans can be as small as \$15 or less. However, most borrowers deposit \$100 and receive \$200 or \$300 as they prefer this amount. The poor will only receive small loan sizes that are under \$500. The average loan size is \$300. Only about ten borrowers receive loans of between \$1,000 and \$5,000. The MRBCCU amends policy and adjusts loan sizes based on the individual borrower's income generating activities and income level.

Those that receive the large loan sizes over \$1,000 are usually entrepreneurs or organizations. Organizations with loans over \$1,000 require a recommendation letter from the organization with their office stamp alongside a document of the meeting minutes that reached the decision on the need for the loan. In addition, the leader, secretary, or the treasurer of the organization has to request the loan in person.

As illustrated in table 3.1, loan agreements specify full repayment after one year with fixed monthly payments of calculated interest rate and a flexible repayment schedule of the principal installment. The MRBCCU sends reminder letters and visits borrowers only when they fail to make their monthly interest payments. Therefore,

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<sup>13</sup> Although a borrower can receive up to two times the amount of their compulsory savings in theory, MRBCCU changes this policy, as they do not want to lend the full amount to those who do not seem trustworthy. In addition, some trusted repeat borrowers are not required to have compulsory savings.

some borrowers only pay interest while making no repayment on the principal, even after one year has passed.

Deposits are capped at \$1,500. Depositors can withdraw their money at any time if the amount is below \$500. Those who want to withdraw a larger amount must provide advance notice of one to three weeks. Depositors receive their interest payments semiannually.

### **3.2.2 Changes in MRBCCU**

Inflation is high in Burma. The UNDP estimates that it may be as high as 40% (Turnell, 2009). As table 3.2 indicates, the *lending interest rates* of the MRBCCU have also been high. After three years of operation, however, the interest rates have been adjusted downwards, due to competition with other MFIs in Mung Rawt as well as concerns raised by the MFI's members.

Table 3.2 Changes in MRBCCU

	MRBCCU (2005-2009)	MRBCCU (2009-up to present)
<b>Monthly interest rates on Loans</b>	5% (monthly)	3% (monthly)
<b>Monthly interest rates on Savings</b>	3% (monthly)	2% (monthly)
<b>Interest rates on compulsory savings</b>	50% of the spread	None (because interest rate was reduced to 3% from 5%)
<b>Maximum number of Borrowers From each house</b>	Two family members	Only one
<b>Compulsory savings and Loan size</b>	1/3 of the loan	Depends on the borrowers' income levels and income generating activities.
<b>Fine for defaulters</b>	2%	None
<b>Restrictions on withdrawals</b>	One week advance notice	Two to three weeks advance notice if above \$500
<b>Office Hours</b>	First sixth days of every month	Every weekday
<b>Guarantors</b>	Two MRBCCU members	One MRBCCU member and one family member.

The monthly interest rate on loans was 5 percent until 2009, which is equivalent to an annual nominal interest rate of 60 percent. Since September 2009, however, the monthly interest rate has been reduced to 3 percent, which is equivalent to an annual nominal interest rate of 36 percent. Before this change, borrowers were paid interest on their compulsory savings, effectively lowering the monthly interest rate on their principal. With the shift from MRBCCU I to MRBCCU II, monthly interest rates on savings were also reduced from 3 percent to 2 percent. However, the interest rate on savings is still higher than other MFIs and the government bank in Mung Rawt.

Before September 2009, MRBCCU charged a 2 percent fine for failure to repay interest on time, raising the total interest rate to 7 percent. In response to complaints from the borrowers, the MRBCCU stopped charging fines in September 2009.

### **3.3 Formal Financial Services in Mung Rawt**

In Mung Rawt, most people are involuntarily excluded from the formal banking system. There is only one legal bank, the government-owned Myanmar Economic Bank. Other formal services of credit include MFIs operated by quarters<sup>14</sup> and *Zay thama* (see Table 3.3). Two legal pawnshops also provide loans to people.

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<sup>14</sup> Quarters are local administrative units in a town, which are called as *yat kwet* in Burmese.

Table 3.3 Formal Financial Services in Mung Rawt

Names	Loans I* rate	Repayment schedule	Loan duration	Loan size	Savings I* rate	Savings sizes	Required notice for withdrawal
<b>Myanmar Economic Bank'</b>	7.2 %	Monthly	1 year	\$5000- \$10,000	12%	\$10- \$400,000	None
<b>Zay thama</b>	24%	Daily	100 days	\$500	18%	"Unlimited"	One month if over \$1,000
<b>Quarter-led MFIs</b>	30%	Monthly	6 months	\$100- \$500	18%	\$100- \$2,000	Time deposits
<b>Pawn Shops (2)</b>	60%	Monthly	6 months	Varies	N/A	N/A	N/A

Note1: I\* = annual interest rate.

Note2: The gray-shaded areas indicate the sources of saving services. *Zay thama* limits deposits when they have problems paying interest.

### 3.3.1 Myanmar Economic Bank (MEB)

The Myanmar Economic Bank (MEB) only provides loans to wealthy borrowers with collateral. It offers savings services to all, although these saving services are widely perceived to be of a poor quality. The MEB is so inefficient that even money transfers are troublesome for clients; one church member claimed that a \$100 money transfer arranged by the MEB was disbursed through three appointments rather than one, so she will not use the MEB again. Another client, an NGO worker, said that he has to use the MEB for grant transfers for safety reason, but complained that he had to give donations festivals from his deposits.<sup>15</sup>

Many church members are unaware of the existence of the MEB. The clerk of the MEB said that only six borrowers out of Mung Rawt population received loans with the minimum loan size of \$5,000, as they are able to offer high-value collaterals, such as cars, houses, and other valuable property. Therefore, poor or middle-class people are unable to access loans from the MEB, and none of the church members have loans from the MEB. As indicated in table 3.1, the MEB only offers 12% interest rate on savings so almost none of the church members deposit their money there.

### 3.3.2 *Zay thamawayama athin* or *Zay thama* Market Cooperative Enterprise Team

*Zay* in Burmese means market, *thamawayama* means co-operative, and *a-thin* means team. *Zay thamawayama a-thin* provides saving services to all, but caters loan services only to members with stalls or shops at the market, and is well-known as *zay thama*. There is only one *zay thama* in Mung Rawt. The office is located in the market. It charges an annual interest rate of 24% on loans and 18% on deposits.

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<sup>15</sup> A NGO worker in Mung Rawt in discussion with the author in July 2010

Loans are issued to groups of three to five members. Repayments are made on a daily basis. The *Zay thama* does not offer progressive or dynamic loans. There are about four full-time staff. One of the staff claimed that repayment rates are almost 100 percent.<sup>16</sup> She said that the *zay thama* does not cap the size of its deposits and the operational money is about \$300,000. It offers a savings interest rate of 18%, which is only half of that of the MRBCCU.

During an interview with the staff, she stated that anybody can save money with the *zay thama*. However, a former depositor said that she had to withdraw her savings as one of the *zay thama* staff had complained “*you guys are just taking the interest rate and a bunch of people are like this, so we are having a hard time paying you back your interest rates.*” This interviewee now deposits her money at the MRBCCU.<sup>17</sup>

### 3.3.3 Quarter-led MFIs

There are about five quarter-led MFIs run by quarter former secretaries, pensioners, and members of the Union of Solidarity and Development Association (USDA) which is a government mass organization that has since transferred itself into a political party. The government backs these MFIs. Some of these MFIs received their start up capital from the MEB during their establishment phase or from the deposits of members. The quarter-led MFIs have operated since 2005, the same year that MRBCCU was established.

The interest rates of all quarter-led MFIs have gradually decreased due to the government’s instructions or orders to reduce them. The initial annual interest rate on loans was 72% from 2006 to 2008, which decreased to 60% from 2008 to 2009. As of April 2010, the annual interest rate becomes as low as 30%.

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<sup>16</sup> In an interview with the author at the office of *zay thama* in July 2010

<sup>17</sup> A Burmese migrant worker from Mung Rawt in Thailand in conversation with the author, August 2010

These quarter-led MFIs use solidarity groups of five people who will guarantee one another and pay for one another in case of loan default. The borrowers have to own a house and be a member of the respective quarter. The borrowers have to submit photocopies of their household document, also known as form 10, their national registration card (NRC), and two passport photos.

In case of loan default, the chairperson of a quarter-led MFI said, “*We will sue them at court and will confiscate their property if the borrower refuses to pay. We can do this because we are regulated by the government.*”<sup>18</sup> He proudly claimed that “*We use the profits of this MFI to realize the five goals of the government’s development project for villages, including education, health, and infrastructure.*”<sup>19</sup> While talking about the quarter-led MFI, he was on and off his cell phone and talking loudly on the phone. The leader of the quarter MFI said that all of their borrowers are women.

### **3.3.4 Government Regulated Pawnshops**

There are two legal pawnshops in Mung Rawt. Borrowers must provide collateral. Clients are able to receive loans below the value of their collateral. Pawnshops charge a monthly interest rate of 5%. Clients must redeem their pawned collateral within six months, or extend the duration by repaying the due interest. Failure to pay the interest results in the loss of the client’s collateral.

The most common form of collateral is gold jewelry, which serves as a common means of savings money given the stability of gold prices in the midst of Burma’s high inflation. Gold jewelry is a common status symbol in Burma.

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<sup>18</sup> In an interview with the author at the office of a Quarter MFI in July, 2010

<sup>19</sup> The author interviewed both leader and secretary of a quarter MFI at their office in July 2010.

### **3.4 Informal Sources of Loans and Savings in Mung Rawt**

MRBCCU, detailed above in section 3.2, is the only informal civil society-led institution in Mung Rawt that provides both loans and savings services to its members. In this section, other forms of informal borrowing and saving services available in Mung Rawt are detailed (see table 3.4).

Table 3.4 Informal Sources of Loans and Savings in Mung Rawt

Names	Loans I* rate	Repayment schedule	Loan duration	Loan sizes	Savings I* rate	Savings sizes	Withdrawal schedule
<b>Church</b>	36%	Monthly	One year	\$500-\$5,000	24%	\$10-\$1500	1-3 weeks
<b>Su kyay ROSCAs</b>	N/A	N/A	N/A	N/A	N/A	Varies	By turn
<b>YMCA (ceased)</b>	48%	Weekly	6 months or one year	\$10-\$50	N/A	50 cents weekly	After loan repayment
<b>Nayt pyan toe</b>	240%	Daily (fixed)	1 month	Varies	N/A	N/A	N/A
<b>Relatives</b>	None	Varies	Varies	Varies	N/A	N/A	N/A
<b>Neighbors</b>	0%-240%	Varies	Varies	Varies	N/A	N/A	N/A
<b>Gold Jewellers</b>	N/A	N/A	N/A	N/A	N/A	Varies	N/A
<b>Liberal</b>	N/A	N/A	N/A	N/A	N/A	Varies	N/A

Note: The gray-shaded areas indicate the sources of savings services. Young Men's Christian Association (YMCA) microcredit program stopped operating in 2009. ROSCAs are Rotating Savings and Credit Associations.

### 3.4.1 Rotating Savings and Credit Associations (ROSCAs) or *Su kyay*

Literally translated, *su* means save and *kyay* means fees. Around the world, *su kyay* is well-known as rotating savings and credit associations (ROSCAs). In *su kyay*, about 10 to 20 members with high social capital and similar careers, especially sellers, jointly put money into a “pot” to save that is then shared in turn by the members. The treasurer or chairperson receives the first pot, with members then drawing lots to determine the subsequent recipients.

The savings rate is about \$2 per day, so a member in a group with 20 members will receive \$400 in 10 days. As members are required to pay fixed installments daily, those with daily incomes, particularly sellers or shopkeepers, are more likely to get involved. Only women are involved in the ROSCAs in Mung Rawt. Others with irregular incomes are excluded from this group. A church member who is a vegetable seller said that she was involved in a ROSCA, and she deposits her money from the ROSCA at the MRBCCU in order to earn interest.<sup>20</sup>

The inherent risk of a ROSCA is that those who receive the first pots of money will disappear or fail to provide a share to the remaining members. Therefore, ROSCA groups are only formed amongst people with a high level of trust between each other, and who are able to work together for long-term mutual benefit.

### 3.4.2 Young Men’s Christian Association (YMCA) Microcredit Program

Although the microcredit operation of the YMCA Mung Rawt stopped its operation, it appear to be a great success as it achieves both sustainability and outreach to the very poor. The loan methodologies of the YMCA were similar to that of the Grameen Bank. The clerk of the YMCA, who was responsible for disbursing the loans, collecting money, and accounting, said that it achieved almost 100% repayment rates.<sup>21</sup> The clerk ensured a systematic and proper screening process,

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<sup>20</sup> A woman church member in discussion with the author, July 2010

<sup>21</sup> A clerk in discussion with the author, July, 2010

whereby YMCA staff had four meetings with a potential borrower before disbursing a loan. During the first meeting, the staff explained the rules and regulations of the MFI. Then, during the second meeting, the staff asked the potential borrower to provide their address, photocopies of their national registration card and household documents (form 10), and two passport photos. During the third meeting, the potential borrower filled out the application forms. After this meeting, the MFI staff would undertake an investigation about the potential borrower by visiting their neighbors and asking whether the borrower was creditworthy and had too many debts. Although the initial loan was only \$20, this entire screening process was followed rigorously.

The YMCA offered dynamic loans of up to a maximum of \$50<sup>22</sup>. It did not discriminate against any borrowers based on their nationalities or religions. However, only women were eligible for loans. There were no progressive loans, but borrowers in each group guaranteed each another's repayment. The borrowers were the poor and the very poor who were engaged in income-generating activities such as selling fried snacks on the street and trading pigs. The repayment schedule was weekly; the clerk would visit the head of the five-member groupings to collect repayment.

Out of all MFIs in Mung Rawt, only the YMCA MFI used dynamic loans, provided very small loan sizes, and reached the very poor. Occasionally the YMCA provided free trainings to teach borrowers how to make snacks to sell.

Unlike the MRBCCU, which achieves only 30% repayment rate (see chapter V), the YMCA attained almost a 100% repayment rate. There are significant differences over loan methodologies between the MRBCCU and the YMCA (table 3.5)

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<sup>22</sup> Dynamic loans are an incentive for borrowers to repay, as they will continue to receive larger loans only after they repay their previous loans in full and on time

**Table 3.5 Comparison between YMCA and MRBCCU loan methodologies**

	<b>YMCA</b>	<b>MRBCCU</b>
<b>Average loan size</b>	\$20	\$300
<b>Dynamic loans</b>	From \$20 to \$50	Not specific: “faithful” borrowers can receive the amount they request
<b>Repayment schedule</b>	Weekly	Monthly
<b>Interest rates and principal Installment and schedule</b>	<ul style="list-style-type: none"> <li>• Fixed interest rates</li> <li>• Fixed principal installment</li> </ul>	<ul style="list-style-type: none"> <li>• Fixed interest rates</li> <li>• Flexible principal installment and repayment</li> </ul>
<b>Duration to receive loans</b>	One month with four weekly appointments	Takes 5 days with no appointments
<b>Location for loan repayment</b>	Borrowers’ homes	At the office
<b>Selection criteria</b>	No discrimination over ethnicity, religion, church, denomination, and quarter (administrative unit) except gender	Members are limited by ethnicity, religion, church, and denomination

The YMCA’s borrowers were the very poor who engage in income-generating activities such as selling snacks on the streets or vending jobs that many Kachins consider as inferior, including those who borrow from MRBCCU. The repayment schedule was very frequent (weekly) and solidarity grouping assured the repayment by each member. Loan sizes were the smallest ones among the MFIs in Mung Rawt. Only a few Church members were borrowers from the YMCA micro-credit service.

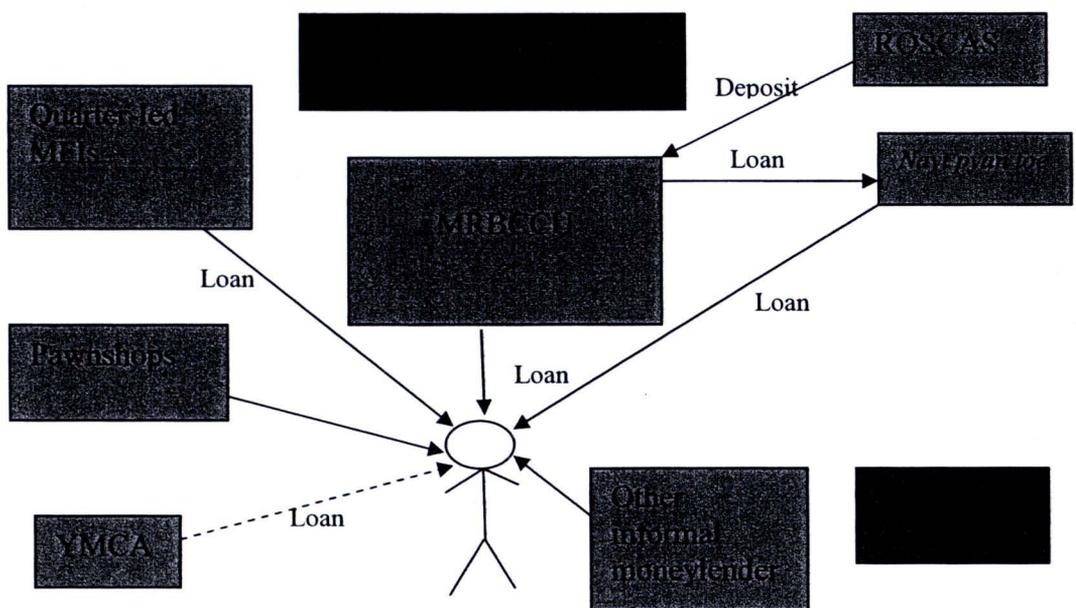
### 3.4.3 Informal Moneylenders

A well-known informal moneylender service called *nayt pyan toe*, which means “daily repayment,” offers an effective annual interest rate of 240%. Borrowers pay daily small fixed installments, which include the interest and the principal. *Nayt pyan toe* does not provide a savings services, and the moneylender can be anybody. Mostly, this sort of loaning arrangement is done by and for sellers.

### 3.4.4 Debt Cycle?

As shown in figure 3.3, most Mung Rawt Kachin Baptist church member has access to loans from the MRBCCU, quarter-led MFIs, pawnshops, and other informal moneylenders, including *nayt pyan toe* and neighbors. Some borrowers interviewed end up in a debt cycle as they borrow money from others to repay their previous loans, and become stuck in a vicious cycle of debts from different sources.

**Figure 3.3 Access by MRBCCU borrowers to formal and informal financial services in Mung Rawt**



The survey undertaken did not incorporate interviews with all the church members to understand their wider loan use patterns from different borrowers and the extent of their loans use services. However, from the key informant interviews and 22 borrowers and non-borrowers, it was learned that none of the church members are eligible to access loans from Myanmar Economic Bank (MEB), which has only six outstanding loans. The YMCA stopped operating in 2009. Most church members do not have stalls at the market so they are ineligible to borrow money from *zay thama*.

Three MRBCCU borrowers interviewed used loans from the quarter-led MFIs, and two of them repaid their loans to the quarter MFI before they repaid their loans to the MRBCCU. On the other hand, another MRBCCU member used her loans to fund an informal money lending service (*nayt pyan toe*) and charged 20% monthly interest rates to vegetable sellers, including another MRBCCU borrower.

People in Mung Rawt tend to prefer pawnshops to other informal moneylenders, as the interest rate is lower and it does not require dealing with other people, thereby preserving their dignity. When people cannot redeem their jewelry, they can also go sell their receipts of the jewelries, which show the date and value of the jewelries, to the gold shop where they bought them. Then, they redeem their gold jewelries from the pawnshops.

### **3.5 Conclusion**

Most church members do not use the formal regulated government bank MEB as they find it inconvenient and inefficient, and prefer to use the MRBCCU. Some church members also take loans from the quarter-led MFIs. However, as the quarter-led MFIs use threats to attain a high repayment rate, people are cautious and in general are afraid to borrow from this service.

In terms of loans, most church members prefer to borrow from the MRBCCU because they are afraid of the quarter-led MFIs' threats to confiscate defaulters' houses and to sue them in the court. On the other hand, they expect the MRBCCU to show love, mercy, and leniency in case of default.

In order to recover debts, the MRBCCU uses the existing church institution and social capital by occasionally reminding the borrowers about their debts during the Sunday plenary worship services, and sending defaulters reminder letters at the beginning of every month. Therefore, while the quarter-led MFI punishes its defaulters through tangible measures in the courts, the MRBCCU punishes its defaulters through intangible measures.

Despite its collapse due to corruption, the YMCA microcredit program appears to demonstrate that outreach of loans to the very poor in the form of very small loan sizes with a frequent fixed repayment schedule and installment, and fixed compulsory savings can actually help attain sustainability. Its success was also partly due to the desperation of the poor and very poor borrowers to develop income-generating activities in order to earn income and support their families and the commitment of the staff.

This survey of formal and informal financial services in Mung Rawt reveals that people have fewer options for savings than for accessing loans. People also protect their savings informally by investing in gold jewelries and livestock, in particular pigs.

Of the three institutional savings services: the Myanmar Economic Bank, the quarter-led MFIs, and the MRBCCU, the MRBCCU offers the best interest rates on savings so its outreach to depositors is the best. In terms of loans to the borrowers, MRBCCU reaches the church members, as it does not use physical threats and possesses high social capital through the church.