

## CHAPTER V

### IMPACT OF THE LOANS



#### 5.1 Introduction

This chapter assesses loan use and its impact on borrowers. It then analyzes the impacts of loans on the sustainability and outreach of the MRBCCU. It also identifies forms of deception used by borrowers, and discusses the implications of the MRBCCU staffs' negligence over the effective use of loans and lack of provision of advice. The chapter contextualizes the use of loans within Burma's political and economic environment, and sheds light on the role that Kachin cultural values play in determining the forms of income-generating activities pursued through MRBCCU loans.

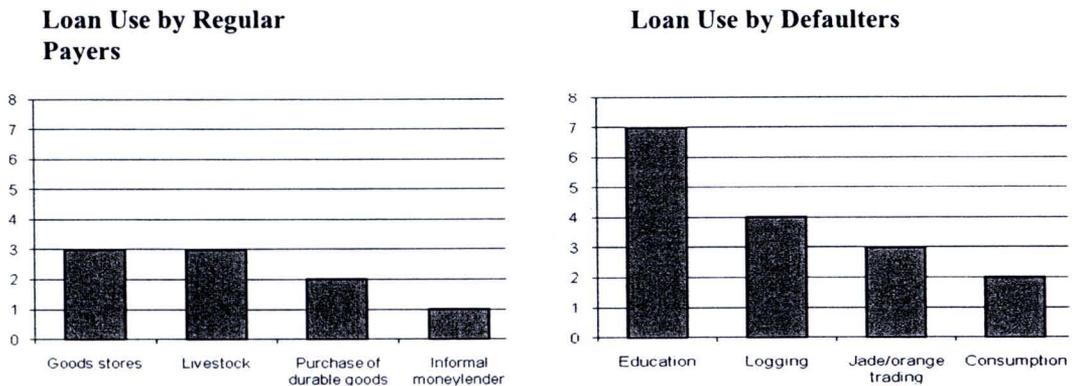
A significant majority of borrowers uses their loans for education, particularly matriculation exam, and then attempt to repay their loans through other sources of incomes. These borrowers are more likely to become dropouts as they often have a poor credit history and have had negative experiences with debt before. The impacts of MRBCCU's loans on borrowers affect the MFI's outreach and threaten its long-term sustainability.

#### 5.2 The Use of MRBCCU Loans among Regular Payers and Defaulters

Regular payers use their loans for income generating activities, such as expanding their microenterprises, trading goods, and raising livestock. Defaulters, on the other hand, use their loans to smooth consumption, including paying for education and medical expenses (see figure 5.1).<sup>1</sup> The MRBCCU leader, accountant, and committee members estimate that about only 30% of the total borrowers use their loans for income generating activities.

As shown in figure 5.1, of the 17 interviewed borrowers<sup>39</sup>, only nine borrowers had been able to repay their loans. This finding is consistent with the MFI staff's perception that about 30% of the borrowers repay their loans regularly.

**Figure 5.1 Use of Loans by Interviewed Regular Payers and Defaulters**



Note: The number in the y-axis indicates the number of borrowers.

### 5.2.1 Use of Loans by Regular Payers and their Impacts

Regular payers or “faithful borrowers” have regular sources of income such as a store, a teaching job, or experiences in making money in the past. Regular payers used their loans to expand their microenterprises, for example to give piano lessons after buying a musical keyboard, or to raise pigs. Their net gain, which is worth minus cost, was higher so they became repeat borrowers (see chapter IV).

Some of these regular payers use their loans to pay the license fee for a three-wheeled taxi. The license costs about \$600, which is one third of the actual price of the car. Without a license, government officials will confiscate the car. Three borrowers became the owners of three-wheeled taxis that operate in towns near China's border after they received a \$1,000 loan from the MRBCCU to buy a taxi. They repay \$100 per month to the MRBCCU. Before accessing the loans, they had to

<sup>39</sup> These 17 borrowers held 25 accounts because some borrowers held more than one account. One interviewee held two accounts while another held five accounts and the other held four accounts.

pay \$100 per month for the rental fees to the owners. Another regular borrower used her loans to pay for her children's matriculation exams, and to buy musical keyboards. She is repaying her loans from teaching others to play keyboard.

### 5.2.2 Use of Loans by Defaulters and Their Impacts

As shown in figure 5.1, defaulters mostly use their loans for forms of consumption, particularly boarding school tuition fees for their children to pass matriculation exams<sup>40</sup>, food, medical expenses<sup>41</sup>, and other social events, including weddings and funerals. They then attempt to repay their loans by raising livestock or remittances, and other casual work. They become stuck with their loans due to monthly interest payments.

As indicated in figure 5.1, some defaulters also use their loans for risky businesses ventures including illegal logging and jade trading, which offer the possibility of high returns, but also require expenditure on bribes. Profiting from illegal logging is like a lottery; if the loggers can successfully transport their logs to China without government confiscation, then they can make tens of thousands of dollars.<sup>42</sup> To do this, loggers pay custom officers substantial bribes to pass through their posts. Jade trading likewise involves bribing custom officers.<sup>43</sup>

Some borrowers seek to deceive the MRBCCU staff. The MRBCCU accountant said that about 50 borrowers have deceived the MFI staff by borrowing money on behalf of other MRBCCU members. Such cases occur due to borrowers' dishonesty and the existence of 'imperfect information,' whereby creditors cannot completely know the motives and circumstances of borrowers. In such cases, the

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<sup>40</sup> These tuition fees for boarding school in Mung Rawt cost from \$300 to \$600. Throughout Burma, the costs vary from \$300 to \$2,000.

<sup>41</sup> The use of loan for emergency health care is included in consumption in figure 6.1.

<sup>42</sup> The author talked to a logger in July 2010.

<sup>43</sup> One of the interviewees told the author that brokers charge \$8 for 1.6 kg of jade to pass to China. Brokers pay money to all custom offices so that they will not check their cars.

MRBCCU staff's effort to pressure the actual loan borrowers is futile because they have not used the loans themselves and so do not consider it to be their responsibility.

A defaulter with five different accounts under MRBCCU used all the money to support her children's education. Her four children have already passed their matriculation exams and are now attending university. Another defaulter with two accounts used her loan for jade trading and lost all her money.

### **5.2.3 Different Characteristics between Regular Payers and Defaulters**

As summarized in table 6.1 below, some common characteristics distinguish regular payers from defaulters. Regular payers have only one source of loans, have regular incomes from other family members, and have already established microenterprises prior to receiving loans. In addition, regular payers use only one account, do not use deceptions to attain additional loans, and often become repeat borrowers.

**Table 5.1 Different Characteristics between Regular Payers and Defaulters**

<b>Characteristics of Regular Payers</b>	<b>Characteristics of defaulters</b>
1) Borrow from only one source.	1) Borrow from multiple sources.
2) Use loans for income generating activities, and have income generating activities prior to borrowing.	2) Use loans for consumption such as food, education, medical expenses and social events, including weddings and funerals.
3) Have regular income from other family members.	3) Have irregular income from family members, or no other income.
4) Are more likely to be repeat borrowers.	4) Are more likely to be long-term defaulters.
5) Use only one account (only one credit book with his or her name).	5) Tend to have more account books (uses other peoples' credit books).

### **5.3 Perceptions and Feelings of the Regular Payers and Defaulters**

Feelings and perceptions about the usefulness of the loans varies significantly among regular payers and defaulters (see Box 6.1).

### Box 5.1 Feelings of Regular Payers and Defaulters

#### Regular Payers

*“I consider this MFI as very useful and good for those who need capital and who have hard lives like us.”*

*“With these loans from the MRBCCU I supported all four of my kids’ boarding school tuition fees and now all of them have passed the matriculation exam. I can also buy more musical keyboards so that I can earn a higher income from teaching children how to play”*

#### Defaulters

*“I feel regretful about the loan and I will never use it again. I feel ashamed, apologetic, and ah na that I don’t even feel like going to church.”*

*“I feel ashamed and do not dare to show my face to the MFI staff. I will definitely repay the loan because I have to see these faces [the MFI staff] from the sun rise. I wish I could even repay now.”*

Regular payers feel grateful to the MRBCCU for low interest rates and the lack of collateral requirements, and the MFI is very useful and convenient. On the other hand, defaulting borrowers feel regretful about the use of the loans and express their sadness and shame, feeling *ah na*<sup>44</sup>, their nightmares and fear of further debt, their feelings of being constrained by the debt, and their decision to not borrow again.

Defaulters are overwhelmed with their debts. They have a strong intention to repay their loans rather than make a “strategic default,” which is when a borrower has an unwillingness to repay their loan despite having the capability to do so (Tedeschi, 2006: 88). Instead, they commit what K.P. Padmanabhan calls “delinquencies”, meaning they delay repayment (Padmanabhan, 1988: 66). In the short term, defaulters or borrowers with delinquencies suffer emotionally. This situation also affects the

<sup>44</sup> A Burmese expression for the feeling in which one is inhibited by consideration for the other and a desire not to bother or trouble them. It is similar to Thai word “*kreng jai*”.

sustainability of the MRBCCU. In other words, the impact of loans really is of critical importance to the sustainability and outreach of the MRBCCU.

### Box 5.2 A Defaulter's Feelings about her Loan

Doi Roi\* is a 51 year old widow whose husband infected her with HIV/AIDS. She borrowed money from the MRBCCU by borrowing \$100 from her neighbor to pay compulsory saving to the MRBCCU. She said, *"I wanted to make the best use of the loan and improve our lives, but ended up in a bad situation."* Her face was pale and wrinkle. It was evening time and getting dark, but she did not want to stop what she was saying, and would not light the candles.

*"I wake up with nightmares because I feel so bad about the debts, I intended to use the loan for my small vegetable trading business, but my husband got very sick and had to be hospitalized. So, I used the loan for the hospital fees and food at home ... as I was not able to trade vegetables any more."* She sat in her wooden chair and let me sit next to her. She used many gestures and often touched her heart when she was talking. She continued, *"I also used nayt pyan toe [informal money lending] to recover from debt, but I couldn't start my vegetable trading again."*

It was the rainy season and there were holes in her thatched roof. She said, *"The roof also needs to be fixed and we had to put some buckets on the floor to catch water when it rains"*. *"I don't know what to say to the MFI staff, but only apologize to them all the time. I receive the reminder letter every month,"* she continued, *"I don't know what else to do because we are struggling here to have enough food and really don't have money to repay the loans yet ... I once went to the MRBCCU office and told them to take my house for my loans, but they refused to take it."* She spoke softly despite her sad feelings and regrets. As she noticed me taking notes in the dark, she asked one of her teenage daughters to light a candle.

Doi Roi recently renounced the Mung Rawt Church and joined another church. The author asked her whether her decision had to do with loans from the MRBCCU. She said, *"It had nothing to do with it. I received much support from the reverends and church members. The senior reverend also talked to me for three days regarding my decision about joining another church."* I asked her which church it was and she took a calendar hanging on the wall and showed it to me. It was Myanmar Philadelphia Pentecostal Church (MPPC). She mentioned that a core church member helped her pawn her house as collateral. She said, *"I heard that some [Mung Rawt] church members spreading rumors that I joined MPPC because of assistance and provision of food. But that is not true...I did receive a lot of support from Mung Rawt church but did not understand more about holy spirits as I do now from MPPC and all my family members like my brother and sister already joined the MPPC, so I needed to join them."* After that, she started talking about her religion and spiritual life by grabbing her bible from the table. She then flipped it over and showed it to me. While she was talking about the religion, her face lightened and looked hopeful. She started to smile a lot and looked happier. She said, *"I am praying a lot for my debts as well and also fast often. Hopefully my brother, who is working at the banana plantation in Shadan Pa at the China border, will be able to help us repay all the loans"*. *"I pray every day and am getting ready to go to heaven someday."*

\*This is a pseudonym.

#### **5.4 Kachin Cultural values**

Kachin attitudes and cultural values toward livelihoods are important as they impact the use of loans. Kachin in Mung Rawt are not interested to sell snacks on the street, work as vendors or trishaw drivers. They see such work as belonging to Burmans or ethnic groups other than the Kachin. They prefer to undertake risky businesses such as jade trading or illegal logging, and long-term investments such as raising pigs, or foraging that does not require any capital, or seasonal work. They trade seasonal economic fruits, such as dog fruits, oranges, and watermelons. This cultural bias leaves the Kachin with a relatively limited number of income-generating opportunities.

#### **5.5 Burma's Political and Economic Circumstances**

Due to the absence of even basic health care and education services, borrowers end up using their loans to cover basic needs. For example, parents have to invest at least \$300 for their children's matriculation exams due to Burma's inefficient public education system. In addition, because of the poor condition of physical infrastructure, transportation and communication is also challenging, meaning that people face structural obstacles to trade and make money.

Kachin state has an abundance of natural resources, such as jade, gold, teak, and fertile land, yet people do not enjoy the full benefits of these resources due to corruption, lack of property rights, and restrictions on freedom of expression and movement (Turnell, 2009: 342). It is well-documented that government officials in Burma are corrupt and expect to receive bribes regularly; For example, people have to pay "tea money" to government officials just to perform their official duties.

The root causes of this economic mismanagement include corruption and bribery, oppression, lack of property rights, lack of political stability, lack of sound

macroeconomic policies, lack of sound investment environment, and the government's reluctance to support development schemes, including MFI schemes (Turnell, 2009). In the case of MRBCCU, borrowers undertake risky business, such as logging and jade trading that involve bribery, corruption, and other uncertainties over which they do not have any control. Ultimately, such an inefficient and corrupt system creates a broken society and a vicious cycle of poverty for the vast majority of the population. This overarching context also inhibits the effective use of MRBCCU loans.

## **5.6 Conclusion**

The findings suggest that borrowers with entrepreneurial skills and high human capital are more likely to use their loans productively for income-generating activities and therefore to enjoy benefit from the loans. Defaulters, on the other hand, end up using their loans to pay for their consumption or to invest in education. Political and economic circumstances in Burma, and Kachin cultural values, can also hinder the effective use of loans.

Defaulters who spend their loan on their children's education do gain long-term benefits, as it increases human capital and the welfare of the family. The short-term impacts of loans on defaulters are, however, emotional suffering as they are embedded in church (see chapter VI). Regular payers, however, who spend their loans strategically and carefully enjoy the most benefits as they enjoy short-term and long-term benefits.

Some bad loans are approved by MRBCCU staff due to "imperfect information," such as borrowers' use of deception to receive loans on behalf of others. This situation, however, is also due to in part the poor institutional staff performance including the poor quality of screening, monitoring, and providing advice to borrowers.

Some borrowers simply lacked skills to make money regardless of their socio-economic status. The only difference is that borrowers with poor innate skills to make money, but with better socio-economic status can repay their loans because they have money available from other sources of regular incomes or family members in case their undertaken business fails.

Whether the impacts of loans are good or bad not only affects the borrowers themselves, but also affects the sustainability and outreach of the MRBCCU. Defaulting borrowers often do not want to receive more loans as they perceive few benefits, thus resulting in a lower level of outreach and sustainability for the MFI. Likewise, MRBCCU will not grant loans to such defaulters. Therefore, the impacts of the loans themselves, MFI sustainability, and MFI outreach reinforce one another and can affect one another either positively or negatively.