

CHAPTER VI

THE ROLE OF CHURCH SOCIAL CAPITAL IN SUSTAINABILITY AND OUTREACH

6.1 Introduction

This study's initial hypothesis about was that the MRBCCU attained a high repayment rate due to high church social capital.⁴⁵ The findings, however, suggest that the MFI actually experiences a low repayment rate as its borrowers use their loans for consumption, education and other activities, which do not immediately generate income. The initial claim by the MRBCCU staff of high repayment rate is misleading because she considered defaults as loans, which have been written off. Only four loans are so classified. By contrast, MRBCCU's data indicates that 74 borrowers are in arrears for more than four months.

Church social capital is created through participation in church activities, information about reputation, trust, and reciprocity. MRBCCU is able to operate without any financial subsidies without collateral requirement and official legal recognition.

Church social capital can facilitate or compromise repayment. MRBCCU staff do not apply strict screening procedures as it may compromise church social capital. Borrowers feel a strong sense of obligation to repay their loans because they want to preserve their social capital with the church, but they also expect the MRBCCU staff to act with "Jesus' love", and be lenient and merciful. Perhaps as a consequence, they tend to repay loans to quarter-led MFIs first.

⁴⁵ As elaborated in section 1.7.4, the author attended all of the church's activities during the one-month field research to better understand church social capital.

6.2 Participation in Church Activities

Congregation's participation in church activities is high. Most borrowers attend Sunday worship services particularly plenary worship service, and other services (see box 6.1). However, the MRBCCU does not provide a social setting for borrowers to gather to share their experience and to do microfinance activities together, in part because it lacks joint-liability contracts through solidarity grouping.

Box 6.1 Church Sunday and Week-day Worship Services

Worship Services

- 1) Men fellowship seminars
- 2) Women fellowship seminars
- 3) Youth fellowship seminars
- 4) Junior church worship service
- 5) Sunday school
- 6) Annual home prayer cells
- 7) Battalion worship service
- 8) Plenary worship service

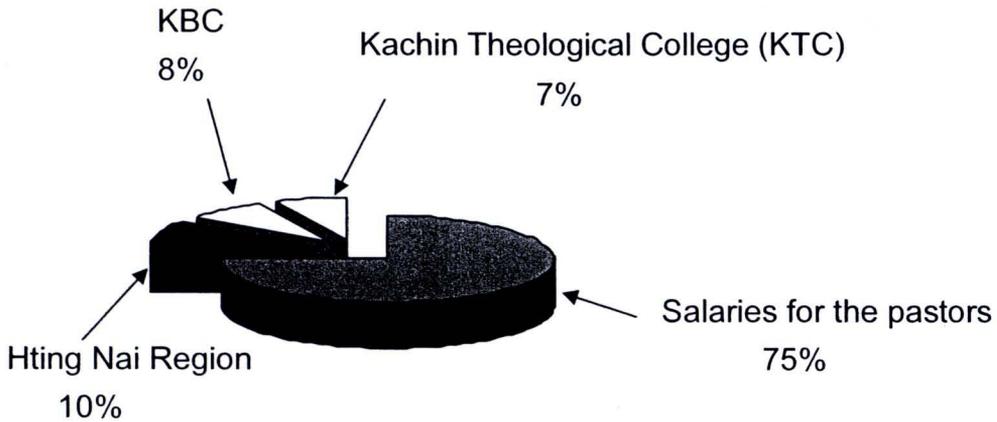
Week-day Church Activities

- 1) Wednesday worship service
- 2) Weekly group prayer cells
- 3) Raining season biblical study
- 4) Dawn prayer*
- 5) Prayer group*

* The church receives offerings from each worship service except dawn prayers and the prayer group.

Every week, the total offerings amount to between \$200 and \$600. The church receives around \$4,000 in total from tithes every month. Some farmers also offer their paddy to the church for tithe. The leader of Hting Nai⁴⁶ Region Development Committee explained the details about the division of tithes (see figure 6.1).

⁴⁶ See figure 3.1 in section 3.2 regarding the structure of the Kachin Baptist Convention (KBC) and how Mung Rawt church is situated therein.

Figure 6.1 Tithes Use

Church pastors, deacons, and group leaders lead other social activities including weddings, funerals, birth certificates ceremonies, birthdays, thanksgivings, anniversaries and memorial services.

Doi Roi, a former church member who renounced the church was socially excluded, as she cannot join the church religious ceremonies and other social ceremonies that involve pastors and church members (see box 5.2). For instance, she did not join many church and social activities, which were held at her neighbors' houses. Consequently, the lack of participation weakened the social ties and bonds between her and other church members. On the other hand, church members build bonding and bridging social capital among them through participation in such events. The frequency and importance of such activities allow the church to gather information about members' reputation, to build trust and foster reciprocity.

6.3 Information about Reputation

Church social and religious activities provide opportunities to assess the reputation of MRBCCU members and the staff. The MRBCCU leader said that

deacons and group leaders act as “detectives” to provide information on trustworthiness and reputation about potential borrowers. MFI committee members also make their lending decisions based on whether potential borrowers are active in church activities or well-known (see chapter IV). However, they do not carry out investigations in depth about the reputation of the potential borrowers, for instance, by visiting their homes or talking to their neighbors. Despite this, one of the MFI committee members claimed, “*Our assessment team has staff who know all church members from the 20 administrative groups and know their characteristics and their attitudes*”⁴⁷.

Church members, including “laymen”, pastors, deacons, and group leaders learn about one another’s reputation through participation in private social activities. For instance, at weekly and annual home prayer cells, the hosts announce information about their family members for prayers. The food that the host household provides reflects the income level, and reveals assets and property. Information about debts also spreads by word of mouth when people gather at church activities.

Such information about reputation becomes an asset for screening and helps pressure defaulters to repay their loans who are worried about their reputations and dignity. However, the MRBCCU does not efficiently use information about reputation because it does not use incentives or penalties for both staff and borrowers.

6.4 Trust

Trust is a crucial element of a successful MFI because borrowers lack credit histories and collateral. This section assesses trust from both members and staff’s perspectives.

⁴⁷ A committee member in conversation with the author in July, 2010

6.4.1 Trust of the MRBCCU Staff towards Borrowers

MRBCCU generally loans money to only church members, as it trusts the church members to repay their loans. MRBCCU places a greater trust in the better off borrowers who have regular incomes and operate microenterprises to whom it tends to provide larger loans while smaller loans of under \$500 are made to the poor and very poor.

MRBCCU's trust towards borrowers has evolved as it has encountered many fake borrowers who borrow money on behalf of others. In these cases, the staff feel cheated by both the official borrowers and the hidden borrowers who use the money under different names. The leader of the MRBCCU labels such borrowers "magicians". The deputy leader of the MRBCCU said, "*the corrupt behavior and injustice of our government permeate even among the Christian believers as these borrowers apply Burmese strategies and Burmese styles*".

6.4.2 Trust of the Borrowers and Depositors towards the MRBCCU

Borrowers prefer the MRBCCU to the quarter-led MFIs because they trust the credit union to have love, mercy, and leniency upon them⁴⁸. In contrast, the quarter-led MFIs use threats. Even when church members end up borrowing money from the quarter-led MFIs, they repay their loan as quickly as possible. The chairman⁴⁹ of the quarter-led MFI said that "*borrowers don't respect the MRBCCU because it is not licensed by the government.*"

⁴⁸ Some of the interviewed borrowers mentioned that they were even afraid to use loans from the quarter-led MFIs.

⁴⁹ The chairman told the author during the interview in July 2010.

Borrowers' trust towards the MRBCCU varies. Repeat borrowers who can repay their loans regularly are able to sustain their trust towards the MFI. However, defaulters tend to complain about the MFI staff and regard the staff as “*creditors who are only into getting their money back from them*”. Lack of transparency about accounting, use of profits, staff salaries, and different loan sizes also weakens some borrowers' trust towards the MRBCCU.

2% additional interest rates on defaulters as fines⁵⁰ weakened their trust in the MRBCCU as borrowers perceived that such punishment makes their lives more difficult and made them stuck in a cycle of debt and that the credit union lacked “*Jesus' love,*” and only focused on regulations and discipline.

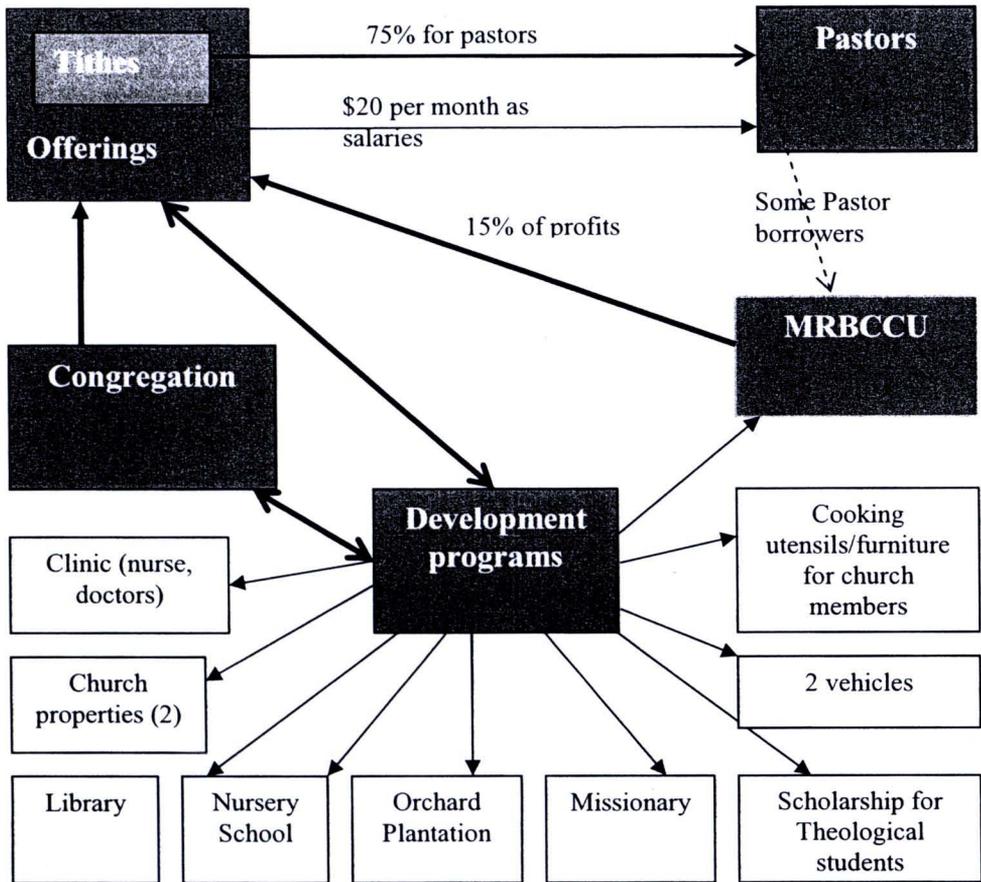
6.5 Reciprocity

The Kachin word that many church leaders and members use during worship services and their informal conversations is “*ap nawng*” which means “serve” or “submit” to the church and God. For instance, a church member is involved in many church activities by providing labor, time, money, and other costs voluntarily and calls such altruistic acts as *ap nawng*. Many church members are willing to *ap nawng* and regard such altruistic acts as valuable and take pride in them. This *ap nawng* is a form of reciprocity between church members and pastors, deacons, and group leaders.

Figure 6.2 shows how the church members and pastors reciprocate one another through *ap nawng* to the church. The former provides offerings, voluntary labor, and other altruistic work for the church while the latter reciprocate such acts through the provisions of religious, social, and economic services for the church members.

⁵⁰ MRBCCU stopped charging fines on late repayments in September 2009 after receiving repeated complaints from MFI members.

Figure 6.2 Reciprocity within Church



This reciprocity within the church reveals that the congregation and the church have a symbiotic relationship, as they depend on one another for their survival and reciprocate one another through church activities.

In addition to providing scholarships to theological students, the church and MRBCCU could provide educational support to church members whose children will take the matriculation exam or attend university by offering scholarship, grants, and low interest loans. Such loans should not have strict loan duration, as borrowers may not be able to repay their loans until their children graduate and earn an income.

6.5.1 Reciprocity of the MRBCCU towards Borrowers

The MRBCCU rewards “faithful borrowers” who repay their loans regularly at its anniversary. Such borrowers are not required to have compulsory savings, which serve a form of collateral.

The MRBCCU, however, punishes defaulters by sending reminder letters to their homes every month. In addition, MRBCCU occasionally requests the church secretary to ask borrowers to repay their loans during the Sunday plenary worship service. The MRBCCU staff sometimes go to delinquent borrowers’ homes to have repayment.

The MRBCCU sets aside 10% of the profits under a “Member Case Fund” to help its members for emergency and disasters cases (see appendix A for details). The MRBCCU gives \$10 to its borrowers, \$5 to its depositors when they face such emergency cases. The MRBCCU also gives 15% of its profits to the church to reciprocate for its support.

6.5.2 Reciprocity of the Borrowers

All borrowers acknowledge that the MRBCCU provides a relatively low interest rate compared to informal moneylenders. Borrowers understand that they are using a pool of money collected from many voluntary depositors and that in return they are supposed to pay interests to depositors. Regarding the defaulters’ intention to repay their loans, a MRBCCU committee member said:

Borrowers repay interest rates or the principal to the MFI not because they are afraid of fines. Borrowers don't repay the loans to the MFI not because they don't want to. Borrowers want to repay their loans so much. After all, they come to the MFI for help in the first place because they trust the MFI

staff and rely on them. But, the MFI staff keep talking about discipline and regulations and totally forget about “Jesus’ love”.

Despite their intention and a strong sense of obligation to repay their loans, some defaulters are unable to do so as they use all their incomes to smooth consumption. However, some defaulters complain that charging interest rates is against the bible’s teachings. In response to such complaints, the senior reverend⁵¹ of the church said, *“other informal lenders charge 20%, but this MRBCCU loans the money with very low interest [3%] with the intention that church members can learn how to manage their money and learn how to save.”*

6.6 Conclusion

Church social capital including trust, reciprocity, participation in church activities, and information about reputation are invaluable assets for the church. However, the role of church social capital in repayment rates and outreach is complex. On the one hand, the church social capital facilitates the MRBCCU to gain depositors’ trust and reach the church members. On the other hand, the church social capital hampers MRBCCU to apply strict disciplines in screening and pressuring. Borrowers also expect “Jesus’ love”, mercy, and leniency from the MRBCCU and thereby pay their loans only after their repayment to quarter-led MFIs. Defaulters’ embeddedness and entrenchment in church religious, social, and economic activities create constant reminders, a strong sense obligation to repay, and guilt about their loans.

⁵¹ The reverend told the author during the conversation in July 2010.