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OVERLAPPING LOAN OF MICROFINANCE USERS IN SHWEPYITHAR TOWNSHIP

NAY LWIN

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"OVERLAPPING LOAN OF MICROFINANCE USERS IN SHWEPYITHAR"

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Supervised by:	Submitted by:
Daw Khin Nwe Ohn	
Associate Professor	Nay Lwin
Department of Commerce	Roll No. - 69
Yangon University of Economics	MBF-Fourth Batch

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ABSTRACT

Microfinance is considered as one of the social protection mechanisms for poverty reduction in the world. Thus many microfinance institutions have been working to enhance livelihoods opportunities and capacities of poor. In Myanmar, 176 Microfinance institutions are implementing microfinance activities. Currently, over four million clients have reached to access microfinance services in Myanmar. On the other side, competition among MFIs is sharply higher to serve their financial services in their targeted areas. Meanwhile, according to the multiple borrowing amongst MFIs clients in Myanmar report, 31% of clients are with 2 or more loan and 50% number of MFIs from whom loans have been taken (M-CRIL, 2018). Therefore, under such condition, this study carry out to identify cause of overlapping loan of microfinance users in Shwepyithar township, Yangon Division, Myanmar where MFIs are most crowded.

To support the study, the required data were collected through sample survey. A structured questionnaire was used. The judgment sampling was employed. As a sampling process, samples are made from those who have been borrowing from at least two microfinance institutions. By this way, a sample of 150 respondents are selected as a study sample. To determine the cause of overlapping loan borrowing among participants in microfinance institutions, the three dimensions are divided in this studied, (1) Financial Service of MFIs, (2) Family Economic and (3) Family' Consumption and Social Requirement.

Regarding ***financial services,*** is that the respondents expresses 'loan size is small'. It means that they have to do multiple borrowing from different source because of ' loan size they receipted is small'. Regarding ***Family Economy,*** the key point which respondents said that 'Financial need to expand business is not fulfilled by one MFI loan range' and repayment to money lender and MFIs are forced them to borrow again from another sources at the same time. Regarding '**Family's Consumption and Social Requirement',** the key influencing factor is to use in family consumption, children education and health program visibly. Whilst compare among three key factors, 'family economy factor forces them to make multi borrowing again from another sources at the same time.

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CHAPTER I
INTRODUCTION

Globally, Microfinance is considered as one of the social protection mechanisms for poverty reduction in the world. Most of the countries believe that microfinance is the right strategy which can contribute to poverty reduction and help poor people out of poverty. Thus many microfinance institutions have been working to enhance livelihoods opportunities and capacities of poor communities through different interventions in all over the world. The International Finance Corporation (IFC) report estimates that, as of 2014, more than 130 million people have directly benefited from microfinance-related operations. However, those operations are available to approximately 20 percent of potential market around the world. An approximate three billion people of developing countries still have limited access to formal financial services.

United Nations Population Fund (UNFPA) reports that around 70 percent of total populations (51.5 millions) are living in rural areas in Myanmar. Making Access Possible (MAP) report states that over 70 percent of adults do not have formal access to financial services and the majority of citizens relying on unregulated providers, often at substantially higher cost, or on family and friends. MAP states in Demand, Supply, Policy and Regulation report, 2014 that 30 percent of adults reported to use at least one financial service from a regulated financial service provider. Therefore, access to finance and financial services are very important for the poor families to start or expand, and invest in their skillful activities and business.

According to Microfinance Sector Data, 2018, approximately 176 Microfinance institutions are implementing microfinance activities in Myanmar and they are providing financial services to communities by using different strategies and methodologies. The Government of Myanmar also believes that microfinance is also important function for poverty reduction. According to Microfinance Business Law, 2011, local/ foreign private companies, INGOs, and NGOs were allowed to get microfinance license, and established Microfinance Institutions (MFIs) since then. Now these MFIs are leading microfinance activities such as a vital supporting strategy for poverty reduction with various kinds of methodology for microfinance services. According to the Myanmar Microfinance Association (MMFA)'s new letter, 2018, it concludes that over four million clients have reached to access microfinance services in Myanmar.

1.1 Rationale of the Study

Microfinance also known as microcredit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors. The goal of microfinance is to provide individuals with money to invest in themselves or their business (Caramela, 2018). Microfinance gives the poor opportunities to overcome poverty and become self-sufficient by running small businesses. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. The Microfinance Institutions (MFIs) access financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor. Thus, Microfinance Institutions (MFIs) are increasing gradually around the world to implement microfinance activities as social business. Therefore, credit accessibility rate for poor families are growing, and poor families are also accessing financial services easier than before.

On the other side, competition among MFIs is sharply higher to serve their financial services in their targeted areas. As microfinance market is being mature in recent years, competition is significantly increasing everywhere. Although Microfinance introduced to poor families help out of poverty but overlapping services are harmful status in accessing financial services for the poor (Experts, 2015) and it makes poor people falling into deep debt trap. According to MMFA report, the number of MFIs in Myanmar are significantly increasing all over the country. As per Dec 2017 figure, 176 MFIs were licensed during 6 years, after Microfinance law has come out. Thirty five out of 176 MFIs are operating in four Region and State. Between 20 to 35 MFIs are operating in two States and Regions. Between 10- 20 MFIs are operating in five States and Regions. Under 10 MFIs are operating in four States and Regions as per MMFA newsletter 2018.

Some MFIs report that over-indebtedness in certain urban areas has either become a problem or could become an issue. The August 2016 notifications suggest the regulator is also concerned. MFIs point to a rise in new lenders who focus on the same urban centers in Yangon, Mandalay, Bago and Ayarwaddy' (Myanmar Financial Services Monitor, 2018).Meanwhile, according to the multiple borrowing amongst MFIs clients in Myanmar report, 31% of clients are with 2 or more loan and 50% number of MFIs from whom loans have been taken (M-CRIL, 2018). 'While 31% respondents reported 2 or more current loans, 25% said they faced difficulties in repayment. The main factors that contributed to clients' difficulties in making repayments are the number of loan sources and the frequency of repayment are extremely burdensome for clients' (M-CRIL, 2018).

Therefore, under such condition, this study carry out to have a better understanding on cause of overlapping loan of microfinance users in Shwepyithar township, Yangon Division, Myanmar where MFIs are most crowded. So that the results will be very important for microfinance sectors in order to realign the existing intervention and strategies. Moreover the results will support to reinforce on country regulatory framework.

1.2 ` Objectives of the Study

The objective of the study is as follows:

- To identify cause of overlapping loan of microfinance users

1.3 Scope and Method of the Study

This study examines factors influencing on using overlapping microfinance services of the borrowers. To support the study, the required data were collected through sample survey. As a survey instrument, a structured questionnaire was used.

As a sampling method, the judgment sampling was employed. As a sampling process, samples are made from those who have been borrowing from at least two microfinance institutions. By this way, a sample of 150 respondents who borrowing at least two MFIs are selected as a study sample. The selected respondents were requested to complete the questionnaire. All 150 respondents kindly responded to the questionnaires.

This study completed in Shwepyithar township, Yangon Division, Myanmar where MFIs are most crowded in Yangon region and working 26 MFIs are working there. Among 26 MFIs, one biggest MFI who is servicing for 4,000 clients was selected. Among 4,000 clients, 400 clients under 10 microfinance centres were selected. Among 400 clients, the study could find 150 respondents who are with two or more loan borrowing from two microfinance institutions.

1.4 Organization of the Study

This study is divided into five chapters. Chapter 1 consists of introduction covering rationale of the study, objectives of the study, scope and method of the study and organization of the study. Chapter 2 briefly explains on history of microfinance and focuses on key concepts and principles of microfinance, role of MFIs in poverty reduction, products and services of MFIs, lending methodologies, Cause of overlapping loan of microfinance user. Chapter 3 explains overview of microfinance in Myanmar, legal framework of MFIs in Myanmar, Products and Services and Demand and Supply of MFIs in Myanmar. In addition it includes the status overlapping loan of microfinance users in Myanmar. Chapter 4 presents survey design, demographic profile of the respondents, cause of overlapping loan of microfinance users, and comparative analysis on cause of overlapping loan of microfinance users. Chapter 5 provides the conclusion of findings, suggestions and recommendations.

CHAPTER II
THEORICAL BACKGROUND

This chapter gives an overview of the microfinance which includes the history of Microfinance, key concepts and principles of Microfinance, role of Microfinance institutions in poverty reduction and financial inclusion, products and services of Microfinance institutions, Lending methodologies of Microfinance institutions, and cause of overlapping loan of microfinance user of this study.

2.1 History of Microfinance

Microfinance is not a new concept. From the earliest of time in traditional societies, informal savings and credit groups have operated for centuries across the developing world. In 1462, an Italian monk created the first official pawn shop to counter usury practices. In 1515, Pope Leon X authorized pawn shops to charge interest to cover their operating costs. In the eighteenth century, the Irish Loan Fund system which is one of the earlier and longer-lived micro credit organizations provided small loans to rural poor with no collateral. It covers, at its peak, 20 percent of all Irish households annually. In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Cooperatives. From 1865, the cooperative movement expands rapidly within Germany and other countries in Europe, North America, and eventually developing countries. In 1895, Indonesian People's Credit Banks (BPRs) became the largest microfinance system in Indonesia, with close to 9,000 branches (CGAP, 2006).

In the early 1900s, rural finance adaptations in Latin America aimed to modernize the agricultural sector, to mobilize "idle" savings, to increase investment through credit, and to reduce oppressive feudal relations that were enforced through indebtedness. However, over the years, these institutions became inefficient and, at times, corrupt. Between the 1950s and 1970s, governments and donors focused on subsidized agricultural credit but these schemes were rarely successful due to poor repayment discipline. In addition, the funds did not always reach the poor, and often ended up in the hands of better-off farmers. Starting in the 1970s, experimental programs extend tiny loans to groups of poor women to invest in micro-businesses. Some of the early pioneers of microfinance institutions include SEWA Bank, ACCION International and Grameen Bank. SEWA Bank started off as an organization formed by a group of self employed women in 1972. In 1973, ACCION International began issuing small loans in Recife, Brazil and eventually managed to create a network of financial institutions with branches in 22 countries. The Grameen Bank was founded by the Bangladeshi economist, Muhammad Yunus and has managed to become one of the most well-known and successful microfinance institutions in the world. He initiated a financial project for the poor in 1976 that became the Bangladeshi Grameen Bank in 1983 (R.M, 2014).

In 1980s, Microcredit programs improved and shifted from subsidized credit delivery to commercial financial services. MFIs operated more like a business to become long-term sustainable, charging prices to cover cost and holding borrowers accountable for repayment. In 1990s, microcredit begins to be replaced by microfinance as it became clear that poor people not only need loans but also a variety of financial services. Microfinance starts to develop as an industry and develop appropriate regulation and supervision for licensed microfinance institutions. In 2000s, microfinance is more commercialized with greater for profit orientation and more innovative products and services were developed. The year 2005 becomes UN Year of Microcredit and in 2006, Professor Muhammad Yunus win Nobel Prize (R.M,2014).

2.2 Key Concepts and Principles of Microfinance

Globally, an estimated two billion adults have no access to formal financial services worldwide and half of them live in Asia. Access to capital is a key constraint for poor and low income people to improve their lives. There are some major barriers for the poor to not having access financial services. The poor do not have collateral which is required by commercial banks and financial institutions to secure loans, lack of formal identification, and lack of verifiable credit history. The commercial banks focused on the upper, more profitable segment of the market. Additionally, there are high transaction costs of processing small loans compared to larger ones (World Bank, 2018).

Microcredit provided a solution for these problems and it offered small loans without the collateral requirements typically imposed by the formal banking sector. Microcredit assists the poor people to create revenue activity. In 1990s, microcredit begins to be replaced by microfinance as it became clear that credit alone is insufficient and other variety of financial services are required to help low income individuals meet their household needs to generate income, build assets and manage risk. Microfinance is also about building sound domestic financial institutions that can provide financial services poor people on a permanent basis. These institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services. The broader definition of microfinance includes not only microcredits but also other financial services, which can be offered to the poor to improve their standard of living and family welfare. One of the main underlying assumptions of the concept is that the receiver of the money will be able to uplift the economic condition of the household through creating self-employment with this manageable amount of money (World Bank, 2018).

Microfinance allows people to take on reasonable small business loans safely, and in a manner that is consistent with ethical lending practices. (Robinson, 2001) accepted that access to microfinance services can reduce risk, raise productivity, diversify income opportunities, increase income, and improve the quality of poor people's lives and those of their dependents. MFIs in general also seek to achieve to become financially sustainable by covering its costs and becoming independent from donor subsidies. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor. (Ledgerwood, 1998), also mentioned that MFIs should be financially self-sufficient, independent from subsidies and locally managed. Nowadays, a growing number of MFIs are transforming from donor-dependent NGOs into banks.

As mentioned above, Microfinance institutions cannot always be depend on donors. It needs to be sustainable itself and self-reliance for long run. Because of that reason, although some microfinance institutions started as non-profit, but became profit organization and commercialized. It allows them to operate more efficiently, and to attract more capital from profit-seeking investors. Their idea is to reach more clients and provide more money and more loans to low-income borrowers. However Microfinance Operators should always keep in mind that the fundamental concern of microfinance operations should be based on poverty alleviation, not profit. If the microfinance organization are too focused on profit and charges higher interest rates, it may create a debt trap for low-income borrowers. Ultimately, the goal of microfinance is to give poor people an opportunity to become self-sufficient.

The following are key principles that summarize a century and a half of development practices were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 summit on June 10, 2004.

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. Microfinance can pay for itself. Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country' mainstream financial system.
6. The role of government is to enable financial services, not as a direct provider of financial services.
7. Donor funds should complement private capital, not compete with it.
8. Donor should focus on capacity building due to shortage of strong institutions and human capacity.
9. Interest rate ceilings can damage poor people by preventing microfinance institutions from covering their costs.
10. Microfinance institutions should measure and disclosure their performance both financially and socially.

Microfinance has its unique characteristics. Unlike typical financing situations, in which the lender is primarily concerned with the borrower having enough collateral to cover the loan, many microfinance institutions focus on helping entrepreneurs to succeed. Mostly it is collateral free. But like conventional lenders, micro financiers must charge interest on loans and interest rate is usually in between the rates of informal money lenders and formal banks. However they institute specific repayment plans with payments due at regular intervals. Some lenders require loan recipients to set aside a part of their income in a savings account, which can be used as insurance if the customer default. If the borrowers repays the loan successfully, then they has just accrued extra savings. Another unique characteristic is that Microfinance institutions go to the clients rather than clients go to the MFIs. MFIs simplified savings and loan procedures. In addition, people seeking help from microfinance organizations are first required to take a basic money-management class. Lessons cover understanding interest rates, the concept of cash flow, how financing agreements, and saving accounts work, how to budget, and how to manage debt. Once educated, clients may then apply for loans. Then just as one would find at a traditional bank, a loan officer helps borrowers with applications, oversees the lending process, and approves loans (CGAP, 2004).

Lending method is also one of the unique characteristics. As many applicants cannot offer collateral, micro-lenders often pool borrowers together as a buffer. After receiving loans, recipients repay their debts together. Because the success of the program depends on everyone's contributions, this creates a form of peer pressure that can help to ensure repayment. For example, if an individual is having trouble using his or her money to start a business, that person can seek help from other group members or from the loan officer. Through repayment, loan recipients start to develop a good credit history, which allows them to obtain larger loans in the future. (Khachatryan, 2010) notes that fundamental services provided by the MFIs are the same that conventional financial institutions offer to their customers. What creates the difference is the scale and method of service delivery.

MFIs are also able to benefit from cost advantage by allowing the group leaders to be in charge of collecting the individual amounts for the loan agent. Since all loans from a particular group get repaid on the same schedule, loan officers are able to collect payments from a larger number of borrowers every day. This technology of loan collection plays a big role in reducing the administrative costs per loans. (Banarjee and Duflo, 2010). Another characteristic in term of the customer base of microfinance institutions, it is also a bit different than those of commercial banks, with most MFIs focusing more on a specific type of customer. Microfinance customers generally consists of small entrepreneurs who provide essential services and products to their community and who tend to operate in the informal economy. These customers seek credit in order to set up or manage their own business, which ranges from making small handcrafts to running neighborhood shops. Examples of micro-borrowers include street vendors, trades people, small farmers, and service providers. Another characteristics of MFIs is that women make up the vast majority of borrowers, especially in Asia, where shares of female debtors are as high as 99%. The reason for targeting female borrowers stems from the belief that women are more reliable as debtors due to their stronger social and family ties, which in turn causes them to invest in safer projects and lower their chances of default. (Dieckmann, Speyer, Ebling and Walter, 2007).

2.3 Role of Microfinance Institutions in Poverty Reduction and Financial Inclusion

Since a few decades ago, Microfinance Institutions are playing a vital role in strengthening the economy of the rural poor people. The poor people were generally excluded from formal financial services due to lack of adequate collateral which were required by formal financial institutions. This hampers growth, increases the poverty level and leads to slow economic development. In 1970s, microfinance institutions have made efforts to provide credit to the poor. This model gained popularity and microfinance is considered a possible tool for alleviating poverty. Microfinance is mostly recognized for its ability to encourage self-employment through the establishment of microenterprises that reduce reliance on informal financial sources, low wage jobs and create employment opportunities. Microfinance is a powerful development tool that can reach the poor, raise their living standards, create jobs, and contribute to economic growth. Microfinance benefits not only for the people who received the capital to start the small businesses but also indirectly benefits for the others. If the businesses are successful, then it can create jobs, trade, and overall economic empowerment within the community. Empowering women in particular, may also lead to more stability and prosperity for families. Microfinance has given small business opportunities to millions of rural women who previously occupied in domestic work, the chances to earn independently and even sometimes employ others in their established business (CGAP, 2009).

(Burjurjee, 2015) mentions that Microfinance is also an important element in financial inclusion strategy. Financial inclusion means that individuals and businesses can access and use a selection of affordable and responsibly-provided financial services offered in a soundly regulated environment. Bringing poor people on board to the formal economy is a critical contribution to poverty reduction, resolving inequality and facilitating inclusive growth. There is evidence that increased levels of financial inclusion – through the extension of savings, credit, insurance and payment services – contributes substantially to sustainable economic growth. Microfinance has countless success stories, but on the other hand, it also has engendered a series of over indebtedness. So it is always argued whether microfinance can really help the poor. Response to the argument is that Microfinance may not be effective in some cases but microfinance clearly has a vital role. Empirical studies show that efficient microfinance services have significantly contributed to poverty reduction in diverse ways. There is a wide agreement about the positive impact on the every-day life of millions of poor and low income people. (Copestake et. Al, 2001) found from a case study in Zambia that there was a positive link between microfinance participation and household growth. They also found that 52 percent of the borrowers that where asked, had improved their overall quality of life. Some positive impacts and the study pointed out that Microfinance helps the borrowers to increase income and smooth out cash flows; build up assets; reduce vulnerability and allow household to better planning for the future; and empower women and improve their status within the family and the community.

By itself, microfinance is not going to solve poverty. While it does have a vital role to play in fighting poverty – and, indeed, in many ways it is doing a great job - more appreciation needs to be given to how complex an issue it is. Ultimately poverty is not just a financial problem - it also has structural, political and psychological elements, and only once this is understood can the problem begin to be solved. Until then, microfinance is making many people's lives immeasurably more livable – or at the least helping to pay emergency bills. Over time, financial service providers have developed a better understanding of the wide range of financial needs of low income people in both urban and rural areas. Many financial service providers now offer a wide range of products beyond credit, such as savings, insurance, and money transfers, to help poor people manage their financial lives. New technologies continue to create opportunities to broaden the reach and lower the cost of delivering financial services to poor people. Financial services are now available in many markets to anyone with a mobile phone, with innovation driving both improved product design and delivery. Today, microfinance is increasingly seen as one component of the broader financial inclusion system, comprised of various players with the common objective of delivering high-quality financial services to low-income people (FinDev Gateway, 2013).

2.4 Products and Services of Microfinance Institutions

Microfinance Institutions provide credit services, some also provide other financial products, including savings, insurance, and payment services. The choice of which financial services to provide and the method of providing these services depends on the objectives of the MFIs, the demands of its target market, and its institutional structure. Two key imperatives that must be considered when providing financial services are to respond effectively to the demand and preferences of clients and to design products that are simple and can be easily understood by the clients and easily managed by the MFIs. The range of products commonly provided includes credit, savings, insurance, credit cards and payment services. The following section provides a brief description of the products MFIs offer their clients (adapted from Waterfield and Duval 1996).

2.4.1 Credit

Microcredit or small-scale lending is probably the most well-known service provided by MFIs. Loans are generally made for productive purposes to generate revenue within a business. Some MFIs also make loans for consumption, housing, or special occasions. While many MFIs insist that only productive loans be made, any loan that increases the liquidity of the household frees up enterprise revenue, which can be put back into the business. Most MFIs strive to reach sustainability by ensuring that the services offered meet the demands of clients; operations are as efficient as possible and costs are minimized; interest rates and fees are sufficient to cover costs; and clients are motivated to repay loans. Methods of credit delivery can generally be divided into the two broad categories of individual and group approaches, based on how the MFI delivers and guarantees its loans (adapted from Waterfield and Duval 1996).

2.4.2 Savings

Savings mobilization has long been a controversial issue in microfinance. In recent years there has been increasing awareness among policymakers and practitioners that there is a vast number of informal savings schemes and MFIs around the world (in particular, credit union organizations) have been very successful in mobilizing savings. These developments attest to the fact that low-income clients can and do save. The World Bank's "Worldwide Inventory of Microfinance Institutions" found that many of the largest, most sustainable institutions in microfinance rely heavily on savings mobilization. "In 1995, over $19 billion are held in the surveyed microfinance institutions in more than 45 million savings accounts compared to nearly $7 billion in 14 million active loan accounts. Micro-saving or small-scale saving is provided by the MFIs to enable poor and low-income people to save money safe, to get some return on their money. It is common to distinguish between two types of savings, compulsory savings and voluntary savings.

Compulsory savings differ substantially from voluntary savings. Compulsory savings (or compensating balances) represent funds that must be contributed by borrowers as a condition of receiving a loan, sometimes as a percentage of the loan, sometimes as a nominal amount. For the most part, compulsory savings can be considered part of a loan product rather than an actual savings product, since they are so closely tied to receiving and repaying loans. Compulsory savings are useful to:

- Demonstrate the value of savings practices to borrowers
- Serve as an additional guarantee mechanism to ensure the repayment of loans
- Demonstrate the ability of clients to manage cash flow and make periodic contributions (important for loan repayment)
- Help to build up the asset base of clients.

Voluntary savings is the other saving type. It is provided by the MFIs to borrowers and also non borrowers, and it is a lot more user-friendly service then compulsory savings. However, voluntary savings struggles with high administrative complexity and costs, especially for smaller saving amounts, and the MFIs face many challenges on their way of offering voluntary savings (Ledgerwood, 1998). There are three conditions that must exist for an MFI to consider mobilizing voluntary savings (CGAP 1997):

- An enabling environment, including appropriate legal and regulatory frameworks, a reasonable level of political stability, and suitable demographic conditions
- Adequate and effective supervisory capabilities to protect depositors
- Consistently good management of the MFI's funds.

2.4.3 Insurance

MFIs are beginning to experiment with other financial products and services such as insurance, credit cards, and payment services. Micro-insurance is provided by the MFIs to enable poor and low-income people reducing their financial risk, in cases like illness, extreme weather or fatalities. The most common products offered by the MFIs are life insurance and health insurance, and to some extend property and crop insurance. Life insurance has until now been the most successful insurance product (Armendariz de Aghion & Morduch, 2005). It has not been easy developing insurance products that fit the needs of poor people, and also makes it economical sufficient for the MFIs. Micro-insurance products does not have widespread as micro-credit and micro-lending, but there is a growing demand by the poor and low-income and it is expected to be offered more extensively by the MFIs in the future (Ledgerwood, 1998).

2.4.4 Credit Cards and Payments Services

Credit cards and payment services are in an early stage of development. Payment services include check cashing and check writing privileges for customers who maintain deposits (Caskey 1994). In addition to check cashing and check writing privileges, payment services include the transfer and remittance of funds from one area to another. Microfinance clients often need transfer services, however, the amounts that formal financial institutions require to make a transfer may be beyond the limits of the client. Without transfer services clients may be forced to carry (relatively) large amounts of money with them, thus incurring unnecessary risks. To offer payment services MFIs must have an extensive branch network or relationships with one or more banks. This is often difficult to achieve. Few MFIs are currently offering these services, but it is anticipated that in the future more and more will recognize a demand for payment services and will boost their ability to cover the costs associated with such services. Offering credit cards is a step in the right direction of giving poor and low-income people simplified and user-friendly financial services, with expected advantages such as streamline operations and an ongoing line of credit, enabling them to supplement their cash flow according to their needs.

2.5 Lending Methodologies of Microfinance Institutions

Microfinance have distinguished themselves from most commercial banks by adapting different lending practices in order to efficiently and effectively provide financial assistance to the poor. Microfinance lending products mainly includes group lending and individual lending.

2.5.1 Group Lending

One of the most popular methods applied by the MFIs is the group lending method. Village Banking or Self-Help Groups refer to methodologies that provide access to credit and savings services through group or community managed associations. Loans from microfinance institutions (MFIs) are considered of this type when the MFIs lends to the group, which in turn uses this money to lend to its members. Loans to the Village Bank or Self-Help Group are made under the collective guarantee of the group. Loans may also be made from the retained profits of the group or from group members' savings. These loans are considered internal to the Village Bank or Self-Help Group. Solidarity Group lending refers to the use of groups for disbursement of funds and collection of repayment on loans to either the group as a whole or to the individual members of that group. Borrowers of such groups often bear joint and several liability for the repayment of all loans to the group and its members. This group liability may also determine credit decisions made by the institution. Solidarity Groups vary in the degrees to which they use groups for credit decisions, disbursement, collection, or to reduce credit risk (Silveman, 2017).

There are many different versions but the basic idea is that each member of the group is responsible for all the other members' loans, if any member fail to repay this will have consequences for all members of the group and the borrowers form the groups themselves. The architecture of this system makes the group members screen themselves, the borrowers don't want any unreliable members of the groups since they are all responsible, and the cost of screening borrowers disappear for the lender. In the same way this somewhat eliminate the need for collateral since the members of the group often are friends and family who care about each other, they don't want to fail or ruin one another. This ensures that even without taking any physical collateral, the MFI is able to manage its credit risk. The punishment for failing to repay is often to deny further credit in the future, which many people rely on for their business, home and life. This was the origin of the idea dating back to the birth of microfinance in the 1970s. This is also called the solidarity or the Grameen method. This methodology later spread to Latin America and Africa among the MFIs.

The group may be composed of 3 to a number determined by the MFI. The majority of groups in various MFIs range between 5 and 30 members. Each group must have a leader or chairperson, a secretary and a treasurer. The group are to choose their own leaders and also accept and expel members. This ensures internal rules, regulations and discipline in the group are followed. The MFI only guides the group but does not decide for the group. On group composition, groups may be comprised of only dealers in the same or similar type of business (example, tomatoes sellers only) or a mixture of varied businesses (example, food sellers, second-hand cloth dealers all in the same market/location). Also, the amount borrowed per each member in the group could be the same or varied amounts. There are advantages and disadvantages of each of these group composition which affects the group dynamics. On the payment day, all members much contribute and pay according to their loan schedule. In case one or a few members fail to meet their repayments on the due date, the rest must contribute and pay for those members who couldn't pay since each person guarantees for the other in the group. That is the meaning of the solidarity or the Grameen method. No default is allowed on the repayment date. A member who continuously defaults thereby incurring the displeasure of the members in normally expelled from the group in the next cycle of the loan.

In general, the groups that have been existing for a long time normally reduce in number. This is the point that the MFI comes it to “reward” the loyal members with an individual loan, but not before. In many organizations, the group may become smaller after their tenth cycle of the loan. That is if the group have collateral and repaid ten times in the loan cycle of between 6 to 10 months, the group is regarded as a matured group. And it then graduate to an individual loan stage. But there are some disadvantages such as the risk that if some members of the group realize that one member won’t be able to repay the loan and they all will lose the chance of further credit, they have no incentives to repay their loans either, causing a domino effect. Due to the way the system works it can also have fatal consequences for group members who don’t repay their loans, i.e. bad reputations, exclusion from society and family, and violence (Silveman, 2017)..

2.5.2 Individual Lending

(Economic time, 2018) mentions that in the individual methodology, clients are regarded as independent, can manage their own cash flows, and run their business effectively without any group/peer pressure. The majority of clients here graduated from the group loan methodology. Other MFIs also just jump clients straight to the individual methodology without first passing through the group stage. By taking individual loans some negative consequences could be avoided, such as the borrowers risk that a group member won’t repay his/her part, loss of privacy or the time/cost needed for group support. The lending methodology for individual lending depends on the assessment of the client’s business and the confidence built in what the client does for business after the credit assessment scoring process. The following characteristics of individual loans in comparison to the group loans (Silveman, 2017).:

1) Interest rate for the individual loan may be higher than group loan rate
2) Collateral may be required in many instances as there is no group guarantee system for individual loan
3) Individual loan is considered riskier than group loans as much defaults are experienced than group loans
4) In general, men prefer to go for individual loans as compared to the group loans that are normally dominated by women

5) Stringent assessment and credit scoring is applied to the individual loan than the group loans
6) The client must be in business for a given number of months to qualify. While this also applies to the group loans, the success and continuity of the business is much of importance here than the collateral offered.

2.6 Overlapping loan of microfinance users

This section will explain about the background cause of overlapping loan of microfinance users, and impact of using overlapping microfinance loan.

2.6.1 The background cause of overlapping loan of microfinance users

As the microfinance market has growth in recent years, competition among MFIs has increased. Since poor people have more choices to borrow money from MFIs, the number of people who use multiple borrowing (overlapping loans) from different MFIs have been increasing. Microfinance sector in many countries have suffered from overlapping loans because of intense competition among MFIs. Competition among MFIs and multiple borrowing by microcredit participants have gained more attention lately and have become a central issue regarding viability of the Microfinance Sector as an effective mean to alleviative global poverty (Christen, 2000).

There are several reasons which lead to cause multiple borrowing (overlapping loans). At the clients' side, major reasons for multiple borrowing were insufficient loans from MFIs, loan recycling, and family obligations. The multiple borrowing occurred when the clients' credit needs are not fulfilled by one MFI's product ranges. Multiple borrowing can also occur when the interest rates are vary across the sector which encourages clients to go to a second microfinance provider. In addition, the clients are borrowing multiple loans to meet other requirements such as marriage, funeral, construction of house, health, education, etc. Sometime they borrows to repay the existing loans for other MFIs. It finds that the causes of multiple borrowing are enterprise financing, lumpy expenditure, leasing-in of land and previous loan repayment. The study finds that enterprise financing is the dominant head in the microcredit loan, followed by lumpy expenditure. However, household overlapping rate was found comparatively higher for those who used loan for the purposes of lease-in of land and repayment of previous loan (Khalily and Faridi, 2011). But the percentage of loans used for repayment of loans was quite low. It found that 70 percent of the respondents had problems in loan repayment because of multiple pending loans. The study also found that education level and number of dependents of the respondents significantly influenced the number of loans contracts (Winne, 2014).

From the MFI's perspective, there are quite a number of potential ways for multiple borrowing. MFIs have been competing for acquiring new customers in order to expand their scale and maintain their operations, some MFIs does not adequately check or ignore client borrowing habits. MFIs have brought about an excessive competition among them and created overlapping loan issue. While these MFIs are engaged in competition for clients, they lend multiple loans to a number of borrowers and drive them heavily in debt. Borrowers in a huge amount of debt face difficulty in the payment of a large amount of loans, which could destroy their client economy. If MFIs compete more heavily among themselves, collateral-free financial contracts based on joint-liability and weak monitoring can become non-binding and leading to multiple borrowing. Multiple borrowing can occur because it is possible to take loans by different members from the same family or household. In addition, borrowers take out multiple loans by taking advantage of multiple spellings on names or multiple identity cards. In the absent of sharing information among MFIs, in case of default, the client can also take out a second loan to repay an earlier loan without revealing their borrowings or memberships with other providers (Winne, 2014)..

2.6.2 Impact of using overlapping loan of microfinance users

The experiences from other countries such as Bangladesh, India, Bolivia reveal that multiple borrowing is essentially sign of competition in credit market. Impact of multiple borrowing on loan default is ambiguous and the evidence is mixed. Clearly, overlapping itself is not a problem and it is how the borrowers use money. There are both positive and negative impact from multiple borrowing. If the clients can wisely use multiple loans and they are able to control their cash management with an adequate amount of credit they can handle, overlapping borrowing does not necessarily cause harm to the borrowers and they may even gain from multiple borrowing for productive purposes. It found that MFI client households appear to have better nutrition, living conditions, and preventive healthcare when engage in multiple borrowing and managing their finances well. Well knowledgeable microfinance clients engaged in multiple borrowing to increase their sources of funds to invest in their start up business (Winnie, 2014).

If the multiple borrowing problems are not well-managed, the negative impact will be huge and it can taint the image of microfinance sector. It adversely affects the quality of the loan portfolio as clients put themselves at a higher default risk. Overlapping loan can cause a serious harm to the borrowers and MFIs when borrowers are caught in a trap with excessive loans. With increasing debts and misdirected funds, clients turn to informal sources (friends, relatives, money lenders etc.) for further credit and it aggravates the debt trap. As the implication, when borrowers resort to multiple borrowing to smooth their cash flows, they must bear a heavy burden. This includes transaction cost, time spent in various group meetings, multiple loan payment schedules, increased risk of inability to pay, stress of increasingly unstable joint liability agreements and ultimately the risk of defaulting. Several clients, in this situation, have held distress sales of movable assets. In extreme cases, mental depression resulting from the financial pressure causes some to commit suicide. Growing numbers of multiple loans borrowers might destroy sustainable development among themselves in the long run .

For MFIs, with increased competition, MFIs are experiencing a reduction in the loan recovery rate and drop-outs. Non-repayments and delayed repayments adversely affect the portfolio at risk of MFI. If the impact moves beyond acceptance levels, lenders will rethink their future investments, making it difficult for MFIs to access credit. Practitioners report that in most markets borrowers do take multiple loans and hide their real level of indebtedness. As a consequence, making reliable assessments of credit risk becomes more difficult and, thus, important financial losses are more likely to hit MFIs. Many people are using multiple major MFIs. A growing number of “overdue overlapping borrowers” might increase a systemic risk among major MFIs, which could undermine the basis of the microfinance industry. If the number of “overdue overlapping borrowers” increases, it could have a negative impact on the management of these major MFIs by increasing the amount of non-performing microfinance loans in their balance sheet. If those non-performing microfinance loans are increased, MFIs could suffer a significant amount of loss by accumulating non-performing loans. A well-rounded understanding of the situation and coordinated efforts of MFIs can help in taking viable steps to prevent a major crisis for MFIs that may occur due to multiple borrowing (Winnie, 2014).

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CHAPTER III
MICROFINANCE IN MYANMAR

This chapter gives microfinance in Myanmar which includes the overview of microfinance sector in Myanmar, Legal Framework of MFIs in Myanmar, Product and Services of MFIs in Myanmar, Demand and Supply of MFIs services in Myanmar, and cause of overlapping loan of microfinance users in Myanmar.

3.1 Overview of Microfinance Sector in Myanmar

Microfinance operations in Myanmar started in the mid-1990s when the government of Myanmar allowed international NGOs to provide microfinance services. In 1997, the United Nations Development Programme (UNDP) included a microfinance component as a separate project under its Human Development Initiative (HDI) in Myanmar for 11 townships in the three zones of Delta, Dry and Shan. It was the first time that microfinance was authorized to operate in the country. The implementation partners were the INGOs Grameen, Gret, EDA, Save the Children and Pact. The objective of the program, implemented by partner Pact, is to bring sustainable microfinance services to improve the livelihoods of the poor rural communities. The overall goal for the Microfinance Program is that poor and vulnerable households in Myanmar achieve improved socio-economic well-being through increased access to sustainable financial services, including diversified loans, and increases in household assets. (UNDP Project Proposal, Jan 2011).

In May 2011, the President Thein Sein government approved a microfinance law and it has opened the door to formalizing microfinance industry and allowing for profit microfinance companies to register and begin lending to clients. The government gave microfinance its first framework in the form of the 2011 Microfinance Business Law (MBL), which was followed in subsequent months and years by a series rules and regulations. The law established Myanmar Microfinance Supervisory Enterprise (MMSE) under the Ministry of Finance as the regulator and supervisor of the microfinance sector. The policy-making body is the Microfinance Business Supervisory Committee (MBSC). The framework allows local and foreign investors to establish fully privately owned MFIs and provided the licenses to the entities, including those existing microfinance providers that were already providing informal microfinance services. The law was passed in Nov

2011 and almost 120 MFIs received licenses between November 2011 and November 2012. Currently, 176 MFIs which does not include cooperatives are working for microfinance activities in Myanmar. (MFI in Myanmar Sector Assessment_IFC).

Table (3.1) Number of Microfinance Institutions in Myanmar

Sn	Institutions	Number
1	Local	107
2	Foreign	39
3	Joint-Venture	3
4	INGOs	5
5	NGOs	22
	Total	**176**

Source: Myanmar Financial Services Report, 2018

3.2 Legal Framework of Microfinance Institutions (MFIs) in Myanmar

Microfinance Institutions are governed by the Microfinance Business Law 2011. The Financial Regulatory Department (FRD) in the Ministry of Finance is in charge of supervising and regulating MFIs. Financial cooperatives are supervised by the Ministry of Cooperatives. The Rural Microfinance Supervisory Committee and Microfinance Business Supervisory Committee (MBSC) was formed with 30 members under Section 6 of Chapter 4 of the Microfinance Business Law in order to provide support and guidance to the MFI framework. Under Microfinance Business Law, the MBSC is in charge of providing and implementing policy and directives. The committee also sets minimum capital requirements, license fees and sets interest rates on microfinance deposits, loans and the associated charges in accordance with Central Bank procedures. The MBSC impose the administrative punishments on MFIs for non-compliance with licensing terms and conditions.

The law defines microfinance as issuing micro-credit to low income people, accepting deposits, carrying out the remittance, insurance business and carrying out other financial services. The objectives of Microfinance Business Law are to reduce the poverty; to improve social, education, health and economic conditions of the low income people; to crate job opportunities; to cultivate the saving habit; to encourage the emergence of new small-scaled businesses; to create and extend the cottage businesses; to assist the low income people with other means of earnings as well as agriculture and livestock breeding; and to acquire and disseminate technologies from local and abroad. The following table excerpts the legislative and regulatory requirements of Microfinance Business Law and its related notifications.

Table (3.2) Legislative and Regulatory Requirement

	Legislative/Regulatory Requirement
Capital	
Minimum paid up capital	MMK – 100 million for non-deposit taking MFIs MMK – 300 million for deposit taking MFIs
Yearly License Fee	0.1% of paid up capital
Solvency Ration (total equity/total asset)	Total equity/total assets >=12% (no less than)
Debt/equity ratio: the amount of borrowing relative to equity	5:1 or less
Asset Quality	
Loan loss provisions	For loans with repayment that is less than monthly: General Portfolio Provision = 1% of the portfolio
Management	
Permitted Services	While savings, credit, remittances, and insurance were envisioned in the original Microfinance Act, the only financial services currently permitted are savings, and credit. (Notification 1/2016).
Authorization to expand	MFIs seeking to work in more than one region of the country must apply to the FRD for permission.
Chart of Accounts	MFIs must utilize a standard chart of accounts.
Internal Audit	The MFI must have an internal auditor with college education.
Maximum Loan Size	10 million
Loan Restrictions	At least 50% clients must be from a rural area; no loans are allowed for luxury goods; and a loan cannot be provided to more than one member of the household.

Acceptable Collateral (Credit Risk Management)	MFIs cannot secure loans with collateral. MFIs cannot accept collateral for any types of loan products.
Restrictions on MFIs borrowing from foreign sources	Foreign MFIs can only borrow from foreign lenders and no single loan can exceed $3 million. Foreign MFIs need Central Bank of Myanmar approval for all loans. Local MFIs can only borrow from the Myanmar Economic Bank or Myanmar Microfinance Bank.
Mobile Phone Payments	Mobile Phone Payments are allowed.
Equity Financing	Lenders can take equity in MFIs.
Customer Redress Mechanism	MFIs must have a dispute resolution unit. If problems cannot be resolved with the MFI, they can be referred to the Microfinance Working Committee or Microfinance Supervisory Committee, which operate at the state/region level, and are comprised of representatives from the FRD and the Ministry of Finance.
Anti-money Laundering Anti-money Laundering related to donations Anti-money Laundering	MFIs may not accept donations from terrorist groups or money launderers. MFIs must apply to FRD two months in advance to accept donations and have documentation to prove the legitimacy of the money. MFIs must comply with all laws on money laundering.
Social Performance Requirements	MFIs must collect baseline data from all customers to be able to evaluate the effectiveness and impact of the MFI's social development activities.
Consumer Protection Disclosures	MFIs must disclose to borrowers how much they must repay in each loan installment, how many payments they must make the terms of their loan, and any penalties related to the loan.
Consumer Disclosure	The MFI must calculate interest rates as an effective interest rate that cannot exceed 2.5% per month.

Earnings	
Interest Rate Ceiling Cap Interest Rate Floor Cap	No more than 2.5% per month interest on loans (or 30% annually). No less than 1.25% per month interest on savings (or 15% per year).
Liquidity	
Compulsory savings	Compulsory savings may not exceed 5% of the loan balance.
Voluntary savings restrictions	For deposit taking MFIs, voluntary savings may not exceed 5% of the loan balance.
Liquidity Requirements	For deposit taking MFIs: liquidity requirements are 25% or greater, which is defined as: Liquidity ratio = (Cash in Hand + Cash in the Bank)/Total Voluntary Savings.
Other/Notes:	
Reporting Requirements	MFIs are required to provide a monthly income statement and balance sheet to the FRD.
Taxation of Microfinance NGOs	MFI are exempt from income taxes.
MFI Association	An association is being formed. The association is advocating for MFIs and collecting data. One informal working group represents 5% of MFIs. There is no association of cooperatives.

Source: MBL, Myanmar Microfinance Regulatory Benchmarking Survey (2016), Myanmar Financial Services Report (2018)

MFIs are only allowed to accept deposits from customers. As of August 2016, a lender must meet the following criteria in order to be qualify as a deposit taking institution.

- A minimum of 300 million kyats in paid-up capital balance and a minimum of 300 million kyats in total equity

- A minimum of 3 years' experience in carrying out microfinance activities in Myanmar
- Profits made for a minimum of 2 consecutive years
- A properly operating management information system (MIS)
- Strong internal controls
- Abidance by the prescribed rules

Regarding to protect over-indebtedness according to notification 1/2016, MFIs shall comply with the Client Protection Principles below in order to ensure that their microfinance services do not cause clients over-indebtedness. In addition, MFIs services meet clients' needs and provide responsible and accountable financial services for the clients.

- Appropriate product design and delivery that meet clients' needs
- Prevention of over-indebtedness
- Transparency – disseminating information regarding financial services in language that is accessible to the clients
- Responsible pricing – ensuring that pricing for financial services does not affect clients negatively
- Fair and respectful treatment of clients
- Client Data Privacy – ensuring the security of client data
- Mechanisms for complaint resolution – having in place procedures to resolve disputes with clients
-

3.3 Demand and Supply of MFIs Services in Myanmar

Microfinance sector in Myanmar has developed rapidly since the government enacted a Microfinance Business Law in November 2011.The industry has developed from microcredit into microfinance, offering a much broader range of financial products such as microcredit, savings, insurance, money transfers and other financial products (Armendariz de Aghion & Morduch, 2005; Gateway, 2009).According to Myanmar Finance Report, VDB/Loi, Jan 2015, stated that it has been estimated that demand for microfinance exceeds supply by as much as four times. The industry is still in its infancy but the growth potential is tremendous.

As of Oct 2018, there were approximately 4.3 million members in Myanmar with 1033 billion loan outstanding. It should be noted that a large number of poor people in Myanmar rely on the MFIs for their livelihood. Considering that the population of Myanmar is 50 million as of 31 Dec 2016, almost 3 percent of the entire population uses microfinance. This is indicative of how deeply rooted microfinance has become in Myanmar society.

3.4 Product and Services of Microfinance Institutions in Myanmar

According to MBL 2011, it envisioned to provide savings, credit, remittances, and insurance, the only financial services permitted are credit and savings. As per the notification no. (3/2016), MFIs have to submit the application along with their business model and business plan in order to provide other financial services stated in section 29 of Microfinance Law. As per Myanmar Financial Services Report 2018, the following loans and services are available in Myanmar.

Credit Loans

Group loans: Maximum loan size is 10 million kyat.

Agriculture loans: These loans are bullet repayment with monthly interest payments, allowing farmers to repay their loan after selling harvests.

Enterprise loans: Maximum loan size is 10 million kyat. Larger international MFIs report that they plan to increase their enterprise loan activity, and begin to or expand lending to small and medium businesses. These are often distributed through a lender’s existing bank account, which lowers the cost of funds. The lending cap and access to funds are the two main issues to expanding small business lending.

Hire Purchase: Many MFIs carry out micro-leasing through hire purchase products, as Myanmar still lacks a regulatory and licensing framework for leasing. The majority of hire purchase in rural areas is for agricultural equipment. Several MFIs report interest in applying to offer hire-purchase services.

Disabilities: BRAC has a pilot programme focused on issuing micro-loans to people with disabilities that may otherwise struggle to access credit from other MFIs.

Migration loans: At least one MFI has issued migration loans, designed to help people relocating within Myanmar.

Garment worker loans: VisionFund Myanmar announced a new loan product from garment factory workers in February 2018, funded by the Livelihoods and Food Security Trust Fund (LIFT).

Savings

Compulsory saving: MFI has to collect compulsory saving as 5 percent of loan disbursement. Interest on compulsory saving is 15% per annum.

Voluntary saving: MFI who meets the criteria with deposit taking MFI license, can collect voluntary saving. Interest on voluntary saving is at least 10% per annum. Although voluntary saving can be collected unlimited amount, MFI need to maintain solvency ratio not less than 12% and liquidity ratio should be minimum 25%.

Insurance: The MBL includes insurance within the scope of MFI activity and lenders report that their microfinance license explicitly includes insurance. But many MFIs say they are prohibited from offering insurance products. Some lenders that are part of a business group with a licensed insurer can refer customers to the insurance arm.

Some of the larger MFIs provide a basic insurance package either voluntary or built into the loan to cover borrowers in the event of their death. For example, MFIs can charge a fee as a percentage of the loan or a flat fee, which is paid into a pool of funds used to clear loans and cover funeral expenses for customers that die.

3.5 Overlapping loan of Microfinance users in Myanmar

Access to finance is a key constraint for poor people in Myanmar. Most financial institutions do not lend to poor people due to perceived high risks, high costs incurred in small transactions, perceived low profitability, and most importantly, inability to provide the physical collaterals. Given the absence of the financial services from the formal financial institutions, Microfinance institutions assist poor people in gaining access to reasonable sums of money which they require for different purpose. According to Making Access Possible (MAP) nationwide financial sector assessment in Myanmar, adults with access to at least one formal financial product increased from 30% in 2013 to 48% in 2018. The MAP study stated that the key driver of this significant increase in financial inclusion was strong expansion within the microfinance and cooperative sectors. However the operations of MFIs need to be efficient in order to meet the needs of poor people and help the poor people moving out of the poverty (MAP, 2013).

As Microfinance market in Myanmar has growth over time, competition among MFIs has also increased. Myanmar Financial Services Report 2018 stated that there are anecdotal reports of new and inexperienced lenders pursuing aggressive loans targets with limited credit assessment, which includes simply poaching existing customers from other MFIs that have more sophisticated credit screening systems. Some MFIs report that using overlapping microfinance services bring over-indebtedness in certain urban areas has either become a problem or could become an issue. MFIs point to a rise in new lenders who focus on the same urban centers in Yangon, Mandalay, Bago and Ayarwaddy. The August 2016 notification suggest the regulator is also concerned. In notification 1/2016 issued in August 2016 highlighted that MFIs shall comply with the Client Protection Principles in order to ensure that the microfinance services do not cause clients over-indebtedness (Myanmar Financial Services Report, 2018).

According to MBL 2011, the lenders are prohibited by privacy regulation from sharing customer level data between themselves, so the clients are able to have using overlapping microfinance services called multiple loans. Nowadays, overlapping loans problems have started to present new challenges to the microfinance industry in Myanmar. Although it is difficult to predict if overlapping loans would cause serious damage to microfinance borrowers and MFIs in Myanmar, it may be possible to infer what might happen in Myanmar in the future, based on the experience of other countries which have had a similar social and economic environment surrounding microfinance.

CHAPTER IV
CAUSE OF OVERLAPPING LOAN OF MICROFINANCE USERS

Cause of overlapping loan of microfinance users are analyzed in this chapter. In order to examine using overlapping microfinance loan, the respondents who are borrowing at least two MFIs are focusing as the target population. And three key factors namely Financial Services, Family Economy and Family's Consumption and Social Requirement are mainly focus to examine cause of overlapping loan of microfinance users.

4.1 Survey Design

This study examines cause of overlapping loan of microfinance users (the borrowers). To support the assessment, the required data were collected through sample survey. As a survey instrument, a structured questionnaire was used.

As a sampling method, the judgment sampling was employed in this study. As a sampling process, samples are made from those who have browning from at least two microfinance institute. By this way, a sample of 150 respondents who borrowing at least two MFIs are chosen as a study sample. The chosen respondents were requested to complete the questionnaire. All 150 respondents kindly responded to the questionnaires.

As mentioned in Chapter one, This study completed in Shwepyithar township, Yangon Division, Myanmar where MFIs are most crowded in Yangon region and working 26 MFIs are working there. Among 26 MFIs, one biggest MFI who is servicing for 4,000 clients was selected. Among 4,000 clients, 400 clients under 10 microfinance centres were selected. Among 400 clients, the study could find 150 respondents who are with two or more loan borrowing from two microfinance institutions.

4.2 Demographic Profile of the Respondents

This section presents the profiles of selected 150 royal customers who are borrowing at least two MFIs. The profiles cover the gender, age, education, and marital status of sampled respondents.

4.2.1 Gender

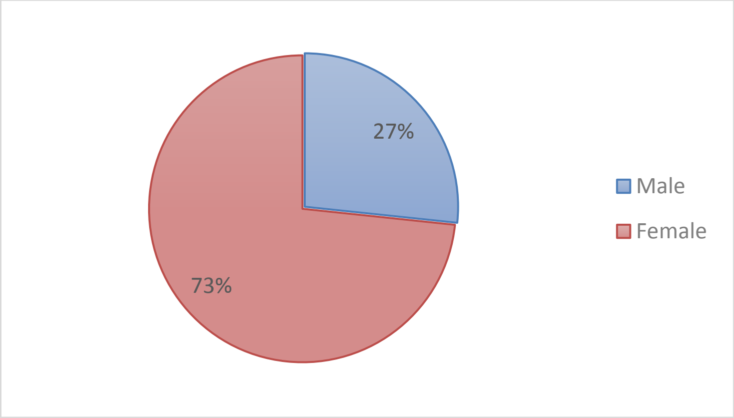
The respondents are not only males, but also females. Table (4.1) and figure (4.1) show the gender of respondents.

Table (4.1) Number of Respondents by Gender

Gender	No. of Respondents	Percent
Male	40	26.7
Female	110	73.3
Total	150	100.0

Source: Surveyed Data, 2018

Figure (4.1) Number of Respondents by Gender



Source: Surveyed Data, 2018

As shown in Table 4.1 and Figure 4.1, the sample consists of 40 males and 110 females. In terms of the percentage, female respondents share 73.3 percent of the sample while male respondents share 26.7 percent of the sample. Therefore, female respondents are more than male.

4.2.2 Respondent's Age Group

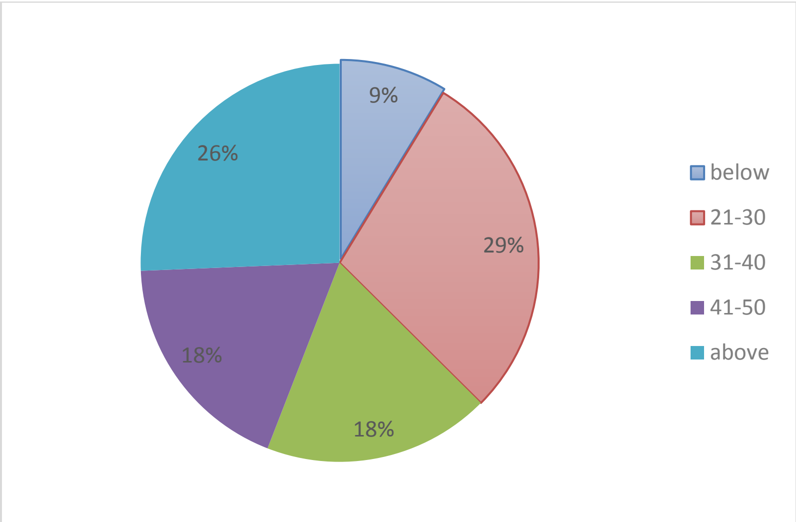
Ages of the respondents are classified into five groups. They are age below 20, age between 21 and 30, age between 31 and 40, age between 41 and 50 and age above 50. Table (4.2) and Figure (4.2) presents the distribution of the age of respondents.

Table (4.2) Number of Respondents by Age (in years)

Age (in year)	No. of Respondents	Percent
Below 20	17	11.3
21 – 30	56	37.3
31 – 40	36	24.0
41 – 50	36	24.0
Above 50	5	3.3

Source: Surveyed Data, 2018

Figure (4.2) Number of Respondents by Age (in years)



Source: Surveyed Data, 2018

Ages of respondents are classified into five groups. 56 respondents fall in the age group between 21 and 30 years, followed by 36 respondents fall in the both age between 31 and 40 years and age between 41 and 50 years, 17 respondents fall in the age below 20 years and remaining 5 respondents fall in the over age 50. In term of percentage share, the age group between 21 and 30 years accounted for the highest share of 37.3% whereas the age group over 50 years accounted for the lowest share of 3.3%. This result shows that most of respondents who using overlapping microfinance services are age between 21 and 30 years old.

4.2.3 Education

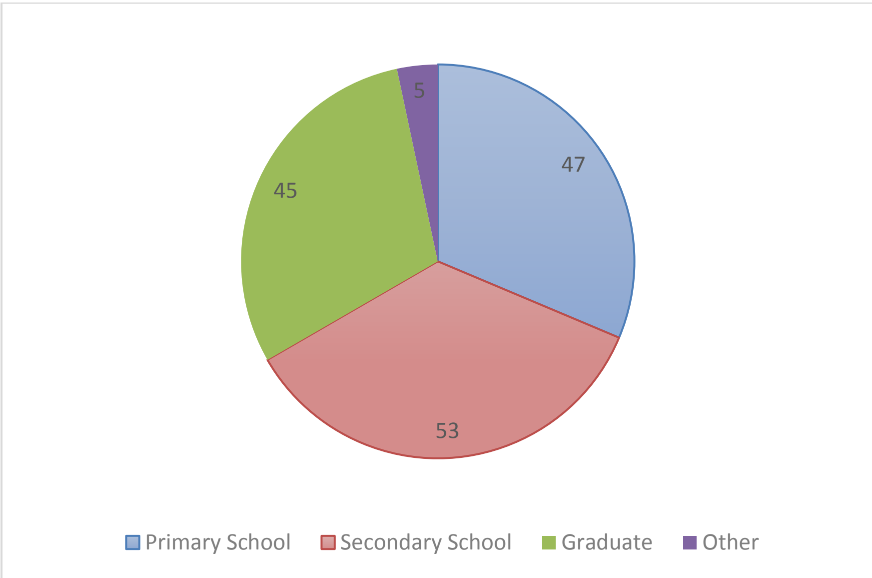
Table (4.3) and figure (4.3) presents the distribution of education levels of respondents. There are six education levels among the respondents in the sample: have never been to school primary school, microfinance training, graduate and others.

Table (4.3) Number of Respondents by Education

Education Level	No. of Respondents	Percentage
Primary School	47	31.3
Secondary School	53	35.3
Graduate	45	30.3
Other	5	3.3
Total	**150**	**100.0**

Source: Surveyed Data, 2018

Figure (4.3) No. of Respondent by Educational Level



Source: Surveyed Data, 2016

The education levels of respondents can influence on the borrower's awareness of the using overlapping microfinance services in MFIs. According to the Table (4.3) and Figure (4.3), 35.3% of the total respondents are secondary level, 30.3% got graduate, 31.3% are primary level and remaining 3.3% of the respondents are other educational qualification. Therefore; majority of MFIs borrower who are borrowing from at least two MFIs are secondary educational level.

4.2.4 Marital Status

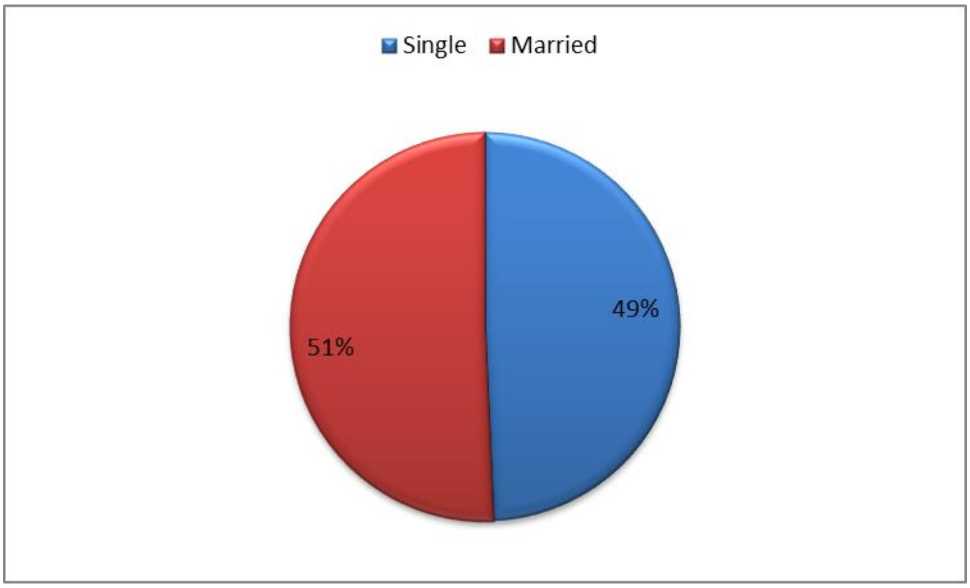
Marital Status is divided into two categories; single and married. Marital status of target respondents has been surveyed for this study. This is showed in the following table (4.4) and figure (4.4)

Table (4.4) Number of Respondents by Marital Status

Category	No. of Respondents	Percent
Single	74	49.3
Married	76	50.7
Total	150	100.0

Source: Surveyed Data, 2018

Figure (4.4) Number of Respondents by Marital Status



Source: Surveyed Data, 2018

As shown in table (4.4) and figure (4.4), the largest sample of respondents is married, holding 51%, which are more than single ones, as a percentage of 49% from this result.

4.3 Cause of overlapping loan of microfinance users

In development parlance, microcredit or microfinance has become the norm as a corrective measure to ensure access of financial services to the poor. Microfinance covers people, extensively and worldwide, who are mostly poor and probably would not have access to credit from the formal banking sector if it were not for these organizations. While initially restricted to providing credit and savings products to their clients, many microfinance institutions (MFIs) now provide additional capacity building services such as training, awareness building, health care, and marketing; presently they emphasize enterprise building through larger loans. However, providing micro-credit has remained the mainstay of the MFIs and the viability of these organizations, with the advent of competition, has caused some concern among practitioners and researchers. In using overlapping of microfinance services in the areas has become a highly contentious issue in Myanmar.

To determine the cause of overlapping loan of microfinance users in microfinance institutions, the three dimensions are divided in this studied. These are

1. Financial Service of MFIs,
2. Family Economy and
3. Family' Consumption and Social Requirement

This section presents the respondents satisfaction towards using overlapping loan. The respondent's satisfaction is composed of financial service, family economic and family' other requirement. The respondents were asked to rate their satisfaction level of using overlapping loan.

4.3.1 Financial Service of MFIs

Microfinance service is a responsible financial service that enables low-income entrepreneurs and small business owners to invest in their future. Microfinance allows people to take on reasonable small business loans safely, and in a manner that is consistent with ethical lending practices. Although they exist all around the world, the majority of micro financing operations occur in developing nations like Myanmar. Microfinance organizations support a large number of activities that range from providing the basics—like bank checking and savings accounts—to startup capital for small business entrepreneurs, and educational programs that teach the principles of investing. In order to see the extent to which overlapping borrower of MFIs have satisfied the using overlapping loan toward financial services, four question are setup regarding interest rate is appropriate and reasonable, loan disbursement is quick services, loan size is small and relaxed procedure. The descriptive statistics like mean and standard deviation for agreement scores on each statement of financial service dimension are calculated and presented in Table (4.5). The higher the average scores the higher the respondents' satisfied with the statement.

Table (4.5) Financial Service

No.	Statement	Mean	Standard Deviation
1	Interest rate is appropriate and reasonable in the MFIs if compare with informal interest rate.	3.57	.922
2	Loan disbursement process is quick service in MFIs.	3.61	.962
3	MFI' loan size (ceiling) is small and not enough to invest in appropriate business.	3.78	.866
4	Client could find the another MFI which has relaxed procedures to follow terms & condition, and every process after participating in existing MFI. This led to take overlapping services at the same time.	3.47	.960
Overall Mean		3.61	

Source: Surveyed Data, 2018

Table (4.5) shows that loan size is small has the highest mean score of 3.78 with 0.50 standard deviation; while relaxed procedure is difference has the lowest mean score of 3.47 with 0.96 standard deviation.

According to the mean scores, the average scores of 3.57 is about interest rate is appropriate and reasonable. It means that the respondents are agreed that interest rate that provided microfinance loan is appropriate and reasonable if compare with the informal interest rate.

The average score for loan disbursement is 3.61 and .96 standard deviation. It shows that respondents are agreed that delayed loan discoursing provided by MFIs.

Moreover, the average scores that loan size is small have 3.78 mean scores and .866 standard deviation. It point out the respondents agreed that the microfinance loan size is small.

In addition, the average score of relaxing procedure is 3.47 and .96 standard deviation. It can be concluding those respondents are agreed relaxing procedure provided by MFIs.

Overall mean scores of financial service is 3.61. Therefore, it can be concluded that respondents are satisfied and agreed on financial services dimension is positive and high.

4.3.2 Family Economy

Microfinance is the source of finance for the poor or low-income populations living in developing countries. The funds obtained from microfinance institutions assist poor households to run their micro-businesses and smooth their consumption through family economic. Therefore, it reduces poverty and enhance local economic from MFIs loan.

In order to see the extent to which overlapping borrower of MFIs have satisfied the using overlapping loan toward family economic, four question are setup regarding need to expand business, need to start business is not fulfilled by one MFIs, on lending to other, and repayment of existing loan to money lender and MFIs. The descriptive statistics like mean and standard deviation for agreement scores on each statement of financial service dimension are calculated and presented in Table (4.6). The higher the average scores the higher the respondents' satisfied with the statement.

Table (4.6) Family Economy

No.	Statement	Mean	Standard Deviation
1	Financial requirement of the Client to expand the business is not fulfilled by one MFI loan range.	3.83	.806
2	Financial requirement of the Client to start the business is not fulfilled by one MFI loan range.	3.47	.902
3	Client intends to do on-lending to other by using the loans from different MFIs.	3.67	.847
4	Client intends to settle his/her debt to money lender or MFIs by using the loans from different MFIs.	3.79	.753
Overall Mean		3.69	

Source: Surveyed Data, 2018

As results of Table (4.6) shows that financial need to expand business is not fulfilled by one MFI has the highest mean score of 3.83 and .806 standard deviation; while repayment of existing loan to money lender or MFIs has the lowest mean score of 3.79 with 0.753 standard deviation.

According to the mean scores, needing to start business is not fulfilled by one MFI loan range has mean score of 3.47 and .902 standard deviation. It means that the respondents are agreed that their financial need to start business is not fulfilled by one MFI loan range.

And the mean scores of needing to expand business is not fulfilled by one MFI has 3.83 and .806 standard deviation. Therefore, the respondents are agreed that financial need to expand business is not fulfilled by one MFI.

Moreover, the average scores for On-lending to other have 3.67 mean scores and .847 standard deviation. It can be said that the respondents agreed the on-lending to other.

In addition, the average score of repayment existing loan to money lender is 3.79 and .753 standard deviation. It can be concluded those respondents are agreed that repayment existing loan to money lender.

Overall mean scores of family economics is 3.69. Therefore, it can be concluded that respondents are satisfied and agreed on family economic dimension is positive and high.

4.3.3 Family' Consumption and Social Requirement

Microcredit has become one of the most important tools used to combat poverty and to enhance families' wellbeing. Almost the previous research show microfinance is positively linked to family's socio-economic wellbeing. It is of special interest because it is a leader in evaluating this kind of intervention; it uses primary source data and has a public policy orientation. The results confirmed what was previously reported in the literature, namely the high correlation between microcredit and children's education, income and assets and disproved studies that found microcredit to improve health and harmony in the family.

In order to see the extent to which overlapping borrower of MFIs have satisfied the using overlapping loan toward family consumption and social requirement, five question are setup regarding consumption purpose, purchasing gold, assest, special occasion and requirement, children education and health problem. The descriptive statistics as if mean and standard deviation for agreement value on each statement of families other requirement dimension are calculated and presented in Table (4.7). The higher the average scores the higher the respondents' satisfied with the statement.

Table (4.7) Family' Consumption and Social Requirement

No.	Statement	Mean	Standard Deviation
1	Client uses the loans for family consumption purpose and days to day's expense.	3.64	.250
2	Client uses the loans in purchasing gold, assets, and luxury goods.	3.51	.902
3	Client uses the loans with the purpose of special occasion and requirement such as house renovation, donation, wedding, etc,.	3.57	.777
4	Client uses the loans with the purpose of children education.	3.62	.994
5	Client uses the loans with the purpose of Health problem within family member and other closed relatives.	3.76	.902
Overall Mean		3.62	

Source: Surveyed Data, 2018

As results of Table (4.7) shows that health problem has the highest mean score of 3.76 and .902 standard deviation; while purchasing gold, assets etc has the lowest mean score of 3.51 with 0.902 standard deviation.

According to the mean scores, using MIFs loan for consumption purpose has mean score of 3.64 and .250 standard deviation. It means that the respondents are agreed that they use for consumption purpose.

And the mean scores of purchasing gold, assets etc is 3.51 with .902 standard deviation. Therefore, the respondents are agreed that purchasing gold, assets etc.

Moreover, the average scores using in special occasion and requirement have 3.57 and .777 standard deviation. It can be said that the respondents agreed microfinance loan are using in special occasion and requirement.

In addition, the average score for children education is 3.62 and .994 standard deviation. It can be concluded those respondents are agreed that microfinance loan are using their children education.

Furthermore, mean scores for health problem is 3.76 with .902 standard deviation. It can be said that respondent are agreed these loan to use their health problem.

Overall mean scores of family other requirement is 3.62. Therefore, it can be said that respondents are satisfied and agreed on family' consumption and social requirement dimension is positive and high.

4.4 Comparative Analysis on cause of overlapping loan of microfinance users

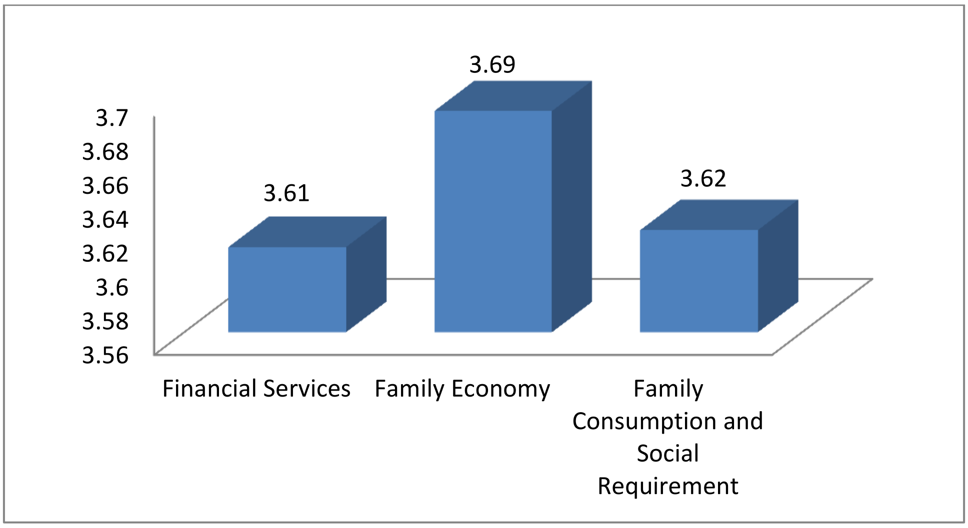
In the comparative analysis of three dimensions of respondents agreement level are analyze in this section. These are financial service, family economy and family' consumption and social requirement. It will be taken the average of each dimension by their corresponding statement, for instance "financial services" as one of the three dimension contains four statement, it will take the average of four modules under the respondents agreement level and compare with other dimension average to see which dimension relative more agreed and satisfied. The overall mean scores of each dimension are illustrated in Table (4.8) and that are illustrated in Figure (4.5) for graphical display.

Table (4.8) Overall Average Scores for Each Dimension

Dimension	Overall Average Scores
Financial Services	3.61
Family Economy	3.69
Family Consumption and Social Requirement	3.62

Source: Surveyed Results, 2018

Figure (4.5) Overall Average for Each Dimension



Source: Surveyed Results, 2018

The corresponding average scores of the employee's agreement level of family economic is 3.69 which the highest score as compare to other dimension, so it is concluded that for family economic is the most perceived dimension. Though financial service has the lowest score of all i.e. 3.61 but still the score is positive and it indicates that financial services is also high perceived dimension for respondent who are borrowing at least two microfinance loan.

CHAPTER V
CONCLUSION

This chapter describes the conclusion of the study of cause of overlapping loan of microfinance users in Shwepyithar, Yangon Division where MFIs are crowded. This chapter follows the findings, recommendation and conclusion, as well as the suggestion for future study.

5.1 Findings

In Myanmar, as the microfinance market has growth in recent years, competition among MFIs has increased. Since poor people have more choices to borrow money from MFIs, the numbers of people who use overlapping microfinance services, known multiple borrowing (overlapping loans) from different MFIs have been increasing.

Therefore, cause of overlapping loan of microfinance users are analyzed in this chapter. In order to examine using overlapping loan, the respondents who are borrowing at least two MFIs are focusing as the target population. And three factor namely Financial Services, Family Economy and Family's Consumption and Social Requirement are mainly focus to examine the using overlapping microfinance loan.

As a sampling method, the judgment sampling was in this study. As a sampling process, samples are made from those who have browning from at least two microfinance institute. By this way, a sample of 150 respondents who borrowing at least two MFIs are chosen as a study sample. The chosen respondents were requested to complete the questionnaire. All 150 respondents kindly responded to the questionnaires.

Regarding ***financial services,*** the key cause of using the overlapping microfinance loan (multiple borrowing) is that the respondents expresses ' loan size is small'. It means that they have to do multiple borrowing from different source because of ' loan size they receipted is small'. Regarding ***Family Economy,*** the key point which respondents said that 'Financial need to expand business is not fulfilled by one MFI loan range' and repayment to money lender and MFIs are forced them to borrow again from another sources at the same time. Regarding '**Family's Consumption and Social Requirement',** the key influencing factor is to use in family consumption, children education and health program visibly. In summing up on the findings, 'family economic factor forces them to make multi borrowing again from another sources at the same time.

5.2 Recommendation

In Microfinance, from MFI side, ‘credit worthiness’ is very important for each and every borrower. Without considering the capacity and capability of the client if MFI borrow credit, the loan will be burden for the client. If the loan is burden for the client, it will make them to face the repayment problem. From client side, there are many reasons to take multi borrowing from different sources.

After reviewing the findings, the recommendation and suggestion are come out. Firstly, MFI should developed the loan ceiling which is created based on the collective voice of local people, local context, and studying the livelihoods situation and its cost of investment. So, the loan ceiling when MFI develops the loan product for client, it will cover the need, want and preference of the client. If not, they will borrow again from another MFI to fulfill in their business expanding due to existing loan size is small. However, MFI should do the appropriate loan size for different client by considering between credit worthiness and repayment capacity and capability.

Secondly, MFI should create the social loan like Health care loan and Education loan for their children. MFI creates only business loan in aiming to invest in their skillful business. But in reality, they use the loan for health and education purpose. It will bring a lot of problem due to the clients wrongly utilize the purpose. Perhaps, it may bring repayment problem for clients. If MFI creates social loan like health care loan and education loan, the client can have a chance to take these loan when they face the health problem or emergency health problem. Moreover, they don’t need to worry for their problem while they are utilizing the loan in their skillful business.

Finally, It is often argued that credit bureau or information exchanges system could be set up to avoid or minimize overlapping. While a cost-benefit analysis needs to be done for the clients’ activities and monitoring, the findings confirm, at least for the next 10 years, loan officer and peer monitoring are more effective and cheaper than a credit bureau, particularly in rural areas. MFI credit policies need to be adjusted in a manner that allows minimum of overlapping. For example, microcredit for agriculture needs to adjust to size and repayment provide in a manner that is suitable for agriculture.

Information sharing between MFIs would help in minimizing the overlapping in lending to microcredit to members of MFIs. Acquiring information from other group members to make sure that the borrowers are not borrowing from other MFIs. Checking borrowers’ source of income to determine if they are solvent borrowers and visiting individual borrowers' house. Also recommend to introduce larger sized loans to meet the needs of borrowers' financial demands.

5.3 Need for future study

As great important, the study focused on cause of overlapping loan of microfinance users in Shwepyithar township only, Yangon Division, Myanmar where MFIs are most crowded. So the results of research might not be represented to the other division of the country where are also operated many MFIs.

The research was limited by time and resource constraints and the researcher would like to suggest that a further detailed study to carry out more detailed key cause of using overlapping microfinance services all over the country.

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APPENDIXES

Questionnaire

Overlapping loan of Microfinance users in Shwe Pyi Thar Township

FORE WORD

(i) I guarantee the information is for academic use only, not commercial.

(ii) The name will never be revealed in any of my study.

(iii) The researcher asks for your cooperation for the success of this study.

(iv) All questions are kept in confidential.

Part A: Personnel Information

1. Gender
   a. Male ☐
   b. Female ☐
2. Age (years)
   a. Below 20 ☐
   b. 21-30 ☐
   c. 31-40 ☐
   d. 41-50 ☐
   e. 50 above ☐
3. Education Background
   a. Have never been to school ☐
   b. Primary school ☐
   c. Secondary school ☐
   d. Microfinance Training/Experience ☐
   e. Graduate ☐
   f. Others (specify) ☐
4. Are you married?
   a. Yes ☐
   b. No ☐

Part B: Cause of overlapping loan of Microfinance users

Statement	Strongly Agree	Agree	Neutral	Strongly Disagree	Disagree
Financial services					
1. Interest rate is appropriate and reasonable Interest rate is appropriate and reasonable in the MFIs if compare with informal interest rate.					
2. loan disbursement process is quick services Loan disbursement process is quick service in MFIs.					
3. Loan size is small: MFI' loan size (ceiling) is small and not enough to invest in appropriate business.					
4. Relaxed procedure Client could find the another MFI which has relaxed procedures to follow terms & condition, and every process after participating in existing MFI. This led to take overlapping services at the same time.					
Family Economic					
1. Financial need to expand business is not fulfilled by one MFI loan range Financial requirement of the Client to expand the business is not fulfilled by one MFI loan range.					
2. Financial need to start business is not fulfilled by one MFI Financial requirement of the Client to start the business is not fulfilled by one MFI loan range.					
3. On-Lending to other Client intends to do on-lending to other by using the loans from different MFIs.					
4. Repayment of existing loan to money lender/ MFIs Client intends to settle his/her debt to money lender or MFIs by using the loans from different MFIs.					

Family' consumption and social Requirement					
1. To use for Consumption purpose Client uses the loans for family consumption purpose and days to day's expense.					
2. Purchasing gold, assets, etc Client uses the loans in purchasing gold, assets, and luxury goods.					
3. To use in special occasion/requirement Client uses the loans with the purpose of special occasion and requirement such as house renovation, donation, wedding, etc					
4. Children Education Client uses the loans with the purpose of children education.					
5. Health problem Client uses the loans with the purpose of Health problem within family member and other closed relatives.					