CHAPTER VII

CONCLUSION AND RECOMMENDATIONS

7.1 Conclusion

This thesis assesses MRBCCU in terms of sustainability and outreach to the very poor, examines the role of church social capital in repayment rates and outreach, and discusses the perspectives of borrowers on the benefits of the loans. The MRBCCU achieved operational sustainability because it does not receive any financial subsidies and operates at a profit. However, it is not financially sustainable because of high default rates, poor management, weak organizational structure, inappropriate loan methodology, imperfect information, borrower deception, Kachin cultural values regarding small income-generating activities, and the broader political and economic environment in Burma.

This study finds that there is a trade-off between sustainability and outreach to the poor. MRBCCU does not achieve outreach to the very poor because of costly small loans, risks, and the high compulsory savings requirement that amount to one third to a half of the value of their loans. On the other hand, the current poor borrowers disrupt the operational sustainability of MRBCCU as they tend to be defaulters and do not their loans productively, but rather to smooth consumption. Poor borrowers tend to be indebted to more people than better off borrowers, which leaves them in a debt cycle. In contrast, better off borrowers use their loans productively to expand their microenterprises. However, none of the interviewed borrowers including regular payers and better off borrowers have started their microenterprises with the loans from MRBCCU, but they use the loans to expand their already established microenterprises. These regular payers become repeat borrowers and help sustain the MRBCCU through their regular repayments.

Weak management and the unclear organizational structure of MRBCCU create poor performance on sustainability and outreach. The MRBCCU does not have a clear division of labor, lacks clear accountability or an incentive system for both staff and borrowers, and lack transparency and formal feedback mechanisms. The MRBCCU's loan methodology is also partly responsible for the bad loans and high default rate due to the role of symbolic and perfunctory guarantors who rarely pressure the guarantees as there are no incentives or penalties for them to do so.

The role church social capital in repayment rates and outreach is complex because the church social capital facilitates outreach and hampers repayment rates. Because of church social capital, MRBCCU receives depositors' trust and high voluntary savings from them and reach the borrowers. However, it hampers the MRBCCU to apply strict disciplines in screening and pressuring because the staff do not want to compromise the church social capital and because borrowers also expect "Jesus' love", mercy, and leniency from the MRBCCU staff. Therefore, some borrowers end up paying their loans to quarter-led MFIs first. On the other hand, defaulters' embeddedness and entrenchment in church religious, social, and economic activities create constant reminders about their loans, a strong sense obligation to repay, and guilt about their loans.

In the short term, the MRBCCU has succeeded in four aspects of outreach, namely: worth, cost, breadth, and women's participation. However, it fails to sustain such objectives in the long run because borrowers do not have efficient use of the loans and thereby receive no net gain or positive impacts from the loans due to the lack of advice and support from the MRBCCU, imperfect information, fake borrowers, Kachin cultural values about small income generating activities, and broader macroeconomic and political environment. Defaulters have nightmares and feel 'ashamed', '*ah na*', 'scared', 'apologetic', and express their 'regret' about their loans. All the interviewed defaulting borrowers claim that they will not use the MRBCCU's loans again. Because of this, the MRBCCU fails to achieve worth, cost, breath, and gender in the long term.

Despite its flaws, the MRBCCU provides the best financial services to its church members in Mung Rawt. Borrowers enjoy low interest rates which are a fraction of that charged by informal moneylenders. Unlike other government-led banks and MFIs, MRBCCU does not threaten defaulters with confiscation or prosecution if loans are defaulted. Similarly, depositors receive the best services from MRBCCU as it provides the highest interest rates and offers convenient services including semi-annual interest payments rather than annual ones.

Although some defaulters who use their loans for investment in education feel ashamed and apologetic in the short term, such investment will help increase the human capital of their family members and thereby boost the future welfare of their families. It is significant that local people are capable of running the program without any financial help from international donors, NGOs or the government. In spite of its imperfect strategies and operation, the MRBCCU helps church members by developing human capital and financing micro-enterprises.

7.2 Recommendations

Loan methodology, management, and organizational structure are significant factors to maximize MFI outreach, to ensure effective use of loans by borrowers, and to achieve sustainability for both borrowers and the MRBCCU. An inappropriate loan methodology, including lack of an incentive and penalty system, inappropriate loan sizes, and incorrect selection of flexible versus fixed repayment schedules and individual versus group lending, can all undermine the effective use of the loans, the repayment rates of borrowers, and whether an MFI's outreach is to the very poor or the better off. Strong organizational structure and management, including a clear division of labor, incentive system, accountability, transparency and feedback mechanisms, and leadership skills, is essential to maximize the impacts of loans to borrowers and achieve sustainability and outreach of an MFI.

Although the following section prescribes recommendations to improve the performance of the MRBCCU, the credit union should be sensitive towards the church members, who expect "Jesus' love" and leniency from the church. As the quick and easy loan system is presently embedded in the MRBCCU and is reflected in the expectations of its members, dramatic changes may be counterproductive. Therefore, the MRBCCU should consult with members before it makes significant changes to its loan methodology and should implement changes in a cautious and systematic manner.

7.2.1 Loan Methodology

The MRBCCU should have a clear set of *criteria* for assessing potential borrowers. The criteria should include investigations into the borrowers' background regarding *past work experience* and *other sources of loans*. The YMCA microfinance program used these criteria for assessment to screen the very poor for loans as small as $20.

The credit union should provide *different repayment schedules and installments*, together with *solidarity grouping* where appropriate, based on borrowers' socio-economic status. The YMCA microcredit program provides evidence that such loan methodologies enable the MFI to reach the very poor and attain high repayment rates. Some defaulters may be able to repay their loans on time only with frequent repayment schedules, a fixed installment, and lower compulsory savings requirements. In addition, this arrangement must assess each defaulter individually and continue to provide loans to defaulters who deserve a second chance. In other words, the credit union should seek to *attract some dropout borrowers* through different repayment schedules and installment arrangements. Otherwise, the credit union may dramatically reduce its pool of eligible borrowers.

The MRBCCU should also make effective and *efficient use of guarantors*,. Guarantors must accept a responsibility for the borrowers' repayment of the loan. In order to enforce this, the MRBCCU should adopt an *incentives and penalties system*. Furthermore, guarantors should not be allowed to guarantee more than 2 members, or else the whole purpose of insurance becomes useless.

MRBCCU should consider giving educational loans to borrowers in a manner similar to the Grameen Bank (section 2.8.1). These loans should have lower interest rates and longer duration. Furthermore, the MRBCCU should directly pay the tuition fees in order to avoid fake borrowers or other forms of deception by borrowers. If the loan is for university education or other vocational trainings, the credit union should talk to the students and receive their commitment that they will repay their money when they have income.

Finally, the MRBCCU should maintain a *reserve* of deposits at the office, rather than disbursing all of the MFI's revenues to borrowers. Without such a reserve, the credit union could face instability or bankruptcy if too many depositors want to withdraw their savings simultaneously.

7.2.2 Management and Organizational structure

The credit union should have *a clear organizational structure* to ensure effective decision-making, rather than having the MRBCCU committee do everything as a group. Delineating clear layers within the organization will help define each staff's role, responsibility and, therefore, their *accountability*.

Alongside *accountability* and *a clear division of labor*, an *incentive* system should be set up to boost the staffs' performance; rewards should be given for better performance, but staff should also be more accountable for the bad loans that they make. An incentive system and accountability will help solve the problem of high default rates, as staff will innovate to ensure high repayment.

The credit union should also establish an effective formal *feedback* mechanism as a first step towards improving accountability. The union should also reveal its financial performance, operations, and use of profits to members, thus improving its *transparency*. The current opaque nature of the MFI's operation spurs doubts in members.

In addition, staff should have *more contact* with their borrowers so that the borrowers themselves are held accountable for the use of their loans and do not misuse their loans. The staff should also help the borrowers to *organize informal skill and knowledge-sharing meetings amongst peers and MFI staff* that help promote the effective use of loans and build social capital. In order to do so, the MFI staff should increase the number of days that they work for the MFI, which at present is only a few days per month. Staff should also receive more *training* regarding microfinance so that they can strengthen their skills and hence improve their performance.