Microfinance and Conflict in Sri Lanka

Towards a Sustainable Socio-Economic Development in the North and East.

A position paper prepared by
ProMiS - Promotion of the Microfinance Sector
Sri Lanka

Colombo
March, 2007

COOPERATION
SRI LANKA
FEDERAL REPUBLIC OF
GERMANY

Background

Promotion of the Microfinance Sector (ProMiS) is a comprehensive program implemented by the German Technical Cooperation (GTZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and in partnership with the Sri Lankan Ministry of Finance and Planning.

The German Technical Cooperation (GTZ) is an international cooperation enterprise for sustainable development with worldwide operations. For 30 years, it has been providing viable, forward looking solutions for political, economic, ecological and social development in a globalised world. GTZ supports complex reform and change processes, often working under difficult conditions. Its corporate objective is to improve people's living conditions on a sustainable basis. GTZ's main client is the German Federal Ministry for Economic Cooperation and Development (BMZ).

ProMis' target is to improve the income and employemt structure of the entrepreneurial poor and their households. To achieve a sustainable impact ProMiS works in close collaboration with local policy makers, microfinance institutions (MFI), and microfinance service providers. ProMiS operates island-wide, however with a special focus on disadvantaged areas (North and East and neighboring districts).

Due to the recent flare-up of the conflict, microfinance operations in those areas are affected in various ways. The following paper intends to initiate a reflexion on some important question arising out of this situation: To what extend are microfinance operations in conflict affected areas possible, and what are the special adjustments to be made to project design, in order to do no harm and potentially contribute to conflict transformation?

The authors would like to cordially thank to everybody who contributed to this paper, especially the microfinance practicioners in the North and East.

Authors:
Fabian Tritschler
David Bartocha

Responsible:
Dr. Dirk Steinwand

Table of Contents

Executive Summary

In the aftermath of the 2004 Tsunami hopes loomed high that the conflict between the Liberation Tigers of Tamil Eelam (LTTE) and the Government of Sri Lanka (GoSL) which had been going on already for two decades could be finally solved with the unprecedented concern and support of the International Community. But unlike in Indonesia, the conflict in Sri Lanka has worsened, culminating into open war since August 2006. Therefore, the situation in Sri Lanka can be best described as one of "in and out of conflict".

Microfinance plays an important role in social and political development within conflict-affected environments. Through the possibility for poor people to easily deposit and withdraw savings, microfinance offers a very strong feature to cope with external shocks and general insecurity. This is exactly what can be observed currently in the North and East of Sri Lanka. The need to expand or rebuild businesses makes microfinance an important development factor in the prevalent situation and for a potential post-conflict situation.

Research on microfinance in conflict mainly focuses on post-conflict situations and comes to the conclusion that main principles for sustainable microfinance also apply in the aftermath of violent conflicts. Microfinance in immediate conflict though is observed to be more challenging, since it especially includes more risks, higher operational costs, a general unfavorable political environment, limited human resources and market distortions because of relief oriented microfinance.

Microfinance providers in the North and East of Sri Lanka face conflict-related higher risks and higher operational costs than MFIs in other parts of the country. Especially in the North and in the uncleared areas repayment rates are worsening. The East and the neighboring districts to the North however, face less operational problems despite heavy fighting in the East. Nevertheless, operational problems caused by hartals and the virtual non-existence of training facilities are immanent to the entire North and the East.

Demand for microfinance in the North and East exceeds its supply. Rising living costs, an increased production for its proper local markets and the need to expand and rebuild businesses lead to higher demand for loans. Savings are withdrawn for consumption purposes but at the same time also deposited, presumably due to political uncertainty and increased remittances from abroad.

Microfinance in Conflict Environments

The Microfinance-Conflict Nexus

Winning the Nobel Peace Prize in 2006, Muhammad Yunus and his Grameen Bank have drawn widespread public attention to the provision of microfinance as part of a global development strategy and even more so, as a powerful tool for peacebuilding. By providing both, opportunities for poverty alleviation and the possibility to contribute to conflict transformation, microfinance can no longer be excluded from the development-conflict nexus and the overall challenge of conflict-sensitive programming.

With the paradigm shift, financial and institutional sustainability have become a major requirement for microfinance donor programs. This should also apply to conflict-affected contexts. In such environments it is indispensable for Microfinance Institutions (MFIs) to provide on-going financial services to a wide clientele, remaining operative past the crisis period in order to become part of a country's long term development strategy.

Scholars and development practitioners have been preoccupied since the late 1990s, trying to identify best practices from MFI's in conflict-affected regions, and conceptualize guiding principles to operate under these particular conditions. However, the majority of research is solely directed towards post-conflict microfinance, whereas literature concerning the establishment and sustainability of MFI's amidst conflict has largely been untouched. Focusing predominantly on technical issues, lessons learnt from these studies, are generally directed towards the operational challenges of matching microfinance supply and demand, as well as client targeting strategies in post-conflict environments.

Yet, microfinance in immediate conflict situations faces higher operational costs and bigger challenges as compared to post-conflict situations. A general unfavourable political and economic environment, displaced clients, the permanent risk for staff and clients, lose repayment disciplines, virtually non-existing training or consulting support infrastructure and higher operational costs due to security measures taken for MFI staff (especially for field officers) have been found characteristic for the microfinance sector in the conflict-affected North and East of Sri Lanka.

In general, there seems to be consensus among scholars that in order for MFIs to survive and subsequently become sustainable in conflict-affected communities it is absolutely essential to offer appropriate financial products and services[1]. Yet, by exclusively addressing best practices in post-conflict situation, the fragmentariness of literature leaves open questions especially in the context of Sri Lanka. As a country currently facing a situation which can be described as "no war - no peace" or maybe even better as "in and out of conflict", Sri Lanka does not exactly classify as a post-conflict environment. Consequently microfinance practitioners, clients and donors might also face special needs and demands under such difficult circumstances. Therefore, it seems necessary to share a closer look on post-conflict microfinance principles and test whether they apply in a difficult political context, such as the one of Sri Lanka.

[1] For most influential input on this topic see: Doyle (1998), Larson (2001), Nagarajan (1999), and Wilson (2001).

Standard Sound Principles Apply

By reviewing relevant literature on the establishment of microfinance programs in post-conflict environments and sharing a closer look on the principles emerging from different case studies, it is striking that there seems to be common consensus among scholars and microfinance practitioners that best practice principles for microfinance also apply in war-affected countries. Larson summarizes and explains in his technical briefs that "experience has shown that the core principles and practices of microfinance are the same as those found in other environments", and hence depicts five basic "principles of financially viable lending".[2]

Demand-Driven Product Development: For the success of microfinance programs, it is essential to conduct comprehensive market research in order to understand the clients' needs and their capacity to use financial services. Based on these needs MFIs have to adjust products by offering services that people need and are willing to pay for. Additionally, product design and delivery should allow for instability and economic interruptions in order to ensure the quality of services.

Operational Efficiency: Quality services should be provided in an effective and efficient way in order to reduce operational costs and as a consequence thereof, costs charged on the clients. Therefore, simplified and standardized processes for providing credit and savings services should be established.
To this it is added that operational efficiency is often affected by the lack of experienced personnel, and higher costs and losses at the resurgence of violence.

Strong Repayment Discipline: In order to ensure sustainable operations MFIs have to ensure a strong repayment discipline among their clients. By giving certain incentives of having continued access to financial services, MFIs should make it the clients' own best interest to repay their loans timely.

Sound Financial Performance: Be it in non-violent environments or post-conflict contexts, another crucial step to sustainability for MFIs must be undertaken by charging market-oriented interest rates. Ultimately the rates charged should cover the long-term costs for providing microfinance services. And even though donor funds in conflict-affected areas are initially often larger than in regular development settings, donor start-up funding should not be considered a
laissez-faire measure in order to compensate for inefficient and wasteful operations. Efficient financial performance must be ensured from the very start of the establishment of microfinance service provision.

Achieving Scale: The last and fifth principle Larson finds that "MFIs could fulfill the first four principles and yet lose money if they are working off a small base of clients."[3] Therefore, achieving scale is essential for reaching as many people and simultaneously for establishing sustainable microfinance institutions.

[2] Larson (2001)
[3] Larson (2001)

The accomplishment of this principle in post-conflict environments though may be limited by low levels of economic activity, lack of trust, displacement of clients or compromised financial systems.

Additional Challenges to Face

The discourse above shows that standard sound principles of microfinance even apply in hostile environments. However, Larson and other scholars also depict important aspects that require MFIs to adjust to the post-conflict microfinance setting in order to cope with operational challenges, higher costs and a longer timeframe for financial and institutional sustainability.

Separate Microfinance from Relief Operations: One principle, highlighted in post-conflict microfinance literature is the clear separation of microfinance programs from relief operations. “The apparent trade-off between short term relief and quick social impact on the one hand versus long term (financial) sustainability on the other hand should be considered carefully”[4]. Engaging in relief activities and microfinance operations at the same time, might bear the risk for low repayment rates, as the services provided by MFIs are often confused by the beneficiaries for being grants. Additionally relief activities often include risky income generation activities due to excessive subsidies, which hold a threat to the successful use of microfinance services and the sustainability of the MFIs themselves.

Limited Human Resources: MFIs should intend to hire experienced management and field staff from the start. But as risks for a depleted human resource base loom high during conflict, providing microfinance services often requires intensive training to develop the necessary skills in designing and delivering adequate microfinance-products. Therefore the costs of recruiting, retaining and training staff are significant. Consulting expatriate staff due to the lack of sufficiently qualified staff contributes to the fact that operational costs are likely to be higher in post-conflict environments. A limited human resource base might also reveal problems when trying to assemble a qualified Board of Directors to guide MFIs.

Advocacy Tasks: In conflict-affected contexts, experienced MFIs often find themselves surrounded by newly established and inexperienced governments, donors, and other microfinance practitioners. In order to avoid market distortions due to poorly performing MFIs, these knowledgeable MFIs often are pushed to engage in consultancies in order to avert the evolution of a non-conducive environment for their own financial sustainability. These advocacy tasks often require significant investments of time for the senior management of experienced, well-performing MFIs and therewith increase their operational costs.

Risk Reduction: A major task for MFIs to be preoccupied with when offering microfinance services in conflict-affected communities, is the increased level of hostility they are exposed to. Therefore MFIs in post-conflict environments must invest considerably and unconditionally in the security of staff, clients, and funds. Taking active precautions

[4] ILO/UNHCR Workshop report on “Microfinance in post-conflict countries: towards a common framework for action” September 1999

requires significant time and investment in improving the operational system, which will consequently also affect operational costs.

Higher Costs: As the above mentioned points already demonstrate, operating in post-conflict environments, the significant increase in operational costs, resulting from higher expanses for labor, investments in advocacy, expensive security measures, and lack of infrastructure has a strong influence on the financial sustainability and is one of the main concerns for MFIs in conflict-affected contexts.

Achieving Sustainability: The various factors described above, however, do not eliminate possibilities of achieving sustainability in the first place, but they do hint on the importance to commonly address both dimensions to sustainability. In conflict-affected environments a realistic financial projection for profitability is essential for a MFI's to achieve financial sustainability. Secondly the ability to operate and govern itself independently on an institutional level is a prerequisite for the self-sufficiency of MFIs operating amidst conflict.
In general, donors and practitioners should be aware of the fact that the timeframe for achieving sustainability has to be readjusted in conflict environments as the achievement of self-sufficiency for MFIs is expected to take longer.

Intangible Benefits of Microfinance: As a last difference between post-conflict environments and stable situations, Larson concludes that microfinance implies the ability to actively contribute to conflict transformation in conflict-affected areas:

> "In addition to the core microfinance values of breadth and depth of outreach, impact, and sustainability, microfinance may play a real (albeit intangible) role in social and political reconciliation. This may occur through encouraging inter-ethnic economic activities, or by building trust through multi-ethnic community banks or solidarity group lending." (Larson, 2001)

These 'Intangible Benefits' might give microfinance further legitimacy to engage in conflict-affected communities, additionally to promoting their economic well-being.

Being part of the conflict: Simply by being present but even more so by being an important stakeholder within conflict environments, MFIs may involuntarily be seen as part of the problem themselves, if not applying highest standards of transparency and accountability. In order to avoid such misperceptions, MFIs and development partners therefore must integrate conflict-sensitive planning and implementation measures into their operations.

Microfinance: no panacea! Finally, as G. Nagarajan openly argues, it should be mentioned that "Microfinance is not a panacea". Instead it should be used as one development tool, integrated into a wider development strategy, that reveals enough flexibility to allow for adaptations to the local context and the specific circumstances. Fulfilling these conditions and geared towards higher-level objectives, microfinance in conflict environments has a potential to contribute to the dynamics of peace.

Microfinance in the North and East of Sri Lanka

The following chapter reviews the existing literature on microfinance in the North and East. Besides, we considered it to be necessary to find out more about the current situation in Sri Lanka's Northern and Eastern provinces and how the conflict affects the work of microfinance practitioners in those regions. Therefore, we asked practitioners operating in the area about their experience. Additionally practitioners who do not operate in the North and East were asked about their reasons and motives to stay away from the area. The questions mainly focused on client behaviour, demand for loans and savings facilities, as well as burdens and challenges of the conflict on microfinance providers.[5]

In and Out of Conflict

After the Tsunami left behind scenes of devastation on the coasts of Sri Lanka, hopes loomed high that the unprecedented response by the international community and the unconditional need for conjoint reconstruction efforts between the Government of Sri Lanka and the LTTE would mark the way for finding a solution to the stagnating peace process in Sri Lanka. But even the most vehement optimists had to abandon their hopes for a peaceful resolution of the conflict with the escalation of violence in the course of the year 2006. The post ceasefire period, often referred to as a No War – No Peace situation rapidly descended into one of low intensity conflict by April 2006, culminating in open war in the North and East only four months later in August 2006.

Ever since, the security situation in the country has deteriorated constantly. Persistent fighting, ground and air combat on various fronts between the Sri Lankan Armed Forces and the LTTE have turned Sri Lanka's North-Eastern provinces into a war zone, threatening lives and livelihoods of hundred thousands of people. Since April 2006 the conflict has cost the lives of more than 3,000 civilians, and led to 206,000 people fleeing their homes for the fear of being caught in the crossfire of bombing, long-range shelling and claymore mines.[6] In addition to the disastrous security situation and the impact of the armed conflict, civilians in the war zones face constant risks of targeted human rights violations. People still living in the area are drawn into the conflict from different sides, experiencing various levels of intimidation, arrest, detention, harassment, torture, abduction and killings.

To this matter a major risk is the forced recruitment of young men and women, even children. But also increasing communal violence, such as mob attacks and burning of villages has become a considerable risk within the last months. The countless checkpoints established on major urban and inter-connecting roads, the imposition of curfews and especially the closure of the A9 (major supply road of the Jaffna peninsula) must be considered an infringement on the people's freedom of movement, posing additional hardship to the region, even to the point of assuming the extent of a humanitarian crisis. As a matter of fact, the North and East suffer severely from killings, displacements and loss of livelihoods. Frequent and prolonged curfews, hartals, restrictions on fishing, power

---

[5] The interviewed institutions included four NGO-MFIs, two company registered MFIs, two commercial banks and one international consultant.

[6] http://www.un.org/news/press/2007/iha1248.doc.htm

cuts, transport restrictions, unofficial economic embargoes and a revived economy of shortages and black markets, increase economic restraints. In addition to the previous, poor investments in economic development, high unemployment and lack of adequate education, the risk of personal life, road blocks, damaged infrastructure, and LTTE imposed taxes are serious constraints to the regional development of the North and East.

The combination of all these factors is constantly impeding the daily lives of citizens, trying to cope with the situation, despite the hardship of accessing even the most basic needs, such as food, health facilities, employment and education. Against this backdrop microfinance may improve and assure the livelihood of people trying to adapt to the hostilities of a rekindled war in the North-East of Sri Lanka.

However, it seems already obvious by this very brief description on the current conditions in Sri Lanka that the North-Eastern provinces do not classify as a post-conflict environment but as an environment constantly moving in and out of conflict. Thus the microfinance donor community and practitioners in Sri Lanka need to find a way to address this situation accordingly and meet the particular needs and demands of those affected by the conflict in Sri Lanka.

Supply of Microfinance

Supply of microfinance in the North-Eastern region is not sufficient[7]. In Batticaloa, Trincomalee and Mannar predominately **NGOs** play a vital role, since only few cooperatives or commercial banks offer microfinance facilities in these districts. Although national-level NGO-MFIs such as Sewa Finance, SEEDS, Agro Micro Finance and several others operate in the North and East, the total contribution of NGOs in the conflict-affected areas is comparatively small.[8] This is partly due to the fact that donors mostly support NGO-MFIs that are already operating in this region.

Cooperatives are the most important microfinance providers in the conflict affected areas, especially in Jaffna. However, due to the hostilities of the conflict and the fact that 20 years of development within the cooperative sector simply passed by, cooperatives in the North and East are performing poorly. Hence, a crucial issue and challenge for the economic recovery of the area is to ensure the financial sustainability of cooperatives working in the conflict-affected regions in order to provide financial services to small businesses and micro-entrepreneurs.

Commercial Banks with microfinance components are practically absent in the region, a crucial impediment to the economic recovery of Sri Lanka's conflict-affected provinces. Hatton National Bank, Seylan Bank and People's Bank are the only commercial banks to offer microfinance facilities in the area.

Government Programs are inadequate since there are no i) Regional Development Banks, ii) no specialized development finance projects, iii) no large-scale microeconomic or SME-development projects neither operating or existing in the region. Existing programmes are mostly credit lines of international practitioners (ADB, JBIC, World Bank),

[7] Gant et al. (2004)
[8] Strictly speaking, the term 'NGO-MFI' is not correct for all the mentioned MFIs but shall here be used to distinguish this group of MFIs from the rest of the existing microfinance providers.

without special focus on capacity building or strengthening of infrastructure. JBIC faced serious difficulties to implement its credit line in the North and East because it was initially designed for the South. An appraisal mission by JBIC will now formulate their new implementing strategy for the North and East.

Most **international actors** (CARE, DRC, FORUT, GTZ, OXFAM, UNICEF, UNHCR, UNDP, World Vision, ZOA), have been working in the region during the times of conflict before 2002 and therefore follow a rather relief-based approach towards microfinance with subsidized interest rates or grants.

Demand for Microfinance

High levels of poverty, few formal employment opportunities, and a traditional agriculture and fishery based economy generate great demand for microfinance services among the population in the North and East. The interviews revealed an increased necessity for the provision of microfinance services in the region, in order to overcome constraints and consequences of the current conflict. Due to the closure of the A9 road, production in the North increasingly shifts its focus towards its own local markets, which increases the demand for loans. But also sky-rocketing prices for essential goods and rising costs of living force people to increase their income generating activities and to demand higher amounts of loans. Almost all interviewed practitioners commented that demand for loans and the average disbursed loan amount have increased. However, this also includes loans for consumption purposes, which are not provided by all practitioners (due to higher risk of default).

Similar to the demand for loans, apparently also the demand for savings has increased. There could be various reasons for this development. But one can only assume that against the backdrop of an insecure political future people feel greater necessities to save parts of their income. An increase in remittances from relatives living abroad could be another reason for the increased demand for savings. Nevertheless it is striking that at the same time savings are increasingly withdrawn for consumption purposes due to rising costs of living.

Conflict-Related Operational Costs

Higher operational constraints are mainly prevalent in the North of Sri Lanka and less in the East. Whereas microfinance providers in the East (Batticaloa, Ampara) face fewer difficulties to operate, practitioners in the North face severe operational problems. After a drop in their loan repayments in the North since August 2006, Hatton National Bank, for instance, is currently shifting funds from the North to the East and concentrates more on the recovery of loans in the North rather than on disbursements. The Thrift and Credit Cooperatives (TCCS) Union in Jaffna is struggling with a high portfolio at risk due to the fact that large amounts of their clients were displaced as a consequence of the conflict. Sewa Finance decided to work on a “low profile” level in the North, whereas their performance in the East has been fairly good despite the heavy fighting that has taken place in the involved districts.

Yet one should not be too hasty in concluding that the East is not affected from conflict-related constraints. Throughout the whole Northern and Eastern provinces, hartals impede the work of MFIs sometimes for entire days, because field officers cannot travel. In general the costs for loan recovery and monitoring have increased. Sewa Finance, for instance, has to send its client officers in taxis to their clients instead of using motor bikes, because under the given circumstances it is safer for their staff to travel in cars.

Recipient behaviour among clients seems to be more common within the conflict affected areas than compared to tsunami-affected areas in the South. In both areas relief work is mixed with microfinance activities, using grants and special credit lines to offer subsidized loans with low interest rates. Whereas in the South people are well aware that these subsidized loans would finish soon, people in conflict-affected areas apparently are used to receive relief-oriented microfinance with subsidized interest rates. This is especially true for the North and not necessarily for the East. Hence, the “in and out of conflict” situation affects the willingness to repay loans among microfinance clients especially in the North, and seriously affects the MFIs’ loan portfolio quality in the region.

Also, training institutions are hardly existent in the North and East. To participate in trainings regional MFIs face higher costs than elsewhere, because either they travel to the West or they have to pay more for trainers to come to the North and East. Yet, travelling to the West also means that staff is exposed to higher risks during the transit.

Perceived Entry Barriers for Microfinance Providers

Microfinance providers not operating in the North and East, are mostly aware of the fact that there is a strong need and demand for microfinance in this region. Nevertheless, they do not expand their operations to the North and East because of various perceived barriers such as:

- No law enforcement
- Loan recovery problems due to insufficient security for loan officers,
- Not sufficient economic activities in the region due to the conflict,
- High costs of training and awareness programs for MF clients and MFI staff, and
- Insufficient security for staff.

These assumptions mostly apply to the North and to the uncleared areas of Sri Lanka.[9] As described above, MFIs operating in these areas face serious problems. However, in the East and in the surrounding districts of the North and the East these perceived barriers are true only to a very limited extend.

[9] LTTE controlled areas

Conclusion and Recommendations

Summing up, one finds that generally the provision of microfinance services in post-conflict settings requires the same standards as microfinance in any non-violent development setting. However, it is important to acknowledge the additional need for microfinance to continuously adapt to the rapidly changing requirements and demands in post-conflict and immediate-conflict environments. In order to ensure the sustainable provision of microfinance services in such environments MFIs and donors need to take into account and accept higher operational costs and risks. This especially applies to microfinance providers in the North of Sri Lanka, which seem to be more affected by the conflict than those operating in the East. In general the demand for microfinance in the Northern and Eastern provinces is high, yet supply is not sufficient. Demand for microfinance will most probably even increase in the near future and its supply will be a crucial factor for the social-economic development of the now conflict-affected region. The importance of savings in this framework cannot be stressed enough. To this it was observed that clients in the North and East use savings as a means to smoothen their consumption and hence to become less vulnerable to external shocks.

In a possible post-conflict situation, the North and East will be a high potential area for microfinance. Until now, several factors impede the development of a sustainable microfinance infrastructure in the North and East. Rarely any trainings or consulting institutions are available to strengthen capacity of MFI staff. Additionally, relief- oriented microfinance schemes further interfere in securing the sustainibility of MFIs currently operating in the conflict-affected areas of Sri Lanka.

For development partners active in microfinance several implications result from these findings. Some recommendations are already followed by various development partners and practitioners. However, some will require a joint effort to allow for new activities.

1) Promote sustainable microfinance also amidst immediate conflict and post- conflict situations. Basic sound principles should apply and be recognised during immediate conflict as far as possible. Higher operational costs make it more difficult for MFIs to achieve sustainability, but not impossible.
2) Coordinate activities to avoid overlapping and to promote best practices. Development partner coordination is even more important in immediate conflict situations. Information sharing can be a crucial factor for the success or failure of programs.
3) Create awareness among development partners on the issues of microfinance in conflict and conflict-sensitivity. Not all development partners might be aware which implications a conflict situation can have on implementing microfinance programs also with regard to the potential of doing harm.
4) Design and implement programmes in a conflict-sensitive way (do no harm) and according to special circumstances in the North and East. Programs initially designed for the South have proven to fail in the North and East.
5) Give incentives for MFIs to expand from the South-West to the North-East. This does not only increase the supply of microfinance in the North and East but

additionally it leads to a knowledge transfer as well as to an island wide inclusive microfinance sector.

6) Promote savings products in MFIs as means to reduce poor people's vulnerability towards external shocks. Currently this can be considered a difficult task since only banks are allowed to accept savings from the public. But in view of the microfinance act that will soon pass the legislation, NGO-MFIs will need to know how to design and operate savings products.
7) Separate relief work from microfinance. Relief-oriented microfinance still disturbs the market by offering subsidized loans. This practice leads to a worsening of quality in microfinance as well as relief aid. Organisations currently engaged in relief microfinance should start to formulate strategies on how to separate their relief work from their microfinance business. With the coming microfinance act, only a handful of the existing NGO-MFIs will obtain a license to continue their microfinance operations. Practitioners should consider possibilities of amalgamating and consolidating their portfolios. Examples of best practices can be found in countries such as Cambodia, where a microfinance act has forced practitioners to separate relief work from microfinance during the post-conflict period.
8) Invest in training and consulting infrastructure in the North and East. Capacity Building will be a crucial factor for the development of a sustainable microfinance sector in the North-Eastern provinces, especially against the backdrop of the future microfinance act.

The authors would like to thank all interviewed persons for the detailed information they shared with us. We know that the situation is difficult for many persons and not everything can be easily said under the given circumstances. As a matter of fact information that has been marked as confidential was not mentioned in this paper. Our deepest respect goes to those people that work under above described conditions with patience and the will to help those in need.

Annotated Literature

Doyle, Karen. 1998. *Microfinance in the Wake of Conflict: Challenges and Opportunities.* Bethesda, MD: Microenterprise Best Practices.

Gant, Richard; Dulan de Silva; Anura Atapattu; Steve Durrant. 2002. *National Microfinance Study of Sri Lanka. Survey of Practices and Policies.* AusAID/ GTZ. Colombo (updated and revised internal version).

Gant, Richard; Dulan de Silva; Steve Durrant. 2004. *Developing Microfinance in the North and East of Sri Lanka*. GTZ/SIDA. Colombo.

http://www.un.org/news/press/2007/iha1248.doc.htm

ILO/UNHCR. 1999. Workshop report on "Microfinance in post-conflict countries: towards a common framework for action". <http://www.ilo.org/public/english/employment/finance/download/final99.pdf>

Larson, Dave. 2001. *Microfinance Best Practice Microfinance Following Conflict Briefs*. Bethesda, MD: Development Alternatives, Inc.

Nagarajan, Geetha. 1999. *Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action.* International Labour Organization, Enterprise and Cooperative Development Department, Social Finance Unit.

Williams, Alison. 2002. *Post Conflict Microfinance Research Summary.* Post-Conflict Microfinance Project. <www.postconflictmicrofinance.org/PCMSummary.pdf>

Wilson, Tamsin. 2002. *Microfinance During and After Armed Conflict: Lessons from Cambodia, Mozambique and Rwanda.* Durham, United Kingdom: Concern Worldwide and the Springfield Centre for Business in Development.





ProMiS – Promotion of the Microfinance Sector
c/o Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
GTZ Office Colombo
6 Jawatta Avenue
Colombo 5
Sri Lanka
Tel: 0094-11-2599713-6
Fax: 0094-11-2551525
Email: info@microfinance.lk
Web: www.microfinance.lk