National Microfinance Study of Sri Lanka: Survey of Practices and Policies

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List of Abbreviations and Anacronyms

ACAS	Australian Community Assistance Scheme
ACCD	Assistant Commissioner Co-operative Development
ACCDF	All Ceylon Community Development Foundation
ACRP	Australian Community Resettlement Program
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BoC	Bank of Ceylon
BRAC	Bangladesh Rural Advancement Committee
CARE	Co-operative Assistance and Relief Everywhere
CBO	Community Based Organization
CBSL	Central Bank of Sri Lanka
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
CRB	Co-operative Rural Bank
DFCC	Development Finance Corporation of Ceylon
DFID	United Kingdom Department for International Development
DRC	Danish Refugee Council
FORUT	a Norwegian relief and development agency
GA	Government Agent
GIS	Geographic Information System
GoSL	Government of Sri Lanka
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Co-operation)
——/JRP	Jaffna Rehabilitation Project
——/RBIP	Rural Banking Innovations Project
HIVOS	a Dutch development agency
HNB	Hatton National Bank
ICCO	a Dutch development agency
IDP	Internally Displaced Person
IFAD	International Fund for Agricultural Development
INGO	International Non-Government Organization
IOGT	International Organisation of Good Templers
IRDP	Integrated Rural Development Program

JBIC	Japanese Bank for International Co-operation
MFI	Microfinance Intermediary
MFN	Micro-Finance Network
MIS	Management Information System
MPCS	Multi-Purpose Co-operative Society
MSME	Micro, Small and Medium Enterprises
NCPPDP	North Central Province Participatory Development Project
NCRCS	New Comprehensive Rural Credit Scheme
NDB	National Development Bank
NDTF	National Development Trust Fund
NGO	Non-Government Organisation
NORAD	the Norwegian international development agency
NOVIB	Dutch OXFAM
NSB	National Savings Bank
NWPDZDP	North Western Province Dry Zone Development Project
OXFAM	Oxford Famine Relief
PAMP	Poverty Alleviation Microfinance Project
PKSF	Palli Karma-Sahayak Foundation
PSC	Pawning & Savings Centre
REAP	Rural Economic Advancement Projects
ROSCA	Rotating Savings and Credit Association
RDB	Regional Development Bank
S&C	savings and credit
SAP	South Asia Poverty Alleviation Programme
SASANA	Samurdhi Development Credit
SAVANA	Samurdhi Enterprise Credit
SCN	Save the Children Norway
SCUK	Save the Children United Kingdom
SDB	SANASA Development Bank
SDCP	Surathura Diriya Credit Program
SEEDS	Sarvodaya Economic Enterprise Development Services
SIDA	Swedish International Development Agency
SLCDF	Sri Lanka Community Development Fund
SMF	Social Mobilisation Foundation
SPRDP	Southern Province Rural Development Project

TCCS	Thrift and Credit Co-operative Society
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank
WOCCU	World Council of Credit Unions
WHRDA	Wayamba Human Resource Development Authority
WVL	World Vision Sri Lanka
ZOA	a Dutch relief and rehabilitation agency

Figure 1 Map of per Capita Value of Savings

Figure 2 Map of Number of Savings Accounts per Capita

Figure 3 Map of per Capita Value of Loans

Figure 4 Map of Number of Loans per Capita

Executive Summary

This report provides a map of microfinance activity throughout the whole of Sri Lanka. It is an empirical source of reference for the microfinance community as a whole. The report looks at microfinance in terms of the policies and practices of existing actors and environment. It also analyses and maps supply of microfinance at a district level. The results of this study are presented through two main surveys that look at actor activity and track existing levels of supply. Two additional surveys examine the commercial banking sector's microfinance activity and the operating environment in the North and East region of Sri Lanka.

1. The Microfinance Landscape in Sri Lanka

The survey found that microfinance activity in Sri Lanka is both a traditional community activity and a tool for economic development, with the clientele being mainly the poor. Microfinance in Sri Lanka is practised by a broad range of different organisations for purposes of poverty alleviation, social and community development and as an multi-faceted intervention tool in areas affected by conflict. The rationale, methods and models behind such schemes varies significantly according to actor. At the same time issues of sustainability, political capture, standards of professionalism and transparency are to the fore throughout.

The survey in Part A defines the microfinance landscape according to actor type and describes existing policies and practices of intervention. Actors are grouped according to whether they are:

- Granters
- Practitioners
- Granter-Practitioners
- Facilitators

Funders of Microfinance in Sri Lanka

The survey found broad-based coverage of microfinance funding throughout the country with significant levels of funding readily available to microfinance practitioners at all levels from local NGOs up to the professional national-level MFIs, INGOs and government programmes. There appears to be a mixture of short and medium term funding activity with some funders historically prepared to commit to long-term partnerships.

In terms of the provision of lending services one funder has recently become a granter-lender. This along with the existence of the presence of the national lending institutions means that there would appear to be adequate access to wholesale and retail funding for the professional MFIs. Furthermore there is some evidence to suggest that the NDTF has successfully managed to encourage local NGOs to switch from grant in aid funding. It is to early to say whether this is tactical behaviour on the part of the NGOs or that it is the start of a longer-term shift.

Most international funding organisations that target development aid to Sri Lanka have been granting monies for microfinance projects for the purpose of poverty alleviation for some time. They are also funding microfinance activities for issues related to using microfinance as a ‘membership’ tool to help increase civil society and community rehabilitation.

Most funders believe that microfinance has proven to be an effective intervention tool for alleviating poverty in Sri Lanka. However, there is an increased emphasis on the use of ‘soft’ policy tools such as training and technical assistance rather than ‘hard’ financial instruments and few funders are still financing RLFs on their own any more.

Many of the key funders of microfinance activities in the country are about to start or are in the process of major strategic reviews of their development briefs. Three funders have recently committed to the funding of two medium term projects with microfinance components. There is a strong possibility that in a year from now the patterns of microfinance in Sri Lanka will look quite different.

Funder-Practitioners of Microfinance in Sri Lanka

Most of the INGOs and multilateral agencies operating in Sri Lanka currently practice microfinance. The use of microfinance as an intervention tool varies widely. Poverty alleviation and sustainable livelihoods are key themes, but it is also used in emergency situations, for purposes of educational development, housing construction, to empower women, to decrease household vulnerability, to increase child protection, to build-up civil society, to rehabilitate communities and for purposes of income generation and enterprise development.

Methods of implementation vary widely. As a rule, microfinance activity takes place through the economic mobilisation of groups and societies at the village level often utilising some sort of RLF ‘seed’ funding and technical assistance activity as key intervention tools; but there is a huge variance in the exact methods and models used. Some work directly with community and village based organisations, others implement indirectly through NGOs, co-ops and government partner organisations, while yet others do both.

Microfinance is used as a multifaceted intervention tool. No two international organisations view microfinance in the same way. Frequently, microfinance is not the core intervention activity but a means to achieving another end. Where increased access to financial services for the poor is a primary aim, the majority of international interventions are under researched, badly planned, lack specialised microfinance competencies and operate on too short a time scale.

Many of the funder-practitioners are starting to re-evaluate how they approach and plan their microfinance interventions. There appears to be a growing consensus that the use of fungible assets as an intervention tool requires different management skills and performance management systems. At least three organisations now employ, or are in the process of training-up, microfinance specialists and at least one organisation appears to have successfully moved onto a longer term funding platform.

Practitioner Microfinance Activity in Sri Lanka

The survey categorises practitioners actor activity according to whether service provision is at the national, regional or local level. At the national level, the Samurdhi Authority has the largest social mobilisation programme and is the fastest growing microfinance scheme in the country having effectively mobilised many villages that were not covered by other existing programmes.

There is evidence to suggest that the Samurdhi programme has been effective in its goal to reach the poorest sections of the population. However, there is concern that Samurdhi will remain open to political capture and will fail to increase its transparency, restructure or attain financial sustainability. The programme is rapidly expanding into the North and East region.

Elsewhere, SEEDS is clearly the most professional and transparent MFI in Sri Lanka and has recently been awarded a 'BB' credit rating, the first MFI in Sri Lanka to do so. However there is some concern regarding its stated aim to become a development bank as it is not clear that there is a need for another actor at this level.

At the regional level a number of organisations are seeking to expand into more districts and some are currently undertaking strategic reviews. Perhaps the most noticeable feature of this group is the diversity of methods, approach, standards of professionalism and transparency. For example some organisations are clearly pursuing a policy of borrowing funds for on-lending while others remain dependent on grant in aid funding from the international community.

Local level practitioner activity is the most complex and diverse area of microfinance activity in the country and is made up of a range of different government, third sector and private actors that operate at the district, divisional, village and community based levels. Activity can be classified in terms of independent actors including NGOs and 'grass roots' organisations such as religious groups and informal savings and credit groups and local level organisations that are linked to government programmes or affiliated to national level federations.

The government CAP programme has been effective in reaching some of the poorest. This is particularly the case where CBOs have received external granter assistance or linked to other projects or services providers. The programme seems to be loosing momentum the absence of continued donor funding.

The MPCS Co-operative Rural Banks and the TCCSs remain key microfinance service providers throughout most of the country. These co-operative movements that once dominated the provision of microfinance services have suffered from direct competition introduced at the national and local level, and the poor have been socially mobilised within other schemes. This is especially so in the case of the TCCSs as unlike the other co-operatives they exist primarily to provide savings and credit.

Both the MPCSs and the TCCSs urgently need to develop more effective accounting and oversight systems and the relationship between the MPCS and the CRBs needs to be reviewed. In the longer term, the major cause for concern is whether the co-ops can become professional and depoliticise their microfinance activities sufficiently to survive in a market place that is becoming increasingly crowded with other service providers.

The local NGO sector is diverse and active throughout the country. Microfinance in the main is a recent activity that has been incorporated into the various other social development activities that underpin the sector. Overall, the micro credit activities of the Local NGOs surveyed and the INGO funding to this sector represents approx. 2.2% of national activity. Accounting for issues of representation in the survey, it is unlikely that total local NGO micro credit activity accounts for more than 5% of micro credit activity nationwide. However, the picture is very different in the North and East region, where INGO funded local NGO activity accounts for between 50% in Jaffna to virtually 100% in the Wanni.

Overall the entire sector except the CRBs and the RDBs is subsidised by donors or the government, making micro finance unsustainable, let alone commercially viable. In the medium term there is the risk of serious erosion of the current access to financial services for the poor unless immediate and urgent action is taken to strengthen practices and institutions active in the field. There is also a need to look at the regulatory framework as currently NGOs are not permitted to receive savings, although in practice many do, and the federation bodies of the co-ops are not effective.

There appears to be a widespread belief that poverty targeting and financial sustainability are not compatible. A general lack of financial training and the absence of proper financial management skills or good and best practices in issues related to monitoring and accounting is common. Furthermore, awareness of costs of operation compared to income and analysis of loan aging with action follow-up reports are largely missing from schemes. This is frequently placing member savings at unnecessary risk.

2. The Commercial Banking Sector Microfinance in Sri Lanka

Part B is a separate survey of the commercial banking sector's microfinance activity conducted separately as the commercial banks engaged in microfinance were, with a couple of exceptions, unable or unwilling to supply district level information about their savings and credit activities. The survey overviews national activity and provides case studies on different aspects of the commercialisation of microfinance, including: pawning, capacity building and building profit-driven models of microfinance.

The survey found that commercial banks have been providing microfinance services since the early 1960s; first by the state owned commercial banks and then by a small number of the private banks as they developed strategies expanded into new markets.

The government has traditionally used the two state-owned banks as tools for implementing its various policies on agriculture and poverty alleviation with subsidised loans, re-financing, and periodic debt forgiveness being the most notable features. Policy is largely politically driven and financial tools tend to be cumbersome and having high transaction costs. This somewhat contradicts the government’s expectations for the state owned commercial banks to also be profitable and financially viable institutions.

As a result the banks are moving away from microfinance as part of their overall product range towards developing specific ‘in-house’ operational units or specialist divisions. However they are presently still obliged to deliver some limited ‘general’ microfinance products mainly due to ongoing government rural credit programs that contain microfinance components.

3. Microfinance in the North and East Region of Sri Lanka

Part C of the report summarises the intervention environment for micro finance in the North & East. The survey found that alongside traditional savings and credit activities, microfinance project implementation in areas affected by conflict has three main features of differentiation, namely:

- Microfinance can be implemented in cases even where the local infrastructure has been devastated.
- Microfinance is a flexible tool that has the ability to assist relief interventions to meet a community's basic needs and is used by a range of actors for different reasons across the relief spectrum.
- Microfinance is an effective economic recovery tool that helps to regenerate local economies and form a bridge into economic development.

The survey reviews the 'enabling environment' for microfinance interventions in the region in terms of people, economic livelihoods, markets, infrastructure, governance, security and demand issues. The survey found that broadly there was a positive environment for microfinance intervention throughout the region but that the region itself is highly localised and any intervention strategies need to be planned based on knowledge and research of local conditions.

The survey found that the infrastructure, utilities, services and immobile capital assets of this region have over the past eighteen years been eroded by conflict resulting in the region’s economic decline. A large number of communities have been displaced and formal employment even in the primary industries has fundamentally declined.

The region has been excluded from the major microfinance interventions managed through and by the central government for the past decade and a half and although the state and private commercial banks in the region operate current and savings accounts, access to credit is limited.

There has been some continued access to microfinance through the TCCS, however due to the conflict and displacement many branches and some of the district unions have become defunct. The Cooperative Rural Banks that continue to operate in the region are taking deposits, but the majority are only considering disbursing loans with grant in aid funding from the international community.

Most access to microfinance for the communities in the region is through interventions by international donors, agencies and organisations either directly or implemented through regional and local non-governmental organisations. This has resulted in a proliferation of NGOs utilizing microfinance for a broad range of services including, health, education, social services, village infrastructure as well as consumption smoothing and income generation activities.

The Government Agents and the LTTE ‘local authorities’ in the region act as focal points using district committees for the overall planning of where and whom the interventions reach, they however are somewhat restricted by the dictates of the local military commanders of both protagonists.

Since the ceasefire in December 2001 there has been a rapid opening of distribution routes, relaxation of the pass system and a growing flow of goods and services are entering the region.

The report maintains that if the region is to be revived economically then, there is an urgent need for a concerted shift from short-term relief-based interventions to medium-term planned initiatives focused on economic recovery that employ development based approaches. Microfinance in this context is concerned with helping to foster local economic growth through ready access to financial services for all and access to enterprise development services for the entrepreneurial poor.

Given that the process towards a negotiated settlement is successful then the international community also needs to position itself for full-scale economic rehabilitation and development activities as the flow of returnees and economic recovery starts to take hold placing increasing stress on the regional infrastructure. Microfinance in this context is concerned with an increased formalisation of service provision, building the linkages and providing the services that allow the development and flow of small business activity.

4. The Supply of Microfinance in Sri Lanka

A national level survey of microfinance savings and credit activity was undertaken on a district-by-district basis. All the main service providers were approached and a questionnaire was distributed to include NGO organisations at the local level. The survey represents an estimated seventy five percent of microfinance supply nationally but was unable to collect district level data from the commercial banking sector or capture the activities of some of the smaller NGOs.

Significant levels of savings and credit activity are present in all districts and most village communities have been mobilised. In terms of micro-credit, the survey found that nearly two million microfinance loans with a value of SLR 14.4 billion were disbursed during the year 2000. This is the equivalent of one loan for every two families in the country or SLR 4,299 for every family in the country. The highest concentration of loans disbursed was found in the districts of Polonnaruwa, Puttalam, Hambantota and Matara each having double the national average. The highest volumes of monies lent were found in the districts of Matara, Kurunegala, Hambantota, Polonnaruwa, Puttalam and Galle.

The survey found that there were over seven million savings accounts with a value of SLR 23.6 billion as of the 31st December 2000. This is the equivalent of two savings accounts for every family in the country or SLR 7,047 for every family in the country. The districts of Hambantota, Kurunegala, Matara and Polonnaruwa all had averages of more than three savings accounts for every family. Fourteen districts had equivalents of more than SLR 5,000 in savings for every family in the district.

The operating conditions of the conflict affected area and the absence of government sponsored schemes that target the poorest and major service providers means that both savings and credit activities are present at much lower levels in the North and East region than elsewhere in the country. The districts of Jaffna, Batticaloa, Trincomalee, Mannar and the Wanni area all have less than one quarter of the levels of loan activity found anywhere else in the country. The district of Jaffna has an average of over SLR 3,000 in savings for every family, however the districts of Trincomalee, Mannar, Batticaloa and the Wanni area all have averages of less than SLR 600 in savings for every family.

5. Key Findings

The findings of the study are structured according to supply, funding and practitioners issues and detail the key and main characteristics of the microfinance sector. The key findings of which are.

The study found that:

The supply of microfinance in Sri Lanka has the following key characteristics:

- Broad-based coverage of microfinance activity throughout most of the country.
- High levels of supply relative to the overall population.
- High levels of supply in the Southern Province and the districts of Kurunegala, Polonnaruwa and Puttalam.
- Low levels of supply in the North & East Region.

Microfinance savings activity in Sri Lanka has the following key characteristics:

- High levels of savings mobilisation relative to the overall population.
- High levels of savings collateralisation relative to the number of loans disbursed.
- Increased levels of savings mobilisation among the poorest.

Microfinance loan activity in Sri Lanka has the following key characteristics:

- High levels of loan uptake relative to the overall population.
- Broad range of different types of loan activity.
- Significant levels of loans for enterprise development purposes.

Service provider activity in Sri Lanka has the following key characteristics:

- Wide range of service providers.
- Wide range of microfinance products.
- Increased competition in the market place in the last five years.
- Increased niche marketing.

The funding of microfinance activity in Sri Lanka has the following key characteristics:

- Most micro credit activity is funded through savings.
- There is a need for widespread technical assistance funding throughout much of the country.
- There is little need for large-scale direct grant in aid funding of 'hard' financial instruments other than in the North and East region and possibly second tier wholesale organisations.
- There is an urgent need for a range of economic recovery initiatives encompassing both 'hard' and 'soft' policy instruments that focus on wide scale enterprise development to be funded in the North and East region.
- Broad based community targeting should be accompanied by the funding of schemes that specifically target 'special' groups such as, demobilised soldiers, those incapacitated by conflict, widows, female-headed house holds and youth.

There are a number of key issues and themes that are central to the practice of microfinance in Sri Lanka:

- The long-term sustainability of present microfinance schemes is of the greatest concern throughout the country as whole.
- Issues of 'political capture' of microfinance services in Sri Lanka is widespread, reaching through government managed programmes, the cooperative movement and the state controlled commercial banking sector.
- Most of the sector remains highly subsidised.
- Most microfinance enterprise development schemes operate on too short a time scale, are badly planned and have inadequate monitoring and evaluation, and financial management systems.
- There is a need for externally accredited microfinance training in Sri Lanka.
- Targeting of women has been a key component of microfinance since its inception and most microfinance schemes in Sri Lanka target women to a significant degree.

6. Recommendations

The overarching recommendations of the study are that:

- The sustainability of present microfinance schemes be ensured to protect the current high levels of supply nation wide.
- Economic recovery initiatives urgently be deployed in the North and East region.

The recommendations section contains a series of additional recommendations aimed at different aspects of the sector and its stakeholders. These are presented both at a national level and with specific regard to the North and East region. Recommended strategies to the donor community and the GoSL are summarised below.

Donor Strategies

There should be a concerted shift away from short term funding towards medium and long term funding of microfinance schemes, especially in the North and East region. This means moving away from funding relief based interventions and annual funding cycles towards microfinance activities that are focused on enterprise development and economic recovery.

It is essential that this funding include adequate planning and design phases prior to the release of monies to partner organisations and ensure that effective performance indicators, training programmes and transparency in financial accounting and management of the scheme and the partner organisation are pre-conditions of funding.

It is strongly recommended that donors focus on funding microfinance activities not as components of wider programmes but as specialised project activities and that they concentrate their funding towards partners that are prepared to act as professional MFIs specialising in microfinance with linkages to other economic development activities or international agencies and organisations that are prepared to build strong microfinance competencies within their organisational structures.

There should be an increased emphasis on the funding of technical assistance activities that include funding for specialist training, sponsoring research into markets, technology, business information, innovative delivery mechanisms and specialised interest groups.

Donors should develop their own in-house microfinance expertise by, for example, becoming members of CGAP, joining the Microfinance Network of Sri Lanka and developing guidelines for partner organisations and setting standards of good and best practice.

GoSL Strategies

The GoSL should move away from the direct implementation of microfinance schemes towards indirect models of intervention that rationalise and streamline existing government programmes and focus on delivering microfinance services through professional MFIs. It is essential that the government ensure the sustainability of its present microfinance schemes as a matter of urgency to protect existing levels of supply and act to encourage a more competitive environment through the elimination of subsidies and increased 'commercialisation'.

The government should not engage in debt relief but should continue to target specialist interest groups and the most vulnerable with grant funded activities. The GoSL should move to create a stronger regulatory environment in partnership with the microfinance practitioner community and engage in the development of professional standards and training institutions within the sector. Specifically the GoSL should restructure and depoliticise such programmes as Samurdhi, SFLCP, REAP and PAMP.

It is important that future microfinance interventions take place within a broader framework of economic development activity that includes a range of enterprise development and business information services. The capacity of local extension services needs to be increased and there is a clear need for better training facilities and the coordination of economic development activities at a national and regional level. Such activity should be devolved wherever possible and local organisations should be encouraged to form business networks and knowledge brokering activities.

7. Conclusion

In conclusion, the study found that there is a broad base of microfinance activity and that relative to the population savings mobilisation and micro credit activity are high. In recent years the Southern Province has caught up with and in some cases overtaken districts that were previously regarded as leaders in microfinance.

Historically microfinance activity was heavily subsidised but now appears to be largely collateralised by savings. Apart from the North and East region the issue of most concern is the sustainability of the present high levels of microfinance. The belief that poverty targeting and financial sustainability are not compatible within microfinance schemes unfortunately persists. Microfinance has reached a stage of maturity where competition and business like practices are necessary if the long-term interests of microfinance clients are to be effectively served. Increased commercialisation, regulatory reform and widespread capacity building of existing schemes is essential.

The authors believe that if urgent action is not taken to restructure these organisations, train staff and put in place proper financial accounting practices, in the medium term the present access to microfinance will be reduced at the expense of the loss of savings of the communities involved and the waste of past assistance so freely given by the international community.

Introduction to the Study

The objective of this report is to take a 'snapshot' of microfinance activity throughout the whole of Sri Lanka. This document is intended to provide an empirical source of reference for the microfinance community as a whole. Four different surveys were undertaken. First, an actor survey was conducted in order to gain an understanding of the different types of microfinance activity presently taking place in Sri Lanka. The major microfinance actors were identified and a typology of actor type was developed. The actors were then approached and then either eliminated or asked to provide details of current and planned practices and intervention activities. A combination of semi-structured interviews, questionnaires, formal and in-house documentation and informal discussions were used. The results of this survey are presented as Part A of this Report.

Some of the formal banking sector institutions are engaged in activities that can arguably be defined as microfinance. The banks were approached in the same manner as all the main actors and asked for information regarding their activities. Most were happy to be approached, however, it then became apparent that the majority of the commercial banks were either not practising microfinance per se or were unable or unwilling to provide the level of detail about their operations required for the study.[1]

Because of this it was not possible to include the commercial banking sector in the two main surveys. The Regional Development Banks and Samurdhi are included in the main actor and activity surveys as their function is not commercial but poverty orientated. The commercial banking sector is clearly too important to be omitted as it represents perhaps as much as one quarter of the microfinance credit sector and significantly more so in terms of microfinance savings activity[2] [3] It was therefore decided to do a separate survey of the commercial banking sector. The results of this are presented in Part B of this report.

This is a national study of microfinance conducted on a district by district basis. Microfinance, as with the provision of all financial services, takes place in the wider context of an economic stream and that this stream is segmented with different actors, services and clients at different levels. Microfinance is concerned primarily with creating access to financial services for the poor.

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[1] The two notable exceptions to this were the Hatton National Bank and The Bank of Seylan.

[2] The self-reported data provided by the commercial banking sector (namely, BoC, Peoples Bank, HNB and the Seylan Bank) in Charitoneko & de Silva (2001) amounts to approx. 4.2 billion total outstanding loans as at 31st Dec 2000. Obviously the figure for loans disbursed *during* the year 2000 is less than the outstanding totals provided. The total amount of microcredit supply identified by the survey during 2000 was SLR 14.4 billion. If one assumes, say, that SLR 3 billion of the SLR 4.2 billion was disbursed during the year 2000, then the total national supply of microfinance during the year 2000 can be estimated at approx. SLR 17 billion.

[3] The government subsidised programmes of the New Comprehensive Rural Credit Scheme (NCRCS) and the Surathura Diriya Credit Programme (SDCP) are included in Part B as commercial banks are the implementing partners.

Assessment of poverty levels in Sri Lanka varies according to the indicators or benchmarks used. Earnings of less than US$1 a day is a common benchmark, while others are based on the purchasing power of a currency relative to a 'basket' of essential food items. Poverty estimates thus range between one quarter and one third of the population (UNDP, 2000).

The Sri Lankan Economy as a whole has grown steadily over the last decade yet it is currently in a fairly dangerous position. The most notable features of which are that currency reserves are low, periodic IMF borrowing is necessary, inflation is high, the public sector is huge and the economy has unsustainable levels of military spending (c.f. ADB, 2001; World Bank, 1998; World Bank, 2001).[4]

In the North & East region, the situation is worse. The Region has suffered the equivalent of minus 5.5% year-on-year economic growth (UNDP, 2001) and formal employment opportunities are scarce. Relatively little detailed economic analysis of the region has been done.[5] .

The effectiveness of microfinance as an intervention tool in areas affected by conflict is dependent upon the presence of certain basic 'market' conditions that allow semi-formal financial services to function (Doyle, 1998). As this study progressed, it became evident that the localised contextual information required to reach an informed opinion about the potential effectiveness of the role for microfinance to act, as an agent of economic recovery in the North and East region was largely unavailable. To help inform policy decisions about economic recovery initiatives, it was decided to include a survey of the operational conditions of the North and East with specific regard to microfinance. The results of this survey are presented as Part C of this report.

The second main undertaking of this study was a district-by-district activity survey. This was conducted in order to gain a detailed understanding of the actual levels of microfinance *supply* throughout the country. To achieve this all the major microfinance practitioners were approached and asked to provide information about their savings and loans activities as of the 31st of December 2000. This included government microfinance programmes, international practitioners and the not-for-profit sector.

The survey undertook a district level analysis of actor activity. This included the use of a nation-wide questionnaire to gain an in-depth appreciation of NGOs practising microfinance at the local level, as well as the larger national and regional entities.

[4] The armed forces are a huge source of employment with over 250,000 employees. In the event of a prolonged peace settlement the issue of de-mobilisation will create huge problems economically. One estimate, for example, claims that the rural poor in the 'south' are three times more dependent on 'military remittances' than the Janasaviya and Samurdhi programmes (Dunham & Jayasuriya, 1998).

[5] For example, of the 43 papers related to the 'relief/development nexus' identified by Zunzer (2002) as having been published in the last three years, only two (Ravano, 2001; CARE 2000b) focus on localised economic analysis in the North and East region. Other publications not included in Zunzer's survey do engage economic analysis but tend to be limited to general reviews of the region as a whole (DRC 1999; UNDP 2001)

The survey does not claim to represent *all* the microfinance activity in Sri Lanka as certain projects could not provide savings and credit data at the level required, the commercial banking sector was not included, and not all the local NGOs could be identified. Nonetheless, the survey *is* comprehensive and captures the majority of microfinance activity in the country during the year 2000 and the trends identified are quite clear. The results of the survey are presented as Part D of this report.

The main findings of Parts A to D are detailed in a separate section after Part D along with recommendations where appropriate. This is followed by an overall conclusion, references and a technical appendix.

Part A –An Actor Survey of Microfinance in Sri Lanka

Introduction

Socio-Economic Overview

Sri Lanka's population is estimated at between 18.73 million and 19.4 million depending upon whether one includes citizens living abroad or not. The preliminary estimates of the 2001 national census estimate a total population of 18.73 million. However, for the purposes of this study we have assumed a total population of 18.77 million[6] as it was necessary to calculate population on a district-by-district basis prior to the release of the total census estimates.

The average annual growth rate for the period 1984 to 2001 is estimated to be 1.14 percent. This growth rate is well below that of most countries in the South Asia region and is largely due to the combination of an ageing population and overall improvement in livings conditions (Census, 2001).

Sri Lanka has been in the process of liberalising its economy for a quarter of a century, but still has some way to go. The economy has grown at a rate of five percent in real terms over the last decade. This growth is largely due to reasonable macroeconomic management and progress in trade liberalisation, privatisation, and financial sector reform.

Trade accounts for more than seventy percent of GDP and Sri Lanka is South Asia's most open economy. It has a relatively developed capital market infrastructure and a per capita income of US$ 841 in 2000, equating to about US$ 2,500 on a purchasing power parity basis. However, the public sector continues to dominate the financial landscape with per capita employment in the public sector being the largest in Asia (CBSL, 2001).

It is generally recognised that "In terms of human development Sri Lanka is ahead of other countries with similar economic development status. Literacy levels, access to basic health care and access to education are all well above South Asia averages." (CARE, 2000).

However, Sri Lanka's development continues to remain below its potential and the secessionist conflict has exacted a heavy price on the country's overall performance and poverty persists in the North and East region, the tea plantations and pockets in dry zone areas and urban slums (c.f. Sanderatne, 2000; Kahn, 2001).

[6] According to the 2001 National Census (including Ampara), the Government Agent Office's in the North & East Districts (Batticaloa, Jaffna, Mannar, Trincomalee and Vavuniya) and the estimates of local authorities in the Wanni Area, the total population of Sri Lanka is estimated at: 16,864,544; 1,582,000; and, 328,000, respectively, giving a total national population estimate of 18,774,544 people. According to the 2001 National Census, the average family size is estimated at 5.6 people.

The Sri Lankan Economy is presently in a fairly dangerous position, currency reserves are low, inflation is high, fiscal borrowing is high, the public sector is huge and the economy is supports unsustainable levels of military spending (c.f. ADB, 2001; World Bank, 2001).[7] Anywhere between twenty-five and thirty-four percent of the population live in conditions of poverty, predominantly within rural areas often without access to basic utilities.[8]

Historical Overview of Microfinance in Sri Lanka

In 1911 the then British government first began to assist micro finance as an economic tool. However, although legislation and an enabling environment to start credit co-operatives was created, from 1911 to 1942, the policy was largely that of non-interference. Therefore, factors such as lack of education for the poor and the control exerted by landlords and village headmen on the rural areas meant that these credit societies did not grow in large numbers.

In contrast, the second phase of micro-finance activity from 1942 saw the government departing from this laissez-faire approach in order to use the co-operatives in food distribution crises that arose as a consequence of the 2nd World War. Co-operative Agriculture Production and Sales Societies (CAPS) were formed on the initiative of the government to increase food production. These societies were given credit and were even expanded through the agriculture department. CAPS grew from 26 societies with 8,964 members in 1947 to 995 societies with 247,000 members in 1957.

In the post independence era in micro finance, agriculture credit, especially for paddy farming, was the key area of intervention by the government. This credit is noted for its subsidized interest rates, continual funding by the Central Bank and periodic loan write-off. These practices continue to date and are defended by certain politicians and even economists on grounds such as the need for self-sufficiency in rice, the poverty of rice farmers, and the reality of poor loan repayment by the rich.

The establishment of the Co-operative Rural Banks in 1964 was the next most significant contribution the government made to micro finance since independence until the period 1986 to 1991.

[7] The armed forces are a huge source of employment with over 250,000 In the event of a prolonged peace settlement the issue of de-mobilisation will create huge problems economically. One estimate, for example, claims that the rural poor in the 'south' are three times more dependent on 'military remittances' than the Janasaviya and Samurdhi programmes (Dunham & Jayasuriya, 1998).

[8] The agriculture sector employs 36 percent of the labour force and contributed 20.5 percent of the GDP in 2000. Overall growth has dropped from 4.5 percent in 1999 to 1.8 percent in 2000, the lowest level since 1996. National policy has gradually lessened state intervention with a view to improving efficiency and competitiveness. This approach has been most effective in plantation agriculture. However, restrictions on the sale and use of land combined with poorly targeted agricultural subsidies, the availability of more attractive off-farm labour opportunities and poor management of irrigation systems have hindered productivity. In addition, inconsistent tariff policies have generated long-lasting unhealthy results. Reviving Sri Lanka's agricultural productivity is critical to improving the incomes of some of Sri Lanka's poorest communities and to boosting broad economic growth (Charitonenko & de Silva, 2001).

These five years saw a spate of new initiatives by the government starting with the establishment of the Regional Development Banks by the Central Bank in 1986, the Jansaviya Trust in 1990 and the Small Farmers and Landless Credit Project in 1991. The period can also be considered as the beginning of major NGO involvement in this field starting with the setting up of SEEDS in 1986.

The next most significant step was the establishment of Samurdhi Authority and its micro finance program in 1997. The government also re-structured the Regional Development Banks into 6 Regional Banks in 1997 reducing the control and ownership of the Central Bank in the system and making the Bank of Ceylon, Peoples Bank, the EPF workers fund and the Central Bank owners.

In terms of current involvement of the government in Micro finance, the Central Bank Rural Credit Department remains the key government agency responsible for rural credit and for micro finance outside the Samurdhi Authority. It supervised 15 projects in year 2000 of which at least 10 had some components of micro finance. The division also implemented 2 of the 15 projects, namely SFLCP and PAMP. However the division mainly acted as a financial channel for donor funded projects. It did not actively initiate or participate in policy formulations or in the regulation of micro finance. In fact the difference in emphasis between rural credit and micro finance showed that no government agency was responsible for or focused on policy aspects of micro finance exclusively.

In 1992, the Presidential Commission on Banking and Finance recommended that the Central Bank confine itself to its traditional supervisory role and shed its development role. Despite this, it began a new microfinance project, PAMP, with Japanese funding, as well as continued to implement the Small Farmers and Landless Credit Program, and own majority shares in the Regional Development Banks.

The Central Bank, which is the government agency responsible for the supervision of banking and non banking agencies has no capacity to supervise the large spectrum of micro finance agencies and work spread all over the country. The Co-operative Department, responsible for supervising key agencies such as the CRBs and TCCS is equally incapable of even auditing its agencies. Thus today micro finance in Sri Lanka is by and large an unsupervised, unregulated area. One of the key aims of this study therefore, is to map out as much of the micro finance sector as possible.

Despite the massive growth of micro finance in Sri Lanka in the last 15 years there has been no attempt to regulate the institutions providing this service. The key reason why some regulations are required is the vast amount of savings that the poor entrust to these organizations. As the individual amounts are small from a national perspective the key agencies such as Central Bank or the Finance Ministry does not appear to give this issue sufficient attention. At the moment there are no safe guards or very few for savers in these schemes including all NGO programs, the Co-operative Programs and even some of the government programs. As a result, many NGO’s and even TCCS have folded but as seen individually the figures are not newsworthy, no one is aware. Eventually this could become a serious problem.

The current laws do not permit NGO's to take deposits even from its members as the Banking and Finance Act of 1998 restricts deposits to only Banks and Finance Companies. This prohibition covers all aspects of savings whether it is from members or non-members or whether it is as a guarantee for a loan or not. If NGO's take any deposits, then they must deposit them in turn in a regulated financial institution and are not permitted to lend even a part of them.

In spite of these restrictions, this is sometimes ignored not just by the NGO's but also by the government itself. For example NDTF a government body and Small Farmers and Landless Credit Program -also a government program, insist that NGO's have savings deposits. Also, some NGO's and Co-operative Societies that have no assets at all except members' savings take on savings even of non-members without any reserve requirements. Still others loan the entire savings. Part of this study involves surveying existing NGO and co-operative activity. However it is first worth discussing what is meant by the term microfinance.

Definition of Microfinance

The Asian Development Bank has defined microfinance as:

> "The provision of a broad range of financial services that includes services such as deposits, loans, payment services and insurance to poor and low income households and their micro enterprises." (ADB, 2000)

Typically, microfinance services are provided through three sources, these are: 1) Formal institutions, such as banks, rural banks, government projects and co-operatives; 2) Semi formal institutions, such as NGOs; and, 3) Informal sources, such as moneylenders and shopkeepers.

Institutional microfinance is thus defined to include microfinance services provided by formal and semi-formal institutions while microfinance institutions are defined as institutions "whose major business is the provision of microfinance services." (ibid.)

Loan Levels in Microfinance

Microfinance activity can be separated according to size of loan. In this regard, we have segmented loan activity into five levels according to type and utilisation (Gant & Durrant, 2002c). However, a certain amount of overlap will always exist between levels and this is more of an analytical heuristic rather than strict categories. This study focuses primarily on loan levels 1-4, as well as savings products below SLR 100,000.

Table 1 Microfinance Loan Levels and Utilisation

Level	Level of Loan (SLR)	Loan Utilisation
1	0 – 3,000	Consumption
2	3,000 – 7,500	Consumption & Income Subsistence
3	7,500 – 30,000	Micro Enterprise Start Up,
4	30,000 – 100,000	Micro Enterprise Expansion & Housing
5	100,000 – 500,000	Small Business Formalisation & Start Up

The 'Economic Stream'

Employment is the ‘portal’ to increasing household income that in turn allows access to a nutritional diet, better health services and tuition for all family members. The recovery and growth of sustainable private enterprise economy is the ‘key’ that will access this ‘portal’.

The processes of economic recovery, at the local level, can hardly be left to spontaneous growth mechanisms; much better that they be supported in some key elements such as;

- ❖ Orientation towards production that values the local potential.
- ❖ Creation of the conditions of access to financing opportunities.
- ❖ Improvement of the qualification of the work force.
- ❖ Generation of a system of infra-structural support.

All this requires an organised and coordinated effort, so that knowledge of the reality and the local needs are transformed into economic valuation, in a technical capacity to encourage business, opportunities of income and employment. The constitution of recovery mechanisms should be based on democratic consensus and respond without exclusion to the needs of the population.

This approach moves away from isolated projectisation, to one of assisting the formation of an economic framework that provides an integrated demand led process of access to financial and non-financial services for entrepreneurs. The framework and process is mindful of the presence of an economic stream; that is segmented by size and capitalization and that has differing demands at varying levels requiring access to a variety of services by type, quantity and quality. A diagram of the economic stream is shown on the following page.

There is a requirement for ‘gateways’ within the economic framework through which enterprises can flow thereby changing their status within the economic stream and enabling them to access services more appropriate to their form, size and capitalization.

The ‘local dimension’ plays a fundamental role in the sustainability of rehabilitation programmes aimed at re-launching the development process. The involvement of ‘local actors’ in the different stages of the process is crucial, as they know the main characteristics, potential and problems in their territory. They form the social, economic and institutional backbone and they can define the priorities and the most suitable answers to locally felt needs. Therefore a wide involvement of these ‘local actors’ with relevance in the decision making process is essential.

Figure 5 The Economic Stream - Model of Interaction

Microfinance Clients and Beneficiaries

Microfinance is both a traditional community savings tool used by local community organisations and a 'tool' for economic development. As such, the clientele or beneficiaries, depending on the organisational culture, are primarily, but by no means exclusively, the poor.

Poverty, however, is not homogenous. Remenyi (1991), for example, has categorised five levels of poor into a 'poverty pyramid'. These are: the *ultra poor*, the *labouring poor*, the *self-employed poor*, the *entrepreneurial poor* and the *near poor*

At the bottom layer of the pyramid are the ultra poor that depend on the earnings of others. Above them are the labouring poor are employed in low-paid, unskilled labour positions. The top three levels consist of the self-employed poor who work for themselves and may employ up to five others, the entrepreneurial poor whose enterprises employ more than five people and the near poor who have stable, albeit low wage employment.

This model provides another heuristic when considering different microfinance activity and approaches. In practice, however, Sri Lankan household economic livelihoods are complex and there is often overlap between categories. It is also necessary to consider the poor in the context of the North & East. A more detailed discussion of this is included in Part C.

Different Kinds of Microfinance Activity

Microfinance is a multiple purpose tool, used in Sri Lanka by different actors, for different purposes. This includes the use of microfinance: as a government policy tool for poverty alleviation, as a commercial activity, as a 'not-for-profit' social or cultural development tool and as an intervention tool in areas affected by conflict.

Table 2 Classification of Microfinance Activity

Microfinance Purpose	Organisation
Government policy tool for poverty alleviation at the national, regional and local level.	CBSL, Ministry of Planning, Samurdhi, NDTF, Multilateral and Bilateral Agencies, Ministry Of Regional Development And Plan Implementation, Ministry of External Resources.
Commercial for-profit activity.	Bank of Ceylon, DFCC, Hatton National Bank, National Development Bank, National Savings Bank, Peoples Bank, Seylan Bank, small private organisations.
Not-for-profit social or cultural development tool	National, Regional & Local NGOs -such as SEEDS, Agromart, Social Mobilisation Foundation, CRBs, TCCS, Multilateral agencies and INGOs
Intervention tool in areas affected by conflict.	Multilateral and Bilateral Agencies, INGOs, GoSL, local and regional NGOs.

Different Types of Microfinance Actor

Issues of regulation aside, there are broadly four different types of microfinance actor in Sri Lanka, namely: funders, practitioners, those who do both and facilitators that provide services to the microfinance sector.[9]

Table 3 Typology of Microfinance Actor

Actor Type	Organisations In Sri Lanka
1. Funding Organisations	
a) Granters	AusAID, CIDA, DFID, HIVOS, ICCO, NORAD, SIDA, SLCDF, UNICEF, UNHCR & USAID.
b) Lenders	DFCC & NDTF.
c) Granters-Lender	ADB, JBIC, NOVIB & World Bank
2. Funder-Practitioners	
a) Granter-Practitioners	
-International	CARE, DRC, FORUT, GTZ, Oxfam, SCN, UNDP, WVL & ZOA
-National	Ministry of Plan Implementation
b) Lender-Practitioners	CBSL, RDBs, SANASA, commercial banks
3. Practitioners	
a) National Level Practitioners	Samurdhi, SANASA, SEEDS
b) Regional Level Practitioners	Agromart, Arthachariya Foundation, Samastha Lanka Praja Sanwardena Mandalaya, Sarvodaya, Sewa Lanka, South Asia Partnership.
c) Local Level Practitioners	CRBs, CBOs, TCCSs, Local NGOs, GoSL, Private Companies.
4. Facilitators	
a) National Level Facilitators	The Microfinance Network, ICRTL.
b) Local Level Facilitators	Microfinance Coordination Groups

[9] JBIC funds microfinance activity directly through GoSL partnering with CBSL; IFAD and WFP no longer fund microfinance projects; none of the embassies of presently funding microfinance projects, although they have done so occasionally in the past; ECHO and the EU do not specifically fund microfinance, although some of their funding may by used for income generation schemes. Commercial banks are considered separately in Part B of this study (refer to main introduction for more details). The National Development Bank funds enterprise development projects that are classed as small and medium and have been omitted from this study.

1. Funders of Microfinance in Sri Lanka

Actors currently funding microfinance activities in Sri Lanka fall into three main categories, namely, whether the actor is a *Granter*, a *Lender* or both.

(a) Granters

The Australian Agency for International Development

The Australian Agency for International Development (AusAID) is one of the largest and most proactive funders of microfinance in the country. It is committed to the use of microfinance as a tool for poverty alleviation. AusAID funds microfinance activity through the Australian Community Assistance Scheme (ACAS) and the Australian Community Resettlement Program (ACRP) that provide assistance for initiatives where other support is either not available or inadequate to meet essential needs (AusAID, 2001).

Intended as quick disbursement mechanisms for development activities. The goal is to assist community-based poverty alleviation projects that originate with the communities and are implemented in partnership with them. Income generation and microfinance activities are among the sectors that receive priority for funding.

Preference is given to projects that focus on poverty alleviation and the reduction of suffering of all communities. Self-help is a guiding factor in the assessment of proposals, with applicants required to demonstrate inclusive community participation in activity development, planned community cost-sharing input and equitable ownership of outcomes. Government agencies, quasi-government agencies, NGOs and CBOs are all eligible for grants. AusAID is committed to principles of good governance and has issued guiding principles for implementation (AusAID, 2000a).

The competence of the proposing organisations to implement planned activities and satisfactorily account for funds is a key factor in the selection of proposals for funding. The funding allocated for ACAS activities is decided each financial year. Assistance is provided on an 'accountable' grant basis (AusAID, 2000b; 2000c).

Project proposals are funded up to AUS$ 80,000 (SLR 6,680,000) and do not normally exceed 12 months in duration. For approved projects, funding can be provided in instalments, depending on project size and the nature of the project. In those cases second and later instalments are provided on receipt of satisfactory reports on physical progress and a financial acquittal of the previous instalments.

Funding proposals have to be submitted in accordance with the summary format and budget and declaration, as specified in the "Project Submission Format" available at the Australian High Commission in Colombo. Subject to availability of funds, ACAS projects are managed in 'rounds', which commence in July, October and February of each year. Proposals can be submitted to AusAID by July 31st, November 21st and February 28th.

Submissions are initially appraised and a shortlist of 10-15 projects produced, a committee that selects the 5-10 projects approved for funding for any given present 'round' considers this shortlist.

Table 4 AusAID - ACAS Funding 2000-2001

Project	Organisation	Sector	Province	Amount (AUS$)
IGP for Women	KOINONIA	MF	East	27,403
Training & Gender Project	Voice of Women	Skills Dev.	Island wide	12,518
Project for Slums Women	Samata Sarana	Skills dev.	Island wide	20,575
Rural Economic Dev. Pro.	RLTF	Agri.	NCP	16,935
AIDS Prevention Pro.	INDECOS	Health	South	15,223
Cattle Bank Project	Human Dev. Org.	MF	CP	12,735
Coastal Planting Project	Mandru	Env.	East	24,663
Micro Projects for Women	Wilgamuwa WDF	MF	CP	13,548
Child Dev. Project	Children's Reso. C	Skills Dev.	IWP	8,129
Gender Equity Project	Hudef	Skills Dev.	CP	8,651
Women Farmers Project	Abhimana	MF	NCP	30,726
Microfinance for Women	Wilpotha WSE	Mf.	NWP	19,690
Microproject-Rural Women	Shrama Shakthie	MF	NCP	12,171
IGP for Muslim IDPs	CTF	MF	NWP	40,325
Econ. Improvement Pro.	SLPSM	MF	Uva	18,826
Reawakening Poor Families	SLJSSP	MF	WP	27,250
Livestock Dev. Project	TDDA	Agri.	East	20,484
Dev. of Women Mf Projects	Nation Builders	MF Training	CP	20,322
IGP for Poor Families	SWOD	MF	East	20,322
Skills Dev. & IGP	IHO	Skills Dev.	NWP	20,322
Forest Garden Project	CCDP	Env.	Uva	34,823
Distance Edu. Program in	Mental Health	Health	CP	6,000
IPM in Three Provinces	FAO	Agri/Env	SP,NCP/NWP	63,369
TOTAL				**535,742**

A completion report and a financial acquittal within four months of completion of the project are required. In addition, progress reports (monthly during the first three months, and quarterly thereafter) are also required for each activity. The monthly and quarterly reports are expected to be of not more than 1-2 pages in length.

During the period 2000/01 a sum of Aus$495,010 was released to 23 partner organisations in order for them to implement community development projects. Of these, 12 projects were for microfinance utilising some A$263,802 or 53% of the funding for the year.

The Canadian International Development Agency

The Canadian International Development Agency (CIDA) sees microfinance as a tool for poverty alleviation and as source of access to entrepreneurial finance.

CIDA believes that microfinance activity should be complimented by enterprise development services to assist in the creation of micro and small-scale enterprises in Sri Lanka. CIDA's funding is country wide and targeted mainly to low income groups through partner organisations.

CIDA believes that groups such as youth and women from the 'poorest of the poor' and the internally displaced from low income families are not yet being reached completely and efforts should be made to reach these highly vulnerable groups through local NGOs' and co-operatives.

The CIDA country development programme framework is being reviewed and until this has been completed there is no present window for new microfinance project assistance.

Microfinance specialists assess proposals that are required to be in the English language prior to acceptance for funding assistance. Some staff members have 'on the job' knowledge of microfinance schemes as well as previous experience of funding schemes.

The CIDA Programme Support Unit (PSU) advisor regularly attends the UNDP Microfinance Network meetings and utilises available advisory services. CIDA believes that there is a need to upgrade the microfinance knowledge and skills of all those working with microfinance in partner organisations and internal staff through formal training and advisory services.

For the past five years CIDA has concentrated on a single microfinance project in partnership with Sarvodaya Economic Enterprises Development Services (Guarantee) Ltd. (SEEDS) who supply credit plus services across 18 districts of Sri Lanka.

This project is known as the 'SEEDS Rural Credit Project' and is an extension of the Small Farmers and Landless Credit Project (SFLC), a previous joint CIDA/IFAD funded project. The project has two components, a credit component comprising a revolving loan fund and a gender component. The credit component consists of CAN$ 1,000,000 that is used as a revolving loan fund for rural communities over 200 village societies involved with SEEDS 'credit plus' activities.

CIDA has also financed CARE International's 'Food Security Project' (FSP) that had a large segment of microfinance intervention incorporated into the project. From late 1997 and up to December 2001, the FSP provided funding for microfinance services through 10 NGOs, 27 Fishing Co-operative Societies (FCSs) and 28 Savings and Credit (S&C) groups with grants totalling approximately SLR 20,000,000.

These two projects are very different in their focus and methodology. The SEEDS project operates outside the areas affected by conflict, with a focus on the development of the rural economy of Sri Lanka. By contrast, the CARE FSP project Jaffna, Batticaloa and the Wanni, with a focus on relief for the communities that have been resettled and relocated after internal displacement.

This is where the issue of sustainability comes to the fore, as for example the present SEEDS repayment rates on loans averages ninety-seven percent while the relief based project is reporting repayment rates of fifty percent on loans. However, these cannot be compared directly as one scheme is founded on a stable population that is building up assets and developing enterprises and the other is founded on a population that, until the last two months ago, lived in constant conflict and faced continued displacement, utilising credit, in the main, for consumption smoothing and subsistence-level income generation.

With the present stabilisation of the conflict and ceasefire, CARE has formed a microfinance unit headed by a microfinance specialist that is to review all the present microfinance schemes and refocus them towards economic recovery and financial sustainability.

There are two other funds that come under the purview of CIDA, these are the ‘Canada Fund’ and the Shakti Gender Fund. Of these the later has supported six NGOs with grants for funding microfinance projects as revolving loan funds in the past five years with a combined outreach of over 4,000 people.

Table 5 Shakti Gender Fund

Name of Local Organisation	**Grant Amount (SLR)**
Mannar Women’s Development Foundation	1,400,000
YMCA Batticaloa	2,000,000
Centre for Women’s Development Jaffna	300,000
Akkeraipattu Women’s Association Ampara	425,000
Women’s Development Foundation Ampara	800,000
EMACE Foundation, Moratuwa, Colombo	444,000

The monitoring and evaluation of projects is undertaken on a quarterly and annual basis with certified statements of accounts. CIDA/PSU staff undertakes regular field visits and receive mid-term and annual progress reports from the partner organisations based on the work programmes and the projects’ Logical Framework Analysis.

Recently CIDA has required partner organisations to develop results-orientated reports and impact analysis systems as an essential part of the reporting procedure. The PSU has financed some 20 CBOs throughout the country in recent years and is presently evaluating these activities.

Until the present review of CIDA’s country development framework has been completed no comment can be made on its future involvement and assistance to microfinance projects and programmes.

The Department For International Development

The Department For International Development (DFID) is the British Government department responsible for promoting development and the reduction of poverty. DFID develops a countrywide strategy for intervention once every three years. The present strategy runs from 1999/00 to 2001/02. Between 1999/00 and 2001/02 DFID funded a total of approx. SLR 2.436 billion.[10] DFID are committed to interventions in the fields of education, relief and rehabilitation, environment, public sector reform, conflict related work and urban poverty (DFID, 1999). Detailed financial figures related to microfinance intervention activity were not forthcoming. However, DFID have recently funded projects with OXFAM and CARE including the successful CAB-J project in Jaffna. DFID are presently reviewing their strategy for the next few years.

NORAD

NORAD, the development assistance department of the Norwegian Embassy has been involved with development in Sri Lanka for over twenty-five years with their funding of the Integrated Rural Development Programmes in Hambantota (HIRDP) and Moneragala (MIRD) being the initial focus of their microfinance assistance. Both of these projects contained components of microfinance, with the HIRDP having 'spun off' the Social Mobilisation Foundation (SMF) that is now a major actor in microfinance in the Hambantota District, delivering microfinance products to over 23,000 families.

NORAD believes that microfinance is a useful tool in tackling poverty alleviation and social rehabilitation. NORAD always treats microfinance as a segment of broader project and programme activity by and is an integrated component of many of the present projects. There is no specific sector focus and broad community targeting is preferred, with no outreach quotas being demanded. NORAD sees enterprise development services such as training, business information and technology as necessary services to compliment microfinance and is in favour of commercialisation of microfinance as a whole.

There are presently fifteen active projects/programmes with microfinance segments implemented through local NGO partners. Unfortunately, NORAD was unable to break down the specific funding for microfinance. The staff of NORAD assess implementing partners both informally and formally, with some of their staff trained in microfinance and others learning through 'on the job' experience. Overall, NORAD has supported over twenty-five local NGOs throughout Sri Lanka over the past five years.

NORAD enters into contracts that are legally binding on both parties when assisting organisations project and programme proposals. There are no specific guidelines or criteria for microfinance segment proposals. However NORAD does give advice and 'guidelines' should it be required by a partner organisation.

[10] Figures are based on overall expenditure totals of £ 20.3 million converted at a rate of SLR 120 to the pound sterling.

The rural districts in the south have been NORAD's primary geographic focus and projects span from one to three years but maintain an interest after the official termination of a project or programme. Proposals are in the English language and there are no minimum or maximum levels of assistance as a 'needs-based' approach is used.

Monitoring and evaluation of the projects/programmes is undertaken through visits and a requirement for periodic progress reports linked to the disbursement of the funding assistance. NORAD states that it undertakes random reviews and impact assessments of all partner organisations and their projects/programmes. NORAD believes that the demand for assistance for microfinance projects is declining from the levels of proposals that it has received in the past two years.

The Dutch Co-Financing Programme

The Dutch funding organisations of HIVOS, NOVIB and ICCO integrate their respective microfinance funding through the *Dutch Co-Financing Programme*. ICCO are terminating their intervention in the country from 2002.

A recent evaluation of the programme (Hospes et al., 2001) has been used for the following narrative to outline the funding agencies support for microfinance in Sri Lanka. The report traces the utilisation of grants by these agencies in funding microfinance through national and regional microfinance intermediaries.

After evaluating the success and impact on poverty of savings and credits for the financially disadvantaged, the Dutch agencies began to question the provision of grants to their partner organisations. Still, in 1997 the Dutch Minister for Development Co-operation allowed the four agencies to spend 100 million Guilders on loans and guarantees to their southern partners for a three-year period.

There are nine partners of the Dutch agencies – taking Metz (2000) as the point of reference. Six of these nine NGOs, IFFD, EHED, CWD, HPDF, Satyodaya and OFERR cannot be classified as microfinance agencies, as it is not their core business but a minor activity. The other three agencies; Sarvodaya Economic Enterprise Development Services Ltd. (SEEDS), the Federation of Thrift and Co-operative Credit Societies (SANASA) and Agromart, have organised the provision of financial services as a distinctive programme or as a legally defined and separate entity.

NOVIB and ICCO both support SEEDS whereas HIVOS supports SANASA. Each of the Dutch CFAs have 'front desks' based outside of Sri Lanka that make the decisions on partners and the proposal applications with a microfinance component.

NOVIB

NOVIB is technically a Lender-Granter rather than a granter, but for the sake of continuity they have been included here. The NOVIB Desk programme officer for Sri Lanka chooses microfinance as one of the primary areas of funding assistance and NOVIB has a policy whereby some 60% of its annual budget of 4 million Guilders is directed at poverty alleviation. 5 of the 14 partner organisations supported by NOVIB as per December 2000 operate microfinance schemes.

NOVIB Partnerships tend to be long term. Satyodaya has received funding for 10 years, Agromart, CWD and EHED for 6. The partnership with SEEDS is stated to be 4 years, however funding figures shown by SEEDS suggest a longer period.

With the exception of SEEDS, NOVIB does not sponsor loan portfolios. In the case of SEEDS it was agreed in the year 2000 to provide a loan for SEEDS banking services. The loan period is 6 years at a 14% interest rate per annum payable every 6 months. There is a penalty of 1% of the remaining loan to be paid each month if the interest payment is not made on time.

Table 6 NOVIB expenditure in Sri Lanka (in Dutch Guilders) 1998-2001

	1998	1999	2000	2001
Total funding (Guilders)	3,846,575	3,415,343	3,774,520	4,000,000
Agromart	891,760	711,738	50,495	1,198,901
Satyodaya	52,000	52,000	0	101,000
SEEDS	625,000	980,000	12,368,000	870,000
CWD	50,000	4,500	0	0
EHED	117,500	37,770	95,279	185,278
Sub-total Partners with microfinance segment.	1,736,260	1,786,008	2,412,784	2,355,179
Sub-total % of total funding	45%	52%	64%	58%

Source: Hospes et al, 2001.

NOVIB invests a relatively large percentage of the annual budget for Sri Lanka in partners with a microfinance component. However, in most cases the volumes of contributions earmarked for credit activities are modest. In the period 1998-2000, Agromart has used about 24,000 Dutch Guilders every year for its credit programme, EHED about 5,000 Dutch Guilders per year, and Satyodaya less than 5,000 Guilders. NOVIB has provided a phase-out grant to CWD that used to spend some 5,000 Guilders for credit activities but in 1999 only 2,500.

SEEDS is different in that NOVIB has earmarked about 1,000,000 Guilders for the two non-financial divisions as well as expenditures for the non-financial activities of the SEEDS banking division. The regional bureau has also earmarked 634,000 Dutch Guilders per year to be spent and transferred to the NOVIB lending desk for loan provision to SEEDS for the years 2000-2002. The process of negotiating and finalising the loan provision was long as both partners were concerned over the financial arrangements especially the interest rate and terms of collateral.

ICCO

The ICCO Desk in 2000 had identified five partner organisations that provided savings and credit facilities for their clients. The HDO organisation was however not considered to have qualified as Savings and Credit as it was too small a segment in their overall programme. The Habaraduwa Participatory Development Fund (HPDF) in the Galle District and Satyodaya are both newcomers to ICCO funding and ICCO has been keenly monitoring their savings and credit activities with concern about the organisations financial management abilities.

Table 7 ICCO expenditure in Sri Lanka

	1998	1999	2000	2001	2002-03-18 (planned)
Total funding in Sri Lanka. (In Dutch Guilders)	638,910	577,687	1,485,536	710,870	903,000
Satyodaya SEEDS IFFDP HPDE OFERR Sub-total	126,481	207,779	1,000,000	684,710	0
Sub-total as a % of total funding	**19.8%**	**36.0%**	**67.3%**	**96.3%**	**0%**

Source: Hospes et al, 2001.

On the other hand the IFFPD was given a phase out grant in 2000, yet on the other hand OFERR, it seemed could count on continued commitment from ICCO due to their belief that the conflict caused poverty and inequality in Sri Lanka.

The ICCO contributions to SEEDS used to be directed at the Enterprise Service Division, however in the year 2000 ICCO was funding the total budget of SEEDS as it felt that the work of the organisation had become an integrated whole, however ICCO only provides grants and has not become a lending organisation.

ICCO has decided to phase out completely in 2002 mainly because SEEDS is becoming less dependent on donors and it also appeared inefficient that both ICCO and NOVIB should fund the same organisation.

Although the percentage of funding to partners with microfinance activities had grown prior to phase out only a small percentage of this was directed at savings and credit operations, seemingly ICCO was more concerned with assisting the building of the capacity of its partner organisations to manage their microfinance operations.

The project portfolio and changes to it although guided by ICCO general terms of reference or principles leaves the desk officer really with the overall decision making as to partner networks and portfolio.

HIVOS

The HIVOS Desk concentrates on partners who consider microfinance as one of their core businesses, however the funding in the form of grants is focused on both entrepreneur capacity building and the strengthening of the partner organisation as in the cases of Agromart and SANASA.

This is probably due to HIVOS knowing of the considerable amounts of funding that is already directed at the loan portfolios of micro finance agencies in Sri Lanka. However HIVOS contributions to microfinance agencies still accounts for a large proportion of the total assistance to Sri Lanka.

Table 8 HIVOS expenditure in Sri Lanka

	1998	**1999**	**2000**	**2001**
Total expenditure (Guilders)	3,736,309	4,817,833	4,580,538	4,887,283
Agromart	900,000	950,000	1,000,000	1.052,500
SANASA (FTCCS)	500,925	544,937	549,513	967,988
Sub-total MFOs.	1,400,925	1,494,937	1,549,513	2,020,488
As a % of total.	**37%**	**31%**	**34%**	**41%**

Source: Hospes et al. 2001

Dutch agencies have mainly provided grants, not loans, to partner organisations with a microfinance programme in Sri Lanka with the exception recently of NOVIB and its decision to support the banking programme and loan portfolio of SEEDS. Also the bulk of the funding assistance appears to be directed at the capacity building of the partner organisations and their clients.

The Sri Lanka desk of NOVIB, ICCO and HIVOS give different priorities to the support of microfinance agencies. NOVIB gives the support of microfinance agencies a high priority as it is focused at 'direct poverty alleviation'. HIVOS although not having a distinct country policy for Sri Lanka tends to focus on creating greater equality of opportunities for people to access credit on a cost covering basis to assist to them to make small investments to create income. ICCO is the least interested in supporting partners with a microfinance component in Sri Lanka and is much more focused on the conflict as the core problem that is creating poverty in Sri Lanka.

The Swedish International Development Co-operation Agency

Employment creation is the present focus of The Swedish International Development Co-operation Agency (SIDA) when utilising its development aid in the economic sphere, assisting in the creation and augmentation of small and medium scale enterprises in Sri Lanka. SIDA believes that microfinance is a source of access to entrepreneurial finance as often 'poor' entrepreneurs are unable to access through formal financial institutions.

Groups such as youth, women from low income families, the broad entrepreneurial community in the North and East region and members of the military services that leave or are de-mobilised from the armed forces being primary targets for access to financial and non-financial services.

For the past two years, 2000 and 2001, SIDA has concentrated on a single economic project, 'Start and Improve Your Business' (SIYB) project with the International Labour Office (ILO) as the implementing partner. The ILO has successfully implemented the SIYB project in many developing countries and SIDA is confident of its success and impact on the enterprises and micro economies in the selected areas of Sri Lanka. Although the SIDA staff has only 'on the job' knowledge of microfinance, specialist consultants are employed to assess proposals prior to acceptance.

SIYB trains business development service (BDS) providers, who in turn select and train entrepreneurs who require services such as business and financial information, IT systems and technology inputs to help them improve the profitability of their enterprises. BDS providers are reached through comprehensive campaigns that utilise workshops, the media and direct mailing. The manuals for the programme are available only in Sinhala at present, however manuals in Tamil are being prepared and should be available by the end of 2002.

A pilot scheme based in Matara was initiated for the years 2000 and 2001 with grant in aid funding of US$ 1M. Monitoring and evaluation of the project is undertaken on a quarterly basis using a Logical Framework Matrix in the English language, this is backed by half yearly steering committee meetings, a mid term evaluation and impact analysis. The scheme has been adjudged a success and a further US$ 1M has been granted to the project for the period 2002 to 2005 for expansion throughout the country excluding the North and East region.

Prior to 2000 SIDA had funded two projects the Matara Integrated Rural Development Project (MIRDP) and the North Central Province Participatory Rural Development Project (NCPPRDP) both of which were implemented through the government. One of the successes of the MIRDP was its assistance in establishing the Enterprise Development Service Centre (EDSC) in Matara and it can be seen that the SIYB is an expansion and augmentation of the EDSC and its delivery of non-financial services for entrepreneurs.

There were microfinance segments in both the NCPPRDP and the MIRDP and although these were successful in terms of social and economic mobilisation; providing much needed credit for disadvantaged groups such as youth and women from low-income families, the sustainability of the schemes was suspect.

Over time SIDA noted that the loan size increased and the numbers of loans decreased thereby reducing the outreach of the schemes and possibly moving away from the intended target groups towards more middle-income entrepreneurial borrowers who were able to access funds at less than the market rates through these schemes.

The experience SIDA had from the microfinance schemes instituted in these projects was that they created a dependency amongst the administrators of the credit programmes as well as the borrowers/clients. SIDA believes that microfinance is an important tool for poverty alleviation but is concerned by both the proliferation of entities providing microfinance in a locale that tend to overlap and that those supported by international funding tend to exist only during the period of external support, thereby creating a strategic attitude of dependence throughout the community and harming the viability of well managed microfinance and credit plus schemes.

SIDA believes that the focus on disbursing funds as opposed to creating viable institutions for the provision of rural financial services leads to the growth of unsustainable organisations that collapse when funding support is withdrawn. Looking towards the future SIDA states that microfinance scheme sustainability ought to be built into the design stage with best practice standards established as a norm, moving away from subsidisation to commercialisation of microfinance throughout Sri Lanka.

Sri Lanka Community Development Fund

The Sri Lanka Community Development Fund (SLCDF) is a project of the South Asia Partnership (SAP) and until last year was called the Sri Lanka Canada Development Fund and have acted in the capacity of a donor and facilitator for micro finance sector in Sri Lanka since 1987. In 2001 CIDA terminated its funding and it is currently seeking new sponsorship. It is clearly one of the main funders of local level NGOs an anecdotal information suggests that it is an effective organisation and held in high repute.

It’s other activities are networking, partnership promotion and sector-based programs such as plantation fisheries and dry zone. Revolving loan fund contributions have been a component of most of its projects. Such contributions were outright donations to NGOs. During the phase 1 and 2 (1988-1996) NGOs were given grants in the range of SLR 2,000,000 to SLR 3,000,000 million and in the phase 2 extension (1997 to date) the grants to NGO has been SLR 150,000.

At least one-third of these grants were used by local NGOs for their RLF. The RLF is used for loans for small income generation activities. In terms of outreach, over 3000 CBOs have been reached through 270 NGOs. Therefore, the contribution made by SLCDF to the micro finance sector in Sri Lanka can be estimated at SLR 238 million.

The development of 17 district NGO consortiums is another important SLCDF intervention. The members use the consortium meetings for sharing, learning and lobbying opportunities. The local NGO questionnaire used in this report was, for example, in part distributed through the District NGO consortiums.

The United Nations Children's Fund

The United Nations Children's Fund (UNICEF) funds microfinance activities in the North & East region. UNICEF attaches importance to income generation activities that benefit women and contribute towards child development. Accordingly, UNICEF targets female headed households and poor and displaced families with children affected by armed conflict. UNICEF funds INGOs such as ZOA & OXFAM and numerous NGOs.

UNICEF has recently initiated a microfinance scheme for widows in Jaffna utilising Sarvodaya as its partner.

A 'fast' appraisal of the scheme found that the NGO partner was applying standards of good practice and the officers concerned had been thoroughly trained in social mobilisation and savings and credit schemes by the Sarvodaya apex body. UNICEF is intending to increase the number of clients in 2002 by 150 making a total outreach of 270 people in this extremely vulnerable target group.

There are similar schemes that have been implemented in Anuradhapura, Mannar, Puttalam, Vavuniya and Trincomalee that have not been appraised by the team;

- In Anuradhapura the partner organisations are presently, CTF, RDF, Sewa Lanka and KPK.
- In Mannar the partner organisation is presently; RDF.
- In Puttalam the partner organisations are presently; CTF, RDF and HBF.
- In Vavuniya the partner organisations is presently; RDF.
- Trincomalee the partner organisations are presently; OXFAM, ZOA, Agro HRDF, and Society for Social Economic Development.

However no details of savings and loans of these schemes have been made available. Although these schemes are small the fact that an agency such as UNICEF has deliberately moved into microfinance shows that this 'tool' is becoming universal. Although the agency itself has no internal microfinance competency it has in a number of cases chosen partner organisations such as Sarvodaya and Sewa Lanka that have some experience and skills in the field of microfinance.

UNICEF's concern for the family and specifically the children has led the organisation into microfinance as a method to assist the income streams through income generation schemes for families at the lower end of the poverty table who are there through conflict and displacement.

With no other 'safety net' and conflict engaged protagonists that aspire to protect the communities but appear to be more interested in 'winning the unwinnable' international agencies such as UNICEF are driven to making a humanitarian choice that has in many cases had a positive impact on the lives and survival of these people, although no detailed impact assessment is available at this time.

Comment freely given from one of the field offices:

> "No specific evaluation done on the ongoing programmes. However, some of the assistance provided has been very successful in terms of actual increase in income, savings leading to increased investment and rate of payment. Others have proven to be more problematic, especially when failure occurs and beneficiaries are left with nothing but the debt."

UNICEF is to be congratulated in undertaking what is a difficult area of professionalism in normal circumstances let alone in 'the face of conflict' and anecdotal field evidence appears to show broad community support for these interventions. However there is an urgent need for partner organisation and clientele training in microfinance good and best practice standards as well as training in enterprise development and management.

The United Nations High Commissioner for Refugees

UNHCR first became involved in funding microfinance schemes in 1993 and this continued up until 1999 when it was decided that no further investment would be made by UNHCR in microfinance. The schemes are of the revolving loan fund type and UNHCR provided funding to operational agencies/organisations such as CARE, Sewa Lanka, Sarvodaya and in Jaffna the Government Agent's Office to initiate schemes through implementing partner organisations such as NGOs, Co-operative Societies, CBOs and Divisional Secretariats.

The districts covered by the schemes include Mannar, Kilinochchi, Mullaitivu, Vavuniya, Trincomalee, Jaffna, Anuradhapura and Puttalam. Since 1993, a total of 378 projects at a value of over SLR 81,000,000 have been implemented. An evaluation of the schemes in 1998 by an independent team found that in the main the schemes were both operationally and financially unsustainable and that there was a lack of financial management and an absence of standards of good and best practice.

It can be argued that as these schemes are operating in the areas affected by conflict and that the communities had suffered constant displacement requiring urgent economic mobilisation after relocation and resettlement and that this was a better solution than to give outright grants. The position of mobilising communities into groups and reintroducing the savings and credit disciplines, it is believed would lead to the attainment of sustainable livelihoods.

With the cessation of hostilities and the possibility of a prolonged ceasefire the microfinance schemes that have survived need to be urgently restructured into schemes utilising good practice standards with the objective of attaining financial sustainability.

Given that the sister agency UNDP has microfinance competencies it could do well for UNHCR to pass across at least those schemes operating in Jaffna under the government auspices, so that they can become a private sector network of microfinance access that can be developed into a nationally managed resource in an area that needs urgent rehabilitation to its micro economy.[11]

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[11] The information contained in this section was gleaned from reports, evaluation studies and other international and national organisations as well as direct field observation and was not

The United States Agency for International Development

Poverty alleviation and the rehabilitation of communities affected by natural and man made disasters, such as drought and conflict have been the focus of The United States Agency for International Development (USAID) assistance when utilising its development aid in the economic sphere. There has been a gradual decline in the USAID assistance to Sri Lanka over the past 5 years and it was believed that the country office would be phased out.

However with the advent of the present ceasefire and the likelihood of constructive peace negotiations USAID has started to receive funding for grant in aid projects and a proportion of this is directed towards microfinance and income generation projects. Presently at least one project with CARE International as the partner is being negotiated that has a microfinance segment and is for implementation in the North and East region.

Although USAID is not presently operating microfinance programmes or projects, over the past five years they have supported three projects and the implementing partners were as follows:

- The Women's Development Federation in Hambantota - US$ 1,063,000
- SANASA/WOCCU – US$ 750,000
- SANASA/Kopay, Jaffna – US$ 60,000

USAID funds formally registered organisations, local, national and international, in Sri Lanka; that can access information on USAID assistance through newsletters and the Internet. USAID staff assess proposals prior to acceptance and assistance/projects can be of almost any duration up to 5 years.

The USAID staff have some formal training and 'on the job' knowledge of microfinance and also belong to the UNDP facilitated Microfinance Network.

There is a written policy and guidelines for microfinance proposals and a formal assessment of the proposed partner is undertaken prior to the grant in aid being made. Legally binding agreements in the English language are instituted between USAID and the implementing partners. Past partner organisations are all well established and have in depth backgrounds in microfinance and income generation schemes. That partners have received previous assistance and funding from other international organisations is not a bar to future funding by USAID the relevance of the proposal and competence of the partner organisation are primary to acceptance.

In addition to direct funding that includes loan fund capital and recurrent expenses, assistance is given to partner organisations in the form of training, capacity building and the provision of some essential hardware such as safes and computers. However capital assets such as infrastructure and buildings are excluded from funding assistance.

Monitoring and evaluation of projects is undertaken by the USAID staff through regular visits, quarterly progress reports and periodic evaluation dependent upon

directly supplied by the agency itself and therefore should there be any discrepancies or mistakes the team offers its apologies in advance to the staff of UNHCR.

the time period of the project, with end of project evaluations being undertaken in every case.

The experience USAID had from the microfinance schemes instituted in the past projects has been good especially with the Women's Development Federation in Hambantota. However it believes that there is a need for more formal microfinance training and exposure through cross visits to other MFIs. There is a tendency towards dependency on subsidised funding by the partner organisations and USAID believes that very few MFIs' in Sri Lanka are truly financially sustainable.

Looking towards the future USAID believes that microfinance schemes can be made more relevant if added to by schemes involving business development services and that 'software' training and technology inputs are essential in the recovery of the conflict damaged economies of the North and East region.

(b) Lenders

Lender organisations include the National Development Trust Fund, the DFCC and the Regional Development Banks.

The DFCC

The DFCC was established in 1956 and was then known as the Development Finance Corporation of Ceylon. With a capital of SLR 8 million it has grown to a large wholesale and retail development banking organisation with a capital of some SLR 26 billion. The DFCC has given loan support to a number of industrial sectors in Sri Lanka including, Agriculture, Apparel, Tea, and Power as well as urban housing.

In the past the bank undertook 3 experiments in directly funding microfinance operations in agriculture and found that due to its own lack of physical outreach and ability to be proactive at the lower levels of operation the schemes failed. Since this time the bank has provided loan facilities for small and medium enterprises and in the year 2000 its loan portfolio was in excess of SLR 2,500 million involving more than 1,700 business units in the SME sector.

A large part of the SME lending was for start-up projects, whilst the rest was for modernisation, expansion and to a lesser extent the relocation requirements of these enterprises. Funds for SME lending operations were mainly obtained from local and foreign lines of credit, whilst the remainder was funded from the resources of the bank itself.

The DFCC functions as the Administrative Unit of the World Bank and Global Environment Facility assisted Energy Services Delivery (ESD) Project Credit Programme. This project encourages the private sector, NGOs and cooperatives to provide electricity services using environmentally sustainable renewable energy resources.

Both grid-connected and off-grid projects are promoted. These include private sector mini-hydro projects selling power to the CEB, community-owned micro-hydro schemes for villages that are not on the grid and stand alone solar home systems providing electricity to households for basic applications such as lighting, refrigeration, radio and television.

This credit programme became effective in July 1997. The number of Participating Credit Institutions (PCI) that channels these funds grew to 6 by the beginning of the year 2001. By the end of the 2000 financial year the PCIs had collectively approved 13 grid-connected mini-hydro projects, 13 off-grid village hydro schemes serving 660 households and financed the successful installation of 3,200 solar home systems.

The cumulative refinance amount and actual disbursements by PCIs stood at SLR 1,031 million and SLR 854 million respectively, representing an increase of 80% over the cumulative position in 1999.

A World Bank Power Sector Mission visited Sri Lanka in January 2001 at the request of the government to increase the amount of funding for this project so as to sustain its momentum especially as Sri Lanka has a present deficit in power supply against a growing demand.

In 1998 the DFCC Bank was appointed as the apex institution to manage the credit component of the Dry Zone Participatory Development Project assisted by the ADB and the International Fund for Agricultural Development (IFAD). The credit programme targets development of micro enterprises based on a participatory development concept in the Kurunegala, Chilaw and Puttalam Districts.

During the financial year ending 2001, 626 projects were funded with disbursements for the year being SLR 7.9 million, the DFCC Bank as the apex organisation has maintained a recovery rate of 100% for this project segment whilst the partner lending organisations have achieved an average of 90% recovery.

The DFCC is empowered to recycle funds from recoveries and believes that the developmental nature of the scheme, coupled with sustainability of the funding arrangement, makes this a good model to follow in the area of micro credit.

The National Development Trust Fund

In recent years, Asian countries like Bangladesh, India, Philippines, Thailand, Nepal and Sri Lanka have seen the emergence of second tier organisations that fund microfinance practitioners through loans rather than grants. Such organisations, if independently structured and managed and staffed by competent micro finance specialist staff can be an effective means for donors and government alike to channel funding and capacity building assistance to MFIs.

Outside of conflict-affected areas, there is a strong case for a single organisation such as the NDTF to provide MFI monitoring and evaluation services that could be out sourced by donors and practitioners alike. Equally the NTDF could arguably play a role in the setting and enforcement of reporting standards.

The National Development Trust Fund (NDTF) is the largest national level secondary loaning agency for microfinance in Sri Lanka. Originating as a World Bank project, it has now evolved into a government project. The NDTF is funded entirely from the credit funds left over from the World Bank loan for the Janasaviya Trust Project.

Only a very small part of the US 50 million provided by the World Bank was drawn by the Janasaviya Trust for loans to micro finance agencies by the time the project closed. Now the NDTF has SLR 800 million as its credit fund and SLR 600 million as a risk and investment fund.

The entire board of NDTF is appointed by the government, the Chairman is a retired government civil servant and the Managing Director is a current Finance Ministry official.

There is one NGO representative on the Board, one Co-operative representative and the others are government officials. The organisation has 16 staff. The Peoples Bank is at present under contract to manage the Trust and has placed 4 senior staff within the Trust. At present 120 agencies are registered with the Trust, 49 of which received loans during the year 2000.

Loans are given at an annual rate of 7 percent interest, on a declining balance basis. Agencies are free to on-lend at any rate, though the NDTF recommends a rate of 24% per annum. Of a total loan fund of SLR 800 million, outstanding loans in mid-2001 were SLR 540 million. Loan repayment rates in year 2000 were 95.4 % for NGOs, 91% for TCCS, 65% for MPCS and 100% for Banks respectively. However, some NGOs repay from funds obtained from other donors and not due to a 95% repayment rate from beneficiaries. This may apply to other agencies too.

The criteria for eligibility for agencies to take loans are:

- 2 years experience in micro finance
- 70% repayment rate
- Social Mobilisation including formation of small groups

For agencies with a 90% repayment rate the criteria is a need for 1 year of microfinance experience.

The break up by type of agency of institutions taking loans in year 2000 was as follows:

Table 9 Agencies taking loans from NDTF in the year 2000:

Microfinance Borrower	Number of Loans
NGOs & CBOs	38
Banks	5
MPCSs & CO-OPS	3
TCCSs	3
Total	**49**

Source: NDTF Progress Reports 2000

The loans are taken by 36 NGOs besides SEEDS and Sewa Lanka shown separately, some NGOs have taken loans in more than one district therefore the total number of loans for this sector is shown as thirty eight.

The demand for loans at the current rate of 7% per annum indicates that there are NGOs that are willing to take loans for microfinance rather than depend on grants from the donor community.

In year 2000, disbursements from the fund were SLR 263.8 million. This represents a massive growth from the SLR 52.8 million disbursed in 1998 and SLR 87.6 m disbursed in 1999 respectively. Of this, NGOs have borrowed SLR 150.1 million compared to SLR 26.7 million in 1998 and SLR 70.1 million in 1999.

Overall, the biggest growth was in year 2000 was by four of the Regional Development Banks. The district wise analysis shows that in as much as 11 districts only 1 or no NGOs beside SEEDS or Sewa Lanka took loans. Moneragala with 6 NGOs and Badulla with 5 NGOs, Kandy with 5 NGOs and Ratnapura and Kurunegala with 4 each are the other main districts where NGOs took loans.

The demand for loans was greatest in Anuradhapura with SLR 52.6 million but of this as much as SLR 36.6 million was from Rajarata Provincial Bank alone. The next biggest demand was from Kandy with SLR 40.8 million where the Kandurata Development Bank took SLR 20.4 million and a local NGO Kundasala Praja Sanwardene Padanma took SLR 10.6 million.

Polonnaruwa although having only 3 borrowers had a demand for SLR 27 million with SEEDS taking SLR 20 million and Rajarata Development Bank taking SLR 6.9 million. Badulla also showed a big demand of SLR 23.2 million largely due to SEEDS taking SLR 12.9 million and a local agency Economic and Rural Services Bank Service SLR 6.1 million. Moneragala took SLR 19.1 million through 6 separate local NGOs taking loans.

Analysis shows that some agencies or agencies in some districts take loans more than others are due to their familiarity with and knowledge of the scheme. For example the biggest single agency to have taken loans in Rajarata Development Bank and this is due to the fact that its General Manager was a former employee of Janasaviya Trust Fund being the former name for NDTF.

In Moneragala and Badulla there has been a larger number of NGOs taking loans as an opinion maker and a leader of NGOs in the area has initially taken loans and advised others to follow suit.

Some large NGOs such as Sewa Lanka utilise the loans as part of their total portfolio that is also made up through a large proportion of grant funding giving them the ability to move money from one source to another for repayment purposes even if the credit itself is not repaid in time. Other agencies such as SEEDS have good repayment records and could borrow more but prefer to balance grants and loans in a financially mature and responsible manner.

Only a few TCCS District Unions have been granted loans as 9 district TCCS Unions are blacklisted for not paying Janasaviya loans. A total of 38 NGOs were granted loans. The NGO survey revealed only approximately one third of NGOs taking loans and grants concurrently. This would suggest that many NGOs are prepared to make the switch from grant in aid to loans and the NTDF's policy of charging a 7% interest rate is an effective tactic to successfully encourage NGOs to change the source of funding.

The demand for loans from this fund would increase dramatically if donors halted grant in aid for such microfinance schemes and utilised their limited funding to assist the ultra poor in areas of real need or for the essential ‘software’ training and development services that are essential for the development and growth of any economy.

The NDTF also provides funds for training and organises some limited training for beneficiaries, however these are not of any high quality and the budgets are severely limited.

However despite a certain amount of independence in operation, the NDTF is managed by a government appointed Board of Directors who are mainly government servants having little or no microfinance competence. The Chairman and Managing Director are political appointments from the Finance Ministry with no experience or back ground in micro finance and of course are open to ‘political capture’.

Key staff members are on secondment from the Peoples Bank and the key managers are Peoples Bank staff whose strengths are in loan issue and recovery and not in building the micro finance abilities of its partners. The core strength of the organisation is in issue and recovery of credit and not in strengthening microfinance practices or the network of NGOs that could broaden the outreach to give access to microfinance for the poor throughout Sri Lanka.

The NDTF needs to be completely changed and revitalised with a serious micro finance capacity built in and an organisational ability to assist agencies in micro finance development. This includes a need to overhaul all the structures and systems and to ‘spin it away’ from government and party political control.

Though both JTF (NDTF) and PKSF in Bangladesh started in 1990/1991 with similar support from World Bank the PKSF has become a serious micro finance capacity building agency in addition to providing loans.

(PKSF) was formed in 1990 by the government of Bangladesh as a non-profit Company under the Companies Act. PKSF is run as a private company outside the ambit of government.

The Board has no current government servants in it and consists of people like Prof. Yunis, founder of Grameen, Professors, Bankers, Social Workers and retired distinguished senior government servants. The management of PKSK is kept completely outside of government control with the Managing Director being appointed by the Board and is competitively chosen on merit. In contrast, the entire Board of Directors of NDTF is appointed by the government of Sri Lanka.

Human resources are considered the main strength of PKSF and it is known for delivering high quality microfinance services. More importantly PKSF recruits its staff based on merit and with very competitive reward packages, resulting in a knowledgeable and skilled staff with above average academic qualifications that become capable microfinance specialists through the use of specialist training programmes.

The key difference between the NDTF and PKSF is that institutional strengthening of partner organisations is a focus of PKSF whilst this is not really considered at all by the NDTF. PKSF brings a whole package of loans coupled with institutional strengthening for its partner organisations, assisting the weaker partners rather than just rejecting loan applications.

For the NDTF to become a creditable and neutral ‘player’ in microfinance it needs to be converted into an autonomous body like the PKSF with donors being able to use it both as a conduit for funding microfinance on a sustainable basis and an organisation to assist the capacity building of microfinance agencies throughout the country.

(c) Granter-Lender

The Asian Development Bank

The ADB approved its microfinance development strategy (MDS) in June 2000. The MDS emphasises the importance of developing sustainable microfinance to fully harness the potential of microfinance for poverty reduction in the Asian and Pacific region.

> “The outreach of service providers can be expanded on a sustainable basis only if they adopt a commercial approach. However, neither the commercialisation, defined as the expansion of profit-driven, market-based financial institutions serving the microfinance market, nor its various facets and implications for the microfinance industry are well understood by microfinance stakeholders in the Region.” (ADB, 2000a)

Furthermore, the ADB states that

> “Over the past two decades the interest in microfinance has grown rapidly and multi-lateral lending agencies, bilateral donor agencies, developing and developed countries governments, non government organisations, and a variety of private banking institutions all support the development of microfinance.” (ibid.)

Despite this growth, as concluded in the recently completed Rural Asia Study, “rural financial markets in Asia are ill prepared for the twenty first century.” (ADB, 2000b)

The ADB believes that approximately 95% of some 180 million poor households in the Asia and Pacific Region still have little access to institutional financial services and that the provision of efficient microfinance services for this segment of the population is important for a number of reasons (ADB, 2000a):

- Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and the efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage risks better, build their assets gradually, develop their micro-enterprises, enhance their income earning capacity, and enjoy an improved quality of life.
- Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus microfinance helps to promote economic growth and development.

- Without permanent access to institutional microfinance, most poor households continue to rely on meagre self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities.
- Microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty.
- Microfinance can contribute to the development of the overall financial system through the integration of financial markets.

During the period 1988 to 1998 the ADB approved 15 microfinance projects totalling approximately US$ 350 million, 6 projects with microfinance components valued at about US$ 53 million, and 34 technical assistance activities for about US$ 18 million to support microfinance operations. The ADB admits that it provided this assistance without a well-defined strategy and as a result, has not been able to fully harness the potential of microfinance for poverty reduction.

Of this, two countries; Bangladesh and Indonesia received about 62% of the total loan amount for microfinance projects; Philippines and Nepal, 33%; Kyrgyz Republic, 4%; and Mongolia 1%. Of the total assistance provided through component projects, 56% went to the Philippines, while Pakistan and Sri Lanka each accounted for 20%, with the remaining 4% going to Vietnam (ibid.)

This means that Sri Lanka received some US$ 3.6 million over this period in technical assistance activities that are funded as grants. Presently the NEDCORD project in the North and East Region of Sri Lanka with a loan funding of US$ 35.5 million has a component for microfinance that is estimated at some 5% of the total at approximately US$ 1.8 million for the conflict affected areas of the country, excepting the Jaffna Peninsula.

The earlier ADB microfinance projects where characterised by;

- A focus on micro credit delivery,
- Allowed subsidised interest rates,
- Paid little attention to financial viability, and
- Were poorly targeted.

The lending operations in recent years support a wider array of institutions, go beyond credit services to promote voluntary savings on a limited scale, emphasise market orientated interest rates, and pay more attention to financial viability than did the earlier projects. The most recent projects, such as the Rural Microfinance Project in Nepal, with a loan of US$ 36 million approved in November 1998, have been designed to encourage greater participation of the private sector in microfinance (ibid.)

The ADB believes that in general the earlier projects failed to make a significant contribution to poverty reduction because of their limited outreach. Some of the projects had a limited positive impact on a small number of clients, but there was no mechanism to sustain this impact beyond the project period. Poor infrastructure, sluggish agricultural growth, and limited markets imposed serious limitations on the potential for broad-based growth in rural areas and access to credit could contribute little to permanent improvements in income for clients of microfinance projects under these conditions.

The lessons learned by the ADB from its experience over the past 11 years are

- Adoption of the financial system development approach is the key to achieving sustainable results and to maximising development impact. This approach emphasises an enabling policy environment, financial infrastructure, and the development of financial intermediaries that are committed to achieving financial viability and sustainability within a reasonable period and that can provide a variety of financial services, not just credit, to the poor.
- Microfinance clients are more concerned about access to services that are compatible with their requirements than about the cost of the services.
- Given the diversity of demand for financial services, a broad range of institutional types is required to expand the outreach.
- Strong retail institutions committed to outreach and sustainability are essential for extending the permanent reach of financial services and to have a significant impact on poverty reduction. Thus building the capacity of institutions with a commitment to reach the poor is vital.
- Financial institutions committed to provide microfinance services were found to require considerable technical assistance for capacity building.
- The demand for savings services by poor households and micro-enterprises is as strong if not stronger than the demand for credit. The expansion of the outreach of savings services can have a potentially significant impact on both institutional sustainability and poverty reduction.
- Because microfinance is primarily targeted to the poor who are disadvantaged, social mobilisation is necessary to introduce them to a formal or semi-formal, market-orientated institutional environment.

The goal of the ADB’s proposed Microfinance Development Strategy is to ensure permanent access to institutional financial services for a majority of poor and low-income households and their micro-enterprises. The purpose is to support the development of sustainable microfinance systems that can provide diverse services of high quality. The strategy focuses on:

- Creating a policy environment conducive to microfinance
- Developing financial infrastructure
- Building viable institutions
- Supporting pro-poor innovations, and
- Supporting social intermediation.

This broad strategy means that the ADB has had to make changes to its delivery systems, staffing mix, partnership policies and its monitoring and evaluation structures and systems. In addition to selecting the appropriate countries in which to focus on microfinance activities and emphasising the rural sector, the ADB will act selectively regarding the type of activities to be supported, the modalities of assistance utilised, and the type of institutions eligible to participate in ADB supported projects in particular countries.

It is interesting to note that presently in Sri Lanka there are two recently initiated technical assistance activities, one in the Eastern coastal areas of the country and one for covering nation wide rural microfinance.

The Japan Bank for International Co-operation

Japanese development assistance is the single largest source of international development funding for Sri Lanka. Development activities are split between different organisations and divisions. Most of this funding is focussed on large-scale infrastructure development projects such as rehabilitating the water and sanitation systems of the city of Kandy, building roads and funding the construction of a new parliament implemented by the Japanese International Co-operation Agency (JICA). The Japanese also engage in a range of other social development activities such as vocational training and support for microfinance and MSME projects such as PAMP. The Japan bank for International Co-operation funds microfinance activity in Sri Lanka and has recently sent a mission to Sri Lanka to reassess their microfinance interventions. JBIC is also considering a rapid expansion of microfinance support activities through existing funding channels and policy instruments.

The World Bank

Since 1995, when the World Bank joined the donor community to establish the Consultative Group to Assist the Poorest (CGAP), the Bank has become increasingly involved in supporting micro-enterprise finance.

The Bank is a newcomer to this field, having been only modestly involved before CGAP’s establishment. However, it now has an active lending programme and a clear strategy known as the financial systems perspective.

Although it was too early to evaluate the Bank’s approach to micro-enterprise finance as at that time (1999) as only 15 projects had been completed, and therefore important impact issues such as analysis of the effects of the projects on the poor and on gender issues, the report stated that the study was important for three reasons (World Bank, 1999):

- Micro-enterprise finance appears to be one of the most promising innovations to support poverty alleviation in a sustainable way,
- The Bank has a rapidly growing involvement in this area and as at 1999 had a portfolio of some 90 projects, and
- The Bank’s adoption of a financial systems approach to supporting these projects provides a basic standard against which project designs can be evaluated.

The evaluation report stated:

> "The central finding is that greater emphasis should be given to the commercial viability of microfinance institutions. Earlier Bank micro-enterprise finance projects paid little attention to the financial details of participating institutions, such as loan recovery rates or the costs of granting and administering loans. Recent projects provide more information, but it is still not possible to tell if the institutions supported are designed to ever be financially viable. Bank experience shows that this lack of attention to financial detail weakens performance." (ibid.)

In Sri Lanka, The Poverty Alleviation Project was approved in April 1991, becoming active in September 1991 closed in December 1997. The project was funded by IDA to US$ 57.5 million, GoSL to US$ 17.5 million and KFW co-financing to US$ 10 million this portion being specifically targeted for the credit and micro-enterprise development component. The UNDP provided US$ 2.5 million for technical assistance of which only US$1 million was disbursed by the end of the project (World Bank, 1998b)

The major project objectives were:

- Increase income earning opportunities among the poor, and
- Improve the malnutrition status of pregnant and nursing mothers, and children less than 3 years of age.

To achieve these goals, the project included five sub-objectives:

- Re-orient and expand existing institutional capacity to serve the poor, and create additional capacity.
- Develop credit and other services for promoting self-employment and micro-enterprise development through group based lending and entrepreneurial development.
- Expand productive wage employment for the poor through technically, economically and socially viable rural works projects.
- Develop programmes for nutrition interventions for malnourished children and pregnant and nursing mothers.
- Create policy research and programme formulation capacity within the GoSL (Ministry of Policy Planning and Implementation) to take greater account of poverty and underemployment issues in overall growth policies and public investment projects.
- The achievement of the project objectives was partial and unsatisfactory. The overall objectives, expansion of employment opportunities and incomes among the poor, and the reduction of malnutrition among mothers and young children, were achieved to a limited extent.

Among the reasons given in the report (ibid.) was that:

- The fund's objectives were only partially satisfied. 175,000 households were expected to increase their earnings, however, only 117,000 micro-enterprises were established. Of these, about thirty-seven percent survived beyond three years of operation. Net employment creation was 40,000 jobs, approximately twenty-three percent of the expected targets.

- ❖ Beneficiary targeting was generally sound with project selection criteria being satisfied in some ninety percent of cases. The majority of micro-enterprises did not develop capacity to expand production, improve product quality or diversify into new lines of production. This was partly the result of a lack of training in enterprise development.

  The repayment rates of loans from NGOs/POs to the NTDF (trust fund for the project) was about ninety-seven percent, while the repayment rate of loans from beneficiaries to NGOs was only about eighty-three percent, suggesting that the NGOs/POs were utilising their own funds, including the earnings and assistance from other sources, to repay NDTF credits. The NDTF continues as a trust fund on lending to microfinance intermediaries and other NGOs that have microfinance components.

Iffath (2000) gave a summary of findings and recommendations that included:

- ❖ Contrary to the general perception of officials, poor people in Sri Lanka are forward-looking savers who use formal, semi formal and informal financial services for household level risk management.
- ❖ At the household level, there is evidence that poor people use financial services – mainly saving, borrowing and/or mortgaging of assets – to manage risks.
- ❖ The formal microfinance market is largely supply-driven as evidenced by various government interest subsidies or refinancing schemes offered to the two state banks for rural sector lending. The same situation exists in the semi-formal market where the government supports the fast-growing credit component of the Samurdhi Welfare Programme.
- ❖ Most subsidised rural credit programmes have resulted in high arrears and have generated losses for the financial institutions administering the programmes and for the government. Evidence from other developing countries show that government associated credit programmes like Samurdhi also face risk of failure due to the potential for political capture.
- ❖ Government subsidies and direct state involvement in microfinance via Samurdhi 'crowd out' other well-performing microfinance institutions that do not access government subsidies.
- ❖ Rather than mandating credit allocation and being a microfinance provider itself, the government should focus on protecting the interest of the poor savers by creating a level-playing field that promotes financially sound and legally unambiguous operations by all formal and semi-formal microfinance providers.
- ❖ Appropriate deposit protection policies are especially important at this point in time as both the Samurdhi Banking Societies and a handful of semi-formal microfinance providers are contemplating the establishment of larger, formal financial sector institutions.

Presently the World Bank in Sri Lanka is involved only in one project concerned with microfinance. The Energy Services Delivery project has provided credit of US$ 24.2 million and a grant of US$ 5.9 million that is delivered through the DFCC part of which is on lent to microfinance wholesale and retail institutions and organisations including SEEDS for mini hydro and household solar projects.

2. Funder-Practitioners of Microfinance in Sri Lanka

<u>(a) Granter-Practitioners – International</u>

CARE International

CARE has been involved in microfinance schemes since 1994 where they were utilised for the economic mobilisation of partner groups in the Food Security Project that was implemented in Jaffna, Batticaloa and the Wanni. Then in the Wanni in 1994, CARE funded by UNHCR under its micro projects scheme initiated savings and credit schemes with a large number of NGOs and Fishing Co-operative Societies (Titus & Redfern, 2000)

In 1998 CARE employed a microfinance specialist who instituted a programme of training in microfinance for CARE staff who were involved with the microfinance schemes. This specialist also initiated a microfinance scheme in Jaffna, the CAB J Project, that was based on good practice standards and that has become the model for replication throughout all of CARE's microfinance schemes (CARE, 1999).

CARE has recognised that the microfinance schemes based upon relief approaches, that at the time served the partner groups well by reintroducing savings and credit discipline, now requires change towards a more business-like approach as populations in the areas affected by conflict move from relief and rehabilitation towards economic recovery.

The Food Security Project (FSP) had two aims: First, to increase the quantity of food produced in the conflict-affected areas of Sri Lanka. Second, to increase the capacity of local institutions to meet the needs of households in conflict areas (CARE, 2001a).

To achieve these aims, the project undertook to increase the amount of land under cultivation and engaged in localised institutional capacity building. The first activity involved the rehabilitation of minor tanks and agricultural wells, training farmers in water management and maintenance of wells and tanks, and through encouraging increased bio-diversity and yield within household gardens.

The second activity involved the use of institutional development and organisational strengthening approaches (IDOS), inter-organisational linkage building and savings and credit. The capacity development component started later than the physical rehabilitation activities and did not really get underway until mid-1997.

Microfinance activities in the project were planned in two ways: through working via non-government organisations (NGOs) and directly with two types of community based organisations (CBOs), existing fishing co-operative societies (FCSs) and newly-formed savings & credit groups (S&Cs).

The initial focus was to work with NGOs and FCSs in Batticaloa, NGOs in the Wanni, and FCSs in Jaffna[12]. In Batticaloa, the NGOs started receiving funding in late 1997, with the bulk of grants being given in the first 7 months of 1998.

[12] INGOs were prohibited from working with NGOs in Jaffna until mid 2001.

The FCSs were developed the following year with 9 FCSs receiving funding between February and October 1999. In Jaffna, the project selected 18 FCSs. In the Wanni, the project appears to be working with 6 NGOs.

A second phase of activity began in Jaffna in Late 1998 with the project deciding to create women's savings and credit groups using existing BIG (bio-intensive gardens) outreach then expanding elsewhere within the project. Nine groups were started in Jaffna 1999 and three in Batticaloa.

In 2000 three more groups were created in Batticaloa and five were created in the Wanni. In 2001 another four groups were created in Batticaloa, three in the Wanni and three in Jaffna. As of December 2001, the FSP had provided microfinance services through 10 NGOs, 27 FCS and 28 S&C groups. The grant given to these organisations totals approx. 20 million rupees.

UNHCR funded Micro Projects were initiated with NGOs, Fishing Society Cooperatives (FCSs) and some CBOs in the Wanni in 1994. Over the period 1994 to 2000 Revolving Loan Funds (RLF) were developed in 49 NGOs, 27 FCSs and 5 CBOs in the districts of Kilinochchi, Mannar, Mullaitivu and Vavuniya North.

The financial inputs to these RLFs over the period total SLR 40,487,368 and this was loaned to 11,665 beneficiaries at interest rates that differentiated between 12% and 45%, each group being allowed to establish its own interest rate levels. The methodology is based on group formation through a social mobilisation process and training given in the management of funds and group management. The training sessions were at the most over 3 days and included group formation and management, savings, loans, and identification of income generating activities.

There have been further training modules such as loan delinquency presented to the groups over the period. Savings are recorded in individual savings passbooks however each group has different rules concerning, the amount of savings required to qualify for a loan, saving interest rates and withdrawal regulations. Some of the groups do not allow savings to be withdrawn unless the member leaves the group; this encourages members to leave the groups once a loan is given and repayment made.

There are some well managed RLFs that have produced positive results in assisting the group members to establish income generating activities and to form cohesive groups within communities that are utilising the profits from interest payments to undertake socially responsible activities such as training and paying for pre school teachers. Two examples are:

1. The Pandiyankulan, Thunukkai Development Organisation (PTDO) has 2,000 active members in its savings and credit scheme. This NGO supports 21 pre schools by supplying and paying for 35 teachers and 4 co-ordinators. PTDO also own and manage a pharmacy and a retail shop that are profitable. There are 16 board members of whom 6 are women and 12 paid staff including 3 loan collection officers. The election of board members, and the management processes are transparent and participative. This NGO has been funded by Save the Children Norway as well as CARE and maintains two separate sets of records.

2. The Mullaitivu FCS Union is the apex organisation for 22 FCS and the savings and credit activities appear well managed by a committed team of elected officers. The co-operative regulations, structures and systems appear to provide a framework within which it is possible to develop sustainable microfinance schemes. The 22 societies have a total of 4,600 active members (2,800 men and 1,800 women). The General Manager of the union is a woman and there are 9 board members of whom 3 are women. There are 22 paid staff in the union and a further 60 paid staff in the FCSs.

CARE has granted funds of SLR 10,465,730 over the period to RLFs in these fishing societies mainly for credit to 1,748 clients to purchase fishing gear/nets. It can be said that this input has allowed the fishermen to increase their catches and as a result some 300,000 Kg of dried fish was sold outside of the Wanni in the south in 1999. The loan interest rate is 18% and the present current average repayment rate of the societies is 80%. It appears that delinquency in the main is directly linked with displacement. As of July 2000, there are 320 active savings accounts on which the union pays a 9% interest rate, the union receives 12.5% on its savings and the differential is utilised to administer the accounts.

The union manages wholesale and retail businesses through 9 stores, a wholesale centre, a fishing equipment sales centre, a rice mill and a salt mill and sells kerosene to members at a discounted price. The management team of the union has drawn up project plans for an ice factory and a fish processing and canning plant. These added value projects are the type that should be considered for funding given that the cease fire and easier access to the Wanni area continues.

The union undertakes some social responsibilities with profit from its operations by supplying and paying for 22 pre school teachers and has organised a compensation fund for death and injury compensation to fishermen and their families that includes the payment of all hospital costs. Given these examples of properly managed and profitable organisations with democratically elected directors operating in the Wanni then it is possible that other organisations can be assisted to follow suit.

The LTTE is in the process of restructuring the NGOs in the Wanni and it is forecast that only some twenty-six will remain after this process has been completed. The NGOs will come under the management of three NGO consortia whose officers appear to have little knowledge of NGO management and operational factors but seem more interested in the assets and political intentions of the NGOs.

The RLFs have provided the partner organisations and the communities with opportunities to improve the quality of life for the people concerned through assisting them to generate savings and income. In this regard the micro projects microfinance schemes have been successful although at a high transaction cost.

CARE has recognised that the ‘relief-based’ approach to microfinance has engendered a strategic attitude of dependency in a large proportion of the partner groups and is in the process of changing the structures and systems of these schemes towards a ‘business-like’ or commercial approach to the operation of microfinance.

CARE's new strategy commits the organisation to repositioning itself within the development community. CARE's vision is to be a leader in sustaining local efforts to promote reconciliation and advocating for rights and opportunities for the poor, vulnerable and marginalized (CARE, 2000c).

In terms of microfinance CARE's focus is on the areas affected by conflict, plantations and 'pockets' of poverty. CARE believes that they need to broaden their poverty alleviation focus to embrace economic development and empowerment (ibid.).

CARE have recently secured funding for two medium term rehabilitation /development projects in the North and East region. The first project, 'Wanni Development', is funded by AusAID and the Netherlands for a duration of three years commencing early in 2002 (CARE, 2001b). The second project, 'LIFT', is a four year project funded by CIDA operating in Batticaloa, Jaffna and the Wanni area (CARE, 2001c).

Case Study: The CAB-J Project

The Capacity Building of Community Based Organisations (CBOs) in Jaffna Project (CAB-J) is an innovative two years small-scale CARE International pilot project funded by DFID, the United Kingdom Department For International Development. The goal of the project is to contribute to reducing the vulnerability of poor households in the Jaffna area of Sri Lanka. The project aims to achieve this through undertaking capacity development activities with twenty CBOs and increasing their ability to access financial resources.

The project was due to commence in June 2000 and run until June 2002. However, the project started three months late due to an intensification of the conflict situation in late April 2000 that saw the displacement of 172,000 people in the Jaffna Peninsula.

The Project employs a total of five staff including, the Project Director, three Microfinance Management Trainers and a Finance & Administration Officer and has a total budget of 120,000 Pounds Sterling allocated in equal proportions over two years. The Project Director received CARE funded microfinance training in the USA, and three graduates from the University of Jaffna were selected as Microfinance Management Trainers. The project team received in-house training in microfinance, monitoring & evaluation and institutional strengthening between Mid-October to Mid- December 2000.

This was followed by a 'cross-visit' to the Wanni to look at existing CARE microfinance activities in FCS and S&C groups within the regional Food Security Project based in Jaffna, Batticaloa and the Wanni. This was complimented with a visit to a DFID funded microfinance programme in India that is in the second year of its seven years programme cycle.

The selection of partners was completed by mid-February 2001. An institutional baseline study was undertaken and the selection criteria were based on four main factors, namely: the vision and ambition of the CBO, size of active membership, continuity of size of active membership and geographic coverage.

Ten Thrift and Credit Co-operative Societies (TCCS) were selected in consultation with the Assistant Commissioner Co-operative Development (ACCD) and five S&C groups were eventually selected out of a pool of fifty applicants. Two of groups selected were S&Cs groups from the FSP. A further five S&Cs groups were initiated in communities that had requested assistance in developing these activities.

After the partner Selection process was complete, the team then underwent two weeks training with CARE's Microfinance specialist (who was at the time, the CAB-J Project Director) including a two days workshop with office bearers from all the CBOs and fifteen university researchers for the orientation of the baseline study. A household baseline study was conducted and independently analysed between the April and September 2001.

The survey was a household level survey conducted in two hundred families within the geographical area of the twenty CBOs and thirty 'control' families outside. The survey was conducted to provide information on the present levels of demand and supply for microfinance services in the peninsula and to gain insights into coping strategies undertaken by households.

In parallel, with the household baseline survey, the capacity building activities of the selected CBOs were started. This involved each CBO receiving training on group management and leadership, book-keeping, savings and credit activities. CBO training was devised to be 'phased' and operate on three tiers of sophistication according to the previous group management and savings or credit experience of individual groups. The CBOs are designed to be self-managing, with monthly visits by the project team and, unless for further training purposes or by exception, as observers only.

After initial training was complete, CARE grants were given and individual CBOs were allowed to choose their own loan selection criteria with the project team removing itself from the disbursement process. Savings in the TCCS is set at a regulatory minimum of twenty rupees per member per month, savings in the S&C groups was self-set at a minimum of one hundred rupees per member per month with some groups deciding to save up to two hundred and fifty rupees per month.

Each member has an individual savings passbook and quick access without penalty to savings is one of the principle criteria for the savings component of the scheme. The CBOs utilise commercial banking facilities and the interest on members’ savings is comparable with market rates. There is some consideration being given concerning the possibility of setting-up a networked community bank for the S&C groups.

Grant provision to the CBOs is stepped in three phases:

phase 1 - SLR 30,000
phase 2 – SLR 50-75,000,
phase 3 – SLR 25,000 +

No phase three grants have been given at this time and the project team aims to give phase there grants in the form of an insurance product designed to hedge as a risk & sustainability management tool.

Each CBO determines the level of interest they will charge, and the method and manner in which it is collected. Interest rates vary, but currently range between twenty-four and thirty-six percent that is at and above market rates.

The project currently has an outreach to 1,580 active members out of its overall project target of 1,700 and expects to attain the target outreach by June 2002. On an average each group has gained twenty new members since the start up of their savings and credit activities and this is expected to increase over time as the benefits of joining the groups is appreciated by other members of the 'host' communities.

CARE has the most extensive network of partner organisations undertaking microfinance in the North and East region and it has recently appointed the Project Director of the CAB J Project as the microfinance specialist to replace the previous specialist who left CARE in 2001.

Danish Refugee Council

The DRC commenced project operations in Sri Lanka in the year 2000, prior to that it was establishing a base in Anuradhapura and a consultant undertook a review of the areas affected by conflict to prepare a country strategy for the organisation (DRC, 2000).

The DRC decided to concentrate on rehabilitation work in areas of relative stability with a special focus on questions of displacement and resettlement. The overall goal of DRC is to secure durable solutions to the many problems faced by the internally displaced people (IDPs) in the wake of war.

A component of the programme is to undertake economic mobilisation through savings and credit activity implemented through local NGO partners. The DRC has employed an international microfinance specialist since the year 2000 who has the remit of designing and initiating microfinance schemes and training the staff of DRC and the partner organisations in the implementation and monitoring of microfinance.

DRC’s partner organisations working in microfinance are:

1. Rural Development Foundation (RDF) in Vavuniya and Mannar
2. Social Economical and Environmental Developers (SEED) in Vavuniya
3. Mannar Association of Rehabilitation and Resettlement (MARR)
4. Sewa Lanka foundation in Anuradhapura

DRC are considering the expansion of its programme throughout the North and East region and with the advent of a negotiated ceasefire it is expected that this will be initiated in the year 2002.

FORUT

FORUT started operation in Sri Lanka in 1967 with a fishing project based in Jaffna that was focused on the transfer of technology in fishing – boats and fishing gear. In parallel with this, a range of social initiatives were undertaken mainly based in the Jaffna Peninsula. Since 1981 FORUT and its Swedish sister organisation, IOGT, have further developed their concept of community development with a distinct profile on temperance and organisation.

The mobilisation of human and local resources in partnership is the governing idea in FORUT's projects. FORUT regards the women's groups, savings and credit groups and youth clubs as examples of partners that have great potential. Assisting the development of civil society is the focus of FORUT through community partnerships contributing to the partners' organisational development.

During 2000 FORUT implemented a pre-project on analysing the civil society in Sri Lanka, in order to identify civil society organisations and the needs for strengthening the civil society from a post conflict perspective.

FORUT is continuing to emphasise the civil society component in all of its project locations throughout Sri Lanka as it believes that when civil society activities go hand in hand with traditional organisational and economic activities the long term impact of FORUT's intervention will become more sustainable.

FORUT believes that the economic empowerment of the most marginal poor especially its focus groups of women and children facilitates growth through building village based growth with equity and the effective utilisation of available resources (FORUT, 2000)

By the provision of access to credit facilities through group organised sustainable CBOs and combining this with training and expertise promotes self-empowerment and respect. This in turn assists these communities to break out of the poverty trap of chronic indebtedness and become an effective voice in the building of a responsive and respected civil society.

FORUT is presently in the process of reviewing its mission, policy, plan and strategy concerning its microfinance operations. The review recommends that there is a move away from the previous subsidised model towards commercialisation and the operational and financial sustainability of the village based CBOs (FORUT, 2002).

The need and role of microfinance is to be assessed more thoroughly through baseline surveys and microfinance operations will be integrated with access to non-financial services such as training, business linkages and information.

Monitoring is to be undertaken by both the field offices and the Colombo HQ, and evaluation of the microfinance operations will be undertaken by external resources as was started in the year 2000.

FORUT have received approximately AUS$ 30,000 from AusAID for the period 1999 to 2000 for their resettlement programme.

GTZ – Jaffna Rehabilitation Project – Economic Mobilisation Process

The GTZ Jaffna Rehabilitation Project (GTZ/JRP) was established in 1996 to assist with the reconstruction of the Jaffna Peninsula and Islands as refugees began to return to the area. Assistance focuses on the rebuilding of schools and houses and the rehabilitation of rural and urban water supply systems.

GTZ in Jaffna works against a background of on-going tension and conflict, physical isolation from the rest of the country and security restrictions on the movement of materials and personnel.

The project's overall approach reflects GTZ's Development Orientated Emergency Aid concept that is using the rehabilitation process to lay the foundations for sustainable long-term development activity through practices that stimulate the population's self-help capacity (GTZ/JRP, 2001).

The present GTZ/JRP strategy of identifying 'cluster groups' of people affected by the conflict and assisting them by introducing 'key' rehabilitation projects through a process of people cantered participation, has produced clear and positive results. The concept has in the main worked well and with its outreach to over 100,000 families is without doubt the broadest and most comprehensive single agency programme in the Jaffna Peninsula.

Many of the rehabilitation project 'target groups' have joined with the other members of the village community to form larger and more cohesive 'community groups'. This building of community groups is in the main cantered on the planning and construction of community buildings. To enlarge and modify the community buildings savings schemes were started to encourage community participation and on completion of the community building the savings schemes continued and began to include giving credits for both consumption and production.

In some cases there has been a move towards integrating the community groups with local CBOs & NGOs. A brief appraisal of these organisations showed that most, affected by the prolonged conflict, have weak structures and an impoverishment in skills, knowledge and experience that requires a planned rebuilding of capacities before they can become sustainable partners.

This process, demand driven by the communities themselves, was in many cases in need of guidance as there is little knowledge and much less experience in operating financial schemes in a manner that is sustainable.

However there are some community groups and NGOs operating sustainable schemes and these stood out as 'bench mark' schemes for the other groups.

Over time the CBOs' looking to leverage larger loans for their members and to ensure their own sustainability begin to link or merge with larger local Non Governmental Organisations (NGOs) and Co-operative Societies.

GTZ/JRP decided to adopt a strategy that introduced an assisted process of economic mobilisation for the community groups and gave access in place of subsidy, interdependence rather than dependency and the attainment of sustainable livelihoods for a community affected by conflict (Gant, 2001).

The Process is graduated through four stages:

Stage I The 'target groups' are encouraged to enlarge their membership to include the community as a whole through joint self – help effort in the planning and construction of the community building. This could also be the start point of a savings scheme that is utilized to modify the basic design and size of the community building.

Stage II The community groups, (CBOs.) start a formalized savings & credit scheme with training from the GTZ/JRP microfinance unit and credit plus inputs from national and international service providers. Credit would be given here mainly for consumption & income generating projects at the subsistence level.

Stage III The CBOs link, and/or merge with NGO or Co-operative Society in the locality that have received capacity building on NGO & business management and management of a microfinance scheme. Loan levels begin increasing over time to include some micro enterprise 'start-up' and expansion.

Stage IV Selected NGOs brought into a Loan Guarantee Fund (LGF) scheme allowing access to loans from a formal financial institution for entrepreneurial members to 'start up' and expand micro enterprises.

The Loan Guarantee Fund (LGF)

The LGF is a financial instrument that will bridge the present gap between Microfinance Intermediaries and the Commercial Banking Sector allowing entrepreneurs to access suitable financial services for the start up and expansion of their enterprises. This in turn will assist the revival of the micro economy and create sustainable livelihoods for the community as a whole.

The LGF is a mechanism that has, in this case, five constituent parts that together enable financial access to entrepreneurs without complete collateral, from the commercial banking sector. The model utilized is one that presents a reasonable level of risk to all the stakeholders thereby making the mechanism workable in the present economic environment of the Jaffna Peninsula.

Of the NGOs appraised the SDF was found to be both operationally and financially sustainable with sound microfinance practice and chosen as the MFI for the model.

Figure 6 GTZ/JRP - Project Interaction with the Economic Stream

Figure 7 GTZ/JRP - Project Model

<u>The Social Development Foundation</u>

Founded as The Dry Zone Development Foundation in 1988 it changed its name to the Social Development Foundation in 1994. The office bearers are a President, Secretary and Treasurer members of an eleven strong Board of Directors, including seven women and four men and one non-board member who is a Co-ordinator. Her job is to create and maintain linkages between the foundation and the international agencies and organisations.

Board meetings are held monthly and minutes are formally recorded. There are annual elections for the Board of Directors and officers may only hold their posts for three years if re-elected after which they have to stand down. Elections are held in the HQ and elected delegates from each club are registered to vote at the elections of Board Members. The foundation is registered with the Social Services Ministry and in 2001 was registered by the government to undertake its work throughout the District of Jaffna.

There are eight branches, Kopay (32), Tellipalai (6), Sandilipay (3), Nallur (5), Jaffna (1), Point Pedro (2), Uduville (1) and Chankanai (defunct). There were one hundred and four clubs with fifty presently active. The others are in the uncleared areas of the Jaffna District. The main focus is on women with ninety percent of its 4,000 membership being women and of the total membership some eighty percent are active members. Eight of the GTZ community rehabilitation groups have already been absorbed into the Foundation and this will increase as its operation develops throughout the district.

Savings are promoted with minimum monthly savings of fifty rupees being set to retain membership and a nine percent interest rate is paid on savings. Each member has a savings passbook and savings and loan accounts are kept at each branch as well as the HQ. Loans are granted mainly for income generation and enterprise development with some consumption loans being considered – such as housing repairs and improvements. All loans are documented and have legal standing; the loan board that sits weekly receives applications with recommendations from field officers of the branches.

The criteria for loans are a member must be ‘in good standing’ for a period of six months and have the minimum of 600 rupees in savings. A first loan capped at SLR 3,000.00 with an interest rate of eighteen percent is granted with two guarantors from the group, repayment is over 12 months and if repayment is on time the interest rate is reduced to sixteen percent and the remainder returned to the beneficiary. A second loan capped at SLR 5,000.00 is granted on timely repayment of the first loan with a 24 months repayment, interest and incentive as the first loan, however minimum savings must be SLR 1,000.00 with the foundation. A third loan of SLR 10,000.00 is granted on the same conditions as the second loan.

During the 12 months of 2000, 468 loans were granted yet between January and July 2001, 304 loans have been granted, showing a continued expansion of the outreach of the foundation. As at the 31st December 2000 the Loan Portfolio stood at SLR 10,076,306 and savings at SLR 9,153,622 showing that interest on loans was being utilised both for expenses and re-lending to the membership.

The Non Performing Loan portfolio stands at SLR 800,000.00 that was due mainly to the displacement from Kayts and Islands in 1995 and the recent displacement in April/May 2000. Recovery stands at an average of eighty-five percent with no loans being written off.

The SDF deposits its cash with the Peoples Bank and the present balance of cash on hand as at the end of June 2001 was SLR 373,115 in a savings account with the bank. The accounts are audited monthly and then at the end of each financial year. External auditors are appointed using a tender procedure that is fair and transparent. All financial accounts and audit results are open for membership examination on request.

This NGO is becoming a true microfinance intermediary and with the introduction of further financial ratios and computerised monitoring will be able to proactively plan sustainable growth in outreach.

OXFAM

Microfinance interventions were first initiated in 1998 and Oxfam's perspective, of microfinance is that it is a tool for rehabilitation and development and in the areas affected by conflict it is utilised as a means to improve income and food security of the affected communities. Oxfam currently undertakes microfinance projects in the North and East region, the Plantations and the Southern Province. The interventions undertaken are through partners who are legally registered NGOs and project can be either a pure microfinance intervention or a segment of a project that for example is primarily focused on food security.

Prospective partners come to Oxfam through visits to their district, as well as training courses and workshops that are publicly advertised. Partner organisations can have been assisted by other international or national organisations and this is no bar on Oxfam initiating a microfinance project with the organisation. Projects are from one to three years and monitoring of the projects continues after completion so that impact of each project can be assessed over a longer period of time than the project term and long-term relationships can be formed. Oxfam's financial year is May to April and it prefers to receive and accept proposals between January and March so that projects can start up in May this is however not compulsory.

Proposals are preferred in either Sinhala or Tamil as this shows that the organisation’s management has undertaken the work and is committed to the project, rather than getting an external consultant to write up the proposal. Checklist appraisals are carried out on the prospective partners through on site visits and examination of the organisations history and records. Dependant upon the nature of the project, Oxfam believes that capacity building and where necessary some recurrent expenses are acceptable for funding assistance in some of the projects.

Some other assistance such as the supply of computers and computer software is included in the intervention as part of the capacity building of the implementing partners. Gender is a cross cutting theme that Oxfam prefers in all the projects that it approves.

There are no sector-based quotas applied and an examination of records shows that the majority of the interventions are in the agricultural sector although this is not a particular focus. Oxfam undertakes monitoring and evaluation through visits and progress reports, also both mid term and end of term evaluations of all projects is undertaken.

Oxfam has a present budget for microfinance including capacity building for the period 2002 to 2006 however details of the budget were not included in the information pack. There is no set level for funding and each proposal is taken on its merit and assessed both for need and proposed funding level. On approval the grant funding is given by cheque to the partner organisation against a specific TOR. Agreements are drawn up between Oxfam and the implementing partner that consist of criteria, roles, responsibilities, terms and conditions and the legal obligations of both parties. There is a policy in principle for microfinance projects, however Oxfam is presently assessing its proposal guidelines and criteria.

Only a few of the present Oxfam staff have some formal training in microfinance others but have learnt through 'on the job' experience and international cross visits. Oxfam held a workshop in early March 2002 so as to gain a better understanding of principles, methodologies and practice. Oxfam globally has a number of specialist consultants in micro finance and if required these can be utilised for evaluation and training purposes. Oxfam has initiated a microfinance network 'core group' in the Wanni area and is mandated to work with others in close co-operation.

Success and sustainability is presently a problem in that most of the projects are undertaken in the areas affected by conflict and that in the main are introduced utilising a relief and rehabilitation perspective. Oxfam believes that there is an urgent need for microfinance, financial and business management training at the partner organisation level as the majority of the partner management teams has little or no management or financial knowledge and skills.

Although Oxfam has not formally studied demand there is a belief through the volume of proposals that demand for microfinance is growing rapidly in the areas that Oxfam operates in. Such is the demand and its diversity Oxfam clearly admits to not having the skills and capacity to undertake all the proposals that are evaluated for funding.

Looking to the future Oxfam believes that there is a need for a 'Credit Resource Centre' in Sri Lanka and that the present microfinance networks should be strengthened and include regular sharing of methodologies, practice standards and experiences both good and bad.

With the advent of the ceasefire and that this may culminate in peace negotiations leading to a settlement, Oxfam believes that there will be a surge of demand for microfinance and enterprise development services in Sri Lanka.

Save the Children Norway (SCN)

Save the Children Norway (SCN), formerly Redd Barna, claim to have pioneered the 'Grameen Bank' system into Sri Lanka in 1987, and believe that microfinance is a useful tool for poverty alleviation using it to target women from lower-income families and internally displaced communities. A handbook *SAVECRED*, initiated by SCN is used as a reference document for all staff involved in the microfinance segments of programmes and training on financial management is given to partner organisations involved in microfinance. SCN state that they presently have some staff with prior experience in microfinance scheme operation.

An interesting example of previous intervention is SCN building pre-school and then mobilising a women's S&C group comprised of the mothers of the children attending the school. The Group is then given a one-off loan fund and the interest gained from the loan repayments are used to pay maintenance and the salary of the pre-school teacher. Anecdotal evidence suggests that over the years Redd Barna established well over a hundred of these and that more than half of them are believed to still be operational, providing a nice example of microfinance being used for educative purpose rather than for income generation activities.

After Redd Barna became SCN five years ago, one of the key strategic re-orientations was the decision not to intervene directly. The microfinance segments of the present programmes are capitalised through grants of between SLR 30,000 and SLR 50,000 per implementing partner/society and these funds are released quarterly in as required by the partner to the organisation's bank account.

Partnerships are built with organisations that have a child focus and the proposals and societies are assessed for their microfinance competence by SCN staff. SCN accepts proposal in all three languages and then translates them into the English language. Capacity building of partner organisations is undertaken through training, workshops and seminars and SCN encourages their partners to attend other relevant training courses and to engage in cross visits.

Loans are a minimum of SLR 2,000 and a maximum of SLR 10,000 with differing qualification criteria at the higher levels. Loan cycles vary between six and twelve months, usually at the discretion of the partner organisation.

Over the past five years SCN has assisted and funded the following organisations:

Table 10 Save the Children Norway Microfinance Activity

Name of Organisation	District	Activity
Sithuwama	Matale	Implementing programmes in Ambangaga and Palagala Divisions.
PRDA	Colombo	Implementing programmes in Gampaha, Chilaw and Puttalam.
Samadheepa Samaja Kendraya	Anuradhapura	Implementing programmes in 10 Divisional Secretariats in Anuradhapura.
Thadaham	Batticaloa	Implementing programmes in Valaichenai Division.
PTDO	Mallavi	Implementing programmes in Thunukkai Division.
PPDRO	Kaluvanchikudi	Implementing programmes in Vellavely Division.
ESCO	Batticaloa	Implementing programmes in Valaichenai

SCN builds fairly long term partnerships over a four years period so as to assist the societies in attaining sustainability. The monitoring and evaluation of the partner organisations and their projects is undertaken by the SCN staff through regular visits, mid term and end term evaluations, with quarterly progress reports required from the partners.

United Nations Development Programme

There were 2 major projects initiated by UNDP outside of the North and East region that had significant micro-finance components these are:

The South Asia Poverty Alleviation Program

This was the Sri Lankan component of a South Asian Regional Project managed overall by the Islamabad office, the project started in August, 1995 in Kotmale and Hangurnaketha and expanded to Walpane in March 1997. The project concept focused on poverty alleviation in rural areas through social mobilisation, village society formation and access to microfinance supported by business development services.

The project was implemented in Sri Lanka, Nepal, India, Pakistan and Bangladesh. The Sri Lankan component was managed by the Colombo office of UNDP and operated in the Nuwara Eliya District in three divisional areas; Kotmale, Walapena and Hanguranketha, with two project co-ordinators for each division and a overall Project Director. Small groups, village societies and three apex federations at divisional level were formed with the apex federations designed to sustain the networks of societies.

As well as the savings given in the table there was also SLR 8.1 million of savings at village society level by end Dec 1999 for utilisation as small loans including those for consumption smoothing. The UNDP provided revolving loan funds for each federation, which were topped up by savings from village societies.

The Project came to an end in year 2000 and is now technically supported by the new Catalytic Initiatives for Social & Economic Empowerment of the Poor. This project initiated some ‘ground breaking’ credit plus work with the Federation’s as well as some of the groups supported by the project starting up a number of innovative businesses.

However many of these businesses were not started through the use of well thought out business plans and were managed or directed too much by the project staff rather than from the clients. Some of them such as Kitual Treacle making, chocolate slab like jaggery making appeared to be a success. In concept some of these businesses were very good but there was a need for more market development and business management. The prevailing microfinance practices were very weak and the reporting of repayment figures was not undertaken on a regular basis.

Civil Society Organisation Project

This project used South Asian volunteers to form village societies and higher level federation or apex bodies in six divisions in the border areas of Polonnaruwa and some of the dry zone villages of Matale that suffer from endemic poverty.

The target group in five of the six divisions were women and the focus from the beginning was on the higher-level Federation apex development. Very good training was provided for Federation accounting and savings and credit accounting by ICRTL and the period of assistance by UNDP was limited.

Each of the six Federations were given a revolving fund of around SLR 2 million by the UNDP as well as limited training in credit plus activities. The project started in 1996 and was completed in March 2000. There is some ongoing technical assistance provided under the new UNDP Programme, ‘Catalytic Initiatives for Social and Economic Empowerment of the Poor”.

What was remarkable about this program is that with only three years of donor support divisional level CBOs were formed that are able to function in a sustainable manner without external support. An example of this is the Weligapola Federation that is able to generate a large enough surplus to pay the full time co-ordinator and other part-time workers, it has an excellent set of well prepared accounts that are externally audited.

UNDP in the North & East - The Jaffna Resettlement and Rehabilitation Project

The JRRP microfinance component was funded by AusAID during 1999-2000 at a value of AUS$ 100,000. In the two designated Resettlement Areas of the Jaffna Peninsula, Tellipalai and Kayts & Islands, JRRP initiated micro finance credit schemes in partnership with ten Multi Purpose Co-operative Societies (MPCS), with five in each area. The MPCSs had a joint membership of some 20,000 members in March 1999 at the outset of the schemes and this has grown to over 40,000 members to date.

The MPCSs have substantial funds from members' savings however due to stricture by the Assistant Commissioner Cooperatives Department and the MPCSs own risk analysis no funds were made available for a loan portfolio to assist members in the rehabilitation of their livelihoods. However since the scheme's inception four of the MPCSs have started to allocate their own funds as a result of the schemes success and to cope with the demand.

Training in business and fund management was given to the managers and staff of the Credit Rural Banks that act as the banking units of the MPCSs. Technical Partnerships were initiated with the Departments of Agriculture and Livestock, Agrarian Services, Industrial Development Board and the GTZ funded entrepreneurial training project CEFE.

These partners extend services such as business plan preparation, enterprise training, field extension, technological inputs and mentoring to the beneficiaries of the micro finance credit schemes. Loans are based on demonstrated need and range from SLR 5,000 to SLR 50,000 thereby covering the segments of the economic stream from vulnerable poor through to micro enterprise development.

Agreement with the GoSL on interest levels was at first difficult, as the government through the Government Agent had set a level of six percent as the ceiling rate. Once an adequate interest rate of twelve percent was agreed to be used for purposes of capital growth only, with the MPCSs paying for collection, administration and risk, the first scheme in Tellipalai was launched in March 1999.

The interest rates have been gradually stepped up and as of July 2001 were seventeen percent. The MPCSs no longer pay for administration and collection from their own funds, but are still responsible for the non-performing loan portfolio. Both schemes have a regular and detailed monitoring system as an integral segment of the scheme.

Overview of the Schemes for financial year 2000

Table 11 UNDP Microfinance Scheme - Tellipallai Resettlement Area

Tellipallai Resettlement Area	
Scheme inception	March 1999.
Loan Beneficiaries to Date	1186
Gender Breakdown	Male – 1012 and Female – 174
Beneficiary Outreach Increase	approx. 30 per/month
Original Loan Fund	SLR 7,250,000
Present Loan Portfolio	SLR 8,942,770
Interest Paid (Fund Growth)	SLR 1,692,770
Repayment Ratio	84%
Loans Written Off	Nil
Sectoral Distribution of Fund: Agriculture (43%), Livestock (27%), Industry (10%) and Services (20%).	

Table 12 UNDP Microfinance Scheme - Kayts & Islands Area:

Kayts & Islands Area	
Scheme Inception	August 1999
Loan Beneficiaries to Date	607
Gender Breakdown	Male – 406 Female - 201
Beneficiary Increase	Approx. 20 p/month
Original Loan Fund	SLR 5, 00,000
Present Loan Portfolio	SLR 5, 556,506
Interest Paid (Fund Growth)	SLR 556, 506
Repayment Ratio	75% (Includes Seasonal Repayments)
Loans Written Off	Nil
Sectoral Distribution of Fund: Agriculture – 40%, Livestock – 11%, Industry – 19%, Services - 30%.	

An evaluation of the JRRP found that the microfinance component was the most resilient of that programme continuing to develop successfully even during the heightening of the conflict and therefore the best approach for UNDP to take in areas still affected by conflict.

In December 2001 a new UNDP Programme for the North and East region was initiated – the ‘Umbrella Project for the Conflict-Affected Areas’. This project was designed to be implemented directly by UNDP through local non government organisations with assistance from certain government technical and extension departments and services.

The development objective of the new programme is to create an enabling and sustainable environment for livelihoods in the conflict affected areas, and to lay the foundations for accelerated recovery in a post conflict period.

A key element of the project strategy is to operates at the district level in consultation with all stakeholders in that locality. It was decided that Jaffna and Vavuniya would be the first two areas of programme implementation. The project is now expanding and an office was opened in May 2002. The project plans to open offices in Ampara, Batticaloa, Mallavi, Mullaitivu and Mannar later in 2002.

In March 2001 an evaluation of the impact of the JRRP microfinance schemes managed by the MPCSs was completed and overall on the principles of do no harm – no harm was done. There was an approximate 60/40 divide between positive impact and no impact, but there was limited incidence of negative impact on the lives of the schemes clients.

It was found that those clients who were on subsistence level with an average size loan had a greater long-term impact for them than those who received the same sized loan but who were a middle-income household. Also those with experience and skills made greater use of the loans than those who were new in business or who had no non-financial services support.

Taking this into consideration, for expansion under the new project it was decided that the income and a broad assessment of every client be undertaken. This would assist in the decision concerning loan size and the support necessary from the start of loan take-up. This assessment would also form the baseline for ongoing monitoring, evaluation and impact assessment.

It was decided to expand the number of MPCSs involved in microfinance in Jaffna by another seven making a total of seventeen in all. The MPCSs have been chosen and all have agreed to at least match the funding of UNDP with their own funds. It can be seen by the table below that the MPCSs have confidence in the scheme that has been gained through the success of the first ten societies and that a sustainable microfinance scheme is possible even in conflict affected areas.

Table 13 UNDP Umbrella Project Microfinance Scheme in Jaffna

MPCS Name	MPCS RFL Seed Fund Contribution	UNDP RLF Seed Fund Contribution	Total of RLF (SLR)
Chankanai	500,000	500,000	1,000,000
Kaithady	900,000	500,000	1,400,000
Manipay	500,000	500,000	1,000,000
Nallur	1,500,000	500,000	2,000,000
Neervely	900,000	500,000	1,400,000
Nelliady	6,000,000	500,000	6,500,000
Udupiddy	500,000	500,000	1,000,000
Totals	**10,800,000**	**3,500,000**	**14,300,000**

In advance of UNDP's request for seed fund contributions, Nelliady MPCS had already committed almost all of their fixed deposits to start a loan scheme. The Nelliady Board later decided to operate this loan fund as a UNDP RLF and thus this sum has been recognised as their seed fund contribution.

This commitment also contributed to other MPCS Boards deciding in favour of making a seed fund contribution from their own surpluses and fixed deposits. In almost all cases they have committed beyond their current profit and committed some funds from fixed deposits. This has been approved and encouraged by the Assistant Commissioner Co-operative Development (ACCD).

The new scheme will be implemented by mid 2002 and due to the present ceasefire and the possibility of the opening of the Jaffna economy will have a positive impact on the 'entrepreneurial poor' and the economic recovery of the Peninsula.

The UNDP will grant seed funding in tranches the first being Rs.200,000 and the performance of each MPCS monitored with agreed repayment ratios and portfolio management that if maintained will attract the remaining seed funding.

The UNDP's partner is the ACCD and this office will undertake monitoring and advise on capacity building needs of each MPCS. The Credit Rural Banks that operate the scheme inside the MPCSs have received computer hard and software, training and other mentoring support. The UNDP has allocated funding for 300 credit clients in CEFE training; marketing business skills and women's entrepreneurial development – loans will not be granted unless the suggested training is completed by the client.

From previous experience and lessons learnt in the first scheme the UNDP has broadened its approach to microfinance with enterprise development service provision, improved on the training of the CRB staff in portfolio management and encouraged the MPCSs to share the financial risk. Should these seven MPCSs perform successfully then the UNDP will implement the scheme for the remaining eight MPCSs in the Jaffna Peninsula.

A UNDP office was opened in Vavuniya late in 2001. A scheme utilising an apex organisation, SANASA to operate the funding has been designed to give ‘the entrepreneurial poor’ access to financial services and these would be supported by enterprise development services supplied by both the private and public sectors. Presently the UNDP microfinance specialist is negotiating the terms and conditions of the scheme.

Figure 8 UNDP Microfinance Scheme - Model of Interaction

World Vision Lanka

WVL believes that the primary purpose of microfinance is to enable the entrepreneurial poor to access financial services and more broadly include the provision of enterprise development services as a means of creating sustainable income generation for the communities that it works with. Although microfinance was at first a segment of intervention programmes and projects for their partner organisations WVL is presently researching the possibility of assisting the development of a separate microfinance intermediary organisation.

This MFI would have all the microfinance programmes of WVL under its management and would have a single integrated operational reporting practice but would allow the individual programmes to maintain the flexibility to suit local needs. It is planned that this MFI would continue as a sustainable organisation at the end of the 'Area Development Programmes' (ADP) that have a life span of between ten and fifteen years.

Microfinance as it is operated today by WVL was instituted in 1998 and it utilizes methodologies that it believes cater best for the communities it works in taking into account the geographic area, programme sector and compatibility with local practices. There is a specific focus on women and the loan recipients are predominantly women. WVL is operating in fifteen locations; mainly rural areas, throughout the country including the North and East region.

There are three distinct models in operation and in all three cases legally valid agreements are drawn up with the partner organisations/agencies who are all formally registered; involving:

- The utilisation of a partner agency – The Gramashakthi Bank in Anuradhapura.
- The formation of a separate organisation – The Wayamba Peoples Co. in Anamaduwa.
- Utilising a present formal financial institution such as the Peoples Bank as a 'window'- in Batticaloa. In this model the WVL funding is used as collateral for loans of group members in the Area Development Programmes.

WVL uses guidelines and standards that are in line with those developed by the Small Enterprise Education and Promotion (SEEP) network. Each programme has its own credit products but generally they are classified as either agricultural or non-agricultural loans. Funding and budgets vary and have no fixed limits and are based on the needs assessed for each of the areas. Funding is both from WVL's own sources overseas and international donor funding.

Some WVL staff members that have been formally trained in microfinance practices and partner organisations are given training in microfinance as well as training in organisational management. Workshops and seminars on microfinance are organised by WVL for its partner organisations and others. WVL believes that there should be greater access to enterprise development services such as training, business information and technology for entrepreneurs especially those who come from the entrepreneurial poor.

Proposals are accepted in the English language and it is estimated that the demand is growing with WVL in Sri Lanka making approximately US$ 1,000,000 available for microfinance in the financial year 2003. There are four schemes that have been in operation for over three years at present but with the development of the MFI several other areas where WVL is working would start microfinance operations.

Monitoring and evaluation is undertaken to standards set by the World Vision Partnership and also in line with the requirements of its Sri Lanka based international donors. There are regular visits and impact assessments are undertaken. Where a partner organisation is found to be in difficulties WVL offer assistance and support. WVL strongly believes in the commercialisation of microfinance and expects its partners to achieve operational sustainability within 4 years and financial sustainability by the completion of 7 years of operation.

Case Study: The Gramashakthi Development Foundation

Introduction

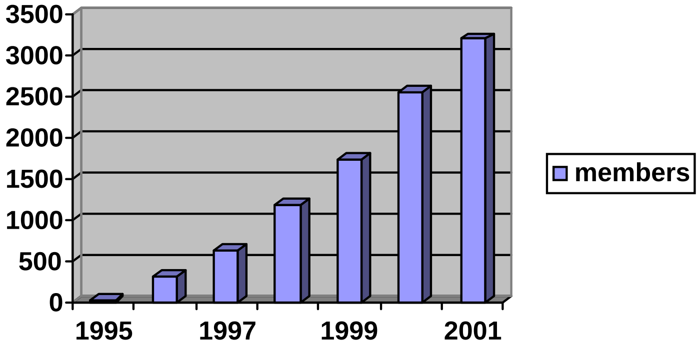
In 1995 a small number of rural women got to gather to discuss the problems that they were under going economically and socially and saw the need to form a women's society to find solutions. The government rural development officer in the area assisted them in initiating the Gramashakthi Development Women Foundation with the goal of the organisation is to create a sustainable and transformed society by empowering the rural population (especially women) economically, socially, politically, culturally and spiritually.

WVL decided to assist in building the capacity of the Gramashakthi Women foundation and during the fiscal year 2001 a planned capacity building programme utilising training courses, workshops and seminars was conducted making it the strongest women's organisation in the area. Among the major activities they are involved in are credit and savings programs, conducting preschools, women and family education programs, assisting children's societies and agriculture development programmes.

Membership

In this organisation the membership is opened for all the women living in the Secretarial Division of Galenbindunuwewa and the membership fees are used as a fund to run the organisation. There are 3197 members and the following diagram shows growth in membership since 1995.

Membership Development



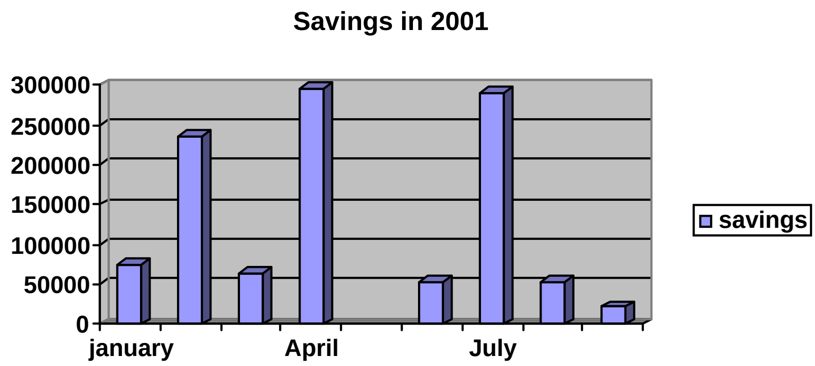
Small Groups
Small groups are formed that consist of 5-7 members living in the same location meeting once a week, at these meetings savings and loans are undertaken and the groups share their experiences and any solutions that they have found for their problems, presently there are over 500 small groups in Galenbindunuwewa.

Village Societies
Village societies are formed as a collection of all the small groups in each village and there are 51 village societies in Galenbindunuwewa that function as credit societies. The village committee manages village the society with a president, secretary and the rural manager (treasurer) holding the key positions. The rural manager is responsible for all the financial activities such as collection of savings and repayments and issuing loans. She also maintains financial records of all her members. Once a month all the societies rural managers meet to evaluate the progress of their societies and every quarter external audits are undertaken of all credit societies.

ADP Women's Association (Gramashakthi Development Foundation)
The association is formed from the 51 village women societies with the president, secretary, and the rural manager representing each village society. There are 153 voting members in the association and they appoint an executive committee as its decision making body. An office building was granted by WVL for the women's association with a permanent staff consisting of a manager, cashier, accounts assistant and two field staff. All the credit and saving programmes at the village level are linked to this divisional level organisation.

Savings
Financial Sustainability and the food security of the members were main objectives of the ADP design plan with the Gramashakthi Foundation as the channel through which these objectives could be achieved. It was found that people earned enough during the harvesting seasons but did not have a savings culture so when the season was over they had no cash available.

Therefore it was decided to introduce saving schemes and the response was very positive. The following diagrams show the outreach and growth of the savings scheme.



Revolving Loan Scheme
The PRA showed that people in the area had become debt laden especially during the agriculture seasons, from loans taken from informal moneylenders at usurious interest rates. WVL introduced a revolving loan programme in 1996 and the following diagrams show the number of loans granted and the total amounts and recovery ratios since 1996.

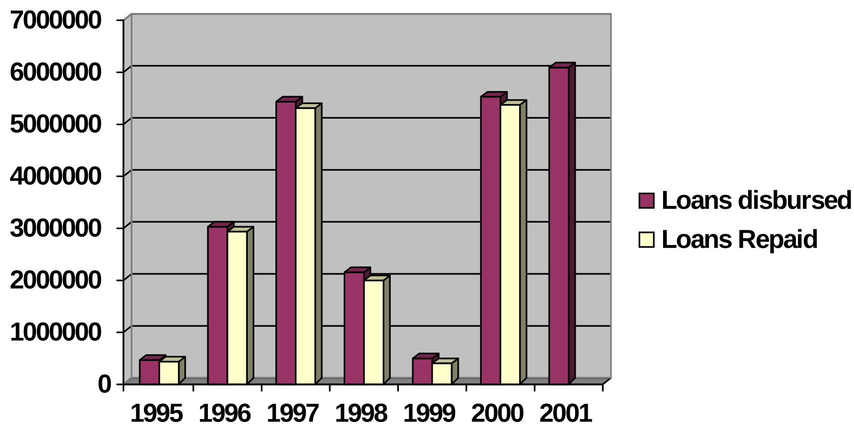
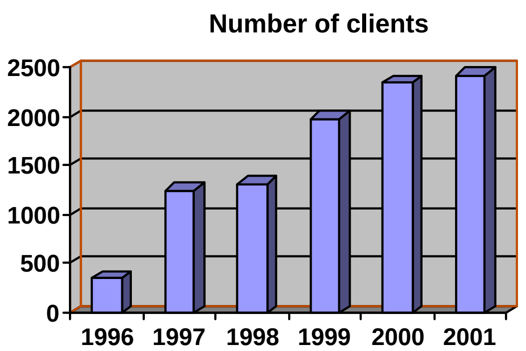


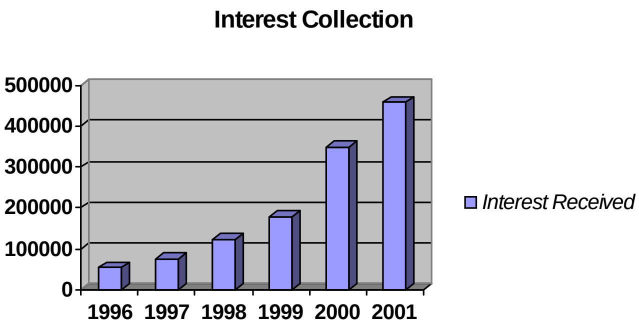
Table 14 World Vision – Gramashakthi ADP S&C activity

Year	Loan Issued	Repayments	Repayment Rate
1995	444,200	417,700	94.03
1996	3,016,489	2,923,374	96.91
1997	5,428,290	5,306,592	97.75
1998	2,149,050	1,975,083	91.90
1999	479,361	384,293	80.16
2000	5,519,186	5,362,786	97.16
2001	6,079,140	Not available at time of publication	Not available at time of publication



Loan repayment
Except for 1999 the repayment rate was over 90% and the average is presently 95.5%. In 1999 there were crop failures due to a natural disaster. Through the introduction of a training programme and other awareness programmes conducted through out the year and in spite of continued harvesting problems the repayment rate in 2000 was over 97% demonstrating the positive impact of the training and the cohesiveness of the community societies.

Fund raising through loan interest
Through utilising near market related interest rates for loans a fund was developed to cover part of the recurrent costs as well as to assist the future sustainability of the programme. The following diagram shows how this fund has developed.



Creation of job opportunities
The PRA showed that the community members had no job opportunities except in agriculture sector, however through the revolving loan programme people started self-employment initiatives such as carpentry, manufacturing soap, owning retail shops, manufacturing exercise books and animal husbandry etc.

Income generation through agriculture development
Through out the past four years emphasis has been on the development of the agriculture sector and in this regard revolving loan program played a major role. New varieties of crops were introduced generating higher incomes, the introduction of hybrid maize is one such example for this and now maize has become the major income for the farmers during the "*maha"* season.

Problems and barriers
More than 90% of all loans are issued for agriculture and there is a risk especially from natural disasters such as floods and droughts. There is a need to diversify to other industries and the executive committee of Gramashakthi Foundation seriously considering a planned diversification into other micro and small enterprises.

At present the staff at divisional office works to its full capacity and all the records are maintained manually, there is a need to introduce a computerised accounts system and in preparation for this one personal computer has been provided for the office and the staff have been given initial IT training.

ZOA Refugee Care

Initially funded by the Netherlands Government, ZOA started relief work in 1996 in the Polonnaruwa and Batticaloa welfare centres with internally displaced people. From late 1997 to 1998 ZOA moved from Polonnaruwa and opened offices in Trincomalee and Mannar and focusing on working in the ‘grey’ and uncleared areas, ZOA is currently planning to commence work in the eastern part of the Wanni area. ZOA works in the continuum between relief and development in such a way that a development organisation could take over the work of ZOA should it exit Sri Lanka.

ZOA works with community groups in villages and other than savings and credit schemes assists their clients with social mobilisation, education and psycho-social activities. The microfinance segment of the programme takes up approximately thirty percent of the funding. The process is integrated into one of social and economic mobilisation with the intention of building structure of savings and credit rather than a total orientation towards income generating schemes.

Donor funding for microfinance includes monies from UNHCR, UNICEF and WFP that over the past two years have granted funds of some SLR 1,500,000. They have also received approx. SLR 2,000,000 from AusAID for community development work in the East during 1999 and 2000. Funding cycles are short term without time to undertake adequate research or baseline studies and, therefore, there is no impact assessment with staff relying on anecdotal information, as with the majority of practitioner activity in Sri Lanka.

ZOA assists in the capacity building of Community Based Organisations in the training of CBO officers in simple financial accounting and management practices with bank accounts for the funds operated by the CBOs requiring two signatures and ZOA oversight. Loan disbursement is decided by the CBO committee with loans ranging between SLR 5,000 to SLR 10,000 and are granted for income generation projects, mainly in agriculture and animal husbandry.

The CBOs' set the interest rates but ZOA encourages a market related level of at least twenty-four percent. There are localised penalty schemes for late repayment that include a financial penalty of 5% on the outstanding loan balance.

In Mannar there are twenty societies operating microfinance schemes. Of these eight are independent and sustainable, four require further mentoring and training, four are fairly inactive and four are not functioning at all. The well-managed societies have been able through careful financial management to increase their original funding by fifteen percent after deducting non-performing loan portfolios and expenses.

The microfinance operations in Mannar are aided by a combination of well-organised CBOs, good field staff and a proactive and committed Government Agent. ZOA staff do not have formal training in microfinance but have learned from on the job experience and networking. It is planned that as these microfinance schemes mature they will ultimately be passed to another national or international development agency.

(b) Granter-Practitioner National

Ministry of Plan Implementation

One of the main bodies responsible for rural and regional development activities, including microfinance, is the Ministry of Plan Implementation. The Ministry has implemented numerous projects since its inception in the 1970s, with microfinance activities gaining more importance as a poverty alleviation tool over time and progressively becoming a central component of most of these projects.

Historically, projects have been largely district based with a few being implemented at the provincial level. Individual projects typically receive separate donor funding. Projects have in turn been supported by the Asian Development Bank, IFAD, NORAD, CIDA, SIDA, JICA, Netherlands, the World Bank, GTZ, UNDP and FINNDA (GoSL, 1995).

Earlier projects (commenced in the 1970s) were called Integrated Rural Development Projects (IRDPs) and were not particularly microfinance focussed. Some projects, such as those in Kegalle and Matara, did have a credit component, partnering with banks, but in the main IRDP projects were strongly infrastructure oriented.

By the 1980s many projects had started to include credit components. Typically, this involved loaning project funds through the Bank of Ceylon and the Peoples Bank, at subsidised rates of interest. Projects primarily revolved around the provision of agricultural loans and credit volumes were low, as were repayment rates. In general, the banks were not keen to provide credit as a poverty alleviation tool and did not develop specialised microfinance programmes.

By the 1990s, IFAD funded projects in Wayamba, Anuradhapura and Badulla were explicitly targeting very poor rural households (in the dry-zone areas) and social mobilisation and savings and credit activities were starting to become leading project components organised at the small group and village organisation level in conjunction with participating banks.[13]

The social mobilisation process typically involved five to seven villagers (women) joining together to form small groups and then individual Small Group leaders to join together to form Village Societies. Small Groups meet on weekly or bi-weekly basis with savings at predetermined levels and accumulated funds being lent as quick loans to needy members (at reasonably high interest rate of five percent per month). Generally, loans were granted to meet unexpected financial needs of a member’s family (for example, a child’s sickness) and borrowers repaying within the shortest possible time. Each Small Group deposits its excess savings with the village society.

The village society maintains proper books of accounts with the Financial Secretary recording all financial transactions including savings, loan disbursement, capital repayments, interest income, and other expenses. The size of loan increases from Small Group upwards. At the group level, loans are mainly for consumption and emergency needs.

[13] In Wayamba each Village Society represented by 3 elected leaders joined together at the level of each DS area to form a divisional level society though this has not been done in the other two projects.

At the village society and bank levels, loans are given for income generation purposes. Some projects provided limited funding for revolving funds for village societies. The Badulla and Anuradhapura projects, for example, gave SLR 100,000 and SLR 25,000 respectively

Large numbers of people were socially mobilised in districts such as Badulla (over 40,000), Wayamba (approximately 30,000), and Anuradhapura (over 20,000) with all having commenced savings at small group level. However, access to credit was still limited as the levels of savings were not enough to meet member demand.

Accounting practices and savings and credit management were weak and not enough technical skills had been given to individual village societies. This and the lack of basic training in preparing and managing society accounts were major drawbacks in these schemes attaining operational and financial sustainability.

One of the few successes of the project is the NORAD funded Hambantota IRDP which through its innovative Project Director ensured that the credit component was ‘spun off’ and privatised as the Social Mobilisation Foundation (SMF). The SMF has a present membership of over 30,000 families in the Hambantota District is continuing to build its expertise in financial and business management and has received assistance from the Hambantota District Chamber of Commerce in achieving both operational and financial sustainability.

Credit from Banks and other Participating Agencies

As the size of funds from the savings of small groups and village societies are minimal, most projects also provide for additional credit direct to members from participating banks, NGOs and TCCS. In most of the earlier projects only banks were taken as participating credit agencies but now a few national service providers such as SEEDS and TCCS are also allowed as participating agencies in some of the projects and are being re-financed at reasonable rates of interest.

Earlier projects such as the one in Kegalle were able to fund any projects forwarded by the banks. However, this has been changed so that loans can be given only to persons in the socially mobilised groups. The projects are short to medium term from a minimum of 6 years up to a maximum of 12 years. Where the credit component is a lending agency such as IFAD, ADB or World Bank, then the longer term is normally applicable. Once the project period has been completed the Central Bank continues to supervise the loan component.

Recently completed projects are the ones in Badulla, Anuradhapura, and Wayamba all of which have large social mobilisation components as well as training in entrepreneurial skills for the credit clients.

The response from Banks to most of these schemes has been very poor despite the attractive interest rates. For example in Anuradhapura, interest rates are nine percent lower than the interest rates banks pay on savings. The interest rates on loans to clients are also below normal market rates at 15% on a declining balance.

The loan size is small with most projects having a maximum limit of SLR 100,000 and with some reaching SLR 250,000. However, to date, over 95% of applications for credit from clients of these projects have been below SLR 50,000.

The new Rural Economic Advancement Projects (REAP) in Matale and the Southern Province have larger loan sizes reaching a maximum of SLR 500,000. This scheme, however, is in its initial stages and the discussion below concerns the previous loan history of these projects.

It was found that by the end of the project period only some 25% of the credit component had been taken up. Thus a large volume of available credit allocated by donors had gone under-utilised mostly due to indifference and poor linkages between the banks and the project staff. For example in Badulla IRDP the budget for credit was SLR 53.1 million from 1993 to 1999 but actual delivery was only SLR 25.9 million or 48.8% by the seven participating agencies.

Recently however, Regional Development Banks and SEEDS have shown more interest in using these funds. However, take up would have been even smaller if not for the fact that TCCS and SEEDS in Badulla used SLR 9.7 million of these funds to give credit to their own members rather than to the society members of the IRDP.

The Anuradhapura North Central Province Participatory Development Project that commenced in 1996 had issued only 78 loans through 5 participating banks by the end of September 2001. This situation is similar to that of the ADB funded Rural Development project also in Anuradhapura. In both cases it appears that a lack of enthusiasm of the banks combined with a dispute between the banks and the project over re-financing of funds has resulted in this poor performance.

In Matara, the SIDA funded IRDP project’s credit component has collapsed due to the poor financial management of an NGO which was created by the project in order to handle the credit component. This NGO has now folded. It is however believed that an attempt is being made to revive this aspect of the project.

It can clearly be seen that the majority of the credit components managed by the Plan Implementation Ministry have failed. This is through a combination of lack of expertise in the area of financial credit with a seemingly low interest in the projects by the banks that are the main participatory agencies for the credit component.

The potential for sustainability of the village organisations formed by these projects is very low as all the inputs and staff assistance cease after the project period is completed. In the absence of a link to an outside agency which supports them extensively not just in savings and credit but also in many aspects of their operation the village societies tend to collapse.

The formation of linkages with each other at divisional level or even at district level or perhaps more usefully linkages to other organisations, such as to the HDCC in Hambantota is advisable. Then projects with similar objectives could ensure their sustainability.

For example the village organisations formed by Second Badulla IRDP could be easily linked with Poverty Alleviation Microfinance Project of the Central Bank that has just set up office in Badulla. However neither the Ministry of Plan Implementation nor the Project Office have done much to bring about such a linkage despite the project coming to a closure in September 2002.

In Wayamba the sustainability of the village organisations and of the divisional level social organisations is doubtful unless at least a strong credit linkage is developed between the village organisations at divisional level and village level The current linkage with WHDRA is very uncertain due to lack of funds, management ability, and the sustainability of WHRDA itself.

The Dry Zone Participatory Development Project ended in March 2000, the Badulla Integrated Development Project is due to end in September 2002 and the NCP Participatory Project in Anuradhapura is also scheduled to end soon.

The sustainability of the project efforts at least in savings and credit is very unlikely unless another donor or the government strengthen the local institutions and the microfinance programme. Funds for credit are still available from the balance of IFAD loan funds but the system is faulty and credit availability low.

It is believed that donors, instead of starting new projects, should help ensure the sustainability of past projects that have a massive outreach to the poor who previously had no access to a formal savings and credit programmes. There are valued options to ensure the sustainability of these projects such as linkages to new projects including PAMP, or to substantial national NGOs such as SEEDS, or even to banks such as the Provincial Development Banks. All of these options require focused work and donor assistance to achieve operational and financial sustainability.

Examples of Projects that were started in the 1990's are as follows:

North Central Province Participatory Development Project

Funded by IFAD and earlier SIDA this project works in 15 of the 21 divisions in Anuradhapura and had mobilised 20,929 families into 3093 small groups and 377 village organisations by end of June 2001.

This is covers 1/3rd of all families in the 15 divisions with the other 6 divisions covered by a separate ADB project. Some 282 out of 475 Grama Sevaka divisions in the fifteen divisional secretariats are covered by the project. Savings amongst all groups, both small savings groups and village societies, have reached SLR 13.8 million. Each of one hundred and fifty village organisations has been given credit seed funding for their loan funds of SLR 25,000 each.

Credit is given at three levels:

- Small Group
- Village Organisations
- Participating Banks

The size of the loan increases up through the organisational from the lowest at the small group level upwards to participating bank level. At village group level the loans are mainly for consumption and emergency needs, whilst at village society and bank level, credit is granted for income generation activity only.

The participating banks were the Bank of Ceylon, the Peoples Bank, the Hatton National Bank and the Seylan Bank. However the interest of the Banks in this scheme was low as initially the project offered a two percent incentive to the banks to provide credit under the project. It is believed that this was not attractive to the banks and credit moved slowly with only sixty loans being granted in a two year period. Although a total of 204 loans to a value of SLR 4.4 million had been recommended by the project, recently the strategy to re-finance loans was changed and as of September 2001, 16 loans to a value of SLR 583,000 were granted by banks

Some of these are being processed, but the project is still experiencing low interest enthusiasm of the participating banks with slow processing and many loans taking weeks sometimes months to process. Unfortunately the Bank with the most interest in micro credit is the Raja Rata Development Bank. However, it is not a participating agency, probably because it was being restructured at the inception of the project.

It is believed that new participating agencies such as the Rajarata Development Bank and SEEDS be included if the credit component is to be able to attain its required outreach and if this project is to succeed. It is also possible to include district TCCS as participating agencies after an evaluation of their competencies.

Second Badulla IRDP

In Badulla district the most important poverty alleviation focused project with a microfinance component is the second Badulla IRDP.

This has by the far the largest social mobilisation component with the largest number of people in savings and credit in any project currently under Ministry of Plan Implementation. The project funded by IFAD and UNDP started in 1993 and its second phase is ongoing with completion targeted for August 2002. Some 41,700 villagers have been mobilised into small groups and of this number 23,589 people are members of 278 village organisations including 18 in the tea estates.

The 278 village societies named Integrated Community Organisations (ICOs) are registered with the Social Service Department. The remainder of the communities are mobilised in small groups that will be formed into village organisations. At present their work is co-ordinated at project level as well as divisional level and there are social mobilisers responsible for each village.

All of the people involved are now saving at small group level with some savings graduating to the village society level. A limited volume of credit is given by some of the small groups as well as at the village society level. 148 ICOs were given seed funding ranging from SLR 50,000 to SLR 100,000 from the project to supplement their own funds. The total funds available at village society level for credit including savings is no more than SLR 500,000 per society.

Besides access to credit through the village societies and the small groups, access is also available to members through Participating Credit Institutions including the Bank of Ceylon, the Peoples Bank, the Uva Development Bank, SEEDS, TCCS and the Prajashakthi District Organisation.

Table 15 Badulla IRDP - Summary Data

Badulla IRDP-Oct 2001
No of Village Organisations - 278 (estates 18)
No of Members in Village Organisations – 23,589
No of Members in Small Groups - 18,121
Total Savings and Funds in VBOs for Credit – SLR21.7 million
Total Cumulative Credit Disbursed by VBOs – SLR 25.01 million
Repayments to date - SLR 15.23 million
Recovery Rate -60%
Loans Disbursed by Banks & NGOs to members 1993 to 2000 – SLR 32.8 million

The repayment rates of loans are poor and at a level that will, over a short time, dissipate the funds. Financial and organisational management at the village level is at best sub-standard. The Second Badulla IRDP Project is to be completed in August 2002 and future of the village organisations and thus of the massive investment in social mobilisation and savings and credit is uncertain.

It is believed that the majority of the savings and credit programmes at the village organisations level will collapse unless they are linked to other agencies and projects with urgent attention being essential in building the capacity of these nascent organisations.

There is a need for the village society organisations to receive training in both financial and organisational management as well as microfinance training, especially in standards of good and best practice in savings and loans. There is also a requirement for business plan training and marketing as well as specific skills training.

There is an urgent need for these organisations to become linked with other more competent partner organisations such as:

1. Poverty Alleviation Microfinance Project – (Central Bank implemented with JBIC funds)
2. SEEDS
3. Future in Your Hands
4. Prajashakthi District Organisations

If timely donor assistance is given, the potential of the village organisations to develop into sustainable organisations is high. Currently there is a discussion to establish a trust under the Provincial Council to work towards sustainability of the village organisations and this trust could then be a platform for donors to support.

North Western Province Dry Zone Development Project

The North Western Province Dry Zone Participatory Development Project (NWP/DZPDP) funded by IFAD commenced operations in 1993 and was completed in March 2000 although the credit component continues. The project operated in fourteen dry zone divisions in Kurunegala (eight divisions) and Puttalam (six divisions) and focused on the poorest villages in these divisions.

The initial social mobilisation method followed was for groups of five to seven village women to join together to form Small Groups (SG) and all SG leaders in a village joined together to form the Village's Self-Reliance Society (SRS).

Each SRS represented by three elected leaders joined together at the divisional level of each secretariat to form a Self-Reliance Foundation (SRF). This combination of linked groups represents the poor women of the families below the poverty line in thirteen divisions in the project area.

The groups meet either weekly or biweekly and at each meeting, the members collect a predetermined sum of money as each member's savings with the accumulated savings lent as 'fast' loans to the needy members at an interest rate of fifty percent per month.

Generally, these loans were granted to meet the unexpected financial needs of a member's family (a child's sickness or death in the family) with the borrower making fast repayments of the capital and interest. Each SG deposits its excess savings with the village society and the village SRFs maintains the accounts, with a finance secretary recording all financial transactions including Savings, Loan Disbursement, Capital Repayments, Interest Income, payments and other Expenses.

Currently, SRFs and one hundred and twenty village SRSs (seventeen have become inactive recently) are legal entities registered under the Thrift and Credit Co-operative Societies Act and another sixty-three village SRSs are active, having applied for registration and awaiting TCCS registration. Under the current management, SRFs and village SRSs are developing into legal entities owned and operated by the rural poor, these organisations are becoming share-holders owned/driven participatory micro-finance institutions.

In thirteen divisions of the district of Kurunegala 183 village SRSs, 1098 SGs are functioning with an estimated 7,486 members who are participating as owners, (each member contributes SLR 500 as share capital), as well as beneficiaries of the participatory microfinance institutions. The office bearers of the village SRSs are currently playing a more active and responsible role in identification, selection and processing of loan applications of its member beneficiaries in the SGs and SRSs, however their roles in the loan repayment process needs further strengthening.

To implement the credit component of the project a new organisation named the Wayamba Human Resource Development Authority (WHRDA) was set up under the mandate of the Provincial Council. The WHRDA implemented the project's credit component from 1993 to June 1997 and during this period it has disbursed project loans amounting to SLR8.5 million with the loan recoveries being retained in a revolving loan fund account being utilised as a rotational credit fund.

DZPDP/WHRDA credit operations commenced with the disbursement of loans to the value of SLR 467,000 through its wholesale credit partner – the RRDB Kurunegala. After, this initial disbursement this activity was discontinued and all subsequent loans were delivered through the SRFs in thirteen divisional secretariat areas. DZPDP reimbursed “IFAD loans” amounting to SLR 8,506,500 and loans (Provincial Council Funds) amounting to SLR 10,339,420. Therefore a total of SLR 18,845,920 was disbursed to the project implementing areas.

The WHRDA as a savings and credit agency was found to be weak in its managerial and financial management with poor loan recoveries and the ‘on time repayment ratio, was reported as 60% by September 1997. The WHRADA also failed to meet the credit issue targets given by the project and its funding by the project was terminated late in 1997.

As the reimbursement of loans was stopped by NWP/DZPDP in September1997, the WHRDA was compelled to re-lend the loan recoveries by operating the Revolving Loan Fund as it was permitted to keep loan repayments from the initial funds given (SLR 8.5 million) and to continue operating the RLF to issue further loans.

This action appears to have positively stimulated the WHRDA and the amounts available in the RLF have been used for the expansion of credit facilities to the beneficiaries in the project area from 1997 to 2000 with some SLR18.8 million being disbursed by the year 2000 through revolving the original SLR8.5 million. The on time repayment ratio has improved to 92% as of September 2000 and most of the earlier arrears recovered. The WHRDA has applied to the project for re-instatement as a credit agency.

The main strength of the credit delivery system was the participatory role played by the SRFs and village SRSs at the grassroots level with the weakness that there was an over-emphasis on credit disbursement to the detriment of building a fully rounded Microfinance system. Savings funds were not fully utilised as credit and the WHRDA as a government agency could not mobilise savings for credit purposes.

Table 16 IFAD Partner Agencies - Loans delivered 1994 –2000

Partner Agency/ Ds Area	Long-Term (3 year) Self-Employment (SLR)	Medium-Term Agro-Wells (SLR)	Short-Term Agriculture (SLR)	Total (SLR)
RRDB – Kurunegala	300,000	25,000	142,500	467,500
Mahakubukka-dewela. Puttalam	1,382,000	---	47,000	1,429,000
Kaluwaragaswewa. SRF-Puttalam	272,000	---	86,000	358,000
Anamaduwa Puttalam SRF	852,000	115,000	73,500	1,040,500
Nawagattegama. Puttalam SRF	581,500	25,000	272,000	878,500
Pallama Puttalam SRF	1,182,000	25,000	---	1,202,000
Kotawehera Kurunegala SRF	2,850,500	35,000	589,500	3,465,000
Rasnayakepura, Kurunegala SRF	3,129,920	50,000	129,000	3,308,920
Mahawa. Kurunegala SRF	609,000	65,000	220,000	894,000
Galgamuwa Kurunegala, SRF	824,000	40,000	120,000	984,000
Giribawa Kurunegala SRF	615,000	---	390,000	1,005,000
Kobeigane, Kurunegala SRF	103,000	---	79,000	182,000
13.Nikaweratiya,Kurunagala, SRF	1,250,000	100,000	569,000	1,919,000
14. Polpitigama, Kurunegala SRF	823,000	75,000	799,500	1,697,500
Total	**14,773,920**	**555,000**	**3,517,000**	**18,845,920**

In the initial years they did not focus on the timely repayment of loans nor keep adequate management information especially on loan arrears. For example, there was no age analysis follow up reporting system. This led to slow recovery even though the on-time recovery rates had increased. The units are not financially viable as they do not cover costs with the interest rate 'gap' so that survival is still dependent upon subsidies each year from the provincial council. A subsidy of around SLR1.4 million per year was given by the provincial council in both 1998 and 1999. Loan arrears have continued to grow as follows:

Year and Quarter	Arrears (SLR)
1999 Quarter 1	90,356
1999 Quarter 3	178,166
1999 Quarter 4	322,475
2000 Quarter 1	522,355
2000 Quarter 2	672,982

The WHRDA continues to utilise the funds returned by village societies. However over time some societies have stopped repaying loans to the WHRDA as the project has closed and instead are keeping the funds within the society and revolving them independently of the WHRDA.

It is recommended that:

- ❖ staff capacity and requirement be reassessed and restructured to form a leaner, more appropriate and effective organisation.
- ❖ training in microfinance good and best practice be given to WHRDA staff.
- ❖ WHRDA to be converted into a private company and to re-build the funding stream from the village societies savings funds utilising new products and financial leverage.
- ❖ provincial government to contribute some capital either as a grant or loan but to relinquish any controlling interest.
- ❖ increase interest rates to more realistic levels market related levels.
- ❖ WHRDA to be reassessed after restructuring as a participating agency.

Southern Province Rural Development Project

This project, funded by ADB covered the three southern districts of Galle, Matara and Hambantota. It was started in 1993 and completed in 1999 having a different approach to the IFAD funded projects. It did not have a major social mobilisation component and credit limit was higher although with an average loan size of SLR 56,537 with over seventy-six percent of the loans below SLR 50,000.

The participating credit agencies were Regional Development Banks, the TCCS and the DFCC. In total 8,419 loans to a value of SLR 474.2 million were disbursed between 1993 and 1999. The interest rate to borrowers was subsidised at fourteen percent but collateral or guarantors were a requisite as is normally sought by commercial banks.

The original funds allocated for credit was US$ 8.1 million. This approximated to approximately SLR 600 million in the year 1999 and, as can be seen in the following table, a significant amount of the credit funds were not utilized despite the subsidised rate of interest.

It is interesting to note the difference in demand between the three districts, with as much as 51% of the loans valued at 48.2% being from the Matara District, with the demand from the Hambantota District at 19.7% of the loans in value. This implies that demand for credit is dependent upon the ability and resources of the area for economic development. The on time recovery rates of loans ranged from 79.9% to 89.9% and differentiated by district and by agency with the average recovery rate at 85%. Details are given in the tables below:

Although full data for all of the districts is not available, the statistics for Matara shows the demand for loans by size.

Table 17 Matara District RRDB And TCCS - Loans by Size

Loans <10K	Loans 10K-20K	Loans 20K-30K	Loans 30K-50K	Loans 50K-100K	Loans 100K-200K	Loans 200K-300K	Loans 300K-500K	Loans > 500K
659	853	868	659	610	155	97	52	10
16.6%	21.5%	21.9%	16.5%	15.4%	3.9%	2.4%	1.3%	0.25%

The above table shows that 76.5% of loans were below SLR 50,000 and that 91.9% were below SLR 100,000 with the normal clientele of both the RRDB and TCCS being mainly the entrepreneurial poor who seek smaller loans. Demand by size can be seen by the fact that DFCC whose clients tend towards the ‘middle class’ gave only 103 loans in Matara seemingly showing that the demand for larger loans in this area is not high.

The demand for loans by people in their 30s was 63.7% and in the case of women as much as 48.5% of loans were for those between the years of 36 and 40 showing that there is a demand from a mature group of entrepreneurial poor. Those below 30 years of age took up only 27.1% of the loans. Also unlike the socially mobilised projects male borrowers exceeded the women by a significant proportion.

Table 18 SPRDP- Loans 1993 to 1999

District	RRDB (RDB)		TCCS		DFCC		Total		%
	No of Loans	Amount Granted (SLR 000)	No of Loans	Amount Granted (SLR 000)	No of Loan	Amount Granted	No of Loans	Amount Granted	District %
Galle	1579	114,260	463	24,388	-	-	2,042	138,648	29.2%
Matara	3726	155,059	237	24,681	103	62,207	4066	241,947	51.0%
Hambantota	1951	68,484	360	25,142	-	-	2311	93,626	19.7%
Total	7256	337,803	1060	74,211	103	62,207	8419	474,220	
% of Total Loans	86.1%	71.23%	12.5%	15.65%	1.2%	13.12%			
Average Loan Size (SLR)		46,555		70,010		603,951			

Source: Impact Evaluation Study of SPRDP

Table 19 Loans By Age And Gender - TCCS & RRDB Matara

Age Group (Years)	Loans to Males	Loans to Females	Total Loans	%
< 21	30	22	52	1.31
21-25	332	232	564	14.23
26-30	320	136	456	11.51
31-35	583	226	809	20.41
36-40	980	737	1717	43.33
41-45	90	78	168	4.24
46-50	101	75	176	4.44
Over 50	9	12	21	0.53
Total	**2,445**	**1,518**	**3,963**	

Although the project has been terminated, the credit program continued from the year 2000 under the supervision of the Central Bank. The interest rate has been reduced to twelve percent and a total of SLR 37.8 million was disbursed in the year 2000.

It is recommended that:

- there is a need for greater publicity for these schemes as it appears that the lack of marketing and therefore public knowledge of the schemes is very low and therefore ‘dulling’ demand. One real concern is that an organisation like the ADB continues to support highly subsidised interest rates in such schemes in direct variance to its recently approved microfinance strategy.

Rural Economic Advancement Program

REAP is the new wave of regional development programs created by the Ministry of Plan Implementation to replace the IRDPs. The major focus of REAP is the economic revival of the rural areas. REAP moves away from infrastructure development and from social mobilisation directly into economic activity.

More importantly there is a departure from governmental implementation to private sector implementation with a direct focus on entrepreneurs. Thus the emphasis has moved away from microfinance to credit for SME start up and development with larger loans.

The first REAP program was an IFAD funded project in Matale where due to IFADs poverty mandate the project still contains a poverty focus as does its microfinance component. The Central Bank receives the funds from the donor IFAD and provides credit to six participating agencies: the Bank of Ceylon, the Regional Development Banks, the Seylan Bank, the Sampath Bank, TCCS and the Kandurata Development Bank, at four percent for on-lending to retail clients at fourteen percent.

(c)Lender-Practitioners

The Central Bank of Sri Lanka

Small Farmers And Landless Credit Project

This project started in 1990 and was the first direct implementation of a microfinance Project by the Central Bank. This was due to the then government's focus on poverty alleviation and the use of microfinance as a tool in this regard. The initial funding agencies were IFAD and CIDA. IFAD has always had a strong poverty focus and wanted the project to benefit only villagers with an annual per capital income of less than SLR 5,600.

The project envisaged that NGOs socially mobilise the villagers, form small groups, commence village societies, commence savings (with interest at 10% pa.), and then link to the Regional Development Banks for access to credit. Beside the Bank SEEDS, TCCS and few other small NGOs also received bulk loans to issue to these beneficiaries. Although the project was terminated in 1997, the RLF continues to be operated through using funds from the revolving fund managed by the CBSL-RCD and will continue for at least another fifteen years. Currently the project operates in Puttalam, Galle, Matara and Kandy Districts primarily through four Regional Development Banks, SEEDS and the TCCS.

In terms of the flow of microfinance, the CBSL lends at three percent to the district-level organisations that on-lend to participating agencies comprising of governmental and non-governmental organisations at the grass roots level; SEEDS, TCCS, and the Provincial Development Banks. These funds are then on-lent to the ultimate borrowing groups at interest rates of 16 – 20 percent per annum with a maximum loan size of SLR 40,000 per client.

Up to September 30th 2001, the project was operational in 3,153 villages with 11,712 small groups formed and 70,041 total participants (68 percent female). Total group savings amounted to SLR98.4 million and a total of 65,474 loans to the value of SLR 718.9 million have been disbursed by the project through its participating agencies up to the end of September 2001.

The total outstanding loans amount to SLR 128.4 million over a total of 52,000 loans. The average loan size was SLR 11,060 with a (cumulative) repayment rate of 97.5 percent. Details of loans issued by the Project in each district is given below:

Table 20 SFLCP _Progress as of 30th Sept 2001

District	No of Village	No of Small Groups	No of Clients	Savings as of Sept 30th 2001 (SLR)	No of Loans 1990 to Sept 2001 (SLR)	Total Loan Value (SLR)
Galle	827	2,339	14,755	22,949,788	12,880	115,022,697
Matara	778	2,462	15,438	26,861,916	14,111	168,313,679
Kandy	992	4,171	24,431	24,446,819	22,346	224,636,689
Puttalam	556	2,740	15,417	24,161,934	16,137	210,959,375
Total	**3153**	**11,712**	**70,041**	**98,420,457**	**65,474**	**718,932,440**

In the 9 months from January to September 2001 the project expanded to 303 new villages, with an additional 8,289 beneficiaries and increased its savings by SLR 19.9 million, disbursing some 7,467 loans to a value of SLR124.6 million. The on time repayment rate was 97.35% and of the 70,041 clients 49,349 or 70.4% were female.

The sectoral loan utilisation was as follows:

Table 21 SFLCP – Loans by Utilisation

Purpose	Number of Loans	Value of Loans (SLR)
Agriculture	20,348	193,956,807
Small Industry	18,617	210,411,296
Animal Husbandry	9,357	100,641,234
Fisheries	2,102	29,448,080
Trade and Services	15,050	184,475,023
Total	**65,474**	**718,932,440**

Village Isuru Society Formation

The project from 1990 to 1996 had only small groups but from 1997 some of these small groups have been converted into village societies named Isuru in order to ensure sustainability of this work after Central Bank withdrew the Project Offices.

As of September 30th 2001 there were 202 village level Isuru Societies in the 4 districts with a total membership of 7,436 from a total beneficiary number of 70,041 others who still remain in small groups. (Isuru Sanwardana Samithi) are registered with the Registrar of Companies as corporate bodies with limited liability under the Societies Ordinance.

Society members have access to credit at three levels, first small short term one month loans at small group level, then loans for consumption smoothing and for income generation at society level and finally loans from the institutions such as SEEDS, PDO or directly from the Regional Banks working in the project. As the table below indicates so far the participants have saved SLR 38.3 million at group and village level both as savings and shares.

In addition the societies have earned SLR 15.1 million from interest and other income after deducting expenses. The village societies alone have issued 43,794 loans for consumption, emergency and for income generation to a value of SLR 73.7 million entirely from their own savings. Of this income generating loans amounted to 4,944 loans to a value of SLR 27.1million.

Beside this a large number of small loans were also given at small group level although data is not available. The villages in turn have been formed into four district level federations. The membership of federations were elected from society member (three members from each society) and registered under Section 21 of the Company Ordinance as NGOs.

The Central Bank is to be congratulated for a Project where there has been tremendous growth after the actual project period ended. It is rare to see such growth in the outreach of villages, beneficiaries, savings and loans after a project has been completed. In most other projects with short term donor funding and a lack of focus on sustainability, the credit fund merely continues with no growth in numbers of people economically mobilised at the completion of the project period is over.

But in this case the Central Bank and the Regional Development Banks have used intelligent recruiting and training strategies regarding the project staff in the Regional Development Banks and maintaining the Project Offices, continuing to monitor from the Central Bank ensuring not only that the foundation remained but that it has been successfully built upon. The Central Bank continues to provide funds including training of beneficiaries in credit plus activity.

Table 22 Village Isuru Societies - Client Data

Description	**No**
Targeted Number of Beneficiaries as Per Original Project Proposal	32,870
Number of Beneficiaries by end Project on Dec 31st 1997	50,203
Number of Beneficiaries as at end of Sept 2001	70,041

This is remarkable as the number of beneficiaries was 34.5% above the target at the end of the project and today it is over 113% and still growing. Unfortunately however, the Central Bank nor the Provincial Banks seem to have a clear strategy for the future sustainability of the program.

The Project is continued on an annual basis with the decision taken by the senior management of the Central Bank, no one is sure how long this process will continue and thus there is no coherence or continuing strategy for operational or financial sustainability.

It was envisaged that the Isuru Societies and then the Federations would at some time take bulk loans directly from the Bank thus by passing the third party involvement. To date only a few Isuru Societies are eligible to take bulk loans directly from the Regional Banks. The Federations by and large exist due to the management assistance given by the project staff again there is no clarity as to the future role of the Project Office (PDO) that are continued to be financed by the Central Bank. Should this situation change and the Central Bank stop providing these recurrent costs, the whether the Project Offices will continue with funding from the Provincial Banks is unknown.

This is an excellent programme that is assisting the rebuilding of the rural economies and therefore it is recommended that:

- Central Bank give at least 3 years notice to the Regional Banks prior to terminating the current funding.
- Regional Banks should immediately take steps to strengthen the Isuru Societies as well as the 4 Federations to be able to take bulk loans and function with less outside support. This can be achieved with external consultancy and focused training assistance over a planned period.
- Project Offices continue even after the Central Bank withdraws as it could become easily profitable even after the Provincial Banks absorb the recurrent costs of the office, social mobilisation and training as long as Central Bank continues to provide subsidised capital from the IFAD loan.

Poverty Alleviation Microfinance Project (PAMP)

This project implemented by the Central Bank operates in six districts: Kurunegala, Matale, Nuwara Eliya, Badulla, Kalutara, and Hambantota, with loan funds of SLR 739 million made available by the Japanese Bank for International Cooperation (JBIC). The project started in early 2001 with social mobilisation and works and credit is provided by the Regional Development Banks but hopes to include more NGOs than the previous project.

This project operates in a similar manner as the Small Farmers and Landless Credit Program initially forming small groups through NGOs and credit been provided through Provincial Development Banks and through NGOs. Unlike SFLCP however this project will have a larger number of NGOs as participating agencies. The project offices have already been set up in the districts and loans are about to commence. This Project will ensure that a large number of very poor households in these districts will have easy access to microfinance at very reasonable rates.

The Regional Development Banks

The Regional Development Banks (RDBs) commenced operations as Rural Development Banks (RDBs), set-up by the government in 1986, as it was felt that the two main state-owned banks were not effectively reaching the remote rural areas or the smallest customers. The RDBs Banks were under Central Bank management and financed entirely by the government. A total of 22 Banks were established in all districts, excluding the North & East region.

The RDBs were re-structured in 1998 and consolidated into 6 Regional Banks the restructuring involved giving the RDBs more autonomous management and a broader ownership base and shareholder appointed board members, although the Chairman is still government appointed and open to political capture.[14]

Since restructuring the banks have become profitable (although marginally in many cases). In the year 2000, total loans disbursement was estimated at SLR 4,043 million. Self-reported data indicated that total loans outstanding as of December 31, 2000 was SLR 5,244 million. The total loan portfolio of the RDBs grew by SLR 697 million, an increase of 21 percent and savings grew by a massive SLR 1,427 million to SLR 3,937 a growth rate of 40 percent in one year. Personal guarantees from customers of the bank or immovable property is used as collateral for loans with interest rates varying between 12% and 27% dependent on the type of activity and degree of subsidy.

In the year 2000, the majority of loans bore interest rates between 18 and 22 %, on a declining balance basis. Loans are classified as non-performing after 3 months and subject to age analysis. Adequate provision is made for non-performing loans. The value of non performing loans at the end of the year 2000 was high with Ruhunu, Uva and Wayamba at over SLR200 million and Sabaragamuwa and Rajarata having a non-performing loan portfolio of over SLR100 million.

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Table 23 Profits of the RDBs, for the year ended December 31, 2001

RDB	**Profit (SLR Million)**
Ruhunu	73.6
Wayamba	35.5
Rajarata	18.7
Sabaragamuwa	14.2
Kandurata	13.2
Uva	2.2

Source: CBSL 2001

[14] The Bank of Ceylon, the Peoples Bank, the National Savings Bank and Employers Provident all became shareholders in addition to Central Bank.

Table 24 Regional Development Banks – Loans by District 2000

RDBs & Districts	No. of Branches	No. Savings A/Cs	Value of Savings	No. of Loans	Amount disbursed 2000
Uva					
Badulla	13	80000	185000000	40000	260000000
Moneragala	6	59500	67000000	10000	82000000
Ampara	7	46200	81000000	16000	107000000
Wayamba					
Kurunegala	18	120289	252325000	49327	411911000
Gampaha	6	24289	32728000	13734	117666319
Puttalam	10	90733	152933000	98425	350208082
Rajarata					
Anuradhapura	11	40630	135104000	50672	170152000
Polonnaruwa	8	49662	174857000	29101	216914000
Kandurata					
Kandy		94564	183702000	52545	289064000
Sabaragamuwa					
Matale		44669	73469080	20204	103968000
Nuwara Eliya		52721	191954000	15845	113599000
Ruhunu					
Hambantota	9	106501	363396420	22110	239449000
Matara	15	87017	268313750	34923	460073000
Galle	13	101673	405655395	34309	476743000
Total		**998448**	**2567437645**	**487195**	**3398747401**

Source: CBSL 2001

Table 25 Value of Loans Disbursed by the RDBs During 2000:

Sector	Volume (SLRs Million)	Percentage of Total
Agriculture	408	10.1
Animal Husbandry	46	1.1
Fisheries	26	0.6
Small Industry	294	7.3
Construction, Electrification & Water	165	4.1
Projects/Commerce	446	11.0
Other	2,658	65.7
Total	**4,043**	**100.0**

Source: CBSL 2001

The re-structuring of the Rural Development Banks and the creation of six separate Regional Development Banks has proved to be correct and now with autonomous management and with newly competitively recruited General Managers, the Banks are showing reasonable profits and dividends.

This experiment itself shows that microfinance can be profitable. However the re-structuring process can go further and at least fifty percent of the shares sold to the private sector at the same time bringing in private sector expertise to the Board.

The current situation of only staff members of Banks and government bodies or nominees been the only ones in the Board is not satisfactory and the bank staff need greater capacity building in social mobilisation as well as training in standards of microfinance good and best practice.

The lessons from Small Farmers Landless Project where the banks were linked with SEEDS that did social mobilisation should be introduced, with the bank entering the wholesaling of credit to NGO's who have reached acceptable standards of performance to broaden the outreach and client base.

3. Practitioners

Microfinance practitioners in Sri Lanka can be categorised according to organisations operating at the national, regional and local level.

(a) National Level Practitioners

Samurdhi

This is the fastest growing micro finance program in Sri Lanka and it has the ambitious target of covering the entire country with all districts outside of the North and East area of conflict already covered – with the present ceasefire the Minister has declared that it will open up a further sixty banks in the North and East region in the next six months. The target group is the poorest section of the population that receives assistance from government due to their poverty. It is also the most recent of all the microfinance programs starting in 1997.

Samurdhi savings and credit schemes promoted by the Samurdhi Authority have to be separated from the Samurdhi grant assistance and compulsory savings that is undertaken by the Samurdhi Commissioner and the Poor Relief Department.

The savings and credit program is part of the Authority's work which also includes rural infrastructure development by Samurdhi Groups and also credit plus work such as Agriculture, Livestock, Projects and Training.

Table 26 Samurdhi Savings and Credit Organisations as of 31st Dec 2000

Membership Details	No. of People
Number of Small Groups	250,573
Number of Members in Small Groups	1,267,898
No of Samurdhi Societies	34,438
No of Members in Societies	2,136,374
No of Banks	918
No of Members in Samurdhi Banks	1,571,236

Source: Samurdhi Authority

There is a significant women participation in Samurdhi groups, societies and banks. Of the 1,571,236 members in banks as many as 943,142 or 60% are women and 65% of chairpersons of village societies are also women. This is the largest social mobilisation program in Sri Lanka with savings and credit operations occurring at small group level, society level and bank level.

The total savings and credit issued as of 31st Dec 2000 is as follows:

Table 27 Volunteer Savings by Samurdhi Members as of 31st Dec 2000

Savings	Amount (SLR 000)
Savings with Small Groups/Village Societies	697,875
Savings in Banks	2,033,452
Shares in Banks	985,157
Total	**3,716,484**

Source: Samurdhi Authority

The SLR 3.7 billion saved by Samurdhi recipients is in addition to SLR 6.1 billion compulsory deducted from the 'free monthly grant'. The voluntary savings are made as for the normal NGO programme practice with small group members agreeing to save between five and twenty rupees weekly.

A study done by the Institute of Fundamental Studies in May 1999 showed that in a random sample of 163 Samurdhi beneficiaries as many as 137 or 69% had never saved in a formal institute prior to the advent of Samurdhi. This clearly demonstrates that despite the growth of so many agencies and projects for micro finance since mid 1985 these were still not reaching bulk of the poor population.

There are many credit schemes under the Samurdhi label. The two most important credit schemes besides loans at society level are as follows:

Table 28 Samurdhi Loans Issued in 2000

Type of Loan	No of Loans	Amount (SLR 000)	Interest Per Annum	Re-payment Rate	Purpose
Samurdhi Banks	271,657	1,822,190	24% declining balance	107%	97% Income generation 3% emergency
Animator Credit	52,056	50,000	60%	99%	79% Income Generation 21% Consumption and Emergency
Total	**323713**	**1,872190**			

Source: Samurdhi Authority

The most astounding factor is the growth of the Samurdhi loans scheme. Loans granted in the year 1997 were 9,609, in 1998 they were 58,865 in 1999 they were 141,344 with 271,657 in 2000. This growth was both through outreach and demand as Samurdhi grew into new areas throughout the country.

Another interesting factor is the high repayment rates that have continued to improve over time from 96% at the end of 1998, to 102% by the end 1999 and to 107% by December 2000 (over 100% refers to payments in advance and perhaps to social and political pressure). Total delayed loans accounted for 19,117 loans to a value of SLR 49,776,000 in total or 7.4% of total outstanding figure of SLR1.3 billion.

Thus excluding advance payments the on time repayment rate is 92.6%. Very close follow up due to high staff levels and peer pressure accounts for the good repayment rates. By purpose 71% of Samurdhi Bank loans were taken for self-employment, 24% for agriculture, 1.3% for fishing, 3.8% for consumption smoothing and 2.7% for emergencies.

918 Samurdhi Banks were formed by end 2000. These Banks are formed at divisional secretariat level. In only 2 years of existence since 1999 some 57 banks were breaking even or becoming marginally profitable by end 2000. Boards are chosen from the clientele, however staff members are appointed by the Samurdhi Authority and the Divisional Secretaries playing a key oversight role.

The Samurdhi Authority has credit plus services such as rural infrastructure development, agriculture extension and training, livestock extension and training and special project including marketing development. Unfortunately the budgets for this purpose are severely limited with only a few beneficiaries from each division receiving credit plus services. For example 1,769 beneficiaries participated in 75 training programs organised by the livestock division in the year 2000 and 611 agricultural programmes were conducted reaching 16,245 beneficiaries. Over 8500 beneficiaries are reported to have received self-employment opportunities or improved opportunities due to the opening of marketing opportunities.

Some 6,101 rural infrastructure projects are reported to have been completed in year 2000, these include the repair and construction of small irrigation schemes, wells, water schemes, rural roads, steps, culverts, marketing centres.

Not surprisingly the demand for loans is highest in wet zone districts such as Kurunegala, Ratnapura, Gampaha, Kandy, Galle and Matara. With the average loan size being higher in these districts compared to the dry zone districts such as Moneragala and Hambantota. The demand in Colombo is low as this type of social mobilisation is not as popular in busy urban areas as it is in the rural areas.

Table 29 Samurdhi – Loans by District

		Up to 1999		Up to 2000		During 2000
District	**No of Loans**	**Amount of Loan (SLR 000)**	**No of Loans**	**Amount of Loan (SLR 000)**	**No of Loans**	**Amount of Loan (SLR 000)**
Ampara	3178	16,366	9495	52,858	6317	36,492
Anuradhapura	10543	42,577	23827	144,721	13284	102,144
Badulla	8905	29,609	20504	96,888	11599	67,279
Colombo	8767	31,183	18615	80,949	9848	49,766
Galle	6602	34,873	23987	144,582	17385	109,709
Gampaha	26920	165,996	51765	400,084	24845	234,088
Hambantota	10600	50,753	22200	120,062	11600	69,309
Kalutara	16619	62,571	28773	134,790	12154	72,219
Kandy	15329	83,985	33,384	226,671	18,055	142,686
Kegalle	8992	35,061	20,812	108,579	11,820	73,518
Kurunegala	23060	110,972	65177	415,791	42,117	304,819
Matale	6979	38,605	15828	103,711	8849	65,106
Matara	5276	25,479	22831	134,563	17555	109,084
Moneragala	3102	17,026	15082	65,353	11,980	48,327
Nuwara-Eliya	7728	40,882	16350	108,620	8622	67,738
Polonnaruwa	12939	57,125	25775	144,321	12836	87,196
Puttalam	6894	34,524	16,127	99,705	9,233	65,181
Ratnapura	27385	88,727	50,943	206,255	23,558	117,528
Total	**209818**	**966,314**	**345,735**	**2,788,503**	**135,917**	**1,822,189**

Source: Samurdhi Authority

It was reported in The Daily News, newspaper 11th May 2002, that twenty new Samurdhi societies have recently been set up in the districts of Ampara, Batticaloa, Trincomalee and Vavuniya. The government minister for Samurdhi stated that a further nine Samurdhi banks will be established in the near future in the North and East region, seven in Batticaloa and one each in Ampara and Trincomalee. The minister said "Presently there are 206,153 Samurdhi beneficiary families in the North and East region". He went on to state, "These families have already recorded a total balance of SLR 139.8 million in their voluntary savings accounts.

With the breakdown in savings is Ampara SLR 31.6 million, Batticaloa SLR 80.1 million, Trincomalee SLR 24 million and Vavuniya SLR 4.1 million." It was also reported that a total of some SLR 1.9 million in loans had been disbursed to 405 families in the region.

The Samurdhi Program has many strengths as well as potential weaknesses it is without doubt an exceptional program for the poor, however there needs to be urgent action to eliminate its weaknesses and to maximize the strengths:

Strengths

- Has reached and is reaching a large amount of the poor left out by previous NGO, Bank and Project microfinance programs.
- The Micro finance program is not donor dependent and is entirely based on savings of the people for capital. Like the CRBs' it also has excess capital in the form of savings.
- It has a good accounting and monitoring systems. Final Accounts for the entire island wide micro finance program is ready by the middle of the following month.
- The program has excellent on time repayment rates.

Weaknesses

- Government control of the program, and political capture of the staff and programme for example 139, PA candidates came from the programme at the last election.
- Over staffing through political corruption is fairly obvious as for example there are over 22,000 Samurdhi animators
- The lack of focus through mixing microfinance with other work.

It is recommended that:

- The microfinance Programme of Samurdhi be privatised, meaning that the government has to let go control and create an independent organisation that is overseen by beneficiary and staff representatives as well as professionals from banking and microfinance.
- Ownership should be largely with beneficiaries as savings can be converted into shares. Separation of the social and infra-structural work from the microfinance is a necessary part of this process.
- There is a need for an unbiased and in depth study of the programme to arrive at clear conclusions on re-structuring the program and moving it out of the political orbit. This includes restructuring the staff and systems to ensure an effective and efficient de-politicised organisation, including the removal of undue influence by the divisional secretariats and other government officials presently involved in the programme.

Sarvodaya Economic Enterprises Development Services

SEEDS' has been in existence since 1986. From its beginnings operating in 80 societies in 5 districts it has expanded to a national level project, operating in over 2,600 societies, covering more than 5,000 villages, in 18 districts, encompassing nearly a half a million people (SEEDS, 1999)

In 1998 SEEDS converted to a separate legal body registered under the Companies' Act as a company limited by guarantee, allowing it to raise finance and contract as a legal entity in its own right. As part of this process a Board of Directors, that includes eminent professionals from the commercial banking industry and the development field, was appointed.

SEEDS' goal as the economic arm of the Sarvodaya Movement, is to facilitate the eradication of poverty by promoting the economic empowerment of the rural people and working with them towards creating a sustainable livelihood. SEEDS enables Sarvodaya members to pursue their income-earning activities more successfully, firstly, through making capital available at fair rates of interest, and secondly, through providing training, information, advice and product marketing support towards improving their business and technical skills (SEEDS, 2000)

SEEDS believes that economic empowerment plays a crucial role in poverty eradication, but that economic empowerment is not only increasing income levels, but also increasing people's economic discipline and awareness, as well as building knowledge, abilities and the potential for livelihood improvement. For it to be effective it is essential that these factors be combined with the resources, opportunity and infrastructure and an environment that engenders progress. SEEDS approach is focused on creating a lasting impact on people's livelihood, not on short-term intervention.

During this period SEEDS has been able to create over 500 Village Development Banks that are sustainable grass-root level institutions managed by the people. By the end of June 2001 SEEDS was working with over 2,600 village-level societies across 18 of the 25 government administrative districts and in 2 secretariat divisions in Ampara (ibid.)

SEEDS' primary clientele are the membership of the Sarvodaya Shramadana Societies that provide the conduit for SEEDS activities. Generally, they are low-income earners or those who do not have the opportunity to access finance from the formal banking sector.

Recently, with commercialisation SEEDS has extended its services to a wider market, including the provision of credit for solar home systems to non-members. Currently SEEDS estimates that 80% of its clientele are members of Sarvodaya societies with the remaining 20% of its members coming from the general populace.

When SEEDS begins working with a society it encourages a savings culture by promoting the benefits of small, but regular deposits to establish a rural capital base. Products offered comprise compulsory and voluntary savings.

Compulsory savings are made up of the loan security fund and loan risk fund, whereas voluntary savings include a range of savings products. With a total savings of SLR 679 million in the year 2000/01 of which SLR 310 million or 45% is invested in SEEDS it can be seen that over 50% of the total is voluntary savings (ibid.)

SEEDS has granted nearly Rs.2 billion worth of loans from central funds, with a loan portfolio of over SLR 660 million and serviced over 45,000 small businesses through training and counselling.

In addition, it has initiated and supported the infrastructure of economically active village based societies, facilitating the growth of a rural capital base of over SLR 733 million. Most importantly, it has provided the management and financial skills support for this capital base to be mobilised in over 888,000 loans, worth over 1.16 billion, to the rural people (ibid.).

SEEDS provides a 'credit plus' service through three integrated divisions:

- ❖ The Banking Division administers the savings and credit service and supports the village societies.
- ❖ The Training Division is responsible for training the Sarvodaya society member borrowers and officials of SEEDS' staff and other organisations in institutional development, enterprise development and microfinance management.
- ❖ The Enterprise Services Division provides a range of business development services to SEEDS clients, including extension services, business advice/counselling, product development research, marketing advice and private sector linkages.

It has partnered with the State, the banking sector and other financial institutions in financing the rural sector. SEEDS' looks to form constructive partnerships and alliances with these organisations and projects both national and international.

SEEDS' has begun a programme to develop its Districts into 'District Banks'. All districts will also become Enterprise Development Centres. These will continue the operations of the district, but as more of SEEDS operations and activities are decentralized, the centres are becoming the focus of enterprise development in the area.

They have discretion to grant credit, implement training programmes and workshops and identify and request skills training modules. They also co-ordinate the initial stages of market linkages and partnerships. Their focus is on being responsive to the needs and requests of the people in the area, as well as providing innovative linkages and technologies.

To increase the quality of services SEEDS Training Division provides, it is establishing 'Centres of Excellence' at three regional offices. These centres will specialize in developing curricula, training programmes, libraries and other resources in the areas of management, entrepreneurship development and institutional development.

SEEDS savings are mobilised at SSS level. There are different types of savings products such as compulsory savings, ordinary savings, loan security savings, children's savings available at these societies. SEEDS beneficiaries have access to variety of loan products. Of them loans from society savings fund and loans from SEEDS funds are two different loan schemes.

The first type of loan is primarily issued for short-term credit needs and the second type is for medium term investment or other needs. A beneficiary can have two loans at a time from above two types and not more than one from one loan type.

Within the loans from SEEDS funds there are different loan products categorised as type A for income generation and micro enterprise loans, type B as loans for improving living standards (housing, solar home systems and education) and type C for small enterprise development for employment generation.

SEEDS microfinance performance is shown in the table below:

Table 30 SEEDS Microfinance Activity - 2000

District	No of Units	Total Savings Accounts As of 31st Dec. 2000	Total Savings Amount as of 31st December 2000 (SLR)	No. of Loans During Financial Year 2000	Amount Disbursed During Financial Year 2000 (SLR)	Total No. of Loans as of Dec. 2000	Total Amount of Loans as of December 2000 (SLR)
Anuradhapura	165	35,758	33,118,689	9,008	46,017,262	28,102	131,878,705
Badulla	146	35,530	15,118,123	2,026	23,847,453	39,669	99,361,148
Colombo	145	73,181	106,508,190	45,680	147692525	135,559	350,914,712
Galle	161	45,679	42,652,952	5,084	34,529,082	34,992	114,253,673
Gampaha	140	42,623	56,680,541	20,221	74,133,875	81,614	251,095,375
Hambantota	136	23,281	24,797,551	5,319	26,545,343	28,656	131,284,470
Kalutara	129	28,544	34,000,585	3,620	31,686,214	100,613	156,105,685
Kandy	160	39,085	38,668,115	5,833	27,206,504	26,956	108,751,234
Kegalle	149	42,061	32,902,724	5,492	32,996,247	35,617	145,782,733
Kurunegala	174	55,741	59,047,185	14,911	54,422,889	81,753	244,789,789
Mahiyanganaya	135	34,761	18,109,501	9,077	34,812,,091	38,141	113,748,102
Matale	125	31,348	18,979,483	10,977	29,478,043	37,997	94,705,765
Matara	148	42,209	35,828,862	10,272	40,143,739	61,908	153,503,149
Moneragala	108	20,171	16,517,404	4,420	22,077,260	23,785	84,010,364
Nuwara Eliya	141	36,240	11,424,506	949	9,472,375	17,019	48,117,439
Polonnaruwa	87	18,518	25,906,768	12,155	46,746,553	49,857	182,595,256
Puttalam	128	33,433	28,116,114	1,451	31,885,162	61,093	106,965,548
Ratnapura	127	24,109	28,099,703	5,270	34,772,321	38,265	86,104,228
Total	**2504**	**662272**	**626476996**	**171765**	**748464938**	**921596**	**2603967375**

In addition to SEEDS own revolving loan funds SEEDS borrows from the NDTF, IRDPs, ISURU project, other government projects, banks and donors to finance these loans. SEEDS monitors loan repayment rate at two levels current and cumulative these were 93% at the end of year 2000. SEEDS also monitors a few other performance indicators such as cost recovery rate, number of loans per field officer, portfolio at risk (more than 12 months over due).

The village institutional development is monitored through a graduation process. Though these process a village society graduates as a self financing sustainable village bank. There were 528 such banking units as at 31st December 2001. Of them 334 banks had a savings base of over SLR 500,000.

To be a long-term force towards poverty eradication and to be able to support itself SEEDS needs to ensure the most effective and efficient delivery of its interventions. Since its beginnings when it was heavily reliant on donor-funding, SEEDS' microfinance programme has evolved to become substantially self-funding. SEEDS aspiration of self-sustainability by 2003 based on its 5 year strategic plan is believed to be a viable and achievable goal.

SEEDS believes that it must provide its services throughout the whole country and urgently wishes to secure funding for a North & East regional intervention. It has recently completed a research an evaluation phase (Gant & Durrant, 2001) and hopes to intervene later this year.

(b) Regional Level Practitioners

Agromart

Agromart was established in 1989. Agromart was the second NGO after Sarvodaya to separate its microfinance activity and works in the seven districts of Ampara, Galle, Hambantota, Kurunegala, Matara, Moneragala and Puttalam, however it does not provide savings services. During the year 2000 Agromart disbursed a total of 439 loans with a value of SLR 6,127,895.

Agromart's microfinance operation has been criticised as weak and inefficient (Grace, 1999). Since then the organisation has received new funding streams and has devolved its microfinance activities into a separate entity that is now called Agromart Microfinance Foundation (Hospes et al., 2001)

Cumulatively as of the 31st December 2000 it had disbursed a total of 2,292 loans at a value of SLR 29,789,771 and its objective is to realise self-sustainability and manage the microfinance component profitably. Agromart have received approximately 2.3 million in Dutch Guilders from NOVIB between 1998 and 2001 and 3.9 million in Dutch Guilders from HIVOS during the same period. Previously Agromart have received funding from CIDA, NORAD & USAID.

Arthacharya Foundation

The Arthacharya Foundation was founded in 1992 and commenced its savings and credit activities in 1996. It has a strong poverty focus working only with the poorest in villages. It is involved in other activities such as environmental work but as an entry point for the social mobilisation and savings and credit that follows.

The Arthacharya Foundation practices microfinance in the five districts of Galle, Gampaha, Kurunegala, Moneragala and Ratnapura. As of the 31st December 2000 they had mobilised a total number of 7,380 savings accounts at a value of SLR 3,451,009. Loans disbursed during the year 2000 were 518 at a value of SLR 9,449,562.

The Arthacharya Foundation is one of the few NGOs that has sought after and received credit funds from banks. It has received loans amounting to SLR 10 million from the SANASA Bank, Seylan Merchant Bank and the NDTF - based on Credit Guarantee Fund and fixed deposits. Loans are disbursed at 30 percent interest. It has a training section providing institutional development and enterprise development training.

Samastha Lanka Praja Sanwardena Mandalaya

Samastha Lanka Praja Sanwardena Mandalaya (SLPSM) practice microfinance in the three districts of Hambantota, Kalutara and Moneragala. As of the 31st of December 2000 it had mobilised a total number of 3,541 savings accounts at a value of SLR 11,110,000. During the year 2000 it disbursed a total of 1,645 loans at a value of SLR 8,422,300.

As of the 31st December 2000 it had disbursed a cumulative total of 4,251 loans at a value of SLR 29,034,662. SLPSM have received donor funding from AusAID for an economic improvement project for the period 2000 to 2001 to a value of AUS$ 18,826.

Sarvodaya

Sarvodaya presently operates extensive savings and credit activities at the village society level throughout the districts of Batticaloa and Trincomalee. The organisation is currently in the process of building economic mobilisation activities, including the provision of savings and credit, in the districts of Vavuniya, Mannar and Jaffna.

The Batticaloa district office has 50 fully mobilised village societies with over 3,250 members presently practicing savings and credit for basic consumption and subsistence level income generation purposes. These savings and credit activities are based in agricultural and fishing communities in the cleared, uncleared and 'grey' areas of the district.

In the Trincomalee District there are 36 mobilised societies with approx. 1,440 members practicing savings and credit for basic consumption and subsistence level, income generation purposes.

The District Office in Vavuniya was closed for almost a year by the security forces and re-opened in December 2000. The district is under new management and is in the process of re-establishing active societies. Presently there are 10 active village societies with a total of 1100 Members.

The District office in Jaffna is also in the process of rebuilding active societies from scratch and in partnership with UNICEF is in the second year of implementing a successful savings and credit project working with 150 'war widows'. The project is due to expand it outreach to 270 later in 2002. Demand can be estimated at 27 within the next 12-18 months.

Sewa Lanka

Sewa Lanka works in Anuradhapura, Vavuniya and Trincomalee and operates at least 86 'Sewa Societies' in Vavuniya. Detailed information on savings and loan activities was not forthcoming for the study. However, it is known that in the Sewa Societies current savings amount to approximately SLR 3,000,000 and loan funds are approximately SLR 8,400,000. It is also known that Sewa Lanka has borrowed up to SLR 20 million in funds from the NDTF in addition to donor funds from AusAID, DRC, UNHCR and UNICEF. There appears to be a disparity between inputs and outputs and the organisation should be evaluated and an impact assessment undertaken.

South Asia Partnership Sri Lanka

SAPSRI was established initially with Canadian Funds and is today an NGO that operates as a not for profit company. SAPSRI has undertaken microfinance schemes since 1989 and primarily targets small very poor villages in the dry zone and other such poverty pockets currently working in 200 villages in 11 districts.

As of the 31st of December 2000 it had 15,975 savings accounts at a value of SLR 2,688,750. The total number of loans disbursed during the year 2000 was 208 at a value of SLR 5,200,000. Some of its funds are decentralized as village revolving funds and part managed centrally for larger loans with some clients being referred to the Hatton National Bank for loans above the central funds ceiling. Microfinance is considered an important activity, however, the NGO is at cross roads and is undertaking a strategic planning exercise to map out its future seeking microfinance specialists to help them re-engineer their programmes.

(c) Local Practitioners

Community Based Organisations (CBOs) under the Change Agent Program

The Change Agent Program initiated by the government under the then Ministry of Rural Development in 1978 is Sri Lanka's oldest social mobilisation program. The main concept was for an outside agent to organise poor villagers into groups and allow them to analyse their poverty and the social and economic causation that led to it.

The communities tended to come to the conclusion to form community groups in order to combine their joint efforts in both social and economic activities. Thus small groups and village level organisations were formed over time with the sharing of labour for each other's needs in the field, home or even for joint community needs, joint bulk purchasing of household groceries by small groups, efforts to process and sell produce jointly were all undertaken.

This philosophy varied from the other then popular social mobilisation philosophy that of Sarvodaya that brought people in the village together as members of one family, in CAP only the poor were invited and there were Marxist or socialist overtones in early years.

The program was assisted by some limited donor funding over the years including support from CARE International, and SIDA as well as SLCDF giving support to some of the organisations. Over the years the village organisations grouped together at both the divisional and district level eventually having a national organisation. The CAP program is no longer managed by any agency or funded by any donor though some limited linkages exist with Rural Development Training Institute (RDTI).

According to the Federation the growth in membership, savings and other donor funds is as follows. Currently 68,000 families are estimated to be members of CAP groups and save with them. Though there was a drop in membership from 1995 to 1999 for some inexplicable reason membership appears to have grown in again in the year 2000. The total saved and available from donors for credit is estimated at SLR 90.5 million.

Table 31 Progress of the Change Agent Programme, 1987 to 1999

Year	No of groups	No of members	Group funds (SLR)
1987	776	8,493	99,600
1988	784	7,480	1,188,890
1989	839	7,712	1,316,818
1990	1,029	8,522	1,509,176
1991	2,478	32,568	7,857,187
1992	5,510	45,349	10,186,380
1993	5,603	46,296	13,371,568
1994	5,677	63,129	32,752,449
1995	8,128	64,610	27,277,436
1996	7,188	69,450	27,851,935
1997	6,708	64,465	32,518,854
1998	6,893	65,391	80,452,024
1999	6,778	65,190	80,056,055
2000	8,248	68,460	90,560,742

Source: Federation (PSMS)

There are 53 existing divisional level Prajashakthi or CAP organisations of these the following 25 organisations have funds over SLR 1 million for credit purposes.

Table 32 CAP Programme – CBOs started at end September 2001

Division	District	No of VBOs	No. of Small Groups	Members - Female	Members - Male	Total Savings Fund*	Cumulative Credit as of Sept 2001
Wariyapola,	Kurunegala	5	41	300	6	662,207	458,000
Galgamuwa,	Kurunegala	52	295	1805	-	677,364	533,874
Ibbagamuwa	Kurunegala	11	68	521	53	1,376,774	3,337,050
Weligama	Matara	42	256	1888	42	1,586,942	836,160
Morawaka Korale	Matara	11	143	586	559	1,205,115	205,000
Baddagama	Galle	5	29	188	20	410,500	50,000
Hikkaduwa	Galle	21	120	1153	100	1,599,202	1,960,000
Gintota	Galle	7	40	355	3	466,934	853,221
Nagoda	Galle	22	189	1224	108	1,459,957	9,718,000
Habaraduwa	Galle	71	201	2506	20	5,180,019	19,082,651
Yakkalamulla	Galle	5	44	305	75	455,598	2,700,000
Puttalam	Puttalam	24	221	957	175	1,007,193	750,000
Agalawatta	Kalutara	18	105	1857	543	1,200,000	800,000
Minuwangda	Gampaha	6	32	210	16	837,500	510,000
Divulapitya	Gampaha	7	50	1960	1068	5,590,000	4,840,000
Passara	Badulla	3	17	275	55	701,880	50,000
Halpe	Badulla	4	86	400	125	849,669	5,762,880
Uva Paranagama	Badulla	8	119	950	1	929,470	5,041,000
Ella	Badulla	12	152	960	308	1,505,966	6,531,025
Pusselawa	Badulla	3	137	957	411	469,455	1,292,954
Haliela	Badulla	14	144	662	462	438,500	2,258,500
RidiMaliyadda	Badulla	8	198	865	125	863,447	2,452,650
Kuruwithanna	Badulla	6	70	400	65	739,610	1,730,650
Anuradhapura	7 divisional societies						1,999,197
Uda Palatha	Kandy	29	165	634	360	1,374,641	3,334,500
Yatinuwara	Kandy	19	198			1,940,700	1,578,325
Total							**76,666,440**

However in general the majority of CAP organisations suffer from poor accounting and lack of training in microfinance good and best practice standards as well as low levels of funding for credit. But organisations such as HPDF have also developed there own creatively successful policies to ensure 100% loan repayment rates. The HPDF policy is that even if one loan instalment is not paid then the village society has to take the responsibility for its payment in the following month to the HPDF that is the divisional level organisation.

This is strictly applied and in the 10 months from January to October 2001, 338 such loans were paid up fully by the village organisations on behalf of members. This discipline is believed to be an example of a good policy that could be adopted by other NGOs and CBOs in Sri Lanka. However circumstances such as drought and floods could be exceptions to the application of this policy.

HPDF provides loans at 36% per annum interest on a declining balance basis and provides loans for a host of activities as shown in the table below. Their policy is to give loans based on the individual members needs rather than on externally directed areas specified by the organisation. The repayment period is also decided by the members within certain limits giving the organisation a client oriented focus.

Another difference between HPDF and other CAP organisations is that they have done away with small group formation since 1999 and only has village organisations. The reason’s given are that members most of whom are daily paid workers save time and money by not having weekly small group meetings and secondly that the HPDF managed to expand its outreach speedily to 50 new village organisations without going through the time consuming formation of small groups. The overall impact of this change has yet to be examined in depth prior to recommending it as a general principle for building outreach.

Although the figures show a growth in 2000 in actual fact the program has deteriorated and in some areas collapsed since the RDTI ceased direct linkages and after the termination of SIDA and SLCDF assistance. The sharp growth in 1997 and 1998 was due the influx of new funding from SLCDF for access to credit for some of the organisations.

Growth is shown only in few districts and projects where the village level organisations or the divisional level organisations have linked to other existing projects or have continued to receive donor assistance. Besides SLCDF supported projects two districts where growth occurred are Badulla and Anuradhapura where the village organisations linked with the Badulla IRDP and NCP Participatory Project for credit and training through the District Organisation.

Another example is the divisional level organisation in Habaraduwa where a Dutch donor ICCO supported the Habaraduwa Participatory Development Organisation (HPDF) as discussed previously, with SLR 3.6 million funds for training, credit and other expenses for two years ending 2002.

The CBOs created under CAP program have reached some of the poorest groups and as seen the highest rate of success or survival has been by CBOs that have received direct donor support as in the case of the HPDF or have linked with another larger donor project such as in Badulla and Anuradhapura. It is believed that other existing CBOs who have no such linkage should urgently form linkages with other existing donor funded projects or organisations such as SEEDS.

Co-operative Rural Banks

The CRB system commenced in March 1964 in Menikhinna in the Kandy District and in the initial years was a partnership between the Peoples Bank and the co-operative movement. The Peoples Bank chose Multi-purpose Co-operatives with a significant membership and acceptable accounting and management to set up Co-operative Banks.

The intention was that CRBs focus on small loans and savings that at that time was beyond the reach of the Peoples Bank. It was seen as a win–win equation for the Peoples Bank and the MPCS movement. The initial CRBs were even managed by staff member of the Peoples Bank. All accounting and management/banking systems were introduced by the Peoples Bank and all training of staff undertaken by them, with the bank also introducing a deposit insurance scheme with all excess deposits invested in the Peoples Bank.

The CRBs which were the banking division of the MPCS was set up as an independent profit centre and given semi-autonomy from the MPCS but had no separate legal status. The Manager of the CRBs at the MPCS report directly to the Board of Management of the MPCS rather than to its Chief Executive.

However Peoples Bank (PB) relationship with CRBs changed a number of times and the practice of having PB staff as managers soon ended with instead experienced officers appointed as instructors to each CRB. Further after the re-organisation in 1971 the autonomy of the CRBs reduced with the CR Bank Manager responsible to the CEO of the MPCS and not directly to the Board.

By year 1997 the relationship between the Peoples Bank and CRBs was terminated, leaving a major vacuum as no longer did CRBs have access to the banking technology and capacity building from an external source and training reduced to in-house training by senior officials.

As a consequence of the PB moving away from its advisory and semi-banking role with CRBs the bank started setting up its own higher-level organisations starting with district unions. By the end of 1999 there were 14 such district unions providing banking services to the CRBs. A national federation was also formed and in 1999 an application was made to the central bank to set up a specialized co-operative development bank, the central bank did not approve the application. Meanwhile the original peoples bank that was set up to be a co-operative bank drifted away and focused on becoming a commercial bank.

The growth of CRBs in the last 10 years is given below. What is remarkable is that the growth does not seem to be hampered by the advent of Samurdhi or the large number of NGO and government schemes. Both savings and loans have more than doubled since 1996.

Table 33 Growth of MPCS CRBs –1990 to 2000

Year	No of CRBs	No of Branches	No. of Savings A/C's	Amount of Savings (SLR 000s)	No. of Loan Accounts	Outstanding Loans (SLR 000s)	Deposits Less Advances (SLR 000s)
1990	282	746	2,714,362	2,497,322	473,388	1,450,882	1,046,440
1991	277	783	3,075,434	3,448,489	623,421	2,188,464	1,260,025
1992	278	816	3,306,195	4,772,330	NA	2,471,425	2,069,446
1993	277	843	3,560,328	5,496,875	756,946	2,813,109	2,625,101
1994	278	864	3,870,900	6,359,432	838,603	3,243,079	3,116,353
1995	279	879	3,962,611	7,075,665	875,035	3,448,626	3,627,631
1996	281	909	4,163,337	7,872,559	946,318	4,036,769	3,835,882
1997	281	983	4,157,749	10,063,549	1,129,740	5,786,769	4,276,780
1998		1,351	4,764,741	11,233,684	1,130,717	6,054,899	5,178,788
1999		1,418	5,336,501	12,914,748	1,232,294	7,231,458	5,682,290
2000	306	1,476	5,524,751	14,806,829	722,027	6,187,518	8,619,311

Table 34 MPCS CRBs - District Level Break-Down

Districts	No of Banks	No of Savings Accounts	Total Savings (SLR 000s)	Average Deposit	No. of Loans in 2000	Disbursed in 2000 (SLR 000s)	Average Loan Amount
Ampara	20	44,978	14,878	331	16,599	10,496	632
Anuradhapura	41	138,757	124,048	894	4,432	16,194	3,654
Badulla	84	228,829	419,444	1,833	46,887	265,168	5,655
Batticaloa	4	27,331	6,274	230	4,159	3,780	909
Colombo	118	390,202	1,552,526	3,979	59,040	640,231	10,844
Galle	106	317,696	1,028,276	3,237	2,592	168,347	64,949
Gampaha	197	714,732	2,618,120	3,663	86,763	971,800	11,201
Hambantota	46	224,198	590,340	2,633	47,834	241,440	5,047
Jaffna	11	113,256	235,930	2,083	6,467	3,454	534
Kalutara	75	252,697	795,920	3,150	34,236	315,777	9,224
Kandy	110	377,509	959,270	2,541	77,575	498,150	6,422
Kegalle	80	316,490	692,939	2,189	21,418	73,079	3,412
Killinochchi	1	8,710	7,400	850	-	-	
Kurunegala	192	857,959	2,245,710	2,618	87,123	1,254,877	14,404
Mannar	2	12,734	8,310	653	-	-	-
Matara	87	375,335	1,195,100	3,184	36,341	547,215	15,058
Matale	44	128,863	293,380	2,277	21,175	140,160	6,619
Moneragala	22	41,700	81,638	1,958	9,973	39,128	3,923
Mullaitivu	1	8,709	7,670	881	-	-	
Nuwara Eliya	47	168,975	278,320	1,647	19,014	135,855	7,145
Polonnaruwa	28	139,258	212,534	1,526	26,494	90,823	3,428
Puttalam	62	225,653	552,700	2,449	29,343	292,960	9,984
Ratnapura	90	298,653	889,296	2,978	45,318	425,010	9,378
Trincomalee	6	90,742	16,867	186	1,221	973	797
Vavuniya	2	20,785	9,890	476	14,673	52,601	3,585

As at the end of December, 2000 a staggering SLR5.5 billion in savings are maintained by CRBs. The savings are from both members and non-members with members' accounts at 2,156,068 and non member accounts at 3,368,683. The total deposits amounted to SLR14.8 billion of which SLR3.92 billion is in savings accounts and SLR 10.87 billion in fixed deposits.

Even taking account of some dual accounting for savings and fixed deposits it is still a huge number of accounts. However as the above table shows the number of outstanding credit accounts were only 722,027 thus showing a huge surplus in savings.

The Katana Multipurpose Co-operative which is just one of 17 MPCSs in the Gampaha District that alone has SLR251 million in investments. In total as of 31st December 2000 all CRBs have invested as much as SLR8.5 billion in Commercial Banks, Treasury Bills and other investments.

The average amount in each savings account in year 2000 was SLR2686 and the average loan was SLR8,856. The maximum loan limit is SLR100,000 in some of the Banks and SLR 250,000 in others. However generally over 90% of all loans as well as savings accounts are below SLR 100,000 resulting in the low average loan amount.

For example in Polonnaruwa in 22 Banks there were only 169 accounts over SLR 100,000 and 51,805 were accounts below SLR 100,000. Of the 169 accounts that were over SLR 100,000 more than 75% were from institutions and not individual savings.[15]

Another example is the Kandewela Branch of Katana MPCS where the average savings deposit from 10,818 savings accounts was SLR3351 per account.[16] The total loan disbursed figure as stated above includes SLR4.768 billion in normal loans and SLR1.419 in pawn brokering loans. This means that 22.9% of the loans are pawning loans.

[15] Source Pollanaruwa District Co-operative Bank

[16] Source Katana Co-operative Bank

Table 35 CRB Loans by Utilisation

Purpose	Loans as a % of Volume
Rice Cultivation	1.5
Potato Cultivation	.19
Agriculture(Other)	3.9
Animal Husbandry	2.6
Housing	51.5
Cottage Industry	5.3
Self Employment	6.6
Trade	11.1
Fisheries	6.6
Consumption	.3
Other Purposes	9.6

Housing loans are by the far the most important category and the average housing loan was SLR25,300. Pawning loans averaged SLR3040 during the year 2000 and a considerable portion of the pawning loans are for income generating purposes especially paddy cultivation as seen in Polonnaruwa.

Unfortunately the accounting and auditing standards are very poor and it is believed that bad debt provision is inadequate since the People Banks terminated its supervisory role. The extent of misuse of CRB funds by MPCSs is not clear although there are allegations of construction of huge buildings, purchase of vehicles, transfer of CRB funds to off set MPCS losses. The lack of proper external auditing outside of the ACCDs is a problem that needs to be urgently addressed.

Today the CRBs are by far the largest combined microfinance agency in Sri Lanka with SLR5.5 billion savings accounts of which over 90% are below SLR 100,000. The CRBs are arguably the most preferred savings agency by the poor and indicates that as much as 722,027 or 37% of the estimated 1,954,090 outstanding loans of all leading microfinance agencies as of 30th June 2000 were provided by CRBs. however there appears to be hardly any write off and little donor attention except by the UNDP in Jaffna paid to CRBs to maximize their potential (Charitoneko & de Silva, 2001).

There is no charismatic leader as in the TCCS or Sarvodaya (SEEDS) movement to market their potential and they are not attractive as NGOs are for donors. Another reason is that the CRBs are not short of money having investments of over SLR 8 billion and a massive gap between savings and what is on-lent.

Some 1,176 of the 1,476 Co-operative Rural Banks were profitable in year ended 31st Dec 2000 and previously donors especially the multi-laterals do not want to give loans and do not find organisations having excess funds attractive as a development partners preferring in the main to 'prop up' the weaker NGOs. However, UNDP is working with 17 MPCS in Jaffna using a combination of soft and hard policy tools including leverage strategies.

Another practical reason is the ownership of CRBs that is not centralised but diffused between many Multi Purpose Co-operative Societies. The impressive record does not mean that CRBs do not have problems in fact their future is very uncertain as there are many issues which if not addressed soon will lead to a deterioration of the banks as a whole;

1. Ownership

Ownership of the CRBs is with the Multipurpose Co-operative Societies (MPCS) with a few exceptions and therefore they not a separate legal entity but a division of the MPCS. MPCS leadership is elected by the members and is in many cases divided along party political-lines, open to political capture rather than the effective and efficient management of the CRBs.

The ownership issue is also a threat to the profitability of the banks with the profits considered as part of the profits or losses of MPCSs' as a whole, where other divisions are making losses then the incentive for the CRBs to maximize their profits is diminished. The salary structures for staff are poor and there is no profit share for the members both of which reduce the incentive for effective and efficient operation.

MPCS ownership also means a diffusion of the ownership throughout 306 MPCSs that have the 1476 CRBs under their control resulting in a lack of focus in management structures and systems. There is a District level CRB but this too has limited capacity and authority -as ownership of the CRBs is not with this organisation.

2. Management

Presently the management too is under the General Manager of the MPCS who in many cases have not come from a Rural banking background. Earlier this was not the case and Bank Managers reported to the Head of Banking in the MPCS.

3. Monitoring and Capacity Building

From the inception of CRBs in 1964 until 1997 the Peoples Bank supervised the CRBs and made a great contribution to the structures and systems as well as building the capacity of the staff. Now that this relationship has been terminated the CRBs do not have a source for capacity building and the monitoring task has been passed to the Assistant Commissioner Co-operative Development in each district whose offices in the main do not have sufficient capacity for this role.

4. Viability And Deposit Security

With the high level of political interference in the MPCS system it is possible that the risk to members funds and non members deposits has grown without neutral oversight and objective external audit.

It is believed that the central government should take steps to re-organise the CRBs and de-link them from MPCS management as was recommended in 1992 by the Presidential Commission on banking and finance. The CRBs' could, for example, be incorporated in the Regional Development Banks with shares issued to the MPCSs' or become an independent Co-operative Banking System. These are two of a range of options that need to be examined urgently to help protect the CRBs and their assets and give an incentive for continued growth.

It is believed that the donor community and the government could assist in the development of a capacity building institution for CRBs and the Regional Development Banks. At present neither institution has adequate training in the areas of social mobilisation and microfinance best and good practices to achieve continued sustainable growth.

Local Non-Government Organisations

No one has ever calculated exactly how many local NGOs are practising microfinance in Sri Lanka. The sources of registration for NGOs are not able to provide lists of which NGOs are active and which NGOs practice microfinance. Furthermore most NGOs that are active engage in a range of activities and microfinance is not necessarily their main activity. These include activities related to, for example: gender awareness, health, nutrition and diet, pre-schooling, water and sanitation, education, training and religious education.

Due to these factors it was decided to screen out CBOs and local NGOs with loan portfolios below SLR 250,000. A questionnaire was devised and district representatives of both the NGO Consortiums and NGO Councils were asked to distribute the questionnaire. Where significant NGO activity was in place but the bulk of the NGOs had portfolios below the criteria, questionnaires were distributed to the largest of the organisations. In these cases we relied upon the local knowledge of the distributing officers and the knowledge and field follow up surveys of two team members.

The NGO questionnaire survey identified a total of 74 NGOs practising microfinance in 19 Districts throughout the country that showed a total number of 105,218 savings accounts at a value of SLR 118,327,719 and disbursed 57,610 loans to a value of SLR 212,385,761.[17] In the course of the wider survey of microfinance actor activity and not accounting for multiple branches of the same organisations a total of 141 discrete NGOs practicing microfinance were identified.

Of these approximately two thirds operate in the North and East region being funded primarily by AusAID, CIDA, NORAD, OXFAM, and UNHCR. However, of these, the 74 NGOs responding to the questionnaire represent 52% of the known NGO organisations practicing microfinance in Sri Lanka identified by this survey as a whole. It is still not know exactly how many local NGOs practice microfinance however it is believed that most of the larger microfinance practitioners were identified and responded to the questionnaire. The key savings and loans activities are given in detail in Part D with a summary of these presented below.

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[17] A more detailed summary of local NGO microfinance activity by district is included in the technical appendix at the end of this report.

A total of 74 NGOs were identified in the NGO questionnaire survey. A total number of 19,586 savings groups and 184,573 members were recorded.

In terms of loans a total number of 57,610 individual loans were identified nationwide during the year 2000. A total value of SLR 212,385,761 in loans was disbursed during the same period. 60 NGOs provided complete loans information and from this an average national local NGO loan size of SLR 3,406.84 can be calculated.

In terms of savings a total number of 105,218 individual savings accounts were identified as of the 31st December 2000. 60 NGOs provided complete savings information and from this an average national local NGO savings account size of SLR 1,108.20 can be calculated.

The majority of NGOs are registered with the Social Services Department with a few registered as charities, private companies and not for profit private companies. Registration of these NGOs was mainly from the mid 1980s to mid 1990s with just two in the 1ate 1970s and the remainder after 1997. With the majority not providing microfinance services before the mid to late 1990s.

In terms of funding more than half received grant in aid funding with a third receiving grants from SLCDF. Over a third have been granted loans by the NDTF. Of the NGOs taking loans some two thirds were not also taking grant in aid. The majority earn interest from savings averaging 10 to 12 % and one third earn income from other sources. These sources range from treasury bills to fixed bank deposits and one utilises the share market.

These organisations rely heavily on volunteers with the largest employing specialist staff. Full time staff out-number part-time staff by a ratio of approximately 2 to 1 with relatively few casual employees. Overall volunteers outnumber paid staff by a ratio of approx. 5 to 1.

Slightly more than two thirds of NGO have an accountant and over 90% separate their savings and credit accounts. The majority of NGOs provide a range of different services and at most no more than 40% who provided correct information spend more than one third of their budgets on microfinance activities. Audit of accounts is undertaken by over 90% of the NGOs most of them being audited internally and externally. Approximately 50% of the NGOs own a computer, half of whom use it to create financial accounts and progress reports.

The clear majority of microfinance activity is undertaken at the small group level with weekly meetings. The majority of NGO also operate at the village level meeting on a monthly basis. A clear majority require compulsory savings as a condition of membership and issue individual pass books, with the savings periodicity ranging from one third of them weekly and the remainder monthly.

Over 90% of the NGOs require members to reach a minimum savings level as a condition of credit. This requirement varies widely from SLR 50 up to SLR 2,500 or as a percentage of the loan ranging from 5% to 35%. Two organisations require members to purchase 500 shares in the organisation as a requirement for credit approval. Equally the majority require member to have saved for a minimum period of time. This period ranges from 2 months to 2 years with 3 to 6 months being the norm.

The majority operate revolving loan funds and one third of the NGOs stated that a borrower can take more than one loan at a time. The majority require some form of collateral and on the whole this takes the form of individual and group level guarantees and savings, with a few NGOs requiring physical assets as collateral. Approximately one third of the NGOs provide consumption loans that in themselves represent relatively a low level of the total loan portfolio. Some 75% of the NGOs calculate interest on loans on a declining balance and rate stepping is not wide spread.

Loan capping is practised by some 85% of the NGOs with half of them capping the first loan at SLR 5,000 and one third have a cap at SLR 10,000 and above. Most of the NGOs that have phased loan sizes have a second loan cap of more than SLR 10,000 or above with about half of these having a cap of SLR 20,000 and above. Of those who have a third phase the majority have a cap of SLR 30,000 or above with loans for SLR 50,000 being common at this stage of the clients credit cycle. Over half of the NGOs had over 75% women borrowers and approximately 20% of the NGOs had 90% or more women as borrowers.

In terms of portfolio performance management practice on time incentive repayments with priority on receiving a further loan being the norm, although prizes, entitlement to training and other services are also practised. In terms of follow up activity a clear majority of NGOs follow up with letters and field visits with a periodicity between one and three months after a loan repayment has become due and not paid.

About half of the NGOs practice ageing of loans and the starting point for ageing is rarely less than 90 days. Approximately one third of NGOs classify a loan as non performing after 90 days however over one third of the NGOs do not classify a loan as non performing until after one year and only 15% admitted to having written off a loan. Approximately 40% of the NGOs have used mediation councils to recover repayments and some 10% have used legal redress fort the same reason.

Approximately half operate a loan insurance or security fund that in the main is annexed from group savings to cover the risk that ranges from 1 to 10% of the loan portfolio with the average being 5%. A few NGOs operate government backed farmers insurance schemes but the majority do not purchase external insurance products.

Over half of the NGOs admitted to receiving some training in areas related to microfinance, such as basic book keeping, social mobilisation and accounting. NDTF were frequently cited as a source for training of both microfinance and enterprise development.

More than half of the organisations said that the S & C operations had been evaluated externally. All of the funding organisations and institutions appear to evaluate the NGO prior to proposal acceptance but it is not clear to what extent these funders engage in monitoring and evaluation during and after the lifetime of the project. With one or two exceptions none of the NGOs have had an impact assessment of their S & C activities. Several organisations claimed to have undergone an impact assessment, however only one of them was able to identify accurate indicators for this purpose.

Finally only a small proportion of NGOs recognised that their microfinance activities were affected by competition from other organisation. Those organisations that did cited SEEDS, Samurdhi, SANASA and the Regional Development Banks.

Private Companies

A few private companies practice microfinance. Ceylinco Grameen Co. Ltd., for example, started microfinance operations in April 2000 focusing on the urban slum areas of Colombo. The company has reached 1,774 clients disbursing SLR 21 million in loans. Ceylinco Grameen follows the Grameen banking model closely and seeks to fund its microfinance activities largely through the acquisition of grant in aid funding. Elsewhere, the NGO survey identified 3 private companies all operating in the district of Polonnaruwa. All three stated that their primary reason for undertaking microfinance was for profit. Unfortunately none of the companies revealed detailed information on the number and volume of their savings and credit activities.

TCCS

The first institutional micro credit agency in Sri Lanka was the Thrift and Credit C-operative Societies set up in 1906 however in the beginning the growth of these societies was slow and by end of 1913 there were only three registered societies. This was despite the Co-operative Credit Societies Ordinance No 7 of 1911 that gave legal status to these societies.

The growth in co-operative credit societies can be seen from the following table:

Table 36 Growth of Primary TCCS

Year End	No of Societies	Membership	Deposits	Loans Issued
1914	37	1,820	-	3,266
1919	113	9,551	4,772	70,605
1924	222	23,322	29,561	417,906
1929	383	27,970	134,727	830,301
1934	897	39,055	961,790	1,700,100
1978	1,298	209,416	42,000,000	88,000,000
1984	1,776	233,633	129.4 million	207.1 million
1990	5,776	675,000	491 million	448 million
1997	8,424	785,505	-	2.3 billion
1999	8,424	804,950	-	2.4 billion
2000	8,435	810,250	4.2 billion	2.8 billion

Source: Livera (2002); SANASA Statistical Report 2000

The phenomenal growth after 1978 was due to a change in leadership and a complete re-structuring of the movement building a three-tier structure with Primary Societies, District Unions and a National Federation. A major focus on training and education was also commenced and a campus set up in Kegalle for this purpose.

By end of 2000 there were 8,435 registered societies with 810,250 members covering 16.09% of Sri Lanka's population. Of this there were 444,992 (54.9%) women members and 365,258 (45.1%) male members. Interest charged was 18% for loans to members and in the year 2000 savings earned an interest rate of 12.5%. However it should be noted that growth of TCCS primary societies has stopped since 1997 and the statistics also contain a large number of societies that are no longer functioning.

Table 37 TCCS Loans by type of activity

Category	1999 (SLR)	2000 (SLR)
Agriculture	447,119,860	268,730,493
Animal Husbandry	113,412,024	81,715,476
Small Husbandry	245,160,454	156,091,777
Housing	561,177,150	1,393,354,537
Electricity	133,261,837	34,330,984
Education	49,066,312	61,307,137
Business	457,778,125	273,342,850
Others	475,936,312	575,720,347
Total	**2,482,912,074**	**2,844,593,601**

Source: SANASA Statistical Report 2000

Although the TCCS has 8435 registered societies not all of them are active and in the year 2000 only 1993 societies reported their data to the federation. Of these active societies 438 had savings over SLR1 million and 27 had over SLR10 million in savings.

Kurunegala is the district with the largest number of primary societies having over SLR1 million in savings, this district also has unions at divisional level rather than just at district level. The most active districts are Kurunegala, Colombo, Kegalle, Galle, Kalutara, Matara and Gampaha all of which topped annual loan issues of over SLR100 million per year in 2000.

Table 38 TCCS Active Societies and Savings

	District	No. of active reporting societies	No. of societies with more than SLR 1,000,000 in Savings
01	Kalutara	121	43 (4 over SLR 10m)
02	Kegalle	128	61 (4 over SLR 10m)
03	Gampaha	65	29 (4 over SLR 10m)
04	Galle	242	68 (2 over SLR 10 m)
05	Kurunegala	248	142 (3 over SLR 10 m)
06	Badulla	90	1
07	Ratnapura	24	6
08	Matara	172	33
09	Colombo	106	59 (10 over Rs10m)
10	Kandy	258	7
12	Hambantota	177	7
13	Matale	55	3
15	Nuwara Eliya	24	2
16	Moneragala	66	4
17	Puttalam	21	13
20	Anuradhapura	38	2
22	Vavuniya	88	0
23	Batticaloa	48	0
25	Polonnaruwa	22	3
	Total	**1993**	**438**

Source: Monitoring Division-TCCS Federation

Primary Society Loans By District

Se No	District division	Total loans granted (SLR)
1	Kegalle	184,107,476
2	Galle	240,814,668
3	Gampaha	124,075,706
4	Kalutara	400,150,316
5	Kurunegala	358,885,015
6	Matara	132,270,390
7	Kandy	80,748,524
8	Colombo	267,995,650
9	Ratnapura	9,483,916
10	Badulla	11,510,722
11	Hambantota	27,569,035
12	Matale	16,147,269
13	Jaffna	0
14	Moneragala	10,853,779
15	Nuwara Eliya	4,918,513
16	Anuradhapura	23,061,264
17	Polonnaruwa	7,595,019
18	Puttalam	31,568,235
19	Ampara	37,310,968
20	Mannar	0
21	Kilinochchi	0
22	Batticaloa	0
23	Vavuniya	2,636,000
24	Mullaitivu	0
25	Trincomalee	0
		1,971,702,465

Source: Monitoring Division –TCCS Federation

Note; The total disbursed disagrees with the total SLR2.8 million for TCCS for 2000 given earlier as TCCS Federation has to estimate both figures based on information sent to them by the primary societies. SLR2.8million is the estimate including societies which do not send information as well as societies in north and east.

District Unions - National Federation

District Unions function to mobilise excess savings from the primary societies and then on-lend this to other societies that require credit funding. Prior to the initiation of the SANASA Development Banks in 1997 the Federation used to fund the District Unions in a similar manner, since this time the importance and role of SANASA District Unions have been reduced since the formation of the SANASA Development Bank as the following figures show:

Table 39 SANASA District Unions –Progress 1999/2000

Activity	1999 (SLR)	2000 (SLR)
Savings	958 m	801 m
Fixed Assets	153.5 m	97.8 m
Loans Granted	343.8 m	223.4 m
Loans O/S at 31st Dec	947.8 m	726.32 m
Loans Past Due at 31st Dec	345.2 m	216.03 m

Source: SANASA Statistical Report 2000

Three District Unions have been funded by USAID in the past five years with a sum of USD 810,000. HIVOS has funded the federation as a whole during the period 1998-2001 with some 2.6 million Dutch Guilders. Cumulatively it is known that that SANASA have received some SLR 330 million from eight funding organisations including HIVOS and the Swiss.

The SANASA Development Bank (SDB)

The SDB was set up in 1997 as a specialized bank with the primary societies and the district unions having the majority shareholding. The SDB provides loans direct to qualified primary societies and had 10 operating branches at the end of 2000. The societies are now categorized into 3 grades based on savings and management criteria with Grade 1 societies qualifying for loans from the bank.

SANASA has a training centre that in the main provides training for its own staff and client organisations staff and volunteers giving training in social mobilisation, capacity building and the management of financial accounts at the society level.

In the year ended 31st Dec 2000 the Banks savings and loans performance was as follows:

Table 40 SANASA Loans by Sector

Sector	1999 (SLR Ms)	2000 (SLR Ms)
Agriculture	6	4
Animal Husbandry	1	0
Fisheries	1	0
Small Industries	92	10
Business	117	139
Housing and related	23	14
Others	85	220
Total	325	387

Source: CBSL (2001)

The TCCS have grown steadily since 1978. This is probably in part due to the dynamic leadership of the movement. However the two key institutions, namely, the district unions and the primary societies, appear to suffer from serious accounting and management shortcomings. This is possibly due to the volunteer nature of the staff and lack of direction from the top.

Many of the TCCS societies are no longer functioning. Although the actual rate of collapse of primary societies has not been accurately defined it is considered high. Of the 8,424 registered primary societies some 50% of them have not been audited for a number of years. Both the district unions and national federation appear to allow managerial independence at the society level that may have led to weaknesses in the structures and systems. Quite a number of the district societies themselves are not viable and 9 district societies did not repay loans taken from the Jansaviya Trust and have as a result been black listed by them.

In terms of improving the viability of primary societies USAID supported one project with technical assistance from World Council for Credit Unions (WOCCU) that worked with 72 societies from1998 to 2001. This project was followed by a HIVOS supported project that is focused on strengthening 1,250 societies by the end of Dec 2002. These two projects will help to develop models and practices that could be replicated through all the societies utilising the SANASA Education and Training Centre. It is believed that donor support to revitalize the entire primary society network as well as the apex organisation could assist in moving the societies towards sustainability.

The excellent leadership that made the past expansion possible needs to be followed through in management and financial practice to consolidate the growth and ensure the sustainability of the movement as a whole.

4. Facilitators

a) National Level Facilitators

The Microfinance Network

The Microfinance Network (MFN) is presently facilitated by the UNDP and supported by its Programme of Catalytic Initiatives for Social and Economic Empowerment of the Poor. The MFN is a national level forum for microfinance practitioners with a broad representation from the government sector, NGOs, INGOs and the private sector. The network evolved from the Network of Small Scale Savings & Credit Practitioners (NSSSC) that was started on the initiative of practitioners in 1994.

The NSSSC organised a series of seminars on issues pertaining to donor intervention in rural savings and credit. A workshop on this topic was organized in January 1994 that was attended by over fifty representatives of NGOs and government. The participants expressed interest in continuing the dialogue and organising meetings to discuss specific issues that emerged from the workshop.

In response to this, UNDP, Swiss Interco-operation and the Canadian Cooperative Association jointly organized a series of monthly seminars at the UNDP. A total of six seminars were held during 1994. The network has, at times, set up various sub-committees to study issues of key interest to the microfinance sector and has organised presentations by key actors in the microfinance sector in Sri Lanka on issues of current interest.

The Network meets bi-monthly to discuss current issues, exchange experiences and build partnerships. Guest speakers are invited regularly to the meetings, and the MFN also organises workshops and other events of special interest to its members.

The current debate on microfinance puts issues of skills and business development training needs, access to technology and markets, as well as funds, on the agenda. It looks not only at the needs of the clients, but also at the capacity of the providers and intermediaries of microfinance, such as Bank Societies, NGOs and CBOs. The debate is extended to the whole macro-economic and legislative environment within which microfinance provision takes place.

A major initiative of the Network was the assessment of the Microfinance sector in Sri Lanka (Nayar & Gunatilaka, 1999). A key recommendation in the report was the need for a strong networking body to play a key role in setting industry standards and promoting best practices, advocating for policy reform, and also play a co-ordinating role in capacity building and technological assistance within the sector.

During 2000/2001 the MFN facilitated the following events:

- ❖ A one-day seminar on the Micro-credit Summit Campaign, presented by the visiting Regional Organiser for Asia, Dr. D. Rao.
- ❖ “Kadapola 2001”, a three day Trade Fair facilitating the establishment of market linkages between micro, small and medium enterprises.

- A National Poverty Conference in October 2001, commemorating the International Day for Eradication of Poverty, 17th October. An initiative undertaken in collaboration with the Government of Sri Lanka and the Social Mobilisation Network.
- A Trade Fair was organised in October 2000 to facilitate market linkages for CBO entrepreneurs
- A workshop on "Building Partnerships for Microfinance" was organized in November 2000, at Anuradhapura, for network members.

The UNDP must be congratulated for supporting the network for the past seven years, however it has not developed much from the loose network of few practitioners. The growth of the network appears to be affected by its ties to the UNDP project that has its own objectives. Ideally the MFN should be a network managed by microfinance practitioners. There is a need for network members to develop a proposal for the institutionalising the MFN as a professional microfinance 'service centre'.

There is a developed microfinance network in Bangladesh, the Credit Development Foundation (CDF), which was institutionalised in 1992 and has over 500 members. It is has its own office and professional staff and is registered as a Company. The principle objective of CDF is to enhance the competencies of MFIs in Bangladesh and enable them to provide adequate and appropriate financial services to the poor through adaptation and replication of best microfinance practices. It is believed that this model should be researched for possible replication in Sri Lanka.

Some of the areas of focus, facilitation and development for an independent network would be:

- Lobby the government for technical assistance provision to the sector.
- Lobby for less government direct participation in the operation of microfinance schemes.
- Lobby the government to eliminate practices that are harming the microfinance sector such as loan write off's and subsidized credit.
- Lobby donors to adopt consistent microfinance assistance policies and good and best practice standards.
- Initiate and develop regulations for microfinance.
- Introduce ratings or help set up a rating agency.
- Hold capacity building seminars and assist exchange visits between members.
- Collect periodic information on the microfinance programmes of members for dissemination, and publish useful report and newsletters.
- Form linkages with other networks and programmes especially in South and South East Asia as well as with the donor community in Sri Lanka.
- Initiate research into areas relevant to the MFIs such as the training needs in Sri Lanka.

International Centre for the Training of Rural Leaders

The International Centre for the Training of Rural Leaders (ICTRL) is based in Embilipitiya and has undertaken training of staff from a number of agencies and organisations in the Sinhala medium. The ICTRL provides training in social mobilisation, leadership, accounting and microfinance. Giving staff, office bearers and volunteers of village societies and CBOs 'hands on' training in how to manage and maintain financial records up to preparation prior to audit.

It is regarded as the most effective microfinance and capacity building training organisation in the country at present and undertook the training of the Women's Development Foundation (Janashakthi) staff as well as the initial training for the Samurdhi Programme. ICTRL was the training organisation used by the UNDP's Civil Society Organisation (CSO), training the members of all of the CBOs created by this project. The ICRTL was also involved somewhat in the training of staff and volunteers in the Small Farmers and Landless Credit Project and is used by INGOs such as FORUT and World Vision for some of their microfinance and capacity building training requirements.

This is an excellent organisation and training facilitator for the microfinance sector however it has a small base of trainers and this needs developing as does the presentation of courses in the Tamil medium.

b) Local Level Facilitators

Jaffna Microfinance Focal Group

This group was initiated in 2000 to bring together the staff of International Agencies and INGOs that were involved in the development and implementation of microfinance projects and programmes. FORUT held a microfinance workshop and from this the UNDP initiated the group and were joined by CARE International, FORUT, GTZ and recently UNHCR.

The group meets once a month to discuss and compare projects their, implementation, monitoring and evaluation. Subjects such as the application of market related interest rates, portfolio management and good and best practice standards and sustainability are subjects that have been discussed. The intention is to standardise practices and to avoid overlap of the schemes that are in operation through co-operation and co-ordination. It is hoped that this group will grow to include other practitioners in the Jaffna District and that external actors such as the commercial banks and the GoSL will also become involved in the future.

There is a need for this group to link with the MFN so that the national network can be extended into the North and East region.

Wanni Area Microfinance Focal Group

OXFAM initiated this group in 2000 with a workshop on microfinance that was attended by CARE International, FORUT, OXFAM and UNHCR. These international organisations shared their practices and experiences in the microfinance sector and have decided to co-operate with each other in the future. The issues of sustainability, training and standards of practice are the subjects that so far have been discussed. Again there is a need for this group to link with the MFN so that a broader national network can be established.

Summary

The Funding of Microfinance Activities in Sri Lanka

Overall, there has been broad-based coverage of microfinance funding throughout the country with significant levels of funding readily available to microfinance practitioners at all levels from local NGOs up to the professional national-level MFIs, INGOs and government programmes. There has also been a balanced mixture of short and medium term funding activity with several funders historically prepared to commit to long-term partnerships.

In terms of the provision of lending services one funder has recently become a granter-lender. This along with the existence of the presence of the national lending institutions means that there would appear to be adequate access to wholesale and retail funding for the professional MFIs. Furthermore there is some evidence to suggest that the NDTF has successfully managed to encourage some local NGOs to switch from grant in aid funding, it is to early to say whether this is tactical behaviour on the part of the NGOs or that it is the start of a longer term shift. Obviously, much depends on future patterns of granter funding and the ability of the NDTF to sustain loans at below market rates of interest.

Most of the international bilateral and multilateral funding organisations that target development aid to Sri Lanka have been granting monies for microfinance projects for the purpose of poverty alleviation for some time[18]. In addition, some multilateral agencies such as UNHCR and UNICEF have also recently been prepared to fund microfinance activity for the purposes of decreasing vulnerability and child development. [19] Other funders are funding microfinance activities less for issues related to poverty alleviation and more directly to do with using microfinance as a 'membership' tool to help increase civil society and community rehabilitation.

In terms of policy, most funders believe that microfinance has proven to be an effective intervention tool for alleviating poverty in Sri Lanka. However, there is clearly an increased emphasis on the use of 'soft' policy tools such as training and technical assistance rather than 'hard' financial instruments. Few funders are still prepared to finance RLFs on their own any more.

Perhaps as a consequence of the recently changed geopolitical environment, many of the key funders of microfinance activities in the country are about to start or are in the process of major strategic reviews of their development briefs. Three funders have recently committed to the funding of two medium term projects with microfinance components. There is a strong possibility that in a year from now the patterns of microfinance in Sri Lanka will look quite different.

[18] In the least couple of years, two donors, ICCO and UNHCR, have ceased funding microfinance activity in the country, while another, USAID has unexpectedly decided to continue its operations in Sri Lanka. A further two actors, IFAD and WFP, also appear to have stopped funding microfinance projects.

[19] Although they have, on occasion, funded microfinance activities in the past, none of the international embassies are currently funding microfinance activities themselves and all report that the funding of microfinance activities is left to the development arms of the respective governments

Funder-Practitioner Microfinance Activities in Sri Lanka

Most of the INGOs and multilateral agencies operating in Sri Lanka currently practice microfinance.[20] The use of microfinance as an intervention tool varies widely. Poverty alleviation and sustainable livelihoods are key themes, but microfinance is utilised for a range of different reasons. These include using microfinance in emergency situations, for purposes of educational development, housing construction, to empower women, to decrease household vulnerability, to increase child protection, to build-up civil society, to rehabilitate communities and for purposes of income generation and enterprise development.

Methods of implementation vary widely. As a rule, microfinance activity takes place through the economic mobilisation of groups and societies at the village level often utilising some sort of RLF 'seed' funding and technical assistance activity as key intervention tools. Here the similarity stops however and there is a huge variance in the exact methods and models used. Many INGOs work directly with CBOs and VBOs, others implement indirectly through NGO, co-op and government partner organisations, while yet others do both.

Microfinance is used as a multifaceted intervention tool. No two international organisations view microfinance in the same way. Frequently microfinance is not the core intervention activity but a means to achieving another end. Where increased access to financial services for the poor is a primary aim, the majority of international interventions are under researched, badly planned, lack specialised microfinance competencies and operate on too short a time scale.[21]

Many of the funder-practitioners are starting to re-evaluate how they approach and plan their microfinance interventions. There appears to be a growing consensus that the use of fungible assets as an intervention tool requires different management skills and performance measurement systems. At least three organisations now employ, or are in the process of training-up, microfinance specialists and at least one organisation appears to have successfully moved onto a longer term funding platform.

Practitioner Microfinance Activity in Sri Lanka

At the national level, the Samurdhi Authority has the largest social mobilisation programme and is the fastest growing microfinance scheme in the country having effectively mobilised many villages that were not covered by other existing programmes. There is evidence to suggest that the programme has been effective in its goal to reach the poorest sections of the population. There is some concern that Samurdhi will remain open to political capture, fail to increase its transparency, restructure and attain financial sustainability. The programme is rapidly expanding into the North and East region. Elsewhere, SEEDS is clearly the most professional and transparent MFI in Sri Lanka and has recently been awarded a 'BB' credit rating, the first MFI in Sri Lanka to do so. However there is some concern regarding its stated aim to become a development bank as it is not clear that there is a need for another actor at this level.

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[20] The exceptions are ICRC, MSF, TDH, & WHO. SCUK sometimes use microfinance as an 'emergency' relief tool. CCF plan to commence microfinance activities later this year.

[21] Notable exceptions are the UNDP Umbrella microfinance scheme and CARE's CAB-J in Jaffna

At the regional level there are a number of organisations that are all seeking to expand into more districts and some are currently undertaking strategic reviews. Perhaps the most noticeable feature of this group is the diversity of methods, approach, standards of professionalism and transparency. For example some organisations are clearly pursuing a policy of borrowing funds for on lending while others remain dependent on grant in aid funding from the international community.

Local level practitioner activity is the most complex and diverse area of microfinance activity in the country and is made up of a range of different government, third sector and private actors that operate at the district, divisional, village and community based levels. Activity can be classified in terms of independent actors including NGOs and 'grass roots' organisations such as religious groups and informal savings and credit groups and local level organisations that are linked to government programmes or affiliated to national level federations.

The government CAP programme has been effective in reaching some of the poorest. This is particularly the case where CBOs have received external granter assistance or linked to other projects or services providers. The programme seems to be loosing momentum the absence of continued donor funding.

The MPCS Co-operative Rural Banks and the TCCSs remain key microfinance service providers throughout most of the country. These co-operative movements that once dominated the provision of microfinance services have suffered from direct competition introduced at the national and local level, and the poor have been socially mobilised within other schemes.[22] This is especially so in the case of the TCCSs as unlike the other co-operatives they exist primarily to provide savings and credit. Both the MPCSs and the TCCSs urgently need to develop more effective accounting and oversight systems and the relationship between the MPCS and the CRBs needs to be reviewed. In the longer term, the major cause for concern is whether the co-ops can become professional and depoliticise their microfinance activities sufficiently to survive in a market place that is becoming increasingly crowded with other service providers.

The local NGO sector is diverse and active throughout the country. Microfinance in the main is a recent activity that has been incorporated into the various other social development activities that underpin the sector. Overall, the micro credit activities of the Local NGOs surveyed and the INGO funding to this sector represents approx. 2.2% of national activity. Accounting for issues of representation in the survey, it is unlikely that total local NGO micro credit activity accounts for more than 5% of micro credit activity nationwide. However, the picture is very different in the North and East region, where INGO funded local NGO activity accounts for between 50% in Jaffna to virtually 100% in the Wanni.

[22] The co-operative movement have been particularly adversely affected in the areas affected by conflict.

As practitioner experience increases, NGOs have shown some willingness to switch to loans rather than continue to receive grants. However, many NGOs, perhaps as much as half, are still heavily dependent on grant funds. Issues of transparency and operational and financial sustainability are to the fore. Clearly local NGOs need as much in the way of technical assistance as they do funding of direct financial instruments

Conclusion

Overall the entire sector except the CRBs and the RDBs is subsidised by donors or the government, making micro finance unsustainable, let alone commercially viable.[23] In the medium term there is the risk of serious erosion of the current access to financial services for the poor unless immediate and urgent action is taken to strengthen practices and institutions active in the field. There is also a need to look at the regulatory framework as currently NGOs are not permitted to receive savings, although in practice many do, and the federation bodies of the co-ops are not effective.

There appears to be a widespread belief that poverty targeting and financial sustainability are not compatible. A general lack of financial training and the absence of proper financial management skills or good and best practices in issues related to monitoring and accounting is common. Furthermore, awareness of costs of operation compared to income and analysis of loan aging with action follow-up reports are largely missing from schemes. This is frequently placing member savings at unnecessary risk.

[23] In the case of Samurdhi and Co-operative Rural Banks it was entirely savings that funded the provision of credit. In the case of TCCS there was a small amount of donor funds and in the case of Regional Development Banks a small amount of capital was received from the government sources, although their main source of funds is savings

Part B – Survey of the Commercial Banking Sector

Introduction and Approach

The majority of the commercial banking sector proved unable or unwilling to supply the level of information required for the district level survey. Accordingly they were omitted from the central actor and activity surveys that represent Part A and Part D of this report.

The Commercial Banks have become involved in microfinance either through their own 'in house' microfinance interventions or as vehicles of the state for wholesaling loans for on-lending as microfinance credit to participating partners in state and donor community funded microfinance interventions since the 1980s. The specialist microfinance divisions of the Hatton National Bank, the Peoples Bank and the Seylan Bank are case studied. These are complemented with a study on the pawning structures and systems of the Peoples Bank. A combination of semi-structured interviews, questionnaires and formal and in-house documentation were used to undertake this survey.

The Commercial Banking Sector

Sri Lanka began deregulating its financial sector in 1977. The total number of commercial banks operating in the country at the end of 2000 stood at twenty-six. The sector is comprised of two state banks, eight domestic private banks and sixteen foreign banks. The sector has gown and diversified in the last three decades but remains dominated by two state-owned commercial banks, namely, the Bank of Ceylon and the Peoples Bank. Together, these two banks account for some fifty-five percent of national banking assets.

Since 1992 the government has implemented significant regulatory, supervisory, and institutional reforms in the financial sector. These include improved disclosure requirements and loan recovery mechanisms and in 2000 the limits on foreign ownership of commercial banks and insurance companies was raised to sixty percent and ninety percent respectively —with a view to further improving their capital base and encouraging modernisation.

Today, services continue to improve and the environment is becoming increasingly competitive. Numbers of bank branches have expanded and been accompanied by increased density of customers served per branch. The availability of modern services such as automated teller machines, credit cards, and telephone banking services continues to increase rapidly. This has encouraged financial intermediation and increased financial deepening in the economy, i.e. reaching lower income clients. There have also been improvements to rural banking and credit facilities and the expansion of private forward-sales contract facilities for agricultural products.

As part of sector reform, action has been taken to restructure the Ministry of Finance and to modernise the central bank (CBSL) and the two state banks were restructured, including the introduction of some external contracted senior managers who are concerned mainly with the management of the restructuring process.

The state banks have had to be assisted twice in the past to meet their emerging deficits arising largely by directed lending. It appears that further strengthening of the two state banks is necessary to reduce intermediation costs and improve financial sector stability by increasing their capital base.

Credit Information Collection and Reporting

A Credit Information Bureau has been in operation for twelve years and this helps to reduce credit risk and client indebtedness. Presently however it only serves lending institutions that are its shareholders, who are: CBSL, the commercial banks, the six licensed specialised banks, registered finance companies, regional development banks, and some leasing companies and merchant banks.

The bureau currently doesn't address the needs of microfinance institutions and only loans in excess of SLR 100,000 are recorded. For the bureau to be useful from a microfinance perspective, it would need to include reliable information on loans under SLR 100,000 (e.g. loans in the range of SLR 30,000-100,000) and expand its market to include large microfinance wholesale and retailers.

Banking Regulation and Supervision

The CBSL is responsible for regulating and supervising commercial banks, licensed specialised banks, and licensed finance companies as set forth in the Monetary Law Act, the Banking Act and their amendments. Commercial banks require minimum initial capital of SLR 500 million each, the RDBs were launched with initial capital of SLR 150 million each, and savings and development banks require SLR 100 million initial capital (ADB, 2000c: p. 297). Standard international directives apply to regulated entities, covering areas such as loan classification, provisioning and reporting requirements as well as auditing standards. The SRR was recently lowered to 10%.

The regulatory and supervision practices of the CBSL have been strengthened in recent years with regard to the entities under its jurisdiction. However, the bank has not kept up with the growth of semi-formal financial service provision and does not effectively supervise or protect the assets of the relatively poor.

Table 41 ‘Microfinance’ loans by Banks as of December 31, 2000

Institution/ Program	No. of Active Loans	Amount Outstanding (SLR Million)	Average Amount (SLR)
BoC	100,241	1,831	18,266
People’s Bank	194,000	1,940	10,000
HNB	9,237	379	41,031
Seylan Bank	4,500	99	22,000
Total	**307,978**	**4,249**	**22,824**

Notes: 1) BOC and PB figures are estimated number of active loans (between SLR 5,000 – SLR 100,000) and micro-credit outstanding as of June 30, 2001.2) Hatton National Bank and Seylan Bank data is based on self-reported estimates for number and outstanding micro-credit as of June 30, 2001.

State-Owned Banks

The Bank of Ceylon

The Bank of Ceylon started providing microfinance loan services directed by the government in 1973. The focus on rural savings mobilisation was more the result of government policy decisions rather and a strategic management decision concerned with expanding markets to increase profitability.

As of the end of 2001, the Bank estimates that the outstanding loans provided between SLR 5,000–50,000 (which is their definition of microfinance), numbered 100,241 with a total value of SLR 1.83 billion and an average loan size of SLR 18,266 ($203). Of the 18 programs implemented by the Bank in rural areas, the average loan size is less than SLR 25,000 ($278) in 9 credit programs, and in 3 others, it is less than SLR 50,000 (UNDP 2000a, p. 21).

The average savings balance per client is estimated to be between SLR 1,000 – SLR 5,000 ($11 - $56). The interest rate paid on savings is 10% per annum, paid on the average quarterly balance. The interest rate charged on loans is 14% per annum, recovered on a monthly declining balance.

Table 42 Bank of Ceylon - Microfinance Portfolio and Sources of Funds

Loan and Deposit Portfolio Information	**June 30, 1999**	**June 30, 2000**	**June 30, 2001**
No. of active micro-credit clients	330,000	176,155	100,241
No. of cumulative micro-credit clients	902,000	931,540	941,077
Amount outstanding (SLR Million)	3,020	2,241	1,831
Avg. loan amount per client (SLR)	9,152	12,722	18,266
Sources of Funds (SLR Million)			
Subsidised project loans	1,781	2,137	1,572
Investors (Shareholders)	1,239	104	259
Total	**3,020**	**2,241**	**1,831**

Source: self-reported data provided in response to the Country Study Questionnaire for the ADB commercialisation study referenced previously.

The Bank of Ceylon has experienced a decline in microfinance lending over the past three years, with an approximate decline of 50% from the estimated 330,000 loans provided as of mid-1999, indicating that it is moving away from microfinance loans.

The reasons can be seen in its portfolio performance, and its average cumulative recovery rate of 70% on all loans below SLR 50,000. The bank ages its loan arrears and, as of June 30, 2001, estimated that 225,000 microfinance loans had been in arrears for more than 180 days after which time the loan is written off if recovery action including legal redress has been taken and the loan is still not recoverable.

As of December 31, 2000, the bank had written off microfinance loans amounting to SLR 271 million equalling amount some 27% of their total microfinance loan portfolio. The bank estimates that as of August 31, 2001, the net loss of its microfinance activities was SLR 43.7 million.

The Bank is currently restructuring its microfinance products, terminating those that have become obsolete and unprofitable and replacing these with a more focused range of microfinance credit products under the government's '100 days' action programme.

The People's Bank

The Peoples Bank started providing microfinance and mobilising rural savings from its inception in 1961 but similar to the Bank of Ceylon, these were dictated by government directives. As of June 30, 2001, the Bank estimates that the outstanding loans provided by them between SLR 10,000 – SLR 100,000 each (their definition of microfinance) numbered 194,200. No value for total microfinance loans outstanding was available but the bank estimated their average microfinance loan to be about SLR 10,000 as of June 30, 2001. The interest rate charged on loans was between 10–14% per annum, on a monthly declining balance, depending on microfinance product. Interestingly, the bank is in the process of setting up a microfinance division.

Table 43 People's Bank - Microfinance Portfolio and Sources of Funds.

Loan and Deposit Portfolio Information	June 30, 1999	June 30, 2000	June 30, 2001
No. of active loan clients	NA	NA	194,200
No. of cumulative loan clients	553,400	610,200	642,300
Avg. loan amt. per client (SLR)	7,800	8,500	10,000
Total Sources of Funds (SLR Million)			
Subsidised project loans (e.g., NDTF)	308	275	228

Source: Self-reported data provided in response to the Country Study Questionnaire for the ADB commercialisation study referenced previously.

The New Comprehensive Rural Credit Scheme and the Surathura Diriya Credit Program.

The NCRCS and the SDCP are government subsidised microfinance schemes that are implemented by the commercial banking sector and were key microfinance programmes of the two state banks during 2000.

Both of these programmes are heavily subsidised and the shortcomings of government subsidies emerges during evaluation where despite interest and/or refinance facilities, recovery rates of these two programmes implemented by the Bank of Ceylon were 76 and 67 percent, respectively. However, the recovery rate of the Bank of Ceylon's Small Enterprise Development Programme, which used the bank's own funds, had a recovery rate of 81% despite charging a higher interest rate.

Starting in 1994, the NCRCS is aimed at providing short-term loans for farmers to cultivate paddy and other subsidiary food crops (including pre-harvest and post-harvest handling and processing activities). The total number of loans granted under the program increased from 23,271 in 1999 to 32,339 in 2000 representing a 39 percent increase by number and a percent increase by volume. The total volume of credit disbursed in 2000 was SLR 594 million (CBSL, 2001a)

This increase was mainly due to the introduction of the Farmer's Relief Scheme, which allowed defaulters to pay only 25% of their defaulted loan in order to make them eligible for new loans. The average loan size was SLR 18,000 and the interest rate applicable for on-lending under the program remained at 12 percent per annum during 2000 in spite of increasing interest rates in other sectors of the economy. This entailed a subsidy of 10 percentage points from the Treasury (ibid.)

At the end of 1999, this programme cost the government SLR 68 million in interest subsidy paid to the implementing banks, and SLR 117 million of expenses incurred by the CBSL under the provisions of its Credit Guarantee Scheme. During 2000, the interest rate subsidy for NCRCS loans amounted to Rs.40.3 million on total loans of SLR 1,736 million (ibid.).

The loan repayment rate for all banks participating in the NCRCS was only 65 percent and it is likely that the subsidised nature of this program exacerbated loan defaults. The cumulative loss incurred by the government and the CBSL under this program up to the end of 1999 was SLR 343 million (Sharif, 2000).

The SDCP on the other hand is targeted towards promoting self-employment through micro-enterprise development among unemployed youth. For 2000, the total volume of loans disbursed under this program was SLR 171 million in 3,572 loans with an average size of SLR 45,000 and a cumulative repayment record of 53 percent. Preliminary findings of a survey of defaulters reveal that poor identification of borrowers was a key reason behind low recovery rates (ibid.)

Private Commercial Banks

Foreign-owned commercial banks have only very few branches in the rural areas of the country and have virtually no focus on microfinance. Of the private domestic banks, Seylan Bank, Hatton National Bank and Sampath Bank[24] also participate in the government's NCRCS scheme referred to above to provide subsidised loans to paddy and other. It appears that only the HNB and Seylan Bank have shown any significant interest in microfinance outside of government promoted and subsidised programmes.

The Hatton National Bank

The Hatton National Bank was the first private commercial bank in Sri Lanka to offer microfinance products for self-employment and enterprise development. In 1989 a program called *Gami* Pubudu was initiated utilising the HNB's own funds with small loans being granted using project feasibility and two guarantors as

[24] Sampath Bank are not profiled in this part as microfinance is a very small part of their overall activities and the bank did not provide any information on their microfinance activities. The Commerical Bank do not practice microfinance per se and were reluctant do disclose information on small loans. None of the foreign owned banks undertake microfinance activities.

collateral. Over time, probably due to the entry of others the Bank has shifted its focus from the poor to rural entrepreneurs who may include people that are in the middle class. This shift is most likely due to the wider range of subsidised actors entering microfinance such as Samurdhi.

The shift to entrepreneurs parallels the Ministry of Plan Implementation's focus on Rural Economic Advancement Program that also targets entrepreneurs leaving poverty alleviation to Samurdhi and other programs.

Another motive for increasing loan size was the need to make the scheme profitable after experiencing twelve years of marginal losses. The table on the next page contains financial information concerning its microfinance activity however no repayment data was available. The HNB also participates in the government subsidised loan programmes SMILE and Surathura, although not on a significant scale.

The move to make the program profitable comes at the cost of moving away from the microfinance on which the program was originally centred with maximum loan amounts of. However, despite HNB's move away from microfinance to the very poor, it must be noted that MFIs and programs in Sri Lanka focusing on the smallest segment has increased sharply in the 1990s especially through the introduction of government programs aimed at the sector.

Table 44 HNB Microfinance Portfolio – Loans and Deposits

Loan and Deposit Portfolio Information	**June 30, 1999**	**June 30, 2000**	**June 30, 2001**
No. of active loan clients	10,347	9,526	9,237
No. of cumulative loan clients	30,605	34,604	38,490
Total amt. of loans outstanding (SLR ml.)	274	310	379
Avg. loan amt. per client (SLR)	26,000	32,000	40,000
Total amt. of deposits (SLR ml.)	698	747	905
Avg. deposit amt. per client (SLR)	10,000	10,000	11,000
Total Sources of Funds (SLR Million)			
Subsidised loan funds from NDTF - SMILE	55.6	55.0	39.6
Subsidised loan funds from NDTF - Surathura	28.1	13.9	10.0
Own Funds	190.7	241.7	328.9
Total	274.1	310.4	378.5

Source: Self-reported data from the HNB

The Seylan Bank

The Seylan Bank entered microfinance in July 1997 after the Bank's Chairman developed a personal interest in poverty alleviation and other social causes.

The Bank's microfinance operations focus on loan sizes between SLR 10,000 - SLR 250,000 but estimates that their average loan size is around SLR 22,000 with the target market in the agricultural sector focused on special projects in the more remote rural areas of the country.

Table 45 Seylan Bank's Performance Highlights

Loan and Deposit Portfolio Information	**June 30, 1999**	**June 30, 2000**	**June 30, 2001**
No. of active loan clients	2,100	2,500	4,500
Total amt. of loans outstanding (SLR ml.)	46	46	99
Avg. loan amt. per client (SLR)	20,000	20,000	22,000
Total amt. of deposits (SLR ml.)	13	15	20
Avg. deposit amt. per client (SLR)	1,666	1,870	2,000
Total Sources of Funds (SLR Million)			
Subsidised loan funds (from NDTF)	30	28	25
Own Funds	16	18	78
Total	46	46	103

Seylan Bank's (cumulative) repayment rate dropped sharply from 95 percent in June 2000 to 76 percent in June 2001 due in the main to the funded projects suffering from drought. The periodic government debt relief packages (including the write-off of agriculture loans) also have a direct negative impact on the repayment performance.

The bank is presently examining its microfinance scheme and has the stated intention of moving towards developing more sustainable microfinance products for the poor.

Case Studies of Microfinance Interventions

There follows three case studies detailing microfinance interventions by respectively the Peoples Bank, the Hatton National Bank and the Seylan Bank. These case studies show quite clearly that the commercial banking sector is interested in microfinance with one scheme being instituted by a bank's chairman and his personal interest in poverty alleviation.

The products and methods of delivery and collection and the methods utilised to reduce the transaction costs of the services are quite different. The microfinance case studies are succeeded by a case study on pawning through the Peoples Bank. This study details the organisational structures, systems and profitability of this traditional and highly formalised microfinance product in Sri Lanka.

GTZ/RBIP – Case Study

The Rural Banking Innovations Project (RBIP) was established in 1996 to support the People's Bank of Sri Lanka to re-orient itself towards lending activities for Micro, Small and Medium Enterprises (MSME)[25]. As a state-owned bank, the People's Bank is expected to contribute to the national mandate to serve rural and underprivileged communities. It has an outstanding track record in savings mobilisation and pawning.

Since the People's Bank's inception in 1961, the Sri Lankan governments have introduced various development loan schemes through the Bank as a tool to alleviate poverty in rural areas. Like in many other developing countries, these directed credit schemes were largely failing in achieving important goals due to the supply-led and subsidy-dependent character.

Today, in the face of increased competition in the liberalised financial sector of Sri Lanka, the People's Bank is making strong efforts to position itself as a service-oriented, sound and professionally run commercial bank. RBIP is supporting the Bank in this transformation process through the provision of innovative[26] tools for rural banking, which specifically address the needs of the micro and small enterprises.

The project, thus, is fully committed to both financial broadening and deepening of the financial sector through extending the range of financial products of the People's Bank and through increasing the outreach to new customers.

The tools have been developed during the first phase of RBIP and are still in a process of continued adjustment. Nevertheless, the authors feel that the time is now appropriate to discuss the initial experiences of RBIP's innovations with a broader circle of committed people. The tools and instruments, which have been introduced to the Bank during phase I are:

Field Officer Concept as the Bank's prime instrument to establish and to deepen a lasting and profitable business relationship with the small customers;

Multi-purpose Small Business Loan ("People's Fast"), which combines a number of innovative elements reducing transaction costs for borrowers and the Bank.

Management Information System (MIS), which provides information on the bank's performance and its impact on customers;

Geographic Information System (GIS), which helps the Bank target its services to defined customer groups; and

Impact Monitoring, which enables the People's Bank to measure the impact of its activities on MSME customers and the Bank itself.

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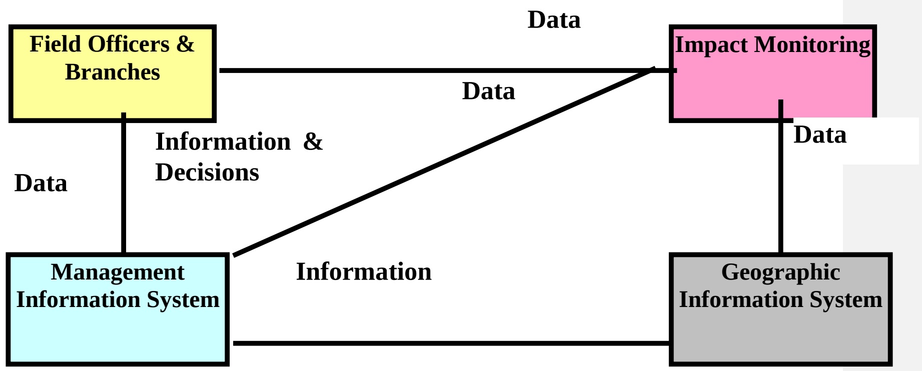
[25] MSME in this context are all enterprises with up to 50 employees.

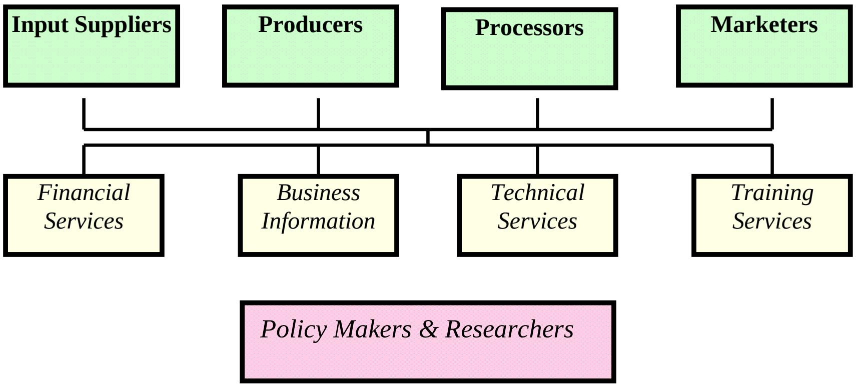
[26] Innovation in this context is defined along the ideas expressed by Peter Drucker in *Innovation And Entrepreneurship* (1985): Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as business opportunities; i.e. innovation is not the same as invention.

Figure 9 Linking of the RBIP Tools for improved management decisions



The RBIP approach is rooted in the German Technical Cooperation concept Promotion of the Regional Economy" (PRE). In PRE a number of complementary projects are linked to create horizontal and vertical synergies in order to decrease the economic disparities between rural and urban growth poles (see Chart 2 below). Thus, experiences with the promotion of rural economies from the micro and meso level are fed into macro level advise to policy-makers and researchers. Similarly, the projects work together to provide better and coordinated services to various economic actors (e.g. banks and producers) in order to mobilise the potentials of rural growth centres.

Figure 10 Promotion of the Regional Economy - Creating horizontal and vertical linkages



Field Officer Concept

As part of RBIP's assistance to the People's Bank to improve and increase MSME-lending, it has introduced Field Officers at the branch level. The main objectives of appointing at least one bank officer per branch as Field Officer are: (a) to access new loan opportunities; (b) to recover overdue loan instalments; and (c) to act as customer relations officers.

While the Field Officer Concept itself is not new, it was an important step for the People's Bank to go there where the customers are. The initial focus on loan recovery paid off very quickly improving the People's Bank's recovery rate in the Kandy region from 87 to 95% within two years. However, the focus has shifted. Today, the Bank increasingly uses the Field Officers as Business Promotion Officers. They are being trained and given more responsibility to find new customers and to prepare and process small business credit proposals.

The Field Officers have also become a crucial part of the RBIP approach on *Finance Plus Services*: the attempt to make the People's Bank provide not only financial but also some non-financial services to their customers, such as marketing advice, business planning, and management training. This has created awareness amongst bank staff that their customers' business is also their business because if enterprises are successful they can repay their loan and most likely take a bigger loan next time.

Since Field Officers deal directly with small business customers, the RBIP also provides training in areas not directly linked to banking. They learn about the industries relevant to their branch areas. For example, a product designer is being sponsored by the Bank to conduct a series of practical workshops with brassware-makers and "their" Field Officers. Thus, not only do the entrepreneurs get new design ideas but also the Field Officers learn about their clients technical and financial needs - new loan applications become easier to assess.

The Field Officers are an important data and information source for the Bank. They feed loan data into the Management Information System, inform the Bank on new customers and business opportunities, and they are instrumental with providing information for impact monitoring.

Multi-Purpose Small Business Loan ("People's Fast")

In the past, many MSME customers were deterred by the difficult application procedures and slow processing involved in getting a loan - even if the interest rate was subsidised. Aware of this problem, the RBIP assisted the Bank to make changes in its loan administration in order to simplify the documentation required for credit applications and streamline the processing of loans.

A new multi-purpose loan for small enterprises was launched in 1999. The objective was to process MSME loans quickly and with as little paper work as necessary. The loans are mostly for working capital but also for capital investment. The loan is called People's Fast to stress its advantage over other products. However, it is a non-subsidised loan at market interest rates.

People's Fast reduces loan processing from previously 2-3 months to 14 days and less. The special features of this loan are: (1) borrowers do not have to be existing clients of the Bank prior to the application for the loan; (2) Field Officers are the key personnel in recommending and handling of the loan thus reducing the number of the customer's visits to the Bank, and allowing branch managers to make faster appraisals; (3) simplified and computer-based loan applications allow faster processing with fewer approval steps. This way, transaction costs are reduced for both, customers and the Bank.

Management Information System (MIS)

Today decision-makers can draw upon ever-greater amounts of information, and therefore the management of information has never been more important. This involves the efficient collection, storage and analysis of data, which can then be used by managers and their staff to make more effective decisions.

MIS is a well-known instrument in Financial Systems Development. RBIP has endeavoured to integrate MIS into a more holistic approach, linking it with GIS and Impact Monitoring. Thereby, conventional MIS tools are made more meaningful for the Bank's and the Government's decision-makers.

For example, when MIS data is combined with the geographical and socio-economic data from the Geographic Information System (GIS), it can describe the Bank's outreach in terms of market share and in terms of target groups. While the former is more interesting to the Bank, the latter is a crucial information for government and development donors.

Computerisation is essential for an effective MIS. However, there are several added benefits of providing simple personal computer hard- and software to Bank branches: computerised forms make customer registration and loan applications quicker and easier to handle; the use of e-mail accelerates data transfer; and the storage of data allows branch managers to get quick access to customer data.

The RBIP is presently developing a customer-based software, called CISMA© (Customer Information System Management Application) at the People’s Bank. CISMA will enable the Bank to collect data on its customers, such as personal information, type and location of the enterprise, household income, accounts history, etc. Computerised loan application forms are linked to CISMA and the entire data set for each customer is regularly updated on branch level. The data is then processed into valuable information, e.g. for: loan portfolio monitoring; market share development; impact monitoring; product development for particular customer groups.

Geographic Information System (GIS)

Geographic Information System is a computer-based spatial information program that compiles, analyses and visualises data into various types of maps or graphics. Recently GIS has been discovered as a powerful marketing tool for private companies and banks.

One of the major applications of GIS at RBIP is the Customer Approach Strategy (CAS), in which various kinds of socio-economic and bank-internal data are combined to help the Bank identify customer target areas.

With the aide of GIS the Bank can divide branch areas into smaller divisions with similar customer-characteristics. The Bank can then direct their Field Officers to approach these customer groups with suitable products and services.

The demand for financial services and the investment potentials of particular customer (or target) groups are identified by creating demographic indicators, e.g. house / land ownership, access to social infrastructure, etc.

The combination of the socio-economic profiles of one particular branch area and the bank's internal data (e.g. number of savings accounts, average volume per account, etc.) shows whether or not the area has potential for expansion. This information enables the Bank to decide on the kind of strategy they should use, either through approaching new customers or by better serving the existing ones.

The CAS is presented to the Bank management in the so-called "6-P's": detail information about the People living in a branch area, the Products offered by the Branch and the past Performance of the Branch in relation to the estimated potential; the present and recommended Positioning of the Bank's financial services and the suggested Promotion activities. Finally, the CAS recommends a Planning process that enables Bank management to fine-tune the customer strategy together with staff members on the branch-level.

GIS can also be used to define boundaries of branch service areas and to select the most suitable location for new bank branches, according to pre-selected criteria (e.g. number of enterprises or population per branch; road access; etc.). Bank facilities, such as ATMs or new branches, may also be located by using GIS (e.g. location at major road junctions which contain maximum population density within a radius of three kilometres).

Impact Monitoring Unit

In the context of development co-operation, the measuring of "impact", i.e. the utilisation of project-generated services by the project's target group, has been steadily developed further over the last years. However, when it comes to measuring the impact of financial services provided, in particular, in the area of microfinance services, both sound experience to draw on and a standardised methodology have not yet been that well advanced.

In view of the already mentioned previous failures of government loan schemes channelled, amongst others, through the People's Bank, major importance is attached to the issue of monitoring the impact of financial services, in particular, against the background of the project's overall goal to improve the economic situation of and create more employment for the rural people.

The prime objective of Impact Monitoring at RBIP is to measure the impact on RBIP's target group, i.e. MSMEs in rural areas. In this context, it looks at changes in income, employment and similar parameters related to an improvement of living standards in rural areas. While these economic impacts prevail, personal and/or cultural impacts on the target group are also being addressed by RBIP. The Project goes even a step further by monitoring also the impact of changes brought about by the activities of the project on the People's Bank staff, the Project intermediaries.

In addition, RBIP monitors the implementation and performance of MSME services delivered by the People's Bank. In this sense, e.g., the acceptance and utilisation by the target group of a new loan product are subject to investigation. The findings of this regular monitoring process together with data from the MIS and GIS can determine necessary modifications and/or optimisations of services and products.

Impact monitoring data or information are supplied from various sources most of which are already used for other microfinance purposes: sample surveys amongst MSME borrowers and People's Bank clients, conducted annually by independent researchers, are combined with data from MIS and GIS.

More detailed bank-internal customer information is provided by the Field Officers. The RBIP then analyses the data and feeds it back to the Bank's staff and management, with recommendations how to increase the impact in the Bank's microfinance operations while at the same time raising the Bank's profits.

Synopsis – New tools for FSD projects engaged in MSME finance

Commercial Banks such as the People's Bank of Sri Lanka have the potential to become significant players in microfinance due to the presence of a substantial branch infrastructure and the ability to mobilise resources from the public.

However, in terms of microfinance they generally face a number of constraints related e.g. to inadequate product lines, cumbersome loan procedures, high operating costs and low staff skills. In addition, the lack of information on the composition, financial capacities and needs of the small enterprise community contribute to the banks' limited participation in microfinance. It also prevents the institutions from making profits on the numerous but small-sized loans.

A successful adaptation strategy for commercial and development banks to effectively reach micro and small scale entrepreneurs can hardly be achieved by focusing on improving banks' financial technologies only. Instead a rather holistic approach appears to be more promising, combining financial and non-financial services. Naturally, this approach requires the presence of non-bank MSME service providers within the same region.

At present, quite a number of Technical Cooperation Projects in Financial Systems Development throughout Asia do not have such pre-conditions. Thus, the future planning of Financial Systems Development (FSD) projects, particularly those engaged with re-orienting commercial banks, should take the presence or promotion of other MSME service providers into account. Within GTZ, a program approach could be the right means to ensure the collaboration of compatible projects, promoting different aspects of the regional economy.

The Rural Banking Innovations Project has chosen a holistic approach in re-orienting its partner, the People's Bank of Sri Lanka, towards the MSME business. Today, microfinance operations constitute an essential part of the Bank's Corporate Plan. The experiences gained since 1996 are encouraging from a Project and a Program point of view. The following tools could be of special interest to similar projects:

The introduction of mobile Field Officers will bring any formal bank closer to its clients. This is very important in view of closing the information gap with the MSME sector. Field Officers are specially trained for the interaction with the small business community.

They perform marketing, loan enforcement and general liaison functions. Do they pay off? Data from RBIP suggests so: the additional bank revenues generated through improved financial linkages with the MSME sector both, in terms of volume and quality, largely exceed the bank's costs for field officers in terms of salaries.

With the launching of a Multi-purpose Small Business Loan called "People's Fast", transaction costs for borrowers and the Bank could be reduced. The innovative features of the loan product are: (a) Field Officers do most of the loan processing themselves, (b) borrowers can also be new customers, (c) the loan application procedure is simplified. Since the loan application is quick and easy, MSME demand for the product is substantial, even though the loan is offered at a market related interest rate.

The conventional tools of a Management Information System (MIS) provide information on a bank's performance. RBIP has adjusted the MIS and combined it with GIS and Impact Monitoring to extend its usefulness.

RBIP is the pioneer of Geographic Information System (GIS) applications for Microfinance. With a unique database the Bank is now enabled to target its services to defined customer groups. This Customer Approach Strategy should not only be interesting to bank management but also to development donors since it allows to draw detail conclusions on bank outreach.

There are also a number of other applications such as defining service areas and directing resource allocation (e.g. location for ATMs). All in all, the use of GIS in Financial Systems Development is just in the beginning. This instrument is certainly more applicable in relatively advanced financial markets where banks have to compete for the best customer satisfaction. Issues like high introduction and maintenance costs, data availability and reliability still have to be addressed.

Impact Monitoring has become somewhat fashionable with development specialists recently. However, there is a lack of experience with this tool in the "field". RBIP is looking for new practicable ways and means to integrate impact monitoring into the mainstream banking operations.

By combining MIS, GIS and Field Officer reports, the RBIP is aiming at cost effective monitoring of lending impacts on MSME customers and the Bank itself. It will depend on the Bank's perception of the usefulness of this monitoring information whether it will eventually completely take over the impact monitoring function from the project.

The Hatton National Bank Case Study – Gami Pubuduwa Program

The HNB's early operations were orientated to servicing the financial needs of the plantation industry for development of tea cultivation and related activities. Its historical exposure to rural finance through banking services to small farmers, dairy operators, fisheries developers and agricultural-product processors complemented its participation in government promoted small and medium scale industry financing schemes.

With its operational roots and the profitable experience in programmes for smaller size loans, HNB visualized the Gami Pubuduwa Program (GP) as the opportunity to develop a competitive platform to promote the bank's products and services in the rural sector and strengthen its strategy for market penetration.[27]

HNB has been a major participating on-lending institution in a series of World Bank sponsored Small and Medium Scale Industry (SMI) loan programmes in the late 1980s to the early 1990s that were relatively successful. This SMI experience served to reinforce HNB's decision to develop banking services geared to micro enterprises and non-farm businesses in rural areas.

In mid 1989, HNB formally inaugurated its Gami Pubuduwa Upadeshakas program by opening 13 GP units at village locations to service the Kurunegala, Anuradhapura, Galle, Colombo, Vavuniya, Gampaha and Kandy districts through its existing branch offices with Gami Pubuduwa Upadeshakas (GPUs) – 'barefoot bankers' or village bank advisors.

The internally funded programme has provided access to banking services to support income and risk diversification for marginalized households in the predominately agricultural economy of Sri Lanka. The programme provides working capital and equipment financing requirements of households diversifying income by engaging in financially viable income generating or job creating micro-enterprises, and its microfinance services adapted to the needs of the target clientele.

The financing of a start-up micro-enterprise comprises about one third of the number of new loans approved and GPUs are encouraged to identify viable start-up projects for microfinance support. The GP has completed twelve and a half years of operations in December 2001, and is operating from 80 bank branches and 104 village based units in 23 districts throughout Sri Lanka.

The GPUs who have been selected to implement the programme are experienced banking officers from HNB's main-stream operations who have participated in training programmes in micro-enterprise finance and project development. HNB senior management has provided continuing support for the GP programme and has established a clear career path for GPUs within the bank.

GPUs are critical to the effectiveness and viability of the programme and they play an integral role in the village community. They participate in social religious, cultural and various other activities reinforcing the principle that the business is driven through close relationships and linkages at the village base.

[27] HNB internal management report, "Gami Pubuduwa Scheme, Review and Report for the period ended 30 June 1995"

The village based units in the programme have offices which rural and microfinance clients can visit and discuss their business with the GPU. The branch-based units do not take up much space within the branches and do not require separate support staff.

The key aspects of operational procedures and administrative arrangements that have been simplified to keep the GP programme responsive to the relatively less complex banking requirements of the GP client base and to facilitate account management by the GPUs are:

- Separate ledgers maintained at the branch level for GP borrowers facilitating tracking, monitoring and the status reporting of accounts; performance of GPUs: progress of the programme against the budgeted goals.
- Loan amounts are well within delegated loan approval and commitment levels of branch management.
- GPUs manage an average of 125 accounts in a service area defined by a 20 kilometre radius from the branch, visiting between 10 to 15 clients and prospects a day, with all clients being visited at least once every two weeks.

The collateral requirements and procedures for GP loans have been adapted to facilitate access by microfinance borrowers. For loans up to SLR 100,000 the guarantees of two other existing clients of HNB generally suffice, with a turn around time between application, evaluation and approval at 48 to 72 hours.

Interest rates are market related and the portfolio monitoring and management is in accord with best banking practice and is a good example of commercialisation of microfinance.

The full range of HNB's financial services are promoted and marketed in the rural areas covered by the GPUs; savings accounts, fixed deposits, savings certificates, children's savings accounts and the savings lottery campaign. The focus of the GP programme is on total banking services for households in the rural areas.

The total deposit balance for the programme as at 30th June 2001 was SLR 905 million, there are 9,237 active loan clients and the programme has a total outstanding loan balance of SLR 378.5 million. The sources of funds as at the 30th June 2001 were SLR 39.6 million from the SMILE project, SLR 10 million from Surathura and SLR 328.9 million of the banks own funds.

While GP loans are mainly unsecured, the delinquency and loan loss experience of HNB's microfinance programme has been generally favourable with loan repayment ratios in the high nineties and a provisioning equivalent to 5% of the outstanding GP loan portfolio. The pricing of GP loans has not been significantly higher than that of regular commercial bank loans, even though the transaction costs are for generating and managing more numerous, smaller and riskier credits.

The GP programme does not address all five levels of the poverty pyramid. By choice, HNB has positioned its GP programme to focus on the upper three layers of the poverty pyramid – the self-employed poor, the entrepreneurial poor and the near poor.

Seylan Bank Case Study

The Seylan Bank was one of the 15 banks in Asia to win the prestigious Asian Banks Award. Of the 16 outstanding projects chosen for an award was Seylan Bank's, Govisarupatha, the credit card for farmers is an innovative solutions driven approach in conceptualising and implementing a credit facility. Govisarupatha won the award in the category Micro Credit Project or Programme and was developed in 2000 to meet the needs of low-income families in the agricultural sector.

In 1996 the Seylan Bank initiated a new credit scheme for farmers that assisted them to overcome their major problems concerning the access to credit on time to purchase inputs for the production of crops within the 'seasonal boundaries'. This was done through becoming client focused, with the bank staff meeting farmers and assessing their needs, listening to the problems that were being experienced within the farming communities.

The bank encouraged the development of small groups of between 5 and 8 farmers, in the main these groups were not new but had been previously formed through social mobilisation programmes that had become inactive, undertaken by international and national organisations.

These groups are all based in eight districts; Ampara, Anuradhapura, Badulla, Hambantota, Kurunegala, Moneragala, Polonnaruwa and Ratnapura, and were revitalized through a series of awareness and training programmes.

This mobilisation process included gathering information on the farmers and their families and the overall problems that kept them heavily indebted and unable to break out of the 'poverty trap'. The bank identified that one of the main reasons for general indebtedness was the complex process and long period of time taken to approve loans for production inputs. Often by the time the loan was approved and the credit used the farmers had missed the optimum time for planting the crops resulting in poor and often failed crop harvests.

The bank set up a fast credit approach for the groups whereby all group members credit details were taken once and from that time loans were approved in a maximum of 14 days from application. This new approach gained momentum from 1998 onwards and the groups in the Hambantota and Polonnaruwa Districts formed registered apex organisations registered as private companies. These companies are able to access credit for other purchases, gain better prices for production inputs and give forward purchasing contracts for the member farmers harvests.

The Govisarupatha credit card system initiated in 2000 for the two apex organisation's members enables farmers to purchase their basic day- to-day supplies such as seed, fertilizer and pesticides without having to access a 'one time' loan from the bank.

The farmer does not have to go to the bank for a loan and gets automatic rescheduling of the credit taken in the case of natural calamity such as the recent drought experienced in the Hambantota District. The credit comes with both a life insurance policy and hospitalisation benefits in case of illness or injury.

The apex organisations are assured of trading volumes and benefit from being identified as the recognized merchandisers for their community by handling the sale of production inputs and being paid through invoices by the bank. The bank saves on documentation and staff time, and also develops a loyal clientele that is gradually improving its income and social standards. Interest rates for the credit are market related although the interest rate for paddy cultivation is supported by a government subsidy of 10% under a national scheme for paddy farmers.

The audited accounts of one of these apex organisations shows a net profit of SLR 84,720 for the period January to December 2001. The bank is encouraging the development of apex organisations in all eight of the districts within the scheme so that the credit card system and its benefits can be accessed by all the farming communities concerned.

Recently a proposal has been presented to the senior management of the bank to utilise the apex organisations as microfinance intermediaries by on lending capital to them for on lending to their members.

People's Bank Case Study - ' Pawning and Savings Centres'

Introduction into the pawning business [28]

Pawn brokering differs from other secured lending in that the lender takes physical possession of the collateral at the time of lending. Pawn broking also differs from most bank lending in that it is generally characterised by a high volume of small size advances, made for a relatively short period of time. A credit evaluation of the borrower is not required nor any monitoring of the loan. If the amount is not repaid when due, the pawnbroker can recover the advance by auctioning the collateral. Therefore, the credit risk and associated recovery costs are largely avoided (Skully, 1994)

A successful pawnbroker-customer relationship relies on mutual trust. The pawnbroker trusts that the customer pays back the advance when due and the borrower trusts the pawnbroker that he/she will return the collateral when the advance is fully paid back. This constitutes a sale and buy back concept.

It is common throughout South Asia as well as East Asia to pawn gold jewellery. The desire by most Asians to hold some of their assets in gold jewellery may be the major reason for the pawning industry's success. The Asian preference for relatively pure gold, usually at least 24 carat, has also helped to ensure the industry's regular source of business (ibid.)

The Pawning and Savings Centre of the People's Bank

History of People's Bank and the pawning business

The People's Bank Act created the People's Bank of Sri Lanka in 1961 as a state-owned institution. The bank was set up to develop the rural economy of Sri Lanka and was allowed to conduct all banking business, including pawn brokering, which the bank started within the same year.

[28] The case study is presented for inclusion in the study by Mr. Lutz Grashof of GTZ and shows the importance of this type of collateralised credit in the arena of microfinance.

Until 1961 private pawnbrokers were the only ones allowed to conduct pawn brokering. The Pawn Brokers Ordinance No. 30 of 1942 regulates them. Despite this possibility the bank laid its emphasis on lending to corporate clients.

Due to the overall bad performance of these loans, government often had to bail out the defaulters. Government also uses the bank to offer a wide range of subsidised development loan schemes to various target groups.[29]

Only in 1997, the bank started to use own funds for lending to the medium and small enterprise sector by introducing the People's Fast Loan[30], based on a thorough assessment of the creditworthiness and the projected cash flow of the borrower.

Pawning has increased substantially as a banking activity only since 1995, while other types of lending have decreased. Regarding savings it took a different approach. Right from the outset the bank promoted micro savings through products that are appealing to poor clients, such as low minimum balance and no restrictions on the number of transactions allowed.

Until 1996 Peoples Bank conducted pawn business exclusively through its branches. The then CEO further expanded this business to rural areas. In the 21 regions of Sri Lanka the Regional Managers had to select potential business spots in rural areas to set up Pawning and Savings Centres (PSC). In 2000 the bank had 322 branches (291 of which are computerised) and 188 PSCs (141 of which are computerised).

A small selection of highly demanded products is available at the PSC. Although the branches provide a more comprehensive service, the PSCs fulfil a vital role in delivering micro loans and micro savings to rural Sri Lanka. The following table gives an impressive overview of the bank's portfolio history.

[29] Examples are: Start-up Enterprises Loan Scheme for the Youth, Credit Scheme to assist members of Kantha Societies of Women's' Bureau of Sri Lanka, Loan Scheme for Dry Zone Participatory Development Project of the North Western Province, Rural Electrification, Special Loan Scheme for Goat Farming Project assisted by the Fisheries Community Development and Resources Management Project and Coconut Development Project.

[30] The purpose of "People's Fast" is to set up or improve micro, small and medium scale enterprises. Supported enterprises should be financially and economically viable. The maximum loan amount is SLR 1,000,000. The interest rate is market oriented but slightly below the commercial lending rate. The maximum repayment period is three years (five years in exceptional cases). As security Peoples Bank takes either guarantees of two people or a mortgage and/or movable assets of the borrower. The product was pilot tested in the Kandy district and is presently available in five districts. About 1,000 loans were granted up to date. The average loan size is SLR 65,000.

Table 46 People’s Bank Portfolio Overview

Year / Product	Number of Savings Accounts	Total Savings in SLR million	Number of Pawn Accounts	Total pawning outstanding in SLR million
1970	331,641	209	101,044	21
1985	3,076,779	5,779	788,910	1,502
2000	7,943,762	58,893	2,225,724	10,416

Today, the bank is the country’s largest bank in terms of customer numbers, with approximately 4 million customers (mostly savers). Around 40% of the customer base consists of small industrialists and farmers; middle and low-income families comprise most of the remainder. It has been particularly strong in mobilising savings. As a result, a considerable share of the savings mobilised in the country originate from small rural savers.

Today, the Bank holds 23% of the total savings held by all 26 commercial banks in Sri Lanka (Peoples Bank, 2000). The Banking Law of 1988 with the amendment of 1998 allowed other banks for the first time to venture into pawning, in which the bank had almost a monopoly. The intention of the amendment was to level the playing field and to allow competition in this market segment.

Organisation and Operations

The PSC reports to a branch to which it is attached. Some branches are in charge of more than one PSC, some do not have one at all. The branch managers report to the respective Regional Manager and they to the Deputy General Manager Branches.

Peoples Bank performs different branch sizes with staff varying between 10 and 50. A typical PSC has three staff: a deputy manager, a clerk and a guard. Depending on the volume of business up to five staff is possible. The deputy manager is equipped with A-class signing power, which means he/she can approve loan applications up to SLR 50,000. The clerk has B-class signing power, which is higher than a normal branch clerk. The four-eye-principle is applied to ensure control. In computerised branches and PSCs each transaction is processed immediately.

PSCs do not prepare balance sheets and income statements. The respective branch consolidates all data and reports back to Head Office, where the statement of the bank is prepared. For 2002 it is planned to prepare basic statements for PSCs in order to measure their performance accurately and timely. The audit of PSCs is done regularly. Additionally, branch staff carries out surprise checks.

Bank officials stated that PSC staff does not need to be trained as far as operations and procedures are concerned, because most staff members are familiar with the procedures from their earlier work in the main branches. Usually, the relevant branch manager selects the staff working at a PSC.

The transfer to a PSC is generally not considered a promotion. The PB has a bonus system, which is applied throughout the entire bank, meaning that a separate reward system for PSCs does not exist.

Products offered at PSCs

In order to apply for a pawn advance the customer needs his or her identification card and the gold to be pawned. The gold will be tested, nowadays more and more often with metal testers. For one Sovereign (i.e. 8 grams) a maximum of SLR 4,000 can be borrowed. The world market price is around SLR 6,500. The maximum amount is adjusted from time to time.

The period of the loan is 12 months, but the customer is allowed to pay back the entire loan at any time. In this case the customers pays interest only for the time the money was borrowed, but one-month minimum. No other fee is charged. If the pawn advance is higher than SLR 5,000, the repayment can be made in instalments. The interest rate is slightly above the commercial lending rate, but significantly below the informal moneylender rate.

Clients in need of higher amounts (i.e. SLR 75,000 and more) are eligible to negotiate interest rates. The processing of a pawn loan is extremely fast and takes hardly longer than five minutes, making the product very cost effective.[31] The gold is kept in the safe and is readily available for the client in case of repayment of the loan.

Other services are paying of electricity bills, cheque depositing into a current account, which is held at a branch and last but not least savings. To open a passbook savings account the client needs his or her ID. An application form will have to be completed and signing of the signature card, which will be checked against the signature on the withdrawal form.

The minimum balance required is SLR 100, if the PSC is not computerised. If yes, the minimum balance is SLR 500. The interest rate is currently 8% p.a. and applied throughout the country in branches and PSCs. Limitations on number of transactions per month do not exist and all transactions are free of charge, reducing the transaction costs for the public to a minimum.

However, a stamp duty of SLR 2 must be paid for each withdrawal. The stamp fee for pawning is between SLR 5 and SLR 20 depending on the loan amount. Other savings products offered on PSC level are special schemes for women (i.e. Vanitha Vasana) with an interest rate of 8.5% p.a. and for minors with 10% p.a.

The Investment Saving Scheme is based on monthly instalments of at least SLR 100 with a tenure of five years. The customer can apply for an advance on his or her savings. Fixed deposits are completing the product range. New product development is done at head office level by the Head of Personal Banking.

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[31] The processing of a normal loan application can take up to 8 weeks. The newly introduced People's Fast Loan has a processing time of two weeks.

The features of these products are the same countrywide regardless whether the customer approaches a branch or a PSC. The main differences between these two distribution channels are the limited range of products and the smaller staff on PSC level.

<u>*Customers and their needs*</u>

PSCs are located in urban, semi-urban and rural areas. Upon the customer profile of PSCs no exact data is available. In order to gain a better impression of customer profiles and their needs RBIP interviewed 23 randomly chosen PSCs of PB.[32]

The main findings can be summarised as follows:

- ❖ Saving is more popular in rural areas, pawning more in urban areas.
- ❖ Products offered are appeal to customers of all ages.
- ❖ Women are making more use of pawning and saving facilities than men.
- ❖ 60% to 70% of all savings customers only use savings.
- ❖ PSC customers do their banking regularly.
- ❖ The average balance of a savings account is higher than the average amount of a pawn advance (SLR 5,670 : 5,000).
- ❖ Emergencies and consumption smoothing are the main purposes for savings, business (incl. agriculture/cultivation) is the most important reason for pawning.

The rural PSCs have on average twice as many savings accounts as their urban counterparts (3,000 to 1,650). There is some evidence that more women than man save. This pattern applies to urban and rural PSCs.

The typical saver is between 30 and 50 years old, leaving out the older and the younger generation. The main occupation of an urban saver is housewife, in rural areas farming/agriculture and fishing dominates. The average balance in the savings accounts is SLR 5,670 with no difference between urban and rural PSCs.

Asked for the main purposes why customers are saving emergencies and consumption were the single most important answers. The dominance of these two answers is equally strong in urban as well as rural areas. However, in the latter other purposes for saving are also important: possibility to withdraw money easily, house construction and business.

[32] Rural Banking Innovations Project (RBIP) is a technical cooperation project between People's Bank and GTZ: Out of the 23 interviewed 8 PSCs can be classified as urban, 15 as rural. RBIP developed 11 standardised questions and the interviews were held telephonically and in the local language of Sinhala. Head Office in Colombo supported this effort. By no means it can be claimed the results are representative. To the contrast, some data cannot even be verified, since the answers are based on guesses of the managers of the branches and the PSCs. However, the data collected is very helpful in giving an inside view into the relevance of PSCs, the size of business conducted and the customers.

The urban PSCs have on average more than twice as many pawning accounts as the rural PSCs (8,160:3,830), which constitutes the exact opposite to was said under savings.

The share of women is around 60% in urban and rural PSCs. The average age of a pawn customer lies between 20 and 45, the younger generation starts earlier with pawning than saving and the older generation might have other sources of funds. As main occupation was mentioned housewife in urban areas and farming (including estate labour) and housewife in rural areas. The average amount of a pawn advance is with SLR 4,550 to SLR 5,000 significantly lower at rural PSCs. However, the loan amount at rural branches varied between SLR 7,600 at the high end and SLR 3,000 at the lower end.

The main purposes for applying for a pawning advance are business in urban areas. Other important reasons are emergencies and agriculture/cultivation. In rural areas the main purpose is consumption followed by emergencies, agriculture/cultivation and business. Putting agriculture/cultivation and (other) business together, business is the single most important reason for pawning in urban and rural areas.

The typical pawning customer seems to be self-employed and in urgent need of money to carry on his or her business. They require this bridge-over facility until they get their return on investment. In this context more loans from farmers are demanded when the cultivation season starts (e.g. fertilisers, seeds) and loans are paid back after harvest and selling. The average repayment period of a pawn advance is with 6.6 months longer at rural PSC than with 5.0 in urban ones.

Pawning and savings customers frequent the PSCs, between once a week and once monthly. There is no significant difference in this pattern between rural and urban with the exception that daily transaction pattern occurs more often in rural PSCs.

In the urban PSCs 38% of the savings customers do their pawning business in the same PSC, the comparative figure for the rural PSCs is 32%. This means that between 60% and 70% of all savings customers only do savings unless these customers do their business at different PSCs, which does not seem to be very likely.

In urban PSCs five times as many pawning accounts exist than savings accounts. The comparative figure for the rural PSCs is almost 1:1. The low number of savings accounts in urban PSCs is striking.

Visiting customers or their business by PSC staff seems to be seldom done. In urban areas the most frequent answers were *once a year* or *not at all*. Sometimes visits are done for the purpose of savings mobilisation. In rural areas most of the branches indicated that they are not doing any visits of customers, a minority of three PSC mentioned every third month.

Competition and Marketing

The Sri Lankan banking industry has become more competitive over the past years and many of the banks competitors have invested heavily in infrastructure, technology, processes and marketing to deliver greater perceived value (Peoples Bank, 2000) However, the formal financial market in rural areas is still dominated by the two State Commercial Banks which are striving to expand their services to poorer segments of the society, e.g. through the opening of new PSCs.

The informal financial sector still plays a dominant role in Sri Lanka. With regard to savings the Rotating Savings and Credit Associations (ROSCAs) remain important in mobilising savings in rural Sri Lanka, especially among women. A considerable share of savings are held in form of gold and jewellery, a traditional custom which continues existing side by side financial savings in a bank account. On the credit side people frequently resort to friends and relatives, moneylenders, traders, shopkeepers and the like.

Since the amendment of the Banking Act in 1998 allowing other banks to venture into the pawning business competition has certainly increased. They offer even lower interest rates than Peoples Bank. But according to information given to the author by bank staff it seems as if the is still the market leader because of a build up relationship with its customers based on reliance and repeat loans.

These are strong incentives not to switch to another bank, because a new track record has to be built up. In other words, the lower interest rates of other banks do not persuade many clients to change banks. They seem more concerned about constant access to financial services. Other key success factors may be longer office hours, a more convenient location or greater privacy.

The bank intends to defend its market position against this increasing competition. For this purpose it is setting performance targets for the regions, controlling them and preparing of a ranking are the main elements. It promotes its PSCs as well as its products. Savings mobilisation is done through promotional days. On these days the mobile unit of the next branch makes announcements, the opening of savings books and making deposits is possible.

Branch staff is reminded by Head Office to promote certain products such as Vanitha Vasana, realising that women are reliable savers. Another element of promotion is carrying out prize competitions, which are very popular among Sri Lankans.

In August 2001, Head Office issued a list of suggestions for improving pawning business. Among the suggestions and improvements made are the extension of business hours, purchasing of new equipment such as electronic weighing scales, the attractiveness of customer lobby facilities and the design of advertising material.

Performance and Profitability

The numerous development loan schemes targeting the poor have experienced limited outreach and low recovery performance. Most of the schemes were initiated and driven by the Government. The specific loan purpose, the loan terms and conditions were all pre-determined.

The lack of flexibility has induced branch managers and loan officers to conduct a kind of 'formula lending' where the loan applicants are sought to fit into a given scheme – instead of adapting a credit product to make it fit to customer's needs.

The commercially operated pawning facility of the bank is in stark contrast to these loan schemes.[35] In October 2001, a total of 564 staff worked in the 188 PSCs (average staff per PSC: 3), whereas 8,436 staff worked in the 322 branches (average staff: 26).

The outstanding pawning advances in all PSCs were SLR 3,481 million, in all branches SLR 6,935 million, giving the PSC a 33% percent share of all pawn loans disbursed at the bank.

This remarkable performance was achieved with just 6% of the entire branch work force. PSCs were able to mobilise SLR 3,302 million savings, the branches mobilised SLR 55,590 million. The pawn loan portfolio at PSCs is slightly higher than savings mobilised, indicating a weakness regarding financial intermediation. The savings mobilisation should be increased[33], since it was only 5,6% of total savings portfolio as at end of October 2001.

Comparing savings mobilised by branch staff and PSC staff, which is SLR 6,590 to 5,850 on average, further supports this finding. It is believed that PSC have the ability to mobilise deposits, which are held with the non-institutional and the rural sector.

Regarding loans the picture is just the opposite. The average pawn loan portfolio per branch staff member is SLR 822; the same figure for PSC is SLR 6,170, indicating that pawning is higher in demand on PSC level than on branch level or that other loan products are substituting pawn loans on branch level.

The defaults of pawn loans are low. Due to the collateralisation the gold will be auctioned in case of a default. These auctions are happening twice a year. The average bank pawning loans is SLR 4,680. Often customers have more than one loan. The entire number of pawning customers is unknown, because only numbers of loans are counted.

The average savings balance is SLR 7,410.[34] These figures are in particular interesting when compared to the GNP per capita, which is around SLR 69,500.[35] This could be an indication that PB reaches the poor and very poor people or that people save in a range of forms and kind, such as jewellery.

Currently, PSCs are not regarded as profit centres. This leads to an absence of balance sheets and income statements on this level. In other words income and expenditure is reported on a higher level (i.e. branches) making it difficult to state

[33] Out of SLR 119 billion savings mobilised by the bank, PSCs mobilised in total SLR 4.5 billion savings. This includes the following products: ordinary savings, fixed deposits, demand deposits, current accounts, non-residential foreign currency deposits. The Deputy General Manager Branches was referring to an untapped market potential and envisages SLR 6.5 billion for PSCs by the end of 2002. The SLR 3.3 billion mentioned above refer to ordinary savings.

[34] Peoples Bank countrywide, including branches and PSC

[35] According to World Bank figures the Atlas GNP per capita was US$ 810 for 1999. The average annual growth rate was 3.5%, calculating GNP US$ 838 for 2000. The exchange rate at the beginning of 2000 was SLR 83 per 1 US$.

whether PSC are profitable or not. The following calculation gives an indication of PSC's profitability:

In 2000 the total staff and building expenditure for branches including PSC is SLR 6,018 million. Taking *number of staff* as cost allocation key, SLR 377 million should be allocated to PSCs.

The total interest earned on pawning (branches and PSCs) was SLR 2,070 million. As stated above PSCs had a share on these loans of 33%, consequently SLR 692 million should be allocated to PSCs. The calculated profit of PSCs was SLR 315 million in 2000. This calculation does not include the income of savings nor costs of refinancing or the allocation of overhead costs. However, it shows that PSCs are highly profitable by looking at the main sources of income and expenditure.

PB established a new strategic plan aiming at strengthening the institution. Regarding the implementation a more decentralised approach was chosen. Branch related targets for savings deposits and pawn broking have been established and the branches will be given the power to decide the best way of achieving these targets. Promotions and rewards will be linked closely to performance.

This delegation of power and accountability makes the branches and PSCs more independent from Head Office decisions and means an appreciation of the decentralised structure, which should be beneficial to customers and giving hope for improved productivity on front-end level.

Relevance of PSC for the Bank and the Customers

Pawning works in Sri Lanka because people have something to pawn. For centuries Sri Lankan society has adopted the practice of converting large portions of its wealth into articles such as gold and jewellery. Most families will bestow such items on their womenfolk on birthdays, attainment of puberty, marriage and anniversaries. In times of adversity or when cash is needed the family will opt to convert these items of wealth into cash by depositing them in exchange for a loan. This collateral based loan limits the risk exposure for the bank.

Among the borrowers are micro and small enterprises as well as farmers. Agricultural production is highly risky due to its exposure to natural, especially weather conditions. Micro and small enterprises are generally exposed to entrepreneurial risks related to various aspects of their business such as supply, marketing, prices and technology.

With granting pawn loans these customer segments gain access to financial services where in the past banks were reluctant to lend because of bad experiences. The risk is widely transferred to the customer minimises the risk of a wilful default. This is because the borrower has an interest to pay back the loan and regain the pawn.

This represents a departure from a lax credit supervision associated with so-called development loans, refinanced by the government. Under these schemes the repayment was not properly enforced and consequently borrowers often did not pay back their loans. Wrong incentives from policy makers, e.g. generous credit guarantees, disbursement targets etc. have contributed to an erosion of recovery discipline of bank employees and to an erosion of repayment discipline of the borrowers.

From the borrowers perspective not only the interest rate is important, but also the transaction costs. These costs comprise cash expenses for various fees, transportation, and opportunity cost of time spent on bank visits due to lengthy procedures. With development loan schemes all these costs are relatively high compared to pawn loans.

Pawning is perceived as a more attractive banking activity than lending. There are fewer procedures involved, thus allowing greater number of transactions per day and the rate of interest is generally higher. In addition, pawning is seen as safer because the bank holds the collateral, which is generally four times the value of the loan. Customer demand for pawning is greater than demand for loans.

This may be explained by the simplicity of procedures involved in pawning, allowing immediate access to funds, and the fact that most customers own the required collateral. The interest rates charged are market oriented and not subsidised. For poor clients having access to financial services outweighs the importance of low interest rates. If the loan is not paid back, the collateral will be auctioned. In case they pay back they can rely on the bank to renew the loan.

With this approach they learn to accept responsibility for their actions and to rely on themselves. By giving access to financial services the bank helps poorer customers to manage their cash flows for consumption, and it lends money for productive investment. As the Asian Development Bank pointed out:

> Pawnshops play a crucial role in conferring liquidity upon the precious metals and ornaments, which have traditionally been one of the main asset form in which households have invested their savings in a number of Asian countries (ADB, 1990)

Generally speaking, pawning increases in overall deteriorating economy. Pawning is not only a product for the poor. Lately, even business people started to make use of pawning. Pawning has become the most important credit facility in terms of outreach to the poorer population. The credit purpose is not fixed, providing quick and easy access to liquidity for various needs. Discretion is guaranteed as the transaction takes place in a separate room or behind closed curtains.

The prime responsibility of a financial institution is the protection of the depositors‘ money. A beneficiary of a project or scheme may not necessarily be a good borrower. Credit must not be justified merely by credit needs but by creditworthiness of the borrower.

Government supported credit schemes have primarily focused on reaching a maximum of small borrowers but have neglected the financial viability of lending institutions. On the other side, there are commercial banks that have been highly profitable but their operations have been confined mainly in urban areas. PSCs are the appropriate tool to sustainably reach rural and poor clients with a limited range of products.

With its limited staff component a low cost institutional structure is designed, products offered are high on demand and through correct pricing a profit margin sufficient to reach viability is guaranteed.

PSCs are located at business points mainly in semi-urban and rural areas resulting in outreach and demand. Today some of the PSCs are better located than some branches, e.g. at market places or bus stops. This proximity to customers and potential customers together with appealing product features almost guarantees access to financial services at very low transaction costs. The products provided are high on demand and due to simple procedures very cost effective resulting in a win-win-situation.

The typical branch office may not be in position to serve micro-customers individually, since the cost of a loan is more or less constant irrespective of the loan size. But the low interest income of a micro loan making it too expensive applying the same service approach. PSCs are the right tool to serve the micro segment due to their proximity, fewer staff and overhead costs.

PSCs could be used to serve the micro-segment exclusively. The successful experience of the Bank Rakyat Indonesia (BRI) could serve as a model for upgrading these centres into full banking units. Such a strategy would require a comprehensive input in terms of products, procedures, training and reporting (i.e. MIS).

With the offering of saving facilities and pawn loans poor clients learn how to use a bank and understand the requirements of banks. This will help them in their life cycle when it comes to more sophisticated products (e.g. People's Fast). It results in decreasing barriers between a formal bank and poor clients, people still believed by many banks as being 'unbankable'.

Summary

The commercial banking sector has been involved in providing microfinance services since 1961, first by the state owned commercial banks and then by a small number of the private banks as they have developed strategies and markets for expanding their outreach in Sri Lanka.

The government uses the two state-owned commercial banks as tools for implementing its policy on agriculture and poverty alleviation with subsidised loans, re-financing, and periodic debt forgiveness. These politically driven financial tools are cumbersome and have high transaction costs that contradict the government's expectations for the state owned commercial banks to be profitable and financially viable institutions.

This contradiction has resulted in these banks moving away from microfinance as part of their overall product range towards developing specific 'in house' operational units or divisions that specialise in microfinance. However they are presently still obliged to deliver some limited 'general' microfinance products mainly due to ongoing government rural credit programs that contain microfinance components.

The Bank of Ceylon has recently terminated over 30 of its long standing microfinance products and is introducing new products, in line with the government's current '100 days' programme. These products have specific target markets e.g. loans for bicycles and two wheel tractors which are collateralised by third party personal guarantees rather than physical assets. This range of microfinance products is delivered through the bank's branch network and is managed by the 'Development Banking/Industry & Enterprise Development Division' of the bank.

The Peoples Bank, on the other hand, in cooperation with GTZ and its Rural Banking Innovations Project has developed a client focused microfinance product supported by computerised technology and systems that ‘reaches out’ to rural clients specifically addressing the needs of entrepreneurs in the areas of micro and small business. In the face of increased competition in the semi-liberalised financial sector of Sri Lanka, the People’s Bank is making a strong effort to position itself as a service-oriented, viable and professionally run commercial bank. The Peoples Bank is currently developing a specialized microfinance division that will manage all of its microfinance products and programmes.

The Hatton National Bank was the first of the private banks to enter the area of microfinance in 1989 with a specialised programme, utilising its own funds granting small loans for self-employment and enterprise development with project feasibility as the criteria and two account holders acting as guarantors as collateral. Over time the Bank has shifted its focus from the poor to rural entrepreneurs, this is due to the following factors; established clients requiring cumulatively larger loans as they progress through the ‘economic stream’ from micro to small business activities, entry of a wider range of subsidised actors, such as Samurdhi; and a need to improve profitability through reducing transaction costs.

The Seylan Bank is a recent entrant to microfinance with a focus on providing financial services to the poor within the rural communities. In 1996 the Bank initiated a microfinance scheme for farmers that would provide them with access to credit to purchase inputs for the production of crops. The bank’s staff developed this scheme through utilising previous social mobilisation interventions in eight districts. The operation uses a credit system with a network of approved traders. In the past year apex organisations have been formed in two districts and the bank has introduced a credit card system for its members. The bank is planning to wholesale credit to the apex organisations for on lending to their members.

Conclusion

The commercial banking sector has been a major actor in microfinance for more than four decades. Over the past five years the state banks have undergone a major shift from acting as funnels for state directed microfinance programmes to focusing on becoming profitable microfinance retailers.

The pressure of retaining and building market share, mainly in the rural areas, linked to a requirement for profitability has forced them through a steep learning curve resulting in product innovation, organisational restructuring, and the need to acquire new technology.

The private banks microfinance schemes are evolving rapidly to meet the challenges presented by their clients needs and at the same time trying to retain competitive profitability in a market place that is becoming ‘crowded’.

Given that the commercial banking sector can profitably operate and expand its outreach in the microfinance arena then these banks may threaten the existence of the present microfinance intermediaries in the near future.

Part C – Survey of the North & East Region of Sri Lanka

Introduction and Approach

International studies undertaken in countries such as Mozambique, Cambodia, Rwanda and elsewhere show that microfinance interventions in areas affected by conflict are different in nature from microfinance interventions elsewhere (c.f. Doyle, 1999; Nagarajan, 1998).

In particular there are three main features of differentiation these are:

- ❖ Microfinance can be implemented in cases where the local infrastructure has been devastated.
- ❖ Microfinance is a flexible tool that has the ability to assist relief interventions to meet a community's basic needs and is used by a range of different actors for different reasons across the relief spectrum.
- ❖ Microfinance is an effective economic recovery tool that helps to regenerate local economies and form a bridge into economic development.

There has been an ongoing conflict in Sri Lanka for the past eighteen years and this has resulted in the economic landscape and the microfinance interventions, structures, systems and actors in the North and East region being highly differentiated from the rest of the country.

Over fifty reports have recently been published concerning the conflict situation in the North and East region of Sri Lanka. The majority of these are focused on the social and cultural impacts of the conflict such as human rights, the impact of conflict on civil society and peace, reconciliation and conflict resolution (c.f. Bush, 2001; Kuperus, 2000). Relatively few papers overview the localised economic conditions of the region (c.f. Gant 2000; Gant & Durrant, 2001) or discuss the role of microfinance in the economic recovery of the region (Gant & Durrant, 2002d)

An economic survey was undertaken of the North and East region as part of this report in order to gain an understanding of the operating conditions related to microfinance. This has been done so as to assist the microfinance community to better understand the situation and needs that underlie the effective planning of microfinance economic recovery and development interventions. Effective planning is a prerequisite for all medium term microfinance interventions if the financial landscape is not to be skewed and the communities made more vulnerable (Anderson, 1999)

To achieve this International Agencies, INGOs, NGOs, Government Agents, and other microfinance practitioners were approached and asked to provide information on the region with specific emphasis on the economy and microfinance. A combination of semi-structured interviews, questionnaires and official and ‘grey’ in-house documentation were used to complete this survey. Field visits were undertaken in Batticaloa, Trincomalee, Vavuniya, Jaffna and the Wanni area between November 2001 and January 2002.

Environmental Overview of the North & East Region

People

It is estimated that some 1.7 million people have been displaced, at least once, in the past eighteen years of the armed conflict. Approximately 800,000 of these people are internally displaced. This does not include the recent displacement of 172,000 people in the Jaffna Peninsula in May 2000. In addition another 2.5 million people live in areas of direct military activity with a constant risk of displacement.

From early in 1999 through to mid 2000 the position of the protagonists in the northern districts was in a state of flux as both sides continued to dispute large areas of the Wanni. The GoSL forces engaged in a series of operations to 'clear' most of the Mannar District and Vavuniya north, the LTTE replied to these incursions in November 1999 and through into 2000 by recovering the ground gained by the GoSL over the previous two years. In mid 2000 the LTTE advanced through Elephant Pass and retook one third of the peninsula displacing some 172,000 people.

These military operations caused further displacements of thousands of families throughout the affected areas. For example, out of 900,000 children in the North and East region 300,000 children have been displaced and approximately 270,000 remain displaced today.

For the past 18 months there has been a ‘stand off’ between the protagonists and rehabilitation activity in the ‘cleared’ area of the peninsula has recommenced. By December 2001 a ceasefire had been declared and this is rapidly developing into a process that is reaching towards a negotiated peace settlement with both protagonists appearing to desire at the very least dialogue rather than conflict.

Internally displaced persons (IDPs) constitute the most depressed community group of the conflict, uprooted as they are from their social and economic bases, having suffered great loss in terms of property and livelihood. They continue to face an uncertain future and most have suffered multiple displacements.

A considerable number of children and young people are engaged in paid work to supplement family income or to support younger siblings. With the dissolution of the social and moral fabric, violence against women and girls has increased and drug abuse has become chronic in many parts of the areas affected by the conflict (UNICEF, 2000).

Without structures of formal employment and the necessity of obtaining cash as a means of survival then underage voluntary and enforced conscription into one of the protagonists ‘armies’ or the armed political parties, prostitution, black and grey market exchange of ‘illegal’ goods and services abound throughout the North and East region and the neighbouring districts.

Informal ‘taxation, on all movement of people, goods and money by both protagonists and their supporters is part of daily life and can be observed openly from the Jaffna Peninsula, in the Wanni area and throughout the North and East region ‘cleared and uncleared’.

Displaced populations are dependent on food rations provided through the Government amounting to 11Kg. per/head - per month and cash assistance for resettlement. Household and other commodities are provided by aid agencies. Many of the displaced have been living in welfare centres for long periods of time, some people up to 12 years.

Not including refugees, there are five main categories of persons that have been displaced, these are:

- *Internally Displaced* – those living in cleared and uncleared areas in welfare centres, or with friends or relatives.
- *Locally Displaced* – those within their home districts living in uncleared areas in welfare centres, or with friends or relatives.
- *Returnees* – those who have returned to their homes and are living in cleared and uncleared areas.
- *Resettled IDPs* - those who were in welfare centres and have now been resettled with their home districts in cleared and uncleared areas.
- *Relocated IDPs* – within cleared and uncleared areas not within their home districts.

Table 47 Status of Internally Displaced Persons in Sri Lanka

District	No. of welfare centres	persons in welfare centres	persons outside welfare centres	Total persons displaced
Jaffna	59	6,767	258,433	265,200
Wanni	188	98,600	84,855	183,455
Eastern Province	26	9,513	4,653	14,166
Border Districts	168	56,935	38,753	95,688
Other Districts	20	1,772	7,037	12,352
Totals	**461**	**173,587**	**393,731**	**570,861**

Source: Commissioner General of Essential Services, *Report on Issue of Dry Rations 01.05.99*

At the district level, Mannar has the highest proportion of displaced people, equivalent to 53% of the population followed by Vavuniya that has 37% of its population displaced. In Vavuniya and Mannar there is a higher proportion of displaced people living in welfare centres, as opposed to staying with friends and family.

In the Wanni area communities were continually displaced until the present Forward Defence Line (FDL) was established in mid 2000. This combined with multiple road blockades that reduced the food convoys and the dry rations, and the resulting increase in basic food prices has drastically increased the vulnerability of the population within the Wanni area.

Many displaced people are without capital assets and have lost access to their land and homes and are therefore very poor and extremely vulnerable. Aside from the displaced, there are others whose lives have been affected as a direct consequence of the conflict - such as war widows and landmine survivors.

A recent study in Jaffna showed that there are more than 1,900 widows living in the Peninsula and it is further reported that the number of widows throughout the region (except the Wanni) is over 9,000 with many living in welfare centres.

There are also host communities in so-called 'border' villages in the Puttalam, Mannar, and Anuradhapura districts that are adjacent to the conflict areas in the north and east. These communities, who have remained in place during the conflict and are affected in much the same manner as the IDPs continually face the threat of sporadic attacks and also require humanitarian and economic assistance.

Consequently these communities have witnessed waves of mass displacements since the beginning of the conflict. These marginalized districts are at the periphery of the centralized administrative system and lack the basic infrastructure to cope with the massive influx of IDPs. Currently, there are around 95,600 IDPs in and around these districts.

Some 56,900 persons are in welfare centres and 38,700 persons live with host families who have themselves become poverty stricken. It is without doubt that these people, who are directly affected by conflict, are to differing degrees traumatized by the loss of life home, assets, infrastructure and the reduced ability to enjoy a sustainable livelihood. Many of who are in need of physical and psychological counselling services.

Livelihoods

In terms of assistance, both GoSL grants and relief aid from international agencies are granted to groups of people for resettlement and relocation. The aim is to provide a settled home environment with services and utilities allowing families to resume economic activity. A large number of people amongst the displaced are well educated with a variety of skills.

These include people who once owned and managed their own businesses and through displacement and the loss of productive assets have become the *'entrepreneurial poor'*. Microfinance is often used as a 'sustainable livelihood tool' to help rebuild the social, economic and political 'capital' of these communities (c.f. Carney, 1998; Scoones, 1998; UNDP 2001).

Arguably the biggest factor is the loss of traditional employment, in that a large proportion of the displaced people in the North and East were farmers and fisherman. However, there are also significant numbers of agricultural labourers dependent upon seasonal employment. For these people to resume economic activity they usually need to receive vocational and skills training. Employment and self-employment in the agriculture sector has been depleted as a direct result of the conflict.

Large tracts of land have become too dangerous to farm in disputed areas between the protagonists and the risk is compounded by the placement of landmines and a high incidence of unexploded ordinance in these areas.[36]

The once thriving dairy industry has suffered from livestock depletion and the goat and poultry industries are not able to provide sufficient stocks of animal protein that are necessary for the communities as a whole. In the fishing industry, time curfews and restrictions on the areas where fishing is 'allowed' have reduced overall catch sizes.

For example, Jaffna's fish production has fallen from over 21,000 metric Tonnes in 1990 to less than 3,000 metric Tonnes in 2000. Elsewhere in the region, Mannar, Mullaitivu, Trincomalee and Batticaloa are suffering similar reductions in catch sizes. The present severity of the fishing restrictions and the resulting impact on these communities has forced fishermen in the region to break the restrictions in the face of military reprisals. It was reported that, in one fishing village alone, five fishermen in Mullaitivu lost their lives in the last year.

Governance

In 1996 the GoSL established the Resettlement and Rehabilitation Authority of the North, (RRAN), covering the northern districts of the recently created North and East Province. RRAN assists in the overall coordination of resettlement and rehabilitation programmes in the north. Provincial government offices are in operation and two separate central government ministries have recently been created that are concerned with the resettlement and rehabilitation of North and East (RRAN, 2001)

The present mix of central government, provincial government and 'special' government bodies and interest groups is a cause for concern through the increase in bureaucracy and overlap of responsibility. There appears to be any amount of administration and clerical endeavour, however the practical extension and support services essential for the support and development of the primary and service industries are literally absent from the region.

The Government Agent Offices (GA) in each district act as the local coordinating body for resettlement, relief and rehabilitation activities undertaken by international and national organisations and GoSL ministries and departments. It was found that the GAs and their committee structures in each district are by far more knowledgeable and responsive than any other GoSL organisations in the region and are an excellent focal point for relief and rehabilitation activity.

[36] Hundreds of thousands of landmines and unexploded ordinances (UXOs) are present throughout the Jaffna Peninsula, areas of the Batticaloa District and the area known as the Wanni. The risk of injury and death is high with some 10 incidents reported monthly in Jaffna alone during 2001. A mine action programme was started in Jaffna in early 1999 but was terminated due to an escalation of the conflict in mid 2000. The LTTE have reportedly cleared 79,000 landmines in the Killinochchi town area and over 150,000 in other areas of the Wanni. The Sri Lankan Forces have also undertaken landmine clearance in some areas.

With successive central government's concern seemingly focused on the 'security' of the North and East region rather than the welfare, recovery and development of this vital region and its communities, the GAs are in the main dependent upon the assistance and resources of the donor community, international, national and local non government organisations.

In the Wanni, the LTTE govern the area using the previous divisional and district structures. This body goes by the name 'The Local Authorities' and as well as managing local authority affairs, also operates the police force and district courts.

The international bodies were in the past using joint district review committees and boards set up by the local authorities through which all programmes and projects were assessed, however this appears to have fallen away and a loss of coordination of projects and programmes in the area is being experienced.

The Local Authorities engage in dialogue with the GAs of the bordering cleared district areas concerning community affairs, certain infrastructure, and issues concerning health and education. In mid 2001, the offices of the local authority were moved to Killinochchi with the LTTE designating this town as the 'capital' of the area due to its strategic geographic position on the A9 route and road access throughout the Wanni and the Jaffna Peninsula.

This move was regarded with dismay by the international agencies and organisations as their emergency and relief bases, logistics and the focal points of their programmes are clustered in and around Madhu, Mallavi and Puthukkudyiruppu (PKI). Negotiations broke off in mid 2001 and the UNHCR raised the level of threat officially to Phase 4, which in UN terms means that the security threat is felt to be too high to continue relief and rehabilitation programmes, however it is believed that this will change again in the near future.

Markets, infrastructure and security

Overall, eighteen years of armed conflict has severely disrupted the markets, infrastructure and economy of the North and East region. Whilst the country's overall economy grew at an annual average rate of 5.5% in the period 1990-95, the northern districts of the North and East Province saw a negative annual growth rate of – 6.2% in the same period (UNDP, 2001)

Recently the combined 'knock on' effect of the global downturn, the exponential increase in the government's war expenditure, and the 'draining' of foreign exchange reserves have placed Sri Lanka in the unenviable position of a negative 2.2% growth for 2001 with the North and East region continuing to decline.

Batticaloa, Trincomalee and Vavuniya (BTV)

Over the past five years the areas of Batticaloa, Trincomalee and Vavuniya have remained fairly stable and there has been resettlement and relocation of communities. A large number of international and national organisations are continuing to undertake relief and rehabilitation programmes in the North and East helping to provide the basic conditions necessary for economic activity to be re-established and maintained.

Public markets, shops, guest houses and in the towns and surrounding ‘cleared’ urban and rural areas of Vavuniya, Batticaloa and Trincomalee are open for trade. Imported items such as grocery products from Australia and consumer durables including televisions and video recorder machines from Japan and China are on sale alongside locally produced items.

Commercial banks are open for business and act in much the same manner as those in the remainder of the country with clients regularly utilizing savings and current accounts for financial transactions. Formal and informal pawning of gold and jewellery takes place on a daily basis, as does the informal lending of money at interest rates of between 5 and 10 percent per month on short-term loans.

The Peoples Bank and the Bank of Ceylon continue to operate loan portfolios for consumption and certain sectors of production. However a ‘credit squeeze’ and the attendant risks of the conflict and displacement of people have drastically reduced access to finance for much of the requirements of the small and medium size enterprises. Where loans are considered the collateral requirements are complex and far more stringent than in the rest of Sri Lanka.

The cooperative societies and the savings and loans structures and systems that they operate have all been disrupted. The Thrift and Credit Cooperative Societies that at one time were a primary supplier of microfinance services are in disarray;

The TCCS in the Batticaloa District has more or less suspended its operations and it appears that all or most of the savings of this district have been disbursed as loans that have not been recoverable for some time.

The TCCS district office in Trincomalee has been closed since 1997 and this body with its network of branches can be considered as non-functional for the purpose of microfinance activities. Presently there are efforts being made to revive the Society through a newly elected committee.

The TCCS Union in this district and the Mannar District, cleared areas only, are operating at very low levels due to the closure of the majority of branches and figures concerning savings and loans cannot be obtained except through each separate operating branch.

Line ministries and government departments are functioning but suffer from staff shortages especially those supplying extension services for agriculture and livestock. This has become a problem that is affecting agricultural production and livestock herds already depleted by the conflict.

Utilities such as water and sanitation, power and telecommunications are broadly available across this area in the cleared areas with some facilities reportedly present in the uncleared areas. The international relief agencies and organisations are continuing to undertake a number of projects and programmes in the rehabilitation and supply of water and sanitation either directly or through government and NGO partners.

In terms of education, BTV suffers from a high school ‘drop out’ rate and a relative lack of teachers. However, colleges, schools and private education facilities are open. Schools in host communities attended by displaced children have their limited material and human resources over stretched.

The high levels of school absenteeism are induced by a complex range of factors - the use of school buildings to accommodate IDPs, the lack of adequate teaching and learning materials, the shortage of educational personnel, the high cost of school uniforms and transport are all disincentives to attending school.

International agencies and organisations such as CARE, FORUT, Save the Children Fund and UNICEF provide support mainly to pre school education through the supply of buildings, capital equipment and school stationery items. There are four private computer training companies operating in Batticaloa, with similar enterprises operating in Vavuniya and Trincomalee.

In terms of health, although there has been an increase in the prevalence of illness and malnutrition and a decrease in the availability of health services generally although hospitals and clinics are open. However, due to staff shortages they are not operating at optimum levels and there is an under supply of essential drugs and medicines. Poor care in the prenatal period, and respiratory infections in the early months of life contribute to high rates of infant death in the region. Furthermore, easily preventable diseases such as acute respiratory infections, diarrhoea and malaria continue to be the greatest causes of morbidity and mortality (UNICEF, 2000).

Distribution routes to external markets are controlled by the security forces that maintain a check and record of the flow of people and goods to and from these areas. However large numbers of goods carrying vehicles and passenger buses continue to move along the entry and exit routes between the hours of 6am to 6pm daily. There have in the past been sporadic attacks along these routes that have in the main been focused on military vehicles and installations.

Relatively open distribution routes have encouraged fairly robust trade. Not that all trade necessarily favours the conflict-affected areas. For example, co-operatives in Batticaloa collect all the fresh milk produced and truck it to a Nestle milk powder factory in Polonnaruwa for processing. This denies the Batticaloa community fresh milk and at the same time raises the milk product price for the poor and vulnerable. Recently with overproduction of eggs and day old chicks in the ‘south’, dumping of these products in BVT has caused financial distress to the local poultry enterprises.

The road to the cleared area of Mannar is ‘fragile’ in the security sense but again people and goods travel to and from this island town for the purpose of trade both wholesale and retail. Security pass systems are in place for all visitors to these areas, in Vavuniya for example the pass control on IDPs in welfare centres is stringent and creates difficulties for these people when undertaking skills training courses and finding regular employment.

Since the present government has given priority to a cease-fire and the opening of peace negotiations with the LTTE, there are positive signs that the system of passes has been relaxed and the road routes are becoming more open.

The Jaffna Peninsula

In the Jaffna, the ongoing conflict and displacement of the population has severely fractured the local economy with the majority of the micro, small and medium enterprises having been dissolved and the capital and assets destroyed, expropriated, stolen and/or expatriated (Gant, 2000).

The previous thriving local economy with its supportive structure of institutions and organisations had all but disappeared, leading to extremely high unemployment, underemployment and a lack of opportunity for enterprise development.

In 1996 with the peninsula becoming ‘cleared’ and with the GoSL forces in control there was a gradual rehabilitation of the economy. The Co-operative Societies rehabilitated their basic structures and systems public markets in the towns throughout the Peninsula, although in many cases damaged by the conflict, re-opened and the daily trading of meat, fish, vegetables and fruit is taking place.

Shops, services, cafes and some restaurants in Jaffna Town and most of the other major towns in the Peninsula are open and consumer goods are being ‘imported’ in limited quantities from the south by an irregular and conflict threatened shipping system.

The commercial banking community although present in the Peninsula and operating current, savings and business accounts, in the main is denying access to credit for enterprise rehabilitation and development through the demand for excessive collateral against risk.

In parallel with this a ‘credit squeeze’ is being operated that has raised a further barrier to financial access for enterprise rehabilitation and development. The Peoples bank for example are using the average monthly loan repayment as the bench mark for new loans, in that of every SLR 100,000 received in loan repayments only SLR 60,000.00 is re-allocated for new loans.

This is, to say the least, surprising when the history of the Peoples Bank is one of building its financial base from the savings of the people of the country including billions of rupees from the Tamil and Muslim minorities of the North and East region.

Through a recent requirement by the IMF the state controlled banks – the Peoples Bank and the Bank of Ceylon – are beginning to conform to international standards of banking and although this may not mean privatisation, it is possible that their political capture will be lessened and with a businesslike rather than politically focused management they could become major actors in the economic recovery of the North and East region.

The traditional savings and credit schemes have been re-established as have the moneylenders selling cash at a ‘flat rate’ of 48% per annum. The postal service to the Peninsula brings in foreign exchange from relatives resettled abroad and the +30,000 members of the security forces in the Jaffna Peninsula have added to the financial in flow from the south. A great deal of this finance is being utilised for consumption to provide cash for everyday living and to replace lost assets.

The TCCS are continuing to operate at much lower levels than previously and in the Jaffna Peninsula during the early eighties the TCCS had 534 operating branches this number had been reduced to180 by December, 2000. The loan portfolio for this district as of December, 2000 was SLR 35,565,858 with the non performing portion being SLR 18,000,000 or over 50% of the total loan portfolio reportedly due to the conflict and displacement, no loans have been written off.

With assistance from the international community undertaking programmes of resettlement and rehabilitation, many CBOs have recommenced their operation these have been joined by a number of newly formed CBOs encouraged by the rehabilitation process becoming active in social and economic mobilisation throughout the Peninsula.

In July 2001 the Government Agent of Jaffna ‘officially recognised’ six of the previously ‘banned’ NGOs. Although these organisations are providing a valuable service to the community and some are undertaking microfinance operations the level is such that the start up and development of micro and small enterprises is in the main excluded.

A Traders Association - has been actively operating in Jaffna since 1997; its membership is exclusively commercial traders. This group has able to access finance and distribution routes to purchase and ship consumer items including electrical & electronic goods and motorcycles into the Peninsula for resale to the community at premiums ranging from 50% to 250% of the Colombo prices.

The Chamber of Commerce and Industry of Yarlpanam was established in June 1999 and registered as a company not for profit. The membership has grown to 80 companies. The Chamber is affiliated to the Federated Chamber of Commerce and Industries of Sri Lanka in Colombo and has grown extremely well with a committed membership it has become a locally recognized ‘leverage’ group.

The fast and sustainable establishment of this institution undertaken ‘in the face of conflict’ without external support compares most favourably with those institutions in the rest of Sri Lanka that are dependent upon financial assistance from the international community.

GoSL structures and systems have been re-established, Schools, Vocational Colleges, Private Sector Training Institutions and the University of Jaffna are functioning with a growing number of pupils and students year on year.

Government stricture and quotas placed upon the ethnic minorities over the years to hamper the tertiary education of the Tamil and Muslim populations are being bypassed through the use of international institutions that now offer external qualifications as well as support for mature students to travel overseas for their post graduate education.

Roads, Water Supply, Sanitation, Power, Public Transport, Hospitals & Rural Health Services, Postal Services and Telecommunications are in the process of repair and functional. In the conflict affected areas, hospitals and clinics are supported by international medical practitioners and professionals supplied by organisations such as MSF, providing essential services such as surgery and paediatrics.

For over a decade the distribution routes to and from the peninsula were by air and sea only, with access and egress controlled by the security forces. GoSL ‘managed’ products such as tobacco and palmyrah were apparently given priority for ‘export’ from the peninsula on the ships that deliver the consumer items ‘imported’ from Colombo. The A9 route to Jaffna from Kandy was officially reopened on the 8th April and although there is an urgent and ongoing need to continue de-mining this ‘break through’ of a land route augers well for the ongoing economic recovery of the Peninsula.

The Wanni

Access to the area known as the Wanni, that is controlled by the LTTE, was until recently, through a convoy system primarily regulated by the GoSL security forces. The convoys carrying goods, medical products and dry rations crossed into and out of this area every Tuesday and Friday. As recently as the 15th January 2002 this system was extended to 3 days a week.

People wanting to travel to and from the Wanni went through a complex process of clearance and security checking with the agreement of both protagonists before being allowed to travel. Prior to the 15th January 2002 1,400 people a week (Tuesday & Friday @ 700 persons per/day) were allowed to travel across the Forward Defence Line (FDL) at a single crossing point this has since been increased to 3,000 per week (Monday to Friday @ 500 per/day).

The people who travel between the Wanni and the rest of the country are allowed to take back limited quantities of consumer items that they either used themselves or converted into cash by selling to traders or directly to other people. All these goods are 'taxed' by the LTTE on entry to the Wanni and then families have to pay for transport from the entry point to their homes with a range of small buses, lorries, tractors, ancient cars, three wheelers and motorcycles providing this service (Ravano, 2001).

The prohibition on consumer items has just been relaxed with the exception of firearms, certain chemicals, batteries and other items that could be directly used in conflict. It is believed that whilst there is a cease-fire in operation the flow of goods will continue and may even increase over time as the private sector gears itself for this market.

However it is to early for anyone to assess what impact the in flow of goods will have on the economy of the Wanni and should the cease-fire end then the restrictions will be back in place. On the other hand if products going out to the south continue to be restricted then the effect will be that the liquidity inside the Wanni will be 'sucked' out.

Previously the restrictions were both ways with commodities either banned or with quotas placed on them that inflated the prices and there was a complete ban on products coming out of the Wanni until 1999, when some quantities of rice and dried fish were allowed out into the markets of the south.

Further price distortion is created by the LTTE placing 'taxes' on all incoming goods and the GoSL sending in free rations, much of which is already produced in the Wanni thereby causing oversupply and further depression of producer profit and incomes. It is reported that the transporters of goods are also 'taxed' by political parties on the Vavuniya side of the FDL.

Basic food commodities available in the Wanni such as beef, fish, rice, milk and vegetables cost between 30% and 60% less than in Colombo however all other 'imported' goods cost between 20% and 600% more than in Colombo (ibid.).

Over supply has depressed the prices of products produced in the Wanni and added to this is the increased production costs, due to the high cost of agricultural inputs that are 'imported'. This situation squeezes the producers' profit margins and at times production costs are higher than the selling prices.

The Wanni is primarily an agricultural, livestock and fishing area with other service industry linked directly to the primary industries. The development of ‘added value’ industries is curtailed due to the restrictions in place. There are trading shops and café type eating places as well as hairdressers and other service type businesses such as cycle repair enterprises.

Fishing is limited by security exclusion zones placed on the most productive fishing grounds, the high costs of fishing gear and fuel and the lack of cold storage and poor transportation. Fishermen driven by need, regularly cross the exclusion lines to catch fish for drying and selling into the Wanni market and the south. This has a cost – it was reported that in one village near to Mullitivu five fishermen lost their lives last year catching fish in the exclusion zone.

The markets are further complicated by smuggling of goods in to the Wanni from the south and from India. No real assessment has been undertaken of the numbers, value and impact of these goods, however the large ‘swings’ in prices of goods over short periods signals rapid supply and demand fluctuations.

The Peoples Bank and The Bank of Ceylon and the Bank of Tamil Eelam operate small branches in three of the towns and one branch of the National Savings Bank operates in Kilinochchi. The banks operate savings and current accounts and some agricultural loans but not even the restricted credit products that are available in the cleared areas of the North and East region.

The international community, CARE, FORUT, OXFAM, UNHCR and UNICEF have been undertaking projects and programmes of relief and resettlement directing their efforts mainly through a large number of NGOs’ and cooperative societies for example CARE oversaw some 509 micro projects as UNHCR's umbrella agency from 1994 to 2000. There are also a number of smaller unregistered CBOs that have been mobilised and operate savings and credit schemes.

CARE and OXFAM are the two major INGOs working in the Wanni (and the N&E more generally). CARE through the UNHCR funded Micro Projects and the CIDA funded Food Security Project establishing a broad network of relationships with some 30 NGOs, Cooperative Societies and CBOs throughout the Wanni.

These projects included a social mobilisation process, training programmes, seminars and workshops ranging from agricultural technology to the financial and business management of the organisations. Shelter, water, sanitation, education, agricultural, livestock and fishing inputs have been provided on both a grant and subsidised basis throughout this network of local organisations (c.f. CARE, 2001b)

Microfinance interventions have been initiated, based on the Grameen Bank savings and credit group model. A social mobilisation, awareness raising, training and mentoring process has been used to launch and establish the revolving loan funds schemes that represent the only freely available financial services for this extremely vulnerable population.

Remembering that these interventions were undertaken 'in the face' of conflict, the continual displacement of communities, and logistical complexity combined with 'short-term' funding and rapid staff turnover then CARE, OXFAM and FORUT have been highly successful in establishing continuity through a broad network of positive intervention over a number of years.

The NGOs' and cooperatives are providing a valuable service to the community including undertaking microfinance operations at the level of consumption and subsistence income generation. Access to financial services for the vulnerable and entrepreneurial poor could provide a broad range of sustainable livelihoods and assist in the repair of the damaged micro economy given that access to inputs and markets were to be opened up under the present conditions of a cease-fire.

It is believed that, without the effort of the international community the people of the Wanni would be hard pressed to have access to the basic requirements for life and education let alone be able to establish a viable, if fragile, network of subsistence level income generation activities.

It also must be stated that the GoSL as one of the protagonists in the conflict has, to a degree not seen in other conflicts, attempted over the years to assist the survival of this community given the limitations for the need to maintain the security of the cleared areas and at the same time 'carry' the conflict to the LTTE.

In late 2001 it is reported that the LTTE announced that there would be a restructuring of the present network of NGOs' and it is estimated that approximately 26 of the present 54 NGOs' (including branches), would remain after this restructuring process. These NGOs' are to come under the control of apex organisations known as NGO consortia and that these consortia would respond directly to the Local Authorities/LTTE.

There is concern amongst the international community that this formalized structuring of the NGO community overseen directly by the LTTE will restrict them from forming direct relationships with community bodies representing the most disadvantaged in the Wanni, thereby 'blunting' the positive impact of projects and programmes.

The roads presently used are mainly the C class roads 'dirt' roads that are in poor condition and after the recent rains have become washed away in places making a journey time of some 5 hours for 100 kilometres, even in a well-maintained 4 x 4 vehicle. Landmine & UXO clearance and road repairs, by both protagonists are reported to be taking place along the A9 route from Vavuniya into the Wanni, as far as Jaffna.

This has led to the opening of the 'A' class route and it is expected that the time and costs of transportation will be dramatically reduced, given that the LTTE drop its demands for 'taxation' on all movements of people, goods and services in the areas under their direct control and management.

Some of the main centres have a power service developed by the local authorities however this in the main dedicated to their buildings and service areas. The local authorities, some traders, NGOs, and the international community have generators, however fuel of all types is in short supply with a quota system and at prices ranging from 300% to 600% more than in the cleared areas.

The population as a whole depends on kerosene, candles and solid fuel fires for their power and light sources. The provision of water has remained a high priority in this area and the international relief agencies and organisations are continuing to undertake a number of projects and programmes in the rehabilitation and supply of water and sanitation.

The telecommunications in the Wanni are controlled by the LTTE who sell local and IDD services utilizing satellite phone systems. The international organisations have radio and pactor communication systems through which they communicate with their vehicles, field offices and Colombo based head offices.

The LTTE manage the functioning of the services normally managed by ministries and government departments including district courts and policing. The supply of extension services for agriculture and livestock is poor with a shortage of staff, vaccinations and medicines.

Schools are open but there is an acute lack of adequate teaching and learning materials and a shortage of educational personnel. A number of schools have been relocated in the Madhu church area to increase the security of the pupils and their families from the risk of direct conflict by the protagonists.

International agencies and organisations such as CARE, FORUT, OXFAM and UNICEF provide support mainly to pre school education through the supply of buildings, Capital equipment and school stationery items. In some cases local NGOs' supply pre school teachers and their payments through operating group based social mobilisation and savings & credit schemes that have been resourced and assisted by the INGOs' present in the area.

In terms of health there is a chronic shortage of health services generally with staff shortages and an under supply of equipment, essential drugs and medicines. Poor care in the prenatal period, and respiratory infections in the early months of life contribute to the high rates of infant deaths. Throughout the Wanni the national health staff are supported by international medical practitioners and professionals supplied by organisations such as MSF who provide essential services such as surgery and paediatrics. The Sri Lanka Red Cross Society that is supported by the ICRC takes patients requiring emergency or long-term care to hospitals outside of the Wanni.

The Actor-Stakeholder Environment in the Region

GoSL and Security Forces

The GoSL and the Security Forces are without doubt the main actors in the 'cleared' areas of the region and the LTTE in the 'uncleared' areas. These bodies control and determine all access and egress to and from the region and have spread an 'overlay' of regulations, laws and prohibitions over civic society that affects all the population and the agencies and organisations living and working within the region.

Local government departments involved in the primary industries of the region are badly under-funded and understaffed. In some cases there is just an office and notice board with perhaps one or two government officers. In one case in Vavuniya, a veterinary surgeon was tending to pet animals belonging to individuals' as there was no transport for her to go to the divisional secretariat where her work with livestock is essential.

This type of situation is seen throughout the extension services to the primary industries and includes the Industrial Development Board (IDB) that is nationally charged with training and technology transfer to industries other than agriculture, livestock and fisheries.

The buildings and clerical staff for all these departments are present in abundance, as they are in the provincial and central government offices, but there is a lack of technical expertise and commitment to actually working ‘in the field’ with the entrepreneurial population.

The IDB officers in Vavuniya and Jaffna admit that they cannot undertake the essential work required to give support to the development and growth of local enterprises with the resources that are presently supplied by the government. They instead have looked for support from international organisations including IT equipment and software, transport facilities and other resources and are acting as technical support to interventions funded and resourced by these organisations.

Overview of the International Community in the North & East

The international community and NGOs are in the main substituting for a significant amount of the GoSL’s normal responsibilities in health, education, vocational training and social welfare, either through grants or direct interventions at the community level.

The international community is also involved in assistance to the conflict affected populations through both relief and rehabilitation, with a view to establishing development strategies for the longer term.

The International Committee of the Red Cross (ICRC) and the United Nations High Commissioner for Refugees (UNHCR) are the main emergency and ‘protection’ agencies within the region. They provide a ‘watching brief’ on human rights including the visitation of conflict accused political prisoners and tracing those reported ‘missing’ in the conflict affected areas. ICRC is based all of the regional districts and acts as a neutral entity between the protagonists, providing medical assistance and the handing over of the bodies of those killed in the direct fire zones of the conflict.

The ICRC also manages a ship that transports hospital patients and certain classes of passenger and goods between Trincomalee and Jaffna on a weekly basis.

UNHCR is based in the districts of Jaffna, Vavuniya, and Trincomalee and the area known as the Wanni. UNHCR undertakes the work concerned with the welfare centres for the displaced population and is assisted in this by some other agencies and international organisations. During emergencies, such as the displacement in Jaffna in mid 2000, the international agencies and organisations act in concert to provide emergency assistance for the displaced populations.

The United Nations Children’s Fund (UNICEF) has a physical presence throughout the region and in the main oversees relief and rehabilitation initiatives focused on vulnerable families and children that are implemented through the GoSL and NGOs. The initiatives include sectors such as Health, Nutrition and Education and recently microfinance for income generation activities for widows.

The United Nations Development Programme (UNDP) is based in the Jaffna, Trincomalee and Vavuniya of the North and East region. UNDP initiated a rehabilitation programme in early 1998 in Jaffna that undertook interventions in health, agriculture, livestock, vocational training, government capacity building, resettlement, land mine detection & clearance and economic mobilisation.

UNDP has recently started a new 'Umbrella' programme that will operate throughout the region during the next five years. This programme focuses on assisting resettled, relocated and host communities in establishing sustainable livelihoods. UNDP plans to open offices in the districts of Ampara, Batticaloa, Mullaitivu in the near future.

Of the INGOs engaged in relief and rehabilitation activities, CARE, FORUT, Oxfam, GTZ, Save the Children Norway, World Vision, and ZOA all operate a wide range of interventions that include microfinance projects and programmes as funder-practitioners. In terms of International Agencies, UNDP, UNICEF and UNHCR are presently or have until very recently all been microfinance granter-practitioners.

Demand for microfinance services in the North & East Region

Microfinance is structured according to the economic status of the client and localized characteristics of demand & supply the microfinance findings are presented in terms of the loan level whilst Enterprise Development Services (EDS) are presented in terms of the sources of demand.

Loan Levels in Microfinance

We have chosen to examine microfinance activity according to the size of loans. In this regard we have segmented loan activity into five levels according to type and utilisation, as shown in the following table however, we realize that there is a certain amount of overlap between the levels.

Table 48 Microfinance loan levels and utilisation purposes

Level	Level of Loan (SLR)	Loan Utilisation
1	0 – 3,000	**Consumption**
2	3,000 – 7,500	Consumption & Income Subsistence
3	7,500 – 30,000	Micro enterprise Start Up
4	30,000 – 50,000	Micro enterprise Expansion
5	50,000 – 500,000	Small Business Formalization & Start -up

Loan utilisation categories fall into two broad types: Consumption level loans and Production level loans with pure entrepreneurial activity generally beginning at level 3.

Table 49 Demand for Microfinance – Regional Structure and Characteristics

People	Sources of Demand	Characteristics of Demand	Characteristics of Supply
IDPs in welfare centres, short-term resettled & relocated communities	Extremely vulnerable	Consumption and distress loans	Other than for IDPs in welfare centres, access is fairly easy, subsidised interest rates, simple procedures and low-transaction costs with social collateral.
Medium-term resettled & relocated and host communities	Poor subsistence level income	Consumption and income generation & livelihood loans	Fairly easy access, a mix of below market and market related interest rates, simple procedures and low transaction costs with interest payments on savings and social/ personal collateral.
Medium and long-term resettled, and host communities	Entrepreneurial poor	Small loans for working and fixed capital	Conditional access, market related interest rates, more complex procedures and medium transaction costs with complex and high collateral requirements including personal guarantees
Long term resettled and host communities	Micro entrepreneurs	Working capital and fixed capital loans with insurance services	Minimal access, market related interest rates, very complex procedures, inequitable collateral requirements and personal guarantees
Long term resettled and host communities	Small business persons	Working capital and fixed capital loans with insurance and leasing services	Insignificant access, interest rates as much as two points above market rate, with prohibitive collateral and personal guarantee requirements.

In terms of entrepreneurial activity, particularly at the micro-economic level, loans are primarily rural and focussed predominantly on agriculture & fishing and support services to those industries and communities. In the main, urban area loans are for micro and small ‘added-value’ enterprises, construction & engineering services and the retail sector.

Overall, It was found that there is not a uniform demand for microfinance services throughout the region. Demand appears to grow, accelerate and becomes more measurable in parallel with the development of social and economic mobilisation activities that are well managed and have ‘empowered’ community groups at their core.

Mainly due to a lack of knowledge of the services needed to own and manage a successful enterprise there is often a perceived lack of demand for enterprise development services. It is believed that as much as the demand for microfinance grew as the economic mobilisation of the groups and societies developed, so will the demand for EDS.

Much of the affordable training was found to be in the area of blue-collar skills that had little or no relevance with starting, managing and developing a business. There is a concern in that the provision of EDS in the district specifically extension services and business management training is minimal and a limiting factor in economic recovery.

Demand for Level 1 & Level 2 Consumption and Subsistence Loans

Level 1 and Level 2 Microfinance activities lie largely in the domain of the expanded relief interventions of international agencies and organisations, like CARE & FORUT, national organisations such as the Cooperatives, Sarvodaya and other NGOs and CBOs. Where we have seen organised groups that have started savings and credit schemes there is consistent over-subscribed demand for credit.

These levels of organised credit and savings represent the starting point for the emergence of entrepreneurial loan activities and are of primary importance to microfinance operations. Demand for Level 3 Loans can be ‘jump-started’ by adding grant-in-aid funding for example, on a one-to-one ratio to the present loan portfolio of those organisations. This also points to the importance of building the capacity of those credit groups to effectively manage microfinance activities in line with good and best practice.

Demand for Level 3 & Level 4 Micro Enterprise Start Up and Expansion Loans

These levels of microfinance are where it is believed that the most promising opportunities for microfinance intervention in the North & East lie particularly level 3, as demand in the 7,500 to 30,000 range is extensive. This is because the majority of economic recovery in the region is predominantly at the micro level.[37]

Batticaloa

The CARE Food Security Project through the micro finance intervention with the Fishing Cooperative Societies has helped to stimulate demand for level 3 loans, mainly in the provision of finance for fishing craft and gear.

[37] The conflict had previously destroyed the assets, structures and systems of the micro economy, in large areas of the region in parallel with a massive displacement of the population. Since October 1999, the front-lines between the protagonists have remained relatively stable in the Vavuniya, Trincomalee and Batticaloa areas and resettlement and relocation activities have matured to the extent that basic economic revival has emerged

World Vision has been working in all of the 22 villages of one division in the district for the past two years instituting savings and credit groups mainly at loan levels 1 & 2 with demand growing for access to loan level 3 in this present year.

Sarvodaya has an extensive network of 50 extremely active societies with a membership of over 3200 people throughout the cleared, uncleared and ‘grey’ areas of the district. All of these societies have been operating Level 1 & 2 loans for some time and there is a clear and present demand for Level 3 loan activity. This growth of demand has given rise to SEEDS intended intervention in the region planned for next year.

Trincomalee

NGOs such as Sarvodaya have been actively mobilizing village savings and credit groups for some time and there is a strong demand for both ‘jump-starting’ and Level 3 investment activities throughout the district.

Vavuniya

In Vavuniya, Sewa Lanka is finding that in the 22 villages where they have mobilised savings and credit groups over 75% of the demand for loans are within this range. FORUT, who have assisted the development of 15 CBOs and an apex organisation that all operate sustainable savings and credit groups is reporting the same levels of demand as Sewa Lanka.

UNDP is in the process of launching an intervention that will assist access to microfinance for the entrepreneurial poor at levels 3 & 4 through SANASA as the apex organisation linking with NGOs and CBOs throughout the district. Criteria for linkage will include training in microfinance and acceptance of the client will include the development of a business plan and other EDS.

Jaffna

CARE, FORUT and UNDP have all initiated microfinance schemes utilising various methodologies that were primarily focused on loan levels 1 & 2. These have grown and matured and now there are a large number of clients; the ‘entrepreneurial poor,’ seeking loans at levels 3 & 4. This demand has highlighted the gap in supply of access to these levels of finance and the absence of a structured framework of enterprise development services.

Demand for Level 5 – Small Business Formalization & Start Up

Vavuniya is possibly the most economically robust area in the North and East and has a high resettled and relocated population. This thriving market town has for example 14 small formal enterprises employing over 250 people clustered on a former IDB industrial estate. This ‘cluster’ of entrepreneurs is now operating the estate and are in the process of forming a nascent district chamber of commerce and industry.

The entrepreneurs have indicated that they have a requirement for access to finance and although they have successful businesses, with one involved in the processing and bottling of fruit juices that has made inroads into national markets they have all had loan applications rejected by the formal financial community.

There is a demand for this level of loan activity as seen in Vavuniya with the introduction of 'added value' growth in the agriculture & livestock, fisheries and related services sectors such as engineering.

However, demand has been drastically weakened by insufficient supply through risk, a credit squeeze, and complex application and collateral requirements. The demand for this level will grow and be readily supported only if there is continued stability in the environment with a settlement of the conflict and existing Level 3 & 4 entrepreneurs can be encouraged to expand and or start-up new businesses.

It is possible that financial instruments such as a the proposed loan guarantee fund in alliance with GTZ/RBIP and the People's Bank that is to be tested in Jaffna early next year so that some of the present demand can be met. However, microfinance by itself is not enough. It is essential that professional demand-driven enterprise/business development services accompany Level 3, 4 & 5 loans.

Enterprise Development Services in the North & East Region of Sri Lanka

It is well established that employment is the 'portal' to increasing individual quality of life, household income and community stability. The growth of sustainable private enterprise in the economy is the key that will access this portal.

The processes of building sustainable private enterprises can hardly be left to spontaneous growth mechanisms or financial tools alone; much better that they be supported in some key elements such as:

- Orientation towards production that values the local potential.
- Improvement of the qualification of the work force generally.
- Access to business information and inter-business communication.

All this requires an organised and coordinated effort, so that knowledge of the reality and the local needs are transformed into a technical capacity to encourage business, opportunities of income and employment and thereby leverage the potential for economic growth.

Over the past five years, training and business development services have grown mainly through the supply-side, implemented through international organisations and agencies. However, as entrepreneurs discover the value of these services to the competitiveness and profitability of their enterprises, client-based demand is growing. For example in Vavuniya, where FORUT has established skills and personal development training, clients are entering the economic stream more easily both in employment and self-employment.

The World University Services of Canada (WUSC) operate throughout the North & East providing skills & vocational training and temporary placement services. They also support Career Service Centres (CSCs) in concert with local NGOs - such as Sarvodaya in Batticaloa, and GoSL departments in Trincomalee and Vavuniya. The CSCs supply employment and training guidance and linkages between the unemployed, training centres and local businesses.

At the level of enterprise development services, in Jaffna, where the GTZ *Competency-based Economies through Formation of Enterprise* (CEFE) project has been established for the past three years, some 200 prospective micro and small entrepreneurs have received training, including the development of a business plan.

The success rate of this particular business development service is shown in that 71% of candidates completed business plans to start up and or expanded their enterprises. Of the 78 candidates that had the intention to start up new enterprises only 50% were able to access finance even though all of them had assets and capital to an amount exceeding half of their required investment.

The highly successful CEFE programme is implemented throughout much of Sri Lanka including in the North & East region with offices in Batticaloa, Trincomalee and Jaffna. CEFE has recently introduced 9 new modular training products for entrepreneurs and is in the process of translating these modules into the Tamil Language.

A business diagnostic service has also been introduced where CEFE trainers undertake interventions into enterprises that have managerial and financial problems. The CEFE team study the enterprise and initiate a new 'business plan' after which they monitor the progress.

Apart from CEFE activities, there is little or no professional business and enterprise development services currently available on a full-time basis in the North & East. The Danish Refugee Council in Vavuniya and Mannar has started a programme in November 2000 of capacity building for two NGOs and their membership that, could perhaps be considered as enterprise development services.

On a part-time basis, consultancy and counselling services are undertaken through INGOs and agencies hiring external consultants. These are for short periods of time and are usually focussed on specific areas of enterprise development, such as finance, marketing and production processes.

SEEDS Sarvodaya is in the process of planning an intervention in the North and East that will provide a range of business training and other services. In early 2002 SEEDS intends initiating this programme in Batticaloa and from there expanding into Trincomalee and the rest of the region by 2005.

The GoSL supplied services, such as extension services for the primary industries of Agriculture and Livestock and Fisheries, are understaffed. Present funding is unable to encompass the needs for rehabilitation of these industries, the supply of intensive extension services, the retraining of farmers and fishermen and the necessary research for the modernization and new technology that is required.

The provision of services by the private sector is targeted at high demand and profitable service provision such as computer training and English language training. This type of private sector business training is seen to be operating throughout the region. Unfortunately, most of these valuable and necessary business development services are out of the reach of the entrepreneurial poor, particularly resettled and relocated populations.

Technology development and transfer has in the main been disregarded within the region. The Industrial Development Board (IDB) with offices in the North and East is understaffed and under-resourced and has attempted to undertake this role, but, unfortunately, has proven largely inadequate to the task. For example in Vavuniya 14 entrepreneurs have taken over the maintenance and upkeep of the IDB initiated industrial park.

The exception to this is a government sponsored IT Park in Jaffna Town that was opened in May 2001 and is supplying computer training for children, youth and adults at a subsidised price designed to recoup recurrent expenditure only. As an example of demand in the area, the present courses are full with 1000 students. Another 700 prospective students are awaiting places. This facility is of the highest standards, has air-conditioning, continuous power supply, integrated networks and is presently awaiting connections for email, internet and broadband services.

Outside of the Universities i.e. the University of the East in Batticaloa and the University of Jaffna, that undertake sporadic research projects, services such as business information and market research are only based in specific INGO and agency funded projects. For example the GTZ funded projects such as GTZ/IFSP in Trincomalee and JRP in Jaffna source these services from GTZ projects based in the south of Sri Lanka.

Presently the only registered district Chambers of Commerce & Industry in the region is in Jaffna, where one was registered in July of 2001 and has 80 member businesses. There are Traders' Associations (TAs) in all the districts and having excellent linkages in the retail and wholesale sectors.

Apart from other para-statal and community level organisations, such as the National Youth Services Council (NYSC) and the Lions Association, there is little interchange or linkages, not including the Microfinance Network in Jaffna that was started in July 2001.

The Extremely Vulnerable

This group of people is in the first stages of social and economic mobilisation and typically requires basic awareness training concerning issues of health & sanitation, diet & nutrition. INGOs and NGOs are adequately supplying these services throughout the region as part of the ongoing relief, resettlement and relocation activities.

Organisations such as CARE, FORUT, Oxfam, Sarvodaya, Sewa Lanka, ZOA, and the relief agencies of the United Nations also start the process of savings and credit at what is known as the 'barefoot' level and some of this group of people are receiving basic microfinance awareness training.

The Poor/Subsistence Level Income.

This group of people have reached the stage where their home environments have become settled and in the main they are increasingly focussed on finding more sustainable employment and self-employment opportunities and are becoming fully economically mobilised. In this group are also people from the host communities whose livelihoods have been lost through the consequence of conflict but have not been displaced.

Often the people at this level demonstrate 'recipient' behaviour that reflects a strategic attitude towards their use of credit services. We believe that this attitude has been encouraged through the utilisation of relief-based approaches to microfinance.

Skills training organisations such as WUSC and FORUT, as well as those of the GoSL are present throughout the region. However, the consultancy believes that there is a need for INGOs and NGOs operating at Level 2 to develop the capacity to provide simple business and financial training services to clients who access production loans thus helping to prepare those seeking to progress to the next level.

The Entrepreneurial Poor and Micro Entrepreneurs

This group of people are seeking to start-up or expand micro enterprises and often in need of a broad range of enterprise development services including marketing, financial and management training activities.

Unfortunately, it was found that there is an almost total absence of effective professional business and enterprise development service provision in the region at the micro level, excluding some private IT training activities.

GTZ/CEFE has recently developed 9 new training modules in Tamil that will help to fill this gap. Currently they have a strong presence in Jaffna, Trincomalee and Batticaloa and are undertaking the training of some 12 additional trainers for the North & East Region.

The Small Business Person

This group of people generally require specific and individual business development services that would normally be facilitated by CoCIs or a Regional Development Agency, all of which are absent from the region, with the exception of the District CoCI in Jaffna.

Other Business Development Services

There is a need for other business development services to be provided. These include market and business research, business linkage and network facilitation, training of trainers and NGO & INGO management training and capacity building.

Presently, there is no single institution or organisation within the region that is supplying or facilitating a range of demand driven business development services. In the main both the GoSL through ministries and departments and the private sector through INGOs and private enterprises presently supply these services at inadequate levels.

Summary

The infrastructure, utilities, services and immobile capital assets of this region have over the past eighteen years been eroded by conflict resulting in the region's economic decline. A large number of communities have been displaced and formal employment even in the primary industries has fundamentally declined.

The region has been excluded from the major microfinance interventions managed through and by the central government for the past decade and a half and although the state and private commercial banks in the region operate current and savings accounts, access to credit is limited.

There has been some continued access to microfinance through the TCCS, however due to the conflict and displacement many branches and some of the district unions have become defunct. The Cooperative Rural Banks that continue to operate in the region are taking deposits, but the majority are only considering disbursing loans with grant in aid funding from the international community.

Most access to microfinance for the communities in the region is through interventions by international donors, agencies and organisations either directly or implemented through regional and local non-governmental organisations.

This has resulted in a proliferation of NGOs utilizing microfinance for a broad range of services including, health, education, social services, village infrastructure as well as consumption smoothing and income generation activities.

The Government Agents and the LTTE ‘local authorities’ in the region act as focal points using district committees for the overall planning of where and whom the interventions reach, they however are somewhat restricted by the dictates of the local military commanders of both protagonists.

Since the ceasefire in December 2001 there has been a rapid opening of distribution routes, relaxation of the pass system and a growing flow of goods and services are entering the region.

Conclusion

If the region is to be revived economically then, there is an urgent need for a concerted shift from short-term relief-based interventions to medium-term planned initiatives focused on economic recovery that employ development based approaches. Microfinance in this context is concerned with helping to foster local economic growth through ready access to financial services for all and access to enterprise development services for the entrepreneurial poor.

Given that the process towards a negotiated settlement is successful then the international community also needs to position itself for full-scale economic rehabilitation and development activities as the flow of returnees and economic recovery starts to take hold placing increasing stress on the regional infrastructure. Microfinance in this context is concerned with an increased formalisation of service provision, building the linkages and providing the services that allow the development and flow of small business activity.

Part D –Activity Survey of Microfinance in Sri Lanka

Introduction and Approach

A district-by-district activity survey was undertaken in order to gain an understanding of the actual levels of microfinance supply throughout the country. To achieve this the major microfinance practitioners were approached and asked to provide information of their savings and loans activities as of the 31st of December 2000. This included Banks, INGOs, Government microfinance programmes and the not-for profit sector.

In the event, the majority of the commercial banking sector do not engage in microfinance activities or were unwilling or unable to supply the level of information required and the commercial banking sector was omitted from the survey. Other formal financial institutions that practice microfinance such as the Regional Development Banks and Samurdhi are included.

A number of specific microfinance schemes had to be omitted. The Change Agent Programme for example was not able to track year on year growth and could not provide non-cumulative loan information. Other projects left out include, The Ministry of Plan Implementation Regional Development Projects, The CSBL, SFLCP, PAMP and REAP, the latter two of which were not operational in the year 2000.

Of the Regional Development Projects the most successful was in Hambantota this was spun off into the Social Mobilisation Foundation and is included in the survey. The second Badulla IRDP has disbursed some SLR 25 million, the others have all largely finished and either had no micro credit component or the micro credit component was largely unsuccessful.

CBSL funded projects have been picked up through the practitioner activity of the programmes participating agencies. The SFLCP disbursed a total of some SLR 739 million through participating agencies and to avoid overlap the project is not directly included in the study as the funds were disbursed through participating agencies that are included.

Unfortunately, the TCCS and Samurdhi organisations were not in a position to provide information on the numbers of individual savings accounts. They were, however, able to give information on overall volumes of savings activity and the number and volumes of loans for the period required and have been included in the survey.

In terms of representation the survey identified a total of SLR 14.4 billion disbursed during the year 2000. The combined totals of the *active* credit components omitted from the study approximate SLR 100 million or less than 1 percent of the total.

The microfinance loan activity of the BoC, Peoples Bank, HNB and the Seylan Bank amounts to approximately SLR 4.2 billion total outstanding loans as at 31st Dec 2000. Not accounting for the difference between loans disbursed and total cumulative outstanding loans, the combined total of the commercial banking sector and other microfinance activity omitted from the study is estimated at some SLR 4.3 billion.

The total of SLR 14.4 billion identified in the survey added to the estimated total omitted from the survey of SLR 4.3 billion equals SLR 18.7 billion. This represents some 77 percent of known microfinance activity during the year 2000.

The local NGO survey identified that local NGOs represent approximately 2.2% of national microfinance activity. The study as a whole identified a total of 141 NGOs who claim to be practising microfinance nation wide. Given that the survey targeted local NGOs with the largest savings and loan portfolios, it is unlikely that the NGOs not included in the survey reduce the surveys overall representation to less than percent.

The operating environment in the North and East region is highly differentiated from the rest of the country and localised within the region. The information gathered for this survey was gained from a combination of field visits to Batticaloa, Trincomalee, Vavuniya, Jaffna and the Wanni area, this was complimented with information given by International Agencies, INGOs, Multilateral Agencies, GoSL, Banks and NGOs.

Samurdhi, the Regional Development Banks, the GoSL implemented microfinance projects and the CBSL implemented microfinance schemes were not present throughout the region during the period of this survey. The survey was unable to obtain data on the microfinance activities of the commercial banking sector at the district level from the Head Offices in Colombo or from local branches within the districts. There is some activity in the banking sector, mainly savings and current accounts with loans being highly collateralised and demand outstripping supply.

During 1999 - 2000, the protagonists were in open conflict. The security forces were driven out of the Wanni area down to the present FDL at Vavuniya and lost Elephant Pass along with one third of the Jaffna Peninsula. During this time the population in these areas were largely displaced and savings and credit activities were severely disrupted.

Information on the TCCS activity for the North and East region in this survey was provided by the TCCS district offices in Jaffna, Vavuniya and Kilinochchi by the Government Agent Offices in Mannar, Batticaloa and Trincomalee and assistance from the UNDP. The TCCS figures given in this survey differ from the estimates provided by the TCCS Federation in Colombo, as they are based on local information and not estimates based on national averages.

Many TCCSs became inactive and many remain so to this day. The events of 1999 - 2000 combined with the continuing conflict has meant that the cooperative movement in the North and East region has been severely disrupted. For example, during the early eighties the TCCS in Jaffna had 534 operating branches. This number had been reduced to 180 by December 2000. The accumulative loan portfolio for this district as of December 2000 was SLR 35.6 million with the non-performing portion being SLR 18 million or over 50% of the total. The TCCS district office reports that they had no data available for the survey as loan activity had been virtually suspended throughout the peninsula during that time and there was no reliable information on savings.

The MPCSs were equally disrupted and no loan activity was being undertaken except for those MPCSs that had received seed funding from the UNDP/JRRP project that re-started microfinance credit activity with ten MPCSs in Jaffna in 1999. These figures have been shown in the survey in place of CRB loan information under UNDP. Accumulative CRB savings information is included in the survey and was obtained from the UNDP. CRB information for all other districts was provided by the Commissioner Co-operative Development's Office.

Until recently the International community was not allowed to work directly with the NGOs in Jaffna and as a whole microfinance activity through NGOs was limited. However, four of the six main NGOs practising microfinance are included in the survey.

The INGOs working in Jaffna that practice microfinance are FORUT and CARE who in 2000 were working directly with CBOs and some Fishing Cooperatives, and this data is included in the survey. UNHCR were partnering with GoSL in Jaffna, however most of the micro credit activity took place before the year 2000 and unfortunately detailed data on this programme was not available to the study. Excluding the commercial banks the information contained in the survey represents some 75 % of known microfinance activity during the year 2000.

The TCCS Union in the Batticaloa District has more or less suspended its operations and it appears that all or most of the savings of this district have been disbursed as loans that have not been recoverable for some time. There was no TCCS data for the period of this survey. There may be some savings and credit activities still being undertaken at the society level but short of visiting each society individually there is no way to assess the extent to which this is the case.

It is known that some 36 fishing cooperative societies have received funding of SLR 3.3 million for microfinance projects outside of the INGO activity of CARE, OXFAM and World Vision that is included in the survey. It is known that SCN partner with two NGOs in Batticaloa whose activities are not included in the survey. Excluding the banking sector the survey has captured approximately 87% of the known microfinance activity in the district in the year 2000.

The TCCS district office in Trincomalee has been closed since 1997 and this body with its network of branches can be considered as non-functional for the purpose of microfinance activities. Presently there are efforts being made to revive the Society through a newly elected committee. Interviews with local practitioners revealed that some five NGOs were actively engaged in microfinance activities. No NGOs responded to the survey, however the activity of three of these NGOs has been captured in the survey through the microfinance activities of OXFAM.

OXFAM and ZOA are the only INGOs currently practising microfinance in the Trincomalee and are included in the survey. Both of these organisations along with Sarvodaya who did not respond to the survey work in the 'uncleared' areas of the district. The survey includes all of the quantitative data known to this study. The survey suggests low levels of microfinance activity took place in the district in the year 2000.

The TCCS Union in the district of Mannar, cleared areas only, are operating at very low levels due to the closure of the majority of branches and figures concerning savings and loans the TCCS data stated in the study was given by the Mannar Government Agent Office. The four INGOs working in Mannar are all included in the survey as are the two NGOs practising microfinance in the district's cleared areas.

There are a large number of fishing cooperative societies in Mannar but outside of the INGO activity identified the study found no evidence of international funding. Unusually the CRB was unable to provide loan information for this district. The figures included in the survey represent all the known microfinance interventions found by the study.

The TCCS is operating in Vavuniya at low levels and the figures in the survey were provided by the Government Agent Office. The three INGOs practising microfinance in Vavuniya are all included in the survey as are the CRB and the SAP data. Three NGOs are included out of a total of five. Sewa Lanka did not provide detailed figures for the survey and it is not possible to separate its microfinance activity from its wider funding streams, but it is know that its loan funds are approximately SLR 8.4 million. The survey represents over 85% of the microfinance activity identified by the study excluding that of the commercial banks.

In the Wanni area the TCCS is operating in Killinochchi district and has been directed by the Local Authorities to focus its loans on housing rehabilitation in the Killinochchi town area and as of the present the TCCS has know further funds to lend out as credit. Field visits and interviews with a range of stakeholders and others revealed that the CRBs are largely inactive and the provision of micro credit services is through INGO partnered interventions with NGOs, fishing cooperative societies and CBOs. The commercial banks, Bank of Ceylon, Peoples Bank and the Bank of Tamil Eelam all operate in the Wanni area mainly with savings and current accounts.

The three main INGOs, CARE, FORUT and OXFAM are all included in the survey. These organisations implement microfinance interventions through twenty nine different NGOs, ten of whom operate in more than one location along with nine FCS and one FCS union. With the exception of SCN, who partners with two NGOs, all the known microfinance activity identified in the study is included in the survey.

In the event it was not possible to gain reliable figures for TCCS activity in the Ampara district and no TCCS figures were included in the survey.

A combination of semi-structured interviews, questionnaires and official and ‘grey’ in-house documentation was used. The survey undertook a district level analysis of all actor activity. This included the use of a nation wide questionnaire to gain an in-depth appreciation of NGOs practising microfinance at the local level as well as the larger national and regional entities. The savings and loans activity identified by the survey is summarised in a technical appendix at the end of this report.

The main body of the survey is presented in the form of individual district profiles. The survey collected information on the number and volume of savings and loans activity. Savings information is cumulative to the 31st of Dec 2000. Loans activity is disbursement during the year 2000 and is not cumulative. Each district profile overviews the main national and regional level actor activity and also discusses the role of local NGOs on the ground.

According to the 2001 National Census (including Ampara), the Government Agent Office's in the North & East Districts (Batticaloa, Jaffna, Mannar, Trincomalee and Vavuniya) and the estimates of local authorities in the Wanni Area, the total population of Sri Lanka is estimated at: 16,864,544; 1,582,000; and, 328,000, respectively, giving a total national population estimate of 18,774,544 people. According to the 2001 National Census, the average family size is estimated at 5.6 people.

District Survey of Microfinance Supply in Sri Lanka

Ampara District

Microfinance Overview

Table 50 Ampara District Microfinance Activity

Type of Organisation	No of Units	No. Of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart	1			134	1,656,000
CRBs	20	44,978	14,878,000	16,599	10,496,000
Local NGOs	11	9,012	11,545,132	2,068	31,339,501
OXFAM				296	2,237,333
RDBs	7	46,200	81,000,000	16,000	107,000,000
Samurdhi	38		46,690,000	6,317	36,492,000
Total		**100,190**	**154,113,132**	**41414**	**189,220,834**

According to the 2001 Census, the total population of Ampara is 589,344.

Loans

According to the survey, there were 41,414 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 189,220,834. Excluding local NGOs, this equates to an average sum of SLR 4,012.64 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 14.23 people or SLR 321.07 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 154,113,132. A total of 11,190 savings accounts were identified Excluding Agromart (who do not provide savings services) and Samurdhi (for whom individual savings figures are not available), and local NGOs, 91,178 savings accounts totaling SLR 95,878,000 give an average of SLR 1,051.55 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 261.50 per person in the district or one savings account per 5.88 people.

Local NGOs

11 NGOs were identified in the survey. A total of 2,026 S&C groups and 13,502 members were recorded.

Loans

A total number of 2,068 loans were issued in the year 2000. A total sum of SLR 31,339,501 was disbursed for the same period. Of those who provided complete information, an average of SLR 7,485.17 per loan can be calculated.

Savings

A total number of 9,012 savings accounts existed by the end of the year 2000. A total sum of SLR 11,545,132 was saved. Of those who gave complete information on savings, an average of SLR 1,171.60 per savings account can be calculated.

District Notes

Overall, there appears to be quite a strong NGO presence in the Ampara district. Notably, 5 NGOs are made up of Muslim groups, who do not operate interest on either savings or credit and levy a service charge on borrowers.

Anuradhapura

Microfinance Overview

Table 51 Anuradhapura District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
DRC				24	250,000
FORUT	31	2,096	1,994,500	556	1,893,000
Local NGOs	1	1,300	700,000	137	900,000
RDBs	11	40,630	135,104,000	50,672	170,152,000
SAP		2,600	436,800	40	1,000,000
SEEDS	165	35,758	33,118,689	9,008	46,017,262
World Vision		4,376	3,700,000	1,300	10,000,000
CRBs	41	138,757	124,048,000	4,432	16,194,000
Samurdhi	53	-	74,514,000	13,284	102,144,000
TCCSs	38	-	17,371,695	3,135	23,061,264
Total		**225,517**	**390,987,684**	**82,588**	**371,611,526**

According to the 2001 Census, the total population of Anuradhapura is 746,466.

Loans

According to the survey, there were 82,588 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 371,611,526. Excluding NGOs, this equates to an average sum of SLR 4,496.14 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 9.04 people or SLR 497.83 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 390,987,684. A total of 225,517 savings accounts were identified. Excluding DRC, Samurdhi and TCCSs (for whom individual savings figures are not available), and local NGOs, a total of 224,217 savings accounts with a value of SLR 298,401,989 gives an average of SLR 1,330.86 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 523.78 per person in the district or one savings account per 3.31 people.

Local NGOs

1 NGO was identified in the survey. A total of 5 village societies and 1300 members were recorded.

Loans

A total number of 137 loans were issued in the year 2000. A total sum of SLR 900,000 was disbursed for the same period. An average of SLR 6569.34 per loan can be calculated. Interest rates on loans are 36%.

Savings

A total number of 1300 savings accounts existed at the end of the year 2000. A total sum of SLR 700,000 was saved. An average savings of SLR 538.46 per account can be calculated. Interest rate on savings are 3%.

District Notes

The IFAD and (earlier) SIDA funded North Central province Participatory Development Project works in 15 of the 21 divisions in the district and has mobilised 20,929 families into 3,093 small groups and 377 village organisations as of the end of June 2001. This represents approx. 1/3rd of all families in these divisions. Savings have commenced in all of these groups and currently total SLR 13,800,000. 150 village organisations have received SLR 25,000 each totalling SLR 3,750,000 in RLF funds.

Sewa Lanka operates in Anuradhapura but was not forthcoming with adequate information for the survey. The DRC funded component of Sewa Lanka's loan activity is listed in the main table above. Savings are kept at small group level, but DRC were unable to provide figures on savings activity.

SCN funds microfinance activities with Samadheepa Samaja Kendraya who implement programmes in 10 divisions in the district with funds ranging between SLR 30,000 to SLR 50,000 for loans between SLR 2000 to SLR 10,000.

Badulla

Microfinance Overview

Table 52 Badulla District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	84	228,829	419,444,000	46,887	265,168,000
Local NGOs	1	3,612	6,934,567	27,852	12,535,528
RDBs	13	80,000	185,000,000	40,000	260,000,000
Samurdhi	44		76,278,000	11,599	67,279,000
SEEDS	146	35,530	15,118,123	2,026	23,847,453
TCCSs	90		21,032,433	7,861	11,510,722
Total		**347,971**	**723,807,123**	**136,225**	**640,340,703**

According to the 2001 Census, the total population of the district of Badulla is 774,555.

<u>Loans</u>

According to the survey, there were 136,225 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 640,340,703. Excluding NGOs, this equates to an average sum of SLR 5,793.00 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 5.69 people or SLR 826.72 per person in the district for the year 2000.

<u>Savings</u>

Total savings in 2000 amount to SLR 723807123. A total number of 347,971 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available), and local NGOs, 344,359 savings accounts totalling SLR 619,562,123 give an average of SLR 1,799.18 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 934.48 per person in the district or one savings accounts per 2.23 people.

Local NGOs

1 NGO was identified in the survey. A total of 522 S&C groups and 3559 members were recorded.

Loans

A total number of 27,852 loans were issued in the year 2000. A total sum of SLR 12,535,528 was disbursed for the same period. An average of SLR 450.08 per loan can be calculated the interest rate on loans is 12%.

Savings

A total number of 3,612 savings accounts existed by the end of the year 2000. A total sum of SLR 6,934,567 is saved. An average savings of SLR 1,919.90 per account can be calculated.

District Notes

The IFAD and UNDP funded IRDP project implemented under the GoSL Ministry of Plan Implementation is coming to the end of its second phase in Badulla. A total of 41,700 villagers have been mobilised into small groups. Of this, 23,589 belong to 278 VBOs including 18 in estates. As of Oct 2001, total VBO savings were SLR 21,700,000. Cumulative loans disbursed was approx. SLR 25,000,000 with an overall recovery rate of 60%. Loans disbursed from participating banks and NGOs to project members from 1999 to 2000 was SLR 32,800,000. For more details, please see the Ministry of Plan Implementation 'profile' in Past A of this report.

Batticaloa District

Microfinance Overview

Table 53 Batticaloa District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CARE				788	4,900,000
CRBs	4	27,331	6,274,000	4,159	3,780,000
Local NGOs		525	37,850		
OXFAM	5			286	3,567,021
World Vision		384	4,613,360	600	11,277,743
Total		**28,240**	**10,925,210**	**5,833**	**23,524,764**

According to the Government Agent, the total population of Batticaloa is 528,000.

<u>*Loans*</u>

According to the survey, there were 5,833 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 23,524,764. An average sum is SLR 4,033.05 per individual loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 90.52 people or SLR 44.55 per person in the district for the year 2000.

<u>*Savings*</u>

Total savings in 2000 amount to SLR 10,925,210. A total of 28,240 savings accounts were identified. Excluding local NGOs an average of SLR 392.83 per individual savings account can be calculated.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 20.69 per person in the district or one savings account per 18.70 people.

Local NGOs

2 NGOs were identified in the survey. A total of 63 groups and 555 members were recorded.

Loans

None of the NGO completed the loans section of the survey.

Savings

1 NGO completed adequate savings information listing 525 savings accounts totalling SLR 37,850 giving an average of SLR 72.095 per account.

District Note

CARE International implement microfinance through 3 active NGOs, Sarvodaya, PADRO and GSS, as part of their ongoing CIDA funded Food Security Project. In addition, CARE work with 9 Fishing Co-operative Societies and 6 S&C groups.

At least 36 FCS have received funding from international organisations in the past few years. NORAD, CARE and, on occasion, UNHCR have provided approx. SLR 3,300,000 million rupees in money for microfinance loan funds.

OXFAM partners with 5 NGOs in 26 villages and has given microfinance loans to 858 clients totalling SLR 10,701,064 in the last 3 years. They work with Sarvodaya in Koralapattu North, Oddmavadi and Manmunai West; EHED in Koralipattu; ESCO in Koralipattu West; Koinonia in Eravur Pattu; and, NERTRA in Wellaveli, Manmunai West and Pattipalai. Figures stated in the table above are averaged from the totals stated above.

SCN partner with ESCO and Thadaham in Batticaloa, both implementing programmes and also work in the Valaichenai Division. Detailed financial figures were not available

World Vision’s microfinance activity is listed in the main table above.

Colombo

Microfinance Overview

Table 54 Colombo District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	118	390,202	1,552,526,000	59,040	640,231,000
FORUT	14	3,786	2,579,668	169	953,000
Samurdhi	42		129,733,850	9,848	49,766,000
SAP		240	40,320		
SEEDS	145	73,181	106,508,190	45,680	147,692,525
TCCSs	106		581,398,838	20,318	267,995,650
Total		**46,7409**	**2,372,786,866**	**135,055**	**1,106,638,175**

According to the 2001 Census, the total population of Colombo is 2,234,146.

Loans

According to the survey, there were 135,055 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 1,106,638,175. This equates to an average sum of SLR 8,193.98 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 16.54 people or SLR 495.33 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 2,372,786,866. A total number of 467,409 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available), 467,409 savings accounts totalling SLR 1,661,654,178 give an average of SLR 3,555.03 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of 1,062.06 per person in the district or one savings account per 4.78 people

Local NGOs

No NGOs were identified in the survey.

District Note

FORUT work with 5 ‘village community banks’ in Colombo, details of which are listed in the main table above.

SCN work with the PRDA NGO in Colombo implementing microfinance programmes in Gampaha, Chillaw and Puttalam.

Ceylinco Grameen Co. Ltd started microfinance operations in April 2000 focusing on the urban slum areas of Colombo. The company has reached 1,774 clients disbursing over SLR 21 million in loans.

Galle District

Microfinance Overview

Table 55 Galle District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart				39	493,000
Arthacharya		2,400	1,159,462	130	1,861,087
CRBs	106	317,696	1,028,276,000	25,920	168,347,000
RDBs	13	101,673	405,655,395	34,309	476,743,000
Samurdhi	64		109,869,000	17,385	109,709,000
SEEDS	161	45,679	42,652,952	5,084	34,529,082
TCCSs	242		161,754,440	30,285	249,491,668
Total		**467,448**	**1,749,367,249**	**113,152**	**1,041,173,837**

According to the 2001 Census, the total population of Galle 990,539.

Loans

According to the survey, there were 113,152 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 1,041173837. This equates to an average sum of SLR 9,201.55 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 8.75 people or SLR 1,051.12 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 1,749367249. A total of 467,448 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) an average of SLR 3,161.30 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,766.08 per person in the district or one savings per 2.12 people.

Local NGOs

No NGOs were identified in the survey.

Gampaha District

Microfinance Overview

Table 56 Gampaha District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Arthacharya		1,240	529,879	64	318,850
CRBs	197	714,732	2,618,120,000	86,763	971,800,000
FORUT	10	2,243	1,477,355	105	404,500
RDBs	6	24,289	32,728,000	13,734	117,666,319
Samurdhi	86		291,758,000	24,845	234,088,000
SAP		2,750	466,000	20	500,000
SEEDS	140	42,623	56,680,541	20,221	74,133,875
TCCSs	65		434,835,236	25,312	124,075,706
Total		**787,877**	**3,436,595,011**	**171,064**	**1,522,987,250**

According to the 2001 Census, the total population of Gampaha is 2,066,096.

Loans

According to the survey, there were 171,064 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 1,522,987,250. This equates to an average sum of SLR 8,903.03 per loan .

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 12.08 people or SLR 737.13 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 3,436,595,011. A total of 787,877 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) an average of SLR 3,439.63 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,663.33 per person in the district or one savings account per 2.62 people.

Local NGOs

No NGOs were identified in the survey.

District Notes

SCN partner with PRDA, an NGO based in Colombo, implementing microfinance programmes in this district. Detailed financial figure are not available. Please refer to the SCN ‘profile’ in Part A of this report.

FORUT practise microfinance though their ‘village community banking activity’ in the Palangathure and Harischandrapura divisions.

Hambantota District

Microfinance Overview

Table 57 Hambantota District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart				33	635,000
CRBs	46	224,198	590,340,000	47,834	241,440,000
FORUT		6,442	7,862,281	1,312	3,990,000
Local NGOs	3	33,754	61,156,087	15,990	91,432,859
RDBs	9	106,501	363,396,420	22,110	239,449,000
Samurdhi	42		67,720,000	11,600	69,309,000
SAP		1,670	280,560	21	525,000
SEEDS	136	23,281	24,797,551	5,319	26,545,343
TCCS	177		45,450,549	5,706	27,569,035
World Vision	1	370	6,000,000	103	1,041,677
Total		**396,216**	**1,167,003,448**	**110,028**	**701,936,914**

According to the 2001 Census, the total population of Hambantota is 525,370.

<u>*Loans*</u>

According to the survey, there were 110,028 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 701,936914. Excluding NGOs, this equates to an average sum of SLR 6,492.10 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 4.77 people or SLR 1,336.08 per person in the district for the year 2000.

<u>*Savings*</u>

Total savings in 2000 amount to SLR 1,167,003,448. A total number of 396,216 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, an average of SLR 2,738.71 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 2,221.30 per person in the district or one savings account per 1.33 people.

Local NGOs

3 NGOs were identified in the survey. A total of 5,594 S&C groups and 29,712 members were recorded.

Loans

A total number of 15,990 loans were issued in the year 2000. A total sum of SLR 91,432,859 was disbursed for the same period. An average of SLR 5,718.13 per loan can be calculated. Interest rates charged on loans range between 18% and 24%.

Savings

A total number of 33,754 savings accounts existed by the end of the year 2000. A total sum of SLR 61,156,087 was saved. Of the 2 NGOs who gave complete information on savings, an average of SLR 1,795.30 per savings account can be calculated. Interest rates paid on savings range between 9% and 12%.

Jaffna District

Microfinance Overview

Table 58 Jaffna District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	62	113,256	235,930,000	-	-
Local NGOs	5	7,105	9,244,622	2,322	8,688,845
FORUT	70	5,386	4,914,492	687	1,340,000
UNDP				1,793	14,499,276
CARE	26	234	261,714	699	3,162,000
Total		**125,981**	**250,350,828**	**5,501**	**27,690,121**

According to the latest figures from UNDP the population of Jaffna is 445,000.

Loans

According to the survey, there were 5,501 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 27,690,121. Excluding local NGOs, this equates to an average of SLR 5,977.12 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 80.89 people or SLR 622.22 per person in the district for the year 2000.

Savings

Total savings amount to SLR 250,350,828. A total number of 125,981 savings accounts were identified. An average sum of SLR 2,028.22 per individual savings account can be calculated.

In terms of population, the total savings amount identified in the table above is equivalent to SLR 562.59 per person in the district or one account per 3.53 people.

Local NGOS

4 NGOs were identified in the survey. A total of 209 S&C groups and 23,668 members were recorded.

Loans

A total number of 2,322 loans were issued in the year 2000. A total sum of SLR 8,688,845 was disbursed for the same period. Of the 3 NGOs who provided adequate loans information, an average of SLR 3,7451.97 per loan can be calculated. Information on interest rates charged on loans was not provided.

Savings

A total amount of SLR 9171622 in savings was identified. 2 NGOs provided complete information of savings. An average of SLR 1,290.90 per individual savings account can be calculated.

District Note

Until early 2001 the international community were not allowed to work with NGOs in Jaffna. Six NGOs have recently been approved by the GA as partners for international organisations in Jaffna. They include: HUDEC, TRRO, OOTRU, SDF & Sarvodaya.

Sarvodaya in Jaffna is in the process of rebuilding active societies from scratch. The office has recently secured a new partnership with UNICEF and is in the second year of implementing a successful savings and credit project working with 150 ‘war widows’. The project is due to expand it outreach to 270 later in 2002.

CARE partnered with FCSs and worked directly with S&C groups as part of its ongoing CIDA funded Food Security Project. Another project, CAB-J partners with 10 TCCSs, 5 FCSs and initiated 5 savings and credit groups.

FORUT has the longest standing microfinance practitioner activity among the INGOs in Jaffna. FORUT engage in microfinance in Point Pedro, Nagakovil and into Palai where they have been working since the late 1980s.

GTZ assisted the formation of S&C groups through the rehabilitation activities of the ongoing JRP project. These groups are in the process of being assimilated into some of the approved NGOs.

UNDP partners microfinance activity with 10 MPCS in the Tellipali and Kayts & Islands resettlement areas. UNDP are in the process of expanding their microfinance to work with 7 more of the 25 active MPCSs in the peninsula.

UNHCR have partnered with the 14 Divisional Secretariats in the district as part of their Micro Projects activity since 1997. UNHCR have provided funding for income generation activities in the primary industries of agriculture, livestock, fisheries, construction and light engineering as well service industries, crafts and the specific targeting of income generation activities for women.

Staring in 1998 each DS received SLR 500,000 as an RLF that was disbursed to beneficiaries chosen by divisional committee in one-time loans at a fixed amount of SLR 10,000 per loan bearing an interest rate of 6% per annum and monitored by a team located in the GAs office.

Detailed financial information on UNHCR’s microfinance activities was not forthcoming. However, is known that UNHCR provided a total of approx. SLR 40,000,000 during the during a three year period from 1997 to 2000 when they ceased funding microfinance projects.

Kalutara District

Microfinance Overview

Table 59 Kalutara District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	75	252,697	795,920,000	34,236	315,777,000
Local NGOs	7	11,188	4,466,034	1,050	9,299,634
Samurdhi	55		154,407,000	12,154	72,219,000
SEEDS	129	28,544	34,000,585	3,620	31,686,214
TCCSs	121		294,611,012	27,885	400,150,306
Total		**292,429**	**1,283,404,631**	**78,945**	**829,132,154**

According to the 2001 Census, the total population of Kalutara is 1,060,800.

<u>*Loans*</u>

According to the survey, there were 78945 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 829,132,135. Excluding NGOs, this equates to an average of SLR 10,524.84 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 13.44 people or SLR 781.61 per person in the district for the year 2000.

<u>*Savings*</u>

Total savings in 2000 amount to SLR 1,283,404,631. A total number of 292,429 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 281,241 savings accounts totalling SLR 829,920,585 give an average of SLR 2,950.92 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,209.85 per person in the district or one savings account per 3.63 people.

Local NGOs

7 NGOs were identified in the survey. A total of 968 S&C groups and 11,709 members were recorded.

Loans

A total number of 1,050 loans were issued in the year 2000. A total sum of SLR 9,299,634 was disbursed for the same period. Of those who provided complete information, an average of SLR 8,856.79 per loan can be calculated. Interest rates on loans range between 14% and 24%.

Savings

A total number of 11,188 savings accounts existed by the end of the year 2000. A total sum of SLR 4,466,034 was saved. Of those who gave complete information on savings, an average savings of SLR 399.18 per account can be calculated. Interest rates on savings range between 7% and 12%.

Kandy District

Microfinance Overview

Table 60 Kandy District Microfinance Activity

Type of Organisation	No of Units	No. Of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	110	377,509	959,270,000	77,575	498,150,000
Local NGOs		10,701	5,619,928	1,289	11,049,500
RDBs		94,564	183,702,000	52,545	289,064,000
Samurdhi	90		143,970,000	18,055	142,686,000
SAP		520	88,310	10	250,000
SEEDS	160	39,085	38,668,115	5,833	27,206,504
TCCSs	258		111,798,014	5,208	80,748,524
Total		**522,409**	**1,443,116,367**	**160,515**	**1,049,154,528**

According to the 2001 Census, the total population of Kandy is 1,272,463.

Loans

According to the survey, there were 160,515 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 1,049,154,528. Excluding NGOs, this equates to an average sum of SLR 6,519.70 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 7.93 people or SLR 824.51 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 1,443,113,367. A total of 522,409 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 511,678 savings accounts totalling SLR 1,181,728,425 give an average of SLR 2,309.52 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,134.11 per person in the district or one savings account per 2.44 people.

Local NGOs

6 NGOs were identified in the survey. A total of 2,819 S&C groups and 15,194 members were recorded.

Loans

A total number of 1,289 loans were issued in the year 2000. A total sum of SLR 11,049,500 was disbursed for the same period. Of the 5 NGOs who provided complete information, an average of SLR 5,572.15 per loan can be calculated. Interest rates charged on loans range between 18% and 24%.

Savings

A total number of 10,731 savings accounts existed by the end of the year 2000. A total sum of SLR 5,508,617 was saved. Of the 5 NGOs who gave complete information on savings, an average of SLR 513.34 per savings account can be calculated. Interest rates paid on savings range between 9% and 12%.

Kegalle District

Microfinance Overview

Table 61 Kegalle District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	80	316,490	692,939,000	21,418	73,079,000
Local NGOs		365	184,107	1,282	11,224,000
FORUT	8	810	359,610	68	450,428
Samurdhi	44		83,385,000	11,820	73,518,000
SEEDS	149	42,061	32,902,724	5,492	32,996,247
TCCSs	128		332,081,166	15,466	151,753,173
Total		**359,726**	**1,141,851,607**	**55,546**	**343,020,848**

According to the 2001 Census, the total population of Kegalle is 779,774.

Loans

According to the survey, there were 55,546 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 343,020,848. Excluding local NGOs this equates to an average sum of SLR 6,114.49 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 14.04 people or SLR 439.90 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 1,141,851,607. A total of 359,726 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, an average of SLR 2020.81 per individual savings account can be calculated.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,464.34 per person in the district or one savings account per 2.17 people.

Local NGOs

3 NGOs were identified in the survey. A total of 96 S&C groups and 574 members were recorded.

Loans

A total number of 1,282 loans were issued in the year 2000. A total sum of SLR 11,224,000 was disbursed for the same period. An average of SLR 8,755.07 per loan can be calculated. Interest rates charged on loans is 18%.

Savings

A total number of 365 savings accounts existed by the end of the year 2000. A total sum of SLR 184,107 was saved. Of the 2 NGOs who gave complete information on savings, an average of SLR 504.40 per savings account can be calculated. Interest rates paid on savings is 10%.

Kurunegala District

Microfinance Overview

Table 62 Kurunegala District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart		-	-	59	822,000
Arthacharya		1,800	1,142,963	140	6,325,970
Local NGOs	2	142	599,271	559	5,650,685
RDBs	18	120,289	252,325,000	49,327	411,911,000
SAP		870	146,160	17	425,000
SEEDS	174	55,741	59,047,185	14,911	54,422,889
CRBs	192	857,959	2,245,710,000	87,123	125,4877,000
Samurdhi	119	-	253,935,000	42,117	304,819,000
TCCSs	248	-	654,122,432	44,197	398,967,531
Total		**1,036,801**	**3,467,028,011**	**238,450**	**2,438,221,075**

According to the 2001 Census, the total population of Kurunegala is 1,452,369.

<u>*Loans*</u>

According to the survey, there were 238,450 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 2,438,221,075. Excluding NGOs, this equates to an average sum of SLR 10,225.57 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 6.09 people or SLR 1,678.79 per person in the district for the year 2000.

<u>*Savings*</u>

Total savings in 2000 amount to SLR 3,467,028,011. A total of 1,036,801 savings accounts were identified. Excluding Agromart (who do not provide savings services), Samurdhi and TCCS (for whom individual savings figures are not available) and local NGOs, 1,036,659 savings accounts totalling SLR 2,558,371,308 give an average of SLR 2,467.90 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 2,387.15 per person in the district or one savings account per 1.4 people.

Local NGOs

2 NGOs were identified in the survey. A total of 320 S&C groups and 3,500 members were recorded.

Loans

A total number of 559 loans were issued in the year 2000. A total sum of SLR 5,650,685 was disbursed for the same period. Of the 1 NGO who provided complete loans information, an average of SLR 12,364.74 per loan can be calculated. Interest rates charged on loans are 13% and 24%.

Savings

A total number of 142 savings accounts existed by the end of the year 2000. A total sum of SLR 599,271 was saved. Both NGOs provided complete information on savings. An average of SLR 4,220.22 per savings account can be calculated. Interest rates paid on savings are 9% and 10%.

Mannar District

Microfinance Overview

Table 63 Mannar District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	2	12,734	8,310,000	-	-
DRC		156	205,805	362	7,093,100
OXFAM	4	-	-	60	300,000
TCCS		-	-	88	443,600
World Vision		8	255,175	149	1,940,000
Zoë	16	-	-	101	556,300
Total		**12,898**	**8,770,980**	**760**	**10,333,000**

According to the Government Agent, the total population of Mannar (cleared) is 128,000.

<u>Loans</u>

According to the survey, there were 760 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 10,333,000. This equates to an average sum of SLR 13,596.05 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 168.42 people or SLR 80.73 per person in the district for the year 2000.

<u>Savings</u>

Total savings in 2000 amount to SLR 8,770,980. A total of 12,898 savings accounts were identified giving a average of SLR 680.03 per individual savings account in the year 2000.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 68.52 per person in the district or one savings account per 9.92 people.

Local NGOs

The 2 NGOs identified in the survey, the Rural Development Foundation and the Mannar Association of Rehabilitation and Resettlement are both funded by the DRC. As of December 2001, the DRC has funded a total of SLR 12,900,000 to these 2 organisations. In the financial year 2000-2001, DRC allocated SLR 7, 150,000 for RLFs. These figures are included in the DRC's figures in the table above.

Matale District

Microfinance Overview

Table 64 Matale District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	44	128,863	293,380,000	21,175	140,160,000
FORUT		3,110	3,846,994	143	660,000
Local NGOs	2	2,615	2,390,195	2,000	4,546,679
RDBs		44,669	73,469,080	20,204	103,968,000
Samurdhi	40		85,472,000	8,849	65,106,000
SAP		2,225	373,800	15	375,000
SEEDS	125	31,348	18,979,483	10,977	29,478,043
TCCSs	55		37,260,787	2,064	8,050,514
Total		**212,830**	**514,938,339**	**65,427**	**352,344,236**

According to the 2001 Census, the total population of Matale is 442,427.

Loans

According to the survey, there were 65,427 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 352,344,236. Excluding NGOs, this equates to an average sum of SLR 5,483.43 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 6.76 people or SLR 796.39 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 514,938,339. A total of 212,830 savings accounts were identified Excluding Samurdhi and TCCSs (for whom individual savings figures are not available), an average of SLR 1,855.48 per individual savings account can be calculated.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,163.89 per person in the district or one savings account per 2.08 people.

Local NGOs

2 NGOs were identified in the survey. A total of 48 S&C groups and 785 members were recorded.

Loans

A total number of 2,000 loans were issued in the year 2000. A total sum of SLR 4,546,679 was disbursed for the same period. An average of SLR 2,273.34 per loan can be calculated. Interest rates charged on loans ranges between 20% and 24%.

Savings

A total number of 2,615 savings accounts existed by the end of the year 2000. A total sum of SLR 2,390,195 was saved. An average of SLR 914.03 per savings account can be calculated. Interest rates paid on savings ranges between 8% and 12%.

District Notes

SCN partner with Sithuwama organisation and implement microfinance components in Ambangaga and Palagala divisions. Detailed financial figures are not available. Please see SCN ‘ profile’ in Part A of this report..

The UNDP Civil Society Organisation Project working in this district has 22 active village societies with 989 female members and SLR 606,988 savings invested as of September 2001. 943 loans have been disbursed with a total volume of SLR 3,012,025 for the same period.

Matara District

Microfinance Overview

Table 65 Matara District Microfinance Activity

Type of Organisation	No of Units	No. Of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart				24	278,395
Local NGOs		3,285	1,706,633	504	5,030,000
RDBs	15	87,017	268,313,750	34,923	460,073,000
SEEDS	148	42,209	35,828,862	10,272	40,143,739
RDBs	87	375,335	1,195,100,000	36,341	547,215,000
Samurdhi	50		87,889,520	17,555	109,084,000
TCCSs	172		154,750,310	38,426	132,270,390
Total		**507,846**	**1,743,589,075**	**137,541**	**1,294,094,524**

According to the 2001 Census, the total population of Matara is 761,236.

Loans

According to the survey, there were 138,045 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 1,294,094,524. Excluding NGOs, this equates to an average sum of SLR 9,372.22 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 5.51 people or SLR 1,699.99 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 1,743,589,075. A total of 507,846 savings accounts were identified. Excluding Agromart (who do not provide savings services), Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 504,561 savings accounts totalling SLR 1,499,242,612 give an average of SLR 2,971.38 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 2,290.47 per person in the district or one savings per 1.5 people.

Local NGOs

3 NGOs were identified in the survey. A total of 191 S&C groups and 5,036 members were recorded.

Loans

A total number of 504 loans were issued in the year 2000. A total sum of SLR 5,030,000 was disbursed for the same period. An average of SLR 9,980.16 per loan can be calculated. The rate of interest rates charged on loans is 24%.

Savings

A total number of 3285 savings accounts existed by the end of the year 2000. A total sum of SLR 1,706,633 was saved. An average of SLR 519.52 per savings account can be calculated. The rate of interest paid on savings ranges between 8% to 10%.

District Notes

THE SIDA 'Start Your Own Business' project operates in this district. Please refer to the SIDA profile in Part A of this report for more details.

Moneragala District

Microfinance Overview

Table 66 Moneragala District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart				111	1,628,500
Arthacharya		972	122,781	94	563,855
Local NGOs		819	667,539	595	7,965,300
RDBs	6	59,500	67,000,000	10,000	82,000,000
SEEDS	108	20,171	16,517,404	4,420	22,077,260
CRBs	22	41,700	81,638,000	9,973	39,128,000
Samurdhi	25		64,561,000	11,980	48,327,000
TCCSs	66		28,254,955	2,937	10,853,779
Total		**123,162**	**258,761,679**	**40,110**	**212,543,694**

According to the 2001 Census, the total population of Moneragala is 396,173.

Loans

According to the survey, there were 40,110 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 212,543,694. Excluding NGOs, this equates to an average sum of SLR 5,177.23 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 9.88 people or SLR 536.49 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 258,761,679. A total of 123,162 savings accounts were identified. Excluding Agromart (who do not provide savings services), Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 122,343 savings accounts totalling SLR 165,278,185 give an average of SLR 1,350.94 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 653.15 per person in the district or one savings account per 3.22 people.

Local NGOs

4 NGOs were identified in the survey. A total of 203 S&C groups and 5,345 members were recorded.

Loans

A total number of 595 loans were issued in the year 2000. A total sum of SLR 7,965,300 was disbursed for the same period. An average of SLR 13,387.06 per loan can be calculated. Interest rates charged on loans is between 20% and 30%

Savings

A total number of 819 savings accounts existed by the end of the year 2000. A total sum of SLR 667,539 was saved. An average of SLR 815.07 per savings account can be calculated. Interest rates paid on savings ranges between 12% and 17%.

Nuwara Eliya District

Microfinance Overview

Table 67 Nuwara Eliya District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	47	168,975	278,320,000	19,014	135,855,000
Local NGOs		10,284	2,345,153	683	4,470,250
RDBs		52,721	191,954,000	15,845	113,599,000
Samurdhi	34		63,882,000	8,622	67,738,000
SAP		825	138,600	15	375,000
SEEDS	141	36,240	11,424,506	949	9,472,375
TCCSs	24		30,719,767	2,150	4,918,513
Total		**269,045**	**578,784,026**	**47,278**	**336,428,138**

According to the 2001 Census, the total population of Nuwara Eliya is 700,083.

Loans

According to the survey, there were 47,278 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 336,428,138. Excluding NGOs, this equates to an average sum of SLR 7,124.32 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 14.81 people or SLR 480.55 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 578,784,026. A total of 269,045 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 258,761 savings accounts totalling SLR 481,837,106 give an average of SLR 1,862.09 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 826.74 per person in the district or one savings account per 2.60 people.

Local NGOs

3 NGOs were identified in the survey. A total of 1,262 S&C groups and 9,924 members were recorded.

Loans

A total number of 683 loans were issued in the year 2000. A total sum of SLR 4,470,250 was disbursed for the same period. An average of SLR 6,545.02 per loan can be calculated. Interest rates charged on loans is between 18% and 24%.

Savings

A total number of 10,284 savings accounts existed by the end of the year 2000. A total sum of SLR 2,345,153 was saved. An average of SLR 228.04 per savings account can be calculated. Interest rates paid on savings is 10%.

Polonnaruwa District

Microfinance Overview

Table 68 Polonnaruwa District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	28	139,258	212,534,000	26,494	90,823,000
Local NGOs		3,000	1,300,000	325	2,200,000
RDBs	8	49,662	174,857,000	29,101	216,914,000
Samurdhi	21		127,325,000	12,836	87,196,000
SEEDS	87	18,518	25,906,768	12,155	46,746,553
TCCSs	22		17,043,511	2,522	7,595,019
Total		**210,438**	**558966279**	**83,433**	**451,474,572**

According to the 2001 Census, the total population of Polonnaruwa is 359,197.

Loans

According to the survey, there were 83,433 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 451,474,572. Excluding NGOs, this equates to an average sum of SLR 5,405.91 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 4.31 people or SLR 1,256.90 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 558,966,279. A total of 210,438 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 207,438 savings accounts totalling SLR 413,297,768 give an average of SLR 1,992.39 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,556.16 per person in the district or one savings account per 1.71 people.

Local NGOs

4 NGOs were identified in the survey. A total of 597 S&C groups and 5,300 members were recorded.

Loans

A total number of 325 loans were issued in the year 2000. A total sum of SLR 2,200,000 was disbursed for the same period. 1 NGO provided complete loans information. From this, an average of SLR 6,769.23 per loan can be calculated. Interest rates charged on loans is between 20% and 24%

Savings

A total number of 3000 savings accounts existed by the end of the year 2000. A total sum of SLR 1,300,000 was saved. Of the 2 NGOs providing complete savings information, an average of SLR 433.33 per savings account can be calculated. Interest rates paid on savings ranges between 11% and 14%.

District Notes

UNDP fund microfinance activity in this district funds a total of 39 S&C groups with 2,282 members who had collective savings of SLR 432,788, disbursing 2,934 loans with a total value of SLR 9,331,067 as of Sept 2001. For more details please refer to the UNDP profile in Part A of this report.

Puttalam District

Microfinance Overview

Table 69 Puttalam District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Agromart		-	-	39	615,000
CRBs	62	225,653	552,700,000	29,343	292,960,000
FORUT	48	2,696	1,988,250	108	667,000
Local NGOs		163	813,410	122	1,192,000
RDBs	10	90,733	152,933,000	98,425	350,208,082
Samurdhi	47	-	104,559,000	9,233	65,181,000
SAP		1,725	289,800	8	200,000
SEEDS	128	33,433	28,116,114	1,451	31,885,162
TCCSs	21	-	232,698,387	9,518	31,568,235
World Vision		-	-	3,093	13,403,654
Total		**354,403**	**1,074,097,961**	**151,340**	**787,880,133**

According to the 2001 Census, the total population of Puttalam is 705,342.

<u>Loans</u>

According to the survey, there were 151,340 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 787,880,133. Excluding NGOs, this equates to an average sum of SLR 5,202.34 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 4.66 people or SLR 1,117.02 per person in the district for the year 2000.

<u>Savings</u>

Total savings in 2000 amount to SLR 1,074,097,961. A total number of 354,403 savings accounts were identified. Excluding Agromart (who do not provide savings services), Samurdhi, TCCSs (for whom individual savings figures are not available) World Vision and local NGOs, 354,240 savings accounts totalling SLR 736,027,164 give an average of SLR 2,077.76 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,522.80 per person in the district or one savings account per 1.99 people.

Local NGOs

1 NGO was identified in the survey.

Loans

A total number of 122 loans were issued in the year 2000. A total sum of SLR 1,192,000 was disbursed for the same period. An average of SLR 9,770.49 per loan can be calculated. Interest rates charged on loans is 18%

Savings

A total number of 163 savings accounts existed by the end of the year 2000. A total sum of SLR 813,410 was saved. An average of SLR 4,990.20 per savings account can be calculated. Rates of interest paid on savings is 12%.

District Notes

SCN partner with PRDA, an NGO based in Colombo, implementing microfinance programmes in Chilaw and Puttalam. Detailed financial figures are not available. Please refer to the SCN 'profile' in Part A of this report.

Ratnapura District

Microfinance Overview

Table 70 Ratnapura District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
Arthacharya		968	495,924	90	379,800
CRBs	90	298,653	889,296,000	45,318	425,010,000
Local NGOs		4,637	2,791,611	685	3,336,414
Samurdhi	46		138,154,000	23,558	117,528,000
SAP		925	155,400	10	250,000
SEEDS	127	24,109	28,099,703	5,270	34,772,321
TCCSs	24		170,200,610	8,366	9,483,916
Total		**329,292**	**1,229,193,248**	**83,297**	**590,760,451**

According to the 2001 Census, the total population of Ratnapura is 1,008,164.

Loans

According to the survey, there were 83,297 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 590,760,451. Excluding NGOs, this equates to an average sum of SLR 7,110.64 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 12.10 people or SLR 585.98 per person in the district for the year 2000.

Savings

Total savings in 2000 amount to SLR 1,229,193,248. A total of 329,292 savings accounts were identified. Excluding Samurdhi and TCCSs (for whom individual savings figures are not available) and local NGOs, 324,655 savings accounts totalling SLR 918,047,027 give an average of SLR 2,827.76 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 1,219.24 per person in the district or one savings account per 3.06 people.

Local NGOs

9 NGOs were identified in the survey. A total of 886 S&C groups and 15,577 members were recorded.

Loans

A total number of 685 loans were issued in the year 2000. A total sum of SLR 3,336,414 was disbursed for the same period. An average of SLR 4,870.68 per loan can be calculated. Interest rates charged on loans vary between 21% and 33%.

Savings

A total number of 4,637 savings accounts existed by the end of the year 2000. A total sum of SLR 2,791,611 was saved. Of the 8 NGOs who provided complete savings information, an average of SLR 602.03 per savings account can be calculated. Interest rates paid on savings range between 8% and 12%.

District Note

UNDP microfinance activity in this district funds a total of 41 groups with 2,154 members who had collective savings of SLR 2,751,430, disbursing 1,139 loans with a total value of SLR 1,801,600 as of Sept 2001.

Trincomalee District

Microfinance Overview

Table 71 Trincomalee District Microfinance Activity

Type of Organisation	No of Units	No. Of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	6	90,742	16,867,000	1,221	973,000
Oxfam	22		185,172	1,401	4,799,500
Samurdhi	6		16,301,000	-	-
Zoa	35		400,000	143	1,677,800
Total		**90,742**	**33,753,172**	**2,765**	**7,450,300**

According to the Government Agent, the population of Trincomalee is 355,000.

Loans

According to the survey, a total number of 2,765 loans were disbursed in the district during the year 2000. The total value of loans disbursed for the same period was SLR 7,450,300 Excluding Samurdhi (for whom no loans information was available) an average sum of SLR 2,694.50 per loan can be calculated.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 128.39 people or SLR 20.99 per person in the district for the year 2000.

Savings

Savings information is very limited for this district. TCCS savings information is not available for this district. Samurdhi and Zoa have provided total savings volume only. Total volume of savings identified is SLR 33,753,172. A total of 90,742 savings accounts were identified. From this an average of SLR 185.88 per account can be calculated.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 95.08 per person in the district or one savings account per 3.91 people.

Local NGOs

No NGOs responded to the survey.

District Note

UNICEF engages in microfinance activities in this district and fund Zoa Refugee Care, who are a key practitioner, as an implementing partner. By the end of the year 2000 Zoa has established S & C groups in 35 villages within the district. Microfinance loans are given for the cultivation of highland crops, fishing, animal husbandry and setting up small businesses.

OXFAM work in 7 divisions with 22 villages. They partner with 3 NGOs: SSED in Kutchaveli, Kinniya, Town & Gravates and Thampalagamam; TDGSA in Kutchaveli; and, EUDA in Echilampathu. Oxfam work directly in Mutur, Kantale and Serawila.

The Sarvodaya Trincomalee East District Centre presently has 36 mobilised societies with approx. 1,440 members practising savings and credit for basic consumption and subsistence level, income generation purposes. These activities are based mainly in agricultural and fishing communities in the cleared, uncleared and ‘grey’ areas of the district. Presently, 50 Community Based Groups are in the process of being mobilised. SEEDS plan to introduce credit plus services in the near future.

In recent weeks, the government has announced that Samurdhi operations in the district are being dramatically scaled up as part of its stated aim to establish 75 banks within the first six months of the ‘cease-fire agreement’.

Vavuniya district

Microfinance Overview

Table 72 Vavuniya District Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CRBs	2	20,785	9,890,000	14,673	52,601,000
DRC		65	70,000	175	2,452,781
FORUT	16	2,019	3,226,764	514	3,232,496
Local NGOs	5	2,681	5,825,580	147	1,524,566
Oxfam	8	-	-	225	1,195,000
SAP		1,625	273,000	52	1,300,000
TCCSs	88	-	-	185	3,213,000
Total		**27,175**	**19,285,344**	**15,971**	**65,518,843**

According to the Government Agent, the total population of Vavuniya is 126,000.

<u>Loans</u>

According to the survey, there were 15,971 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 65,518,843. Excluding NGOs, this equates to an average sum of SLR 4,044.13 per loan.

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 7.89 people or SLR 519.99 per person in the district for the year 2000.

<u>Savings</u>

Total savings in 2000 amount to SLR 19,285,344. A total number of 27,175 savings accounts were identified. Excluding TCCS and Oxfam (for whom individual savings figures are not available or do not apply), and local NGOs, an average of SLR 549.51 per individual savings account.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 153.06 per person in the district or savings account per 4.64 people.

Local NGOs

5 NGOs were identified in the survey. A total of 262 S&C groups and 5,194 members were recorded.

Loans

A total number of 212 loans were issued in the year 2000. A total sum of SLR 4,832,550 was disbursed for the same period. Of the 3 NGOs who provided complete loans information, an average of SLR 7,191.27 per loan can be calculated. Interest on loans ranges between 8% and 24%. The Rural Development Foundation charge 8% flat and SEED charge 24% flat.

Savings

A total number of 2,535 savings accounts existed by the end of the year 2000. A total sum of SLR 5,604,761 was saved. Of the 3 NGOs who gave complete information on savings, an average of SLR 2,210.95 per savings account can be calculated. Interest on savings ranges between 8% and 17%.

District Notes

1 of the NGOs identified is actually a federation. In the year 2000 it issued 16 loans with a total value of SLR 3, 328, 000 at an average of SLR 208,000 per loan.

DRC fund SEED and the Rural Development Foundation in Vavuniya. In recent years DRC have funded a total of SLR 20,400,000 to these 2 NGOs.

Oxfam's Sustainable Livelihoods Development Project works in 8 villages throughout the district with over 400 families. In addition, Oxfam have recently started working in one of the welfare centres.

UNDP are currently in the process of developing an innovative new model of microfinance intervention linked to SANASA and village based Apex organisation. Please see the UNDP 'profile' in Part A of this report for more details.

Sewa Lanka operate at least 86 'Sewa Societies' in Vavuniya. Adequate information on savings and loan activities was not forthcoming. However, it is known that Sewa Lanka have received funding from UNHCR and that in the Sewa Societies current savings amount to approximately SLR 3,000,000 and loan funds are approximately SLR 8,400,000.

The Wanni Area

Microfinance Overview

Table 73 The Wanni Area Microfinance Activity

Type of Organisation	No of Units	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans	Loans in 2000 (SLR)
CARE	38	-	-	2,248	14,003,620
CRBs		17,419	15,070,000	-	-
FORUT	2	553	715,123	202	991,000
OXFAM	16			1,162	5,450,221
Total		**17,972**	**15,785,123**	**3,612**	**20,444,841**

According to sources inside the Wanni, the total population of the Wanni is 328,000.

Loans

According to the survey, there were 3,612 loans taken in the district during the year 2000. The total value of loans disbursed for the same period is SLR 20,444,841. This equates to an average sum of SLR 5,660.25

In terms of population, the total number and volume of loans referred to in the table above is the equivalent of one loan per 90.81 people or SLR 62.33 per person in the Wanni for the year 2000.

Savings

Savings information is limited for this district. Total volume of savings identified is SLR 15,785,123. A total of 17,972 savings accounts were identified. From this an average of SLR 878.32 per account can be calculated.

In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of SLR 48.13 per person in the district or one savings account per 18.25 people.

Local NGOs

In the event it was not possible to distribute the survey's NGO questionnaire into the Wanni region. However, it is known that there was a minimum of 29 discrete NGOs practising micro-credit through the use of revolving loan funds in the Wanni in 2000. In addition, 10 of these NGOs operate in more than 1 location. The WWDF, for example, has been funded by four different projects and operates micro-credit in both Mullaitivu and Kilinochchi districts. Furthermore, at least 9 fishing cooperatives and 1 FCS union have received loans and are practising micro-credit.

District Notes

CARE International's microfinance activity has been implemented through 2 main projects, namely the Food Security Project funded by CIDA and Micro Projects funded by UNHCR. The FSP works with NGOs, FCSs and S&C groups and the Micro Projects work mainly at the NGO level, although with some cooperatives.

In the uncleared part of Mannar, for example, CARE Micro Projects have funded 18 NGOs and FCSs since 1994. With a total number of 5,404 loans (4,299 – male, 1,105 – female) totalling SLR 23,474,296 with an average loan size of SLR 24,104. Loans have been given for fishing, highland crop cultivation, paddy cultivation, poultry and goat rearing, chilli and onion cultivation, home gardening and small businesses.

CARE have just started 2 new projects that involve microfinance components and will be ongoing for the next 3-4 years. The first project 'LIFT' is funded by CIDA as a follow on from the previous Food Security Project. A second project, 'Wanni Development', is funded by the Dutch Government.

OXFAM presently have 7 projects ongoing in the Wanni, 5 of which have an RLF component. However, micro-credit activities are continuing from previous projects and are still being monitored. Overall, OXFAM have funded at least 37 projects in the Wanni in recent years of which 18 have had an RLF component used for purposes such as income generation, training, paddy cultivation, highland cultivation, poultry farming and weaving.

As funders of various micro project activity since 1993-1994, UNHCR have been a major donor of microfinance in recent years. Detailed financial information was not forthcoming. However, it is estimated that during the year 2000, loans dispersed from micro projects funded NGOs totalled 2068 loans with a value of SLR 12,913,620. Although UNHCR's micro projects funding continues, they have recently decided to cease funding micro finance activities. For more details see UNHCR's 'profile' in Part A of this report.

SCN partners with PTDO in Mallavi implementing programmes in the Thunukkai division and with PPDRO in Kaluvanchikudi implementing programmes in the Vellavely division.

Summary

Microfinance Activity by Actor

Table 74 National Microfinance Activity by Actor

Actor	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans in 2000	Loans in 2000 (SLR)
Agromart	N/A	N/A	439	6,127,895
Arthacharya	7,380	3,451,009	518	9,449,562
CARE	234	261,714	3,735	22,065,620
CRBs	5,524,751	14,836,780,000	715,538	6,184,064,000
DRC	221	275,805	561	9,795,881
FORUT	29,141	28,965,037	3,864	14,581,424
Local NGOs	105,218	118,327,71959	57,610	212,385,761
RDBs	998,448	2,567,437,645	487,195	3,398,747,401
OXFAM	-	185,172	3,430	17,549,075
Samurdhi	-	2,120,403,370	271,657	1,822,189,000
SAP	15,975	2,688,750	208	5,200,000
SEEDS	627,511	608,367,495	162,688	713,652,847
TCCS	-	3,325,150,142	251,629	1,943,729,545
UNDP	-	-	1,793	14,499,276
World Vision	5,138	14,568,535	5,245	37,663,074
Zoa	-	400,000	244	2,234,100
Total	**7,314,017**	**23,627,262,393**	**1,966,354**	**14,413,925,461**

Actor Notes

Agromart do not provide savings services to their clients. Presently they practice microfinance with 317 CBOs in the 7 districts of Galle, Hambantota, Kurunegala, Matara, Moneragala and Puttalam. Cumulative microfinance activity as of 31st December 2000 is 2,292 individual loans disbursed with a value of SLR 29,789,771. This regional NGO is looking to expand its operations into the East Region in the near future.

Arthacharya provide savings and credit services to over 3,200 clients in 70 societies in the 5 districts of Galle, Gampaha, Kurunegala, Moneragala and Ratnapura. In the last 2 years they have received approx. SLR 20,000,000 in funding from, among others, the World Bank and NORAD.

CARE International partners with NGOs and works directly with co-operative societies and S&C Groups (usually women).

CARE's microfinance activity is mainly in conflict-affected areas and, accordingly their activities have been subject to displacement and interruption; especially during the year 2000.

Accounting for issues of overlap, inactivity and organisations with more than one subsidiary, CARE presently works with least 27 different NGOs, 29 co-operative societies and 26 S&C groups.

Including the CAB-J project that started in Jaffna in 2001, CARE Micro-projects (Funded by UNHCR) and the CIDA funded Food Security Project, it is possible to calculate that, cumulatively, CARE's microfinance activity in Batticaloa, Jaffna and the Wanni amounts to a minimum of 10,975 loans to clients totalling at least SLR 49,300,000[38] 2 new CARE projects LIFT and Wanni Development are just commencing operations having microfinance segments that focus on capacity building and broadening of member outreach of established partners. These projects also have a remit to assist social and economic mobilisation at the community level.

There are 306 Co-operative Rural Banks operating in all districts of the country with 1,476 branches as at the end of 2000. A total number of 5,524,751 savings accounts with a value of SLR 14,836,780,000 as of the same period. A total number of 715,538 loans with a value of SLR 6,184,064,000 disbursed in 2000. As of the end of 2000, the CRBs have invested some SLR 8,500,000,000 in commercial banks, Treasury Bills and other investments.

DRC commenced microfinance operations in 2000 as part of their to concentrate on the rehabilitation of internally displaced persons. DRC operate in Anuradhapura, Mannar and Vavuniya. Partnering with NGOs, In 2000 DRC's microfinance activity totalled 221 savings accounts with a value of SLR 275,805 and disbursed 561 loans to a value of SLR 9,795,881. With the advent of the ceasefire, DRC are currently planning a rapid expansion into other areas of the North & East region.

FORUT practices microfinance through NGO and CBO partners in Anuradhapura, Colombo, Gampaha, Hambantota, Jaffna, Kegalle, Matale, Puttalam, Vavuniya and the Wanni. FORUT is arguably the longest standing INGO microfinance granter-practitioner in the country. In 2000 FORUT, 29,141 savings accounts at a value of SLR 28,965,037 and disbursed 3,864 loans at a value of SLR 14,581,424.

FORUT have recently reviewed their policy on microfinance and are moving away from subsidised models towards more business-like like approaches focussed on financial and operational sustainability. FORUT are also beginning to incorporate support services for the entrepreneurial poor into their programmes.

[38] This actual total cumulative loans information for CARE is likely to be significantly higher than this. Estimates do not account for cumulative lending in Killinochchi or Mullaitivu districts. Also figures do not include S&C activity for CARE's recently completed RAPID project in Trincomalee or CARE's TEAM project outside of the conflict affected area as detailed figures were not available.

The NGO questionnaire survey identified a total of 74 NGOs practising microfinance in 19 Districts throughout the country that showed a total number of 105,218 savings accounts at a value of SLR 118,327,719 and disbursed 57,610 loans to a value of SLR 212,385,761. In the course of the wider survey of microfinance actor activity and not accounting for multiple branches of the same organisations a total of 141 NGOs practicing microfinance were identified.

Of these approximately two thirds operate in the North and East region being funded primarily by AusAID, CIDA, NORAD, OXFAM, UNHCR. However, of these, the 74 NGOs responding to the questionnaire represent 52% of the known NGO organisations practicing microfinance in Sri Lanka.

In addition, it is known that NORAD has recently funded approx. 25 NGOs throughout the country. Unfortunately, detailed information on NORAD funding was not made available to the study.

OXFAM practice microfinance directly and with NGOs in the North and East Region (Ampara, Batticaloa, Mannar, Trincomalee, Vavuniya and the Wanni) and in the plantations (Badulla and Nuwara Eliya). In 2000 it is estimated that OXFAM disbursed 3,430 loans totalling SLR 17,549,075. OXFAM are presently considering upgrading their microfinance competence and escalating their levels of intervention in the event of a durable peace agreement.

The Regional Development Banks operate microfinance in 14 districts of the country. In the year 2000 a total of 998,448 savings accounts to a value of SLR 2,567,437,645 and disbursed 487,195 loans at a value of SLR 3,398,747,401. Since restructuring, the RDBs have become marginally profitable, however, non-performing loan portfolios exceed SLR 200,000,000 in 3 of the banks and over SLR 100,000,000 in two others.

Samastha Lanka Praja Sanwardena Mandalaya (SLPSM) practice microfinance in the three districts of Hambantota, Kalutara and Moneragala. As of the 31st of December 2000 it had mobilised a total number of 3,541 savings accounts at a value of SLR 11,110,000. During the year 2000 it disbursed a total of 1,645 loans at a value of SLR 8,422,300. As of the 31st December 2000 it had disbursed a cumulative total of 4,251 loans at a value of SLR 29,034,662. SLPSM have received donor funding from AusAID for an economic improvement project for the period 2000 to 2001 to a value of AUS$ 18,826. Unfortunately it was not possible to include these figures as they were not discovered until after the time of writing.

Samurdhi operated microfinance in 19 of the districts in the country in 2000. In the year 2000 a total value of savings accounts was SLR 2,120,403,370 and loans disbursed were 271,657 to a value of SLR 1,822,189,000. Cumulatively, it is estimated that Samurdhi have disbursed 481,652 loans at a value of SLR 4,610,692,000. With the present cease fire Samurdhi have committed to a rapid expansion of over 75 new banks in the North and East region in the next 6 months.

The South Asia Partnership practices microfinance in 11 districts in the country with over 200 active societies with 5000 members. Over the past two years they have received approx. SLR 40,000,000 by, among others, CIDA, AusAID, NORAD and UNDP. In the year 2000 savings activity totalled 15,975 accounts to a value of SLR 26,688,750 and disbursed 208 loans at a value of SLR 5,200,000.

SEEDS operate microfinance across 18 districts in the country[39] As of the end of 2000, SEEDS had a total of 627511 at a value of SLR 608,367,495 and disbursed 921,596 loans at a value of SLR 2,603,967,375.

SEEDS are the most professional and transparent MFI in Sri Lanka offering a wide range of support services to their clients. The organisation is in the process of implementing a devolved credit plus intervention in Batticaloa in partnership with Sarvodaya The gateway project is the vehicle through which SEEDS hope to expand into the whole North and East region.

TCCS figures suffer from the frequently lax reporting activities of individual TCCSs throughout the country. SANASA estimates national savings and loans activities annually and these figures are accepted by the Central bank of Sri Lanka. However, virtually no information is routinely reported from the North & East region and given the war affected economies, it was felt that utilising nationally based averages for this region was wholly inappropriate as it would drastically skew microfinance activity on the ground.

For example, the stated estimates for Mannar for the year 2000 were 17,034 loans with a value of SLR 175,832,955. On the other hand, the GA's office in Mannar reported a total of 88 loans to the value of SLR 443,600. Given this, it was decided omit TCCS estimates in the North and East region and wherever possible to gain on the ground information.

This in turn, led to the discovery that the district union in Trincomalee has to all intent and purpose been inactive since 1997. Furthermore, TCCS activity in the Wanni is largely limited to Kilinochchi where the local authorities have directed funds to be used for housing loans to help rebuild the town. In Jaffna numbers of TCCS branches have drastically reduced due to the conflict. In the year 2000, for example, some SLR 18,000,000 in loans were non-performing due to displacement, representing over 50% of the overall loans portfolio.

A number of UNDP microfinance projects have recently completed but continue to revolve. See the UNDP profile in Part A of this report for more details. In the North and East Region, the Umbrella Programme is focussed on providing access to financial services above the level of basic subsistence and targeting the entrepreneurial poor.

In Jaffna the project is proactively strengthening the MPCSs and their CRBs. In particular, the project has encouraged the use of 'matched' funding and the mobilisation of existing co-operative funds. 10 of the existing 25 active MPCSs have been involved in the programme with plans to introduce another seven. In the year 2000, 1,793 loans were disbursed at a value of SLR 14,499,276.

In Vavuniya the programme is to focus on building up SANASA's ability to operate as an effective MFI apex organisation delivering services to a wide range of micro finance practitioners at the local level.

[39] SEEDS activities Mahayayanganacut across more than one district and are unable to be separated at the district level. Consequently, the S&C figures in the survey omit Mahayayangangana.

World Vision Lanka works in 5 districts in the country. In the year 2000 WVL a total number of 5,138 savings accounts at a value of SLR 14,568,535 and disbursed 5,245 loans at a value of SLR 37,663,074. WVL believes that the primary purpose of microfinance is to enable the entrepreneurial poor to access financial services and more broadly include the provision enterprise development services as a means of creating sustainable income generation for the communities that it works with.

Zoa Refugee Care work in Trincomalee and Mannar and partner on behalf UNICEF, UNICEF and WFP. In the year 2000 a total of 244 loans were disbursed at a value of SLR 2,234,100. Microfinance represents approx. 30% of their activity with the process being integrated with broader social and community development.

Microfinance Activity by District

Savings

Average levels of Savings Accounts by District

Table 75 Average levels of Savings Accounts by District

	District	Average No of Accounts Per x No of People	Average Savings Amount Per Person (SLR)
1	Hambantota	1.33	2,221.30
2	Kurunegala	1.40	2,387.15
3	Matara	1.50	2,290.47
4	Polonnaruwa	1.71	1,556.16
5	Puttalam	1.99	1,522.80
6	Matale	2.08	1,163.89
7	Galle	2.12	1,766.08
8	Kegalle	2.17	1,464.34
9	Badulla	2.23	934.48
10	Kandy	2.44	1,134.11
11	Nuwara Eliya	2.60	826.74
12	Gampaha	2.62	1,663.33
13	Ratnapura	3.06	1,219.24
14	Moneragala	3.22	653.15
15	Anuradhapura	3.31	523.78
16	Jaffna	3.53	562.59
17	Kalutara	3.63	1,209.85
18	Trincomalee	3.91	95.08
19	Vavuniya	4.64	153.06
20	Colombo	4.78	1,062.06
21	Ampara	5.88	261.50
22	Mannar	9.92	68.52
23	The Wanni	18.25	48.13
24	Batticaloa	18.70	20.69
	Total	**2.57**	**1,258.47**

The survey identified a total of 7,414,017 individual savings accounts. This is the equivalent of one savings account per every 2.57 people or 2.07 savings accounts per family in the country.

Given that these figures do not include individual savings account information from TCCS, Samurdhi or the formal financial services sector, there is clearly a huge level of savings mobilisation present in Sri Lanka as a whole.

Averaged by population, the district of Hambantota has the highest relative levels of savings accounts in the country with 1 savings account per 1.33 people. This is the equivalent of 4.2 savings accounts per family.

Hambantota is closely followed by the districts of Kurunegala, Matara and Polonnaruwa all having an average more than 3 individual savings accounts per family.

Overall, 20 of the 24 areas of the country surveyed recorded averages of at least one savings account per family. An unexpected finding of the survey was that Polonnaruwa and Puttalam districts ranked 4th and 5th respectively.

Average Value of Savings by District

Table 76 Average Value of Savings by District

No	District	Average Savings Amount by Population (SLR per person in the district)	Average No. of Savings Accounts by Population (1 a/c per x number of people)
1	Kurunegala	2,387.15	1.40
2	Matara	2,290.47	1.50
3	Hambantota	2,221.30	1.33
4	Galle	1,766.08	2.12
5	Gampaha	1,663.33	2.62
6	Polonnaruwa	1,556.16	1.71
7	Puttalam	1,522.80	1.99
8	Kegalle	1,464.34	2.17
9	Ratnapura	1,219.24	3.06
10	Kalutara	1,209.85	3.63
11	Matale	1,163.89	2.08
12	Kandy	1,134.11	2.44
13	Colombo	1,062.06	4.78
14	Badulla	934.48	2.23
15	Nuwara Eliya	826.74	2.60
16	Moneragala	653.15	3.22
17	Jaffna	562.59	3.53
18	Anuradhapura	523.78	3.31
19	Ampara	261.50	5.88
20	Vavuniya	153.06	4.64
21	Trincomalee	95.08	3.91
22	Mannar	68.52	9.92
23	The Wanni	48.13	18.25
24	Batticaloa	20.69	18.70
	Total	**1258.47**	**2.57**

In terms of population, the district of Kurunegala has the highest relative savings level the country, with a savings invested equivalent of SLR 2,387.15 per person in the district. This is equivalent to SLR 13,368.04 per family.

Matara and Hambantota also had savings averages of more than SLR 2,000 per person and equivalents of more than SLR 10,000 per family in savings.

Overall, 13 of districts had levels of savings equivalent to more than SLR 1,000 per person in the district with 14 districts having an equivalent of more than SLR 5,000 per family in savings.

Overall, the districts of Kurunegala, Hambantota and Matara have the highest relative levels of microfinance savings supply. However, clearly levels of supply and mobilisation are robust in most of the country.

Loans

Average Level of Loans

Table 77 Average Level of Loans by District

District	No. of Loans by Population (1 Loan per x No of People)	Disbursed Amount Per Person in the District (SLR)
Polonnaruwa	4.31	1,256.90
Puttalam	4.66	1,117.02
Hambantota	4.77	1,336.08
Matara	5.51	1,699.99
Badulla	5.69	826.72
Kurunegala	6.09	1,678.79
Matale	6.76	796.39
Vavuniya	7.89	519.99
Kandy	7.93	824.51
Galle	8.75	1,051.12
Anuradhapura	9.04	497.83
Moneragala	9.88	536.49
Gampaha	12.08	737.13
Ratnapura	12.10	585.98
Kalutara	13.44	781.61
Kegalle	14.04	439.90
Ampara	14.23	321.07
Nuwara Eliya	14.81	480.55
Colombo	16.54	495.33
Jaffna	80.89	62.22
Batticaloa	90.52	44.55
The Wanni	90.81	62.33
Trincomalee	128.39	20.99
Mannar	168.42	80.73
Total	**9.55**	**767.74**

In terms of population, 4 districts have averages of more than one loan per family. A further 8 districts have an average of more than one loan for every 2 families. A further 7 Districts have an average of more than one loan for every 3 families in the district. At 1 loan per every 9.55 people, the national average is the equivalent of more than one loan per every 2 families.

Averages Value of Loans

Table 78 Averages Value of Loans by District

District	Disbursed Amount Per Person in the District (SLR)	No. of Loans by Population (1 Loan per x No of People)
Matara	1,699.99	5.51
Kurunegala	1,678.79	6.09
Hambantota	1,336.08	4.77
Polonnaruwa	1,256.90	4.31
Puttalam	1,117.02	4.66
Galle	1,051.12	8.75
Badulla	826.72	5.69
Kandy	824.51	7.93
Matale	796.39	6.76
Kalutara	781.61	13.44
Gampaha	737.13	12.08
Ratnapura	585.98	12.10
Moneragala	536.49	9.88
Vavuniya	519.99	7.89
Anuradhapura	497.83	9.04
Colombo	495.33	16.54
Nuwara Eliya	480.55	14.81
Kegalle	439.90	14.04
Ampara	321.07	14.23
Mannar	80.73	168.42
The Wanni	62.33	90.81
Jaffna	62.22	80.89
Batticaloa	44.55	90.52
Trincomalee	20.99	128.39
Total	**767.74**	**9.55**

In terms of population, 2 Districts have averages of more than SLR 9,000 per family. A further 4 Districts have an average of over SLR 5,000 per family. The national average loan amount per family is SLR 4,299.34. Overall, there is clearly a robust supply of access to microfinance credit throughout most of the country.

Summary of National Microfinance Activity

Table 79 National Microfinance Activity by District

District	No. of Savings A/Cs	Total Savings (SLR)	No. of Loans in 2000	Loans in 2000 (SLR)
Ampara	100,190	154,113,132	41,414	189,220,834
Anuradhapura	225,517	390,987,684	82,588	371,611,526
Badulla	347,971	723,807,123	136,225	640,340,703
Batticaloa	28,240	10,925,210	5,833	23,524,764
Colombo	467,409	2,372,786,866	135,055	1,106,638,175
Galle	467,448	1,749,367,249	113,152	1,041,173,837
Gampaha	787,877	3,436,595,011	171,064	1,522,987,250
Hambantota	396,216	1,167,003,448	110,028	701,936,914
Jaffna	125,981	250,350,828	5,501	27,690,121
Kalutara	292,429	1,283,404,631	78,945	829,132,154
Kandy	522,409	1,443,116,367	160,515	1,049,154,528
Kegalle	359,726	1,141,851,607	55,546	343,020,848
Kurunegala	1,036,801	3,467,028,011	238,450	2,438,221,075
Mannar	12,898	8,770,980	670	10,333,000
Matale	212,830	514,938,339	65,427	352,344,236
Matara	507,846	1,743,589,075	138,045	1,294,094,524
Moneragala	123,162	258,761,679	40,110	212,543,694
Nuwara Eliya	269,045	578,784,026	47,278	336,428,138
Polonnaruwa	210,438	558,966,279	83,433	451,474,572
Puttalam	354,403	1,074,097,961	151,340	787,880,133
Ratnapura	329,292	1,229,193,248	83,297	590,760,451
Trincomalee	90,742	33,753,172	2,765	7,450,300
Vavuniya	27,175	19,285,344	15,971	65,518,843
The Wanni	17,972	1,5785,123	3,612	20,444,841
Total	**7,414,017**	**23,627,262,393**	**1,966,354**	**14,413,925,461**

Volume and Number of Loans

The survey identified a total number of 1,966,354 microfinance loans disbursed in Sri Lanka during the year 2000. The total value of loans disbursed for the same period is SLR 14,413,925,461.

Excluding local NGO activity, a total number of 1,908,744 loans with a value of SLR 14,201,539,700 were disbursed. From this, a national average loan size of SLR 7,440.25 can be calculated

In terms of population, the total number and volume of loans identified in the survey is the equivalent of one loan per 9.55 people in the country or SLR 767.74 per person.

Volume and Number of Savings

A total number of 7,314,017 savings accounts were identified by the survey as of 31st December 2000. The total value of savings for the same period is SLR 23,627,262,393.

Excluding TCCS and Samurdhi (for whom information on numbers of individual savings accounts is not available), local NGOs and any other activity where there is not both a number of savings accounts and value correlate, a total of 7,208,799 savings accounts with a value of SLR 18,062,795,990 was identified. From this a national average savings account size of SLR 2,505.66 can be calculated.

In terms of population, the total number and volume of savings accounts identified in the survey is the equivalent of one savings account per 2.57 people in the country or SLR 1,258.47 per person.

Local NGO Activity

A total of 74 NGOs were identified in the NGO questionnaire survey. A total number of 19,586 savings groups and 184,573 members were recorded.

Volume and Number of Local NGO Loans

A total number of 57,610 individual NGO loan accounts were identified nation wide. A total value of SLR 212,385,761 in loans was disbursed during the year 2000. Of the 60 NGOs who provided complete loans information, a national average local NGO loan size of SLR 3,406.84 can be calculated.

Volume and Number of NGO Savings

A total number of 105,218 individual savings accounts were identified in the NGO questionnaire survey. Of the 60 NGO who provided complete savings information, a national average local NGO savings account size of SLR 1,108.20 can be calculated.[40]

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[40] NGO Savings and loans averages given above do not include the 2 NGO who responded from Mannar as, to avoid overlap, their figures have been included in the S&C information of the DRC.

Conclusion

This survey has looked at microfinance activity in every district in the country. The objective of the exercise was to take a comprehensive 'snapshot' of microfinance supply in order to determine existing levels of savings and loans activity throughout Sri Lanka.

Significant levels of savings and credit activity are present in all districts and most village communities have been mobilised. In terms of micro-credit, the survey found that nearly two million microfinance loans with a value of SLR 14.4 billion were disbursed during the year 2000. This is the equivalent of one loan for every two families in the country or SLR 4,299 for every family in the country. The highest concentration of loans disbursed was found in the districts of Polonnaruwa, Puttalam, Hambantota and Matara each having double the national average. The highest volumes of monies lent were found in the districts of Matara, Kurunegala, Hambantota, Polonnaruwa, Puttalam and Galle.

The survey found that in total there were over seven million savings accounts with a value of SLR 23.6 billion as of the 31st December 2000. This is the equivalent of two savings accounts for every family in the country or SLR 7,047 for every family in the country. The districts of Hambantota, Kurunegala, Matara and Polonnaruwa all had averages of more than three savings accounts for every family. Fourteen districts had equivalents of more than SLR 5,000 in savings for every family in the district.

The operating conditions of the conflict affected area and the absence of government sponsored schemes that target the poorest and major service providers means that both savings and credit activities are present at much lower levels in the North and East region than elsewhere in the country. The districts of Jaffna, Batticaloa, Trincomalee, Mannar and the Wanni area all have less than one quarter of the levels of loan activity found anywhere else in the country. The district of Jaffna has an average of over SLR 3,000 in savings for every family, however the districts of Trincomalee, Mannar, Batticaloa and the Wanni area all have averages of less than SLR 600 in savings for every family.

The survey was for the period ending December 31st 2000. Since then the Samurdhi Programme has continued to expand its outreach. It is not at all clear however if the overall levels of supply have increased significantly in the past 18 months. There is evidence to suggest that the TCCS movement has been adversely affected by competition from the Samurdhi Programme. Detailed 'ground level' research is required to gain a more thorough appreciation of the state of the movement. In the North and East Region levels of microfinance activity have increased in Jaffna since 2001 as displaced savings and credit groups have regrouped. Savings activity has also increased where Samurdhi has arrived. Overall, however, savings do not appear to be on the increase yet in the region and there is little evidence to suggest that micro-credit activities have increased either. Hopefully this will change as Samurdhi extends its credit services, commercial activity and employment opportunities picks up and the on-going peace process continues.

Findings

The key and main findings of the study are presented below. These are presented in terms of the supply of microfinance, the funding of microfinance and practitioner issues.

1. The Supply of Microfinance in Sri Lanka

The supply of microfinance in Sri Lanka has the following key characteristics:[41]

- Broad-based coverage of microfinance activity throughout most of the country.
- High levels of supply relative to the overall population.
- High levels of supply in the Southern Province and the districts of Kurunegala, Polonnaruwa and Puttalam.
- Low levels of supply in the North & East Region.

Savings

Microfinance savings activity in Sri Lanka has the following key characteristics:

- High levels of savings mobilisation relative to the overall population.
- High levels of savings collateralisation relative to the number of loans disbursed.
- Increased levels of savings mobilisation among the poorest.

Microfinance savings activity in Sri Lanka has the following main characteristics:

- The national average is the equivalent of more than 2 savings accounts for every family in the country.
- The districts of Hambantota and Kurunegala both have averages of 4 or more savings accounts for every family.
- The Wanni area and the district of Batticaloa both have averages of less than 1 savings account for every three families.
- The national average value of savings is the equivalent of more than SLR 7,000 for every family in the country.

[41] Unless otherwise stated, all savings data is cumulative as at the 31st December 2000. Loan data is not cumulative and for the year 2000.

- ❖ The districts of Kurunegala, Matara and Hambantota all have savings equivalents of more than SLR 10,000 for every family.
- ❖ The Wanni area and the districts of Mannar and Batticaloa all have savings equivalents of less than SLR 400 for every family.

Loans

Microfinance loan activity in Sri Lanka has the following key characteristics:

- ❖ High levels of loan uptake relative to the overall population.
- ❖ Broad range of different types of loan activity.
- ❖ Significant levels of loans for enterprise development purposes.

Microfinance loan activity in Sri Lanka has the following main characteristics:

- ❖ The national average is the equivalent of more than one loan disbursed for every two families in the country.
- ❖ The national average value of loans disbursed is the equivalent of over SLR 4,000 for every family in the country.
- ❖ The districts of Polonnaruwa, Puttalam and Hambantota all have loan averages of more than one loan for every family, ranking above the districts of Badulla, Kurunegala and Matale.
- ❖ The districts of Batticaloa, Jaffna, Trincomalee, and the Wanni area all have loan averages of less than one loan for every 14 families. The district of Mannar has an average of less than one loan for every 30 families.
- ❖ The districts of Matara and Kurunegala both have an average loan disbursal equivalent of more than SLR 9,000 for every family. The districts of Hambantota, Polonnaruwa, Puttalam and Galle all have an average loan equivalent of more than SLR 5,000 for every family.
- ❖ The districts of Batticaloa, Jaffna and Mannar, and the Wanni area, all have an average loan equivalent of less than SLR 500 for every family.

Service Providers

The service provider activity in Sri Lanka has the following key characteristics:

- ❖ Wide range of service providers.
- ❖ Wide range of microfinance products.
- ❖ Increased competition in the market place in the last five years.
- ❖ Increased niche marketing.

The service provider activity in Sri Lanka has the following main characteristics:

- ❖ Broad range of average loan sizes among service providers.
- ❖ More formal financial institutions in the market place.
- ❖ Increased provision of commercial 'for-profit' products.
- ❖ The Regional Development Banks disbursed over SLR 3.3 billion in loans in the year 2000 and had more than SLR 2.5 billion in savings as at the 31st of December 2000.
- ❖ Samurdhi is the largest single service provider in the country and is expanding rapidly nationwide, disbursing SLR 1.8 billion in loans during the year 2000 and holding SLR 2.1 billion in savings as at the 31st December 2000.
- ❖ SEEDS' is the largest private sector service provider in the country and the third largest single service provider nationally.
- ❖ SEEDS' is the standard bearer of microfinance professionalism and transparency in the country and has recently been awarded a 'BB' credit rating.
- ❖ Taken as a whole the co-operative movement is by far the largest microfinance actor type in the country. The MPCSs collectively disbursed some SLR 6.1 billion in loans during the year 2000 and hold SLR 14.8 billion in savings as at the 31st of December 2000. It is estimated that collectively the TCCSs disbursed some SLR 1.9 billion in loans during the year 2000 and hold some SLR 3.3 billion in savings as at the end of the same period.

- The TCCS movement has been adversely affected by direct competition and the conflict in the last decade, no one knows for certain how many of the more than 8,000 registered societies are still active.
- SANASA presently appears to be an ineffective regulatory body.
- There are high levels of 'political capture' throughout the government programmes, the co-operative movements and local NGOs in the North & East region.
- There are significantly less local NGOs practising microfinance than was previously thought.
- Local NGOs represent less than 5% of national micro-credit service provision.
- Local NGOs provide between 50% and more than 90% of micro credit activity in the North and East region, depending on the district.
- There are still very few NGOs in the North and East region that could be categorised as professional MFIs.
- Taken as a group, the INGOs and multilateral agencies oversee the majority of micro credit activity in the North and East region.

2. The Funding of Microfinance in Sri Lanka

The funding of microfinance has the following key characteristics:

- Most micro credit activity is funded through savings.
- There is little need for large-scale direct grant in aid funding of financial instruments other than in the North and East region and possibly second tier wholesale organisations.
- There is a need for widespread technical assistance funding throughout much of the country.
- There is an urgent need for a range of economic recovery initiatives to be funded in the North and East region that use 'hard' and 'soft' policy tools focused on wide spread enterprise development.
- Broad based community targeting should be accompanied by the funding of schemes that specifically target 'special' groups such as, demobilised soldiers,

those incapacitated by conflict, widows, female-headed house holds and youth.

The funding of microfinance has following main characteristics:

- There is less international funding of large-scale government microfinance programmes.
- Microfinance activities are funded for a range of different reasons including as a ‘membership’ tool to help foster community and civil society rehabilitation.
- One major funder of microfinance activity has changed from grant in aid funding to extending loans for direct financial instruments.
- One major funder of microfinance activity is working directly with a formal financial institution.
- Many funders are placing an increasing emphasis on ‘soft’ policy tools rather than ‘hard’ financial instruments.
- Funding in the North and East region is mainly directed at INGOs and NGOs whose main activity is not microfinance.
- Many funders lack ‘in-house’ microfinance expertise and are not familiar with ‘financial-systems’ approaches to microfinance.
- Most INGOs focus on ‘rapid-disbursement’ strategies and do not strategically leverage their resources leading to unnecessarily limited outreach, low field worker to client ratios and high transaction costs.
- Some of the international funders appear unable to identify the microfinance component of their intervention assistance.
- The transparency of some national and international funders is an issue.
- Many of the key funders of microfinance activities are in the process of major strategic reviews of their development briefs.

3. Practitioner Issues in Microfinance in Sri Lanka

There are a number of key issues and themes that are central to the practice of microfinance in Sri Lanka:

Sustainability

- ❖ The long-term sustainability of present microfinance schemes is of the greatest concern in Sri Lanka at this time.
- ❖ Effective financial indicators and performance management systems are noticeable by their absence in the majority of microfinance schemes surveyed.
- ❖ Most schemes lack sufficient managerial expertise in microfinance.
- ❖ Most schemes do not use good and best practice standards of microfinance.
- ❖ Financial management systems on the whole are cumbersome and are incapable of ensuring effective performance management.
- ❖ Risk is rarely monitored nor provision made for insurance.

The Politicisation of Microfinance Services

- ❖ Issues of 'political capture' of microfinance services in Sri Lanka is widespread, reaching through government managed programmes, the cooperative movement and the state controlled commercial banking sector.
- ❖ Many of the local NGOs are highly politicised especially in the North and East region of the country.
- ❖ Nepotism, overstaffing, 'favouritism' and the financing of politically favoured projects inhibits the development of viable and business like microfinance schemes – putting peoples savings at unnecessary risk.
- ❖ Debt forgiveness of mainly agricultural loans for political purposes skews the financial landscape and de-stabilizes service providers that supply microfinance services to the poor in Sri Lanka.

Cultures of Dependency in Microfinance

- Most of the sector remains highly subsidised.
- There is a widespread belief that poverty alleviation and financial viability are incompatible.
- The majority of INGOs practicing microfinance unintentionally create strategic attitudes of dependence and artificially skew the financial landscape by adopting relief based approaches to the management of fungible assets.
- Most relief based micro finance interventions are conceptualised using 'welfare-based' approaches, and frequently fail to charge market related interest rates for credit or manage fungible assets in a business like manner.
- Microfinance is frequently used where grant in aid funding would be more appropriate and sometimes this causes more harm than good.

Monitoring and Evaluation

- Most monitoring and evaluation systems are not designed according to good and best practice standards.
- Within existing schemes most monitoring and evaluation places more emphasis on the client reporting information than on the effective and meaningful management of the information itself.
- Most schemes do not use the recognised financial ratios, follow up reporting systems and measurement of the loan portfolio at risk.
- Sufficient levels of training is not provided.
- The absence of effective monitoring and evaluation systems limits the ability of the organisation to manage its funds and at worst it encourages lax standards, mismanagement and corruption.

Impact Analysis

- The use of impact analysis is virtually non-existent, baseline research is rarely undertaken and the impact of schemes is mainly based on anecdotal information.

- The use of qualitative impact analysis techniques is fairly new in the area of microfinance and most evaluation activity is focused on inputs and outputs rather than outcomes.
- Given the scale and breadth of microfinance schemes implemented for the purpose of poverty alleviation in Sri Lanka over the last two decades, relatively little is known about the impact that such schemes have had on the poorest and most disenfranchised members of society.

Training

- There is a need for externally accredited professional microfinance and enterprise/economic development training institute in Sri Lanka.
- In house microfinance training is undertaken by some of the larger service providers, normally for their own staff and the staff of their partner organisations.
- Most of the in house training is undertaken in 3 to 5 days courses that are concerned with basic financial book keeping and savings and credit criteria.
- The absence of training in microfinance is another threat to the sustainability of programmes.

Gender

- Targeting of women has been a key component of microfinance since its inception and most microfinance schemes in Sri Lanka target women to a significant degree.
- Many funders and funder-practitioners routinely require a gender component to be present within any microfinance proposal.
- Of the local NGOs surveyed over half had at least 75% women borrowers, and 20% of them have 90% or more.
- The use of microfinance to target ‘war widows’ and female-headed households is common among funders and funder-practitioners.

Strategic Recommendations

The key strategic recommendations of this study are that:

- The sustainability of present microfinance schemes be ensured to protect the current high levels of supply nation wide.
- Economic recovery initiatives urgently be deployed in the North and East region.

Recommendations

The main recommendations of this study are that:

National

- Grant in aid funding of 'hard' financial instruments in the main be replaced with technical assistance and a range of other 'soft' policy tools.
- The funding of medium term microfinance interventions be conditional upon the inclusion of baseline research and monitoring and evaluation systems that include effective financial ratios such as on time recovery, portfolio at risk and operational and financial self sufficiency.
- The funding of new microfinance projects with NGOs and cooperative societies be contingent upon the projects being based on financial-systems approaches.
- Enterprise and business development services be developed nationally.
- Advocacy initiatives focussed on the de-politicisation of Samurdhi and the co-operative movement be increased.
- Research be undertaken to investigate the penetration of savings mobilisation among the ultra poor nationally.
- Competition in microfinance from formal financial institutions be encouraged.
- The wide scale use of microfinance insurance products be encouraged nationally.
- National practitioners be encouraged to undertake credit rating assessment exercises.

- Wholesaling of loans for direct financial instruments be encouraged nation-wide.
- The Microfinance Network be developed into a 'stand-alone' national service organisation.
- A national internationally accredited professional microfinance and enterprise/economic development training institute be established.
- A professional member institute for microfinance, enterprise and economic development be established.
- Major funders and national service providers should become members of CGAP and have accredited microfinance trainers within their organisations.

The North and East Region

- A combination of 'hard' financial instruments and 'soft' policy tools be funded in the North and East Region.
- The funding for economic recovery initiatives be focused on the provision of higher-level loans for enterprise development and linking local organisations to these services.
- Microfinance funders and service providers such as NDTF, SLCDF, SEEDS, Samurdhi and the Regional Development Banks be encouraged to expand into the North and East region.
- Granter activity should prioritise funding to practitioners that are prepared to practice microfinance exclusively.
- Granters should form longer-term relationships with practitioners that are prepared to become professional MFIs.
- Where microfinance activities are funded on a relief-basis or for purposes of community rehabilitation schemes should be encouraged to charge near-market related rates of interest and adopt good and best standards of practice.
- Research be undertaken to investigate the feasibility of using the co-operative movement as a vehicle for economic recovery region wide.

Conclusion

The study found that there is a broad base of microfinance activity and that relative to the population savings mobilisation and micro credit activity are high. In recent years the Southern Province has caught up with and in some cases overtaken districts that were previously regarded as leaders in microfinance.

Historically microfinance activity was heavily subsidised but now appears to be largely collateralised by savings. Apart from the North and East region the issue of most concern is the sustainability of the present high levels of microfinance. The belief that poverty targeting and financial sustainability are not compatible within microfinance schemes unfortunately persists.

Microfinance has reached a stage of maturity where competition and business like practices are necessary if the long-term interests of microfinance clients are to be effectively served. Increased commercialisation, regulatory reform and widespread capacity building of existing schemes is essential.

The team believes that if urgent action is not taken to restructure these organisations, train staff, put in place proper financial accounting practices and develop independent training institutes and professional bodies, in the medium term the present access to microfinance will be reduced at the expense of the loss of savings of the communities involved and the waste of past assistance so freely given by the international community.

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Technical Appendix