

CHAPTER IV

IMPACT OF MRBCCU'S MANAGEMENT AND ORGANIZATIONAL STRUCTURE ON SUSTAINABILITY AND OUTREACH

4.1 Introduction

This chapter explores how MRBCCU's management and organizational structure impact on outreach and sustainability. It argues that quick and easy loan procedures enable short-term outreach. However, the staff's performance in assessing loans and ensuring repayment is poor due to a weak incentive and penalty system. In addition, the MRBCCU's organizational structure does not provide a clear division of labor or feedback mechanisms, has weak accountability, and lacks transparency. Consequently, staff often approve risky loans, ignore their responsibility to monitor loan usage, and fail to apply an incentive system to ensure repayment. However, MRBCCU has a skillful leader who is capable of making changes to the credit union and enforcing discipline on borrowers which may contribute to long term financial sustainability.

This chapter also assesses the MRBCCU's outreach according to five aspects: worth, cost, breadth, gender, and depth. The research finds that the MRBCCU increases indicators of worth, cost, breadth and gender in the short term due to its quick and easy loan procedures. In the long run, however, these aspects of outreach decrease as borrowers cannot repay their loans on time. In addition, the MRBCCU does not have great depth of outreach because of its loan methodology, which requires compulsory savings of one third to one half of loan amounts, its use of individual lending rather than solidarity grouping, and repayment schedules and installment sizes that do not cater to the very poor (see chapter III).

Because of its failure to reach the very poor, the findings of this study indicate that there is a trade-off between sustainability and outreach to the very poor. MRBCCU is operationally sustainable as it continues to function and does not receive

any financial subsidies, but at the same time, it is unable to reach the very poor because doing so is more costly. Poor borrowers are more likely to be defaulters as they use their loans to smooth consumption, rather than invest the loan productively to expand their micro-enterprises and generate income; they then become stuck with debt and feel regretful about their loans (see chapter V).

4.2 Organizational Structure

The MRBCCU lacks a clear organizational structure (See figure 4.1). It does not have a Board of Directors, a central office or branches. Rather, a single committee manages and operates MRBCCU. The committee, which also acts as the loan assessment team, changes the MRBCCU's policies and regulations almost every year.

The committee is comprised of people from three different groups: paid MRBCCU staff, the church's Development Committee, and group leaders from the church's administrative areas. The committee members include the leader of the church Development Committee, two church group leaders, four deacons, and four paid staff.

Figure 4.1 Organizational Structure of MRBCCU



The four paid staff are the MFI leader, who is the wife of the reverend; the deputy leader, who is the deacon and deputy secretary of the church; the accountant, who works for the Ministry of Agriculture and Irrigation (MAI); and the clerk, who used to be the church clerk.

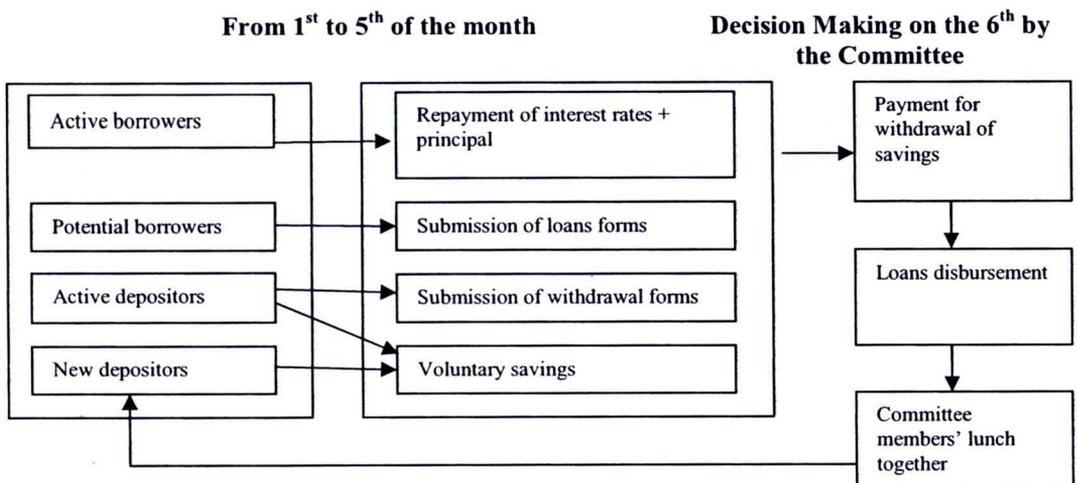
The clerk works from 10 am to 2 pm every weekday, for which she receives a regular salary of \$30.50 per month. The other staff members work from the 1st to the 6th of the month when the credit union collects payment, issues loans, allows withdrawals and makes administrative decisions. As compensation, they receive 40% of the MFI's profits on a semi-annual basis, which amounts to payments of between \$10 and \$30 per month.

The committee members work for one day per month for the disbursement of loans. The committee members, as well as the church pastors and deacons, receive presents every August to mark the anniversary of MRBCCU. The value of each present costs around \$5 and therefore represents a gesture of gratitude to the committee members rather than a financial reward.

4.3 Loan Delivery Process

About 10 to 20 potential borrowers apply for loans each month. It takes about five days to process loans (see figure 4.2).

Figure 4.2 Process of Monthly Loan Disbursement



As figure 4.2 illustrates, active borrowers repay their loans, and active and new depositors provide voluntary savings that contribute to cash supply of MRBCCU. On the other hand, some active depositors submit forms for withdrawal of their savings and potential borrowers submit loans forms. On the sixth of every month, the committee meets for three to five hours to make decisions about loan disbursement based on the amount of money they receive from active borrowers and depositors, and the amount of money that they have to disburse as determined by withdrawal forms. The committee performs this decision-making process in a one-day meeting that lasts between three to five hours.

The criteria for issuing loans to borrowers include the reputation of the applicant, their involvement in church activities, their income, and the declared purpose of the loan. One of the committee members²³ claimed, *“It’s very rare for us to reject loans to applicants because it is a church thing and we don’t want to upset church members.”* He added that *“Some applicants are opportunists ... they ask for loans which are way above their level of income generating activities. We just give them the amount which is less than they ask for, and we apologize²⁴ to those with bad reputations or who are unreliable with money.”*

Although MRBCCU rejects a few people, sometimes, some qualified borrowers must also wait for a month to receive loans because MRBCCU lacks sufficient capital. On the one hand, quick and easy loan procedures facilitate outreach (see chapter IV for details). On the other hand, the committee ends up giving bad loans to those who are already in debt and who lack the ability to generate income contributing to high default rates.

²³ The author’s interview with a committee member, July, 2010.

²⁴ He implies that they reject the loans by using the word “apologize”.

4.4 Accountability

MRBCCU is characterized by low accountability. There is not a clear division of labor among staff and decisions are made jointly. Consequently, nobody is held individually accountable for screening, monitoring, loan applications and pressuring borrowers to repay. Eugene Versluysen (1999) argues that collective decision-making in credit unions “undermines accountability and creates poor governance ... [and] many unions have inadequate accounting and reporting standards” (p. 52). Versluysen argues that many credit unions lack the skills and expertise for ‘proper regulation or supervision’ (Versluysen, 1999: 52).

The lack of incentives and penalties for the staff reduces their motivation to provide the best services to achieve outreach and sustainability. The four MRBCCU paid staff are in principle responsible for pressuring borrowers to repay their loans. However, in practice, the staff do not monitor the use of loans nor do they provide advice to the borrowers. Instead, the staff wait at MFI office for repayments to arrive and visit borrowers only when they default for more than four months and then keep sending reminder letters to defaulters at the beginning of every month.

Some borrowers also lack accountability, as they are “fake borrowers”, meaning that they borrow money, which they pass on to other members or non-members. This arrangement reduces the fake borrower’s sense of responsibility, which they accord to the unofficial borrower.

As a basis aspect of accountability, MRBCCU should maintain a reserve so that they provide withdrawals to depositors and cushion against cash shocks. However, it disburses almost all of its savings, keeping only a few hundred dollars at the office.

Weak accountability hurts not only the credit union but also the borrowers. Fake borrowers get away easily without being held accountable for their acts. Some

borrowers end up taking loans, which they do not know how to use efficiently or productively. This leads to a low repayment rate and scares away potential borrowers resulting in shallow outreach. Poor staff performance is, therefore, partly responsible for the defaulting borrowers and dropouts, who have had a bad experience in using their loans, and who may not borrow again even if they are able to repay their existing debt.

4.5 Transparency and Feedback Mechanisms

Transparency includes openness, disclosure, and clear communication between the credit union, its members, and the church leaders. The MRBCCU is weak in reporting its accounting, performance indicators, and operational expenses to its members and church leaders although staff were willing to share some information with the author about their accounting. They do not share such information with borrowers as a matter of routine.

Some MRBCCU members expressed their dissatisfaction about the criteria for determining loan size, the lack of transparency about how profits are used and staff salaries.²⁵ MRBCCU's lack of transparency has created confusion, misunderstanding, and mistrust.

Feedback mechanisms could help bridge the information and knowledge gap between the MRBCCU and its members. Without two-way communication, the program cannot sustain itself, as members will quit or become indifferent to the MRBCCU. The members are the owners of the MRBCCU and are therefore entitled to have a voice in the operation of the MRBCCU.

²⁵ The church core member who is the group leader and wife of a reverend told the author that church leaders were left out of the MRBCCU's process and procedure such that they do not know what is happening with the program. She also said that some MRBCCU members come and complain to her about the different loan sizes and the opaqueness of the staff's salaries.

The credit union does not have a formal complaint or feedback mechanism for its members although the members can talk informally to one of the paid staff about their concerns. For instance, members can discuss interest rates, loan methodologies, or inconveniences with the staff, who then note advice or complaints and bring them up at the MRBCCU committee meetings. On the anniversary of the MRBCCU, members also have a chance to ask staff questions about institutional performance and to express their concerns. MRBCCU members may also complain directly to church leaders about staff or loan methodologies.

Informal mechanisms, however, marginalize many borrowers who are afraid to state their complaints individually or who prefer to raise their concerns anonymously. Some borrowers, particularly defaulters, do not even dare to go to the MFI office or church, as they feel ashamed and scared.

4.6 Leadership Skills of the MRBCCU Staff

The leader of the MRBCCU has worked for the program since its establishment in 2005. She has provided strong leadership by promoting strict discipline and using innovative and flexible loan methodologies to adjust to changing circumstances and the demands of its members. The leader is aware that the MRBCCU cannot use the exact loan methodology as the Bhamo church or other MFIs because microfinance is sensitive to different contexts and circumstances.

4.7 Five Aspects of Outreach: Worth; Cost, Breath, Gender, Depth

Worth of Outreach to Members

Worth of outreach is a measurement of members' willingness to pay for a service, which is based on the financial contract, and constraints and opportunities (Schreiner, 2002: 592). Worth to members incorporates considerations of the loan size, loan duration, repayment schedule and installment size, and whether it matches

the needs of the borrower (see chapter III for details about loan methodology). As Schreiner points out, measurement of worth to clients is difficult because worth depends on subjective gains and because one cannot predict, “what would have happened in the absence of microfinance” (Schreiner, 2002: 592).

MRBCCU borrowers use their loans²⁶ to expand their microenterprises, to diversify their sources of income, to raise livestock, to trade seasonal fruits, and to smooth consumption, particularly to pay tuition fees for the matriculation exam. Reflecting the worth of loan, a repeat borrower²⁷ said:

An easy loan with very low interest rates helps to solve all kinds of problems. The MRBCCU does not require gold or other things as collateral. I also do not need to feel embarrassed about receiving loans, which preserves my dignity. I get the loan that I need in full.

The worth of the loans to borrowers in terms of the interest rates offered is high, as they pay only 3% interest per month. Informal moneylenders charge borrowers 20% interest per month on loans. The only other available lending service is the quarter-led MFIs that threaten borrowers with property confiscation and law suits if loans are not repaid (see chapter III).

At MRBCCU, the borrowers also have a flexible principal repayment schedule and variable installment sizes so that they can do their income-generating activities more freely. Borrowers also have absolute freedom in using their loans, as the MFI staff and guarantors do not monitor loan use. However, the worth of loans to borrowers decreases if, after the use of the loans, they are unable to repay their loans and have only gained short-term consumption benefits rather than longer-term productive gains (see chapter V).

²⁶ The average loan size is \$300.

²⁷ In an interview with the author in July 2010

The worth of outreach to depositors is that they can earn 2 percent monthly interest rates semi-annually. For church members, the MRBCCU is overall the best option to save their money in terms of interest rates and withdrawal schemes (see chapter III).

Cost of Outreach to Members

Cost of outreach to members includes price costs and transaction costs (Schreiner, 2002:593). Price costs are the fees or the cash that the members pay to the MRBCCU. Such price costs become the revenue for the credit union (Schreiner, 2002: 593). Transaction costs are ‘non-cash opportunity costs’ including costs for transportation, food, taxes, and documents that borrowers spend to receive loans. Borrowers have low price costs and low transaction costs.

The price cost for the MRBCCU membership fee is \$15. The borrowers are required to have compulsory savings with the MRBCCU that are a third to one half of the loan amount. Borrowers fill out a brief one-page application form and then wait for five days to receive their loan. Sometimes, they do not receive the amount they asked for in full and some of them can wait for another month to have the amount in full²⁸ (see chapter IV).

Each borrower needs two guarantors – one MRBCCU member and one family member. The office is located at the church, which is at the centre of the town and close to the areas where most borrowers live. Therefore, whilst there is no financial cost for transportation or food, there is an opportunity cost in the time invested. Borrowers do not have to pay taxes.

²⁸ When MRBCCU does not have enough revenue from repayment or voluntary savings, they cannot disburse loans to every applicant. In this case, the staff ask some of the applicants to wait for a month.

Net gain is defined as the “willingness to pay – the highest cost that a client would agree to bear for a financial contract minus the cost borne” (Schreiner, 2002: 593). Repeat borrowers’ net gain on loans is probably positive, as they continue to demand more loans. Repeat borrowers are more likely to take loans and then return their loans as soon as possible. 30% of MRBCCU’s borrowers are repeat borrowers. These borrowers use their loans to expand their microenterprise and use them productively.

However, the net gain to defaulters who have largely used their loan for short-term consumption is likely to be negative, as the loan is not invested productively. The defaulters who use their loans for their children’s education may have positive net gain in the long term even though they suffer from the debts in the short term (see chapter V). In these cases, the cost of receiving the loans is low but the cost of repaying the loans and the related emotional suffering is high as borrowers do not generate money with the loans. All interviewed defaulters perceive that the cost of their loans was higher than their worth as they felt “*miserable*” about their outstanding debt and inability to escape from their creditors because they participate in church social activities.

Breadth of Outreach

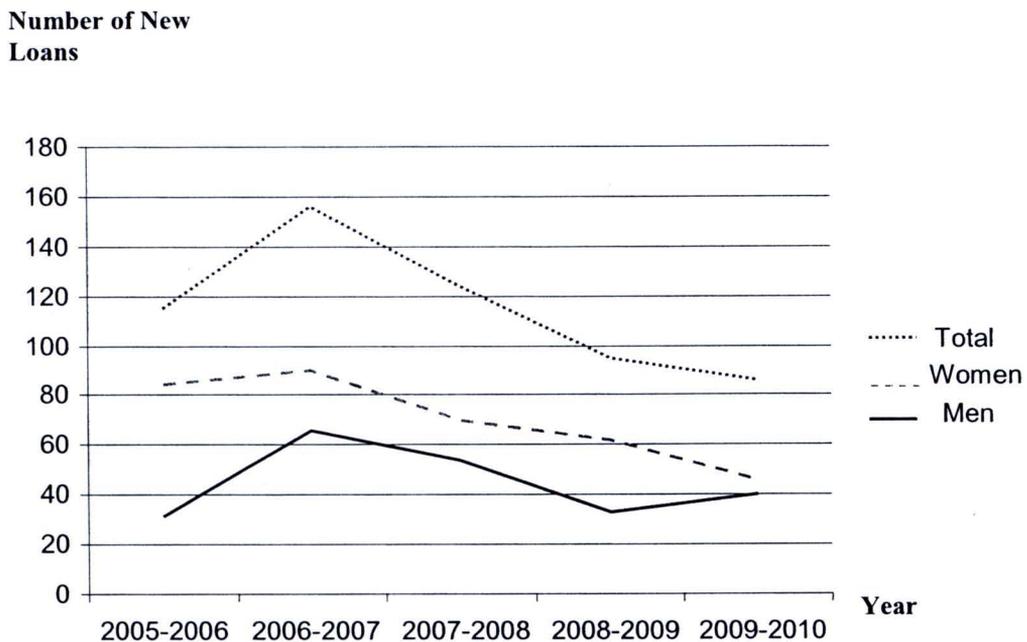
The breadth of MFI outreach refers to the number of the MFI’s members. MRBCCU has 432 members: 240 are borrowers²⁹ and 192 are depositors of voluntary savings. As only one member from each family household is eligible to borrow money, this means that most of the households³⁰ in Mung Rawt are involved in the MRBCCU. Sometimes, borrowers and depositors overlap.

²⁹ This number of borrowers does not indicate, however, that they are all active borrowers. It means that 240 people have borrowing accounts with MRBCCU and have used the loan service at least once. The total number of loans disbursed since 2005 is 576.

³⁰ There are 436 households under church.

It is found that MRBCCU's quick and easy loan procedure resulted in a large number of borrowers (high breadth of outreach) when the MFI was first established, although the number of borrowers has decreased over time (figure 4.3).

Figure 4.3 Trend of the Number of New Loans at MRBCCU³¹



Loans have declined in part because some borrowers have become stuck with their existing loans and are therefore unable to receive new loans. Currently, about 74 borrowers are unable to repay their loans. As only one family member is eligible to receive a loan per household, this means that about 74 households are not allowed to receive new loans at the moment. Furthermore, the MRBCCU is unlikely to disburse new loans to such defaulters and all the interviewed defaulters claim that they will not borrow money again from the MRBCCU as they have already suffered enough.

³¹ The clerk of the MRBCCU provided this data to the author in July, 2010.

Gender

As shown in figure 4.3, women are more likely to be borrowers than men. However, the gap between the number of female and male borrowers is decreasing over time. The reason for this narrowing gap is due to the high defaults by female borrowers and the MRBCCU's regulation that only one family member is allowed to receive loan.

Depth of Outreach

Depth of outreach measures whether a MFI is able to reach the very poor³² or not. The MRBCCU does not achieve a high depth of outreach; whilst it is able to reach “the poor” and “the better off”, it does not reach “the very poor”. Out of the five chosen geographic groups for the research, most family households have access to the MRBCCU services. Only a few poor households lack access to the services. When interviewed, one of the poor non-borrowers said, “*we don't have any basic foundation, so what would we do with the loans with interest rates.*” Although there is no systematic survey on the poverty level of the all church family households, it seems that only a few family households, as few as 10%, are “very poor”.³³

The concept of poverty for borrowers is relative and culturally sensitive. Ten out of the 17 borrowers interviewed identified themselves as “poor”. Most MRBCCU's borrowers are from rural areas and about 70% of the borrowers are poor people who struggle to make ends meet³⁴. Unlike Grameen Bank borrowers, all MRBCCU borrowers own land and a house. They, however, face hardships, when family members become sick and when their children reach tenth standard as boarding schools cost at least \$300 per year in Mung Rawt.

³² 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.

³³ This conclusion is drawn from the author's personal observation.

³⁴ The leader, clerk, and accountant told the author during the interview in July 2010.

Five out of the 17 interviewees lack access to electricity, and live in a small house made of thatch and bamboo. It is hard to measure the income levels of the interviewed borrowers, as they do not have regular incomes. However, most spend about \$100 per month for food.

The borrowers in general tend to raise livestock, particularly pigs, to buffer against shocks and generate income. They are more likely to be vegetables sellers, farmers, and internal migrants who sell goods in gold mines in different parts of Kachin state. Lending to its poor borrowers entails costs to the MRBCCU, as these borrowers are more likely to default³⁵ as they often use their loans to smooth consumption and then try to repay them with irregular income from family members.

The MRBCCU does not reach the very poor as its institutional arrangements do not cater to the needs of the very poor who require very small loans, a frequent weekly repayment schedule, and solidarity grouping for peer pressure to encourage repayment (as was the case with the YMCA MFI loan methodology). The very poor may also not have money available for compulsory savings, and may not feel confident enough to assume loans with interest rates.

4.8 Non-Borrowers: Voluntary or Involuntary Exclusion?

Most non-borrowers are voluntarily excluded. However, very poor non-borrowers are involuntarily excluded as elaborated in section 4.4. Some very poor church members may not be active in the church's activities and thus be unaware of MRBCCU, may also feel less confident to take out the loans, and the staff may not feel comfortable to disburse loans to such people.

³⁵ This observation is based on the field research and interviews with the leader, clerk, deputy leader, and accountant.

Others attach prejudices and stigma to loans and debts or feel embarrassed to be in debt so they voluntarily exclude themselves. Some women came to borrow money from the MRBCCU but their husbands prevented them from borrowing as they did not want to lose face.³⁶

Some middle-class people simply do not need the loans as they already have their own regular incomes. They then become depositors at the MRBCCU. These members tend to be NGOs workers³⁷, government employees, traders, and the sellers who use ROSCAs. One of the NGO workers³⁸ said “*I don’t borrow money from the MRBCCU because I just don’t need money.*”

4.9 Conclusion

The MRBCCU’s shortcomings include the absence of a clear organizational structure, weak accountability, a poor division of labor and a failure to provide incentives and penalties to staff members in order to boost performance. The MRBCCU issues loans in a quick and easy fashion that is often to the detriment of the borrowers as well as the institution’s long-term sustainability.

The performance of the MFI could be improved by strengthening the skills of the staff through intensive trainings and seminars on microfinance. Their commitment and motivation could also be improved through the introduction of incentives schemes for individual good performance. Organizational division of labor, accountability, and transparency should be strengthened. Finally, the MFI staff could devote more of their time and energy to improving the social and economic conditions of borrowers by visiting them often, not just when they default.

³⁶ The leader of the MRBCCU told the author during the interview in July, 2010.

³⁷ Four INGOs in Mung Rawt: Myitta Foundation, Medecins Sans Frontier (MSF), Medecins du Monde (MDM), and YMCA

³⁸ In an interview with the author in July 2010

MRBCCU could adopt a flexible loan methodology that is adapted to different borrowers' needs. It could also apply the YMCA's proven loan application process in order to ensure that borrowers are creditworthy, which would also be to the advantage of the poor and very poor who are at present excluded but who may potentially be considered credit-worthy if more thorough assessment procedures were in place.

In terms of outreach, MRBCCU achieves worth, cost, breadth, and gender in in the short term. However, in the long run, the disbursement of quick and easy loans with no supervision or advice by staff together with the inefficient use of loans did not help borrowers nor the credit union to be sustainable. With only limited provision of services to the very poor, MRBCCU has not achieved deep outreach.