YANGON UNIVERSITY OF ECONOMICS

DEPARTMENT OF COMMERCE

MASTER OF BANKING AND FINANCE PROGRAMME

EVALUATING THE EFFECTIVENESS OF LOAN RECOVERY STRATEGIES IN MYANMAR MICROFINANCE INSTITUTIONS: A CASE STUDY OF PROXIMITY FINANCE

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(EMBF - 6th BATCH)

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EVALUATING THE EFFECTIVENESS OF LOAN RECOVERY STRATEGIES IN MYANMAR MICROFINANCE INSTITUTIONS: A CASE STUDY OF PROXIMITY FINANCE

A thesis submitted in partial fulfillment of the requirements for the Master of Banking and Finance (EMBF) Degree

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ABSTRACT

This study has analyzed the determinant of loan delinquency / default in microfinance institution in Myanmar and how the loan recovery strategies are effective in Proximity Finance, Myanmar. For this study, descriptive survey design and random sampling technique were used to select sixty customers and one hundred employees from Proximity Finance. Questionnaire was used to collect and analyze data of the study. This study found that the main factors of loan default in Myanmar are inadequate loan size, loan duration, payment schedule, overlapping loans and poor customer communication. The result of employee survey showed that most of their strategies and practices used in Proximity Finance are aligned with standard and best practices specified across the world. And all the common factors of loan default were already covered in his practices, strategies and some are in migration plan. Credit appraisal evaluation process and practices were found very operative and use the joint liability methodology for ensuring the loan repayment. Pre and Post regular monitoring and loan supervision are well performed. Polices, processes and procedures are documented, updated and are regularly reviewed. Therefore, the research can evaluate that the overall performance of organization is pretty good. If organization enhances some of the areas recommended by researcher, the current livelihood of loan default rate will be declined, and the organization will exceed good performance rating and the sustainability thresholds.

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List of Abbreviations

GDP	-	Gross Domestic Product
INGO	-	International Non-Profit Organization
MFI	-	Microfinance Institutions
MMFA	-	Myanmar Microfinance Association
NGO	-	Non-Profit Organization
PD	-	Proximity Designs
PF	-	Proximity Finance
SME	-	Small and Medium-Sized Enterprises
UNDP	-	United Nations Development Programme

CHAPTER 1

INTRODUCTION

Microfinance is broadly turned into a key development tool for poverty decrease in many areas of the world by providing financial services to people with small and low-income who do not usually have the access of these financial services from official or traditional financial institutions. Microfinance institutions (MFIs) target the poor through innovative approaches included group loans, individual loans, progressive loans, regular repayment schedules, and collateral replacements and give the opportunities in gaining access to usefully large sums of money needed to overcome poverty and become self-sufficient for various purposes.

Ferdinand Bada (2018) states that the Republic of the Union of Myanmar is one of the poorest countries in Asia with an estimated GDP per capita of USD 6,285 in Nov 2018 and the population is over 54 million in 2019 (United Nations, 2019). Agriculture and farming hires 60 percent of the population and contributes nearly 30 percent of the overall GDP, but insufficient access to credit in rural communities continues to restrict the division's development. The rural population areas are always the last market to be obliged by the formal banks because their requested loan sizes are small, and they are difficult to influence to banks. Most of farmers from rural areas do not have access to the investment they needed to finance in their agricultural business. Without traditional financial services, borrowers in these regions are often forced to accept and give the high interest rates from the pawn or informal lenders their lands and other properties for investment.

Eric, Paul, Ren, and Yan Chen (2013) describes that to reduce poverty and solve those above difficulties in Myanmar, UNDP’s Human Development Initiative firstly introduced microfinance to Myanmar in 1997. Microcredit provided the solution for these problems facing in rural areas by offering the small loan and financial services and tailoring to their needs at a cost affordable to customers and sustainable for the providers. The Myanmar government issued the new Microfinance Business Law in November 2011, outlining the framework for the operations of microfinance activities, flooring the way for development and extension of microfinance services by letting local and foreign companies and investors to establish exclusively privately-owned MFIs within Myanmar. After new business law came out, microfinancing has grown rapidly in Myanmar and has achieved the remarkable success with the growing number of customers and multiple MFIs gradually. As of April 2019, there are 180 microfinance institutions which are three INGOs, sixteen NGOs, forty-seven foreign financial institutions, one hundred and ten local, and five partnership. They are serving 3.414 million clients and a total loan portfolio of K350 billion, according to the Myanmar Microfinance Association (MMFA) (Thiha Ko Ko, 2019).

Despite its remarkable benefits for customers and achievements of MFIs, there are remained several weakness and challenges in strategies and operation techniques of MFIs required to be improved to have the stability of operation implementation and to ensure its continuous development of products and services. Poor loan repayment is also the primary challenge to the survival and growth of MFIs worldwide (Guha & Chowdhury, 2013). Some MFIs failed to achieve MFI sustainability because the loan default rate exceeded the sustainability thresholds. Initially, MFIs would experience growth because of direct donor funding or national governments' subsidy (Alliance for Financial Inclusion, 2014). But eventually, the growth is declined, and MFI has also kept the cost of credit high when the external funding is stopped. As the result, borrowers do not repay their loans.

In Myanmar, some of MFIs declined because borrowers do not repay their loans, loan officers lacked skills to identify and isolate potential loan defaulters from good borrowers. There are the many challenges facing in Myanmar MFIs which are insufficient donor funding, lacking support from government, improper regulations, restricted management capacity and loan defaults. Among those difficulties and challenges, loan delinquency and default are one of the leading causes of Myanmar MFI failures.

That is the one of the reasons why commercial banks have not been interested in financing micro, Small and Medium Enterprise (SME). MFIs use the various strategies and operation techniques to reduce the risks involved in unsecured lending and to achieve healthy, sustainable growth, MFI must have a strong and best practices collection plan strategies and must implement before launching a new program or product. These best practices can come into perform well before the loan is delinquent to create the proactive strategies to decrease the occurrence of overdue and loan default.

1.1 Rationale of the Study

To improve the access of appropriate and affordable financial services for the poor and unbanked people in Myanmar, urban areas like Yangon, Mandalay, Bago and Ayeyarwady have many MFIs. On the other hand, because of the easy access to funds from different MFIs, many individual borrowers lean towards to borrow beyond their capacity in order to repay the loans and it is difficult to prevent currently by MFIs in Myanmar. Furthermore, over indebtedness of borrowers and multiple loans are currently not monitored in Myanmar, potentially leading to miserable consequences. There is no credit bureau among MFIs so MFIs could see whether a borrower has outstanding loans. New government regulations are required to mitigate against overlapping loans, for the safety of both the borrowers and the MFIs.

Like any other industry, microfinance is faced with financial, credit, market, operational, compliance and strategic risks and challenges. The specific business problem is that some MFI leaders lacked or poor strategies to reduce loan default in the financial market, poor governance which leads to the improper implementation of polices and inappropriate business strategies and portfolios, failure of functioning a loan process, mismanagement by staff, lack of credit officers' skills and competencies, frauds by staff and client, higher interest rate.

The consequences of those difficulties have resulted in relatively low performance, slow rate of sustainability growth and has high default rate. If most microloans are unsecured, delinquency/default can quickly spread from handful of loans to a significant impacted portion of the portfolio of MFIs and will largely impact to the sustainability of MFIs in long term. Therefore, lately, financial sustainability become priority and MFIs emphasis on the repayment of loans and need to have innovative risk management strategies.

Effective and efficient loan default and recovery management, the credit functions and collection methods are the key fundamental to MFI's sustainability. As credit officers are the key factors in achieving higher loan repayment performances of an MFI, credit officers’ capacities and skills must be developed. Therefore, this research is prompted to carry out the investigation how current practices strategies in one of Myanmar MFIs can effectively manage default risk and recovery from the current challenges and incidences of default risk faced in MFIs so that the more people including both borrowers and creditors can get the benefits from microfinance facilities. Moreover, the research will evaluate the best practices adoption of one of Myanmar MFIs using the international best practices collection strategies (ACCION, 2008) and suggest the required enhancements of strategies to take into their implementation.

Myanmar’s economy depends on agriculture largely. Agriculture contributes 30 percent to Myanmar’s GDP, 25 percent of the country’s exports and is the largest employer in the country. It employs 60 percent of workforces. More than 60 different crop varieties are cultivated on 12.8 million hectares in Myanmar and it is equal to 1 percent of Myanmar's total land weight. (European Union, 2019).

That’s why among 16 NGOs in Myanmar, the NGO Proximity Designs is selected as a case study to examine for this research because it operates the largest agricultural services platform in Myanmar and is also an innovated provider of irrigation equipment, advice to farmers and infrastructure support. In 2008, NGO Proximity Designs sets up a business unit, Proximity Finance, to act as a financial service provider that reaches out to people in rural areas of Myanmar. Proximity Designs has been an Oikocredit partner since 2018 (Proximity Designs, 2019). Being part of the NGO enables Proximity Finance to tap into the extensive distribution network of Proximity Designs. Their network of branches in strategic locations covers 80% of the rural sector in the delta, dry zone, southern Shan state where most of the country’s agricultural production takes place.

Proximity Finance is now one of Myanmar’s biggest MFIs with more than 100,000 end customers in 2000 villages, primarily in farming and a portfolio of over $20 million. The percentage of rural client is 92% of total clients and 66% of total customers is female (Proximity Finance, 2019). It aims to support a personalized low interest rate loans offers to meet their requirement or needs. Most Proximity Finance clients need capital to purchase new equipment or buy agricultural inputs. The company's provides crop loans which is the most popular product, livestock loans, migration loans, enterprise loans and life insurance. The organization follows a philosophy of group lending methodology, creating Small Lending Groups (SLG) of four to eight borrowers who co-guarantee each other’s loans.

Findings of this study may contribute to the positive social changes to both borrowers and creditors because reducing loan default and increase loan recovery may generate profits that MFI leaders may reinvest to enhance better MFI products and services using best practices and strategies. The improved products and better services could lead to the creation of job employment for more people from different regions in the MFIs. More jobs opportunities may lead to an upgrade quality of life among the employees and their families because employees would earn salaries to use for their needs.

1.2 Objectives of the Study

There are two main objectives of this paper:

1) To identify the determinants of loan default/delinquency in Myanmar
2) To explore the existing strategies of loan recovery in Proximity Finance and evaluate the effectiveness of loan recovery strategies of Proximity Finance.

1.3 Scope and Method of the Study

The study is a descriptive method assessing the determinants of loan defaults and strategies for loan recovery. Both primary and secondary data will be collected for this research. Data collection period will be in December 2019. Therefore, this study is a population study covering all the employees and management team. Both quantitative and qualitative data collection methods will be used in this study.

As such, the first part of this study will be assessing the determinants of loan defaults in Myanmar and minimizing loan default and loan recovery strategies used in Proximity Finance. The first of survey is to assess the customer for the determinants of loan delinquency and defaults in Myanmar. Sixty customers from South Dagon and MhawBi regions of Yangon Division are randomly selected to answer the survey.

The second part is to assess the reducing the loan default and loan recovery strategies used in Proximity Finance. The company has 18 branches operated by 370 employees throughout the country. For the quantitative study, the study will cover 100 employees from different branches of Proximity Finance Myanmar who are randomly selected, and they Credit Officer (40), Credit Analyst(15), Credit Monitoring Manager (5) , Quality Analyst(5), Branch Manager(15), Operation Manager(5), Relationship Manager(4), Digital Manager (3), IT Executives(3), Audit Manager (3). Structured survey questionnaires will be used as data collection tool for the quantitative data collection method. Items are measured on five-point Likert Scale and they are

1(Strongly Disagree), 2 (Disagree), 3 (Neither Agree nor Disagree), 4 (Agree), and 5 (Strong Agree).

Secondary data will be obtained through journals, articles, relevant text books, survey reports, companies annual reports, previous research papers and other relevant literatures. Quantitative data will be entered, coded and analyzed with SPSS software and data analysis used descriptive statistical tools such as mean, frequency distribution and percentages.

1.4 Organization of the Study

Five major chapters of this study have been organized as below. The first chapter consists of the introduction parts covering the rationale of the study, the objectives of the study, the scope and methods of the study and the organization of the study. The second chapter describes the theoretical literature review covering in default/delinquency in microfinance institutions, strategies of controlling loan default and payment recovery. Next, the third chapter is the overview of NGO Proximity Designs and how it currently operates by improving rural livelihoods in Myanmar through suitable and affordable financial services with the named of Proximity Finance. Additionally, the current strategies of controlling loan default and payment recovery used by Proximity Finance Myanmar is illustrated in detail. The fourth chapter highlights the research approach, survey design, target population, demographic profile of respondents and data collection procedure of the study in the case of how loans are effectively recovered with existing practices at Proximity Finance. The fifth chapter concludes with summary, conclusions of findings, recommendations of the study and need for further research if required. Finally, the list of references and appendixes of questionnaires are attached at the end of this paper.

CHAPTER 2

THEORITICAL BACKGROUND

This chapter presents the theoretical background regarding overview of microfinance, the impact of its long-term stability and the causes of loan delinquency, loan default. It intends to cover theory of how to control loan default and use the effective strategies of loan delinquency and loan default in MFIs all over the world including group lending or joint liability. It also focuses to present the best practices of loan collection recovery strategies which all MFIs should implement and apply well in daily operations as prevent actions before the loan delinquency and default.

2.1 Overview of Microfinance

Today, microfinance has the global outreach and is a fast-growing and effective tool to reduce the poverty in many developing countries throughout the world and provides financial services such as saving, money transfer, microcredit and insurance to the low-income households in the community in order to get the funds for their business activities and to improve their lives. Microcredit or microloan is especially aimed at unemployed borrowers who can't give the collateral, can't afford high business saving level and doesn't have a chance to attract to the commercial banks. Most of them are often self-employed microentrepreneurs running small businesses such as market stall, grocery shop, livestock and farmers and some people take the microcredit to pay the school fees, procure the household items or receive the health care. That's why majority of microfinance customers around the world are women and unemployed poor people. An interest rate of borrowing from informal market is much higher than banks but interest rate from microfinance are comfortable for those low-income people so MFIs provides only tiny or small loan for short terms without any tangible security. A main idea to microfinance is the reprocessing of loans. Each loan is usually repaid within six months to one year and that money is reprocessed as another loan.

The credit programs of MFIs are mainly designed to get the benefit to individuals and groups at the local level of both rural and urban developing countries. This purpose is successful in developing countries because in last few years, the numbers of MFIs development are boomed all over the developing countries and there is a large demand for micro credits by poor and low-income people and the impact of microfinance on that society is visible. That high demand has proven that the inclusion of microfinance is required in the formal financial systems and concept of microfinance is highly supported for poverty reduction. (European Journal of Business Management, 2016, p.140)

Despite the microfinance has the successful explosion for poverty reduction, due to penetrating the poor society without collateral and tangible security, there have been the challenges and risks faced by MFIs such as operational, strategic, market and credit risks. MFIs needs to build strong strategies to mitigate risks even though avoiding risk is not possible.

Majorities of MFI usually get the funds from government and donors to run their activities. Therefore, many of MFIs are not sustainable and too dependent on grants, subsidies and donors. Still, MFIs should be sustainable and practical to ensure they can constantly provide funding to small and micro entrepreneurs without depending on donors or government. Financial sustainability is a requirement for running micro financial services organization to generate the income from days to days operations of their services that covers administration costs and loan losses. To secure the long-term sustainability, the growth of customers, increasing the income size, repetitive increasing of loans and less failure of loan loss. That's why the repayment performance is one of the significant factors to ensure MFIs' continuous operation and sustainability. Furthermore, the collection is the vital service that help both maintain customers and free up money for lending again to other customers. It is one of the strategic process that is major to generating good habits and payment culture among borrowers.

2.2 Definition of Loan Delinquency and Loan Default

Delinquency happens as soon as a borrower misses his repayment on his loan. Therefore, MFIs' loan is measured delinquent when the borrower does not pay his payment by the due date. Decisioning of specifying delinquency loan is very critical as it works as a pointer to an increased risk of loss, warnings of operational flaws, and may also help to estimate of the loan portfolio which will eventually be lost totally and treat as a bad debt. (Alex Addae, 2014, p.38)

There are three kinds of delinquency indicators which are

1) Rates which considers the actual paid amount against fallen due amount
2) Arrears rates which considers the overdue and unsettled amounts against total loan amount.
3) Portfolio at risk rate which considers the outstanding balance that is not being paid on time against the outstanding balance of total loan amount.

Default befalls when a borrower fails to repay his loan as agreed in his original debt agreement or contract. Default might happen if the customer is not willing or unable to pay his taken loan on schedule. Therefore, delinquent loan is occurred default loan when its ability to recover becomes very difficult. But not every delinquency will auto proceed to a default. Most of creditors and MFIs let a loan to remain delinquent for a couple of time before considering it in default. (Alex Addae, 2014, p.38)

2.3 Causes of Loan Delinquency and Loan Default

Default risk has severe negative consequence on the success of microfinance so that MFIs aims to minimize the risk of loan default and ensuring the repayment from customers. Root causes of loan delinquency and default can be happened because of both lender side, MFIs, and borrower sides.

Promotion: Promotion products are not met with customer's actual need, but customer is not aware of the product information clearly and he take the promotion loan. Lack motivation n to pay on time due to unclear payment instruction and expectation. Long term punctual payment got the issues at the end.

Poor client assessment procedure: Credit officers and credit analyst don't well perform the assessing and the screening customer's character, financial condition and credit history carefully and give the loan. Failure cases are happened if customer's capacity is exceeded to pay back.

Poor loan supervision: Credit officers and sale representatives don't supervise on how to utilize the loan advance, what are the rules and regulation customer must follow if loan is approved and what the payment term and loan duration are.

Immediate weekly payment schedule: Making regular repayment soon and weekly payment schedule once loan is disbursed is the major case of loan delinquency and default as customers are not ready for payment weekly and as soon as possible.

High interest rate: due to high interest rate, customers are hard to pay back loan on time.

Loan size: it is not enough for customer to do the business as expected.

Overlapping Loans: Taking multiple loans from different MFIs are also fall into loan defaults.

Lacking common database for credit bureau: Overlapping loan can't be analyzed and rejected as there is no centralized client's information from MFIs. MFIs can't know how many loans the customer has already taken from different MFIs and what his credit history in other MFIs.

Unexpected personal situation at customer: Family member illness can make customer to fall into delinquency and default as she needs to use the money in family 's health and she can't pay back money to MFIs as agreed.

2.4 Measure to Control Loan Default and Best Practices of Loan Collection Recovery Strategies

Credit good management supports MFIs' growth and sustainability, MFIs wish to reduce the risk of loan default and ensuring the repayment from customers by using different mitigation strategies and actions. There are many credit lending methodologies currently being used by MFIs throughout the world. Among them, Grameen model, group lending model, individual lending model are famous and used by most of MFIs in many countries. MFI decisions to offer either group or individual loans depend on loan size, refinancing conditions and competitive pressure in the microfinance market. All the credit lending models are loosely related with each other, and most of famous and sustainable MFIs have the features of two or more models in their activities.

Default risk and delayed payments are mostly encounter under individual loans, so MFIs have been mostly associated with group lending across the countries but are gradually increased disbursing the individual loans after they build the trust upon the customer's repayment history data and their relations between MFIs and customers. Since MFI doesn't take the collateral and have no documented credit history and credit bureau, MFIs are not able to screen borrowers and secure individual loans without collateral. However, they use different lending strategies and incentives to monitor borrowers.

Several studies have been performed that group lending strategies are quite popular and commonly used to mitigate credit risk and it is also known as Joint Liability. Group lending strategies transfer monitoring to borrowers. The Group model focuses all the inadequacies of the individual level are covered by the cooperative accountability, responsibility and security taken by the group of individual borrowers.

Fishcher and Ghatak (2010) discussed that there are two types of Joint liability.

1) Explicit Joint Liability
2) Implicitly Joint Liability

When one member in group withdraw the loan or refuse to refuse for repayment, the rest of team members are mutually obligated to pay back the loan. It is called explicit Joint liability.

Joint Liability extensively practices peer pressure to safeguard the repayment among the borrower groups. Peer pressure uses people's moral and other relationship and linkages between borrowers and project participants to make sure the participation and repayment in microcredit programmes. Peers could be other members in the borrower's group. Unless the one person from a group repay, the other members do not receive loans and the group is being denied credit. It is treated as implicit joint liability.

Therefore, the peer pressure is put on the initial members to repay first and the community leaders usually selected by group, monitor and encourage the group members to pay back. Peer Pressure can perform as a collateral in this case. The pressure used can be by doing frequent visits to the potential defaulter, ask him to join community meetings and conversions.

To mitigate the operation risks by focusing on recruitment process, MFIs must have the standardization of polices of staff, effective internal control of any human error, keeping data of fraudulent staff, background verification of staff before hiring process. To improve the efficiency and loyalty of employees, MFIs need to focus training of staffs towards customer-centric work. To reduce any human errors and mistakes, MFIs need to get the help of technology intervention. With the use of ethical practices, policies, maker and checker process to collect money, MFIs can expose many risks and chances of fraud by staff.

MFIs must follow the following steps (Peter and Sylinia, 2008, pg-6) as the best practices to get the effective and efficient repayment in loan process. Credit officers and sale representatives need to find the prospective loan customer correctly. They have to clearly understand the customer requirement and skillfully evaluate a prospective customer character, his credit records and his financial conditions by making site visit.

Before loan disbursement, they must conduct effective product trainings and awareness of loan duration, flexible payment term and required technical assistance to customers. The credit analyst should do the quantitative assessment and screening of the customers during credit appraisal and reviewing process. Once it is approved, MFI must perform faster loan disbursement to customer. Credit officers or field workers should closely do the regular monitoring of activities of the customers by going personal visit. They keep enchaining the post disbursement monitoring, supervision, consulting their issues and personal problems, motivation and technical trainings whenever it is required to customer. MFIs should offer the attractive incentives and gifts to on time repayment customers. This is one of the ways to increase the motivation of poor to strength the creditor-borrower relationship.

As those loan delinquency and defaults are directly impacting MFIs's profit, growth a sustainability, MFIs must find out the new, efficient and effective strategies for end to end loan repayment process and must plan loan collections strategies before launching a new credit program or product in order to achieve well, sustainable progress and growth. ACCION International published the best practices that MFIs must consider when attempting to successfully implement collections activities. In November 2008, ACCION International draws the best strategies of loan collections process on its experiences of collections programs in Latin America and India. Those strategies are used most of the areas of both countries and mainly applied in process, procedures, practices, systems which would aid MFIs to collect their due and non-collectable loans.

As ACCION (2008) provides the following four best practices strategies as the guidance to all MFIs on the management of their daily operations risks and strategies and credit risks for implementation of new products. They are:

Best Practices (1): Adopt Proactive Strategies to Quell Delinquency Before It Starts

To minimize the loan delinquency and default, MFIs need to take the proactive strategies as the preventive actions to the clients who haven't yet past due.

MFIs can conduct the trainings to borrowers about product features, collections fees and transaction charges. Before loan disbursement, MFIs should train to clients and guarantor about the implication of getting loan, how the loan programmes works, which benefits they are going to get if they pay on time, the repayment schedule and what the payment cycle is. Some incidents of defaults can be encountered due to lack of basis financial skills and technical assistance such as book-keeping or recording of sale transactions and some of borrowers might not have business experiences. Therefore, all the required trainings and technical assistance must be provided to customers before and after loan disbursement. The clients got the trainings are more likely to repay than those who lack of proper training and knowledge of products and programmes.

Some MFIs have the rewards and incentive program or larger loan amount, giving lower interest rate, recognition certification of good payment and beneficial personal development trainings for on time payment customers to motivate for repayment. This kind of positive reinforcement play a valuable role in loan recovery process.

MFIs need to involve customers in the early stage of setting up the mutual payment date agreement and customers can be aware of his repayment dates in advance and they can plan for their other important obligation such as school fees, households' charges and other debts. Field workers from MFIs must address customer services and complaints quickly and timely before they result in delinquency.

Best Practices (2): Improve Internal Productivity of the Collection Area

Strong and structure collection strategies describe the strengths and weakness of MFIs. MFIs need to know and determine appropriate collection option of their MFIs, they should go for internally or externally through third party. Which

Outsource to the collection agency can get the trained and specialized staff for collection activities. Operation cost can control, and supervision of collections will be transferred to agency. Agency will take care of collections approaches including call centers, collectors and collection points. Therefore, MFIs will loss of confidentially. Furthermore, the third-party staff might have less interest in customer service and client relationship and less of knowledge in product and programmes. It can impact the brand image of MFIs if the customers fail to acknowledge to them.

If we go with internal collection teams and collection department, the teams will have more thorough knowledge of own customers and market situation. They can build the rapport and trust with customers as staff can give more commitment to the organization success. MFIs must identify the positions, roles and responsibilities in collection process such as field workers, call center, attorneys and collection teams. need to select and train right people in right teams and training is very important to achieving successful loan collections and good customer services as all the staff need to educate in techniques and strategies. But this option will require enough time and resource to offer the specialized strong and intensive trainings both hard and soft skills so it will be costly to organization.

To get the effective collections, internal teams are required to motivate so staff incentives or motivation programs are required, and incentive might encourage a workplace environment of healthy and active competition. Then all the field workers of MFIs are well-equipped with skills and technical knowledges to support effective suggestions and advices to the clients.

Best Practices (3): Ensure Quality Information Gathering and Management

MFIs must ensure the quality of client information because regular customer contact is a key for an effective collection process. Field workers and credit officers make sure the data received during initial application process are timely and accurately updated especially client contact details and location in the database. MFIs must invest to have own core banking system for data centralization across all branches.

To avoid overlapping loans of customers from multiple MFIs, MFIs should set up the common database of MFIs recipients and all MFIs participate in sharing own data to credit bureau to get the common accessible database of microfinance customers. Then this client's information from common database will be very essential and helpful during credit appraisal and loan approval process and MFIs can avoid this loan from potential delinquency and default among borrowers.

MFIs need to develop the efficient support systems such as Management Information System (MIS) for reporting, Business Intelligence for data analysis and real time reports. Those daily and monthly management reports for management team , weekly and daily credit monitoring reports for flied workers and credit monitoring officers to check the repayment dates and risk management reports for performance management team are required to automatically generate from MIS and BI systems and send to all respective stakeholders in order to make sure the continuity of collections activities carried out by each field workers and staffs and avoid the duplication efforts and manual human errors of loan default.

Best Practices (4): Develop Well-defined Strategies for Collection of Delinquent Loans

After developing the collection strategies, processes, policies and procedures should be well documented and always must be updated because those documents are guides, and knowledge portal of staff for their daily collection process and instructions for handling the specific situations.

MFIs need to establish customer contact policies and field workers have to follow the polices and best method based on situation. For example, the best way to contact through person visits for monitoring of customer's business conditions before the repayment date.

MFIs can't fully delegate to credit officers and field workers for all decision-making process. Performance management team and Data Analysis team should use risk-based collection strategies to provide valuable tools for decision making process.

MFIs should use tools for identifying the probability of default. Nowadays many MFIs are use BI system to do the predictive analytics to portfolio evaluation.

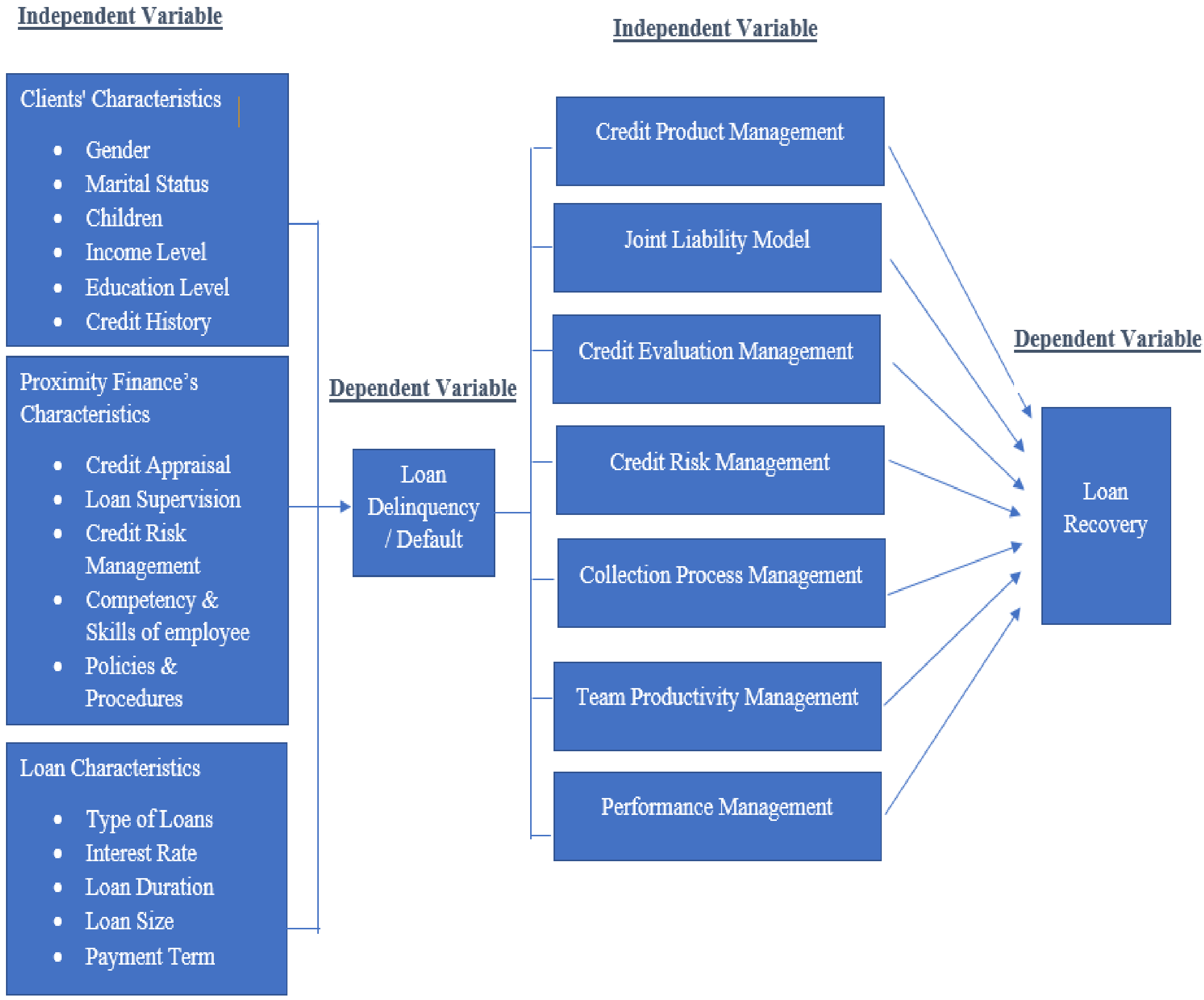
By using the below analytics methods, collection scorecards method and client segmentation method, MFIs can reduce the default rate in future, forecast the probability of recovery and review the history and root cause of delinquency and defaults. Descriptive analytics defines what occurred during over a given period. Diagnostic analytics shows more about why something happened. Predictive analytics focuses to what is likely going to happen in the near term. Prescriptive analytics recommends a course of action.

2.5 Conceptual Framework of the Study

The conceptual framework contained of dependent and independent variables. Independent variables were presumed to have caused the changes in the dependent variable. The dependent variable is to as the norm is the one that the researcher actions to explain (Kothari, 2004).

The conceptual framework of this study as below. It shows that the relationship that exists between the dependent and independent variables of loan default and loan recovery. It took many independent factors which effect loan delinquency and default including Gender, marital status, children, income, credit history, Loan size, loan duration, payment term, credit appraisal, loan supervision, employee competency and skills, company policies and procedures and credit risk management. All factors are directly impacted to delinquency and default. Furthermore, using the best practices and strategies can directly impact and recover the loan recovery of the organization. The best practices and strategies are independent variables which are credit product management, joint liability model, credit risk management, credit evaluation management, collection process management, team productivity management and performance management. The more utilized them in daily operations, the more success achieve in organization by reducing the loan default and recovering the loan repayment.

Figure 2.1: Conceptual Framework of the Study



**Source: Own Compilation (2019)

This framework is the own compilation of the researcher and it is implemented by basing on Emmanuel Severine Moshe (2016), Kwado Obeng & Redeemer Yao Krah (2016) and ACCION (Nov 2008)

CHAPTER 3

BACKGROUND STUDY OF PROXIMITY FINANCE

This chapter highlights how microfinance works in Myanmar. It also describes overview of Proximity Design (PD) and Proximity Finance (PF), how Proximity Finance works in Myanmar.

3.1 Overview of Microfinance in Myanmar

Eric, Paul, Ren, and Yan Chen (2013) found that in 2007, Microfinance was first started to Myanmar by UNDP's Human Development Initiative to decrease poverty and solve those financial difficulties in outskirts of urban regions or in rural areas of Myanmar. Eleven townships from Dry, Delta and Shan regions were under this first microfinance project. Microcredit provided the solution to these rural challenges by offering small loans and financial services and tailoring them to their needs at a practical cost for customers and survivable for providers. In November 2011, the government issued the new Microfinance Business Law, outlining the framework for the operations of microfinance activities, paving the way for growth of microfinance financial services by permitting the local and foreign NGO companies and investors to set up entirely private MFIs in Myanmar. Microfinancing has grown rapidly in Myanmar after the emergence of new business law and has slowly achieved the remarkable success with the growing number of customers and numerous MFIs.

Surat Bhattacharjee (2019) presents that as of April 2019, there are 18,013 microfinance institutions which are included three INGOs, sixteen NGOs, forty-seven foreign financial institutions, one hundred and ten local, and five partnership. They are serving 3.414 million clients and a total loan portfolio of K350 billion, according to the Myanmar Microfinance Association (MMFA). Among 16 NGOs in Myanmar, the NGO Proximity Designs is selected as a case study to examine for this study because it is one of the largest MFIs in Myanmar.

3.2 Overview of Proximity Designs

According to Proximity Design (2019), Proximity Designs is a non-profit design organization that aims to help the rural families in Myanmar reduce poverty and stands as Myanmar’s largest agriculture services network. It is also a creative and manufacturing technology manufacturer of irrigation equipment, give the guidance and suggestions to famers and support the assistance for both infrastructure and its readiness. The headquarter is in Los Angeles, United States of America. In 2019, the company has more than 1000 full-time employees in Myanmar and its offices are in Yangon. After Cyclone Nargis in 2008, the organization aided 25 million impacted countryside people through its goods and agricultural recovery labors efforts (Proximity Design, 2019).

As clearly stated in Proximity Design (2019) that its vision is to be a creative, collaborative working environment ripe for innovation and mission is to increase incomes across rural Myanmar. by using its products, advices and services, the end users or their consumers have clearly increased 30 percentage of their average income over the past 14 years (Proximity Design, 2019).

3.3 Overview of Proximity Finance

As clearly presented in Proximity Designs (2019) that Agriculture employs 60% of the population in Myanmar and contributes about 30% of overall GDP. But in rural communities, the inadequate access to credit continues to hinder the industry's expansion. In these regions, borrowers are often compelled by illegal moneylenders to take high interest rates to fund high interest loans or to mortgage their property and land when they need cash. Therefore, Proximity Designs would like to design and offer the alternatives loan products and services with an affordable range of low interest rate to meet the customer needs.

Proximity Designs (2019) describes that in 2008, NGO Proximity Designs set up a new business unit called Proximity Finance to act as a financial service provider in Myanmar that reaches out especially to people in rural areas of Myanmar. It supplies and provisions to the small private farms across the country with a combination of farm equipment, advices and financial services such as funds and loans. Being part of NGO enables Proximity Finance to use the extensive distribution network of Proximity Designs. A branch network in strategic locations encompasses 80 percent of the rural market such as the delta, dry zone, southern Shan state where most agricultural production takes place. Proximity Designs has been a Microcredit partner since 2018. Proximity Finance states that it is now one of the biggest MFIs in Myanmar with over 100,000 users in 2000 villages, primarily in farming and a portfolio of over $20 million. The percentage of rural client is 92 percent of total clients and 66 percent of total customers is female. The average loan size is USD 205 and the size of outstanding portfolio as of June 2018 is 17.59 million dollars. Portfolio risk including loan default is 0.6 percent in Q1 2019 (Proximity Fianace,2019). It aims to support a suite of low interest rate loans and allow the customization to meet their needs. Most Proximity Finance ‘s clients need the capital to purchase the new equipment or buy the agricultural inputs (Proximity Design, 2019).

3.4 Type of Services Rendered in Proximity Finance

As in Proximity Finance website (2019) indicates that the following four creative loan products benefit the agriculturalist, smallholders, the migrant workers and the small business owners stabilize their business and income, dispose of high interest debt. Proximity Finance (2019) mentions that “they are Crop Loan, Livestock Loan, Small Business Loan and On-the-Go Loan”.

Crop Loan

As seen on the website of Proximity Finance, this crop loan product was live in 2012. It is Proximity Finance's most famous loan and offers the essential season-long cash working capital to pay production costs such as seeds and fertilizers, employed workers, equipment and farming materials. The average loan size is from 250,000 to 600,000 MMK which is equivalent around 178 – 427 USD. Among small farm owners or farmers, the types of crops they cultivate, and harvest are very different. Paddy fields are grown well in Ayeyarwady Delta. farmers grow the lot from beans and pulses to fruits and flowers in the Dry Zone and the Shan Hills. Even in these regions, crop types and planting schedules change seasonally, driven by weather patterns and market fluctuations (Proximity Finance, 2019).

Direct-to-farmer lending

The credit loan hits the most remote regions and the organization offers to the farmers directly, though none of associations of farmers or groups of producers. Our field workers or credit officers go straight to the villagers, saving time and money for our clients. In 2018, we will lend to more than 100,000 small farm owners or farmers and businessmen from 2,000 communities and villages with a loan portfolio of around $20 million (Proximity Finance, 2019).

3.5 Current Strategies of Proximity Finance

The farm finance team is made up of around 400 employees and a strong network of credit officers, field workers, credit analyst, cashiers, credit monitoring manager, data analysts and managers across the country are actively participated in team. The more business grows, the more team size grows days by days.

The management team have set up the best practices process, procedures and practices which are relevant with their organization to achieve successful portfolio success and making grow the revenue. All the credit policies, recovery procedures and all the processes are reviewed regularly.

Use different lending methodology to manage risk of default micro loans. The organization follows a collective group lending methodology (Joint Lability Methodology), starting Small Lending Groups of four to eight persons who co-guarantee each other's loans to ensure the repayment of the loans from the group if default case is happened in one of the team members.

Loan management minimizes the risk of a loan to default and as clearly stated in Proximity Finance Website (2019) that before the Proximity Finance Team approves the seed loan, the Proximity Team closely checks the planting schedule for the farmer, charts the planting and harvesting times for different regional crops to make sure that crop loans distribute when the farmer is planting and that loan repayment is related to when the harvest arises. Their loan motto of Proximity Finance is "money when they need it, repayment when they have it". They don't take the risk of loan delinquency and default and the loan duration, cycle, and payment term are upon the planting and harvesting plan. If there is disaster or unexpected weather destroy the plantation and loan is going to default, Proximity Finance has grace period to extend the loans. So, loans characteristics are quite flexible upon the customer requirement.

Throughout the entire whole loan cycle, credit officers are continuously checking with the customers. Proximity Finance (2019) states that “Through surveys, interviews and regular visits to villages, customers give them the valued feedback to improve our products services and offerings. The aim is to go beyond the transaction” and become a trustiest partner with customers by building the good relationship. The core values of the organization are to treat our customers with empathy and sympathy anytime anywhere. That’s why many borrowers have worked with their first loan officers for numerous harvesting cycles to raise their farms and businesses together. Trust is the main important among project team and the organization is going the relationship lending approach to the customer. All the credit policies, recovery procedures and all the processes are reviewed regularly.

Those credit officers play the very important roles in organization and organization takes care of their personal development, soft and hard skills to improve their competencies and knowledge. That’s why Proximity Design has Proximity School for all his staff to join the intensive trainings and courses to be ready in the field.

Credit officers are doing regular monitoring and loan supervision to clients before and after loan disbursement and always monitoring how funds are being disbursed, and how borrowers utilize the fund. As the appraisal stage is the heart of high-quality portfolio. Proper and adequate appraisal is the key to control reduce the default. The credit analysis is also very conscious when lending and they follow due process to analyze borrower situation and perform intensive scanning of customer’s background and financial conditions. This organization always work for quick disbursement to customer as this can be one of the default reasons. Most of MFIs take long time to disburse the funds to successful applicants. Performance Management team closely monitor all the operation risks such as the mismanagement by staff and frauds case by staff and insecurity in portfolio management, etc.

Cameron, Goldie-Scot June (2019) stated that Proximity Finance plan to move to Musoni’s core banking system and digitalization partner in 2020. The Musoni system is the one of the best class financial software platform developed specifically for MFIs in order to help the organizations improve the efficiency and better manage their daily operations. The Musoni program might be introduced across all sixteen branches of Proximity Finance with digital services such as SMS module, tablet and mobile app. The main purpose of using is to improve the quality and availability of financial services to the customers from rural areas and outskirts of urban regions. Furthermore, all the customer information will be updated in real time and all the approval process flow can be done anytime anywhere (Proximity Design, 2019).

Proximity Finance team is currently in the discussion of credit bureau or participating in setting up common database of microfinance borrowers. As it is needed to have a collaborative effort among MFIs and government to set up the IT infrastructure and sharing own data. This database should be accessible to all the creditors and regulators so that the effective loan applications screening process can be effectively done to reveal the risk profiles of borrowers such as overlapping loans.

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CHAPTER 4

ANALYSIS ON THE EFFECTIVENESS OF LOAN RECOVERY STRATEGIES IN PRXOXIMITY FIANACE

This chapter analyses the effectiveness of reducing loan default and loan recovery strategies of Proximity Finance. The data in this chapter is collected, presented, analyzed and interpreted according to survey questionnaires, Therefore, the data is mainly based on the primary data collected to both customers and employees through manually and systematically developed by 5-point Likert scale questionnaire. In the presentation of finding and tables are presented in statistical tables, percentage, mean value and standard deviation.

4.1 Research Design

The study is used a descriptive method and based on the collected data, the researcher evaluate how Proximity Finance is effectively practicing the strategies. Both primary and secondary data will be collected for this research. Primary data collection period is from 15st December to 25th December 2019.

Therefore, this study is a population study covering all the customers, employees and management team. Both quantitative and qualitative data collection methods will be used in this study. At the first part of this chapter, the researching assesses the factors of loan delinquency and defaults in Myanmar. The study is covered 60 customers who are randomly selected from South Dagon and Hlegu regions of Yangon Division. All total 60 customers are responded to the survey questions. At second part of the chapter, the current practices and strategies of minimizing Loan default and recovery in Proximity Finance. The study is randomly selected chose 100 employees from different branches of Proximity Finance Myanmar and they are Credit Officer (40), Credit Analyst(15), Credit Monitoring Manager (5) , Quality Analyst(5), Branch Manager(15), Operation Manager(5), Relation Manager(3), Digital Manager (3), IT Executives(3), Audit Manager (3). But 83 respondents kindly responded to the questionnaires.

Structured survey questionnaires are used as data collection tool for the quantitative data collection method. Survey questions are measured on five-point

Likert Scale: 1(Strongly Disagree), 2 (Disagree), 3 (Neither Agree nor Disagree), 4 (Agree), and 5 (Strongly Agree). Quantitative data is entered, coded and analyzed with SPSS version 25 and descriptive statistical tools such as mean, frequency distribution, percentages were used in the data analysis.

The questionnaire is developed to explore the demographic factors of the respondent, the assessment of factors of loan delinquency and default for customers. with questionnaire segregated into (4) parts with (29) attributes and the current minimizing of loan delinquency, default and recovery practices for employees with questionnaire segregated into (8) parts with (41) attributes. They are the guidance for questionnaire ratings, demographics information of respondents, and assessment of current practices and strategies.

4.2 Demographic Profile of Respondents – Customer

This section presents the profiles of selected 60 respondent customers who are taking loan from MFIs and lived in South Dagon and Hlegu regions of Yangon division. The profile of respondents includes borrower's gender, education, age, marital status, family size, profession and monthly total household income.

a) Respondents by Gender

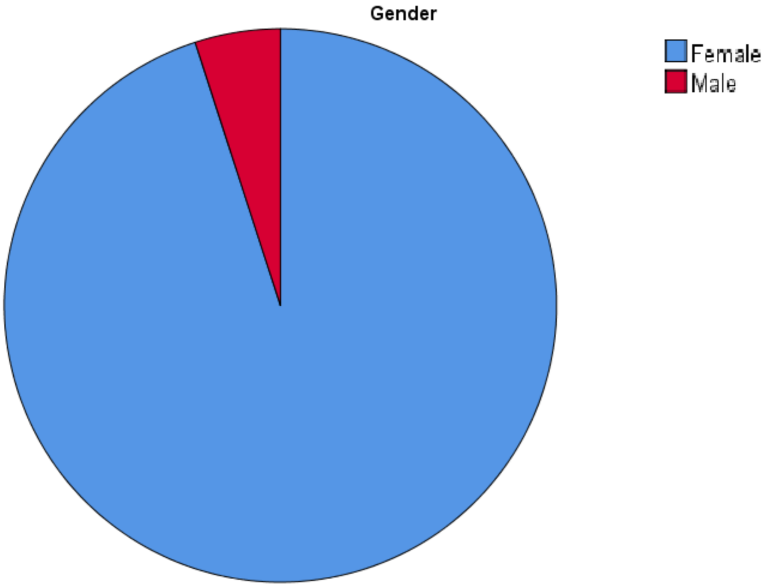
The composition of gender (male and female) in the sample is shown in Table 4.1. Most of all respondents are female, and they share 95% of the sample while male respondents are 5% of the sample.

Table (4.1) Number of respondents by gender – Customer

Sr No.	Gender	Frequency	Percent
1	Female	57	95.00
2	Male	3	5.00
Total		60	100.00

Source: Survey Data (2019)

Figure (4.1) Number of respondents by Gender – Customer



Source: Survey Data (2019)

b) Respondents by Age Group

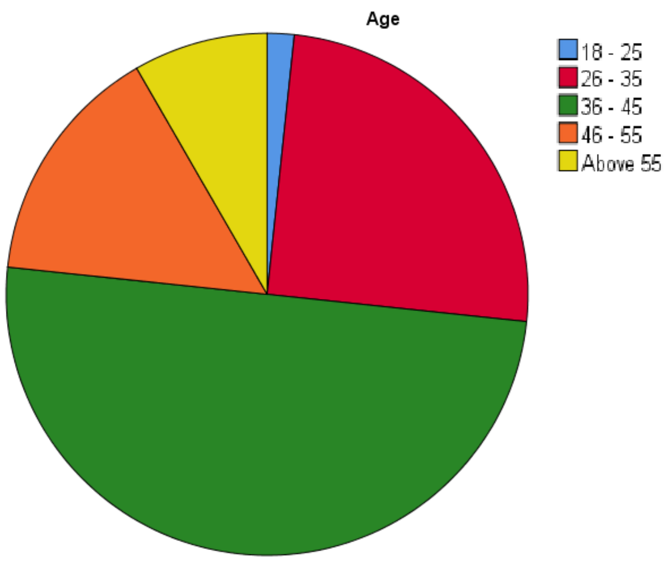
Age of respondents are divided into five groups as below. They are: between 18 and 25, between 26 and 35, between 36 and 45, Between 46 and 55 and above 56. Respondents' perception and attitude of taking loans depend on their age levels. The analysis of age level is shown in Table 4.2.

Table (4.2) Number of Respondents by Age Group – Customer

Sr No.	Age Group	Frequency	Percent
1	18 – 25	1	1.70
2	26 – 35	15	25.00
3	36 – 45	30	50.00
4	46 – 55	9	15.00
5	Above 55	5	8.30
Total		60	100.00

Source: Survey Data (2019)

Figure (4.2) Number of Respondents by Age Group – Customer



Source: Survey Data (2019)

It is showed that among 60 respondents, majority are age between 36 and 45 years old and it represents 50% who takes loans from MFIs. Second largest age group of respondents is between 15 and 25 years old and it hold 25%. Thirdly, 15% between 46 and 55 years who took loans. The minority age is 18-25 years group with 1.7%of respondents.

c) Respondents by Education Level – Customer

There are five education levels classified for customers and the education level can influence on customer's knowledge and awareness of managing their income, debts and financial matters. Table 4.3 and Figure 4.3 present the education levels of participants.

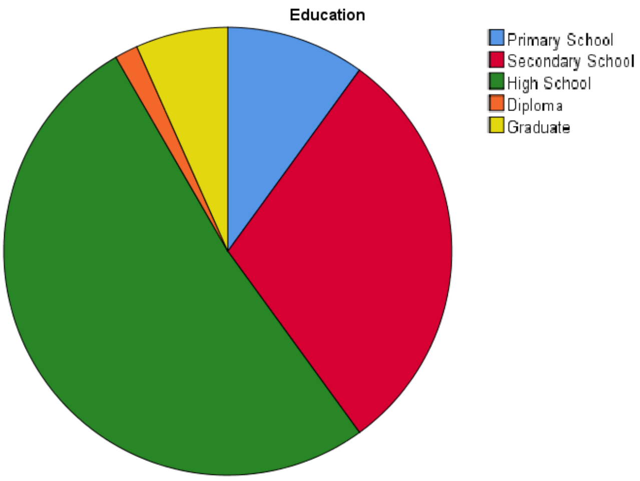
Table (4.3) Number of Respondents by Education Level – Customer

Sr No.	Education Level	Frequency	Percent
1	Primary School	6	10.00
2	Secondary School	18	30.00
3	High School	31	51.70
4	Diploma	1	1.70
5	Graduate	4	6.70
Total		60	100.00

Source: Survey Data (2019)

According to the above analysis, there are 31 respondents who had completed high school in their academic history representing 51.7% while 18 respondents consisting of 30% are finished secondary school. 6 respondents are done primary school, 4 respondents are graduated, and one respondent got diploma representing 10%, 6.7 % and 1.7 % respectively. Therefore, most of the respondents take loans are from high school graduated and secondary education level.

Figure (4.3) Number of Respondents by Education Level – Customer



Source: Survey Data (2019)

d) Respondents by Marital Status

Marital status of the respondents is one of the interests of the researcher that can explain the extent of respondent's household responsibility, therefore, it is divided into two categories, single and married. This is displayed in the following table 4.4 and figure 4.5.

Table (4.4) Number of Respondents by Marital Status– Customer

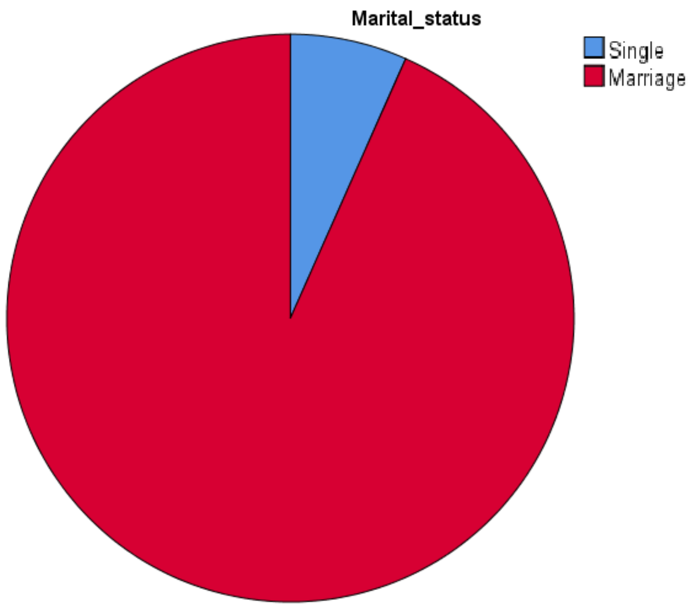
Sr No.	Marital Status	Frequency	Percent
1	Single	4	6.70
2	Married	56	93.30
Total		60	100.00

Source: Survey Data (2019)

As shown in table, largest loan takers are married holding 93.3% which are more than single respondents as a percentage of 6.7 from this result.

Findings revealed the singles might work for their survival to get income and there might not have much responsibilities of family to take care.

Figure (4.4) Number of Respondents by Marital Status– Customer



Source: Survey Data (2019)

e) Respondents by Children Size

Marital status of the respondents is main interest of the researcher that can explore the respondent's household responsibility upon children. Therefore, there are divided into three categories: 0 means that there is no dependent on respondent, 1 -3 means that there are one to 3 dependents on respondent and 4 - 6 means that there are four to 6 dependents on respondent. The analysis is presented in the following Table 4.4 and Figure 4.5.

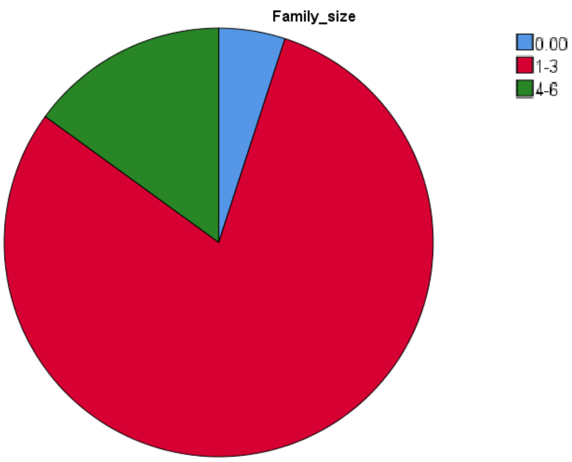
Table (4.5) Number of respondents by Children Size – Customer

Sr No.	Children	Frequency	Percent
1	0	3	5.00
2	1- 3	48	80.00
3	4- 6	9	15.00
Total		60	100.00

Source: Survey Data (2019)

Most respondents have from 1 to 3 children as dependent in their family representing of 80%. The 15 % of respondents which are 9 clients have 4- 6 children and the rest 5% is no child at all which are 3 respondents. Those majority of respondents is required to take care in order to provide the basic amenities for themselves, their children and other dependents if any such as parents. This analysis will help the researcher to deeply understand the clients and compare the rate of taking loans and default upon their family responsibilities.

Figure (4.5) Number of Respondents by Children Size – Customer



Source: Survey Data (2019)

f) Respondents by Occupation

There are five levels of occupation classified for customers and the occupation can influence on customer's daily household usage, loan repayment, and other financial matters of family obligation. They are:

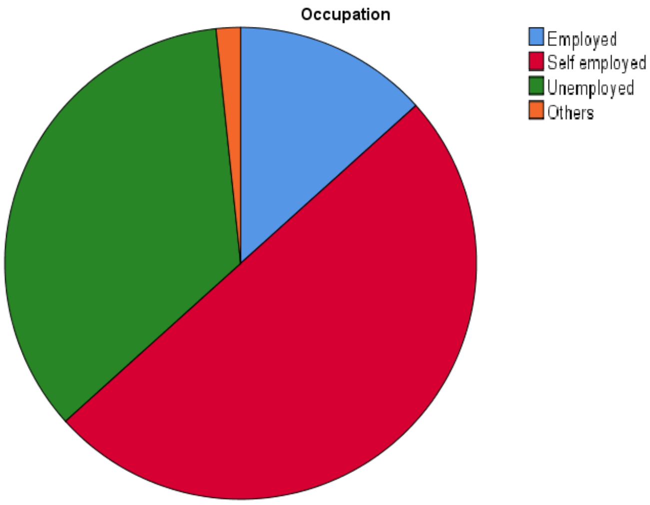
There are many kinds of occupation, customers can sell something such as vegetables, fish and meat, ferment and slipper, providing labor services, etc. The researcher specified those peopled under self-employed. Employed means people working at government office or companies or garment or taxi driver who hires the taxi from owner or. Unemployed means the housewife. Others means there will be students. Table 4.6 and Figure 4.6 present the level of occupation from respondents.

Table (4.6) Number of Respondents by Occupation – Customer

Sr No.	Occupation	Frequency	Percent
1	Employed	8	13.30
2	Self employed	30	50.00
3	Unemployed	21	35.00
4	Others	1	1.70
Total		60	100.00

Source: Survey Data (2019)

Figure (4.6) Number of respondents by Occupation – Customer



Source: Survey Data (2019)

Most of the responders are self-employee which are 30 people representing 50% of total respondents. Unemployed who are housewives are 21% which is 21 respondents and there are 8 employees holding 13.3% and 1.7% is under others category.

g) Monthly Income

The respondents are asked about their total monthly income from all household's members. The income levels are classified into 6 groups. They are 50,000 MMK, 100,001 – 200,000 MMK, 200,001 – 300,000 MMK and 300,001 – 400,000 MMK. The results are shown in Table 4.7 and Figure 4.7.

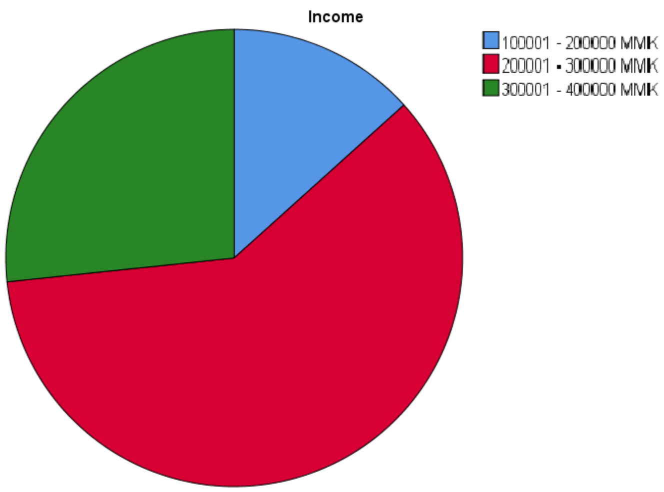
Table (4.7) Number of respondents by Monthly Income – Customer

Sr No.	Monthly Income (MMK)	Frequency	Percent
1	100,001 – 200,000	8	13.30
2	200,001 – 300,000	36	60.00
3	300,001 – 400,000	16	26.70
Total		60	100.00

Source: Survey Data (2019)

The level of monthly income mainly supports in evaluation of loan application process and chances of delinquency risk. 36% of respondents are getting within the range of 200,001 – 300,000MMK which is 60% while some 16 respondents are range between 300,001 and 400,000 MMK representing 26.7%. The remaining borrowers who have 100,001 – 200,000 MMK monthly are 8 people. As most of the borrowers have low education which meant most of the people are poor and they have not good occupation or jobs to complement their livelihoods and fulfil the basis needs of families.

Figure (4.7) Number of respondents by Monthly Income – Customer



Source: Survey Data (2019)

4.3 Assessment of Determinants of Loan Default and Recovery Strategies - Customer

This section is the assessments of loan default cases and strategies used in Myanmar. the selected customers will assess the questionnaires. The higher the mean scores the higher the respondents' satisfied with the statement. The instruction of the questionnaire's ratings is that "5" represents "Strongly Agree", "4" represents "Agree", "3" represents "Neither Agree nor Disagree".

a) Customer's Credit History and Loan Default Trend

Customer credit history is important for MFIs to review during credit appraisal in order to reduce the credit risk in later stage. Based on credit history records, credit analyst manages credit rating and scoring with quantitative assessment and screening of it.

Table (4.8) Response on Loan Delinquency /Default Trend

Sr No.	Loan Delinquency/ Default	Frequency	Percent
	I have an experience of loan delinquency/ default		
1	No	38	63.33
2	Yes	22	36.67
Total		60	100.00

Source: Survey Data (2019)

As the result of Table 4.8, it is showed that 38 respondents had never faced the loan default cases which the percentage of 63.33% of total respondents. 36.67% was convinced that 22 respondents had the loan delinquency and default experience in the organization.

Table (4.9) Response on Reasons of Loan Delinquency / Default

Sr No.	Reason of Lon Delinquency / Default	Frequency	Percent
1	High Interest Rate	1	1.70
2	Tight Repayment Schedule	14	23.30
3	Overlapping Loans	3	5.00
4	Death	1	1.70
5	Poor Customer Service	3	5.00
Total		22	36.70

Source: Survey Data (2019)

According to Table 4.9, 14 respondents are the e maximum frequency for reasons of loan delinquency and default, and it is holding 23.3% of total respondents.

Only one person responses each that because of high interest rate and death, they face the loan default case. Three respondents (5%) faced the loan defaults due to poor customer services and overlapping loans from multiple MFIs.

Table (4.10) Repayment of Loan Delinquency/Default Respondents

Sr No.	Repayment of Loan Delinquency/ Default	Frequency	Percent
	If yes, my group members are burdened to pay my pay back my loan.		
1	No	0	0.00
2	Yes	22	100.00
Total		22	100.00

Source: Survey Data (2019)

According to Table 4.10, as organization is using group lending method, the other team members have to pay the due or default number of borrowers. The frequency of payment is 22 respondents and the percentage are 100%.

This implies that even though customers made regular repayment, some of the respondent's still faced the loan default in his experiences. The value is almost double of respondents faced this loan default experiences before. Organization should find out the current default trend and to take the immediate actions by defining the effective recovery strategies to cover the possible cases and take the proactive action from upcoming issue. Currently, group lending method is helping the organization to get back the past due amount.

Table (4.11) Response on Credit History

Sr No.		1	2	3
Statement		I willingly pay my loan without any reminders or push.	I pay the principle plus interest on-time	I intend to settle my debts to MFIs by using the loans from different MFIs.
Q Code		CH1	CH2	CH3
Frequency	**Strongly Disagree**	-	-	52
	Disagree	-	-	3
	Neither Agree nor Disagree	2	1	3
	Agree	45	2	2
	Strongly Agree	13	57	-
Percent	**Strongly Disagree**	-	-	86.70
	Disagree	-	-	5.00
	Neither Agree nor Disagree	3.30	1.70	5.00
	Agree	75.00	3.30	3.30
	Strongly Agree	21.70	95.00	-
Mean		41.830	4.930	1.250
Standard Deviation		0.470	0.320	0.720

Source: Survey Data (2019)

As the result of CH1 from Table 4.11 said that most of the respondents (75%) agreed, 21.70% strongly agree and 3.3% were not sure about their payment pushed by MFI or not. It described most of the respondents pay their loan by their responsibility as agreed in contact.

From analysis, 95% of respondents of CH2 are strongly agreed to pay both principle and interest on time. There is one person who doesn't sometimes pay both on time.

Respondents from Hlegu and South Dagon doesn't take the multiple loan from multiple MFIs and the result showed 52 respondents don't take overlapped loan to repay the initial debts. But there are three respondents who took loan from other MFIs.

b) Loan Characteristics

MFIs designed giving small loan with quick payment term to recover the default rate. Respondents were asked whether loan products are met with their requirement or not. The table (4.13) shows the level of respondents.

Table (4.12) Response on Loan Characteristics

<table>
<tr><th>Sr No.</th><th>Q Code</th><th>Statement</th><th>Mean</th><th>Standard Deviation</th></tr>
<tr><td>1</td><td>LC1</td><td>Loan size is big enough to invest in further business.</td><td>1.100</td><td>0.303</td></tr>
<tr><td>2</td><td>LC2</td><td>I am convenient with Loan duration and cycle.</td><td>1.000</td><td>0.000</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">LC3</td><td>Interest rates affects the loan repayment abilities</td><td rowspan="2">3.017</td><td rowspan="2">0.091</td></tr>
<tr><td>Interest rate is appropriate and reasonable if I compare with informal interest rate.</td></tr>
<tr><td rowspan="2">4</td><td rowspan="2">LC4</td><td>Payment terms are favorable for me to borrow.</td><td rowspan="2">1.175</td><td rowspan="2">0.330</td></tr>
<tr><td>The repayment schedule is convenient for me to repay on-time.</td></tr>
<tr><td colspan="3">Overall Mean</td><td>1.573</td><td>0.125</td></tr>
</table>

Source: Survey Data (2019)

From the table above, the maximum mean core is 3.017 and it is related with interest rate. It means customers and respondents agreed and satisfied that loan interest rate is very reasonable if compare with informal market price.

Respondents don’t agree with loan duration and cycle designed by MFIs. According to table 4.13, LC2 mean value is the minimum and people are not satisfying with payment term as well. Payment term is not flexible, and the mean value is showing as below 2.

It stated that customers are not favored of loan duration and payment schedule. Those might the reason of loan delinquency and defaults even though organization is taking the quick payment term to secure a loan with small size. The product is not attracted by customers and it can lead to failure the loan repayment.

c) MFI 's Characteristics

The customers are shared their feedbacks of questionnaires of MFI's Characteristics and practices used by MFIs based on their experiences along the loan process.

Credit Risk Management

Credit risk management concludes that the credit appraisal, credit risk control and collection policies play the vital roles in influencing loan recovery. MFIs should make sure that the credit appraisal should be handled by technical expert who are experienced and have competency because if there is the credit risk at the earliest possible opportunity, the loan can be potential delinquent or default. To avoid credit risk, the lending model must be made sure upon the customer's situation. Table 4.14 represents how the respondents shared their views.

Table (4.13) Response on Credit Risk Management - Customer

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	CRM1	MFI carefully performs the background check of customer before accessing the loan appraisal.	4.717	0.454
2	CRM2	Loan disbursement process is very quick.	5.000	0.000
3	CRM3	I got the enough training for financial and technical procedures from MFIs before and after disbursement.	4.325	0.366
		Credit officer always perform post-disbursement supervision and monitor of how the loan is being utilize.		
4	CRM4	Your loan provider institution has good credit monitoring to prevent loan default.	3.917	0.279
5	CRM5	Credit officers are friendly and well behaved in loan and repay process.	4.350	1.137
		Credit officers are good in communication skills.		
		Credit officers are well experienced with necessary knowledge and skills.		
6	CRM6	Group Lending is effective to reduce the loan default	5.000	5.000
Overall Mean			4.551	0.223

Source: Survey Data (2019)

According to mean scores, CRM2, quick loan disbursement process, and Group lending model have the highest score and all respondents are very satisfied that disbursement process period taken by MFI and they are fine to share the responsibility of liability in default. The second highest score is received by CRM2 with 4.7167 mean score. Respondents are aware that even though MFI is thoroughly screening the evaluation process, they can get their loan disbursement in short period once it is approved. As per the average mean score of CRM5, respondents are pleased of customer services and staff's skills with mean score is 4.35. The minimum mean score in table is monitoring system in MF which only get 3.9167. the researcher thinks that customers might not aware of frontline officer's support, communication and supervisions are a kind of monitoring to them. But the researcher finds out that the organization should enhancement in credit monitoring process in all other areas to engage the customer and build more trust and good relation.

4.4 Demographic Profile of Respondents - Employees

This section presents the profiles of 83 respondent employees who are working with the different roles and responsibilities in Proximity Finance.

The profile of respondents include gender, education level, position, and working experiences in banking Proximity Finance.

a) Respondents by Gender

The below table shows the gender of the respondents from Proximity Finance.

Table (4.14) Number of respondents by Gender – Employee

Sr No.	Gender	Frequency	Percent
1	Male	43	51.8
2	Female	40	48.2
Total		83	100

Source: Survey Data (2019)

Both employee participation percentage of male and female respondents are not much different in this study. Male respondents are slightly more than female, holding 51.8% male respondents (43) while 40 female respondents are presenting 48.2%.

b) Respondents by Education Level

The education level is also considered important and therefore it is worth to examine. The result of the survey states that 50.6% of respondents are bachelor's degree holders, 32% high school or diploma level. 7.2% are master's degree holders and 2% are under others who are Ph.D., holder and microfinance trainings certificates holders. 1.2% is the secondary school level staff. By analyzing the data that almost all the respondents are graduated persons. The results are shown in Table 4.15.

Table (4.15) Number of Respondents by Education Level – Employee

Sr No.	Education	Frequency	Percent
1	Secondary school	1	1.20
2	High School / Diploma	32	38.60
3	Graduate	42	50.60
4	Master	6	7.20
5	Other	2	2.40
Total		83	100.00

Source: Survey Data (2019)

c) Respondents by Position

The different positions of Proximity Finance are answered the survey. The highest number of respondents were 38 credit holders presenting 45.8% of total respondents. There are 15 branch managers responded holding 18.1% of the respondents. 12 credit analysts shared their feedbacks representing 14.5% and 6 quality analysts replied with 7.2%. 4 operation managers with 4.8% and 3 credit monitoring managers give their views and it interpreted as 3.6%. Only 1.2% are responded from audit manager and relationship manager and IT executives.

Table (4.16) Number of respondents by Position – Employee

Sr No.	Position	Frequency	Percent
1	Credit Officer	38	45.80
2	Credit Analyst	12	14.50
3	Credit Monitoring Manager	3	3.60
4	Quality Analyst	6	7.20
5	Branch Manager	15	18.10
6	Operation Manager	4	4.80
7	Relationship Manager	1	1.20
8	Digital Manager	2	2.40
9	IT Executives	1	1.20
10	Audit Manager	1	1.20
Total		83	100.00

Source: Survey Data (2019)

d) Respondents by Working Experience

The respondents were asked about their numbers of working experience in Proximity Finance. The service year are specified as five group: under 1 year, 1 to 3 years, 3 to 5 years, 5 to 7 years and above 20 years. The results are shown in Table 4.18.

Table (4.17) Number of Respondents by Service Year- Employee

Sr No.	Working Experience in Proximity Finance	Frequency	Percent
1	1 year and below	4	4.80
2	1 - 3 years	62	74.70
3	3 - 5 years	14	16.90
4	5 - 7 years	1	1.20
5	Above 7 years	2	2.40
Total		83	100.00

Source: Survey Data (2019)

The researcher was also interested to find out how long respondents have been working in this company so they can effectively share their views on evaluation of end to end credit loan process performance of the company.

Figure 4.11 illustrated that it is evident that the largest proportion of respondent were working period from 1-3 year with the frequency holding 74.7%.
14 respondents presenting 16.9% are in the range from 3-5 years. This proves that their views are largely based on their personal experiences within Proximity Finance.
4 respondents are newly joined to the company within 1 year and above -7 years which had 2 of the respondents constituting of 2.4%. The researcher found out that there are only 1 respondent who had worked for 5- 7 years.

4.5 Assessment of Loan Recovery Strategies in Proximity Finance – Employee

In this section, the employees are going to assess their current strategies and operational risk management practices used in Proximity Finance.

The higher the mean scores the higher the respondents' pleased with the questions. The instruction of the questionnaire's ratings is that "5" represents "Strongly Agree", "4" represents "Agree", "3" represents "Neither Agree nor Disagree".

There are seven main areas that respondents need to answer. They are

1) Credit Product Management which represents the product are quality with customer's need or not.
2) Joint Liability Model which is to ensure the loan repayment from borrowers
3) Credit Evaluation Management which is essential to ensure the credit analysis and judgement of loan application carefully and correctly reviewed and approved.
4) Credit Risk Management which is to control the operation risks before and after disbursement that frontline workers and staff to be aware and to avoid from loan default.
5) Collection Process Management which is to make sure the repayment collection on time without any default.
6) Internal Productivity Management which is to measure the motivation and productivity of internal staff from Proximity Finance.
7) Performance Management which is to audit, control and enhance the internal process, policies and procedure of end to end loan process.

a) Credit Product Management

To assess the products of Proximity Finance are met with customer's requirement and demand or not. There is any impact of loan default based on the loan characteristics such as loan duration, size, payment term.

Table 4.18 described how the customer of Proximity feel about their credit product taken from this MFI.

Table (4.18) Response on Credit Product Management

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	CPM1	Customers are comfortable with loan duration and cycle of your MFI	4.422	0.683
2	CPM2	The length of the duration is flexible in your MFI	4.337	0.785
3	CPM3	Customers are comfortable with loan size from your MFI	4.361	0.742
4	CPM4	Loan type is always meet with customers' need.	4.361	0.820
5	CPM5	How do you describe the interest rate charged by your MFI	3.374	0.851
6	CPM6	Interest rate limits the borrower's capacity from securing a loan	3.928	0.808
Overall Mean			4.131	0.553

Source: Survey Data (2019)

Table 4.18 reflects that statement CPM1 is gathered he highest weighted mean of 4.4217 with an interpretation of implemented to a very great extent. It implies that customers of this MFI are happy with their loan duration and cycle.

Weighted mean of CPM3, CPM4 and CPM 3 are slightly different with 4.3614%, 4.3614%, 4,3373% respectively and they all were interpreted of good sign.

Lastly, it is reflected in the table that the statement CPM5 is gathered the lowest number of the weighted mean of 3.3735 with an interpretation of implemented to a slightly extent. Some of the employees thought that current interest taken by organization is lightly high and some said it was average upon CBM 's regulation.

The overall mean is good quite good for product management process as the product team can understand the customers' need and want and design upon their requirement.

b) Joint Liability Model

To ensure and increase the repayment performance of MFIs, most of MFIs focus on group-based lending or joint liability which can show the advantages of group loan in reducing the default rate compared to an individual loan.

Table (4.19) Response on Joint Liability Model

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	JLM1	Group Lending is effective to reduce the loan default	4.121	0.688
2	JLM2	Group members are always covered the default loan of their team	4.325	0.718
3	JLM3	Group members are always monitoring each team members to avoid the default	4.169	0.809
4	JLM4	Peer pressure act is used as collateral in your MFI	4.193	0.573
5	JLM4	Repayment in time incentives to customers	4.096	0.759
6	JLM5	Your MFI has grace period of loan repayment	4.193	0.634
Overall Mean			4.183	0.521

Source: Survey Data (2019)

Based on Table 4.19, the researcher is finding joint liability using effectively in Proximity Finance to avoid the loan delinquency and default because group members are already covered if there is any loan default among members and it is getting the highest mean score as 4.325 under JLM2.

Respondents said that the rest of the group lending strategies are also under good scores which are all over 4 and organization is using in place to make sure the collection. According to score of JLM4 (4.096), the organization is giving the more loan amount to customer as a reward of repayment in time.

The overall average score is very good, and the customers can't avoid the repayment and giving incentives are also the encouragement for them and borrower groups are motivated to repay their loans to secure a future relationship because of the group lending model.

c) Credit Evaluation Management

Credit Appraisal was very important in influencing loan recovery. This assessment is to make sure the credit appraisal is reviewed by expert not to be happened to default soon.

Table 4.20 illustrates that how the appraisal and evaluation process and practices in Proximity Finance.

Table (4.20) Response on Credit Evaluation Management

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	CEM1	Your MFI considers customer's characters and background check before accessing the loan appraisal?	4.554	0.590
2	CEM2	Your MFI assesses customer's financial status and capacity to pay back to qualify the loan	4.494	0.755
3	CEM3	Your MFI does the extensive screening to loan applicant and have strong credit assessment and approval	4.446	0.720
Overall Mean			4.498	0.597

Source: Survey Data (2019)

As per table 4.20, the highest mean score is 4.554 which is CEM1 and it implies that MFI is checking thoughtfully the customer's characters and background before the loan appraisal.

Even though the lowest mean score is 4.446 (CEM3) in this table, the credit management team still did extensive screening of loan applications well with over 4 mean score and have strong assessment for approval. In general, the majority of the respondents are implementing to the very great extent of credit evaluation process activities having a composite mean of 4.498. It means that organization was well performing the credit analysis, credit rating, credit classification and credit reporting as per polices and guidelines.

d) Credit Risk Management Process

Credit risk management practices is an issue of in MFIs nowadays as it is directly impacted to loan delinquency and default. Company must have the greater insight into clients ‘s financial strength, credit history and changing payment pattern and updated family’s financial situation. Not only before loan disbursement but also after the loans, MFIs need a continuous closely monitor how the funds are being spent by the borrowers. Table 4.21 represents how the respondents shared their views.

Table (4.21) Response on Credit Risk Management Process

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	CRM1	Your MFI has good credit monitoring to prevent loan default	4.313	0.697
2	CRM2	Credit Offers offer trainings and technical assistances to the customer before and after loan disbursement.	4.301	0.822
3	CRM3	Credit officer always perform post-disbursement supervision and monitor of how the loan is being utilize	4.241	0.636
4	CRM4	Regular monitoring activities of customers, his family and environment	4.313	0.731
5	CRM5	Customers are reminded by your MFI in case of a possible default	4.205	0.793
6	CRM6	Your MFI sometimes warrant or use with legal action when all other efforts have failed	4.133	0.852
Overall Mean			4.251	0.539

Source: Survey Data (2019)

Table (4.22) Response on communication approach to customers

Sr No.	Statement	Frequency	Percentage
Your MFI always use the following methods to communicate, monitor and remind to its customers.			
1	Letter	0	0.00
2	Telephone Call	0	0.00
3	SMS	0	0.00
4	Personal Visit	45	54.22
5	Personal Visit and Telephone Call	27	32.53
6	Personal Visit, Telephone Call and SMS	9	10.84
7	Personal Visit, Telephone Call and SMS, Letter	2	2.41
Total		83	100.00

Source: Survey Data (2019)

As results of table 4.21, it is reflected that both statements "CRM1" which is to have good morning system and "CRM4", having regular monitoring activities to clients, gathered the highest weighted mean of 4.313. The result implies that the respondents give clear feedbacks of their monitoring systems and regular activities are well performing.

Pre and post-supervision on the status and progress of the client's business and conditions are conducting and practicing in the organization and the mean score is given 4.301 by respondent employees. In additional, monitoring the fund utilizing by clients effectively (CRM3) are doing well under mean score, 4.241 and the respondents acknowledge that credit officer or field workers inform to customer if they foresee the potential loan default with the average good score, 4.205. For CRM6, respondents agree that MFIs sometimes try to warrant or use with legal action when all other efforts have failed and there is no way to recovery the loan and the mean score is 4.133.

According to Table 4.22, organization is used the personal visit as the main communication approach and 45 respondents did personal visit holding 54.22 as highest channel. 27 respondents did both personal visit and make phone call to customer representing the 32.53%. only 2.41% did all the communication channel to communicate to customer.

Credit officer or field workers are frontlines staff of MFIs and they should go personal visit more to build the trust and strong relationship with clients and we can align the clients ‘current status. The overall credit risk monitoring and loan or credit supervisor are in good shape with 4.251 in Table 4.21. The best communication approach, personal visit, is always practicing by the staff to monitor the credit cycle from appraisal to disbursement, ensure the on-time repayment. A good credit management system and practices are already in place in proximity finance and all the front lend field workers are following it efficiently to ensure the continuity of the business.

e) Collection Process Management

Collection is an important process to maintain customers and to produce the return for MFIs and converting losses into revenue.

If MFIs see an increase in delinquency and default, serious actions need to take carefully by MFI to analyze the past-due portfolio with root causes and evaluate the probability of repayment. At the meantime, MFIs need to investigate define the most effective and efficient collection strategies.

Table (4.23) Response on Collection Process Management

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	CPM1	Your MFI has the good state of loan repayment	3.988	0.672
2	CPM2	All the borrowers are paid their principle plus interest in time	4.277	0.591
3	CPM3	Of the loan disbursed to customer, they pay back - above 85%	4.434	0.499
4	CPM4	Proximity Finance has frequently faced the loan default cases	4.084	0.768
Overall Mean			4.196	0.450

Source: Survey Data (2019)

As it is shown from above Table 4.23, respondents said that Proximity Finance received back all his loans and share their voting between 60-85 % and above 85%. Therefore, the highest mean score is 4.434. For CPM2, 4.277 mean score is the second highest score because all the borrowers are paid back their principle and interest in time. But respondents committed that there are some default cases happening and the average value is 4.084. with 3.988 mean value is presenting, the organization is the good stage in loan repayment. The overall mean is 4.196 and the collection process strategies are effectively used to get the repayment on time.

Table (4.24) Response on Customer's Loan Default

Sr No.	My customers have experience of loan default	Frequency	Percent
1	Yes	56	67.50
2	No	27	32.50
Total		83	100.00

Source: Survey Data (2019)

As the result of Table 4.24, the researcher analyzed that 56 respondents had faced the loan default cases which the percentage of 67.5% of total respondents. 32.5% was convinced that 27 respondents never have the loan default experience in the organization.

Table (4.25) Response on Loan Default Trend

Sr No.	If there is loan default happened under you, what is the trend of loan default in this MFI?	Frequency	Percent
1	Decreasing	60	72.30
2	Constant	23	27.70
Total		83	100.00

Source: Survey Data (2019)

According to Table 4.25, 72.3% of respondents said that the loan default rate is decreasing yearly. 23 respondents still mention that the default rate is still constant as before.

f) Performance Management

The performance of any MIFs is concerned depends on its existing loan process, procedures and policies at any specified time period. All MFIs are trying to maximize the revenue and minimizes loan default. Proximity Finance has also the written loan polices procedures and directives instructed by Central Bank of Myanmar (CBM).

Table (4.26) Response on Performance Management

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	PM1	Your MFI has the documented loan process.	4.422	0.607
2	PM2	Your MFI reviews yearly it's loan process, credit policies and procedures.	4.398	0.562
3	PM3	Credit Analyst always follows the defined procedures and directives for all loan applicants?	4.494	0.669
4	PM4	Update regular client information to maintain the accurate customer information.	4.374	0.599
5	PM5	Your MFI has MIS which daily, monthly, yearly monitoring reports, risk management reports and management dashboard	4.434	0.628
Overall Mean			4.424	0.452

Source: Survey Data (2019)

As described in the table 4.26, PM3 mean score is 4.494 which is maximum mean score. The respondents are agreed that credit analysts clear and are aware the process and directives set up by top management and are always followed the defined procedures during loan evaluation process.

The second highest score of is 4.434 (PM5) and according to respondent, organization has MIS and BI reports for operation team, management team and all relevant stakeholders to facilitate the monitoring of past-due clients, to analyze and address delinquent portfolio performance and to track the seasonality or monthly for forecasting purposes and performance management.

Respondents agreed that Proximity Finance has the documented loan process and procedures with PM1 mean score, 4.422 as the third highest score. The mean score of PM2 is 4.398 and the organization always review the loan process, credit policies and procedure yearly as the good practices. Moreover, the average score of maintaining and updating the client information (PM4) is 4.374. this information is very important to be updated always. It is a must practices that MFI must follow and respondents agreed the organization is performing well. We can analyze that the overall mean of performance management process in Proximity Finance are very good and all the staff are clear the polices and procedures well and following in their days to days operations.

g) Team Productivity Management

The frontline teams are very critical in MFI industry and l the vital role not only granting the loan but also recovering the loans, so they are required to be always motivated and well-equipped with both soft and hard skills in order to give the effective support and suggestion to the clients. Therefore, MFIs need to support the solid and concentrate training for the frontline workers. Table 4.27 represents the current practices used in Proximity Finance for internal team productivity.

Table (4.27) Response on Team Productivity Management

Sr No.	Q Code	Statement	Mean	Standard Deviation
1	TPM1	Credit officers are well trained and experienced filed workers	4.397	0.604
2	TPM2	There is incentive scheme or motivation program to credit officers	3.422	1.289
3	TPM3	Any fraud case by Staff	2.265	1.2791
4	TPM4	Solve Customer Service Complaints quickly	4.361	0.596
Overall Mean			3.611	0.442

Source: Survey Data (2019)

As the result of Table 4.27 shows that credit officers are well trained and experienced frontline workers (TPM1) has the highest mean score of 4.397 while the fraud cases by staff are the lowest mean score of 2.265. Score of customer service complaint management is also 4.361. This is very good sign of Proximity Finance because the staff are royal, supported, and well-trained and have the competencies. According to mean score of TPM2, 3.422, the organization is average incentive scheme. But as those frontline workers are the key player of MFIs, Proximity Finance needs to support giving incentive schemes to them and provide the motivations talks and programs to the staff.

The overall mean score is 3.611. Therefore, the respondents agreed that organization is still under positive score of taking care of the own employees. But the researcher suggests that productivity and motivation of internal teams are the key factors in achieving higher loan repayment collection performance of Proximity Finance and MFI should define the schemes and support them by providing monetary or in-kind depending on what form best suits the environment.

CHAPTER 5

CONCLUSION

This chapter includes following main sections: findings on assessment of the determinant of loan default in Myanmar and recovering strategies in Proximity Finance, conclusion of this study, recommendation to make necessary improvements to have mitigate the known and unknown risks, limitation of the study and further research in line with study objectives and research questions.

5.1 Findings

This study has been conducted with the objectives of examining the determinants of loan delinquency and default in Myanmar, identify and evaluate the strategies used in proximity Finance. To meet these objectives, the surveys were conducted in December 2019. Structured survey questionnaires are used for the quantitative data collection method. Survey questions are measured on five-point Likert Scale: 1(Strongly Disagree), 2 (Disagree), 3 (Neither Agree nor Disagree), 4 (Agree), and 5 (Strongly Agree). Quantitative data is analyzed with SPSS version 25. Sixty customers are randomly selected to give the feedbacks of the customer survey. All sixty respondents responded to the customer questionnaire. One hundred employees are randomly chosen to share their feedbacks of current organization's strategies. All eighty-three respondents responded to the employee questionnaire in time.

According to the analysis of customer respondents' demographic data, it was found that 36 - 45 years of age group is the largest, followed by years of 26 - 35 age group, 46 - 55 years of age group, etc. In gender composition, female is significantly larger than male borrowers.

Based on the demographic data of customer respondents, it was found that most of the respondents are middle age level which is 36 - 45 and has only average education level. Most of the respondents have 1 - 3 children and total income of households are mostly between 200,001 - 300,000 MMK. In addition, most respondents have been working as self-employed. Therefore, this study found that most respondents are taking the household and dependent 's duties.

According to the analysis of employee respondents' demographic data, it was found that graduate level was the largest, followed by diploma or high school and so on. In gender composition, male was slightly larger than female. Largest number of respondents were credit officers and followed by branch manager and credit analyst and other critical positions are also responded. Most of them were working in this organization in 1- 3years range and followed by 3- 5 years.

Among the measures mentioned by clients and employees, the findings are as below. It is evidently true that Joint Liability model were effective in ensuring the credit repayment. Group lending leads to improve the performance by the borrowers and it benefits both borrowers and MFI. During proper client's selection, MFI lets the team members select their most suitable and trustable group members and group lead in their teams. It supports strongly the continuous peer monitoring and the borrowers can also receive the additional support and assistance from group members dealing with the same types of issues. It can also provide MFI to be more flexible with their finance and receive the higher rates of repayment with lower risk.

Analysis of the data revealed that respondents are strongly agreed that the institution is fast disbursement of loan process during evaluation process even though required intensive appraisal screening and credit assessment is performed.

A significant score describes that the good monitoring system and activities from loan appraisal to collection process are in place and well performed by doing the frequent visit not only to their house but also to their business and farms before and post disbursement. It helps to give the best basic and technical support and good loan supervision which helps in keeping a loan good, investigate the general state of affairs and check on the state of clients' Morales and physical conditions.

An overall performance manages must include an evaluation of credit risk management, loan and loan repayment state policies, procedures and practices. The evaluation determines that the adequacy processes, policies and procedures and practices are set up and reviewed regularly as planned.

As loan duration and payment are statistically significant factors influencing loan default, customers were not happy and satisfied with short loan duration, small loan size and payment term given out because it directly impacted to their repayment in time. MFI needs to analyze more in product designing not only to secure the collection but also to fulfil customer's needs and solve their problems.

MFI doesn't have much attracting programs and scheme for the customers because of their repayment in time.

MFI has Proximity School to train all the frontend and back office staff to be strong with both hard and soft skills. That is really good for the staff 's personal development. But a few customers revealed that they still facing some of frontline workers were not polite in communication, lacked customer care skills; they were arrogant and uncooperative during execution of their duties.

5.2 Conclusion

The research evaluates that accordingly to customer survey, the factors of loan delinquency and default in Myanmar are loan duration, loan size, payment schedule, loan cycle, overlapping loans and poor customer services. According to above 4 mean scores of employee respondents from Proximity Finance, the organization has well-established process and procedures. Furthermore, most of their strategies and practices used in Proximity Finance are standard and best practices specified across the world. And all the common factors of loan default are already covered in his practices, strategies and some are in migration plan.

Credit appraisal evaluation process and practices were found very effective and MFI lets the competence and experienced credit analyst in order to avoid the unexpected credit risk at early stage. Using group lending methodology for ensuring the repayment, Borrower Group members clearly understand their roles and responsibilities and fully aware that they must take the reasonability of group loan liability. Pre and Post regular monitoring and loan supervision are well performed as of now and most of the clients are appreciated the staff's performance and customer service and quick support. Staff are aware of collection polices and following the ethical practices to collect money. Documented polices, processes and produced are regularly reviewed by internal audit team and performance management team for Internal productivity trainings and performance management. That's why the portfolio risk including loan default is 0.6 percent in Q1 2019 (Proximity Design, 2019). The initial portfolio risk was 1 percent and in 2018 it decreased to 0.9 percent. It implies that current strategies work well and reduce the loan default yearly and improve profits and chances of the survival and growth of Proximity Finance are enhanced. Therefore, the research can evaluate that the overall performance of organization is pretty good, and the strategies of Proximity Finance are quite effective to mitigate all possible operational, strategic, market and credit risks. If organization enhances some of the areas recommended by researcher, the current livelihood of loan default rate will be declined, and the performance of organization will be continuously enhanced in his future.

5.3 Suggestions and Recommendations

According to survey result, the following points are recommended to reduce loan default and enhance the current strategies in Proximity Finance.

The respondents assessed those Joint Liability model strategies are implemented to a great extent and it was effective in ensuring the credit repayment so that the researcher recommends that MFI should practicing this in the best effort.

There are many customers don't have NRIC in Myanmar and they would like to get the credit loan from MFI so MFI should consider how can achieve to borrow them without any impacting the processes and procedures and loan default rate. The research thinks that due to group lending model, it will be saved to return the repayment and MFI should only be more careful in reviewing the proper client's selection for the forming groups with lack of NRC customers.

To meet with client's requirement for existing or new products, the loan amount or size should increase appropriate amount for different customer depending on their financial needs, creditworthiness, capacity to repay and capability. Loan duration and the repayment period and repayment cycle should be flexible enough for customers not to impact the loan delinquency and default. MFI also create the social loan such as insurance loan, education loan for their dependents.

The respondents assessed those monitoring strategies are implemented to a great extent. Therefore, the researcher concluded that MFIs are practicing those in their best effort. Credit officers need to increase the efforts in doing the quick follow-up after a missed payment. They have to stress following up immediately after a delinquency, default in preventing a total default. If loan is delinquency or default, reducing the interest rates on the loan and/or extending the date of payment will be alternate option instead of letting loss. Deducting the payment from client's income will also be another effective strategy to use in recovering debt.

The operation manager should check with the credit officers or frontline workers daily to make sure the policies are followed, and the manager must respond quickly to solve the credit officers' problems. To minimize the fraud cases by staff, MFI should carefully review the background verification of staff before recruiting as they need to have the efficiency and loyalty to organization.

MFIs should define the credit incentive schemes for customer or doing the regular motivation talks or personal development trainings to them. This program will also strengthen the creditor-borrower relationship and borrower are aware of their obligations to repay the creditors as promised and ensure the performing loan.

To avoid the arrogant and uncooperative behaviors of some frontline workers during execution of their duties MFIs need to monitor staff's performance regularly to improve the communication skills and to treat the client with empathy. Financial incentives can be used to lower default or to persuade the co-operation for individual credit officers. That will be the effective solution for loan officers to achieve on-time payments and support with good customer service.

Instead of the paper-based credit application process, MFI should have the digital mobile application using tablet to avoid any human error and to have effective internal control within automation system for audit purposes MFI should start using the core banking system to get the real time information and updated all kind of reports. MFI should invest in predictive modeling and analysis to forecast the potential delinquency and default with the support of innovative and latest technologies.

The researcher suggests that Proximity should start using credit bureau which is common database of microfinance customers by co-operating with other MFIs. Then, credit analyst can check the credit history of customers in other MFIs and overlapping loan case to avoid the possibility of borrower defaulting.

5.3 Limitation of the Study

The researcher found that some of the limitations in the study. The company has data sensitive and confidentiality issue of sharing some numeric figures hence some of the questions have to remove from the questionnaires before the questionnaires released to employees.

5.4 Need for Further Research

After enhancing the recommended strategies, the further research might be required to assess the detail performance of Proximity Finance.

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APPENDIX I

Questionnaire on Assessment of Determinants of Loan Delinquency/ Default and Strategies of Loan Recovery

QUESTIONNAIRE FOR CUSTOMERS

Dear Respondent:

This research is a requirement for the award of master degree of Banking and Finance in Yangon University of Economics.

The following questionnaires are purely meant to collect data for academic purposes only and designed for obtaining information about the determinants of loan default/delinquency in Myanmar.

All responses shall be treated strictly confidential. Your response to this questionnaire would be highly appreciated.

Direction: ◯ - the circle indicates that question will have only one answer please select only one appropriate answer.

Each indicator is to be rated using five-point Likert scale

SCALE:

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1	2	3	4	5

Section A: Personal Data (Borrower's Characteristics)

Instruction: Please tick the appropriate answer.

1. Tick your appropriate gender

◯	a) Male
◯	b) Female

2. What is your age?

◯	a) 18 -25
◯	b) 26 – 35
◯	c) 36 – 45
◯	d) 46 – 55
◯	e) Above 55

3. Indicate your education background

◯	a) Have never been to school
◯	b) Primary School
◯	c) Secondary School
◯	d) High School/ Diploma
◯	e) Graduate
◯	f) Microfinance Trainings
◯	g) Others (Please specify) ………………………

4. Are you married?

◯	a) Yes
◯	b) No

5. How many dependents in your family?

◯	a) 0
◯	b) 1-3
◯	c) 4-6
◯	d) Above 6

6. Occupation

◯	a) Unemployed
◯	b) Student
◯	c) Employed
◯	d) Self-employed
◯	e) Others (Please specify) ………………………………..

7. Monthly Income (total monthly income from all households' members)

◯	a) 50000 MMK
◯	b) 50001 - 100,000 MMK
◯	c) 100,001 - 200,000 MMK
◯	d) 200,001 - 300,000 MMK
◯	e) 300,001 - 400,000 MMK
◯	f) Above 400,000 MMK

Section B: Loan Characteristics

1. Loan size is big enough to invest in further business. (LC1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

2. I am convenient with Loan duration and cycle. (LC2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

3. Interest rates affects the loan repayment abilities. (LC3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

4. Interest rate is appropriate and reasonable if I compare with informal interest rate. (LC3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

5. Payment terms are favorable for me to borrow. (LC4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

6. The repayment schedule is convenient for me to repay on-time. (LC4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section C: Credit Risk Management

7. MFI carefully performs the background check of customer before accessing the loan appraisal. (CRM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

8. Loan disbursement process is very quick. (CRM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

9. I got the enough training for financial and technical procedures from MFIs before and after disbursement. (CRM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

10. Credit officer always perform post-disbursement supervision and monitor of how the loan is being utilize. (CS4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

11. Your loan provider institution has good credit monitoring to prevent loan default. (CRM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

12. Credit officers are friendly and well behaved in loan and repay process. (CRM5)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

13. Credit officers are good in communication skills. (CRM5)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

14. Credit officers are well experienced with necessary knowledge and skills. (CRM5)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

15. Group Lending is effective to reduce the loan default. (CRM6)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section C: Credit History

16. I willingly pay my loan without any reminders or push. (CH1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

17. I pay the principle plus interest on-time. (CH2)

Not at All	Rarely	Sometimes	Often	Always

18. I intend to settle my debts to MFIs by using the loans from different MFIs. (CH3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

19. Peer Monitoring Strategies is effective for me to repay my loan. (LR6)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section D: Loan Default

20. I have experience of loan default.

- ◯ a) Yes
- ◯ b) No

21. If yes, reasons for loan default

- ☐ a) High Interest Rate
- ☐ b) Tight Repayment Schedule
- ☐ c) Overlapping loans
- ☐ d) Critical illness
- ☐ e) Death
- ☐ f) Poor Customer service
- ☐ g) Others (Please specify) ……………………………………

22. If yes, my group members are burdened to pay my pay back my loan.

- ◯ a) Yes
- ◯ b) No

====================== Thank you ===========================

APPENDIX II:
Questionnaire on the assessment of the loan recovery strategies in Proximity Finance

QUESTIONNAIRE FOR EMPLOYEES

Dear Respondents:

This research is a requirement for the award of master degree of Banking and Finance in Yangon University of Economics.

The following questionnaires are purely meant to collect data for academic purposes only and designed for obtaining information about the determinants of loan default/delinquency and the existing strategies of loan recovery in Proximity Finance.

All responses shall be treated strictly confidential. Your response to this questionnaire would be highly appreciated.

Direction: ◯ the circle indicates that question will have only one answer please select only one appropriate answer.

Each indicator is to be rated using five-point Likert scale.

SCALE:

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1	2	3	4	5

Section A: Personal Data

Instruction: Please tick the appropriate answer.

1. Tick your appropriate gender

◯	a) Male
◯	b) Female

2. Indicate your education level

◯	a) Have never been to school
◯	b) Primary School
◯	c) Secondary School
◯	d) Diploma
◯	e) Graduate
◯	f) Master
◯	g) Others (Please specify) ……………………………………

3. Indicate your position in this MFI

◯	a) Credit Officer
◯	b) Credit Analyst
◯	c) Credit Monitoring Manager
◯	d) Branch Manager
◯	e) Operation Manager
◯	f) IT Manager
◯	g) Others (Please specify) …………………………………………………………………

4. How long have you worked in this MFI?

◯	a) 1 year and below
◯	b) 1- 3 years
◯	c) 3 - 5 years
◯	d) 5 - 7 years
◯	e) Above 7 years

Section B: Credit Product Management

5. Customers are comfortable with loan duration and cycle of your MFI. (CPM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

6. The length of the duration is flexible in your MFI. (CPM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

7. Customers are comfortable with loan size from your MFI. (CPM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

8. Loan type is always meet with customers' need. (CPM4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

9. How do you describe the interest rate charged by your MFI? (CPM5)

Very Low	Low	Average	High	Very High

10. Interest rate limits the borrower's capacity from securing a loan (CPM6)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section C: Joint Liability Management

11. Group Lending is effective to reduce the loan default. (JLM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

12. Group Members are always covered the default loan of their team. (JLM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

13. Group Members are always monitoring each team members to avoid the default. (JLM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

14. Peer pressure act is used as collateral in your MFI. (JLM5)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

15. Repayment in time incentives to customers. (JLM6)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

16. Your MFI has grace period of loan repayment. (JLM6)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section D: Credit Evaluation Management

17. Your MFI considers customer’s characters and background check before accessing the loan appraisal? (CEM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

18. Your MFI assesses customer's financial status and capacity to pay back to qualify the loan. (CEM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

19. Your MFI does the extensive screening to loan applicant and have strong credit assessment and approval. (CEM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section E: Credit Risk Management

20. Your MFI has good credit monitoring to prevent loan default. (CRM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

21. Credit Offers offer trainings and technical assistances to the customer before and after loan disbursement. (CRM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

22. Credit officer always perform post-disbursement supervision and monitor of how the loan is being utilize. (CRM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

23. Regular monitoring activities of customers, his family and environment. (CRM4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

24. Customers are reminded by your MFI in case of a potential default. (CRM5)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

25. Your MFI sometimes warrants or uses with legal action when all other efforts have failed. (CRM6)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section F: Collection Process Management

1. Your MFI has the good state of loan repayment. (CPM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

2. All the borrowers are paid their principle plus interest in time. (CPM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

3. Of the loan disbursed to customer, they pay back. (CPM3)

Less than 20%	Between 20-35%	Between 35-65%	Between 60-85%	Above 85%

4. Your MFI has faced less the loan default cases. (CPM4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

5. Your MFI always use the following methods to communicate, monitor and remind to its customers. (CPM5)

	Very Common	Common	Not Common	No Opinion
Letter				
Telephone Call				
SMS				
Personal Visit				

6. Have you had cases of loan defaults?

○ a) Yes

○ b) No

7. If Yes, what is the trend of loan default in this MFI institution?

Increasing	Decreasing	Constant

Section F: Performance Management

8. Your MFI has the documented loan process. (PM1)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

9. Your MFI reviews yearly it's loan process, credit policies and procedures. (PM2)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

10. Credit Analyst always follows the defined procedures and directives for all loan applicants? (PM3)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

11. Update regular client information to maintain the accurate customer information. (PM4)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

12. Your MFI has MIS which daily, monthly, yearly monitoring reports, risk management reports and management dashboard. (PM5)

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

Section F: Team Productivity Management

13. Credit officers are well trained and experienced filed workers

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

14. There is incentive scheme or motivation program to credit officers

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

15. Any frauds case by staff

Very Low	Low	Average	High	Very High

16. Solve customer service complaints quickly

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

====================== Thank you ========================