

Microfinance Projects for the Poor:
A Case Study of Self-Reliance Groups in Myanmar

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1. Introduction

Over a span of more than 30 years the savings and loan services designed for the poor have improved the living standards of a large portion of the population in underprivileged regions of the world. Microfinance as a service has become particularly popular after Dr. Yunus and his bank, the Grameen Bank, which originally provided microfinance in Bangladesh, won the Nobel Prize in 2006 for their contribution to combating world poverty.

One of the reasons attributed to the success of microfinance is its simple, low-cost methodology for both lenders and borrowers. There are three common characteristics that make microfinance globally effective¹: (1) the loan meeting takes place inside the village; (2) a regular repayment schedule (weekly in most cases); and (3) progressive lending. Meeting in a village as opposed to at a bank's branch helps poor and busy borrowers. The regular repayment schedule helps lenders monitor the borrowers' behavior. In progressive lending, borrowers can borrow large sums of money after a period of successful on-time repayment, therefore, providing an incentive for borrowers to repay loans as per schedule.

While "the-single-size-fits-all methodology," as termed by Yunus (2008) is reasonable in terms of efficiency, it excludes the access to microfinance and its related services to the poorest of the poor. Because the poorest of the poor are often too busy with daily labor, they fall short of the time required to attend regular meetings. They also often find a pre-requisite repayment schedule difficult to follow. To deal with this problem of exclusion, the UNDP (the United Nations Development Program) Myanmar attempted to provide microfinance in an innovative and flexible manner². This new approach by UNDP Myanmar is called the Self-Reliance Group (SRG) approach³. It aims to facilitate the self-help of the poor through lending and borrowing activities and to help them participate in microfinance projects through the adoption of a simple methodology. The SRG approach is based on the idea that the SRG would lead the poorest of the poor move up "the ladder of development" (Sachs 2005).

1 As shown in basic textbooks of Development Economics, lending in this way is known to reduce the screening, monitoring, and enforcement costs (see Armendáriz de Aghion and Morduch 2005, for example).

2 The Grameen Bank also started the new type of loan in a flexible manner called Flexi Loan in 2002.

3 There are many Self-Help groups (SHGs) in India; they were originally organized by NGOs and linked with local banks (see Myrada, 2000 for details). Self-Reliance groups (SRGs) in Myanmar, however, are not connected to banks, but are formed and managed under the Integrated Community Development Program (ICDP) of UNDP Myanmar. The annual budget of ICDP was about 6 million dollars in 2007. For more detail information and results, please see UNDP Myanmar (2010).

This paper identifies how this new SRG approach can achieve the above aim. Using the data set collected during fieldwork in a Myanmar village⁴, this paper illustrates the unique designs of the SRG approach. Focusing on the underprivileged, this approach formulates practical and effective policy implications for the implementation of anti-poverty financial projects in Myanmar and other countries.

Myanmar is one of the poorest countries in Asia. A typical type of microfinance structure is spread throughout its rural areas by an international NGO since 2003. Although this approach resulted in an increase in the number of borrowers, participation of the poorest of the poor is still marginal. To help these people participate in and benefit from simple microfinance projects, a new innovative approach of SRG was introduced by the international donor (for basic information, see Table 1). Under this SRG approach, 10 to 15 villagers form a group called an SRG. In this system, every member of the group can borrow money from the group's loan fund composed of small amounts of members' regular savings, interest, and capital donated by UNDP Myanmar. One of its special characteristics is that the group can determine the loan terms. By doing so, even the poorest of the poor, too busy or poor to follow the typical simple rules of microfinance, can participate in the group and benefit from its lending and borrowing activities. After getting accustomed to financial activities and marginally improving their economic situations, it is expected that these members move on to sign up to a typical simple microfinance project as credible clients and continue to improve their livelihoods.

Table 1 Basic information on NGO's microfinance and SRG activities

Project Classification	Microfinance Project	Microfinance activities of Self-Reliance Groups
Operated by	Pact Myanmar (International NGO)	the Integrated Community Development Program by UNDP Myanmar
Aim for Activities	To improve the living standard of the poor	To support self-reliance of the poorest of the poor
Operation Areas	22 Townships (3,957 villages)	20 Townships
Targeted Clients	The upper middle, middle, lower middle, and poor	The middle, lower middle, and poor
Number of Clients	282,655 households (as Sep 2007)	28,7816 households (as 2007)
Major characteristics of the loan	The loan meeting is held in the village.	The loan meeting is held in the village.
	The bi-weekly installment repayment	The repayment schedule, loan size, and interest rate are given by the group decision.
	The progressive lending	

Source: Author's writing based on field interview, Pact's brief report and documents offered by UNDP Myanmar, UNOPS and SRGs.

4 This work was supported by JSPS KAKENHI Grant Number 2173039. The fieldwork in 2008 was funded by the Matsushita International Fund. To conduct the research, I am grateful to the Department of Agricultural Research (DAR), the Ministry of Agriculture and Irrigation, Myanmar for their cooperation. In particular, I am benefited from support from Daw Khaing Khaing Htwe, assistant research officer and other staff of DAR.

The rest of the paper is organized as follows: Section 2 introduces the survey data. Section 3 reports the methodology of SRG service and discusses the reasons for its effectiveness as well as outlines its unique institutional designs. Section 4 highlights some potential problems of the SRG approach that might inhibit its accessibility to the poor. Section 5 offers policy implications and topics for further discussion and concludes the study.

2. Brief information on the field survey

This paper uses data generated during the author's fieldwork in the Dry Zone, a poverty-struck area⁵. The fieldwork was conducted at Chaung U (CHU) Township, Sagain Division in January, 2008 and August, 2009 (see the map in Figure 1). A household survey was conducted by author in the Burmese language with administrative support from the Department of Agricultural Research at the Ministry of Agriculture and Irrigation. One village among five survey areas was chosen and studied where SRGs were operational. Every one of the 51 households responded to the survey.



Fig. 1 Map of Myanmar

Members of households were interviewed orally, using a semi-structured questionnaire that covered a number of issues, including 1) general information on family members and assets; 2) detailed expenditures on farming, stockbreeding, and self-employed business by crop, livestock, and product; 3) sales income by crop and product; 4) monthly income from other sources; 5) expenditures on consumption; and 6) details of financial activities such as terms and conditions of loans. With reference to data on production and consumption, we asked not only *at what price* but also *in which month and the exact amounts* of goods purchased, produced, and sold during 2006 and 2007 in order to arrive at figures that were as accurate as possible for monthly cash flows of sample households during the period under study. The operational and managerial data were collected through author's interviews at the Yangon head office and the township offices of UNDP Myanmar, the Yangon office of UNOPS (United Nations Office for Project Services), the township branch office of a state-owned bank, Myanmar Agricultural Development Bank (MADB), and the field office of an international NGO, Pact Myanmar. In addition, private unauthorized pawnshops, shops for

5 For the poverty situation in Myanmar, see Dolly Kyaw (2007), Sanyu consultants (2007), IHLCA Project Technical Unit (2011) and UNDP *et al.* (2007).

farm inputs, and wholesalers for various farm products were interviewed to verify some of the findings of the village survey.

Table 2 gives a brief summary of the findings of the surveyed village and households. Because the surveyed village is one of the poorest in the township, more than half of the households (26 households) have no land rights and work as daily-wage laborers on farms and in small livestock breeding businesses, in most cases raising only several piglets. The average of annual household income among the 51 households is 582,663 kyats or \$US485. Income per household is generated through net profits from crop production, net wages earned, net profits from trading, self-employment, business activities, and rent⁶.

As shown in Table 3, 36 among 51 households in the village participate in SRG activities as members. In 2007, average SRG loans amounted to 226,734 kyats or \$US18. In addition, around one-third of the households surveyed were involved in usurious credit contracts wherein a farmer received money before harvest and paid it back in kind after harvest. These deals are called inter-linkage deals (see Ray, 1998), wherein a farmer receives farm inputs first (pesticides or chemical fertilizer, in most cases) and later after harvest repays his loan with the monthly interest of around 7% to 10%. In addition, there are villagers who borrow from usurious sources such as unauthorized moneylenders and private pawnshops. We will discuss a case of the highly-indebted household in Section 4. Field observations and detailed transaction data indicate that transfer among relatives or neighbors in the form of meals or food was uncommon in the surveyed areas.

Table 2 Basic information on the surveyed village

(1) Population					
Population	Number of households	Number of SRG members			
221	51	36			
(2) Farmland holding					
Number of households by farmland size					
2 acre and less	2-4 acre	4-8 acre	8-16 acre	Number of households with farmland	Number of households without farmland
19	1	4	1	25	26
(3) Occupation					
Number of households by occupation					
Agriculture	Breeding	Self-employed (Trading)	Agricultural labor	Non-agricultural labor	Total
27	11	1	12	0	51
(4) Household income					
Household average income by occupation (kyat)					
Agriculture	Breeding	Self-employed (Trading)	Agricultural labor	Non-agricultural labor	Average of household total income (kyat)
301,385	24,151	108,157	90,569	58,402	582,663

Source: Author's field survey.

6 It is different from the term *Household Revenue* that of comprises gross profits and wages earned. These definitions are identical to those of Amin *et al.* (2003). The annual inflation rate during the period is assumed to be 14% based on ADB (2007). The effective exchange rate is calculated as one US dollar equals 1200 kyats.

Table 3 Self-Reliance Groups in the surveyed areas

Basic information		
Number of village tracts	26	
Number of villages	71	
Number of SRG-operated villages	6	
% of SRG-operated villages	8.5%	
SRG activities in 2007		
	Chaung U Township	Surveyed village
Number of SRGs	16	3
Number of SRG members	179	36
Total amount of loans (kyat)	37,117,394	8,162,434
per member	207,360	226,734
Total amount of savings (kyat)	2,488,300	480,900
per member	13,901	13,358

Source: Author's field survey.

3. Loan terms based on group decisions to include the poorest of the poor

One of the most unique features of the SRG approach is that it makes loans to individual members based on group decisions. Loan terms on the basis of group decisions could be flexible, and in most cases, reflect the needs of group members, and reduce membership barriers⁷. Group decisions result from member discussions at meetings usually held four times in a month, that is, nearly weekly, in the surveyed areas. According to interviews with members gathered at a meeting, loans are given on priority basis to those in greatest need. The final decision is taken based on majority in favor of the decision in a group.

The characteristics of SRGs as well as microfinance by NGOs are summarized in Table 1. As shown in the table, the target beneficiaries of both SRG and NGO microfinance are those households categorized as being not rich. To categorize every household into five classes, the Wealth Ranking method is used. In principle, every household in a village is classified into one of the following five classes: 1) the rich; 2) the upper middle class; 3) the middle class; 4) the lower middle class; or 5) the poor. Encouraged by the local staff of UNDP Myanmar, this classification is set and conducted by villagers themselves on the basis of socio-economic conditions of each household at the beginning of the project. When this is accomplished, an adult woman belonging to one of the three lower classes — the middle, the lower middle, or the poor — may join an SRG. It is mandated that a Pact member should be an adult woman

7 The amount and frequency of savings and rules of withdrawing are set by group decisions reflecting the fund management conditions. Based on the growing confidence in the savings capacity of each member, weekly savings amounts were upgraded from 100 kyats at the beginning to 200 kyats in an SRG in the surveyed village. It was observed in the surveyed areas that if a member needed to make a withdrawal she was allowed to do so at a meeting under the agreement of other members.

categorized as upper middle, middle, lower middle class, or poor.

Due to this careful classification set by villagers, with a help of UNDP Myanmar, all SRG members in the surveyed village were classified as very poor indeed⁸. In addition, field interviews with the branch manager of the NGO ascertained that every SRG-operated village was a poor community wherein the NGO's microfinance program could not operate due to the extremely low living standards and poor educational status of residents. As a result, some people in SRG-operated villages did not meet the criteria required to participate in the NGO's microfinance project and were excluded from it.

To discuss why the SRG approach was successful in accomplishing its target, this paper focuses on the unique institutional designs that are different from the single-size-fits-all methodology of microfinance. As previously mentioned in this paper, the typical simple methodology partly prevents participation of the poorest of the poor. The methodology is commonly characterized into three: the loan meeting inside a village followed by the regular frequent repayment schedule (weekly in most cases); and progressive lending.

First, just like the typical microfinance project, SRG loans can be received and paid back at a village meeting so that members can frequently attend the meeting with little effort. Second, with reference to the repayment schedule, most SRG loans mandate one-time payments. Installment payments do not always suit rural residents, due to seasonal income fluctuations among farmers and farm laborers in most of the surveyed areas⁹. During the interviews, some residents noted that they feared they might be unable to make frequent payments, characterized as being one of the biggest reasons why they hesitated to borrow from an NGO's microfinance project that required payment every fortnight. Finally, with reference to loan size, the size of SRG loans are based on group decisions. Interestingly, one of our field findings concluded that even if a member happened to fail to make a scheduled repayment due to a poor harvest under unfavorable weather conditions, the rest of the members could discuss and decide how to deal with this delayed payment. In the surveyed village where three SRGs operated, there were various dealings including a case where the failed member initially paid back the principal and the interest was to be collected 6 months later. In another case, only part of the principal was first paid and the rest of principal, interest, and penalty fees were to be collected 6 months later.

In addition, the monthly interest rate of SRG loans is flexible, ranging from 2.00% to 5.00%, set depending on group decisions and varies among groups. Because of UNDP Myanmar's awareness program, SRG members are now generally aware of the fact that income from the loan interest contributes to the group's loan funds, therefore, making SRG members more receptive to relatively high interest rates and willingly choosing to set it higher in order to increase the fund for their future loans. These high interest rates suggest a strong demand for future borrowing and the growing sense of self-discipline among SRG members.

As shown above, the SRG approach can be characterized by the group-decision-based loan

8 For numerical estimates on the characteristics of SRG members, see Kaino (2008).

9 As Khandker (2012) shows, the income and consumption seasonality is generally severe in very poor regions.

terms, however, group decisions do not work well without majority of its group members being present. In this regard, UNDP Myanmar promotes capacity building of SRGs by providing appropriate support at township-level offices, especially to field staff, also called Community Development Facilitators (CDFs). According to field interviews, one CDF is in charge of nine villages. The field staff visits the surveyed village to monitor and give daily advice to SRG members more than once or twice a week. CDFs regularly facilitate Wealth Ranking in the villages in order to record changes in the economic status of members and their households. Support from CDFs facilitates the smooth operation of SRG activities. For example, every SRG is managed by a democratically chosen leader. The leader must be changed regularly. SRGs are composed of a leader; two accountants; one key-keeper, who keeps the key of the safe; one safe-keeper; and general members¹⁰. In order to ensure discipline, smooth operation, and management of an SRG, a penalty rule is set for latecomers of loan meetings in the surveyed village. Meetings are held at the pagoda or house of the group leader. A member more than 30 minutes late or absent for a meeting without reporting, has to pay a penalty charge of 500 kyats (however, no member has ever been late or absent without reporting)¹¹.

Therefore, the SRG approach clearly enables participation of the poorest of the poor, who have previously hesitated or been unable to follow the typical simple rules of microfinance. One of the most important characteristics of SRG activities is the group-decision-based loan terms with an appropriate capacity for groups and individuals.

4. Limits of the SRG approach

As shown in Figure 2, careful field observations and detailed transaction data suggest that SRG loans are used for various purposes, mainly for investment and working capital for raising piglets and farming. The loans are also used for working capital of small business, roof renovation, food consumption during the slack season, and school fee payments.

However, as Collins *et al.* (2009) summarize, the poor, in general, need money for dealing with risks of interruption in income

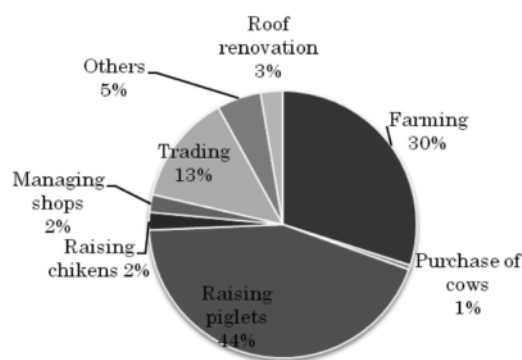


Fig. 2 Loan Usages in 2007

Note: A total of 187 dealings among 36 households.

Source: Author's field survey.

10 Savings are deposited to an account of a state-owned bank (Myanmar Economic Bank). The account is opened and signed by a UNDP official. In the surveyed village, several members receive the authorized signature after which funds can be withdrawn from the bank counter more than once a month.

11 In addition to the fact that an SRG approach is successful for serving the poor in the surveyed areas, no repayment problem has so far been revealed. The group lending scheme seemed to mitigate enforcement and informational problems.

as well as money for managing daily basic activities. These risks include ill-health of a family member, or in some cases, even the risk of death because of the lack of formal insurance systems in poor developing countries.

In the surveyed village, ten among 51 households paid medical expenditures of more than 100,000 kyats (\$US83) in 2007. One of these households included an SRG member, who probably used the lump sum of money for an operation in July and for expensive medicines in November. Table 4 shows the loan dealings of this member during 2007. As the annual income of the household was 459,139 kyats, the loan amount — a total of 805,000 kyats — clearly exceeded the household's capacity to repay it. As a result, the member sought a loan from usurious money-lenders, with a monthly interest rate of 10%. On the other hand, providing an SRG loan in this case would have resulted in default and a decrease the overall value of the SRG fund. The interview with the member revealed that she did not ask for an SRG loan for the purpose of medical expenditures because she did not want to cause inconvenience to other members.

This case revealed a critical limitation of the SRG system based on group decisions. While the system is good for managing basics, it is inappropriate when dealing with risks that potentially require the repayment of a lump sum of money and jeopardize group fund development. Since the need to deal with risks, in particular, risks to the livelihood, is a serious consideration in the lives of the poor, other approaches apart from the SRG approach should be developed.

Table 4 Case of loan dealings during 2007 (a case of the highly-indebted household)

	When to borrow	When to repay	Loan source	Loan usage	Loan amount (kyat)	Monthly interest rate	Collateral or guarantee
①	February	Not determined	money lender	medical expenditure	300,000	10%	none
②	April	August	SRG	farm expenditure	15,000	3 %	none
③	July	Not determined	money lender	medical expenditure	100,000	10%	a guarantee
④	August	December	SRG	farm expenditure	79,000	3 %	none
⑤	November	Not determined	money lender	medical expenditure	150,000	10%	a guarantee
⑥	November	Next February	shop	farm expenditure	100,000	7 %	none
⑦	December	Next April	SRG	farm expenditure	61,000	3 %	none

Source: Author's field survey.

Although the above discussion focuses on the institutional designs of an SRG approach, we cannot overlook the existence of a favorable environment that promotes the participation of the poor and mitigates risks of lending to them. As previously mentioned, SRG villages have been marginalized by the typical simple microfinance project operated by an NGO. Because of no other credit source other than usurious lenders, it is reasonable for people in villages to participate in SRG activities. In fact, in the surveyed village, SRG members are sincerely pleased to have access to financial activities through SRGs.

Moreover, in the surveyed areas, UNDP Myanmar provides some forms of aid, as well as support toward SRG activities. These activities include sanitation improvement and supplies in kind. The process of SRG activities might also raise a sense of self-reliance in each member and reliance between local staff (CDFs) and SRG members.

5. Conclusion

This study attempted to present the potential for reaching the poor through microfinance. It is generally difficult to include the rural poor in credit programs and serve them efficiently. This difficulty is partly due to the nature of product designs of typical microfinance programs, which promote the efficiency of delivery of financial services, but limit the outreach to the poor. The SRG approach in rural Myanmar is an emerging case that promotes outreach to the underprivileged in an innovative and flexible manner. Using the detailed data, this paper shows that loan terms based on group decisions were effective in promoting outreach even in poor rural areas. Appropriate incentives provided to the donor agency's local-level staff also helped build capacity of SRG groups.

However, this paper also indicated that under the loan terms based on group decisions, access to members in need of lump sum of money could be limited even under emergency cases of critical illness that could result in death. Moreover, SRGs have been operational under a specific environment that promotes successful investment and cohesion among group members. Therefore, we should be careful when drawing blueprints for SRG activities and not be overly optimistic for the continuity of donor's assistance; it is still unclear as to whether the SRG approach successfully helps the poorest of the poor meet the criteria to become a member of the typical simple microfinance project and continue to improve their livelihoods. In order to identify how to include the poorest of the poor in a financial service and to help them move up the ladder of development, case studies covering various innovative approaches as well as SRGs in Myanmar should to be conducted.

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