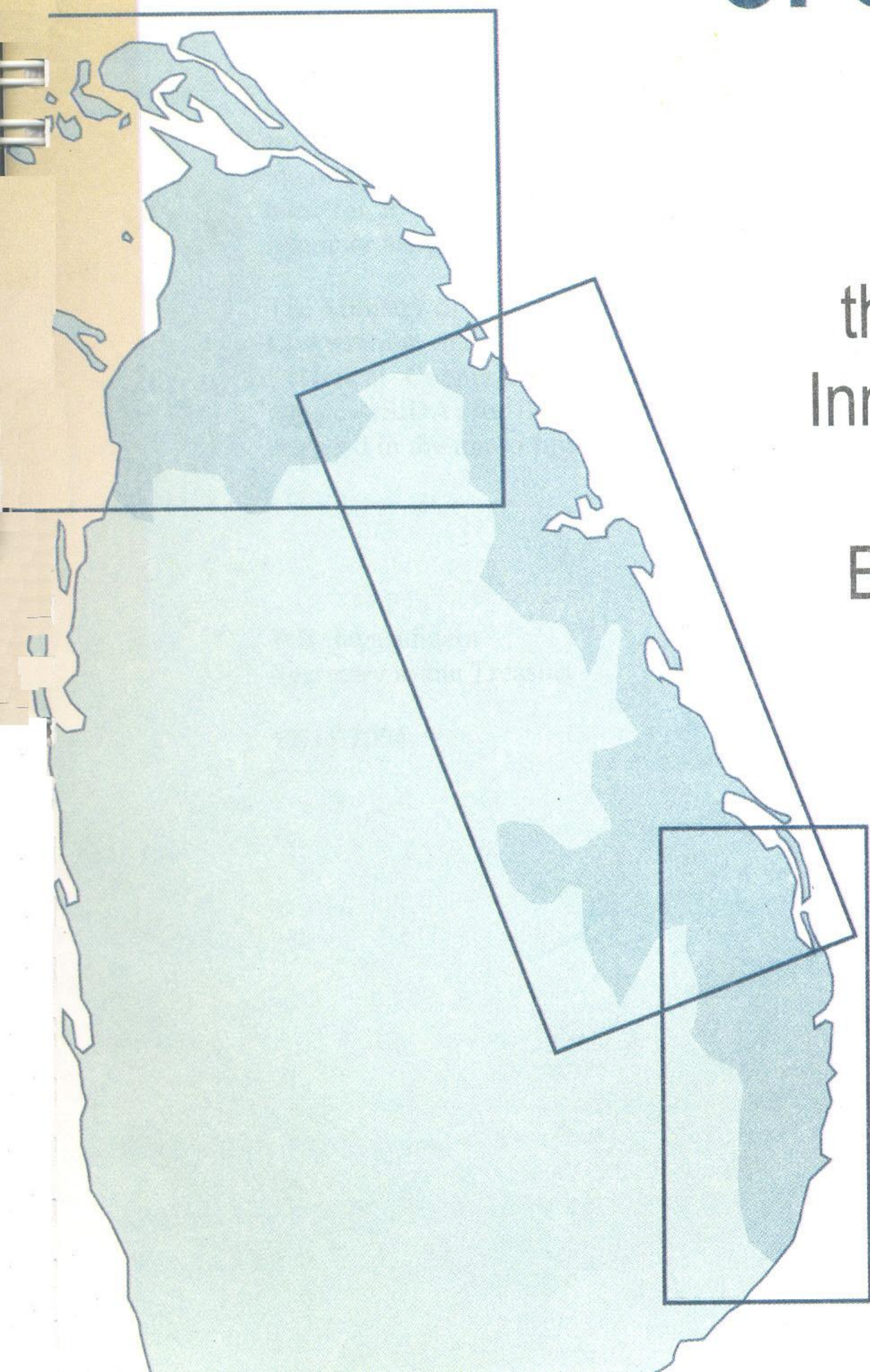
MAIN REPORT

Developing Microfinance in the North and East of Sri Lanka



A study by the Rural Banking Innovations Project (RBIP)/People's Bank of Sri Lanka

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Conducted in collaboration with

Ministry of Finance

Federal Ministry for Economic Cooperation and Development

Sida

gtz German Technical Cooperation

Foreword

The Small and Medium Enterprise Sector (SMEs) and Micro Enterprises are the backbone of our economy and provide a livelihood for around two thirds of the population. Hence, the growth of this sector will have a significant impact on the creation of employment and income.

Millennium Development Goals have been formulated by the UN to overcome poverty in the world. To achieve these, the UN has declared 2005 “The year of microcredit”. This gives us an excellent opportunity to stimulate economic growth and alleviate poverty through the provision of microfinance services which encompass not only microcredit, but also other financial services for the poor.

The study on “Microfinance in the North and East”, co-funded by the Swedish and the German Governments presents the results of the first detailed in-depth research on the microfinance sector in the North and East since the commencement of the peace process. It provides valuable information, both on the present supply of microfinance services, and on the existing deficiencies and the demand yet to be met. The study comes up with clear recommendations on how to improve the quality and quantity of microfinance services in all eight affected districts and, by this, provides a valuable base for those institutions and donor organizations that are already operating in the region or are planning to do so.

The Ministry of Finance and Planning is grateful to the German Ministry for Economic Cooperation and development (BMZ) and its implementing agency the German Technical Cooperation (GTZ) as well as the Swedish International Development Agency (SIDA) for financing and conducting this study. It will be indispensable for all engaged in the microfinance sector in the North and East.

P.B. Jayasundara

Secretary to the Treasury

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Mr. S.S. Ramakrishnam - General Secretary, MARR - Mannar

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Thank you all - **Steve Durrant, Richard Gant and Dulan de Silva**

About the Authors

Steve Durrant is an Economic Recovery & Development Consultant who has worked in the field of microfinance and enterprise development since mid-1998. Most of his recent work has been concerned with issues of economic recovery in the conflict-affected areas of the North & East region of Sri Lanka and economic development more generally in the rest of the country. His specialities are research co-ordination, programme evaluation, project formulation, strategy development, impact assessment and training.

He is a multi-disciplinary researcher, writer and editor with eight years experience in the field of technological change and innovation management and has planned, co-ordinated, authored and edited numerous reports, proposals and documents for agencies and organisations such as CARE International, GTZ, SEEDS and UNDP. Presently, his main research interest is microfinance and MSME development in conflict and post-conflict environments.

Steve has Diplomas in Industrial Studies, Sociology and the Humanities, a Bachelor of Science in Science and Technology Studies from Middlesex University and a Master of Science in Technical Change and Industrial Strategy from PREST at the University of Manchester.

Richard Gant has over sixteen years experience in the design, implementation, management, monitoring & evaluation of economic recovery and development projects and programmes in Southern Africa and Sri Lanka. For the past five years the main focus of his work has been in those areas of Sri Lanka directly affected by conflict. He specialises in microfinance and MSME development initiatives and has been involved in the development of concepts and structures, source funding and resource allocation, scheme implementation and initial management. His expertise also includes business plan development and training.

He was a VSO volunteer in Sri Lanka from 1995 to 1998 assisting the Hambantota Integrated Rural Development Project and the Hambantota District Chamber of Commerce. He then worked in Jaffna from 1998 to 2000 for the UNOPS/UNDP JRRP Programme, first as a Senior Technical Advisor and then Deputy Programme Manager. He was a member of the UNDP Transition Programme formulation team and currently undertakes consultant assignments for a number of international agencies and organisations such as CARE International, CIDA (PSU), GTZ and NPA.

Richard has Diplomas in Management Services, Production Engineering and Information Technology and has an MBA from the University of South Africa

Dulan de Silva has some twelve years experience as an independent consultant in microfinance, small business development, institutional development and vocational training. In 1986, after a career in accounting and financial management, he was selected to set up and become the first Managing Director of SEEDS, Sri Lanka's leading national NGO in microfinance and MSME development. He moved to IUCN in 1993 for four years as Director of their NGO Programme.

He has undertaken consultancy assignments in several countries in Asia and Africa including, Kenya, Bangladesh, India, Cambodia and Laos as well as throughout Sri Lanka, assisting major microfinance programmes such as BRAC in Bangladesh and KREP in Kenya. He currently undertakes consultant assignments for the ADB, IFAD, UNDP and the World Bank.

Dulan is an Associate Member of the Chartered Institute of Management Accountants and has an MBA from Florida State University USA.

Content

Tables

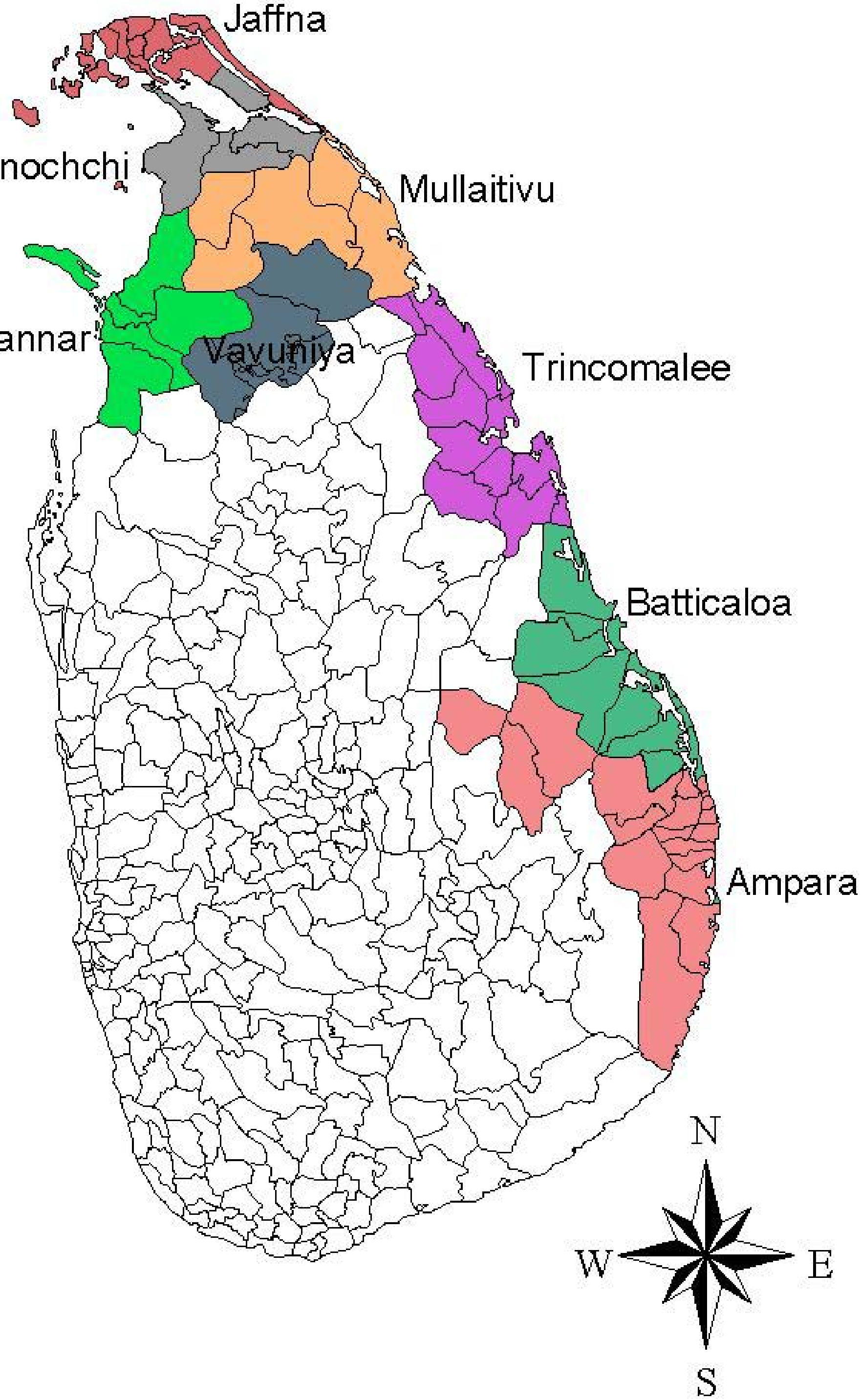
Charts

Abbreviations

ACCD	Assistant Commissioner of Cooperatives Development
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BoC	Bank of Ceylon
BDS	Business Development Services
CARE	Cooperative Assistance and Relief Everywhere
CBO	Community Based Organisation
CBSL	Central Bank of Sri Lanka
CDO	Community Development Officer
CIDA	Canadian International Development Agency
CRB	Cooperative Rural Bank
DFCC	Development Finance Corporation of Ceylon
DFID	The Department for International Development
DRC	Danish Refugee Council
EDS	Enterprise Development Services
EU	European Union
FCS	Fishermen Cooperative Society
FORUT	Norwegian relief and development agency
GA	Government Agent
GoSL	Government of Sri Lanka
GTZ	German Technical Cooperation
RBIP	Rural Banking Innovations Project
HNB	Hatton National Bank
IDP	Internally Displaced Person
INGO	International Non-Governmental Organisation
LTTE	Liberation Tigers of Tamil Eelam
MFI	Microfinance Intermediary
MICAP	Microfinance In Conflict Assessment Process
MPCS	Multi-Purpose Cooperative Societies
MSME	Micro, Small and Medium Enterprises

NECORD	North and East Community Rehabilitation and Development Project
NEIAP	North and East Irrigation and Agriculture Project
NDB	National Development Bank
NDTF	National Development Trust Fund
NGO	Non-Governmental Organisation
NSB	National Savings Bank
OXFAM	Oxford Famine Relief
PAMP	Poverty Alleviation Microfinance Project
PCDCS	Palmyrah and Coconut Development Cooperative Society
PCIA	Peace and Conflict Impact Assessment
RLF	Revolving Loan Fund
RDS	Rural Development Societies
ROSCA	Rotating Savings and Credit Association
SDB	Sanasa Development Bank
SEEDS	Sarvodaya Economic Enterprise Development Services
Sida	Swedish International Development Agency
SME	Small and Medium Enterprise
STC	Save The Children
TCCS	Thrift and Credit Cooperative Society
TRO	Tamil Rehabilitation Organisation
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
VBO	Village Based Organisation
WB	World Bank
WRDS	Women’s Rural Development Societies
WVL	World Vision Sri Lanka
ZOA	ZOA Refugee Care - Netherlands

North and East Region of Sri Lanka



Executive Summary

This study is concerned with developing more effective microfinance service provision in the North and East region of Sri Lanka. The overall aim of the study is to assist funders, policy makers and practitioners of microfinance by providing them with sufficient detail about the nature of microfinance activity in the region to enable them to make more knowledgeable, considered and effective decisions about the planning, financing and implementing of microfinance development activity in the region at this time.

The report, the product of a major grass roots level research exercise, identifies a diverse range of practitioners currently undertaking different kinds of microfinance activity, including INGOs and agencies, government, NGOs, cooperatives and community based organisations. The majority of these practitioners have been in the region for some time and are still largely on a relief and rehabilitation footing having, with one or two exceptions, failed to make the transition to more development based approaches. Relatively few new organisations or projects have entered the region or commenced microfinance activity since the ceasefire began late in 2002.

The study finds that the present levels of microfinance service provision are low or very low throughout many parts of the region both in terms of levels of savings mobilisation and in terms of micro-credit provision. Analysis of supply at the DS Divisional level confirms that district level supply, while often low in itself, often reveals even more fluctuation with a relatively few number of divisions possessing significantly higher levels of supply and a greater number of divisions having significantly lower levels than the district average. With the exception of a few divisions, levels of supply remain significantly lower than in other parts of the country.

The report argues that the current frameworks of financial services provision are inadequate to support the economic recovery of the region and recommends that area based approaches to financial services development be undertaken at the district level.

The report is presented in three parts:

Part One presents an overview of microfinance activity by practitioner type in the North and East region. Profiles are given of the main practitioner groups and organisations, including international agencies and organisations, government practitioners, the commercial banking sector, non-governmental organisations and the cooperatives sector.

Part Two presents an overview of microfinance activity by geographic area. Regional and District level profiles are given showing savings and loans activity by practitioner, area and population.

Part Three is concerned with developing microfinance service provision in the North and East region. It begins by presenting *'development summaries'* for each district/area of the region and then undertakes a regional level analysis of the key issues facing the sector at this time, current stakeholder activity and sections on building frameworks for economic recovery and conflict sensitivity. This is followed by Findings and Recommendations and a Conclusion.[1]

[1] The report is supplemented by separate Technical Appendices and the study included the origination of a guide to Microfinance In Conflict Assessment Process (MICAP) that is presented as a separate document.

Summary of the Report

The report finds that microfinance activity varies considerably, and includes widespread semi-formal savings activity undertaken in the absence of effective formal financial services provision and the very high incidence of poverty found throughout the region. Micro-credit is used to provide individual populations with production loans of some description through the promotion of subsistence-level income generation activities and to develop self-employment and micro-employment opportunities. In practice, many loans are also used for consumption purposes.

Actors are generally funders, practitioners, funder-practitioners or facilitators.

- **Funders** include the government and bilateral and multilateral granting agencies, such as AusAID or the EU. They also include lenders or lender-granters, such as the ADB and NOVIB. Presently, there are only seven funding organisations involved in granting funds for microfinance activity in the region. These include: AusAID, CIDA, Japan, NORAD, NOVIB and Sida. In recent years DFID, HIVOS and SLCDF have also funded microfinance activity. The EU has been increasing its levels of aid to Sri Lanka since 2002 and is considering funding microfinance through UNDP. Microfinance is presently being funded for purposes of poverty alleviation, poverty reduction and local economic recovery. It is also being funded for purposes of long-term economic development and to help build sustainable livelihoods, community rehabilitation and promote peace and reconciliation. Elsewhere, microfinance is funded to provide 'durable solutions' to resettled and returnee populations. It is also used to help build houses, construct pre-schools, repair roads and even rehabilitate tanks and other community water resources.

- **Funder-practitioner** organisations in the region, that is, organisations that both fund and practice microfinance in some capacity, include INGOs and multilateral agencies. The purpose, role and nature of the microfinance activities practised by these organisations varies considerably and is reflected in the various emergency, relief, rehabilitation and development oriented mandates of the respective organisations. In all there are ten international organisations and agencies currently practising microfinance including CARE International, DRC, UNDP, World Vision Lanka, ZOA Refugee Care, OXFAM, GTZ/RBIP and FORUT. UNHCR has now largely ceased to grant funding for microfinance projects, although it does undertake some funding of CBOs for income generation activities. UNICEF occasionally funds income generation activities for 'war widows' projects and STC have funded fund income generation activity in the past but not at present. ACF may be considering incorporating income generation activities in the future.

- **Practitioner** activity in the North and East region of Sri Lanka, includes: well over 1,000 different cooperative and community based societies and village and community groups undertaking savings and credit activity. The actual number of practitioner organisations is difficult to establish. Some 100 local and national NGOs are engaged in income generation activity throughout the region. Several government projects and programmes; various international organizations and agencies; local rural banks and commercial banks also practice various forms of microfinance activity.

- **Facilitator** activity includes networks, forums, and research activity undertaken by various organisations and individuals such as the district based NGO Consortiums and practitioner networks such as those in Mannar, Vavuniya and Trincomalee.

Government Practitioner Activity

Government activity in microfinance takes place through the execution of three current multilateral funded projects - NEIAP (NEIAP II with US$64.7 million funding has recently been signed between the GoSL and the World Bank.), NECORD and the new Rural Finance Sector Development Project - as well as the Samurdhi program and wholesale activity from the NDTF. However, it should be observed that there are no government sponsored regional development banks presently based in the region.

- **Samurdhi** is the government’s main national poverty alleviation program, starting in 1997. In the North & East region, the program commenced only in 2000 in Ampara and has been fairly slow to expand to other parts of the region. Samurdhi is now operating in Batticaloa, Trincomalee, Vavuniya and Jaffna. Samurdhi is not working in the LTTE controlled districts of Kilinochchi, Mullaitivu or even the (partly cleared) district of Mannar. Samurdhi has clearly been successful in quickly mobilising the assets of the poor wherever it goes.

- The **NDTF** is the main government agency to provide microfinance as soft loans to NGO’s and Cooperatives. The loans are provided at 7% interest per annum and are funded by an ADB loan. In addition some capacity building assistance and some basic infrastructure such as furniture is given to poorer NGOs. On the directions of the government, especially of the Secretary to the Treasurer, NDTF has made a special effort to develop partner organisations in the North and East. An advertisement was recently placed to invite partners from the NGO sector and cooperatives. Awareness creation programs were held with NGO consortiums and cooperatives in a number of districts to attract new members. Though a large number applied and over 20 have registered not all of them have received credit

- In terms of micro-credit, the **NEIAP** project (funded through a World Bank loan) is working with WRDS and RDS societies through local district and divisional secretariats. The project grants sums to returning/resettled villages, mainly WRDS, and has provided a substantial and much needed injection of capital for subsistence level income generation activity in much of the region. With the agreement signed for a second follow on project it is hoped that the present activity will continue and become sustainable and that the project's geographic base will be broadened, impacting positively on the region as a whole.

- JBIC funds the Poverty Alleviation Microfinance Project (**PAMP**) implemented by the Central Bank of Sri Lanka (CBSL) through Regional Development Banks and NGOs such as SEEDS in 6 southern districts. A few months ago they advised the CBSL to utilise Rs.80 million out of the budget of the project to support the North and East districts in microfinance through a few chosen commercial banks, with the CBSL as the on-lending agency. The CBSL is presently formulating the program

- **NECORD** is the ADB's first project in the North and East in recent times. It has a microfinance or income generation component that has yet to be fully implemented around the region. The project has provided Rs.30 million for revolving funds for fishing villages through fishing cooperatives in Maruthankery and Point Pedro Divisional Secretary divisions in Jaffna. UNDP is providing technical assistance for this microfinance program.

Two other new and upcoming projects, the Eastern Province Community Development Project (EPCDP) and the Rural Finance Sector Development Project (RFSDP), also include microfinance as a component.

- **EPCDP** partners National Development Trust Fund (NDTF), a wholesale lending agency that provides loans for NGOs and cooperatives in the 396 Grama Sevaka units covered by the project along the coastal belt of the Eastern Province. EPCDP will have a credit fund to the value of US $ 4 million. These funds will be loaned to the government who will in turn loan it to NDTF at the average weighted deposit rate. NDTF will charge a service charge of 5% and NGOs will be permitted to lend keeping around 10-16% for their transaction costs. However, NGOs are to take the credit risk and are free to determine the lending rate. The project will also have a training and capacity building component for partner MFIs and a soft loan for transport facilities and other infrastructure for partners.
- **RFSDP** is scheduled to commence later in 2004 and has a component for microfinance development in the North and East region but this has yet to be formulated. The Project Director and his staff will have to develop detailed proposals as to how to implement this component in the region.

In terms of savings mobilisation, Samurdhi is the fastest growing microfinance program in the North & East region at this time. Where Samurdhi starts to operate it quickly becomes an extremely effective vehicle for the mobilisation of the savings of the poor. However, the programme has yet to start to really deliver micro-credit services to anywhere like the levels it does elsewhere in the country. Loans are now being issued in Batticaloa, Trincomalee and Vavuniya, but not Jaffna. Samurdhi's growth in the North and East is admirable but it is vital that the GoSL and donors take steps to protect the program as it is highly subsidised and under political control. The linkage between free allowances and the microfinance program must be studied and the impact of the removal of such allowances must also be investigated.

Overall, government levels of assistance are inadequate, there are no development banks no specialised development finance projects, and no large scale micro economic development or SME development projects currently underway in the region. The state-owned banks have not particularly been encouraged to introduce specialised products or increase capital made available for credit within the North and East region as a whole.

Donor Funding

Donor funding has not significantly increased in the area of microfinance for purposes of economic recovery and development. Some key organisations such as DFID and USAID, both traditionally interested in sustainable livelihoods and workforce development (both of which are firmly in the realm of microfinance and micro-enterprise development) are not currently funding. Other than funding provided by AusAID and NOVIB, there are no large scale or even regional level microfinance and micro-enterprise economic recovery or economic development funding initiatives to have come into place since the ceasefire began over two years ago.

International Practitioner Activity

International organisations presently practising microfinance or income generation activity include: CARE International, DRC, FORUT, GTZ, OXFAM. UNICEF, UNHCR, UNDP, World Vision and Zoa Refugee Care. In addition, both the World Bank and the Asian Development Bank have regional projects with income generation components in them as mentioned above.

Most of the international practitioners have been undertaking microfinance interventions in the North and East region of Sri Lanka for some time. This has involved them in introducing microfinance schemes in the 'face of conflict' which means that the majority of microfinance activity schemes have so far been relief based. Many projects are utilising welfare-based approaches with grants and subsidies rather than a ‘business like’ approach to microfinance. In the main, the focus of these schemes is to encourage people to start a small savings fund then with added grant funding, to disburse credit for subsistence level self-employment.

A new project, that has been provisionally entitled **ProMIS**, or the *"Promotion of the Microfinance Sector in Sri Lanka"* that will be a joint collaboration between the German Federal Ministry for Economic Cooperation & Development, through German Technical Co-operation (GTZ), the Swedish International Development Agency (Sida) and KfW, is in the early stages of development. An initial fact finding mission has been undertaken with a detailed technical appraisal scheduled for later this year.

Given the importance of micro-enterprise development in conflict-affected environments with minimal opportunities for formal employment, there is a surprising lack of international support in the region. With a few exceptions, there are no new international microfinance or micro-economic development practitioner organisations in the region. In fact, if it were not for the short-term impact of the NEIAP project over the last two years, funding levels would actually have been lower than they were in 2000 when the region was still experiencing armed conflict, just as demand is actually increasing. Simply put, there are not yet enough international organisations focussed on economic development and most, though not all, of the existing practitioners traditionally fund and practice microfinance from a relief-based footing or funding cycle.

This is not to say that there have not been substantial changes over the past two years: CARE, UNDP and to a lesser extent, DRC, have focussed on building stronger regional platforms. Currently, UNDP has offices in Batticaloa, Trincomalee, Jaffna, Kilinochchi and Vavuniya and is in the process of opening an office in Mannar. CARE has offices or satellite offices in Jaffna, Kilinochchi, Vavuniya, Batticaloa and Trincomalee and is also in the process of opening an office in Mannar.

The DRC has offices in Vavuniya, Mannar and Trincomalee. CARE, DRC and UNDP are all engaged in trying to implement microfinance projects that are more focussed on economic recovery or development. In fact, the three organisations went through a significant process of strategic review and reorientation in the year 2000, all with the purpose of trying to make their ongoing microfinance activities more effective and sustainable. CARE, in particular, has experienced much difficulty in practically moving away from its traditional relief mindset.

Until recently, UNHCR was the biggest funder of microfinance projects in the region, funding activity both directly through district secretariats and through funding micro-projects work with CARE, FORUT, OXFAM and Save the Children (who are no longer involved in income generation). UNHCR have been scaling their income generation activities down, but still have some involvement as part of their 'durable solutions' work with resettled/returnee villages.

CHF International has recently started working in Jaffna and may get involved in the future. FORUT, who have been practising microfinance for many years, recently had a in-depth review of their microfinance activity and decided to significantly scale down their operations.

CARE are in the process of expanding their microfinance 'CAB' (capacity building) concept and have two 3-4 year projects with income generation components in them funded by CIDA, DFID and the Dutch. However, they keep losing their most experienced microfinance staff. ZOA and World Vision (and to a lesser extent CARE and UNDP) practice their microfinance by working directly with villages and work in fewer places but with more concentration and on a longer-term basis.

Commercial Banks

The Peoples Bank has the largest branch network in the region, but is not undertaking widespread microfinance activity, other than on a pilot basis in Jaffna. Of the private sector commercial banks, only two, namely, Hatton National Bank and Seylan Bank have focused on microfinance as a product. Overall, the commercial banking sector has yet to see the potential of microfinance as a viable product. Even the state banks which still give a substantial volume of small loans do not treat it as a separate product and are not in a position to give national, regional or even district level figures for their micro loans and savings activity.

Micro-credit provision from commercial banks in the North & East ranges from virtually nil to extremely low depending on the specific area of the North and East and only three banks, arguably two, have specialised microfinance products of any kind. This is not to say that where banks don't have microfinance products, micro-lending activity is not going on (much of the day-to day lending of the Peoples Bank in the Wanni area, for example, would appear to be at the micro-level although only at a small scale); rather that, assuming capital is being released for lending purposes by the banks in the first place, most lending is contingent on onerous capital and collateral requirements. Regardless, the absence of microfinance activity in the commercial banking sector is a significant impediment to the economic recovery and development of the regional economy.

Non-Governmental Organisations

The NGO sector is a key to microfinance, especially as micro-credit service provider throughout the region. In some places, such as Jaffna where there is a strong cooperative sector and until recently NGOs were not permitted to operate, the NGO microfinance role is quite limited. In other areas, such as Mannar, and parts of Trincomalee and Batticaloa, where the cooperative movements are most inactive and commercial micro-credit is virtually non-existent or very scant on the ground, NGOs are a vital service provider, especially to the remote rural poor.

There are around 100 NGOs practising microfinance in some capacity in the region at present. The majority of these such as MARR in Mannar have a long history of working amongst the conflict affected communities undertaking work and supplying essential services that successive governments have not been able to/or refused to undertake in the region and they are to be congratulated. Their dedication to their communities in the face of conflict has been exemplary.

There are a number of national level NGOs working in the region, including Sarvodaya, SEEDS, Sewa Lanka and Agromart.

- **Sewa Lanka** has by far the largest base of any of the national or local NGOs working in the region. Sewa Lanka has been undertaking microfinance and micro enterprise development work since its origin in 1995/96, but it did not have a full time microfinance specialist in its staff until 2003.

  Now that they have an experienced microfinance specialist Sewa Lanka intends to focus on this sector with much more vigour from this year. Sewa Lanka has branches in all eight districts of the North and East region. However up to the end of 2003 the microfinance program operated only in Ampara, Mannar, Trincomalee.

  With the recruitment of a microfinance specialist, Sewa Lanka now plans to expand the program to all eight districts from 2004. Presently, Sewa Lanka has received microfinance funding from NDTF, AusAID, People's Bank, German Agro Action, DRC, UNHCR and the Japanese government.

- **SEEDS** is the largest microfinance NGO in Sri Lanka and one of the few NGOs which is a specialised MFI. SEEDS has been in the North & East region since 2000 but only in parts of Ampara. This was followed in 2001 by the commencement of the Gateway Project, their regional strategy for expansion in the North and East that commenced in the year 2002 in Batticaloa and expanded to Trincomalee, Vavuniya and Jaffna in 2003. The project is partly funded by NOVIB with the funding split into grant and loan components for credit and the remainder funded by AusAID. However, the funding covers only some 64% or Rs.55 million of the total requirement of Rs.85 million over a period of two years, commencing in September 2002 and SEEDS is looking for further project funds from another donor. Simultaneously in 2002 with NORAD's assistance, Sarvodaya, the mother agency, has commenced a Sarvodaya society development program covering 300 villages in the North and East region.

- **Agro Micro** is a specialised MFI formed in year 2002. This is in fact the second specialised NGO MFI in Sri Lanka after the birth of SEEDS and was formed by transferring the microfinance work and portfolio of Agromart to the new entity. It operates as a separate MFI and provides savings and credit facilities to Agromart clients as well as others. The current operational network covers seven districts; Puttalam, Kurunegala, Galle, Matara, Hambantota, Moneragala and Ampara.

  They provide five loan products four of them at an interest rate of 28% and one very short-term loan at 5% interest per month. As of now, in the North and East, Agro Micro works in six divisions of the district of Ampara. Agro Micro is keen to expand its program to other districts of the region to address post conflict reconstruction and bridge the gap between humanitarian relief and sustainable development in the North and East region of Sri Lanka. They have developed a special program for expansion in the region and are presently seeking donor funds for this purpose.

One NGO that is rapidly expanding its services in the region and is noteworthy for its scope of work, depth of vision and its persistent commitment to the regional community under the most trying circumstances is TRO.

- **The Tamils Rehabilitation Organisation (TRO)** TRO can be said to be an internationally recognised NGO in that it has offices in all the countries where the majority of the Tamil Diaspora have made their homes.

  Since the ceasefire TRO has rapidly expanded having a presence in all the districts of the North and East Region. The TRO was founded in South India in 1985 by refugees and moved to Sri Lanka in 1987. TRO is involved in Relief, Rehabilitation and Development activities that span, education, health, food security, infrastructure, de-mining and socio-economic recovery and development. It publishes Annual Reports, is externally audited and was transparent and helpful towards the study research team.

  In 1997 it established its Socio Economic Development Bank (SEDB) that manages savings and access to financial services for the regional communities. Although funded by Tamil organisations and individuals overseas it has gradually begun to receive funding and support from the international community in Sri Lanka. However, it is believed that due to its linkage with the LTTE this assistance has been limited for political and diplomatic reasons. There is a need for TRO to receive a broad stream of development assistance and support in all aspects of social and economic recovery and development.

The total contribution of the national level NGOs is still very small A major reason for this are the conditions that some donors and donor projects specify to qualify for funding in the region, in that they require previous experience in the North and East region. This effectively puts up a 'barrier to entry' for national NGOs with good experience in microfinance elsewhere in Sri Lanka to start or expand in the North and East region. It has been found that this is not a constraint just for microfinance but for many sectors of rural development work.

It is very important that the larger national and regional level NGOs will be supported in their campaigns to establish regional networks of service provision. It is also important that donors and practitioners work to build the specialised microfinance capacity of these organisations. Nationally, SEEDS is the most professional and sustainable third sector microfinance service provider, but they started work in earnest in the North and East region only in 2001 (apart from Ampara where work commenced from 2000).

The Cooperatives Sector

There are numerous forms of microfinance practitioner cooperative organisations in the region. There are fishermen cooperative societies, unions and banks. There are farmers' societies, agro-societies, palmyrah and coconut development societies, palm production and development societies, livestock societies, milk production societies, multi-purpose societies, thrift and credit societies, even lorry drivers societies all involved in the provision of savings and credit services for their members. However, regardless of whether they are labelled 'multi-purpose' or 'thrift and credit' the reality is that many cooperatives undertake a wide range of economic, community and cultural based activities that frequently, but not always, include microfinance.

Not including the commercial bank deposits, the cooperative sector is the largest practitioner group in the region, accounting for around half of all known savings accounts and approximately seventy percent of known deposits. Overall, the study identified around 320,000 existing coop savings accounts throughout the region. However, detailed knowledge of the membership base is still largely unknown and there are problems with identifying the active membership and numbers of active savers throughout the sector. This, in turn, hinders the extent to which it is possible to effectively plan sector development interventions and estimate potential demand.

The cooperative organisations represent the bedrock of microfinance activity in the region. Cooperative based microfinance is a 'traditional' activity throughout the region dating, in some cases, as far back as the turn of the previous century. Today, the cooperative sector in the region is widely considered to be in disarray and a shadow of its former self. There is no doubt that the sector has been severely disrupted by over twenty years of armed conflict. The extent to which is it possible to rebuild the cooperative sector as a sustainable force for microfinance provision in the region is possibly the most interesting question in microfinance in the country today.

Taken as a whole, the cooperatives are clearly a strong potential platform from which to deliver financial services to the poor and assist in the economic development of the region. However, it is important to remember that not only most of the surviving cooperative institutions, including individual district cooperative departments, work more or less autonomously, but that most of the sector developments as a whole have passed the region by over the past twenty years. Simply put, many of the cooperatives in the North and East region are in the earliest stages of economic recovery – as is the region itself. Given the state of disrepair, a combination of 'hard' and 'soft' approaches that intervene directly at the district level are clearly required.

Supply

The most striking feature of the microfinance sector activity in the North and East Region is that low levels of supply predominate throughout most of the region. Despite over two years of peace, microfinance supply remains characterised by low levels of savings deposits and even lower levels of micro-credit service provision. This is set against a backdrop of weak formal financial services provision by the commercial banks, including low banking density, a low deposits base, low levels of credit disbursement, few specialised microfinance or SME products and the absence of any national or regional development banks - or development finance more generally.

Demand

The demand for microfinance services in the North and East Region is high at this time and, given the continuance of the ceasefire agreement, will continue to increase over the next few years. The main reasons for this include:

- High levels of poverty exist throughout the region and the majority of the regions population are at or below subsistence level in terms of income generation.
- Over one million people have been (repeatedly) displaced inside the region and are largely without physical assets.
- Formal employment opportunities are few and far between and seasonal (under) employment is common.
- The resumption of traditional livelihood opportunities (farming and fishing) is becoming increasingly possible for large numbers of the regional population (although many are still unable to do so).
- Access to formal financial services (especially credit facilities) are minimal throughout much of the region and current levels of semi-formal services provision are inadequate
- There are high numbers of female-headed households (war-widows) and other special interest groups throughout the region.

Increased microfinance service provision in the short to mid-term is a key feature of the successful economic recovery of the region. This is required both with regard to semi-formal and formal financial services. These high levels of demand are by no means atypical in post-conflict settings.

Non-Financial Services

Microfinance alone is *not* enough. Entrepreneurs working in the region also require a range of non-financial support services. Apart from access to carefully designed financial products, they need be encouraged to develop their activities above mere subsistence level income generation and start to make their enterprises more profitable.

The provision of enterprise start-up and development services is also crucial. Post-conflict environments have many opportunities to create and expand businesses. Often, enterprises need help to develop more sophisticated products that 'add-value' to their activities. Equally, there is presently very little activity or forums that are promoting knowledge about marketing products or designing products that have a high demand potential, particularly in the areas of agricultural production and the fishing industry. Entrepreneurs working across the primary sectors and usually with natural resources or raw materials are currently a long way away from the marketplaces of the major trading centres at home and abroad.

Alongside basic business services, leadership and entrepreneurship training is also necessary. This is because, while individual coping strategies have promoted micro-economic activity in recent time, they also made people very averse to taking (unnecessary) risk, and for very good reasons. Risk aversion has become habitual and as the peace process continues, expertise is now required to help people lift their horizons once again and be prepared to take the types of risks common to starting or expanding an enterprise.

Training Services

Although many of the practitioner organisations have received some training, for example in setting up, managing and maintaining financial systems and records there has been no systematic microfinance training and there appears to be little knowledge of internationally recognised good and best standards of microfinance practice. Training in entrepreneurial and enterprise development services appeared absent throughout the region. There are currently few microfinance or micro-enterprise training facilities in the region and a lack of local institutionalised microfinance training for practitioners. A few international agencies and organisations have assisted a small number of their national staff in receiving microfinance training at recognised international centres in the UK and USA. It is estimated that some 2,500 people presently need basic microfinance 'good and best' practice and credit-plus training at different levels throughout the region.

Frameworks of Economic Recovery

In post-conflict environments, the success of economic recovery lies in the creation of services that do not currently exist and in building an effective framework of access to financial and non-financial services for entrepreneurs and their enterprises. Access to these services needs to be provided for entrepreneurs involved in starting up or expanding micro, small and medium enterprises. The range of services that are presently required are those of: credit, savings, training in business planning, marketing and management, financial management, skills training, the provision of business information services, technological inputs and professional business consultancy.

At this stage, the government and the international community need to facilitate access to these vital services through developing partner organisations to provide them. Such intervention should focus on building a framework that taps into existing community mobilisation activity and through jump-starting entrepreneurial demand at the individual and community level. During the initial stages this will require strong technical and financial assistance inputs to strengthen service providers and facilitate the development of a range of inter-organisational partnerships and alliances and develop demand-driven market linkages.

Conflict Sensitivity

Initiatives within a conflict-affected area can have or be perceived to have a positive or negative impact on the protagonists and the communities that are the focus of the intervention. However, the majority of international agencies, institutions and organisations do not appear to be undertaking any conflict sensitivity training of their staff. The inclusion of a process, such as a Peace and Conflict Impact Assessment (PCIA) that continues to assess the conflict creating or peace building impacts of any development initiative is essential but it was found that no such assessment process appears to be in place in any of the microfinance initiatives in the region.

Believing that a different and additional process is necessary to eliminate *conflict creating impacts* that increase the probability of violent conflict and that introduce *peace building impacts* that will reinforce the opportunities for peace we have originated a document that is a guide to Microfinance In Conflict Assessment Process (MICAP). This guide is separate from the study report and will assist practitioners and other interested stakeholders undertake a process that will help them take a different approach, practices and process when planning and implementing microfinance interventions in areas affected by conflict.

Key Findings

It was found that:[2]

- Overall frameworks of service provision and linkages between different types of financial services provision are weak throughout the region

- The present levels of access to financial services is insufficient to promote the successful economic recovery of the region

- Demand for microfinance and enterprise development related service provision has greatly increased in the two years since the cease-fire began

- The absence of mid-term funding opportunities for microfinance and enterprise development initiatives represents a significant constraint to the economic recovery and development of the region

- There are no existing or planned government or international projects or programmes focused exclusively on the economic recovery of the North and East region through the creation of effective frameworks of financial services provision and increased access to microfinance and MSME development service provision

[2] The findings and recommendations contained in this report represent the views of the authors and do not necessarily reflect the opinions of the commissioning agencies, Swedish International Development Agency (Sida) and German Technical Cooperation (GTZ).

Strategic Recommendations

Given that the peace process continues, the strategic recommendations of this study are that:

> The government and the international community work together to implement area based sector development approaches that will create frameworks for effective microfinance service provision that radically increase the availability of financial and enterprise services at all levels throughout the region.

and that:

> Integrated Financial Service & Enterprise Development Programmes (IFSED) be implemented in each district of the region for a minimum of five years. These programmes should include strong international technical assistance, institutional development and organisational strengthening, capacity building and direct financial instruments. Each programme would take the lead in planning and coordinating the development of financial provision among the public, private and third sector service providers and facilitate overall sector development activities, such as awareness raising, marketing, training and the coordination of financial and non financial services.

Key Recommendations

It is recommended that:

- The cooperative sector be rebuilt at the **district level** throughout the region including undertaking extensive research, planning and coordination activity with a view to significantly increase primary society membership and micro credit outreach at the divisional level.

- Apex cooperative organisations be capacity built and strengthened to provide effective entrepreneurial products linking primary societies into formal financial services provision.

- MFIs develop intermediate financial mechanisms that enable commercial banks and apex level institutions to provide financial services to entrepreneurs where risk is shared equably between the borrower, lender and intermediary.

- The GoSL urgently initiate the establishment of at least two Regional Development Banks (RDBs) in the region.

- Commercial banks, especially the state owned banks, be encouraged to develop a range of commercialised microfinance products for MSME start-up and expansion throughout the region and that the present 'Peoples Fast' microfinance product be rapidly expanded throughout the region as a whole.

- District Secretariats establish a microfinance unit with specialist microfinance and enterprise development staff and microfinance, EDS and GIS capacity, in order to more effectively plan and coordinate microfinance and EDS service providers.

- Donors programmatically fund microfinance initiatives in Sri Lanka as a primary instrument for the economic recovery and development of the North and East region.

Introduction to the Study

This study is concerned with developing more effective microfinance service provision in the North and East Region of Sri Lanka. The overall aim of the study is to assist funders, policy makers and practitioners of microfinance by providing them with sufficient detail about the nature of microfinance activity in the region to enable them to make more knowledgeable, considered and effective decisions about the planning, financing and implementation of microfinance development activity in the region. The study is the outcome of ten months research activity between July and April 2004.[3]

Understanding how best to develop microfinance requires having sufficient information, knowledge and foresight from which to reach informed decisions and then taking the time to act effectively to plan, finance and implement better service provision in the North and East Region. This requires first gaining a sound appreciation of current microfinance activity within the region, including different kinds of service provision, types and levels of supply and the nature of demand. Second, it requires adopting a holistic approach and taking the time to consider microfinance in terms of broader frameworks of financial services provision. Third, and perhaps most importantly, it requires understanding the nature of the conflict itself and the special role that microfinance has to play in conflict and post-conflict affected environments.

Developing more effective microfinance service provision in the region is, of course, not easy and requires time, patience and adequate financial investment. Practitioners in the region have long felt that current levels of microfinance supply are insufficient and that microfinance and income generation activity could be more effectively harnessed as a tool for assisting local economic recovery in the wake of armed conflict. However, the fact remains that there is very little information on microfinance and income generation activity in the region as a whole and, however valid or prescient it may be, most practitioner perceptions about microfinance are based on anecdotal evidence and individual experiences. This lack of overall information represents a significant constraint to the development of effective financial service provision to the poor and thus the economic recovery of the region as a whole.

The report is presented in three parts: Part One presents an overview of microfinance activity by practitioner type in the North and East Region. Profiles are given of the main practitioner groups and organisations, including international agencies and organisations, government practitioners, the commercial banking sector, non-governmental organisations and the cooperatives sector. Part Two presents an overview of microfinance activity by geographic area. Regional and District level profiles are given showing savings and loans activity by practitioner, area and population. Part Three is concerned with developing microfinance service provision in the North and East Region. It begins by presenting *'development summaries'* for each district/area of the region and then undertakes a regional level analysis of current stakeholder activity and the key issues facing the sector at this time. This is followed by Findings and Recommendations and a Conclusion.

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[3] The study includes an examination of levels of microfinance savings and loan activity during the year 2002. Data was gathered at the practitioner level (as opposed to gathering information primarily from funders) As such, most international funding activity is presented through the partner organisations that they work with and not shown directly. The exceptions are when interventions work directly with community based organisations themselves. Individual practitioner organisations were approached wherever possible. In some cases, where this proved to be too time consuming and complex an activity (as in the case of the Cooperative sector in Jaffna), information was gathered from local apex organisations.

Approach

Conducting research in conflict-affected areas invariably means that higher levels of time, attention and resources than the norm have to be given in order to ensure the participation and collaboration of local microfinance practitioners.[4] To this end, assistance was sought and freely given by local and international organisations working throughout the region, including local NGOs, NGO Consortiums, INGOs and UN Agencies. To assist with the research process, local teams were established in the districts of Ampara, Batticaloa, Colombo, Jaffna, Mannar, Trincomalee, Vavuniya and the Wanni area. The teams travelled thousands of kilometres and undertook repeated visits to gain the information required, often travelling to the most remote and (potentially) dangerous areas of the region.[5]

Local non-governmental organisations, cooperative organisations, community-based organisations, governmental practitioners, commercial banks, rural banks and international non-governmental organisations and agencies were approached and asked to participate. Key stakeholders consulted included Government Agents, the Commissioner for Cooperatives Development, Assistant Commissioners for Cooperatives Development and other local authorities.

In total, nearly four hundred different organisations were approached - although many of these turned out not to be engaged in microfinance activity- and over 1,000 individuals were contacted during the course of this study. Most practitioner organisations were happy to participate in the research exercise; indeed, many organisations had never been approached before. Cooperation, however, was not unanimous and, as expected, most of the commercial banks were unable or unwilling to provide us with details of their microfinance activity. In addition, not all NGOs or government practitioner organisations felt able to participate, particularly in the Wanni area.

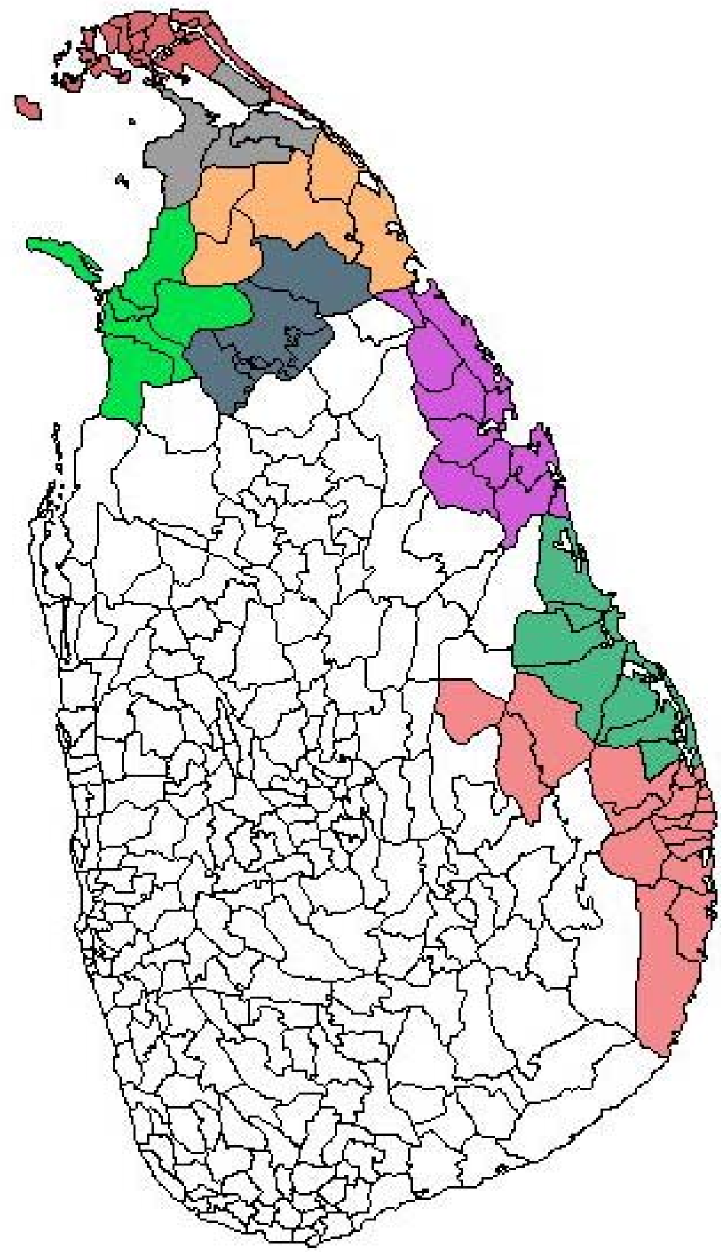
[4] This is the first time that a practitioner level research exercise of this magnitude has been undertaken in the North & East Region.

[5] All the researchers received intense research skills and microfinance training from the consultant team and other key microfinance resource personnel in the region. They were also provided with semi-structured interview checklists and questionnaires in English, Tamil and Sinhala Language mediums.

Part 1

Microfinance Activity by Practitioner Organisation

in the North and East Region



1. Introduction

Microfinance can be defined 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). These services are typically provided by three types of source: *formal institutions*, such as rural banks and cooperatives, *semi formal institutions*, such as NGOs and *informal sources*, such as moneylenders and shopkeepers.

This distinction amounts to a separation between individual and institutional level service provision. According to the bank, "institutional microfinance is defined to include microfinance services provided by formal and semi-formal institutions…[and] microfinance institutions are defined as institutions whose major business is the provision of microfinance services." (ibid.) The distinction between institution and individual is an important one, but only from the point of broad brush definitions and sector level discussion. The closer one gets to the ground, the more varied things become. This is because microfinance is about people, places, livelihoods, self-employment, employment and culture.

A good summary of the use, importance and role of microfinance is provided by the ADB who believe that the provision of efficient microfinance services for the segment of the population that has little or no access to financial services is important because:

- 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.

The ADB believes that in general its 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.

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

- Adoption of the financial system development approach is the key to achieving sustainable results and to maximising development impact. This approach emphasizes 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

1.1. Overview of Microfinance Activity in the North & East Region

The microfinance landscape in the North and East of Sri Lanka is diverse. Whether it is referred to as 'microfinance', 'micro-credit', 'income generation', 'savings and loans' or 'thrift and credit', there are over 1,000 different organisations, societies and groups engaged in some Manner in the provision of semi-formal and formal savings and credit services to the regional population. There is also a significant amount of 'informal' group lending, often called 'cheetu' or 'ROSCA' as well as individual money-lending activity by moneylenders – usually at usurious rates of interest – although this activity is fairly difficult to measure.

Organisations in the region have a variety of functions and backgrounds and are perceived in different ways.[6] From a specialist point of view, organisations are a combination of being either: wholesalers or retailers; international, national, regional or local; private, government or third-sector; formal or semi-formal; and, specialised microfinance service providers or non-specialised microfinance service providers. Microfinance organisations can also be seen as being primarily funders, practitioners, funder-practitioners or facilitators.[7]

Funders of microfinance in the North and East Region include bilateral and multilateral *granting* agencies, such as AusAID or the EU. They also include *lenders* or *lender-granters*, such as the ADB or NOVIB. Presently, there are only seven funding organisations involved in either granting or lending activity in region.[8]

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[6] On the ground, organisations are generally viewed as being either local, international or governmental and local authority organisations. However, all international organisations are frequently perceived as 'donors' regardless of whether they are bilateral, multilateral or non-governmental. In addition, international and national level organisations, including the World Bank and the ADB, are frequently referred to as 'NGOs' as the distinction is really between whether the organisations are local, or not. Local NGOs are commonly referred to as LNGOs.

[7] These categories are more of a heuristic than a strict method of classification. We have separated between funder and funder-practitioner on the basis of a combination of operational modality (the UNDP program in the North and East, for example, is a directly executed program; whereas ADB and World Bank projects are executed through GoSL). Likewise, UNHCR operates through implementing partners; whereas CARE, ZOA or OXFAM sometimes work directly with community and village-based organisations.

[8] Presently, these include: AusAID, CIDA, NORAD, NOVIB and SIDA. In recent years DFID, HIVOS, SLCDF have also funded microfinance activity. The ADB and the World Bank currently have microfinance components inside the NECORD and NEIAP projects.

The purpose, role and nature of the microfinance activities practised by these organisations varies considerably and is reflected in the various emergency, relief, rehabilitation and development oriented mandates of the respective organisations. Overall, there are a dozen international organisations and agencies currently practising microfinance in some capacity.

Microfinance projects are presently being funded for purposes of poverty alleviation, poverty reduction and local economic recovery. It is also being funded for purposes of long term economic development and to help build sustainable livelihoods, community rehabilitation and promote peace and reconciliation. Elsewhere, microfinance is funded to provide ‘durable solutions’ to resettled and returnee populations. It is also used to build houses, construct pre-schools, repair roads and rehabilitate tanks and other community water resources.

At the practitioner level, microfinance in the North and East Region is, essentially, a multifaceted intervention tool used by the Sri Lankan government, local authorities and international community alike. At the same time, it is also a traditional means by which the majority of the region’s ‘poor’ have saved and gained access to credit. The practice of microfinance varies widely from large-scale multilateral projects with large micro-credit components to the daily savings activities of small groups of people.

Micro-credit is essentially used in the region to provide individual populations with production loans of some description through the promotion of subsistence-level income generation activities and to develop self-employment and micro-employment opportunities. For example, micro-loans in the region are presently being given to purchase deep-sea, off-shore and fishing boats; to purchase livestock; breed poultry; seed paddy and vegetables and replenish inland fish stocks. In practice, many loans are also used for consumption purposes, such as paying for weddings or funerals or running repairs to property.

1.2. Practitioner Organisations in the North & East Region

A wide variety of organisations currently practice or facilitate the provision of microfinance services in the North & East region, in one manner or another. These include cooperative organisations, community-based organisations, village-based organisations, local non-governmental organisations, governmental practitioners, commercial banks, rural banks and international non-governmental organisations and agencies as well as various bilateral and multilateral agencies involved in funding.[9]

Table 1 Overview of Practitioner Organisations in the N&E region

Type	Name
Community & Village	Rural Development Societies, Women's Rural Development Societies Groups Formed By LNGOs, INGOs & Others Groups Formed By Themselves
Cooperatives	Farmers, Farming and Livestock, Fishermen & Fishing, Milk Production, Multi-Purpose (Cooperative Rural Banks), Palmyrah & Palm Production, Thrift & Credit
Non-Governmental	Local, Regional, National
Financial	State Banks, Private Commercial Banks, Development Banks
Other Financial	Rural Banks (Non-Cooperative)
Government	Samurdhi, N&E Government Projects
International	INGOs, UN Agencies

Practitioner organisations in the region include a host of different 'grass-roots' community and village based organisations (CBOs & VBOs), NGOs and cooperative societies. Cooperative societies form the majority of practitioner organisations in the region. There are many different kinds of society in the region, totalling thousands in number. However, most of these are currently inactive or defunct due to twenty years of armed conflict.

The most *active* societies in the region are the Multi-Purpose Cooperative Societies (MPCS), the Thrift and Credit Cooperative Societies (TCCS) and Fishing Cooperative Societies (FCS). Other societies in the region include farmer societies, dairy societies, livestock breeder societies, palmyrah societies and employee societies.[10] The exact number of active societies in the region has yet to be calculated, but certainly stands at over 400, and growing.

NGOs practising microfinance in the North and East Region include local level, regional level and national level organisations. NGOs provide a range of 'hard' and 'soft' community services throughout the region. This includes water and sanitation, education, health and nutrition, gender

[9] This report is not concerned with funding activity per se. For a recent overview of funding activity, please refer to AusAID & GTZ's *National Microfinance Study of Sri Lanka*: *Survey of Practices and Policies* (Gant et al., 2002).

[10] Cooperative societies represent the traditional (semi-formal) base of savings and credit activity in the region and have a long, complex and intriguing history dating back to 1911. MPCS operate savings and credit as part of their wider community activities; whereas TCCS societies are formed exclusively to practise thrift and credit activities.

awareness and other activities. Overall, there are around 160 NGOs in the region, of which 100 are estimated to be presently practising some kind of microfinance activity.[11]

The commercial banking sector also provides microfinance services in the region, although at levels far below elsewhere in the country. In the commercial banking sector the distinction between rural finance and microfinance and between funding for micro-enterprise activity and small and medium scale business activity is often blurred. Overall, however, access to formal financial services is not a reality for the majority of the region's population.

There are numerous CBOs and VBOs currently or recently active in the region. These include tank (water) groups, farmers groups, fresh water fishing societies, pre-school groups and rural development societies. These organisations exist for a wide variety of reasons but have usually come together as part of some kind of social or community level mobilisation activity undertaken by INGOs and Agencies in the region. The activity or longevity of these community and village groups varies considerably. Often, however, activity lasts for approximately as long as the funding cycle of the international project in hand. There are perhaps as many as a thousand CBOs and VBOs in the region. However, the exact number has yet to be calculated and many are not practising microfinance.[12]

There are also a number of organisations or bodies who can be said to be *facilitators* of microfinance development. These include inter-agency and inter-organisational microfinance forums and income generation groups, the microfinance activities of different NGO consortia and NGO Councils as well as those who fund or undertake microfinance research, training and capacity building in the North and East, such as Sida, GTZ and AusAID. Microfinance forums, income generation groups and NGO consortia tend to be organised at the district level and are currently present in most parts of the region – although not necessarily with high functionality. Let us now turn to these practitioner groups in more detail.

1.3. International Microfinance Activity

International organisations presently practising microfinance or income generation activity include: CARE International, DRC, FORUT, GTZ, OXFAM, UNICEF, UNHCR, UNDP, World Vision and Zoa Refugee Care. In addition, both the World Bank and the Asian Development Bank have regional projects with income generation components in them but as the government is the executing agency these are discussed in the section on government practitioners.

Most of the international practitioners have been undertaking microfinance interventions in the North and East Region of Sri Lanka for some time. This has involved them in introducing microfinance schemes in the 'face of conflict' which of necessity means that the majority of these organisations and agencies and the microfinance schemes that have been implemented were relief based. Traditionally, relief based organizations and the projects and programmes that they implement find it difficult to embrace development-based approaches.[13] This is because it affects the culture,

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[11] The nature, age, experience and ability of NGO organisations in the region varies widely. In the real or perceived absence of alternative partners, NGOs have been the preferred implementing partner of many funders and funder-practitioners throughout the duration of the conflict.

[12] From the point of view of assessing supply and understanding microfinance activity in the region, most CBO and VBO information can be gotten by asking the respective NGO, INGO or government partnering organisations. Thus, it is not necessary to visit every single one of these organisations.

[13] C.f. Jim Cotter (1996), Distinguishing between poverty alleviation and business growth. *Small Enterprise Development*, Vol.7, No.2 London, UK; or j. Parker & D. Pearce (2001) "Microfinance, grants and non-financial responses to poverty reduction: where does micro

structure, systems and processes of an organization as a whole. In particular management and staff of these organisations have to undergo a radical change in their skills and knowledge base. This major transition usually creates internal upheaval and uncertainty and impacts on the delivery of an organization's present interventions.

Relief based organizations tend to adopt shorter-term perspectives because they normally deal with people and communities that are in a state of crisis, man made or otherwise. Projects are frequently funded on a short-term basis and largely driven by donor's perceptions of need. Non-emergency relief activities usually focus on health and hygiene or physical rehabilitation projects - such as the provision of food security, water, sanitation, and shelter and basic subsistence level income generation. Where relief based organizations initiate income generating schemes they invariably utilise welfare-based approaches that are more to do with grants and subsidies than a 'business like' approach to microfinance. In the main the focus of these schemes is to encourage people to start a small savings fund, then with added grant funding to disburse credit for subsistence level self-employment. It has been found that these schemes are in general, not supported by adequate research, training, management and financial reporting systems.

By contrast the task of rebuilding more sustainable socio-economic structures is a longer-term process that can only occur in conditions of relative stability and in areas where basic infrastructure is already in place. Whilst physical rehabilitation projects such as power, telecommunication and transport networks are essential, economic development activity predominately utilises soft policy tools, engaging in activities such as fostering good governance, rebuilding civic society and developing economies at all levels. With the cessation of open conflict and a formal ceasefire agreement in place there has been a dramatic increase in the movement of people and goods throughout the region and a steady growth in the economy. This change, if it is to be leveraged positively, means that these organisations and agencies and their local partners and the microfinance schemes that they have and are continuing to introduce need to be shifted towards economic recovery and development.

1.3.1. CARE International

CARE has been involved with microfinance interventions throughout the North and East Region since 1994. The microfinance schemes were originally developed utilizing welfare-based approaches and partnered with a wide range of organisations such as Fishing Cooperative Societies, NGOs and CBOs. The schemes were project based with each intervention based on a single proposal in one area of the region. These microfinance schemes were not usually supported by adequate research, training, or acceptable financial reporting systems and in the main, most of them were inherently unsustainable.

This does not mean that the schemes were a failure; in the context of relief they have provided a cohesive catalyst for community groups and have 'kick started' the beginnings of the economic rehabilitation process. The work CARE has undertaken in the North and East is responsible for assisting the start up, revitalization and development of a large network of community groups. In the Wanni, CARE's microfinance interventions, mainly funded by CIDA and UNHCR, assisted the poorest and most vulnerable and was the only substantial financial assistance available for the populace of this area during the period of direct conflict.

To change these schemes into commercially based sustainable microfinance units and at the same

credit fit?" CGAP Focus Note No. 20

time change the attitudes of the partner organizations and beneficiaries from a recipient culture to one of economic independence is a longer-term process that can only occur in conditions of relative stability. This process was initiated by CARE through the introduction of the Capacity Building – Jaffna Project (CAB – J) in Jaffna that was implemented on a commercial basis utilizing most of the guidelines for good and best practice and has become the 'benchmark' scheme for CARE's recent microfinance interventions throughout the region.

CARE has recently secured funding for two medium term rehabilitation/ development projects in the North and East region. AusAID and the Netherlands have funded the Wanni Development Project, for a three year period commencing early in 2002. The Local Initiatives For Tomorrow Project (LIFT), is a four-year project funded by CIDA operating in Batticaloa, Jaffna and the Wanni. These projects and the CAB-E project in Batticaloa that was initiated around the start of the present ceasefire, have given CARE the opportunity to make radical changes to its microfinance interventions and reposition itself to undertake development approaches assisting the economic recovery of the North and East Region.

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

Ampara District

In the Ampara District CARE works with small groups and CBOs undertaking projects concerned with gender awareness, health, food security and nutrition, education, and the rehabilitation of reservoirs. CARE started its microfinance interventions in Ampara 2002 and during this year it assisted microfinance schemes in three GS Divisions. All the loans have been taken up by women and are used for income generating projects with the credit tied to skills training and a leadership awareness programme. Funding for this project of A$ 394,000 was granted by Aus Aid.

Batticaloa District

In the Batticaloa District CARE has the largest presence of any INGO and is implementing multi sector projects throughout the district. CARE's programme works primarily to address the longer-term development needs of people in the district. This includes assisting families to rebuild their livelihoods and strengthening the capacity of government, non-government and community based organizations through two projects in the district, CAB-E and LIFT, which aim to improve the ability of new and existing CBOs to provide local communities with the tools to access and manage local resources.

The CAB-E project aims to reduce the vulnerability of poor households and to promote gender equity inclusiveness and reconciliation through assisting the building of community capacities. The objective of the project is to increase the capacity of fifteen existing CBOs with established saving and credit groups, as well as cooperative societies and newly formed groups, to provide demand based financial services. The savings and credit groups are exclusively female in order to have an impact on gender group dynamics, particularly in relation to woman's access to and control of resources.

Jaffna District

In the Jaffna District CARE has a long history of implementing microfinance schemes namely through two projects, the Food Security Project (FSP) and the Capacity Building of Community Based Organizations (CBOs) in Jaffna Project (CAB-J). 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. To achieve these aims, the project undertook to increase the amount of land under cultivation and engaged in localized institutional capacity building. The capacity development component started later than the physical rehabilitation activities and did not really get underway until mid-1997 with eighteen FCSs as partner organisations. 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 with twelve groups.

CARE, and its partners had to face not insubstantial issues of access, mobility, lack of resources and high staff turnover; extension services were woefully understaffed and poorly funded; vocational training services sparse and enterprise development services virtually non-existent. The monitoring of the microfinance schemes within the FSP was poor, with little attention being paid to those financial ratios that are necessary to check the 'health' of any microfinance scheme. From the perspective of a relief-based microfinance scheme operating in a highly differentiated conflict affected area, the projects microfinance schemes could be viewed as a modest success. However, from the perspective of microfinance as an economic development based tool, or from the perspective of accepted standards of good and best practice internationally, the schemes demonstrate poor credit management awareness and were inherently unsustainable.

CAB-J on the other hand, was an innovative small-scale two years pilot project funded by the United Kingdom Department for International Development. The goal of the project was to contribute to reducing the vulnerability of poor households in the Jaffna District through undertaking capacity development activities with 20 CBOs and increasing their ability to access financial resources.

The Project employed a total of five staff including the Project Director, three Microfinance Management Trainers and a Finance & Administration Officer. The project had a total budget of 120,000 Pounds Sterling. Project preparation activities were extensive. After the recruitment process, which involved first selecting a Project Manager who received CARE funded microfinance training in the USA, three graduates from the University of Jaffna were selected from a short-list of 29 and appointed as Microfinance Management Trainers.

The project team received in-house training in microfinance, monitoring & evaluation and institutional strengthening, followed by a 'cross-visit' to the Wanni to look at existing CARE microfinance activities. The selection of partners was completed by mid-February 2001 through an institutional baseline study. Ten Thrift and Credit Cooperative Societies (TCCS) were selected in consultation with the Assistant Commissioner Cooperative Development (ACCD) and five savings & credit groups (S&Cs) were selected out of a pool of 50 applicants. A further five S&Cs groups were initiated in communities that had requested assistance in developing these activities. A household baseline study was conducted and independently analysed between April and September 2001.

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, bookkeeping, savings and credit activities. 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. Each CBO determined the level of interest charged, and the method and manner in which it is collected. Interest rates varied, but currently range between 24 and 36 percent, that is, at and above market rates. Both of these projects have been discontinued and superseded by the LIFT project which is undertaking microfinance activities with Fishing Cooperative Societies that were previously partners in the FSP and CAB-J projects.

Trincomalee District

In the Trincomalee District, CARE is funding a number of partner organisations, selected through a Partner Profile analysis, for a range of activities that include utilising some of the funding for microfinance schemes rather than a project platform designed to incorporate microfinance with specific criteria and standards. During a social mobilisation process with partner organisations, the need for economic mobilisation and the introduction of microfinance schemes is identified. Training in leadership, simple bookkeeping and savings and credit schemes are included in the overall training programme for building the capacity of partner organisations. However, there is no written policy or guidelines for the introduction of microfinance schemes or any apparent understanding of good and best practice. Microfinance policy and practice, including levels of interest payable on loans, are left for the partner organisations to develop and institute.

CARE is presently promoting a loan recovery guarantee fund through its PRIDE Project 2002 to 2005. This project will include the undertaking of a baseline survey, and systems for monitoring and evaluation of microfinance schemes that are presently not being undertaken throughout the partner organisations where microfinance schemes are in operation.

Vavuniya District

In the Vavuniya District, CARE provides funding to twenty six local partner NGOs and CBOs for microfinance schemes that are focused on income generation projects in three DS divisions of the district, Vavuniya, Vavuniya North, and Vavuniya South. The microfinance clients are war widows and female-headed house holds and resettled IDPs that are selected through a needs assessment survey. CARE measures the outcome and overall impact of the schemes through a pre implementation baseline survey and follow up monitoring and evaluation through interviews and case studies.

CARE has also noticed a radical change in the operating environment in the district over the past twenty two months that has seen the increase in mobility of the population and their access to national markets, and at the same time the entry of two new INGOs into the district, undertaking microfinance with local partners as well as six new finance companies. CARE believes that the risks associated with implementing microfinance in the district include the extreme vulnerability of the IDP population and the presence of a strategic attitude of dependence found throughout the general populace.

Through a series of meetings with their local partners and undertaking microfinance awareness and training, CARE believes that there is an immediate demand for some LKR 30 million of microfinance credit in the district. However, CARE believes that there is an urgent and immediate need for microfinance training and professional standards to be established and maintained with regard to all actors, INGOs and agencies and local practitioners in the district.

Wanni Area

CARE has been involved in microfinance in the Wanni Area since 1994 and focused on the economic mobilisation of partner groups in the Food Security Project (FSP) that was funded by CIDA. With funding from UNHCR initiated savings and credit schemes with a large number of NGOs and Fishing Co-operative Societies in the Wanni. The 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.

To achieve these aims, the project focused on increasing 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 households' 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 in 2002 with the implementation of the Wanni Development Project. Microfinance activities in the project were implemented indirectly through 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).

During the period 1994 to 2000, Revolving Loan Funds (RLF) were developed in forty nine NGOs, twenty seven FCSs and five CBOs in the Wanni. In the un-cleared part of Mannar, for example, CARE has funded 18 NGOs and FCSs since 1994 with microfinance schemes giving a total of 5,404 loans totalling some LKR.23,474,296 and an average loan size of SLR 24,104. These loans have been given mainly for fishing and farming activities as well as micro enterprise 'start ups'.

One of the outstanding microfinance success stories in the Wanni is the Mullaitivu FCS Union, the apex organisation for twenty two FCS that have a total of 4,600 active members (2,800 men and 1,800 women). The union's microfinance activities are well managed by a committed team of elected officers with a General Manager and nine board members of whom 3 are women. There are twenty two paid staff in the union and a further sixty paid staff in the FCSs. The co-operative regulations, structures and systems appear to provide a framework within which it is possible to develop sustainable microfinance schemes.

CARE recognising that the 'relief-based' approach to microfinance has engendered a strategic attitude of dependency in a large proportion of the partner groups, is in the process of changing the structures and systems of these schemes towards a 'business-like' or commercial approach especially in its Wanni Development Project.

As recently as a year ago, CARE was one of the few INGOs that had a number of trained and experienced microfinance specialists on its national staff complement but these people appear to have left the organisation for other employment. Training in microfinance has been started for its partner organisations, however it would appear that there is no reference to, nor understanding of, internationally recognised standards of good and best practice in microfinance.

1.3.2. Danish Refugee Council

The DRC entered Sri Lanka in late 1998 and throughout the following twelve months undertook research to define a programme in the country, working through a local partner organisation, the Rural Development Foundation (RDF). (Program Document, DRC Sri Lanka 2000 - 2003, Danish Refugee Council, July 1999, Anuradhapura) The Program Document contains a thoughtful and well constructed framework for assisting the rehabilitation of individuals and their communities that have been affected by the ongoing conflict.

In late 1999, a Head Office was first established in Anuradhapura, moving to Vavuniya in 2002, and a staff complement was built to support the expansion of its rehabilitation and capacity building activities. During this second year DRC also undertook more detailed research on the resettlement and rehabilitation needs of internally displaced people (IDPs) living in different areas of the North and East Region of Sri Lanka and a survey of other international organisations and agencies and national organisations working in the region.

The objective of the DRC's Program in Sri Lanka is to assist the establishment and strengthening of sustainable livelihoods for IDPs' at the community level, mainly through community based organisations (CBOs) as partners, with an initial focus on the districts of Vavuniya and Mannar, where offices have been established. In 2002 DRC established an office in Trincomalee and is undertaking similar programmatic work in this district. Although the accent is on community level partnerships, some district wide Non Governmental Organisations (NGOs) such as the Mannar Association of Rehabilitation and Resettlement (MARR) and SEWA Lanka, a regional NGO, are also DRC partners.

One component of the DRC Program is to undertake the economic mobilization of IDPs' through the establishment of Revolving Loan Funds (RLFs) and the DRC employed a professional microfinance specialist from within the South Asian Region for three years, from 2000 to 2004, to head up this intervention. The microfinance specialist undertook awareness raising seminars and workshops and short-term training and capacity building of the DRC microfinance team and CBO and NGO partners. He initiated the development of a detailed booklet (Guidelines for Income Generation Activities and Revolving Loan Fund (RLF), June 2002, Anuradhapura.) that acts as a guide for all of the DRC's partners.

Presently the DRC's Program, including the initiation and development of RLFs, is operating in thirty six villages in the four districts of Anuradhapura, Mannar, Trincomalee and Vavuniya, where the focus is on resettled and relocated communities that have undergone a social mobilisation process, as well as individual focal groups, such as unemployed youth, that are noted as 'extremely vulnerable' ,and war widows. DRC's partners are assisted in the formation of RLFs with seed funding and there is a strong emphasis on individuals to start savings accounts to build up their capital base and that of the fund. A 'Loan Appraisal Matrix' is utilised by the partner organisations to prioritise credit utilisation and individual borrowers.

In Anuradhapura, DRC has implemented two RLF schemes with a total of LKR.750,000 in seed funding and in Vavuniya, DRC has seventeen RLF schemes in operation in partnership with seven organisations at the community level with seed funding exceeding a total of LKR11.5 million. In Mannar, DRC has implemented eighteen RLF schemes and is working in partnership with six community level organisations, having granted them a total of some LKR. 4.5 million in seed funding. Interventions in the District of Trincomalee started in 2002 and presently there are seven RLF projects with three community level organisational partners having a total of LKR.3.5 million of seed funding.

After implementation of an RLF the DRC team undertakes a systematic process of monitoring and evaluation through direct observation as well as a regular reporting system instituted with each partner organisation. This allows for periodic modification and change as well as identifying training needs specifically to do with the management of microfinance schemes. Presently the DRC is undertaking an impact assessment study of the RLFs in partnership with a research team from the University of Jaffna, Vavuniya Campus with the purpose of studying qualitative improvement at the household level.

It has been found that there is a process of acceptance by the partner and community of the RLF schemes that appears to take place over a two years cycle. On start up of the intervention a lot of negative attitudes towards the RLF system and its establishment were shown, however in the most recent phase of the Program the acceptance and utilisation of the RLF as a sustainable system has grown. It is believed that one of the most important factors contributing to the community's acceptance and ownership of the RLF scheme is that a systematic process of social mobilization was introduced prior to the economic intervention, having a significantly positive impact on the socio economic process of recovery and rehabilitation of the community as a whole.

One of the primary results of the DRC research and follow up monitoring and evaluation of its microfinance interventions has been that there is a noticeably high demand for access to finance by households that have lost their productive assets and resource base, especially from the unemployed youth throughout the resettled and relocated communities. This demand is mainly for asset replacement and credit for income generation and micro enterprise start ups.

The DRC team found that although there was a good understanding of savings and credit in the simple terms that have been traditionally undertaken for generations, there was an initial lack of understanding concerning microfinance good and best practice such as financially sustainable interest levels and financial ratios that signal early warnings concerning sustainability and the health of a loan portfolio. Over the past two years the team has noticed a marked improvement in their partner's understanding and competencies in microfinance and a desire by the partners to learn more about access to financial services for enterprise development.

The DRC team has found that there is a large amount of parallel microfinance funding by other international organisations and agencies through the same partners that has confused the organisations and individuals as each international organisation and agency utilises different standards and practices that are, in the main, implemented by people having little knowledge, skills and experience of microfinance schemes and standards of good and best practice. In particular, there has also been some confusion concerning grant in aid funding, as against grants for microfinance schemes where individual loans have to be repaid by the borrower, that has brought about a strategic attitude of dependence concerning 'foreign funding' in the mind set of individual IDPs and partner organisations. This, coupled with the short-term nature of the majority of programmes instituted by international organisations and agencies, is in the team's estimation reinforcing dependency rather than developing an attitude of independence and self-sustainability.

The DRC team believe that there ought to be district wide cooperation between donors and INGOs and International Agencies in the form of a forum and that the systematic training of partner organisations and standards of microfinance good and best practice be agreed and implemented throughout each district and eventually the region as a whole.[14]

The DRC microfinance interventions have been well researched, planned and implemented utilising professional expertise to improve the knowledge, skills and experience of the DRC team and its partner organisations. The DRC team were found to be transparent in all their interventions and open concerning failures. Lessons learnt have been utilised to improve the overall program and its implementation. This organisation and its staff and employees are an excellent example to other international and national organisations and agencies operating in the North and East Region of Sri Lanka concerning the planning, implementation and partnership role in microfinance schemes.

[14] A District Forum for microfinance practitioners has been instituted in the Trincomalee District by the UNDP Transition Programme Field Officer.

1.3.3. 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. 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. FORUT continued to introduce and assist the maintenance of microfinance schemes in Jaffna and the Wanni throughout the period of conflict and is continuing assist its partners in these areas of the region.

FORUT emphasises 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 reviewed its mission, policy, plan and strategy concerning its microfinance operations in 2000 and as a result began to move away from the previous subsidised model towards commercialisation and a focus on the operational and financial sustainability of the village based CBO partners. There has been the introduction of baseline surveys and microfinance operations are being integrated with access to non-financial services such as training, business linkages and information.

FORUT believes that through 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.

1.3.4. German Technical Cooperation (GTZ)

In 1995, the German Government (represented by BMZ) and the Government of Sri Lanka agreed to start a project concerned with implementing microfinance credit through a commercial bank with an outreach to the rural population of the country. The People's Bank of Sri Lanka and the German Technical Cooperation (GTZ) were selected as implementing partners for the Rural Banking Innovations Project (RBIP). The Project has a two-fold objective; to improve financial access and service delivery to micro, small and medium scale enterprises (MSMEs), thereby creating opportunities for increased employment and income in those enterprises, and at the same time making a contribution to the profitability of the People's Bank.

RBIP is an attempt by GTZ to introduce some of the best practices of microfinance to a large state owned commercial bank with the widest network of branches in the island. It is now working in 9 districts in Sri Lanka and the project has succeeded in motivating Peoples' Bank to accept microfinance as a separate product and to form a new division under an Assistant General Manager for the handling of microfinance. That project hopes that when the project is complete by end 2004 the bank will eventually expand microfinance work to all districts.

The tools and instruments introduced by RBIP to the bank are: the Field Officer concept as the bank's prime instrument to establish and to deepen a lasting and profitable business relationship with small customers, a multi-purpose small business loan (Peoples Fast), an innovative product, which reduces transaction costs and MIS, GIS and Impact Monitoring.

In 2002, the project undertook a feasibility study investigating expanding the projects into the North & East Region and in 2003 the bank started a pilot operation in Jaffna. GTZ/RBIP has supported the bank in this endeavour and has established a pilot scheme for one year in five branches in the Jaffna Peninsula with the introduction of a microfinance credit product called 'Peoples Fast' that has an upper limit of LKR.100,000. This limit may well be increased in the near future. Monitoring of the product has shown it to be both popular and successful and the demand for this financial access has far outstripped the present supply of funding for the product.

Along the coast line and lagoon area 'Peoples Fast' is focusing on the fishing sector through one branch in Jaffna Town and two smaller branches in Valvettithurai and Kayts where the managers have a deep knowledge of their clients and where, although the overall market is smaller, the demand for the product, especially from the fishing communities, is believed to be higher. However, the present scheme does not encompass the credit levels necessary to purchase major assets such as the FRP boats, outboard motors and major items of fishing gear. In the other areas loans are focused on farming and micro enterprise 'start-ups'.

GTZ/RBIP has employed a microfinance specialist with commercial banking knowledge as the 'pilot scheme' coordinator for at least a period of one year and she has undergone familiarisation and training in GTZ/RBIP objectives and methodology. Her major task is to establish the linkages between suitable INGOs (CARE, UNDP), NGOs (SDF) and CBOs (JRP) with the five selected People's Bank branches and act as the GTZ/RBIP facilitator with the bank's area staff. This is an innovative and successful intervention by a commercial bank in microfinance in partnership with an international agency and the employment of a microfinance specialist to act as a coordinator and facilitator between the bank and the present microfinance actors in the district has worked well with excellent results.

1.3.5. 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 in Batticaloa, Mannar, Trincomalee, Vavuniya and the Wanni, normally with NGOs as partners.

Assistance already obtained from other international or national organizations is no bar for Oxfam in selecting a partner organization for initiating a microfinance project. Projects are from one to three years and monitoring of the projects continues after completion so that the impact of each project can be assessed over a longer period of time than the project term and long-term relationships can be formed.

Checklist appraisals are carried out on the prospective partners through on site visits and examination of the organisation's history and records. Depending upon the nature of the project, Oxfam believes that capacity building and where necessary some recurrent expenses are acceptable for funding assistance. 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.

Oxfam undertakes monitoring and evaluation through visits and progress reports; also both mid term and end of term evaluations of all projects is undertaken. There is no set level for funding and each proposal is taken on its merit and assessed both for need and proposed funding level. Although locally Oxfam has no microfinance specialist, Oxfam globally has a number of specialist consultants in microfinance and if required these can be utilised for evaluation and training purposes.

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,the volume of proposals received indicate 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.

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. Oxfam has seen a surge of demand for microfinance and enterprise development services since the ceasefire in the North and East Region.

1.3.6. United Nations Development Programme (UNDP)

UNDP has had an ongoing field presence in the conflict-affected areas of the North and East Region since 1997, with the Jaffna Rehabilitation and Resettlement Programme (JRRP). This Programme was designed as a multi-faceted area based programme; the sub-projects ranged from renovating the Jaffna Teaching Hospital, introducing IT training for women and establishing microfinance schemes for the fishermen, through to re-building local public market places.

Many interventions were sector based and holistically focused. For example the rehabilitation of the poultry industry in the Jaffna Peninsula re-establishing a poultry breeding farm, incubator support for small holder livestock farmers, building a pelletised poultry feed system, providing training for farmers, building the capacity of the local farming institutions, re-equipping the veterinary service and providing microfinance schemes for farmers. As well as assuring a sustainable local supply of high quality protein price of eggs was reduced from LKR12 to 6.5 and poultry meat from LKR 280 to170 within six months of the project's full implementation. Other projects included social & economic mobilization and enterprise development, and in spite of the re-escalation of the conflict almost all of these sub-projects were successfully completed. The continuation of UNDP presence in Jaffna through the UNDP Transition Programme (formerly known as the Umbrella Project for Conflict Affected Areas) was approved by the Government in April 2001 as the main UNDP project to address post conflict reconstruction and bridge the gap between humanitarian relief and sustainable development in the North and East of Sri Lanka.

The programme is based on the UN Development Assistance Framework (UNDAF) and the UNDP Country Cooperation Framework (CCF) and specifically addresses the issues related to conflict. Learning lessons from these previous experiences has been an important part of the establishment of the current programme and this can be best seen in the Mine Action and Microfinance sectors of the programme.

The microfinance interventions in the Transition Programme are all undertaken in partnership with local organisations in each district and the Wanni. Each of the microfinance projects contains components concerned with training, capacity building, linkages with extension services and enterprise development services, the introduction of appropriate technology and seed funding to start a financial platform.

UNDP has skilled microfinance specialists employed in the programme and awareness raising programmes concerning microfinance and standards of good and best practice are undertaken with partner organisations. The Trincomalee Field Coordinator and her staff have initiated a microfinance network of INGOs and agencies in the district and are in the process of developing a microfinance training programme for partner organisations and other district based organisations, institutions and government officers.

Microfinance projects are being undertaken throughout the region facilitated by the Transition Programme

Ampara

- Capacity building support to the Fisheries Cooperative Banks.
- Microfinance support for the Women's Cooperative Movement.

Batticaloa

- A research study of microfinance at practitioner level throughout the district.
- Assessment and re-establishment of the SANASA and TCCS network in the district to facilitate the re-introduction and expansion of microfinance at the community level.

Jaffna

- Microfinance schemes are in place in seventeen Multi Purpose Cooperatives (MPCSs) throughout the Peninsula, with an active membership outreach of over 160,000 people of whom over 60 percent are women members. Loans being granted within the range of LKR.5,000 to 50,000 and are utilised for farming and micro enterprise start-ups and expansion. There are linkages to extension services and enterprise development services.
- The Assistant Commissioner of Cooperative Development's (ACCD) department has been assisted with hard and soft ware IT and has undertaken the monitoring of this scheme in its totality.
- Twenty microfinance schemes (revolving loan funds - RLF) have been established for the purchase and issue of traditional fishing craft through Fishing Cooperative Societies (FCS) in the Peninsula.
- Further project work is in progress with the FCS in the Peninsula to establish microfinance schemes for the development and expansion of the fishing industry.

- UNDP will work in cooperation with the World Bank funded NEIAP project, implementing microfinance projects at the village level utilising its microfinance experience gained through the microfinance schemes in the MPCS.

Trincomalee

- Initiation of a microfinance network that will eventually encompass all practitioners throughout the district.

- Development of a microfinance training programme for partner organisations and other local organisations and institutions in the district.

- A number of microfinance schemes of the RLF type are in the process of implementation in the farming and fishing sectors, with start-ups ranging from mid 2003 to early 2004 with an overall outreach to over 1,000 clients.

The Wanni

This is a recently established field office and project planning is being undertaken with a focus on fishing and farming. However, microfinance projects concerned in returned 'child soldiers' are in the process of implementation in cooperation with UNICEF.

Vavuniya and Mannar

UNDP has assisted microfinance schemes in Vavuniya through establishing a central revolving fund at the District level through the district Thrift & Credit Societies Union (SANASA), creating opportunities for linkages for all interested organisations in the district to access funds for their own members. This is working well and already many NGOs, a farmer Organisation and some community organisations have linked and took advantage of the opportunity to access credit facility for their members. However as outreach increases additional funds will be required.

The implementing partner has improved its performance and reduced its Portfolio at Risk (PAR) by a substantial percentage. An increased number of clients are making on time repayments and on time repayment is some 96% at present. Operational expenses were covered by the operational income during 2003 and the scheme can be said to be financially sustainable with room for expansion during the next year.

Strengthening and extending the present microfinance capabilities of the Federation of Institutions for Rural Management (FIRM), that is an apex organisation encompassing fifteen village societies. Financial inputs have been made in the form of equipment that is loaned out to members for a fee building up a microfinance capital base.

Strengthening and extending the present microfinance capabilities of the Federation of Social Development Organisations (FOSDO), that is an apex organisation encompassing eleven village societies with some 750 members. Financial inputs have been made in the form of equipment that is loaned out to members for a fee building up a microfinance capital base.

Microfinance professionals and specialists in the UNDP Transition Programme believe that:

- There are a number of microfinance schemes that have been implemented with little or no planning, particularly in terms of outreach and sustainability. Some are designed to establish a fund that is only available to a limited number of people in a community and the management of the schemes is poor in terms of follow up and repayment.

- Some microfinance schemes are introduced as microfinance / revolving loans where little or no interest is charged, disallowing room for growth or expansion with defaulting loans reducing the capital available. This type of scheme skews the financial environment endangering sustainable microfinance promotion.

- Microfinance training at differentiated levels are to be given to those practicing microfinance in planning, implementing and managing microfinance projects including community mobilisati on, the promoting of savings and group collateral, financial systems, financial ratios and the international standards of goods and best practice.

- It is essential that sustainability and transparency be in-built in all microfinance programmes.

- Creative plans should be prepared when practising microfinance for the benefit of the community on a sustainable basis, and programmes for strengthening the skills of the field staff of microfinance intermediaries should be given considered.

Should the peace process fail the UNDP Transition Programme's operational plan would be will dependent on the impact on the implementing partners' ability to continue their operations. The Transition Programme would provide support, guidance and assistance and has excellent experience of successfully implementing microfinance schemes in the 'face' of conflict (Jaffna District 1998-2000).

The UNDP's Transition Programme is without doubt an innovative, is thoughtful and flexible programme focused on economic recovery leading to development. Mr. Mitchell Carlson (the programme's former manager) and his staff are to be congratulated on persevering in assisting the formation of a sustainable platform for economic development and shunning the relief based 'quick fix solutions' that are so prevalent in the conflict affected areas of Sri Lanka.

1.3.7. United Nations High Commission Refugees (UNHCR)

UNHCR has provided funding for microfinance projects throughout the North and East Region through a number of international and local partner organisations. These schemes have been mainly focused on income generating activities in the primary industries of agriculture, livestock, fisheries, construction and light engineering as well as service industries, crafts and the specific targeting of income generating activities for women.

In the Jaffna District UNHCR financed a revolving credit fund that is lent out to resettled families through the Rural Development Societies (RDS). UNHCR has provided a total of some LKR.40 million during the period 1997 to 2000 since until when it officially stated that it had ceased funding microfinance projects. Funding to other areas of the region is not known however, due to the agencies broad representation and period undertaking projects it is believed that the Wanni also received this level of funding through international partner organisations during the conflict period.

This agency has undertaken essential funding of microfinance in the 'face of conflict' and although the microfinance schemes are not based on international standards of goods and best practice, they provided the only access to finance for communities that were in dire need. It is suggested that these schemes, especially in the Jaffna Peninsula be reviewed and modified to incorporate changes focused on economic recovery and financial sustainability with possibly UNDP facilitating this transition utilising its microfinance specialists.

1.3.8. United Nations Children's Fund (UNICEF)

UNICEF although not a main actor in microfinance in the region has partnered with national and local organisations including Sarvodaya and Zoa Refugee Care to implement savings and credit schemes for 'war widows' and their families in Jaffna and Trincomalee. UNICEF is also in the process of partnering with UNDP in building a microfinance project for 'child soldiers and their families on their return and resettlement.

1.3.9. World Vision Lanka (WVL)

WVL is a Christian based organisation that undertakes humanitarian relief and development throughout Sri Lanka and has is operating in over 1400 villages. WVL has adopted an 'Area Development Approach' for its relief and development work within communities and has a project time frame of fifteen years within the selected areas, usually DS divisions. Its focus is at the community level working with families especially women and children. During the early 90s WVL commenced microfinance interventions aimed at income generation, mainly subsistence farming, fishing and microenterprise development. In the North and East Region it is established in Ampara, Batticaloa and Mannar.

In Ampara it is undertaking projects in education, health, economic development, peace building and child development. It has been working in two DS divisions in eighteen villages for the past three years and microfinance is concerned with improving family incomes through access to finance and self-employment. WVL assists in the formation of village based CBOs that start savings schemes and helps to arrange bank loans for the members, who are all women, through the Hatton National Bank rather than granting seed funding.

In the Batticaloa and Mannar districts WVL has been undertaking an area based relief, rehabilitation and development programme since 1996 providing much the same activities and components over the same time scale as in Ampara. The partner's are village based CBOs and savings and credit activities were initiated in the same year where the programme was implemented. WVL has assisted the formation of 396 groups in Batticaloa and 69 in Mannar with each group consisting of five to seven members all of whom start by undertaking savings activities. Once savings levels have reached a predetermined point credit is then granted. Over seventy percent of the present loans have been granted to women and the present on time repayment rate is 80 percent. Training for self-employment is undertaken by GTZ/CEFE through an alliance between these two international organisations.

1.3.10. 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 works in the continuum between relief and development in such a way that a development organisation could take over the work of ZOA or 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.

ZOA states that it has found donor funding cycles to be short term without time to undertake adequate research or baseline studies and, therefore, there is no impact assessment with staff relying on anecdotal information. ZOA assists the capacity building of CBOs through training CBO officers in simple financial accounting and management practices and also has developed microfinance guideline manuals in English and Tamil.

1.3.11. Government Microfinance Activity

Government activity in microfinance takes place through the execution of three current multilateral funded projects -NEIAP, NECORD and the new rural finance sector development project- as well as the Samurdhi program and wholesale activity from the NDTF. However, it should be observed that there are no government development banks presently based in the region.

1.3.12. Samurdhi

Samurdhi is the government’s main national poverty alleviation program, starting in 1997. In the North & East region, the program commenced only in 2001 and only in the district of Ampara. However, the number of Samurdhi banks in the region grew from 65 at end of 2001 to 95 at end of 2003 - nearly a 1/3 increase over two years. The Samurdhi Banking Microfinance program is, therefore, possibly the fastest growing microfinance program in the North & East region at this time. In the year ending 2001, the Samurdhi program gave loans only in Ampara district and not a single loan was given to any of the other seven districts. However, loans are now being issued in Batticaloa, Trincomalee and Vavuniya, although the vast majority of loans continue to be issued in Ampara. At the end of 2002, over 80 percent of all loans were issued in Ampara, with around 10 percent in Batticaloa and around 5 percent collectively in Trincomalee and Vavuniya. Samurdhi is not working in the LTTE controlled districts of Kilinochchi, Mullaitivu or even the (partly cleared) district of Mannar.

If the growth, distribution and politics of Samurdhi’s micro-credit operations leaves many unanswered questions, with over 200 million rupees in savings at the end of 2002 and more than 230,000 savings accounts (at least three-fifths of which have been mobilised within 2 years) there can be little doubt of how effective the organisation is at gathering the savings assets of the poor. Samurdhi savings mobilisation activities have now commenced in Jaffna and it is said that loans will be issued shortly; although this has been said since 2001. The growth of Samurdhi in the North and East is admirable but it is vital that the government and donors take steps to protect the program as it is highly subsidised and under political control. The linkage between free allowances and the microfinance program must be studied and the impact of the removal of such allowances must also be investigated.

1.3.13. International Funding

In terms of micro-credit, the NEIAP project is, arguably, currently having the most significant impact in the region as a whole and seems to have replaced UNHCR in working with WRDS and RDS societies through local district and divisional secretariats. The project grants sums to returning/resettled villages, mainly WRDS, and has provided a much needed injection of capital for subsistence level income generation activity in much of the region.

With the agreement signed for a second follow on project it is hoped that the present activity will continue and become sustainable and that the project's geographic base will be broadened and deepened impacting positively on the region as a whole.

JBIC funds the Poverty Alleviation Microfinance Project (PAMP) implemented by Central Bank through Regional Development Banks and NGO's such as SEEDS in 6 southern districts. A few months ago they advised the Central Bank to utilise Rs.80 million out of the budget of the project to support the North and East districts in microfinance through a few chosen commercial banks with Central Bank as the on-lending agency. This has not yet commenced and Central Bank is now formulating the program

The ADBs first and main project in the North and East in recent times is NECORD and has a microfinance or income generation component that has yet to be fully implemented around the region. The project has provided Rs.30 million for revolving funds for fishing villages through fishing cooperatives in Maruthankery and Point Pedro Divisional Secretary divisions in Jaffna. UNDP is providing technical assistance for this microfinance program.

Two other new and upcoming projects, the Eastern Province Community Development Project (EPCDP) and the Rural Finance Sector Development Project (RFSDP), also include microfinance as a component. EPCDP partners National Development Trust Fund (NDTF), a wholesale lending agency which provides loans for NGO's and cooperatives in the 396 Grama Sevaka units covered by the project along the coastal belt of the Eastern Province. EPCDP will have a credit fund to the value of US $ 4 million. These funds will be on loaned to the government who will in turn loan it to NDTF at the average weighted deposit rate. NDTF will charge a service charge of 5% and NGO's will be permitted to lend keeping around 10-16% for their transaction costs. However NGO's are to take the credit risk and are free to determine the lending rate. The project will also have a training and capacity building component for partner MFIs and a soft loan for transport facilities and other infrastructure for partners.

The Rural Finance Sector Development Project that is scheduled to commence later in 2004 has a component for microfinance development in the North and East but this is not (budget) detailed. The Project Director and his staff will have to develop detailed proposals as to how to implement this component.

Finally, a new project provisionally entitled the *"Promotion of the Microfinance Sector in Sri Lanka"* (ProMIS) is now in the technical appraisal phase of its development, that is due to be undertaken in August 2004. It is expected that this programme will have a significant North and East presence. The proposed programme is a joint collaboration between Sida, GTZ and KfW. An initial fact finding mission undertaken in late 2003 and concluded that the overall objective of the programme will be to increase the *sustainability* and *soundness* of the microfinance sector and to increase the *outreach* to those segments of the population and regions of the country which until now have only limited or no access to financial services.

It is anticipated that the proposed programme adopt a financial systems approach that perceives microfinance as an integral part of the financial sector focused on more effective outreach of financial services to the poor emphasizing the economic and operational viability and sustainability of specialised microfinance service providers. It is anticipated that the programme will also work on the meso level to include some areas of policy reform, institutional strengthening and refinancing, capacity building of key apex and national level organisations. The main activities suggested by the fact-finding mission were:

- Inter-organizational policy coordination between key stakeholders such as MoF, MPDI, MRE, RFSDA, MoC, Samurdhi Authority and others
- Streamlining regulation & supervision activities in the microfinance sector
- Developing quality standards and international best practices
- Strengthening of MFIs
- Provision of refinancing facility
- Establishment of training-infrastructure for MFIs
- Building local IT-service providers for MFI

1.3.14. NDTF

The NDTF is the main government agency to provide microfinance as soft loans to NGO's and Cooperatives. The loans are provided at 7% interest per annum and are funded by an ADB loan. In addition some capacity building assistance and some basic infrastructure such as furniture is given to poorer NGOs. On the directions of the government, especially of the Secretary to the Treasurer, NDTF has made a special effort to develop partner organisations in the North and East. An advertisement was recently placed to invite partners from the NGO sector and cooperatives. Awareness creation programs were held with NGO consortiums and cooperatives in a number of districts to attract new members. Though a large number applied and over 20 have registered not all of them have received credit.[15]

[15] Up to the end of December 2002 only 9 organisations were receiving credit from NDTF. This was an increase of 8 from the previous year as only one organisation was a member in the year ending December 2001. All 9 organisations were from the Eastern Province, with 1 in Trincomalee, 2 in Batticaloa and 7 in Ampara. However, besides these 9 organisations based in the North and East a few others based in Colombo, such as Sewa Lanka and SEEDS also obtain bulk loans from NDTF and use part of this for their work in the region. A few organisations in the North also commenced receiving credit in 2003. NDTF follows the same policies including interest rates for its operations in the North and East. They are keen on expanding their work in the region and state that they intend to follow an aggressive policy to develop new partnerships. NDTF has recruited Tamil speaking staff to focus on North and East work and expect a high growth in partners and loans in the next 2 years.

1.4. The Commercial Banking Sector

Micro-credit provision from commercial banks in the North & East ranges from virtually nil to extremely low depending on the specific area of the North and East and only three banks, arguably two, have specialised microfinance products of any kind. This is not to say that where banks don’t have microfinance products, micro-lending activity is not going on (much of the day-to day lending of the Peoples Bank in the Wanni area, for example, would appear to be at the micro-level although only at a small scale); rather that, assuming capital is being released for lending purposes by the banks in the first place, most lending is contingent on onerous capital and collateral requirements. Regardless, the absence of microfinance activity in the commercial banking sector is a significant impediment to the economic recovery and development of the regional economy.

In the past, the two state-owned banks were amongst the biggest loaning agencies for small loans, especially for lending to farmers for paddy and agricultural production purposes. However, these loans were given at subsidised interest rates and considered a political or social cause, rather than a viable product per se. All political parties have repeatedly used this loan as a political tool, writing off outstanding loans prior to elections and crying for the plight of the poor farmers only for the sake of votes. However, as the recent elections prove, politicians fail to subsidise and protect the agricultural production sector at their peril. Still, one of the enduring contributions of the two state owned commercial banks has been to make it very difficult for a serious microfinance agency to operate in this vital market. Now the People’s Bank is more focused on microfinance largely due to the Rural Banking Innovation Project, which is supported by GTZ.

The two large state banks cannot report data on small loans though People’s Bank has reported a few loans under the Rural Banking Innovation Project since June 2003. Only three private banks had branches in the North and East as of the end of 2002. These three banks in total had issued only 1,913 loans below Rs.500,000 in the financial year 2002. This was one year after the peace accord was signed and after travel to these areas was restored. The 10 years prior to that would not have seen virtually any loans given by Commercial Banks resulting in the opening of LTTE banks in the 'uncleared' areas. But the very slow progress of banks in micro lending does not augur well for the economic revival of the region.

Of the private sector commercial banks, only two, namely, Hatton National Bank and Seylan Bank have focused on microfinance as a product. The reason they have focussed on microfinance is:

- Due to social reasons to contribute to poverty alleviation or to rural economic development
- As an entry point to develop future clients

Overall, the commercial banking sector has yet to see the potential of microfinance as a viable product. This is partly due to the donor assisted subsidised programs of government and NGO’s in this sector and bad practices due to such programs. It is also due to the costs and time in developing the product to a viable profitable status. As a consequence, most banks do not segregate loans or savings by size and there is no focus on microfinance. This also makes it difficult for them to respond to a study such as this. Even the state banks which still give a substantial volume of small loans do not treat it as a separate product and are not in a position to give national, regional or even district level figures for their micro loans and savings activity.

1.4.1. Banking Density

Banking density and the number of bank branches in the region is one useful indicator when considering the financial services sector in North and East. Although looking at banking density gives no indication about actual levels or types of supply, it does show institutional presence on the ground and provide per capita branch ratios.

Based on statistics given by the Central Bank, the entire country with a population of 19.6 million had 1,530 bank branches and 635 ATMs as of 31st Dec 2002. The North and East region, with a population of 2.5 million, or 13.1 percent of the population, had 130 branches, or 8.4 percent of branches, and 4.4 percent of ATMs. This alone indicates that with the return of peace and economic development there is much more scope for expansion of the formal financial sector in the North and East Region.

1.4.2. Credit and Deposits

Levels of savings are, in the main, poorer than elsewhere in the country, with the exception of Jaffna. Despite the conflict situation and war-economy, with well over 50 percent of industry, agriculture and fisheries being dormant, Jaffna's banks had a significant deposit base which was the 8th largest deposit base of the 27 districts in Sri Lanka. Jaffna had Rs.13,482 million, which was nearly equal to the deposit base of Kalutara, a thriving district close to Colombo and to Galle, and the most developed district in Southern Sri Lanka. This huge deposit base was mainly due to remittances from overseas and previous savings and the impressive thrift displayed by the people of Jaffna. The following table clearly illustrates the banking situation and policy of banks in the North and East, especially regarding credit.

In contrast, Mullativu, Mannar and Killinochchi have the lowest deposit bases in the country. Kilinochchi had only Rs.324 million as deposits and Rs.23 million as credit, as compared to a very poor Southern district such as Moneragala, which had Rs.2,890 billion as deposits, and Rs.1,532 billion as credit. The fact that these districts are largely under the control of the LTTE which has its own banking institutions in Mullativu and Kilinochchi could have a bearing on this low banking situation.

Table 2 Credit to Deposit Ratio of Commercial Banks as at December 2002

District	Total Deposits (Rs. M)	Total Credit (Rs. M)	Credit to Deposit Ratio
Ampara	**3,008**	**2,095**	**0.70**
Anuradhapura	8,962	4,688	0.52
Badulla	9,007	3,878	0.43
Batticaloa	**4,104**	**2,542**	**0.62**
Colombo	203,017	255,334	1.26
Galle	13,896	6,155	0.44
Gampaha	36,308	17,196	0.47
Hambantota	5,800	2,568	0.44
Jaffna	**13,482**	**1,652**	**0.12**
Kalutara	15,260	6,689	0.44
Kandy	22,636	11,358	0.50
Kegalle	9,342	3,131	0.34
Kilinochchi	**324**	**23**	**0.07**
Kurunegala	19,853	9,057	0.46
Mannar	**792**	**355**	**0.45**
Matale	5,403	2,726	0.50
Matara	9,311	4,062	0.44
Moneragala	2,890	1,532	0.53
Mullaitivu	**451**	**29**	**0.06**
Nuwara Eliya	6,840	2,967	0.43
Polonnaruwa	4,254	2,894	0.68
Puttalam	9,800	5,442	0.56
Ratnapura	13,810	5,466	0.40
Trincomalee	**4,249**	**1,809**	**0.43**
Vanni	1,771	600	0.34
Vavuniya	**2,760**	**697**	**0.25**
Total	427,329	354,945	0.83

The credit policy practised by banks in Jaffna can be seen by the fact that Jaffna had the lowest credit to deposit ratio in the entire country excluding Kilinochchi. In fact, all five northern districts had the lowest credit to deposit ratios in the country. See table below for details.

The credit policy followed by Commercial Banks in Jaffna and the other districts was very stringent compared to the credit policy in the rest of the island. However the ratio was not as bad in the eastern districts. Another interesting point was that from the point of view of deposits Jaffna was still the 8th largest deposit holding district in the country despite a very poor level of economic activity. This showed the extent of remittances from overseas to Jaffna residents.

1.4.3. Seylan Bank Limited

When the Seylan Bank opened its branch in Jaffna in 2002, the advice of the Chairman of the bank to the Jaffna manager was “Do not send a single cent from Jaffna savings to Colombo”. This showed the commitment of the bank towards the North and East and the bank has used innovative methods to face the challenges of the region. Teams of senior staff from Colombo were sent to hold credit clinics where approval was given immediately for loans that previously required head office approval. Strategies have been found to meet the additional tax charged by the LTTE without passing the tax entirely over to the people. The bank is about to start mobile banking in Jaffna and Trincomalee and vehicles have been purchased for this purpose.

Seylan Bank considers loans up to Rs.500,000 as being microfinance. It is serious about microfinance and this area of work is operated under a senior manager termed Manager Development Banking. It is also very keen on supporting the development of the North and East region and opened new branches in Jaffna and Trincomalee last year making a total of 4 branches in the North and East. Thus it is the fastest expanding bank in region in the last 2 years.

Table 3 Seylan Bank N&E Regional Loans Data 2001-2002

	Jaffna	Vavuniya	Trinco	Batticaloa	N&E Total
No of Active Loan Clients Y/E 2001	-	166	-	244	**410**
No, of Active Loan Clients Y/E 2002	71	694	403	240	**1,408**
Total Outstanding Loans Y/E 2001	-	69,054,377	-	105,515,342	**174,569,719**
Total Outstanding Loans Y/E 2002	24,541,141	105,266,862	26,049,574	109,554,445	**265,412,022**
Average Loan Amount per Client 2002	300,000	151,681	65,000	200,000	**716,681**
No. of Loans Issued During 2001	-	132	-	108	**240**
No. of Loans Issued During 2002	83	128	403	131	**745**
Value of Loans Issued 2001	-	39,200,560	-	46,111,700	**85,312,260**
Value of Loans Issued 2001	28,581,200	58,125,600	26,416,683	39,938,000	**153,061,483**

The bank increased its loan clients from 410 at the end of 2001 to 1408 at the end of 2002. Vavuniya and Trincomalee showed the highest growth with Vavuniya growing from 166 to 694 loans and Trincomalee issuing 403 loans in its first year of operation.

Table 4 Seylan Bank N&E Regional Deposits Data 2001-2002

	Jaffna	Vavuniya	Trinco	Batticaloa	N&E Total
Number of Deposit Clients Y/E 2001	-	21,099	-	16,470	**37,569**
Number of Deposit Clients Y/E 2002	3,613	22,580	1,506	17,770	**45,469**
Total Deposits Value Y/E 2001	-	374,413,000	-	452,419,604	**826,832,604**
Total Deposits Value Y/E 2002	158,311,548	471,259,000	35,953,190	478,901,751	**1,144,425,489**
Amount Deposit Amount Y/E 2002	50,000	20,870	23,873	150,000	**244,743**

Deposit clients of the bank in the North and East region increased from 37,569 to 45,469. Seylan Bank contributed Rs.5 million to Ceylinco Grameen for microfinance work. Due to the strong commitment of the Seylan Bank Chairman to the North and East as well as to the poor it is strongly possible that the bank, as well its other MFIs such as Ceylino Grameen, will be a big player in development of the region in the future.

1.4.4. Hatton National Bank

The Hatton National Bank (HNB) is the largest and oldest private Sri Lankan commercial bank. It has a significant presence in the North and East region with 12 branches as follows:

Table 5 Hatton National Bank Branches in the North & East Region

District	Branches
Ampara	Ampara, Akaraipattu
Batticaloa	Batticaloa, Kalmunai, Kattankudi (Pay Office)
Jaffna	Jaffna, Chunnakam
Mannar	Mannar Town
Trincomalee	Trincomalee, Kantale, Trinco (Periyakadu) Pay Office
Vavuniya	Vavuniya Town

From end 2001 to end 2002 the banks loan clients in the microfinance sector (loans and deposits below Rs.500,000) increased by 32% and outstanding loans increased by 22%. Deposits increased by only 13.3 %. In terms of the credit, the HNB issued a total of 1,150 loans in 2002, which is the highest for any private bank and the highest for all banks reported. However, the figure of 1,150 loans for an entire year is in itself very small and shows the market potential in this sector. Overall, HNB has active microfinance clients in 6 districts of the region, making it the most active private commercial bank in the region.

Table 6 HNB N&E Loans and Deposits Data 2001-2002

	Ampara	Akkaraipattu	Batti	Jaffna	Manner	Trinco	Vavuniya	N&E Total
No of Active Loan Clients Y/E 2001	270	218	350	96	214	174	114	1436
No of Active Loan Clients Y/E 2002	320	284	500	108	342	226	122	1902
Total O/S Y/E 2001 (Rs.Mn)	41.6	3.8	4.0	1.73	11.38	3.4	13.8	79.17
Total O/S Loans Y/E 2002 (Rs.Mn)	44.0	5.5	6.0	1.5	19.12	8.5	13.0	97.62
Average Loan amount (2002)	60,000	20,000	25,000	25,000	50,000	25,000	75,000	40,000
Number of Loans Issued During 2001	234	174	300	79	138	99	29	1053
No of Loans Issued during 2002	327	97	200	24	216	215	71	1150
Value of Loans Issued during 2001	19.0	3.0	5.0	2.0	8.0	3.0	6.0	6.57
Value of Loans Issued During 2002	22.0	4.2	8.0	0.6	13.18	9.7	4.0	8.81
On time loan repayment 2001	-	98%	96%	98%	99%	90.26	9.5%	
On time loan repayment 2002	87%	99%	96%	97%	98%	91%	93%	
Number of Deposit Clients Y/E 2001	280	150	360	108	161	350	48	1457
Number of Deposit Clients Y/E 2002	340	85	3000	225	225	2200	57	6132
Total Deposits 2001 (Rs.Mn.)	19.0	19.8	3.0	3.5	18.0	7.0	1.2	71.5
Total Deposits 2002 (Rs.Mn.)	22	21.5	5.0	6.0	21	8.0	1.3	84.8
Average Amount of Deposit 2002 (Rs.)	10,000	7500	5000	10,000	25,000	5000	7000	9,900

1.4.5. Peoples' Bank

The People's Bank is a public sector bank and is the second largest commercial bank in Sri Lanka after the Bank of Ceylon. The Bank was instituted by the *People's Bank Act* in 1961. The Act dissolved the previous Co-operative Federal Bank of Ceylon and established the Bank for the purposes of: developing and assisting the co-operative movement, rural banking, agriculture and industry to carry on the business of a commercial bank, pawn broker and merchant bank.

The Bank has the largest network of branches in the country and a broad range of savings and loan products. Its main intent was to reach out and give access to financial services for the rural and 'poor' people of Sri Lanka. In the early sixties these communities were denied access to these services and relied heavily on traditional unofficial pawning, local lotteries called cheetus and the local mudhalalis' who lent cash at usurious rates of interest.

CBSL has observed that: In the past, " the operations of the state banks have not always been based on commercial criteria and this has resulted in certain inefficiencies in their operations which affect the entire banking industry. Hence there is an urgent need to improve the operations of these two banks. An important step in this process would be to ensure that their future dealings with the government are at arms length and their business activities are based on commercial criteria." (CBSL, 2001:p.52, added emphasis) However, in recent years, the banks economic performance has improved remarkably showing operating profits since 2001 with high growth in 2003. The bank is clearly fighting hard to modernise, restructure and improve efficiency.

With a national network of branches that are sited at one end in Municipal Colombo and at the other in the villages of the highly rural Southern Province and across the conflict affected areas of the North and East region then devising and implementing MIS that will be applicable, work and be compatible with the services and utilities available is almost impossible. With services and utilities being highly differentiated for example mobile phone services introduced into some areas of the North and East region only a month ago and with nearly 40% of the country off the power grid then electronic communication and the networking of MIS nationally is a tough task. There is a programme of upgrading the technology and MIS of the bank and the RBIP project has done a great deal to set the standards required by a modern bank for its MIS systems and structures.

In the event, the Peoples' Bank was not able to give their entire small loans portfolio for the North and East, as they do not have a data base that segregates data by loan or savings size. However, they were able to give figures for the Rural Banking Innovation Project (RBIP), a GTZ supported project in microfinance which is in the pilot stage of implementation in the North and East region. This project is been now being tested in Jaffna and Batticaloa. Loaning started in June 2003 (see GTZ RBIP profile earlier in this section).

1.4.6. Commercial Bank

Commercial Bank has 3 branches in Jaffna (Jaffna town, Chundukuli and Neliyadi), 1 branch in Vaviuniya in the North and branches in Batticaloa, Trincomalee and Ampara in the East. The bank plans to open a new branch in Kalkudah in the Eastern Province this year, bringing its total branch network in the North and East region to eight.

Table 7 Commercial Bank N&E Savings and Loan Data 2001-2002

Activity	Vavuniya	Trincomalee	N&E Total
No of active loan clients Y/E 2001	Nil	7	7
No of active loan clients Y/E 2002	6	18	24
Total amounts of outstanding loans Y/E 2001	Nil	314,696	314,696
Total outstanding loans Y/E 2002	279,463	1,085,930	1,365,393
Average loan per client 2002	75,000	91,220	166,220
Number of loans issued during the year 2001	Nil	6	6
Number of loans issued 2002	6	12	18
Value of loans issued during the year 2001	Nil	400,000	400,000
Value of loans issued during Y/E 2002	404,000	1094,650	1,498,650
On time loan repayment rate 2002		100%	

During the two years ending March 2001 and March 2002 the bank reports that loans below Rs.250,000 000 (their definition of microfinance) were given only in Vavuniya and Trincomalee. However, the number of active loans below Rs.250,000 was just seven in the year 2001 and twenty four in the year 2002. The number of outstanding loans grew by over one million rupees during the financial year ending March 2002.

1.4.7. Sampath Bank

Sampath Bank currently only operates one branch in the entire North and East Region. The branch is based in Vavuniya and commenced operations in January 2003. The bank has plans to open a branch in Trincomalee and are considering opening a branch in Jaffna. However, the bank stated that it is their policy not to open any branch in an area where taxes have to be paid to any other source other than the government of Sri Lanka. Given this approach, it would seem unlikely that the bank will establish much of a network within the region.

1.4.8. Sanasa Development Bank (SDB)

SDB opened it first branch in the North and East in Vavuniya in December 2003. This was the first development bank to open an office in the North and East region. The bank is studying the feasibility of opening other branches in the district in the future but has not made any decisions as to where the next branch would be.

1.4.9. DFCC Bank

DFCC has had no microfinance related work in the North and East up to now. However now they are studying the feasibility of commencing a bulk loaning microfinance program with their German partner KWF. A consultant from KWF has already visited the country to assess feasibility but DFCC has not received the report up to the time of writing.

1.5. Non-Governmental Organisations

The NGO sector is a key in microfinance, especially micro-credit service provider throughout the region. In some places, such as Jaffna where there is a strong cooperative sector and until recently NGOs were not permitted to operate, the NGO microfinance role is quite limited. In other areas, such as Mannar, and parts of Trincomalee and Batticaloa, where the cooperative movements are most inactive and commercial micro-lending virtually non-existent or very scant on the ground, NGOs are a vital service provider, especially to the more remote rural poor.

1.5.1. National Non-Governmental Organisations

There are a number of national level NGOs working in the region. These include: Sarvodaya, SEEDS, Sewa Lanka and Agromart.

Sarvodaya Economic Enterprise Development Services (SEEDS)

SEEDS is by far the largest microfinance NGO in Sri Lanka and one of the few NGOs which is a specialised MFI. The National Microfinance survey of year 2000 shows that SEEDS and its societies have issued Rs. 713 million worth of loans during that year whilst the rest of the local NGOs issued only Rs.233 million in total. Though SEEDS started its microfinance program in 1987 it did not start a branch office in the North and East up until 2000 when it started an office and commenced operations in Ampara. Prior to that SEEDS worked in a few villages in Ampara from its Mahiyangana office and a few villages in Kalumunai district from its Polonnaruwa office.

SEEDS focused and commenced work in the North and East in year 2001 when a strategy for the North and East was developed with consultancy assistance. This was followed by the commencement of the Gateway Project encompassing 3 Northern districts of Jaffna, Mannar and Vavuniya and 2 Eastern districts of Batticaloa and Trincomalee. This focused program in the North and East named Gateway Project commenced only in the year 2002 in Batticaloa and it expanded to Trincomalee, Vavuniya and Jaffna in 2003. The Gateway Project is partly funded by NOVIB with a grant amount as well as a loan component for credit and partly funded by AusAID. However, it is funded to an extent of 64% or Rs.55 million from a total requirement of Rs.85 million for a period of 2 years, commencing in September 2002. SEEDS is looking for further project funds from another donor. Simultaneously in 2002 with NORAD's assistance, Sarvodaya, the mother agency, has commenced a Sarvodaya society development program covering 300 villages in the North and East.

The program in the North and East differs from the program in the rest of the island. Firstly, SEEDS does not wait till a Sarvodaya Village Society has reached its 3rd stage of development (which takes a minimum of 12 to 18 months) in order to commence its savings and credit program. This period has been reduced to 6 to 8 months because people are urgently in need of economic assistance. Secondly, the loan ceiling in North and East is Rs.30,000 and for the first loan is, Rs.10,000. The loan ceiling for the rest of the country for a normal SEEDS enterprise loan is Rs.50,000. Besides funding difficulties SEEDS have identified the following constraints in working in the North and East:

- Difficulty in finding staff with good Tamil and English skills.
- Poor salary scale of SEEDS employees makes it difficult to attract staff as salary scales in the North and East specially in INGOs and multilateral agencies are better and they attract most of the good personnel
- People still expect welfare type assistance
- Many people are more interested in relief and rehabilitation work than in economic recovery work.
- Breakdown of savings culture
- Slow registration of Sarvodaya societies.

Agro Micro

Agro Micro is a specialised MFI formed in year 2002. This is in fact the second specialised NGO MFI in Sri Lanka after the birth of SEEDS and was formed by transferring the microfinance work and portfolio of Agromart to the new entity. It operates as a separate MFI and provides savings and credit facilities to Agromart clients as well as others. Their current operational network is in seven districts; Puttalam, Kurunegala, Galle, Matara, Hambantota, Moneragala and Ampara with a staff of 32. They provide 5 loan products 4 of them at 28% and one very short-term loan at 5% per month. As of now, in the North and East, Agro Micro works in 6 divisions of the district of Ampara. Agro Micro is keen to expand its program to other districts of the North and East to address post conflict reconstruction and bridge the gap between humanitarian relief and sustainable development in the North and East of Sri Lanka. They have developed a special program for expansion in the region and are seeking donor funds for this purpose.

Sewa Lanka

Sewa Lanka has by far the largest base of any of the national or local NGOs working in the region. Sewa Lanka has been undertaking microfinance and micro enterprise development work since its origin in 1995/96, but it did not have a full time microfinance specialist in its staff until 2003. Now that they have an experienced microfinance specialist they intend to focus on this sector with much more vigour from this year.

Sewa Lanka has branches in all 8 districts of the North and East. However, the microfinance program operated only in Ampara, Mannar, Trincomalee and Vavuniya up to end of 2003. With the recruitment of a microfinance specialist, Sewa Lanka now plans to expand the program to all 8 districts from 2004. Presently, Sewa Lanka has received microfinance funding from NDTF, AusAID, People's Bank, German Agro Action, DRC, UNHCR and the Japanese government.

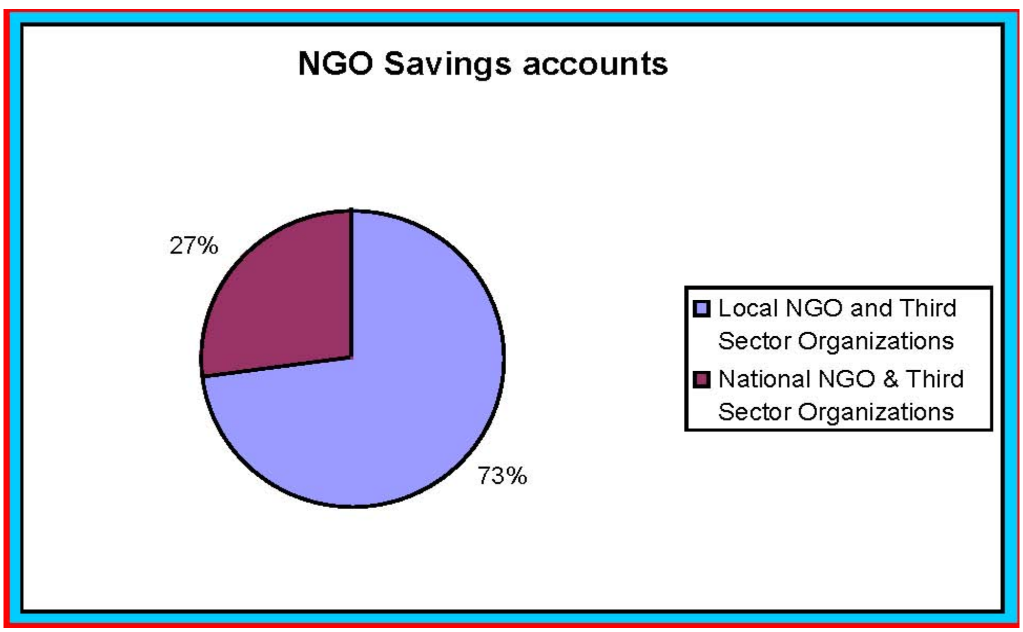
1.5.2. Local NGOs

There are around 100 NGOs practising microfinance in some capacity in the region at present. The highest concentration of NGOs relative to the population and other microfinance service providers is in the district of Ampara and inside the Wanni. The Ampara NGO consortium, based in Akkaraipattu, which is possibly the strongest NGO consortium in the country, sits in a cluster of around twenty other NGOs. In all, there are over 30 NGOs active in microfinance in the district.

There are around 34 NGOs presently operating in the Wanni area. Until recently, there were a dozen or so more than this but they underwent a period of 'consolidation'. NGOs in the Wanni are strictly area based and unable to work in more than one division. Until perhaps most recently, the majority of NGOs were undertaking some sort of microfinance and income generation activity, many of which have been dependent on INGOs for relief assistance for over twenty years. The NGOs in the Wanni have strong district level NGO Councils.

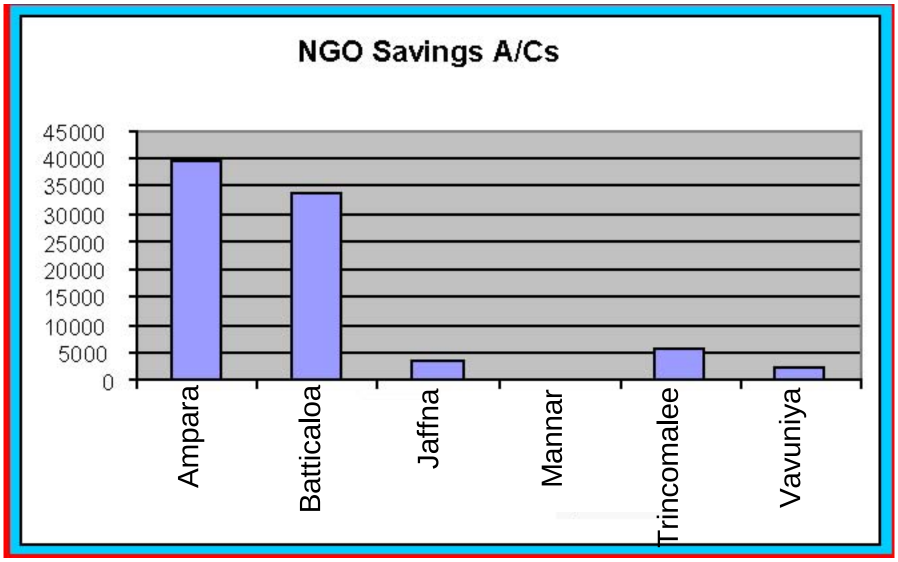
In the event, the NGO councils refused to cooperate with this research exercise, and it has not been possible to confirm or deny the points mentioned above. Even though permission had been sought and apparently obtained from the TRO in Colombo our local research teams were unable to approach the majority of NGOs in the Wanni. It is regrettable that the NGO Consortiums and their members refused to cooperate with the research exercise, as this type of study is unlikely to be repeated in the near future. By failing to cooperate they have contributed to the continuing information gap about income generation needs in the Wanni region and have failed to have their own needs and requirements adequately represented in this report.

Chart 1 Regional Savings Accounts as at December 2002 by NGO Group



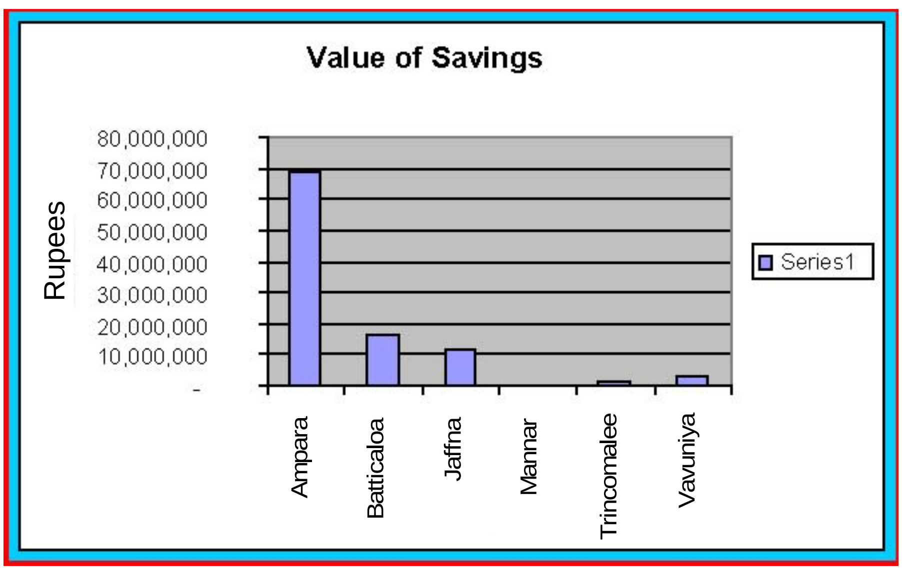
Technically, NGOs are not supposed to provide savings services but in practice many do. As at December 2002, the survey identified around eight and a half thousand savings accounts in the region, although the actual number of accounts or saving members is certainly higher than this (see below). Of this, the national level NGOs have mobilised some twenty three thousand accounts and the local NGOs collectively have at least sixty one thousand accounts throughout the region.[16]

Chart 2 NGO Savings Accounts as at December 2002 by District



Levels of NGO savings mobilisation are clearly highest in Ampara and Batticaloa districts and lowest in Mannar, Vavuniya, Jaffna and Trincomalee.

Chart 3 Value of NGO Savings as at 2002 by District



Ampara district clearly has a stronger deposits base relative to the other districts which all have very low levels of deposits. Batticaloa district appears to have low levels of deposits relative to the number of savings accounts. Mannar district in particular has a weak savings base.

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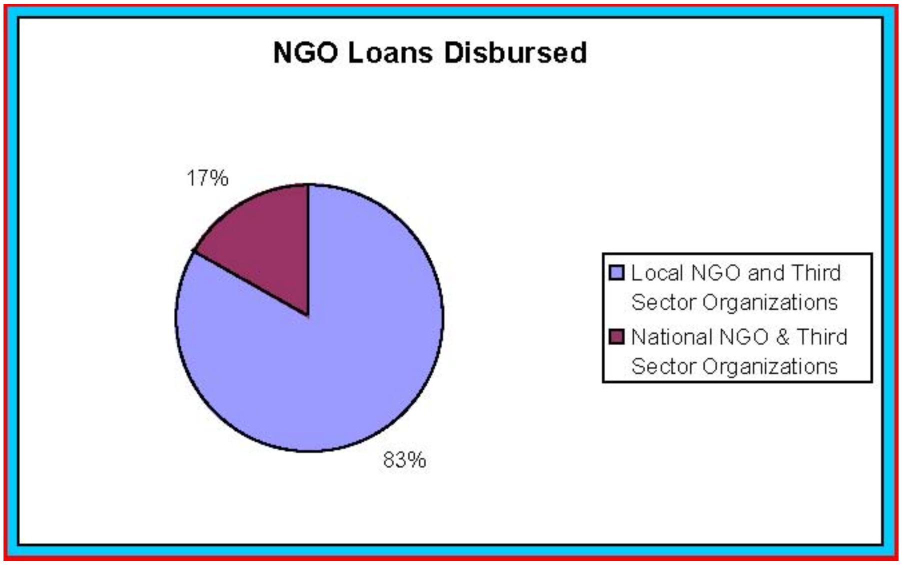
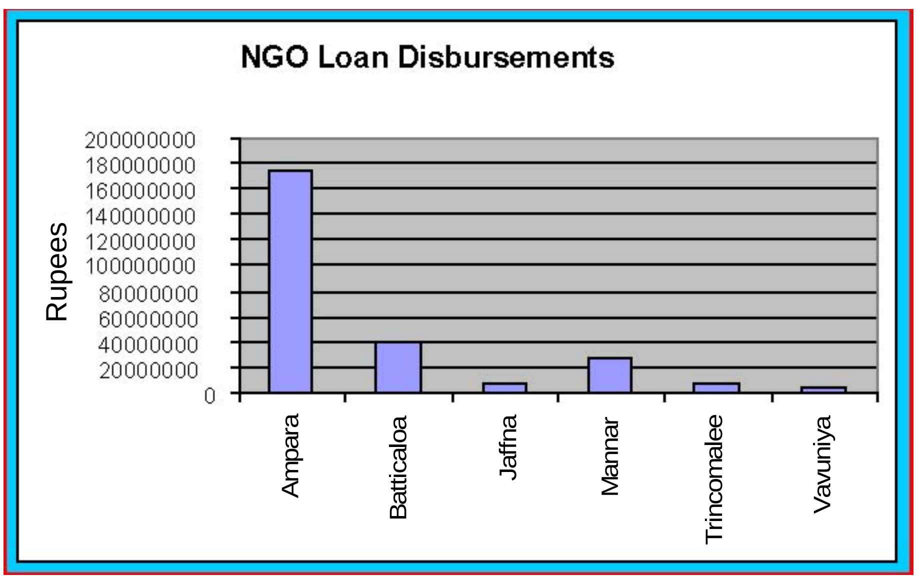
[16] NGO savings and loan data does not include NGOs based in Kilinochchi or Mullaitivu. However, data provided from the INGOs in the Wanni suggests that there are at least another thirteen hundred savings accounts and around twelve and a half million in NGO savings

Chart 4 Number of NGO Loans Disbursed by Practitioner Group



Nearly thirty one thousand loans were disbursed by the NGO sector during the year 2002, with a total value of slightly over two hundred and sixty three million rupees. This is equivalent to around twelve loans per one thousand people or one hundred rupe[17]

Chart 5 NGO Loans Disbursed during 2002 by district



The data shows that outside of the district of Ampara, the numbers of NGO loans issues were very low during the year 2002 in all districts of the North and East Region, particularly in Vavuniya, Jaffna and Trincomalee Districts

[17] INGO data suggests that another six million rupees were disbursed through NGOs in Kilinochchi and Mullaitivu.

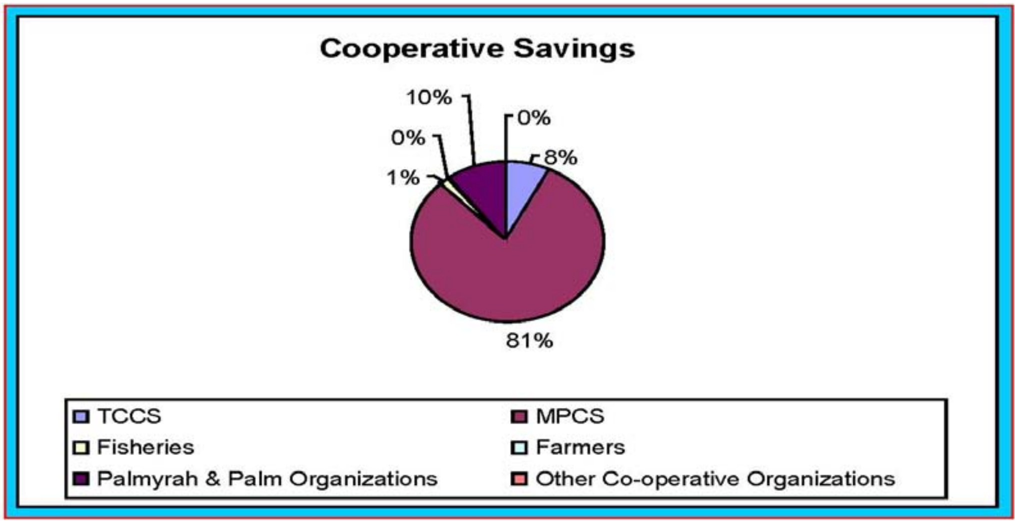
1.6. Cooperative Organisations

There are numerous forms of microfinance practitioner cooperative organisations in the region. There are fishermen cooperative societies, unions and banks. There are farmers' societies, agro-societies, palmyrah and coconut development societies, palm production and development societies, livestock societies, milk production societies, multi-purpose societies, thrift and credit societies, even lorry drivers societies all involved in the provision of savings and credit services for their members. However, regardless of whether they are labelled 'multi-purpose' or 'thrift and credit' the reality is that many cooperative undertake a wide range of economic, community and cultural based activities that frequently, but not always, provide savings or savings and credit services.

Not including the commercial bank deposits, the cooperative sector is the largest practitioner group in the region, accounting for around half of all known savings accounts and approximately seventy percent of known deposits. Overall, the study identified around 320,000 existing coop savings accounts throughout the region. However, detailed knowledge of the membership base is largely unknown and there are problems with identifying the active membership and numbers of active savers throughout the sector (see section on supply for more detail). This, in turn, hinders the extent to which it is possible to effectively plan sector development interventions and estimate potential demand.[18] Furthermore, seventy percent of the microfinance deposits base represents the lion's share of not very much money as, with one or two exceptions, the savings base is very low throughout the region.

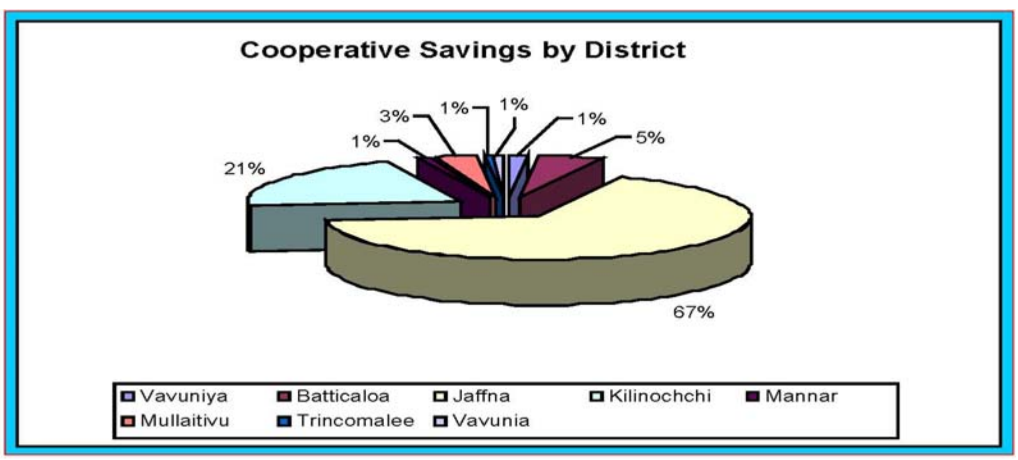
[18] No one presently has reliable data on the cooperatives membership (at least at the regional or national level). This represents a key constraint from the point of view of planning sector development or program implementation as a whole, and from a microfinance point of view in particular. Because of the varied structure of the cooperative sector, gathering this information is more complex than it might appear at first glance. At a bare minimum, baseline research should include information on primary and secondary societies total membership size, number of active members, level at which membership is organised, numbers of groups, membership inside each group, active membership inside each group, number of savings accounts, level at which savings accounts are organised, number of individual saver members and number of individual active saver members. Explicit definitions of what is meant by the term 'active' should be developed and linked to measurable indicators that can help assess not only supply, but also contribute meaningful information about different types of demand.

Chart 6 Cooperative Sector Savings Deposits 2002 by Practitioner Group



Looking at cooperative savings in more detail, we can see that, in terms of the value of deposits, the multi-purpose coops account for some eighty one percent of the cooperative sectors microfinance deposit base in the region as a whole. This is followed by the palmyrah and palm production coops with ten percent, the thrift and credit coops with eight percent and all the others constituting the remainder.

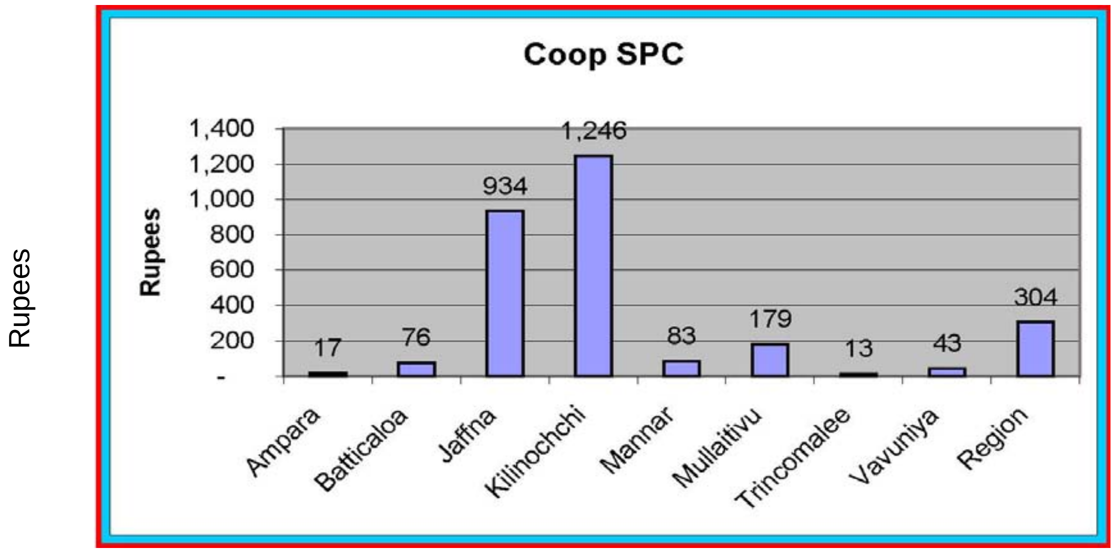
Chart 7 Cooperative Sector Savings Deposits as at December2002 by District



The total cooperative deposit base as at the end of 2002 stood at some 786 million rupees. Of this, six hundred and thirty million rupees was invested with the MPCS and their rural banks; eighty million with the Palmyrah and Palm production and development societies; sixty one million with TCCS and SANASA; eleven million with fisheries societies, unions and rural banks; and, two million with the others, including farmers organisations and agro societies.

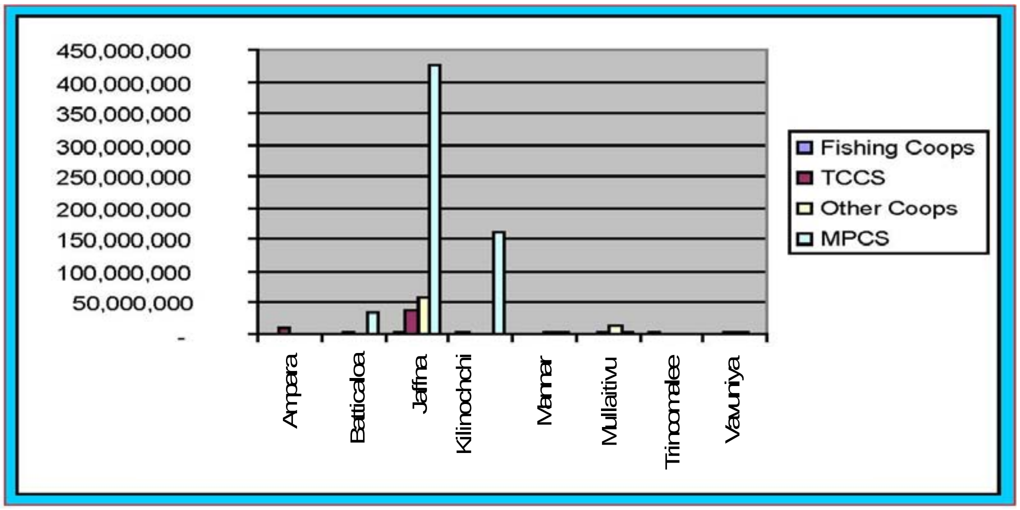
If we consider this information at the district level, however, we see that around eighty eight percent of the cooperative sector's deposits base is held in two districts only, namely, Jaffna and Kilinochchi, with sixty seven percent and twenty one percent respectively. Of the seven hundred and eighty six million rupees invested in the region, approximately five hundred and twenty six million, is in Jaffna; 165 million is in Kilinochchi, forty million is in Batticaloa, twenty five million is in Mullaitivu, eleven million is in Ampara, and less than five to ten million is in Mannar, Trincomalee and Vavuniya. Given a current regional population of around two and a half million people, this is not very much money.

Chart 8 Cooperative Sector Per Capita Savings by District as at December 2002



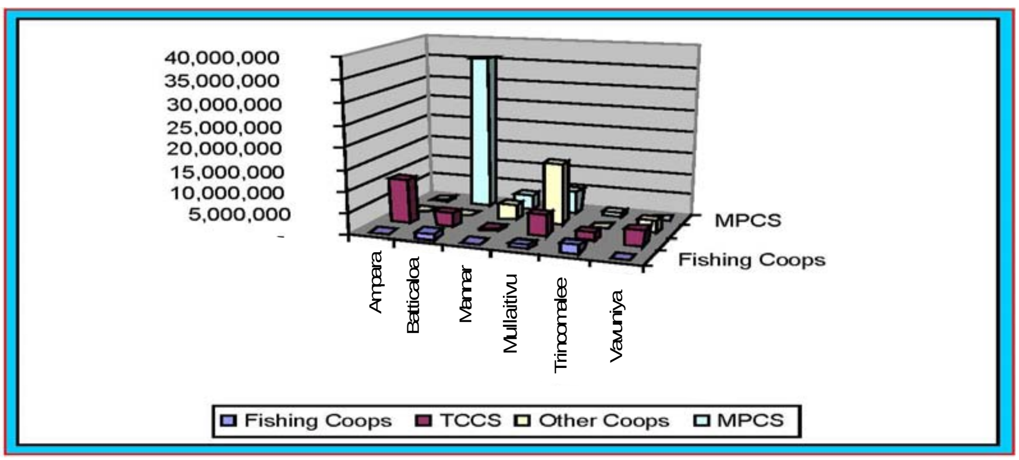
In terms of the population living in each district, a similar pattern emerges. Jaffna and Kilinochchi districts both have significantly higher per capita cooperative savings than anywhere else in the rest of the region. However, the accessibility of the savings base in these two districts, particularly in Kilinochchi, is not clear (see section on supply). Elsewhere in the region, savings mobilisation remains low and far below most other parts of the country.

Chart 9 Cooperative Savings 2002 by Practitioner Group and District



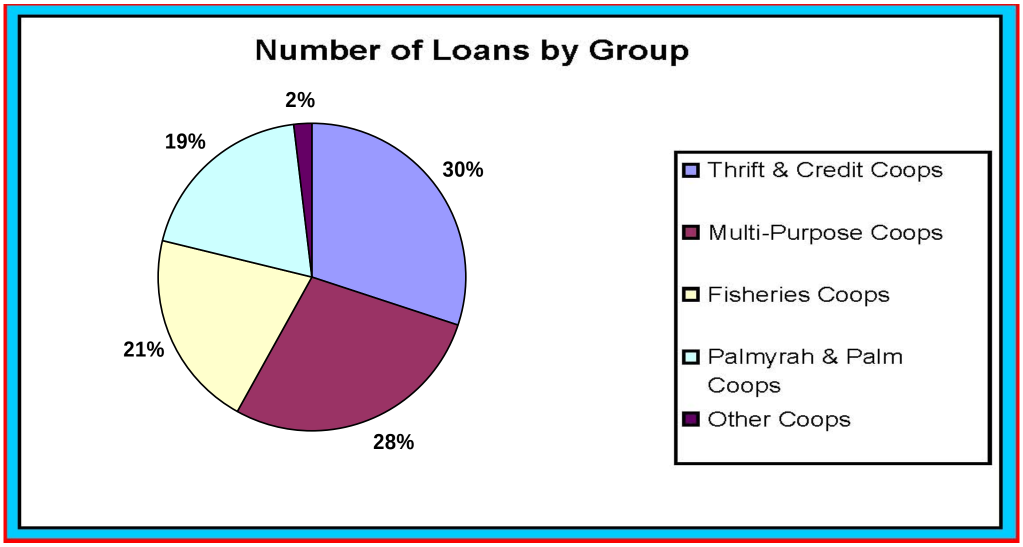
When considering cooperative sector savings at the district level, it is clear that outside of the districts of Jaffna and Kilinochchi, there are relatively few mobilised savings anywhere within the North & East region. This is a very worrying sign and suggests that savings mobilisation strategies for the cooperative sector are urgently required.

Chart 10 Cooperative Savings 2002 by Practitioner Group Excl. Jaffna & Kilinochchi



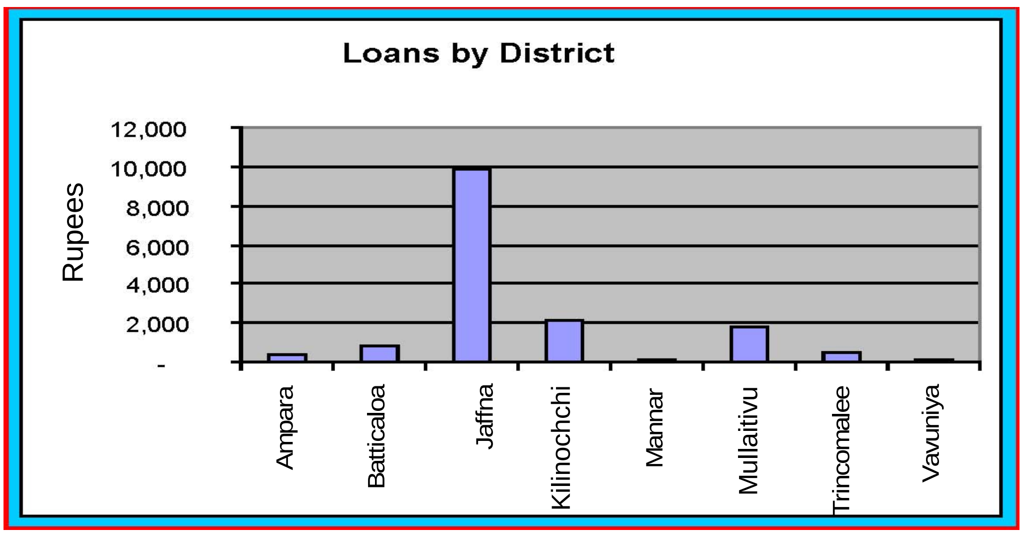
The cooperative sector disbursed 15,586 loans in the North & East region during the year 2002. This is roughly equivalent to six loans disbursed for every 1000 people.

Chart 11 Cooperative Sector Numbers of Loans Disbursed 2002 by Group



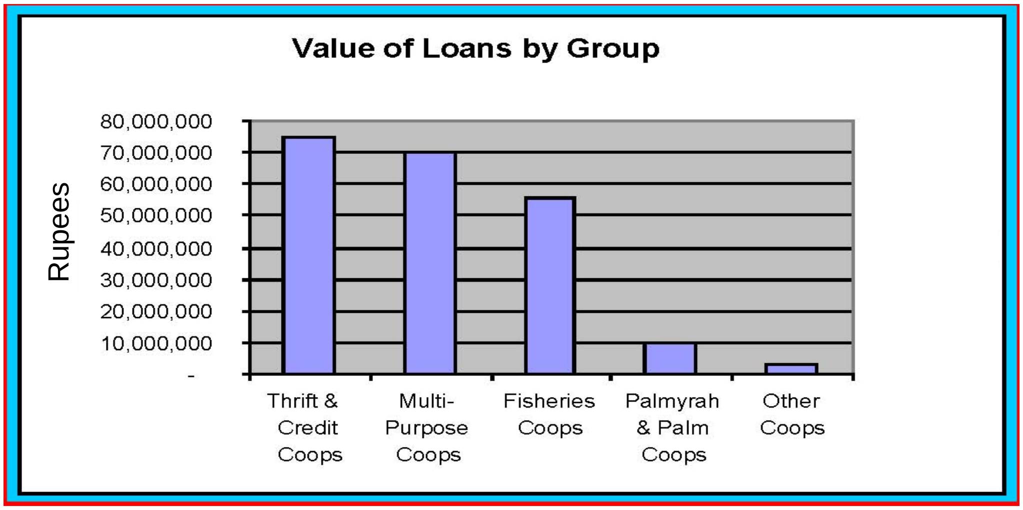
TCCS and SANASA distributed a total of 4,588 loans in 2002. This was closely followed by MPCS with 4,397 loans, fisheries cooperatives with 3,275 loans, Palmyrah and Palm production and development coops with 3,012 loans and all others with 314 loans. This shows that the TCCS are providing more loans than the MPCS relative to their savings base.

Chart 12 Number of Loans Disbursed by Coops in 2002 by District



Although a regional total of fifteen thousand loans amongst a population of some two and a half million can be considered low, when looking at the district level, it can be seen that the majority of loans were disbursed in the northern districts of Jaffna, Kilinochchi and Mullaitivu accounting for sixty four percent, thirteen and eleven percent of loans, respectively, with Mannar, Trincomalee, Vavuniya, Batticaloa and Ampara having a combined total of less than two thousand loans.

Chart 13 Value of Coop Loans Disbursed in 2002 by Group



Turning to the value of loans disbursed, approximately two hundred and thirteen million rupees were disbursed by the cooperative sector throughout the region during the year 2002. This is roughly equivalent to eighty five rupees per person.

Chart 14 Value of Coop Loans Disbursed in 2002 by District

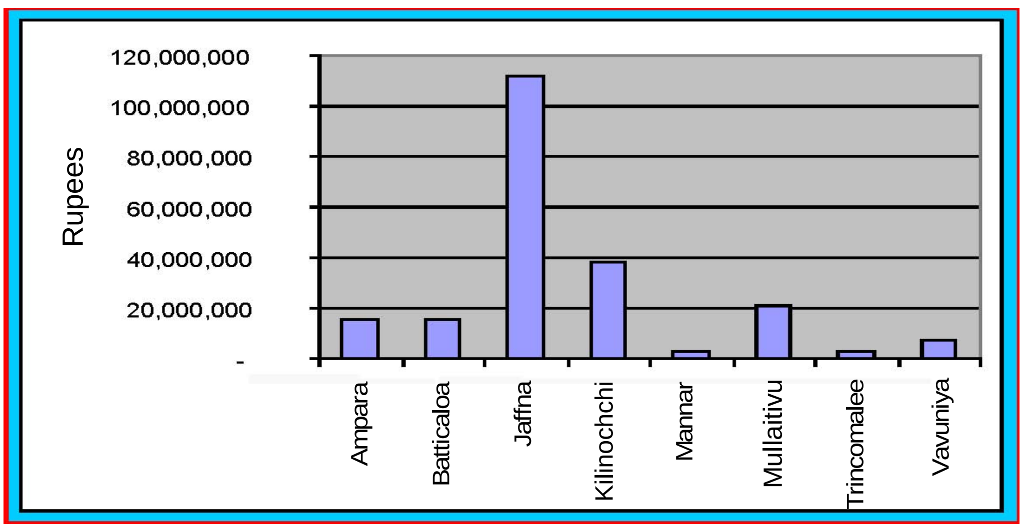
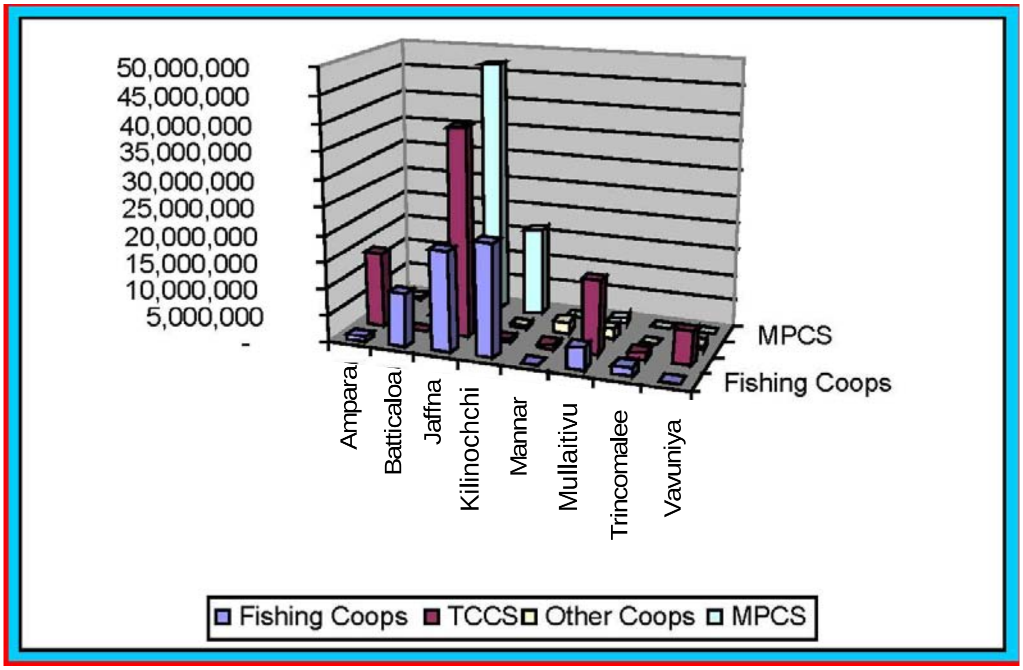
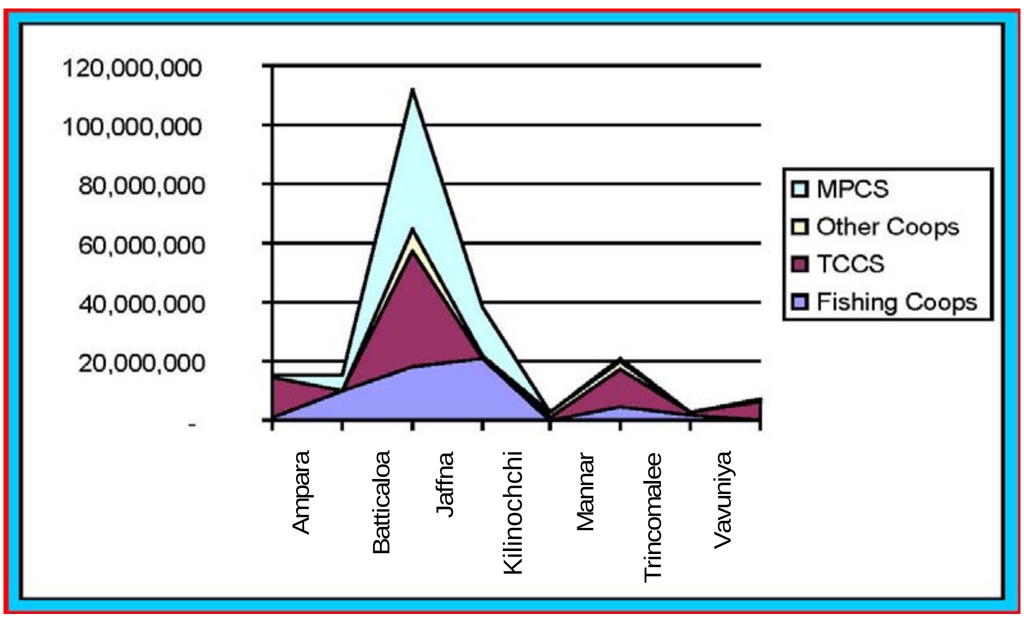


Chart 15 Coop Loan Disbursement 2002 by Practitioner Group and District



The value of loans disbursed at the district level is similar to the number of loans disbursed with Jaffna, Kilinochchi and Mullaitivu accounting for approximately eighty one percent of rupee disbursements in 2002.

Chart 16 Regional Loan Disbursements in 2002 by Practitioner Group



Looking at cooperative sector loan disbursement by practitioner group and district we can see that Jaffna clearly has the strongest micro-credit service provision in the region and that MPCS, TCCS and FCS are functioning as well as anywhere else in the region, if not significantly better. Overall, we can see that levels of micro-credit service provision are very low throughout most of the region.

1.7. Community and Village Based Organisations

The exact number of community and village based organisations currently practising microfinance in the North & East region was impossible to determine. This is because it is not easy to identify all the different community and village based organisations in existence in the region, let alone identify which groups remain active or are practising microfinance. In theory, the Divisional Secretariats keep track of group level social mobilisation activities through the GS/GN structure and in practice many of them do a great job considering limited resources. However, some microfinance groups are virtually undetectable, such as traditional 'rosca' activity.

In general, many CBOs & VBOs come and go. This is not only because of the repeated population displacement that has taken place in the region since the armed conflict began, but also because groups are often formed as part of different relief, rehabilitation or development humanitarian activity and frequently decline once the particular intervention has been completed. However, if the exact numbers of CBOs and VBO currently practising microfinance are not easily quantifiable, the research exercise did manage to pick up a fair amount of activity in this regard. This is primarily because of the fact that the region, its infrastructure and economy has been devastated by conflict and is still in the early stages of economic recovery. Many, if not most, communities in the region have lost their assets and have been displaced and resettled at least once.

Given the absence of Regional Development Banks, low private commercial banking representation and Samurdhi, the government's main poverty alleviation programme, is only partly operating in the region. Access to formal financial services is precluded to many, especially outside the main urban areas. This means that in many of the region the NGO sector and internationally funded projects and programmes are a significant, if not the only source of access to financial services, short of going to a money-lender.

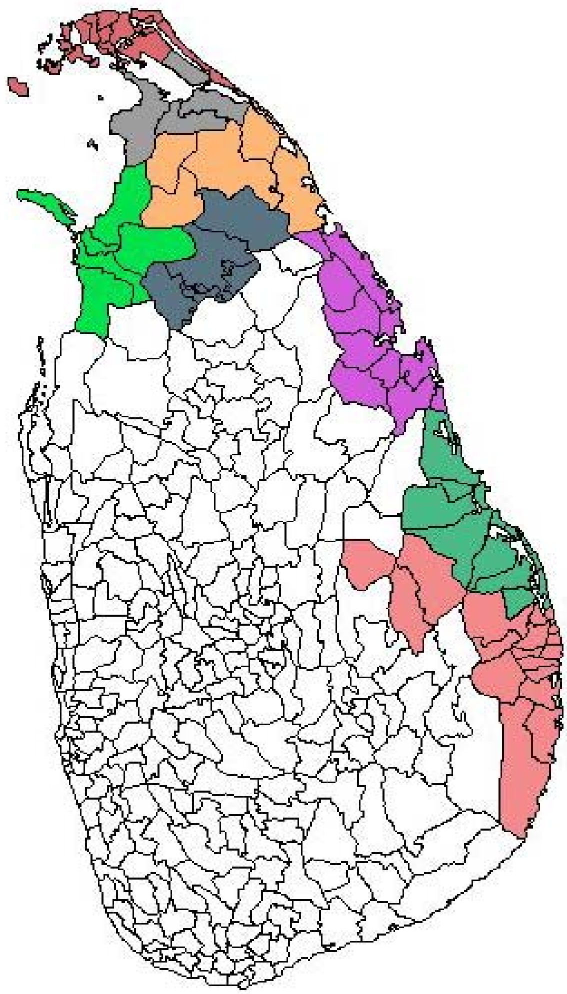
Given that the cease-fire has been in place for over two years now, there is still a depressingly low level of microfinance service provision and grant-in-aid funding within the region, at least from the international community. Were if not for the intervention of the World Bank NEIAP project, which is undertaking income generation activities with WRDS and RDS through each district secretariat, the overall levels of microfinance funding would probably have gone down over the last two years.

This is because UNHCR, previously the biggest international funder in the region, has been progressively phasing out its microfinance and income generation funding activity. This means that the INGOs like OXFAM, FORUT, Save the Children and others, who work directly (or indirectly) with CBOs, and who have all been major recipients of UNHCR funding, have seen funding streams for income generation activities has reduce. On the other hand, UNICEF has started to fund some income generation activity in the region, working in partnership with Sarvodaya and Zoa - both of whom work directly with groups and individuals - on widows income generation projects,. The NEAIP project is clearly providing a much needed injection of income generation opportunities for newly resettled populations. It is anticipated that the ADB NECORD project and the upcoming ADB Rural Finance Sector Development Project will both start to impact positively on the community level over the next year or two.

Part 2

Microfinance Activity by Geographic Area

in the North & East Region



2. Introduction

A grassroots level survey of microfinance activity in the North and East region was undertaken in year 2002 (the survey was conducted during mid-to-end 2003) combined with quantitative and qualitative research activity inside each district. Co-ops, unions, NGOs, Samurdhi, INGOs and Agencies and even CBO activity was surveyed. In the event, the supply survey was unable to include commercial bank practitioner activity as they were either unable to separate their micro-credit activity from their other portfolios or refused to cooperate at the local level.

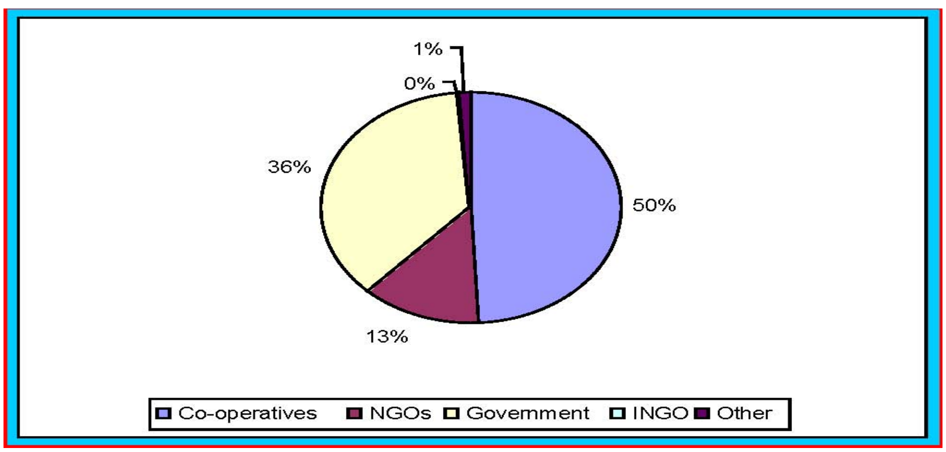
2.1. Regional Overview

2.1.1. Microfinance Savings Activity in the Region

There is a wide variety of micro-savings activity in the region, including NGO, CBO, Coop, commercial banking and direct INGO saving activity. The cooperatives and commercial banks represent the traditional savings base in the region. Banks do not generally differentiate micro-savings activity. Excluding commercial savings activities, as a tentative estimate, there are approximately 650,000 savings accounts in the North and East region as a whole. This is roughly equivalent to one account per family in the region. The precise number of people *currently* saving in the region is difficult to determine and data on the numbers of accounts should be treated with some degree of caution and be considered alongside actual levels of savings deposits and average savings balances.[19]

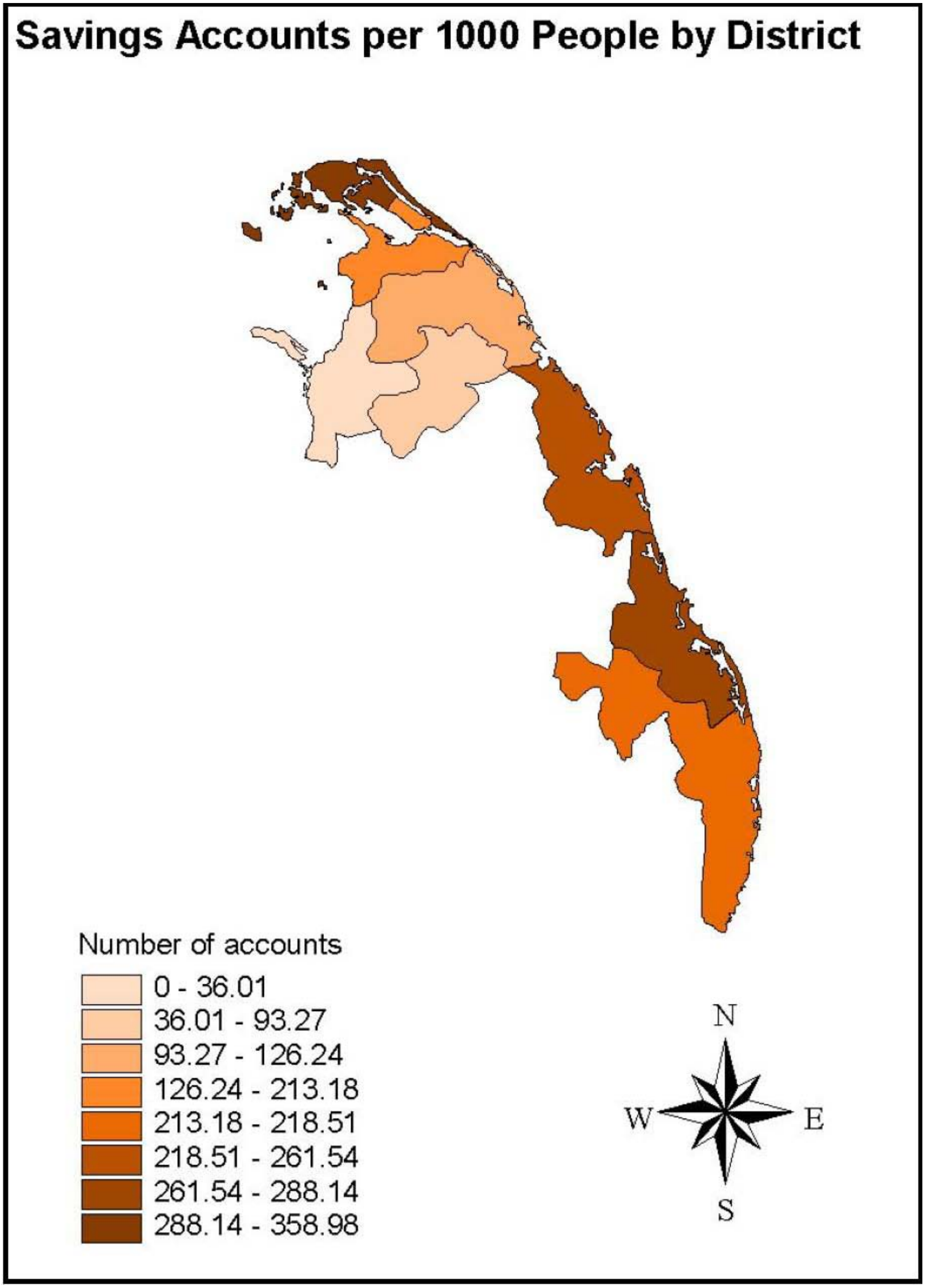
In terms of the different practitioner groups, at least half of all savings accounts are in the cooperative sector. Government practitioner activity, including the Samurdhi programme, accounts for another 36 percent and the NGO sector constitutes around 13 percent. Other savings activity, such as that implemented directly by INGOs, and the SEDB in the Wanni amounts to around 2 percent [20]

Chart 17 Savings A/Cs by Practitioner Group as at December 2002



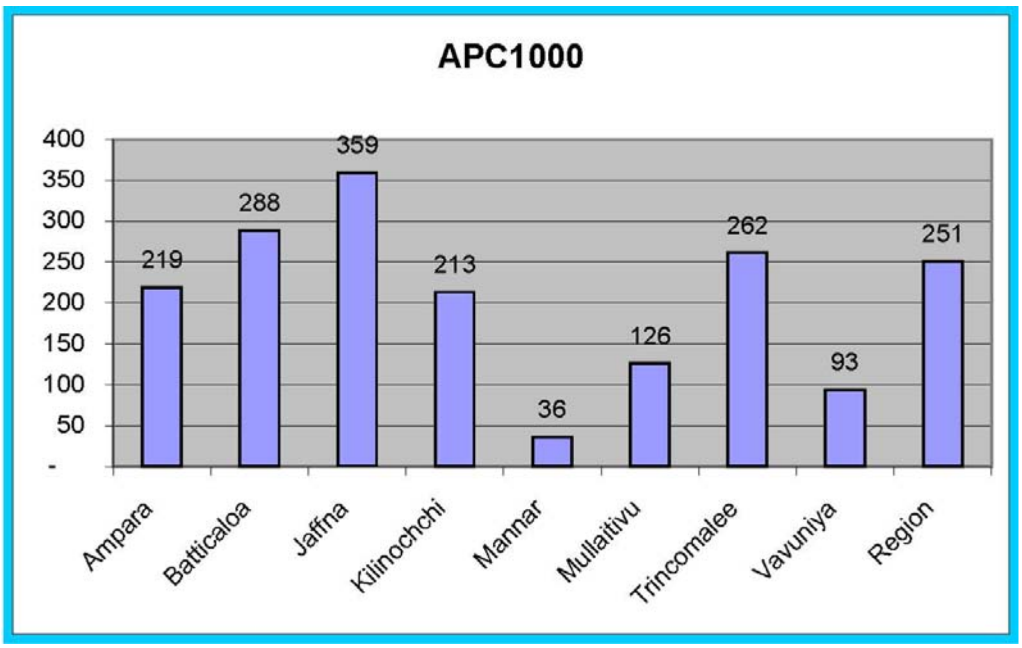
[19] For example, some accounts operate at the group level, having up to twenty savers in a group. In addition many savings accounts (and primary societies) are dormant or defunct as a result of ongoing conflict and repeated displacement over the years. No one currently has reliable data about the cooperatives membership and the quality of data from individual cooperative departments (and SANASA) is variable or non-existent. Data on the number of savings accounts may, therefore, underestimate or overestimate the extent of active individual savings mobilization.

[20] Other government practitioner activity includes, Katcheri based CBO programmes – Rural Development Societies and Women's Rural Development Societies - such as those previously funded by UNHCR and now by NEIAP (World Bank) and upcoming NECORD activity (ADB).


Savings Accounts per 1000 People by District
Number of accounts
0 - 36.01
36.01 - 93.27
93.27 - 126.24
126.24 - 213.18
213.18 - 218.51
218.51 - 261.54
261.54 - 288.14
288.14 - 358.98
N
W
E
S

Looking at the numbers of savers in the region it needs to be considered that there are big differentials within the region itself both in terms of per capita numbers, and the relative strength of each practitioner group within each area. With the exception of the Jaffna Peninsula, the northern districts have lower per capita ratios than their eastern counter-parts. This is explained, at least in part, by historical saving patterns, the absence of the Samurdhi programme in all northern territories other than Jaffna, the varying degree to which different cooperative organizations have survived over the last twenty years and the fact that the NGO sector is, as a rule, less savings focussed (and less sustainable) than the cooperative sector. The data suggests that Jaffna has per capita ratios approaching the national average (although Jaffna traditionally saves much more than the national average[21] – so it should not be concluded that the peninsula is fully mobilised). There is also significant variation at the divisional level.

Chart 18 Per Capita Savings Accounts by District as at December 2002



Another factor for consideration is the relationship between the number of savings accounts and the number of saving families. Typically, families may have three or more savings accounts (with one or more cooperative organisation, NGO or government programme). Some or all of these accounts may have some savings in them, but not be particularly active over a period of many years. It is, therefore important to consider the relative value of the deposits base.

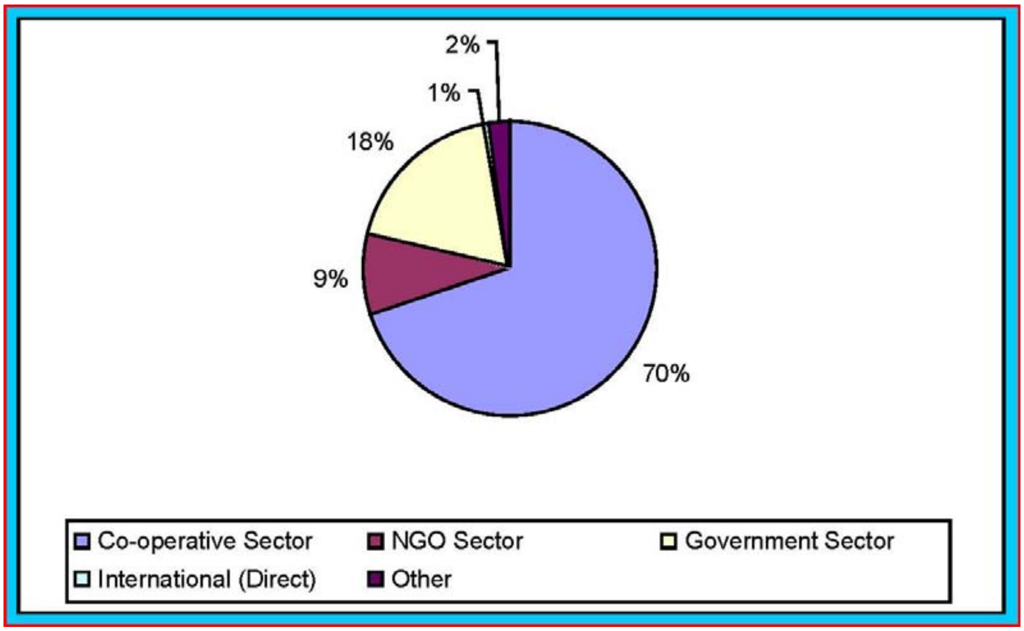
Further, families may have savings accounts with the commercial banks (in town) and, from the district level analysis is distorted by urban clustering and is unable to consider local (i.e. divisional

[21] Using the data provided from Gant, De Silva, Attapattu and Durrant (2002), The national average (all districts, including the N&E region) is approximately 395 savings accounts per 1000 people. Further, families may have savings accounts with the commercial banks (in town) and, from the district level analysis is distorted by urban clustering and is unable to consider local (i.e. divisional level and below) rural, or economic disparities in service provision

level and below) rural, or economic disparities in service provision.[22] Still, if the norm is for families to have several bank accounts, then clearly there is room for increased mobilisation activity throughout the region, particularly in Mannar. However, interventions need to use district level platforms in order to effectively consider and target local variances.

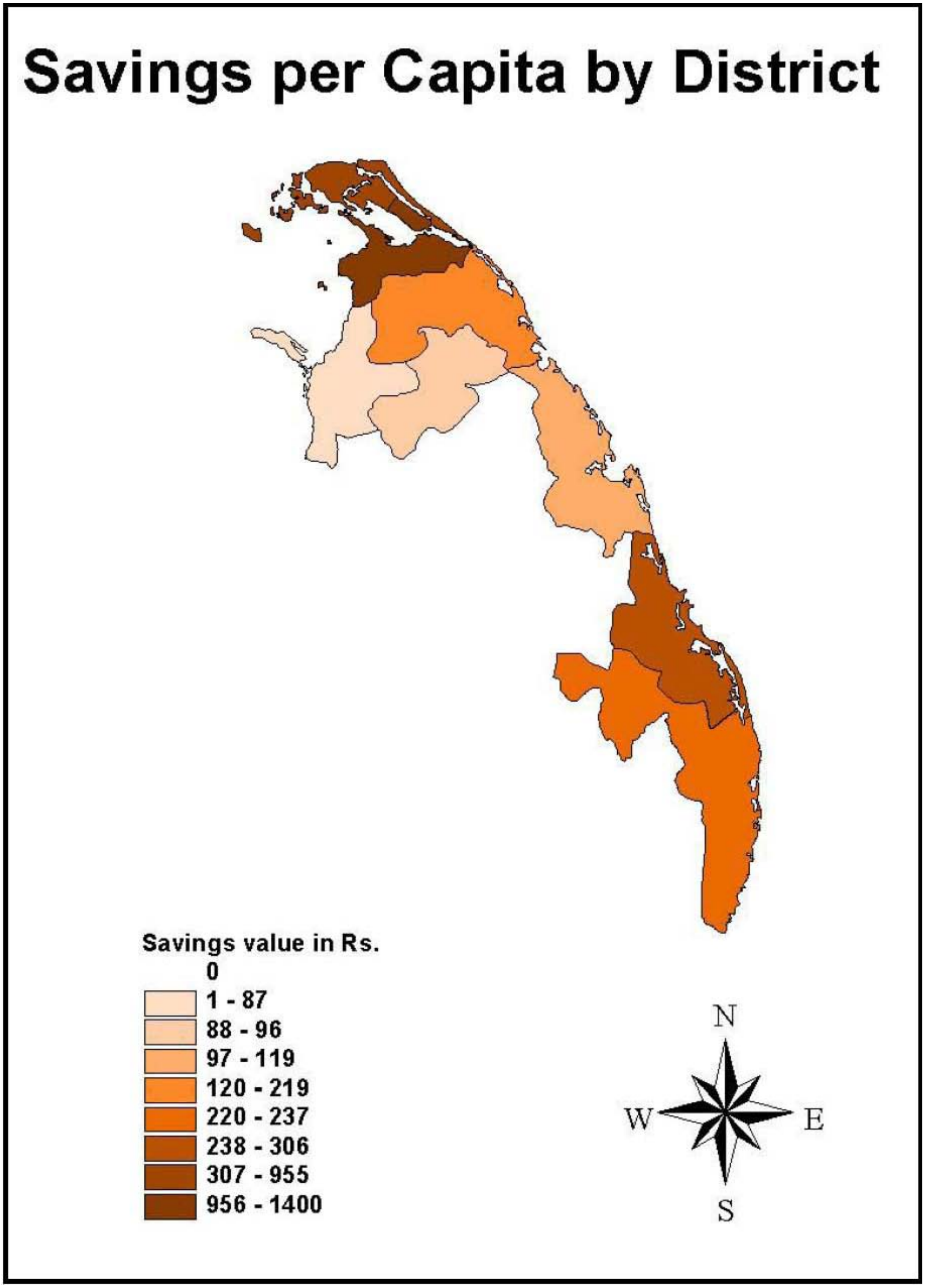
In terms of the volume of savings deposits, the survey identified a total savings volume of approximately Rs. 1.1 billion in microfinance savings accounts as at the end of the year 2002. The majority of money is clearly invested with the cooperative sector who, collectively, have more than three-quarters of a billion rupees in savings deposits, much of which is, in turn, deposited in the state-owned or privately owned commercial banking sector.

Chart 19 Regional Savings Volume by Practitioner Group



Relative to the other groups the cooperative sector has deeper levels of saving, with the Samurdhi programme and NGOs having lower average savings sizes. To some extent this is to be expected as Samurdhi and NGO activity is aiming at the poorer segments of society. As mentioned before, the number of 'hidden' saving members and group and district variances mean that it is not possible to calculate average member savings value with any degree of accuracy.

[22] The same is equally true of micro-credit service provision


Savings per Capita by District
Savings value in Rs.
0
1 - 87
88 - 96
97 - 119
120 - 219
220 - 237
238 - 306
307 - 955
956 - 1400
N
W
E
S

The two tables below present a more detailed break-down of different practitioner group activity, which, among other things shows that other cooperative organisations in the region are also strong microfinance service providers, not just the MPCS and the TCCS.

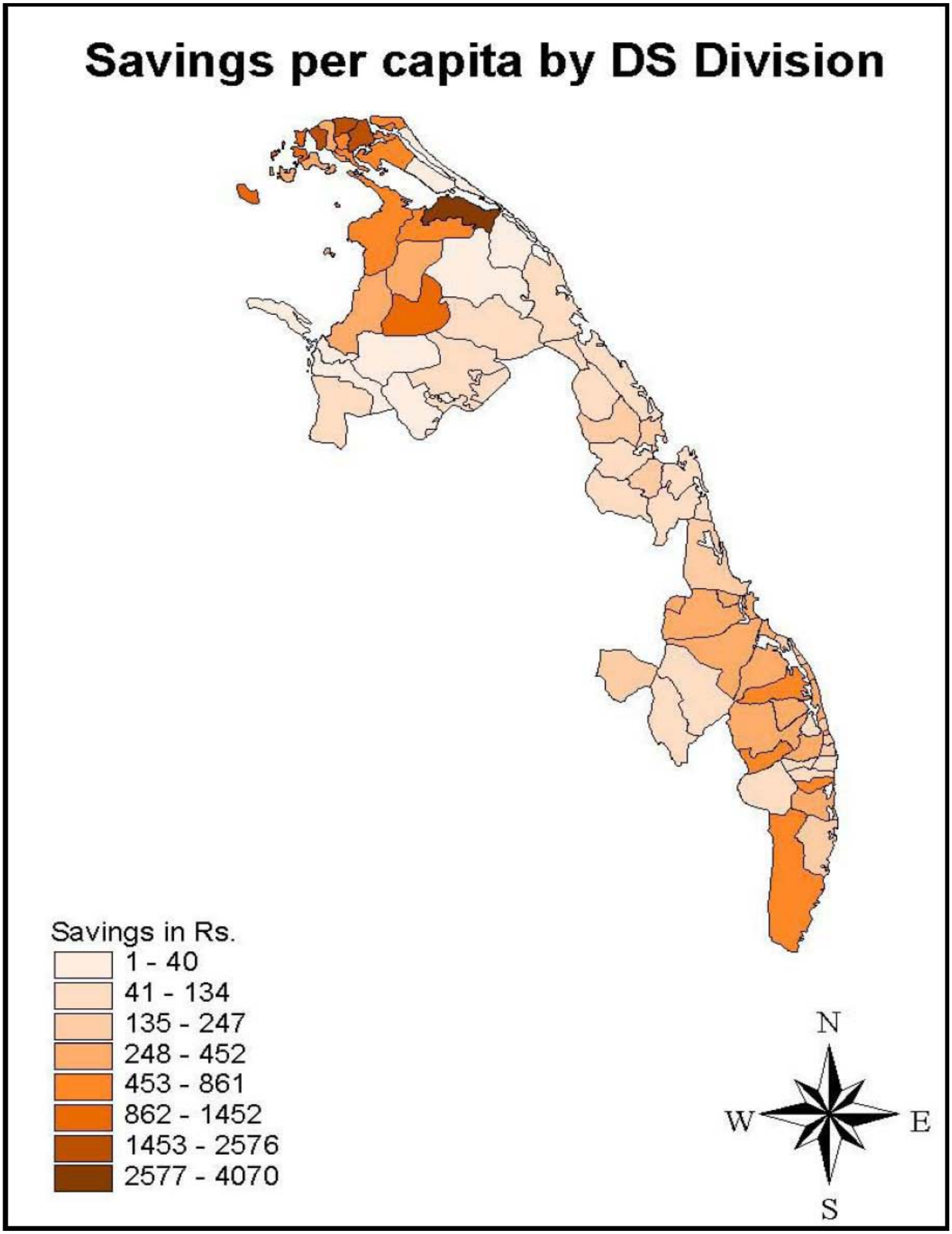
Table 8 N&E Regional Microfinance Supply 2002 by Practitioner Group

Practitioner Group	No. of Savings A/Cs (Group or Individual)	Value of Savings as at Dec 2002 (SLR)
Thrift & Credit Co-operatives / SANASA	8,061	61,605,741
Multi-Purpose Co-operatives	261,667	631,872,154
Fisheries Organizations	33,916	11,087,409
Farmers Organizations and Agrisocieties	497	1,196,180
Palmyrah & Palm Organisations	12,757	80,797,192
Other Co-operative Organizations	1	2,365
Local NGO & Third Sector Organizations	61,720	66,573,889
National NGO & Third Sector Organizations	23,111	35,806,612
WRDS & RDS	2,116	826,024
Samurdhi	233,872	204,824,764
Rural Development Banks (non-cooperative)	8,145	25,540,197
Direct International Implementation	2,955	8,412,332
Total	**648,818**	**1,128,544,858**

It is also clear that, where it is operational, the Samurdhi programme has been very effective in mobilising savings assets.

Table 9 N&E Regional Microfinance Savings Supply 2002 by District

District	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	Population
Ampara	135,684	147,260,236	620,939
Batticaloa	152,618	161,816,049	529,663
Jaffna	202,467	538,677,642	494,173
Kilinochchi	28,213	185,296,710	132,342
Mannar	3,317	7,974,862	92,118
Mullaitivu	17,597	30,477,958	139,391
Trincomalee	95,545	43,300,191	365,318
Vavuniya	13,377	13,741,210	143,423
Total	**648,818**	**1,128,544,858**	**2,517,367**

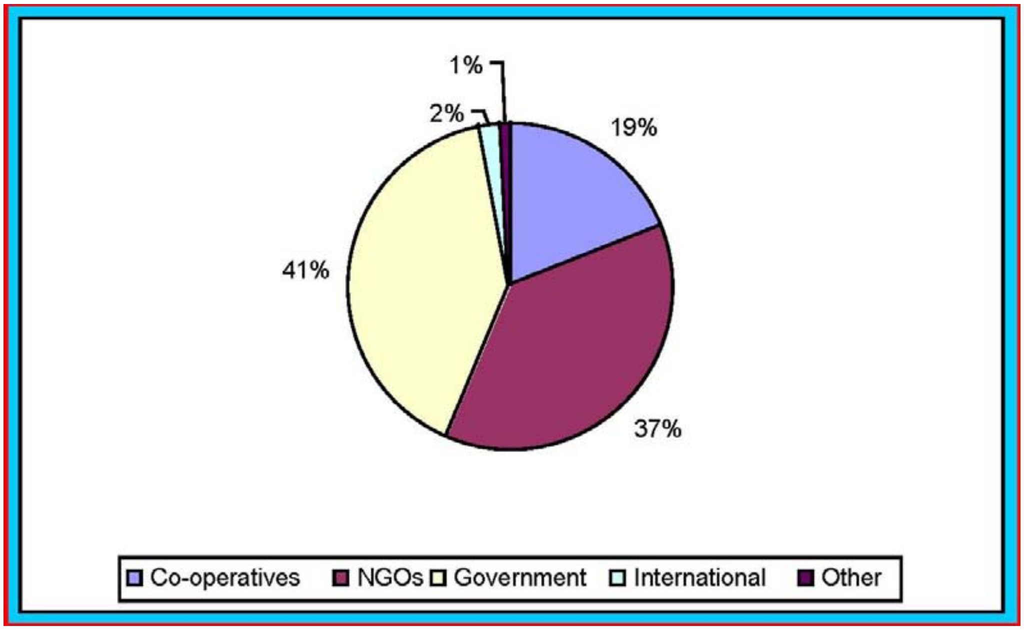


Divisional level beak-down of savings deposits reveals that district level averages conceal lower than average amounts of deposits relative to the population in most divisions in the region, and the presence of significantly higher deposits in a few individual divisions or isolated clusters.

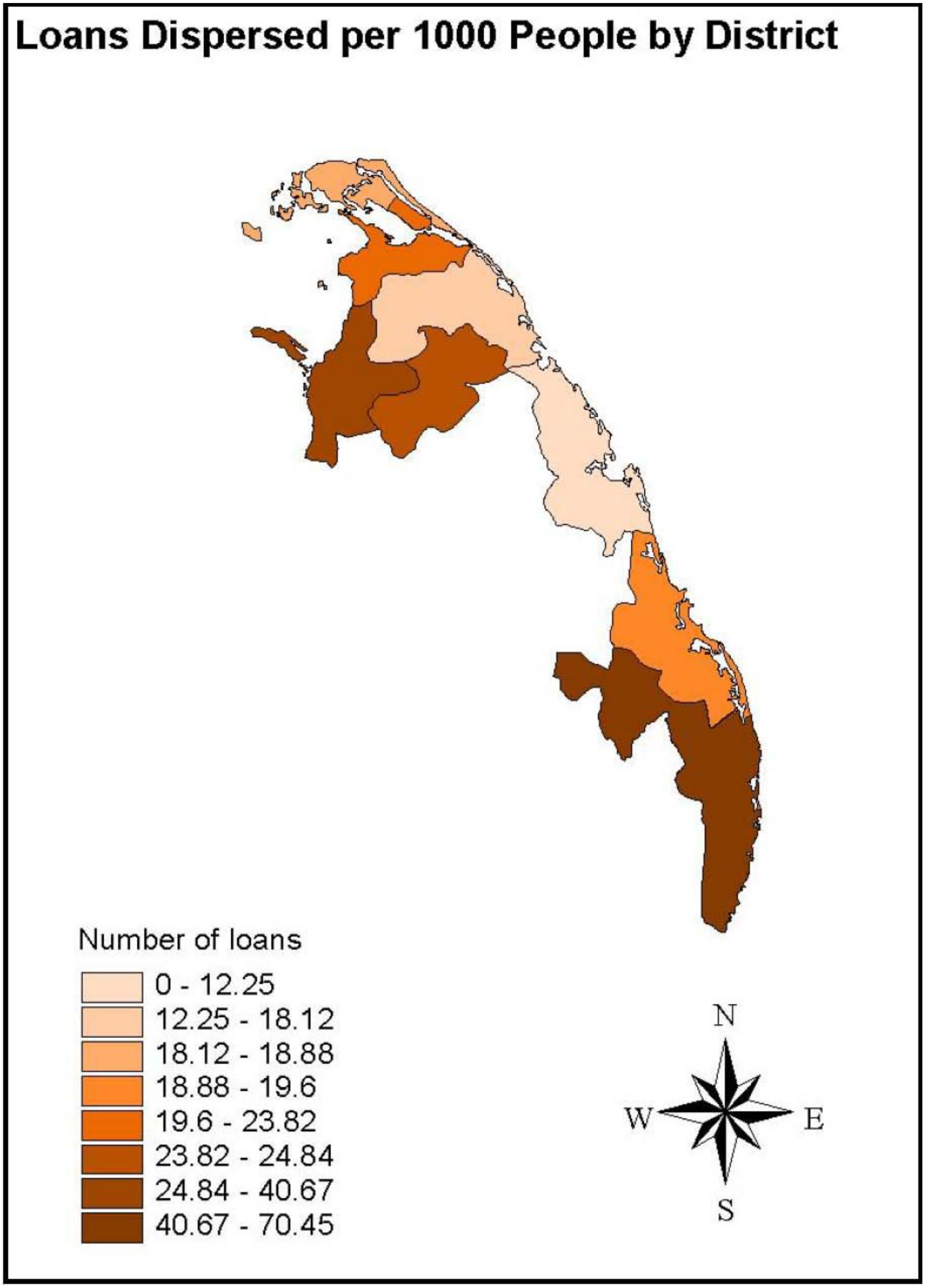
2.1.2. Microfinance Loans Activity in the Region

In terms of the number of loans, a total of 82,240 loans were disbursed in the year 2002.

Chart 20 Numbers of Micro-Loans Disbursed in 2002 by Practitioner Group

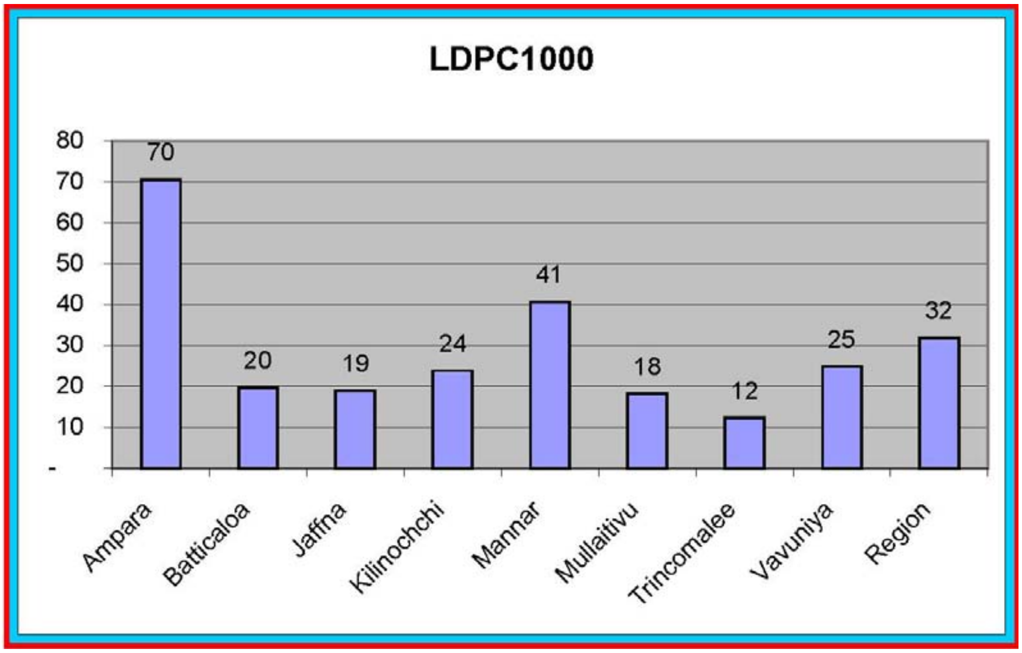


Of this, government practitioner activity makes up around 40 percent, showing the impact of the Samurdhi programme in the eastern districts, particularly in Ampara. It would also appear that the cooperatives are less effective in issuing micro-credit than mobilising deposits. Conversely, as a whole, the NGO sector is much more heavily involved in micro-credit than it is in savings mobilisation.


Loans Dispersed per 1000 People by District
Number of loans
0 - 12.25
12.25 - 18.12
18.12 - 18.88
18.88 - 19.6
19.6 - 23.82
23.82 - 24.84
24.84 - 40.67
40.67 - 70.45
N
W
E
S

In terms of the population, approximately 32 loans were disbursed for every 1,000 people in the region as a whole.

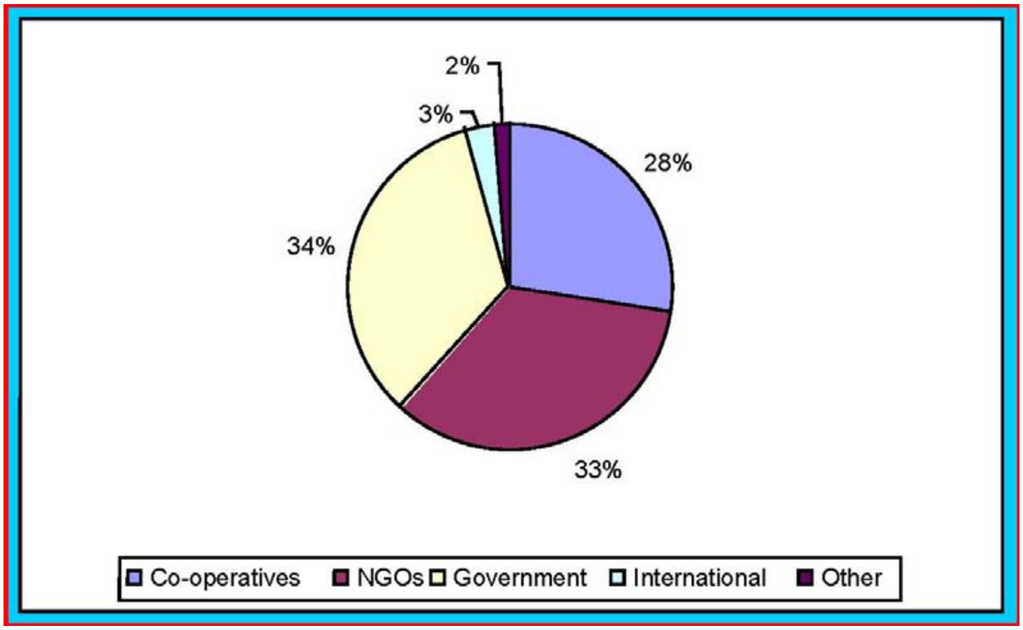
Chart 21 Microfinance Per Capita Loan Dispersal in 2002 by District



At the district level, per capita loan averages are, with the exception of Ampara and Mannar lower than the regional average. Ampara district has an average of 70 loans disbursed per 1,000 people due to the presence of both Samurdhi and a relatively strong NGO sector and consortium in Akkaraipattu and other parts of the district. Mannar has the next highest ratio of just over 40 loans disbursed per 1,000 people. All the others have averages below 24 down to 12 in Trincomalee. Still, none of these figures are particularly high.

In terms of the value of loans, dispersals were fairly even between the cooperative, NGO and government sectors.

Chart 22 Value of Loans Dispersed in 2002 by Practitioner Group



The co-operatives have slightly higher average loan sizes than the NGO or government sectors, reflecting the fact that the MPCS sometimes substitute for commercial banking services in parts of the region with, for example, members getting larger loans for paddy farming. Government sector activity and many of the NGOs and the funding they receive from international organisations also have a stronger poverty alleviation focus.

Loans per Capita by District

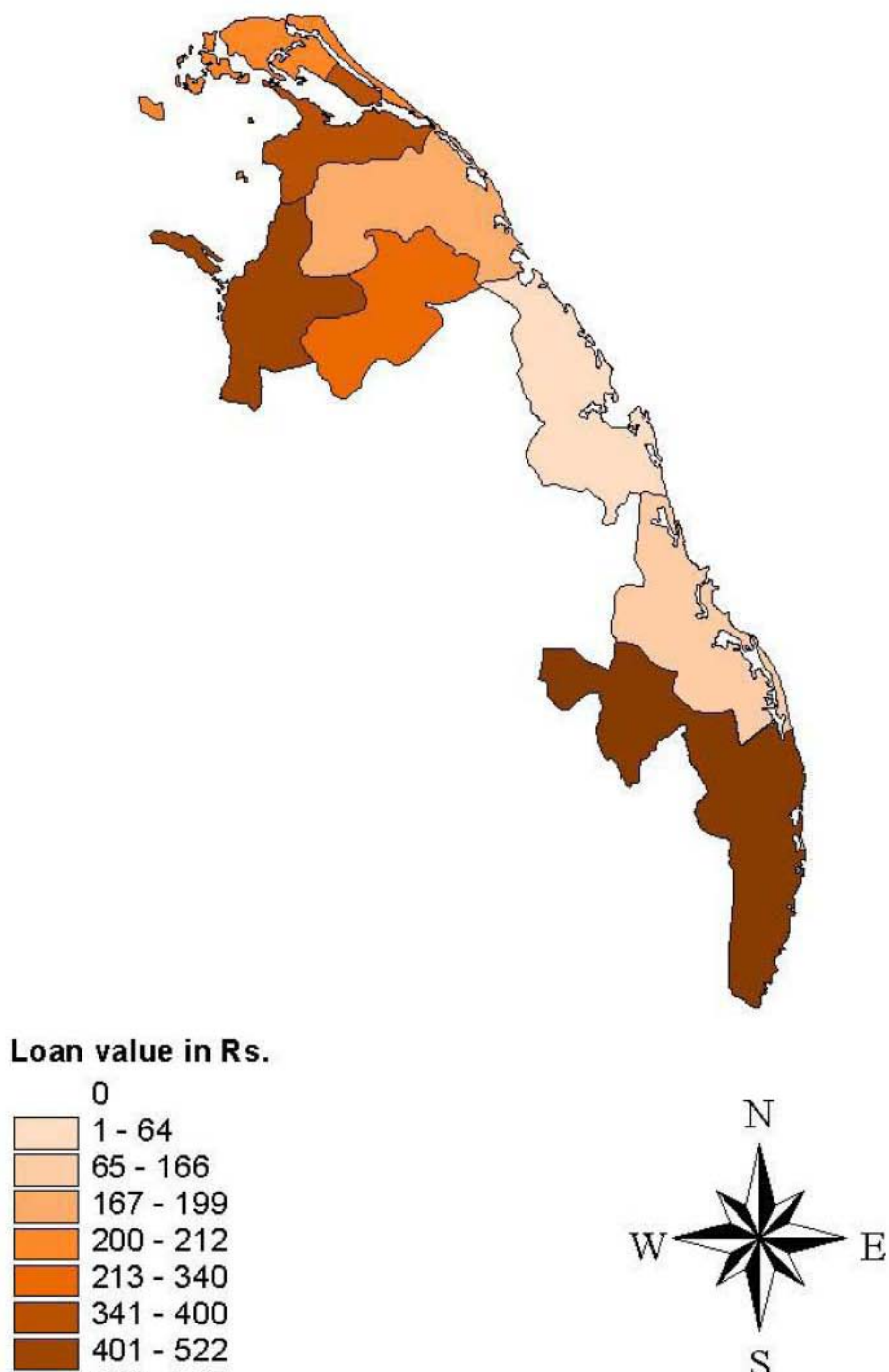
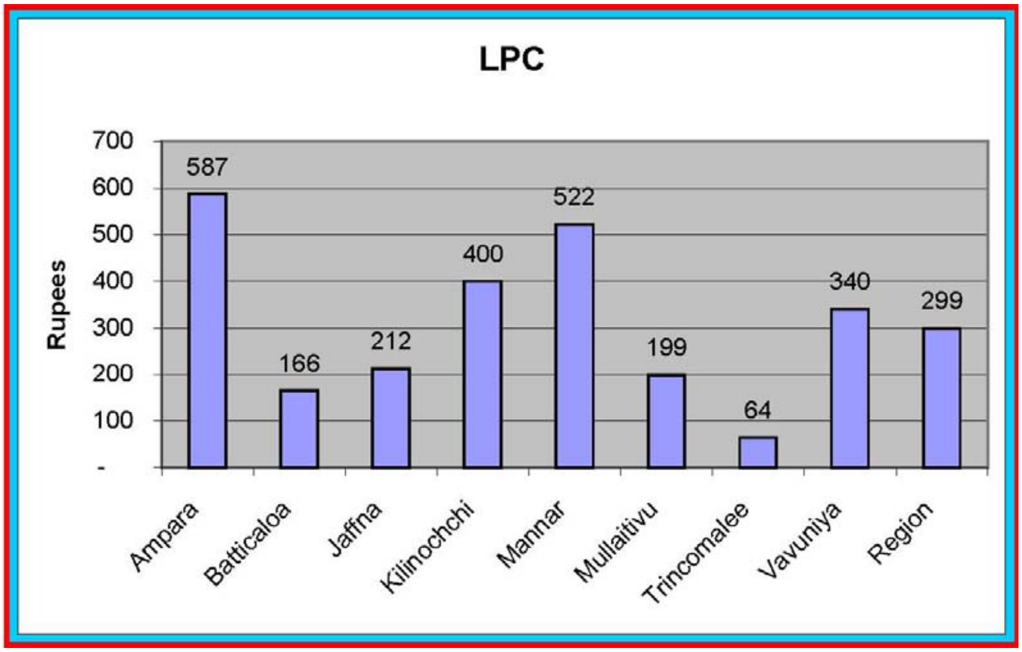


Chart 23 Per Capita Loan Dispersal in 2002 by District



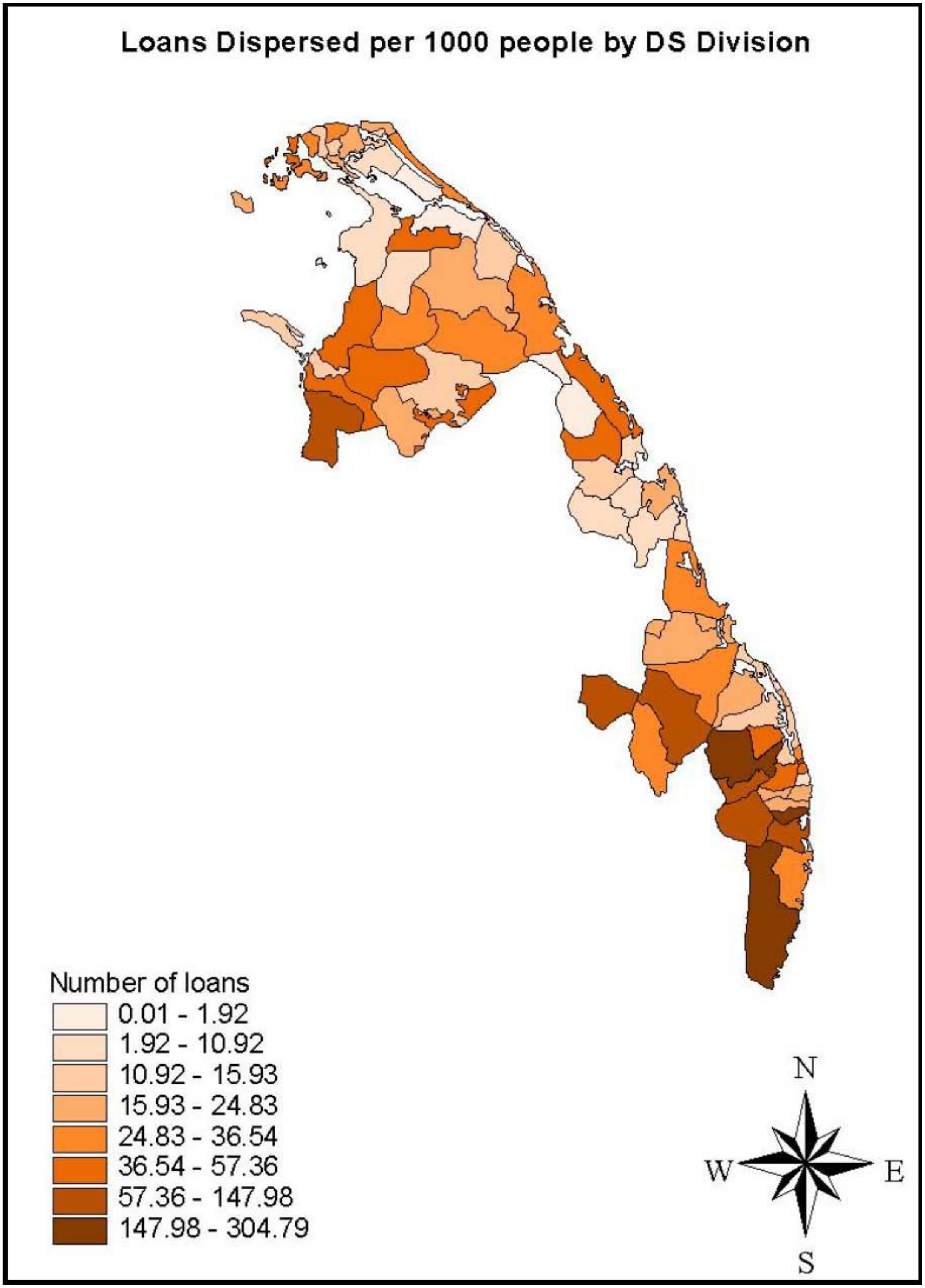
In terms of volumes of micro-credit, a total of 773 million rupees were disbursed in the year 2002, which is equivalent to approximately 300 rupees per person in the region. At the district level Ampara, Mannar, Kilinochchi and Vavuniya had per capita averages between 300 rupees and 600 rupees, while Trincomalee, Batticaloa, Mullaitivu and Jaffna had per capita averages between 64 rupees and 212 rupees.

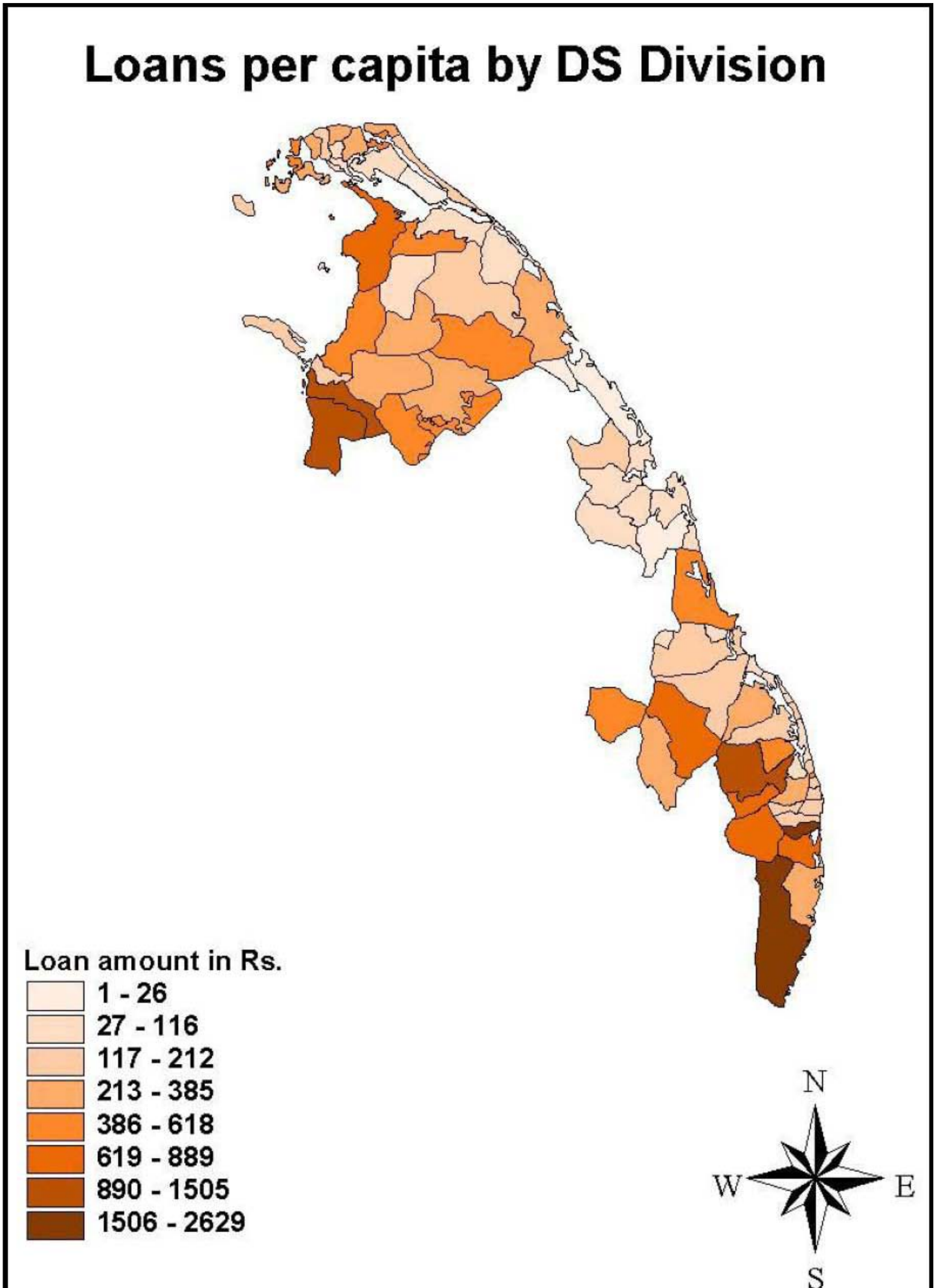
Table 10 Regional Micro-Credit Supply Data 2002 by Practitioner Group

Actor Type	No. of Loans 2002	Value of Loans 2002 (SLR)
Thrift & Credit Co-operatives / SANASA	4,588	74,782,162
Multi-Purpose Co-operatives	4,397	69,869,448
Fisheries Organizations	3,275	55,938,727
Farmers Organizations	280	2,487,550
Palmyrah & Palm Organizations	3,012	9,972,514
Other Co-operative Organizations	27	270,000
Local NGO & Third Sector Organizations	25,574	188,322,849
National NGO & Third Sector Organizations	5,128	74,852,219
WRDS & RDS	3,103	73,378,671
Samurdhi	27,964	188,450,570
Local Rural Development Banks	817	12,615,000
International NGO and Agencies (Direct)	1,697	22,327,469
Total	**79,862**	**773,267,179**

Table 11 N&E Regional Microfinance Supply 2002 by District

District	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Ampara	43,747	364,729,279	620,939
Batticaloa	10,383	87,719,858	529,663
Jaffna	10,649	119,792,942	494,173
Kilinochchi	3,152	52,928,210	132,342
Mannar	3,746	48,125,460	92,118
Mullaitivu	2,526	27,714,358	139,391
Trincomalee	4,474	23,445,096	365,318
Vavuniya	1,185	48,811,976	143,423
Total	**79,862**	**773,267,179**	**2,517,367**


Loans Dispersed per 1000 people by DS Division
Number of loans
0.01 - 1.92
1.92 - 10.92
10.92 - 15.93
15.93 - 24.83
24.83 - 36.54
36.54 - 57.36
57.36 - 147.98
147.98 - 304.79
N
W
E
S



Loans per capita by DS Division
Loan amount in Rs.
1 - 26
27 - 116
117 - 212
213 - 385
386 - 618
619 - 889
890 - 1505
1506 - 2629
N
W
E
S

2.1.3. Regional Summary

Savings

The most striking feature of the microfinance sector activity in the North and East Region is the low levels of supply that predominate throughout much of the region. Despite over two years of peace, microfinance supply remains characterised by low levels of savings deposits and even lower levels of micro-credit service provision.

In terms of population, the regional savings average is 448 rupees per person as at the end of December 2002. This can be compared to an average per capita savings rate of 1,421 rupees throughout the rest of the country as at the end of 2000 (c.f., Gant, De Silva, Atapattu & Durrant, 2002). However, six of the eight districts in the region have significantly low per capita savings averages than the region average.

Two districts, Kilinochchi and Jaffna have per capita averages of 1,400 rupees and 955 rupees respectively. Levels of savings are lowest in Mannar, Vavuniya, Trincomalee and Mullaitivu, with per capita savings equivalents of 87 rupees, 96 rupees. 119 rupees and 219 rupees per person respectively. Kilinochchi, Jaffna, Batticaloa and Ampara have higher average deposits with 1,400 rupees, 1,090 rupees, 306 rupees and 237 rupees per person respectively. In terms of per capita savings volumes (i.e. the amount money being held in micro-savings deposits), the North and East region has roughly one-third (32%) of microfinance savings of the rest of the country.

The district averages in turn mask the fact that the majority of divisions in all districts have significantly lower averages. For example, in Kilinochchi the savings per capita is a staggering 4,070 rupees in Kandawalai division due to particularly strong MPCS activity. The average in the rest of Kilinochchi ranges from nil in Pallai to around 600 rupees per capita in Kararchchi and Poonagari. Overall, around three-quarters of all divisions have less than the regional average and over half of all division have half the regional average or less.

Micro-credit

In terms of the value of micro-credit service provision, the regional average was 299 rupees in loans disbursed per person in the year 2002. This can be compared to an average of 864 rupees per person with the rest of the country during the year 2000 (ibid.). In terms of per capita volumes (i.e. the amount money being provided as loan capital), we can see that the North and East Region has roughly one-third (35%) of microfinance service provision of the rest of the country.

However, half the districts had levels lower than the regional average. The districts of Trincomalee, Batticaloa, Mullaitivu and Jaffna had per capita ratios of only 64 rupees, 166 rupees, 199 rupees and 242 rupees per person in the year 2002. The districts of Ampara, Mannar, Kilinochchi and Vavuniya had somewhat higher levels, with 587 rupees, 522 rupees, 400 rupees and 340 rupees per person respectively.

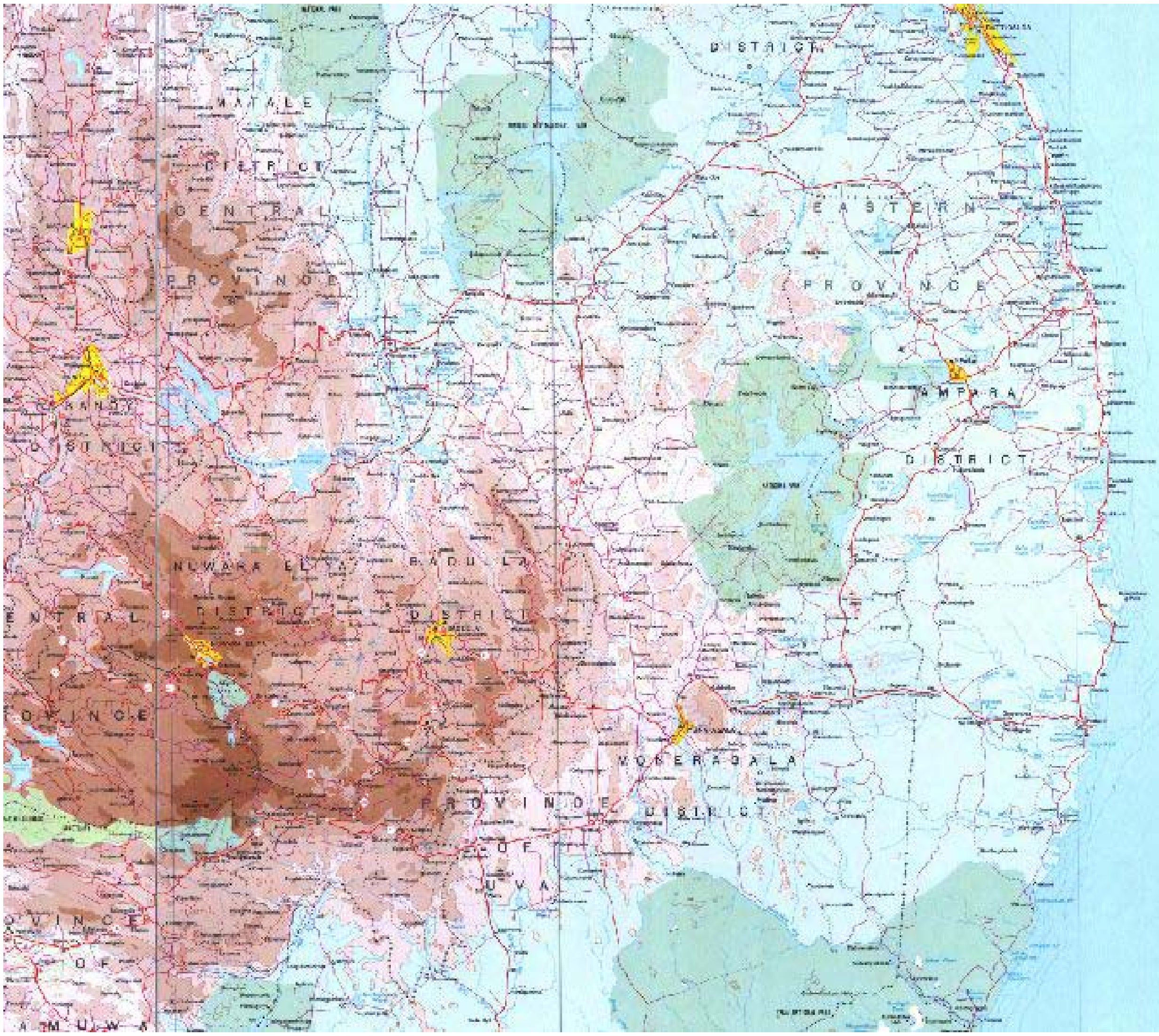
In terms of the number of loans issued, the regional average was 32 loans disbursed per 1,000 people. This is equivalent to saying that approximately 3 percent of the regions' population gained access to micro-credit in the year 2002. This can be compared to an average of 116 loans (11.6%) disbursed per 1,000 people in the rest of the country in the year 2000. Therefore,we can see, that in terms of population, the number of loans disbursed in the North and East Region is less than one-third (28%) of the levels disbursed in the rest of the country.

Four districts had lower per capita levels than the regional average. The districts of Trincomalee, Mullaitivu, Jaffna and Batticaloa had per capita equivalents of approximately 12 loans (1.2%), 18 loans (1.8%), 19 loans (1.9%) and 20 loans (2%) per 1,000 people respectively. The districts of Ampara, Mannar, Kilinochchi and Vavuniya had somewhat higher levels of access to micro-credit with approximately 70 loans (7%), 41 loans (4.1%), 25 loans (2.5%) and 24 loans (2.4%) per 1,000 people respectively.

Therefore we can see that at both the regional and district level access to micro-credit is significantly lower than elsewhere in the country. However, the survey revealed that when one looks at the divisional level, the presence of significantly higher levels of service provision in a few divisions, masks widespread lower levels in the majority. In terms of number of loans disbursed, 66 out of 77 divisions had per capita averages that were less than half of the average for the rest of the country, with only four divisions having higher levels than the national average.

The above mentioned microfinance savings and loan activity clearly shows that current levels of supply is low or very low throughout virtually in the entire region. When considering demand and what the population present and imminent, financial needs are one has to consider this microfinance activity is set against a backdrop of weak formal financial services provision by the commercial banks, including low banking density, a low deposits base, low levels of credit disbursement, few specialised microfinance or SME products and the absence of any national or regional development banks - or development finance more generally. Furthermore, there is very little access to related non-financial services such as EDS, BDS, BIS and weak private sector development infrastructure such as chambers of commerce and industry, vocational training institutes, enterprise development agencies and trade associations.

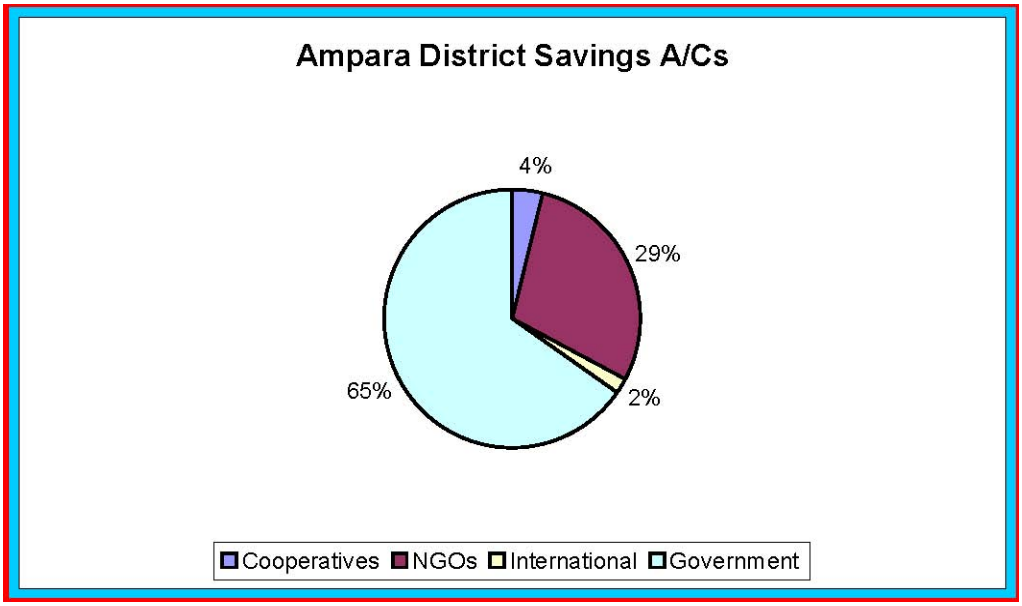
Ampara District



2.2. Ampara District

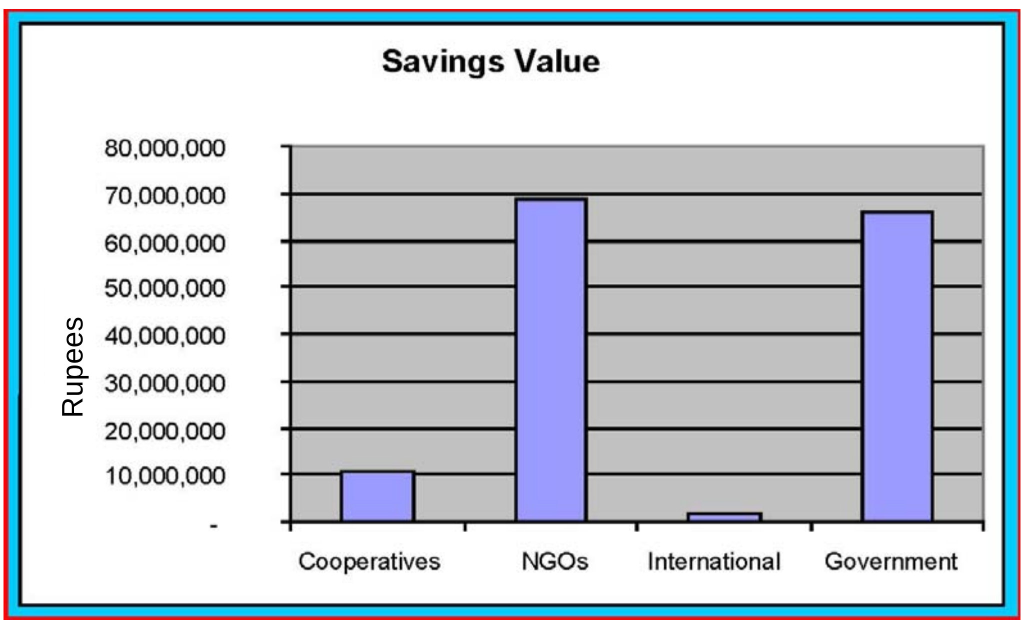
A total of 135,684 savings accounts were identified as at December 2002 in the district. In terms of population, this is equivalent to approximately 219 savings accounts per 1,000 people.

Chart 24 Ampara District Savings Accounts as at Dec 2002 by Practitioner Group



In terms of practitioner groups, government practitioners accounted for 88,461 accounts, NGOs for 39,438 accounts, coops for 5,104 accounts and direct international practitioner activity for 2,681 accounts.

Chart 25 Value of Savings as at Dec 2002 by Practitioner Group



Altogether, a total of 147,260,236 rupees in microfinance savings were deposited as at December

2002. In terms of population, this is equivalent to 237 rupees in savings per person.

In terms of individual practitioner groups, NGOs accounted for the greatest amount with 68,885,471 rupees in deposits, followed by government practitioner activity with 65,688,517 rupees. The cooperatives sector had 10,804,967 rupees in savings and direct international practitioner activity had 1,881,281 rupees in savings.

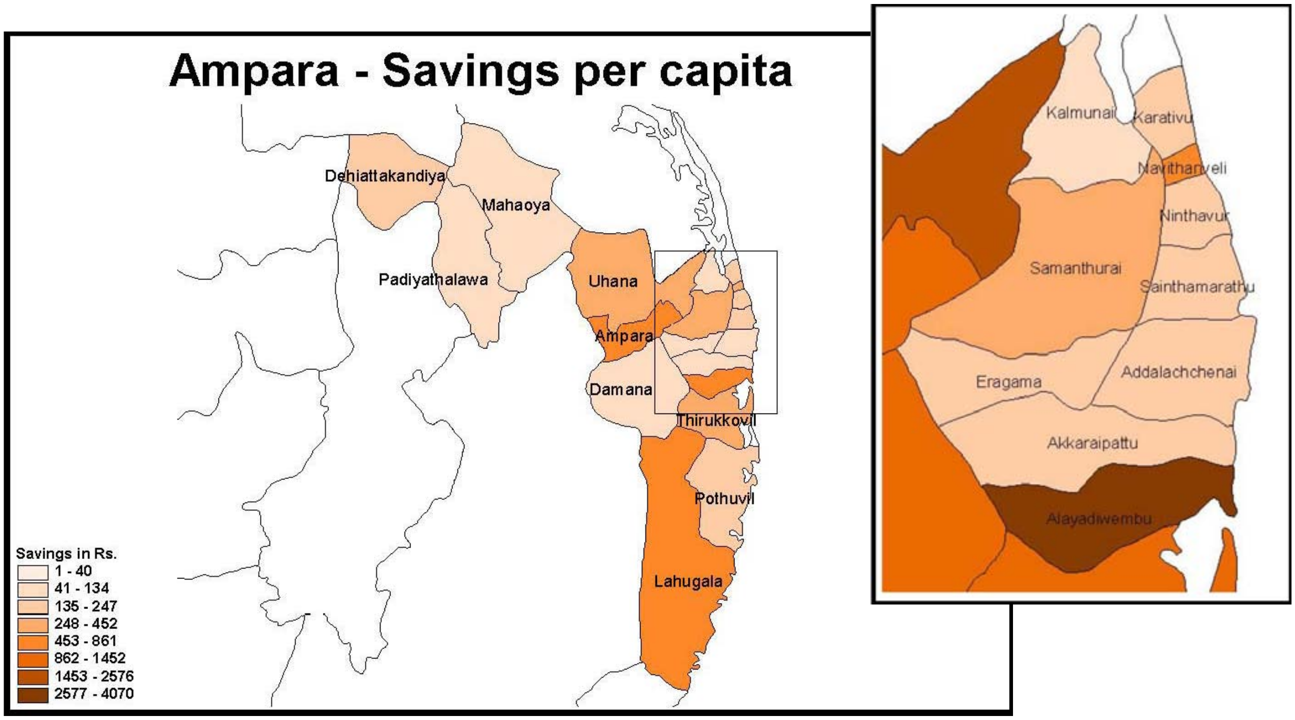
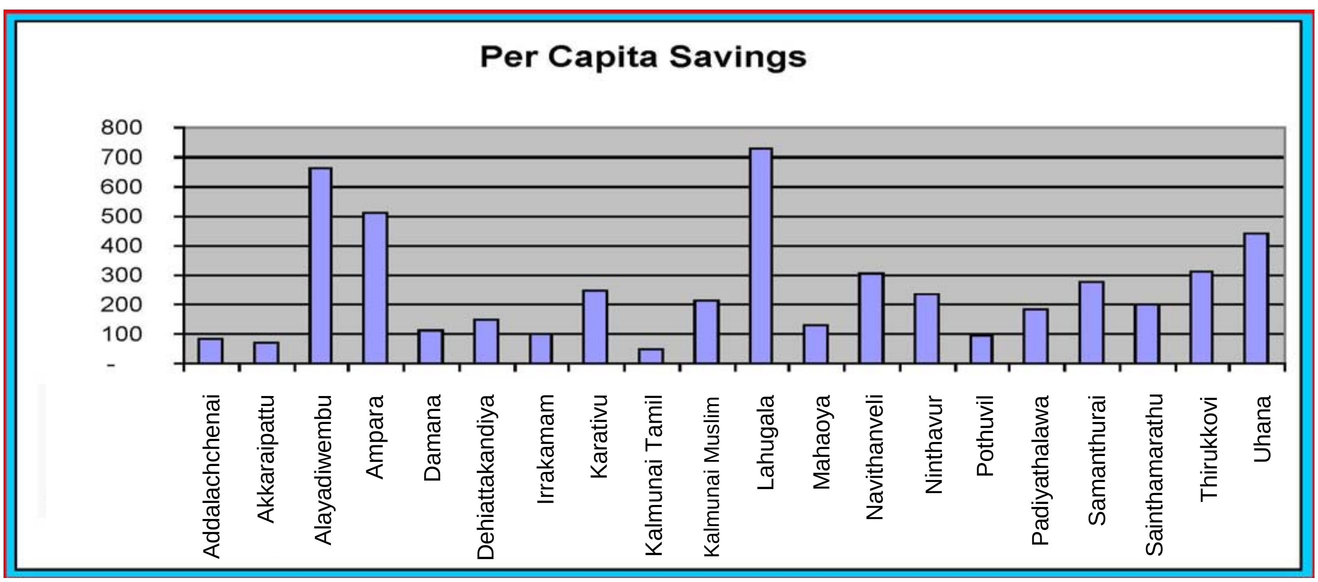
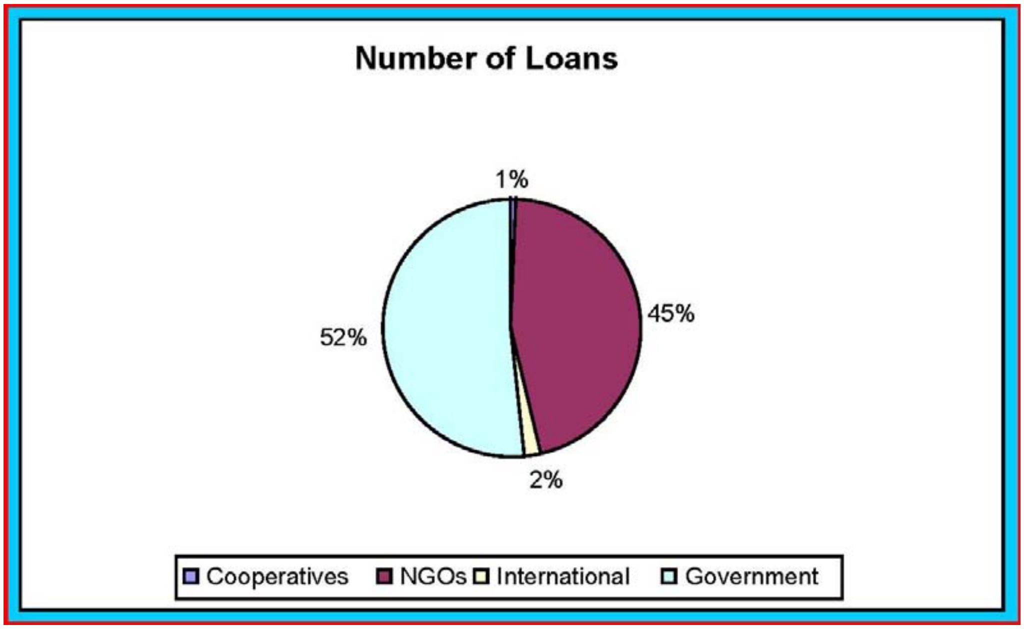


Chart 26 Ampara District Per Capita Savings Value by DS Division



In terms of loans, a total of 43,747 loans were disbursed during the year 2002. In terms of population, this is equivalent to 70 loans disbursed per 1,000 people.

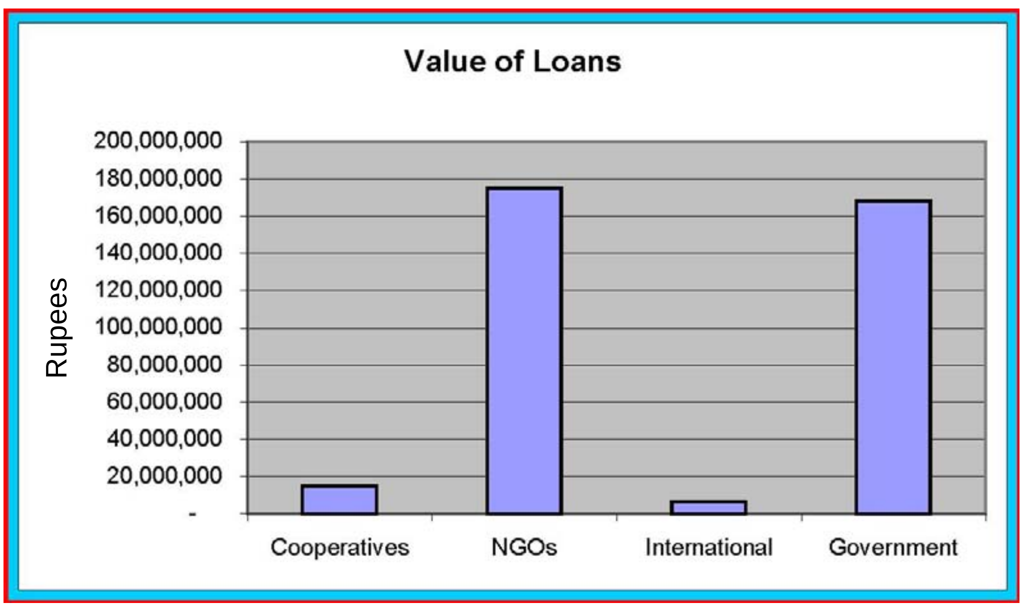
Chart 27 Ampara District Number of Loans Disbursed in 2002 by Group



In terms of practitioner groups, government practitioner activity accounts for the greatest number of loans disbursed, with 22,760 loans, followed by the NGO sector that disbursed a total of 19,862 loans. By comparison, the cooperative sector disbursed only 320 loans and direct international practitioner activity disbursed 805 loans during the year 2002.

In terms of the value of loans, a total of 364,729,279 rupees in loans were disbursed in the district during the year 2002. In terms of population, this is equivalent to 587 rupees per person.

Chart 28 Ampara District Value of Loans Disbursed in 2002 by Practitioner Group



In terms of practitioner groups, the NGO sector disbursed the most amount of micro-credit with 175,035,849 rupees during the year 2002, followed by government practitioner activity with 168,250,175. The cooperatives disbursed only 15,039,100 rupees and direct international practitioner activity 6,404,155 rupees.

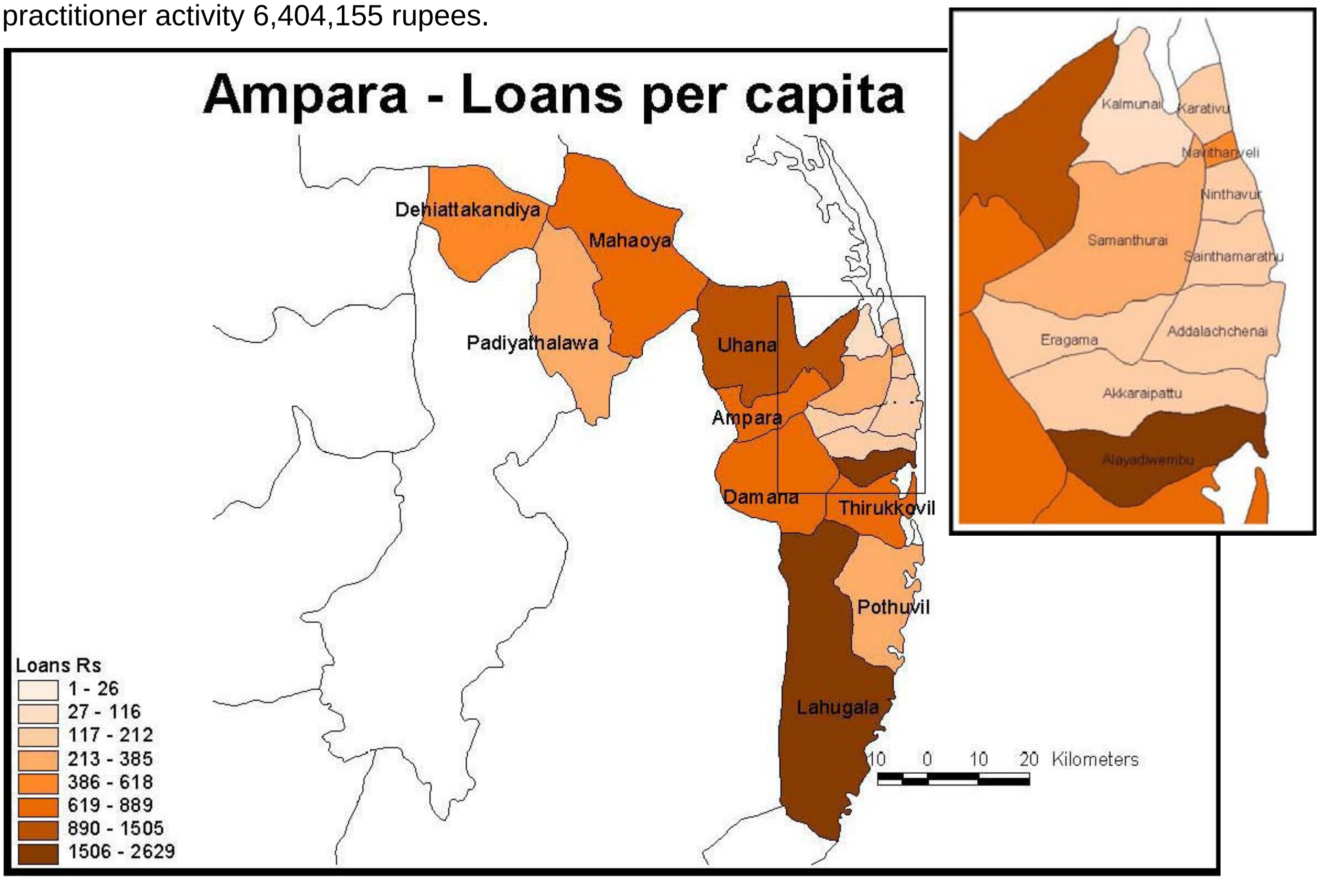


Chart 29 Ampara District Per Capita Loans Value in 2002 by DS Division

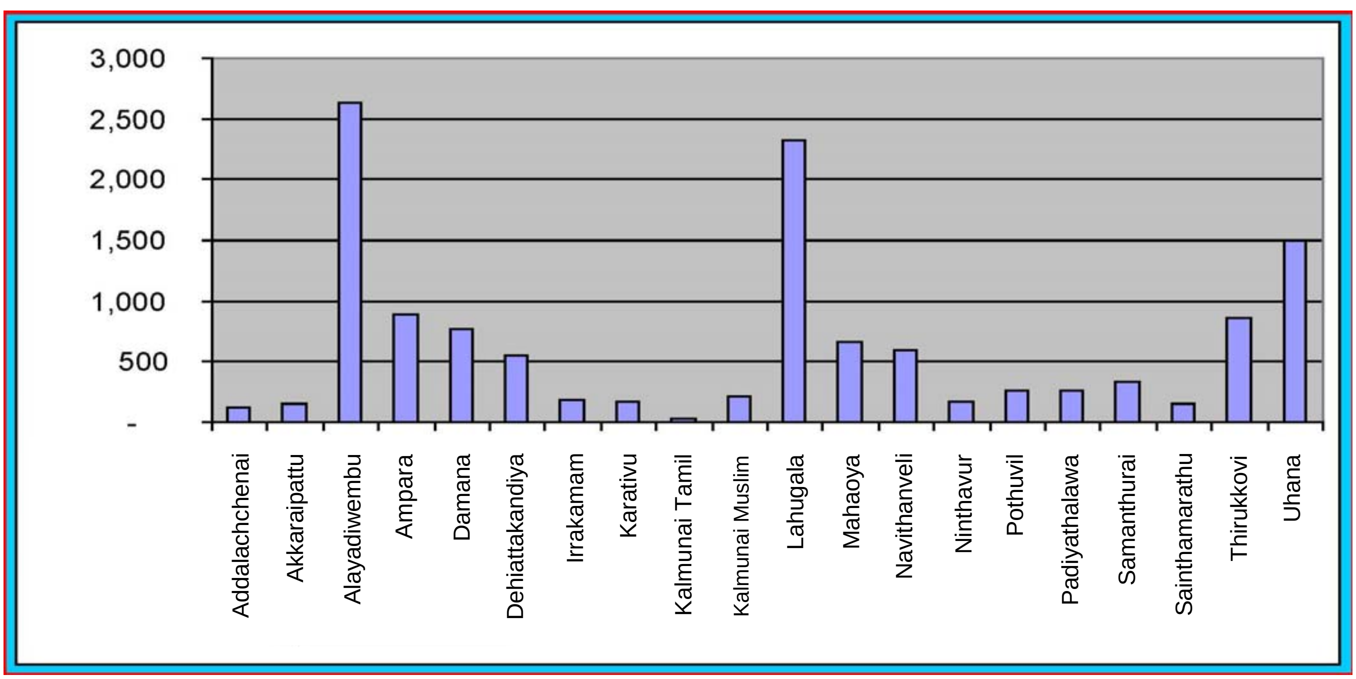


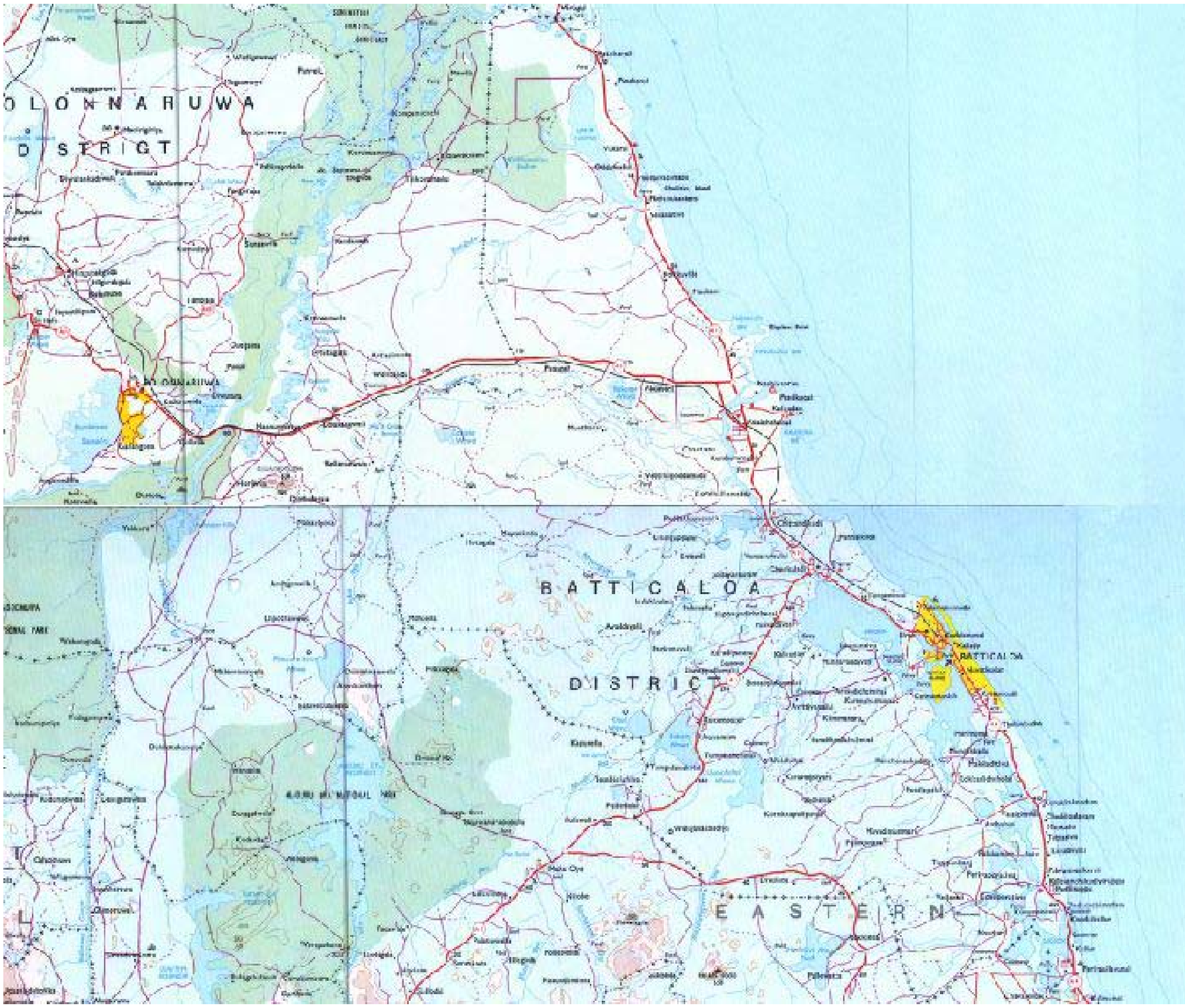
Table 12 Ampara District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
AEDO	56	33,600	51	100,000	600	1,961
AF	100	36,000	20	45,000	360	2,250
Al - Ameen	426	128,130	88	440,000	301	5,000
Al - Minan	47	144,750	3	75,000	3,080	25,000
Al – Quiraisha	73	30,450	12	65,000	417	5,417
Al - Quraish	3,325	2,581,650	2,123	7,190,400	776	3,387
AN – NUSRATH	296	197,040	121	608,200	666	5,026
AWA	145	140,935	146	1,014,745	972	6,950
AWF	1,257	1,632,924	1,949	16,878,500	1,299	8,660
CARE	133	281,281	62	483,000	2,115	7,790
EFO	21	252,000	50	228,400	12,000	4,568
FCS	417	253,495	117	790,100	608	6,753
FORED	465	445,740	110	743,500	959	6,759
GAFSO	410	110,000	352	250,000	268	710
HESSO	188	23,350	65	345,500	124	5,315
Kalam	628	542,678	312	4,858,850	864	15,573
Marumalarchi	310	194,410	168	820,200	627	4,882
MF	2,100	7,362,763	3,518	27,876,000	3,506	7,924
MPCS	3,534	357,879	30	240,000	101	8,000
NEIAP	-	-	357	6,022,475	-	16,870
Consortium	-	-	5	450,000	-	90,000
NPDC	120	600,000	120	600,000	5,000	5,000
PPDS	533	862,101	396	4,467,000	1,617	11,280
RIEDO	94	47,000	25	50,000	500	2,000
Samurdhi	88,461	65,688,517	22,403	162,227,700	743	7,241
SDO	545	307,206	47	423,000	564	9,000
SEEDO	160	123,000	31	135,000	769	4,355
SEEDS	17,333	30,101,304	3,640	61,303,811	1,737	16,842
Sewa Lanka	1,195	3,122,165	573	3,539,908	2,613	6,178
SFS	90	102,600	10	50,000	1,140	5,000
SOWSA	798	611,905	538	3,744,417	767	6,960
Swiedo Vision	843	1,044,320	1,069	6,970,218	1,239	6,520
SWOAD	6,124	16,657,608	3,911	27,749,300	2,720	7,095
TCCS/Sanasa	1,153	10,193,593	173	14,009,000	8,841	80,977
VSS	55	301,350	95	1,066,000	5,479	11,221
WDC	1,479	913,383	135	1,838,000	618	13,615
WDF	169	214,881	129	954,000	1,271	7,395
World Vision	2,548	1,600,000	743	5,921,155	628	7,969
YMCA	53	20,228	50	155,900	382	3,118
Total	**135,684**	**147,260,236**	**43,747**	**364,729,279**	**1,085**	**8,337**

Table 13 Ampara District Microfinance Overview 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Addalaichenai	10,482	3,039,947	720	4,454,900	35,779
Akkaraipattu	10,671	2,557,788	757	5,749,662	36,115
Alayadivembu	10,804	15,155,633	6,923	59,716,250	22,714
Ampara	8,006	19,395,047	3,048	33,779,194	37,992
Damana	5,193	4,105,858	3,532	28,505,000	37,365
Dehiyattakandiya	3,482	9,062,163	5,014	34,400,800	62,612
Irrakamam	1,923	1,344,046	282	2,398,945	13,240
Karaitivu	3,940	4,304,427	638	2,889,700	17,460
Kalmunai Muslim	5,553	2,182,581	183	1,264,100	44,502
Kalmunai Tamil	5,551	6,637,789	862	6,617,800	31,278
Lahugala	5,349	5,897,607	1,370	18,724,471	8,071
Mahaoya	2,657	2,976,825	2,062	14,964,000	22,652
Navithanveli	5,470	5,893,453	1,743	11,486,900	19,393
Nintavur	4,619	6,117,098	996	4,588,180	26,307
Padiyathalawa	3,104	1,500,388	440	4,254,000	15,948
Pottuvil	8,641	5,804,229	1,128	8,250,150	32,054
Sammanthurai	12,622	14,984,658	2,046	17,901,700	54,257
Saintamaruthu	3,521	4,916,094	125	3,590,800	24,528
Thirukovil	11,254	8,170,437	2,801	22,629,673	26,335
Uhana	12,842	23,214,168	9,077	78,563,054	52,337
Total	**135,684**	**147,260,236**	**43,747**	**364,729,279**	**620,939**

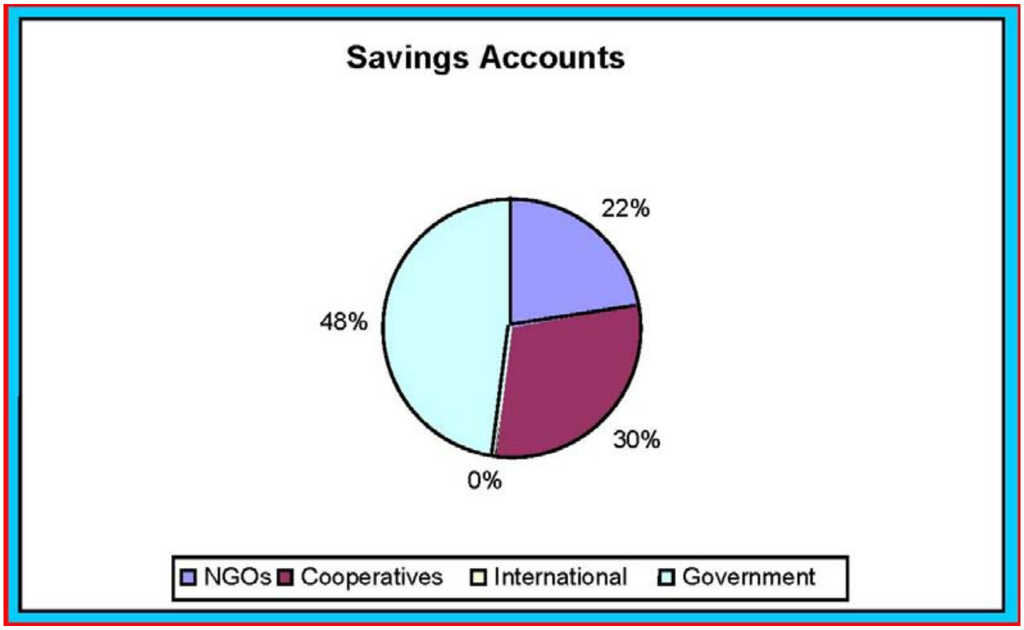
Batticaloa District



2.3. Batticaloa District

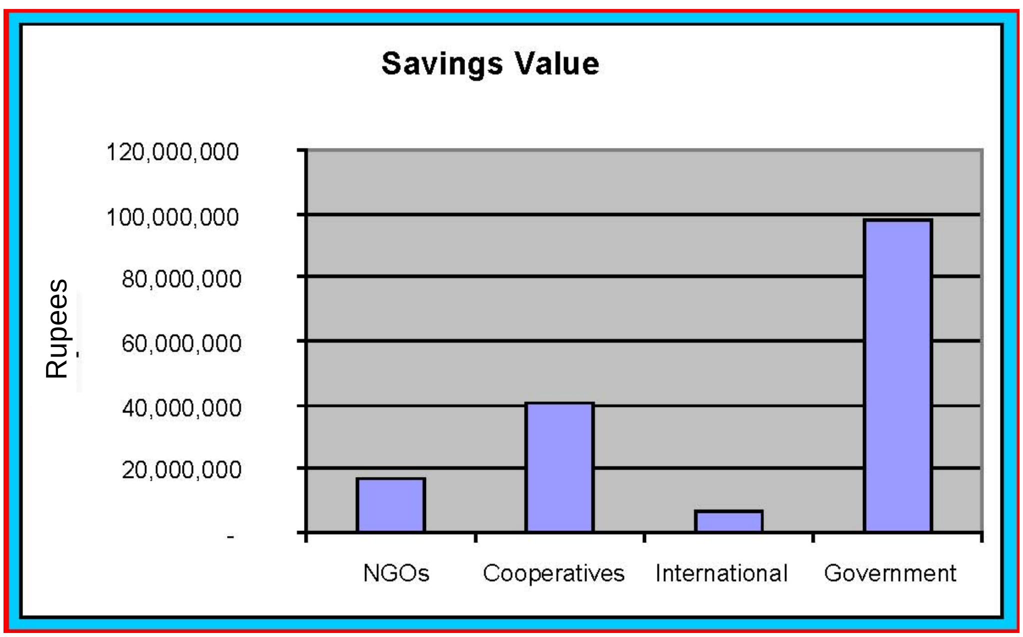
The survey identified a total of 152,618 savings accounts in the district as of December 2002. In population terms, this is equivalent to 288 savings accounts for every 1000 people.

Chart 30 Batticaloa District Savings Accounts as at Dec 2002 by Group



In terms of practitioner groups, the government practitioner sector had mobilised the greatest number of savings accounts in the district, with a total of 73,059 accounts, followed by the cooperatives sector with 45,450 accounts, the NGO sector with 33,835 accounts and direct international practitioner activity with 274 accounts.

Chart 31 Batticaloa District Savings Value as at Dec 2002 by Group

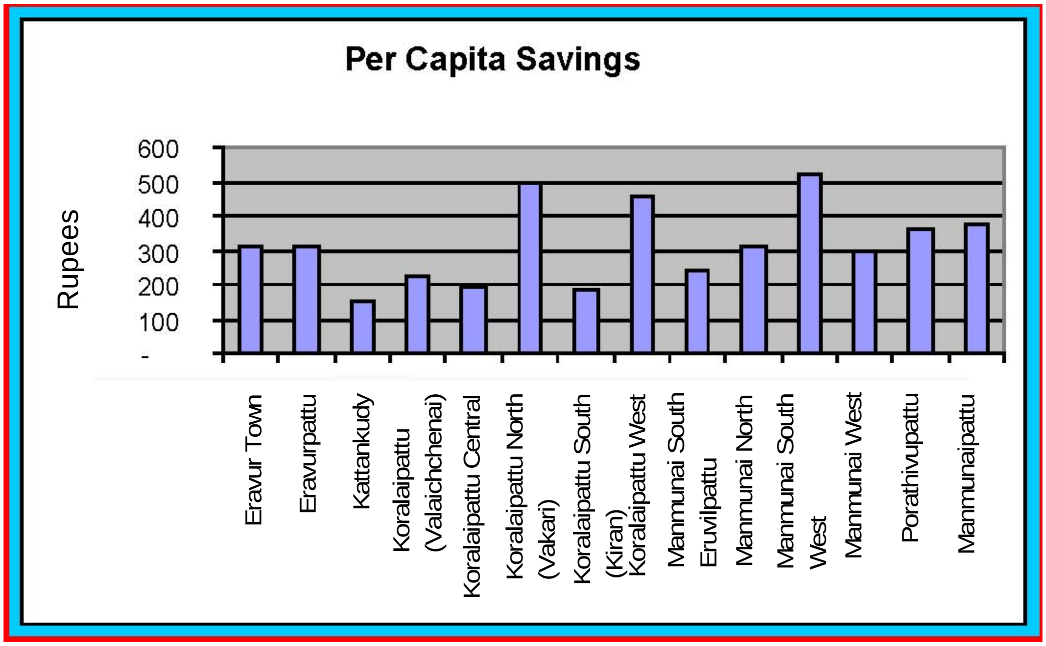


In terms of savings value, the survey identified total microfinance deposits of 161,968,284 rupees in the district as at December 2002. In terms of population this is equivalent to 306 rupees per person in microfinance deposits.

In terms of practitioner groups, the government practitioners have mobilised the largest amount, with 97,848,961 rupees in deposits, followed by the cooperatives, with 40,467,753 rupees, NGOs with 16,968,284 and direct international practitioner activity with 6,531,051.

In terms of micro-credit, the survey identified a total of 10,383 loans disbursed during the year 2002. In terms of population, equivalent to 20 loans per 1000 people, which is low.

Chart 32 Batticaloa District Per Capita Savings Value by DS Division



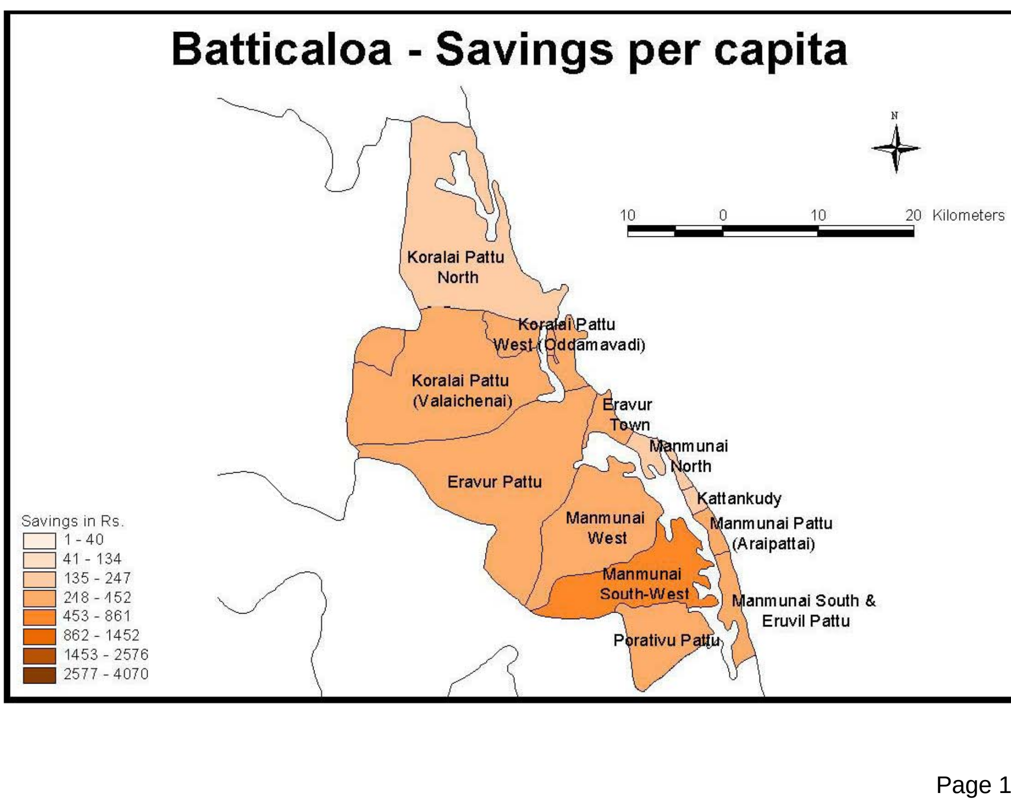
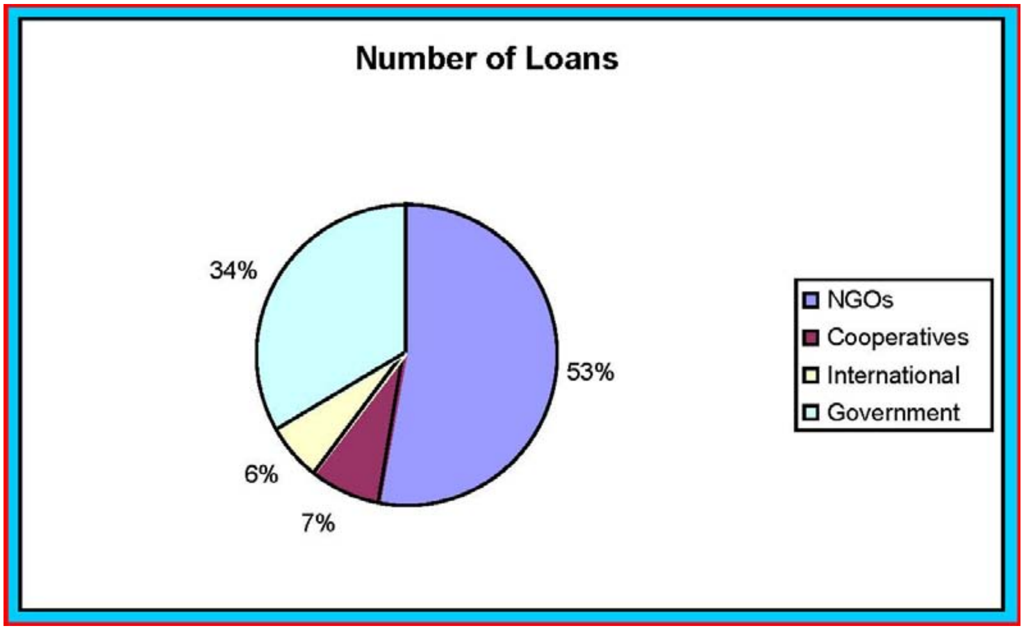


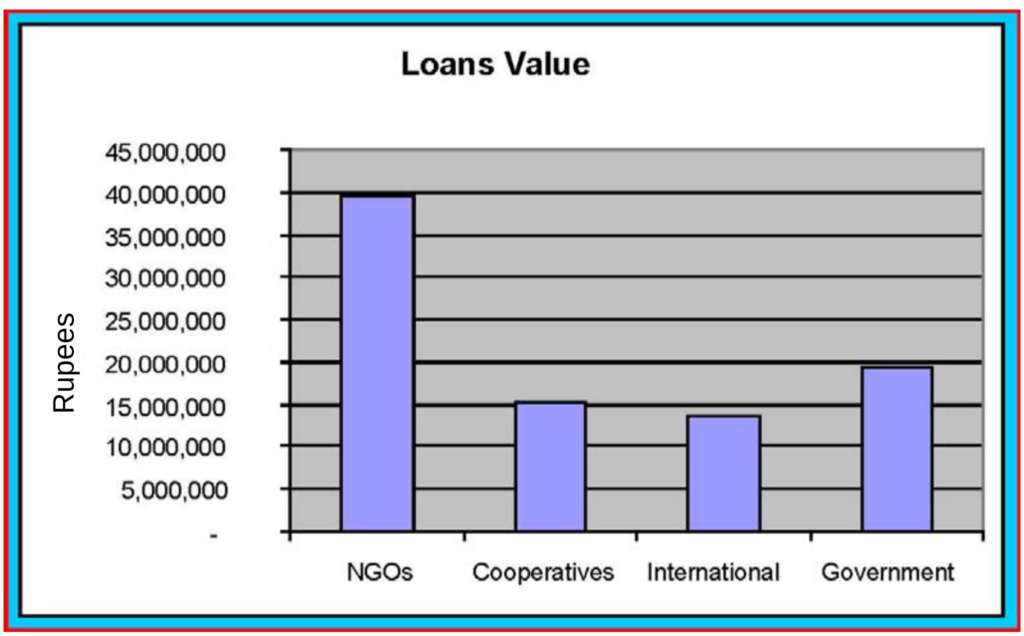
Chart 33 Batticaloa District Number of Loans Disbursed 2002 by Group



In terms of practitioner groups, the NGO sector is providing the most number of loans in the district, with 5,477 loans disbursed during the year 2002, followed by government practitioner activity with 3,494 loans, the cooperatives with 775 loans and direct international practitioner activity with 637 loans.

In terms of the value of micro-credit disbursed, a total of 87,719,858 rupees was issued by practitioners during the year 2002. In terms of population, this is equivalent to 166 rupees per person in the district.

Chart 34 Batticaloa District Loans Value 2002 by Group



In terms of practitioner groups, the NGO sector clearly has the strongest micro-credit service provision in the district, issuing 39,475,234 rupees worth of loans in 2002. This is followed by government practitioner activity with 19,461,500, cooperatives with 15,062,310 rupees and direct international practitioner activity with 13,720,814 rupees worth of loans.

The following charts depict equivalent per capita savings value and per capita loans value in the district by DS Division. This is followed by detailed supply tables by individual actor and DS Division.

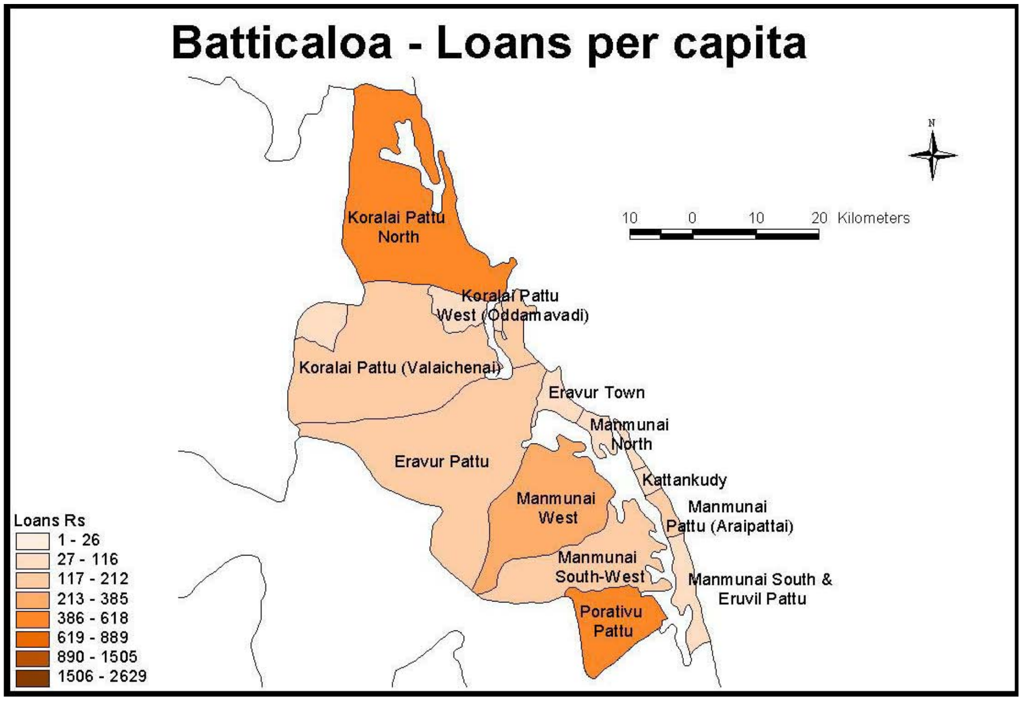


Chart 35 Batticaloa District Per Capita Loans Value 2002 by DS Division

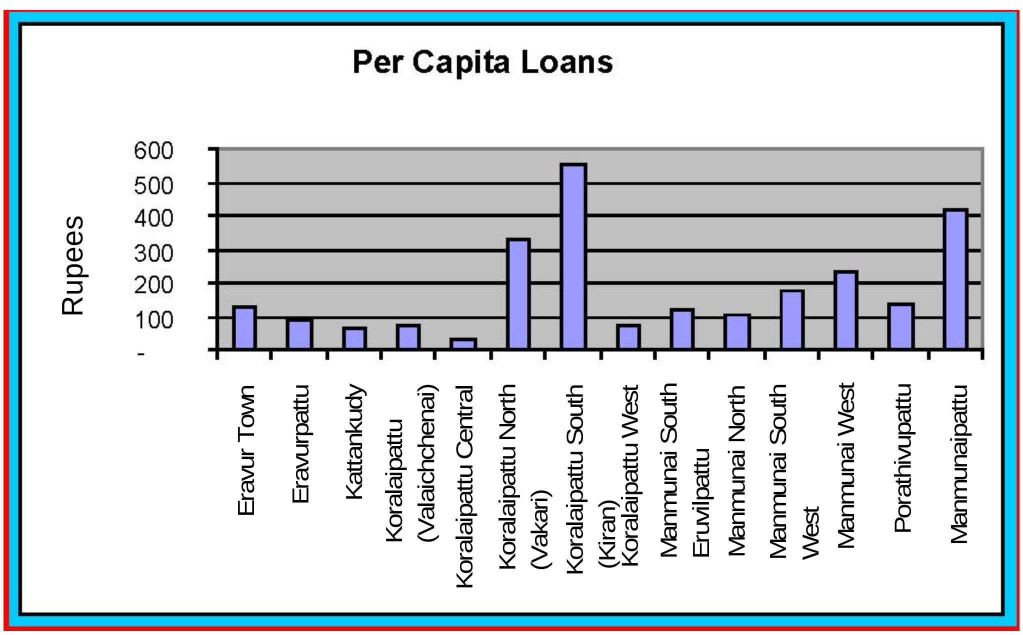


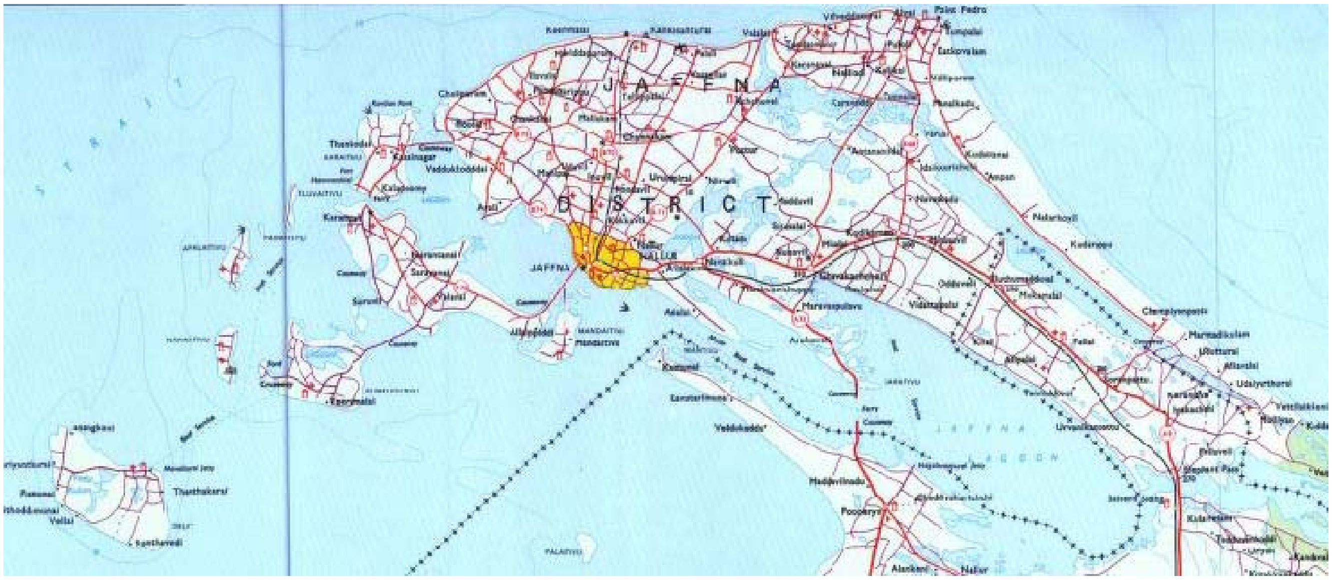
Table 14 Batticaloa District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
Ai-Insaniya		104,000	306	716,000		2,340
CARE	274	206,396	10	320,314	753	32,031
CDF	-	1,185,183	875	167,000		191
DERBA	26,486	10,536,864	1,672	11,608,500	398	6,943
EHED	1,336	244,240	182	8,366,800	183	45,971
ESCO	-	180,180	131	1,125,000		8,588
FCS	13,386	1,190,135	103	9,861,960	89	95,747
KPNDU	821	364,090	363	1,151,036	443	3,171
MPCS	27,517	35,875,220	672	5,200,350		7,739
NEAIP	-	-	150	2,610,000		17,400
NETERA		277,483	16	1,812,000		113,250
PADRO	6	190,959	5	1,564,998	31,827	313,000
PPDRO	1,112	115,090	800	2,100,000	103	2,625
PWA		111,240	39			10,949
Samurdhi	73,059	97,848,961	3,344	16,851,500	1,339	5,039
Sanasa	4,547	3,402,398	-	-	748	
Sarvodaya		1,135,916	341	3,917,900		11,489
SEEDS	709	419,527	172	1,720,000	592	10,000
Thadakam	2,299	1,761,640	174	980,000	766	5,632
WVL	-	6,324,655	627	13,400,500		21,372
YMCA	914	341,872	401	3,819,000	374	9,524
Total	**152,618**	**161,816,049**	**10,383**	**87,719,858**		

Table 15 Batticaloa District Microfinance Supply 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Eravur Town	6,279	11,292,005	422	3,276,500	36,355
Eravurpattu	16,774	20,235,994	1,961	8,466,630	65,350
Kattankudy	9,493	5,955,081	432	2,550,000	39,569
Koralaipattu (Valaichchenai)	7,739	11,625,233	775	7,758,862	23,617
Koralaipattu Central	3,692	4,474,014	248	756,500	23,106
Koralaipattu North (Vakari)	7,104	3,952,803	635	11,846,236	21,350
Koralaipattu South (Kiran)	7,157	7,706,537	437	2,465,000	33,835
Koralaipattu West	9,792	11,641,998	460	1,911,000	25,754
Manmunai South Eruvilpattu (Kaluwanchikudy)	17,457	17,507,656	831	5,879,053	55,521
Manmunai South West (Paddipalai)	11,334	12,339,060	324	4,191,698	23,761
Manmunai West (Vavunathivu)	8,635	7,912,332	498	6,135,500	26,719
Manmunai North	17,705	19,257,661	1,093	9,224,719	79,454
Manmunaipattu	13,342	10,477,839	535	4,060,660	29,059
Porathivupattu	16,115	17,437,836	1,732	19,197,500	46,213
Total	**152,618**	**161,816,049**	**10,383**	**87,719,858**	**529,663**

Jaffna District



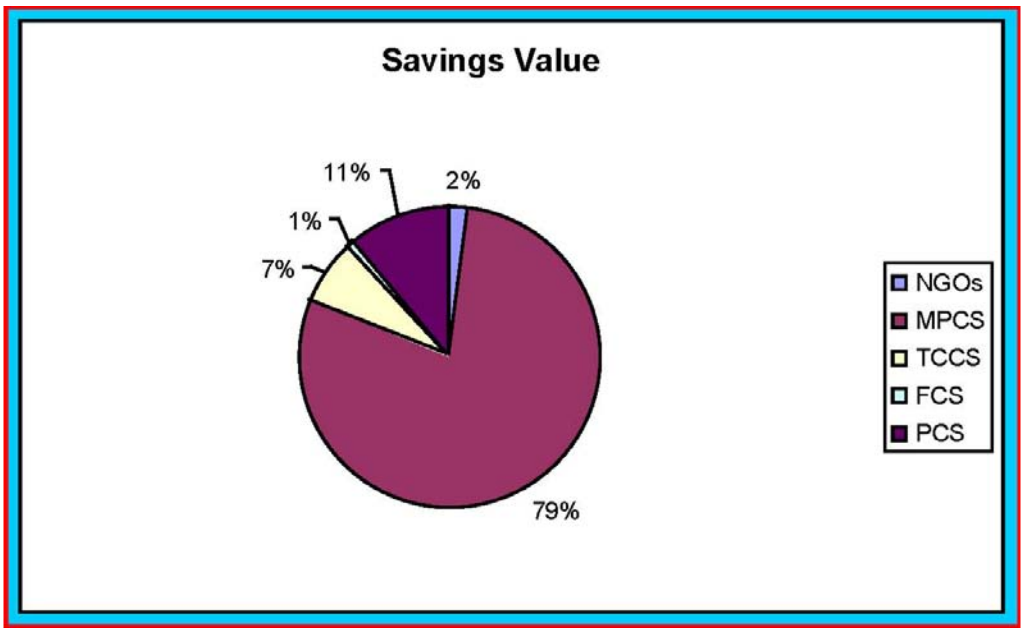
2.4. Jaffna District

Microfinance supply in Jaffna remains dominated by the activity of the cooperatives sector. Samurdhi has commenced savings mobilisation in the district and says that it will start giving loans imminently. Unfortunately, the Samurdhi office in Jaffna refused to cooperate with the study team, and their head office in Colombo did not have the information, so are not part of the survey data.

It was impossible to get the number of savings accounts in the TCCS. Only 4 NGOs are involved in microfinance in Jaffna. Of these, two - Sarvodaya and Oortu - were not undertaking microfinance during the survey period. MPCS and the fishing cooperatives listed a total of over 198,000 savings accounts as at the end of the year 2002, of which over 170,000 belong to MPCS. However, it is not clear how many of these are still active.

In terms of savings deposits, the cooperative sector accounts for 98 percent of known deposits, with the NGO sector accounting for the remainder.

Chart 36 Jaffna District Savings Value 2002 by Group.



Overall, a total of 526,906,082 rupees was identified by the survey. This is equivalent to around 1,090 rupees per person.

With deposits of 425,480,148 rupees, the MPCS in Jaffna have the largest microfinance savings base in the region. This is followed by the Palmyrah and Coconut Development cooperatives with 59,990,670 rupees, TCCS with 37,191,966 rupees and the fishing cooperatives with 3,943,298 rupees in deposits as at December 2002.

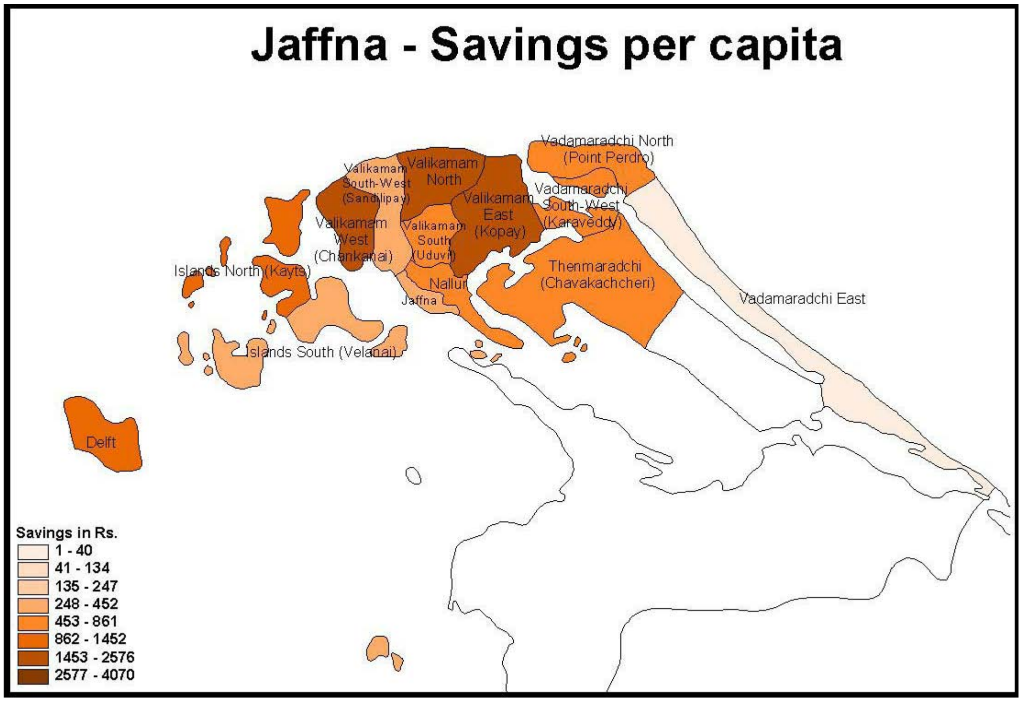
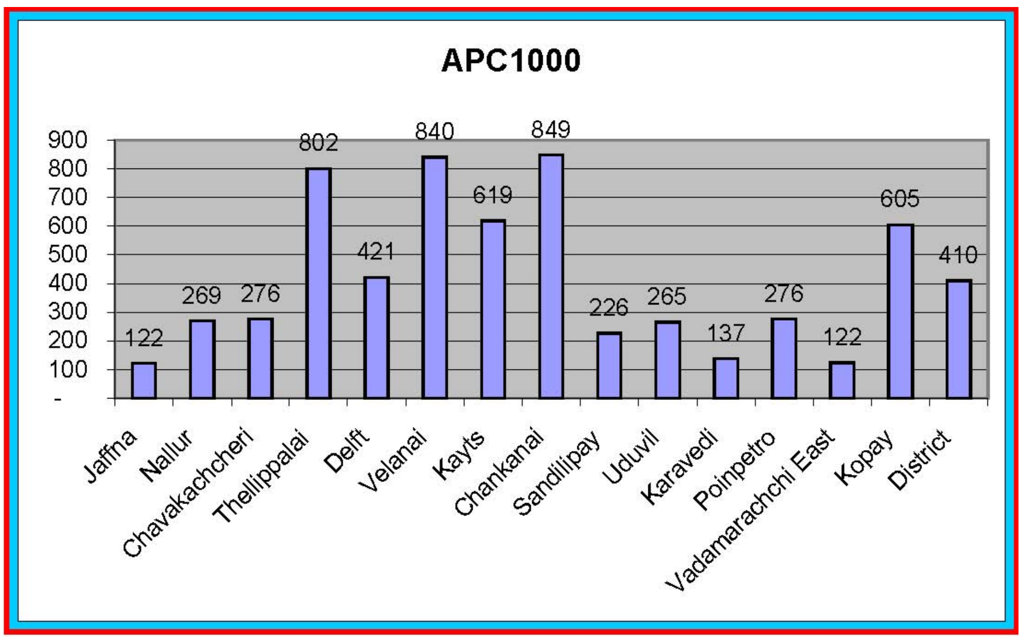
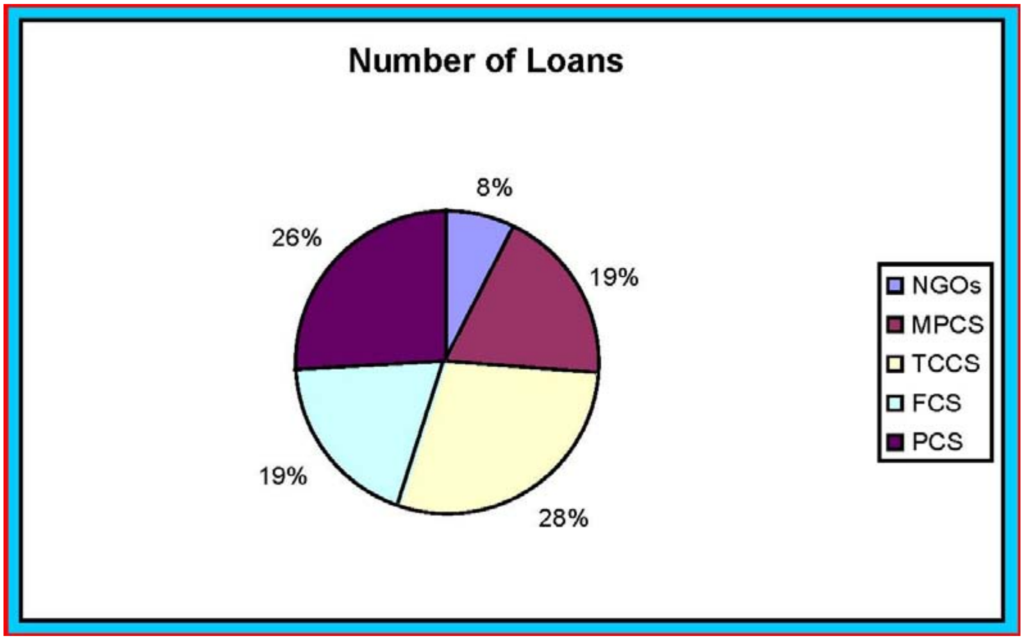


Chart 37 Jaffna District No. of Savings Accounts per 1,000 People



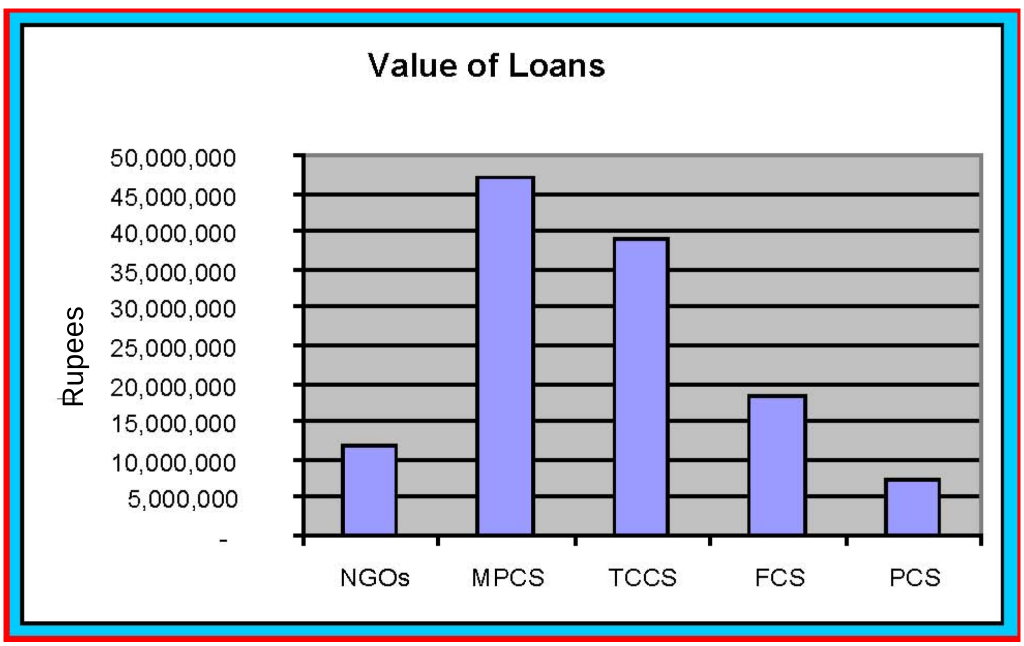
In terms of the number of loans, a total of 10,649 loans were found to have been disbursed throughout the district during the year 2002. In terms of population, this is equivalent to only 19 loans per 1,000 people.

Chart 38 Jaffna District Number of Loans Disbursed 2002 by Group



In terms of practitioners, the TCCS were the largest single provider of micro-credit in the district, disbursing 3,051 loans during the year 2002. This is followed by the fishing cooperatives with 2,016 loans, then the MPCS with 2,002 loans and the NGOs who issued 803 loans for the same period.

Chart 39 Jaffna District Loans Value 2002 by Group



In terms of the value of loans, a total of 119,792,942 was disbursed in the district during the year 2002. In terms of population, this is equivalent to 212 rupees per person in the district.

In terms of practitioner groups, the MPCS disbursed the largest amount with 47,189,704 rupees in the year 2002. This is followed by TCCS with 38,797,192 rupees, fishing cooperatives with 18,552,772 and the NGOs with 7,450,774.

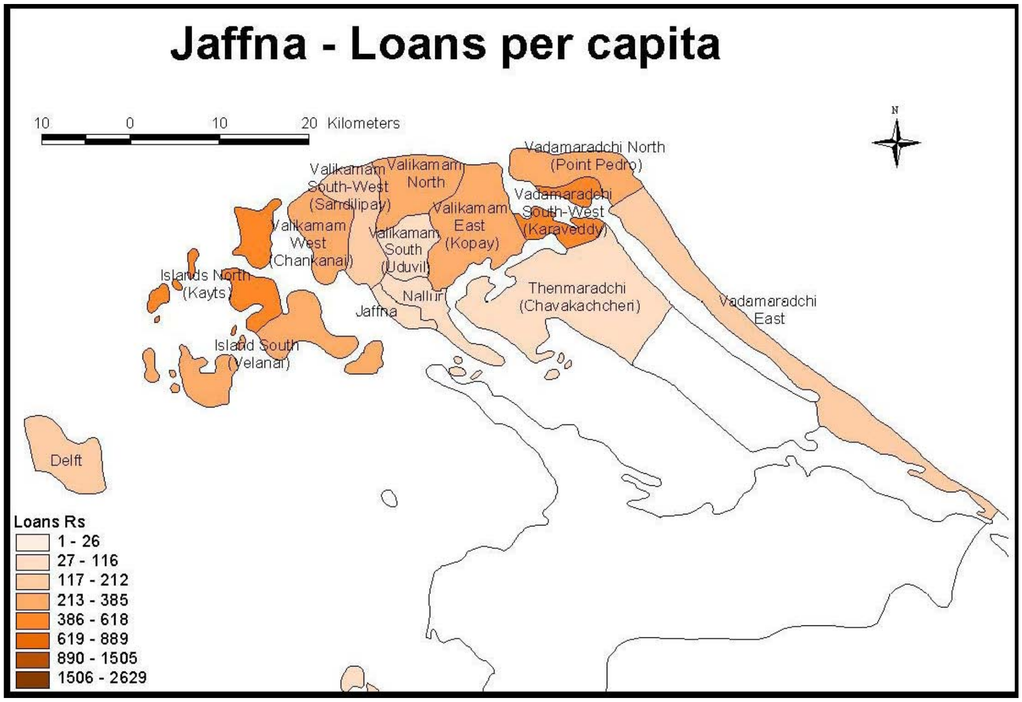


Chart 40 Jaffna District No. of Loans Disbursed per 1,000 People by DS Division

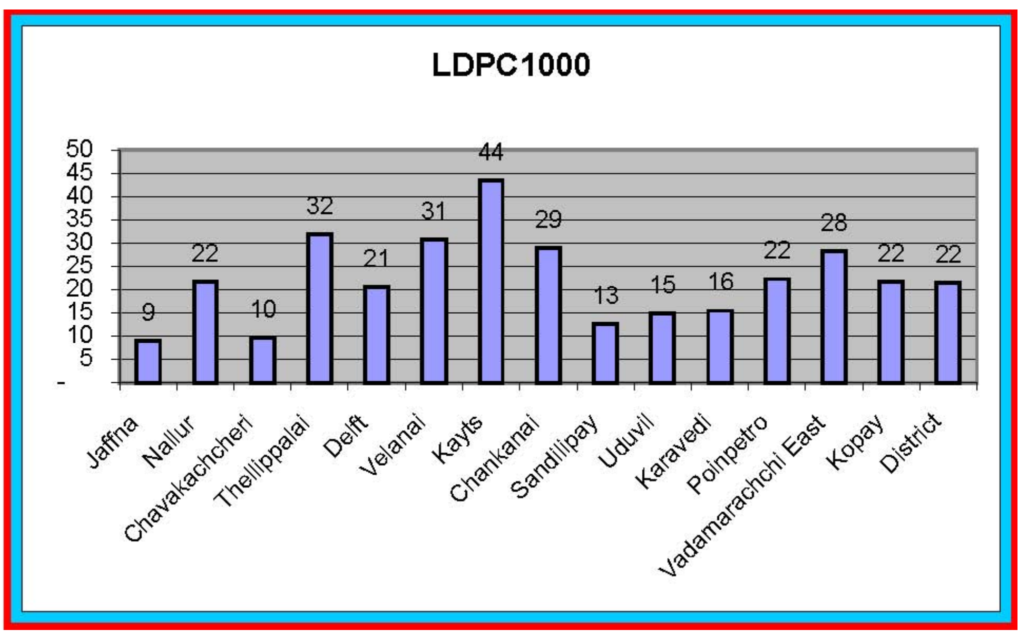


Chart 41 Jaffna District Value of Loans Disbursed per Capita by DS Division

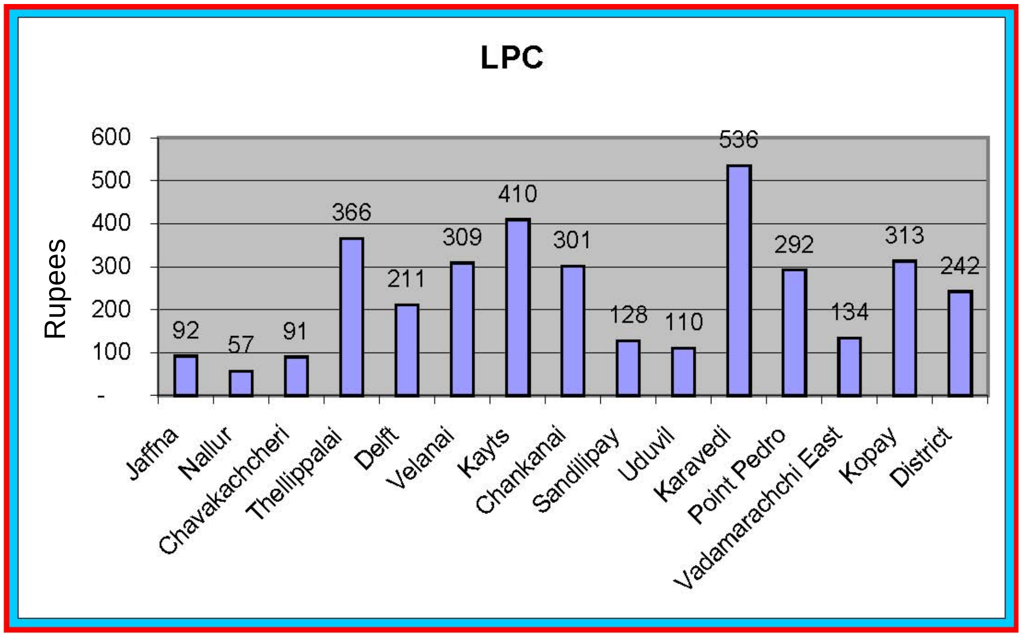


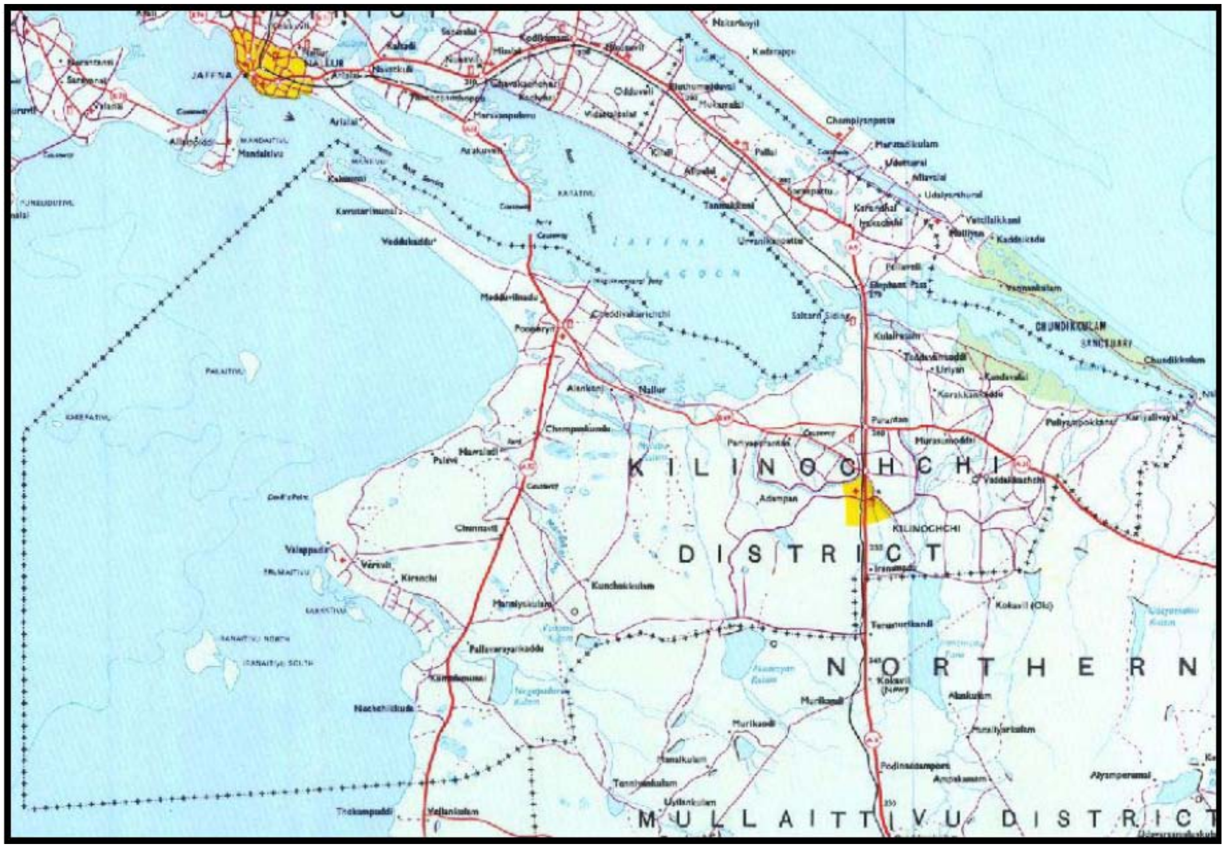
Table 16 Jaffna District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
TRRO	254	62,846	60	580,000	247	9,667
PWO	1,116	136,906	7	24,500	123	3,500
SDF	2,146	11,520,988	556	4,014,000	5,369	7,219
HUDEC	130	50,820	180	3,184,000	391	17,689
MPCS	173,034	425,780,148	2,002	47,189,704	2,461	23,571
TCCS	-	37,191,966	3,051	38,797,192		12,716
FCS	15,140	3,943,298	2,016	18,552,772	260	9,203
PCS	10,647	59,990,670	2,777	7,450,774	5,635	2,683
Total	**202,467**	**538,677,642**	**10,649**	**119,792,942**	**2,661**	**11,249**

Table 17 Jaffna District Microfinance Supply 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Jaffna	6,421	14,526,276	479	4,849,183	52,501
Nallur	16,929	49,401,087	1,363	3,563,303	62,868
Chavakachcheri	19,974	62,431,983	699	6,591,292	72,483
Thellippalai	18,134	45,345,268	721	8,265,304	22,611
Delft	2,748	7,477,329	134	1,381,290	6,532
Velanai	14,104	4,847,881	515	5,189,181	16,783
Kayts	7,966	18,687,615	561	5,275,184	12,866
Chankanai	30,548	70,212,321	1,044	10,849,581	35,994
Sandilipay	12,262	15,590,430	692	6,937,562	54,275
Uduvil	13,599	32,845,187	769	5,657,483	51,397
Karavedi	6,313	29,615,707	717	24,758,648	46,213
Point Pedro	14,184	28,395,688	1,146	15,005,022	51,353
Vadamarachchi East	2,027	667,453	467	2,213,420	16,549
Kopay	37,258	158,633,417	1,342	19,256,489	61,578
Total	**202,467**	**538,677,642**	**10,649**	**119,792,942**	**564,003**

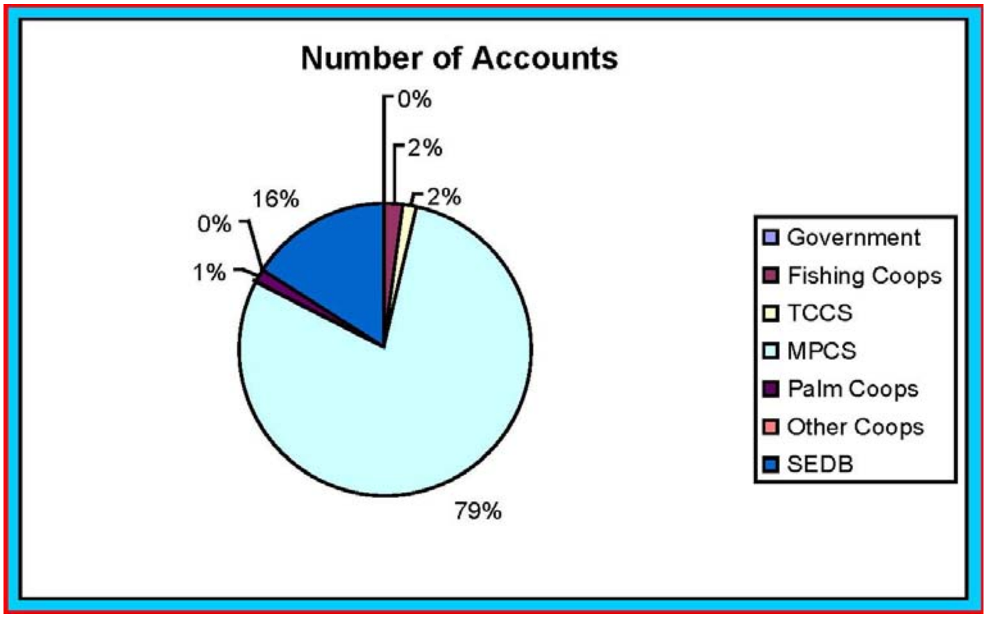
Kilinochchi District



2.5. Kilinochchi District

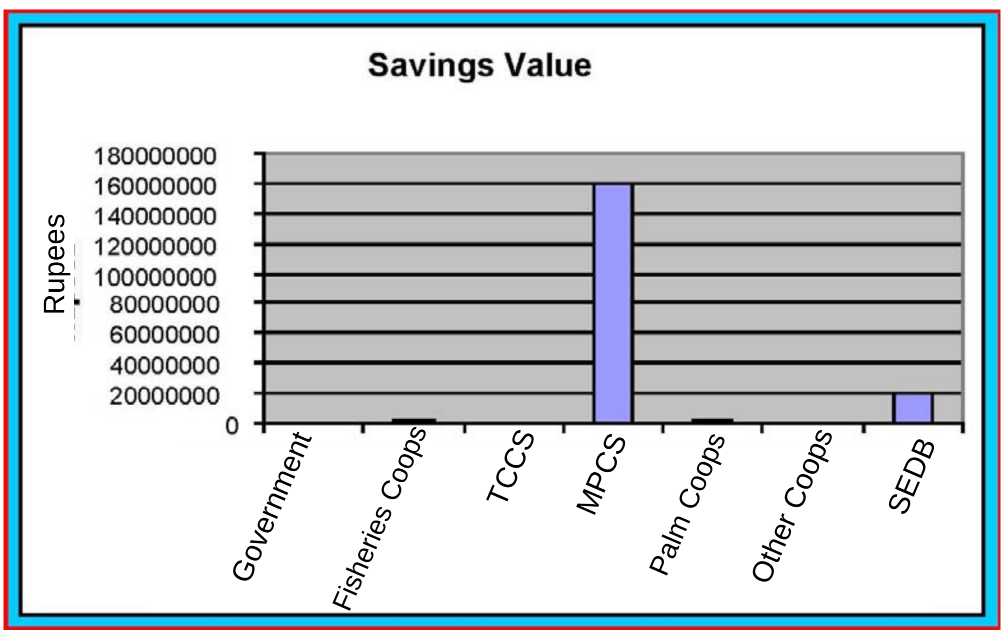
In terms of the number of savings accounts, the survey identified a total of 28,213 savings accounts as at December 2002 in the district.

Chart 42 Kilinochchi District Number of Savings Accounts 2002 by Group



In terms of practitioners, the MPCS accounts for the bulk of micro-savings activity in the district, with a total of 22,236 savings accounts as at December 2002. This is followed by the TRO's SEDB with 4,482 savings accounts, fishing coops with 599 accounts, palm coops with 401 accounts, government practitioner activity with 38 RDS and WRDS CBO accounts and other coops, including livestock breeders and farmers organisations with 21 accounts.

Chart 43 Kilinochchi District Savings Value 2002 by Group



In terms of savings value, a total of 185,296,710 rupees in micro savings was identified by the survey. This is equivalent to 1,400 rupees per person in the district.

In terms of practitioner, the MPCS has mobilised 160,174,602 rupees in deposits, followed by the SEDB with 20,280,235 rupees, fishing coops with 2,679,610 rupees, palmyrah coops with 1,086,296 rupees, TCCS with 423,000, other coops with 423,000 rupees and WRDS and RDS with 176,000 rupees in savings as at December 2002.

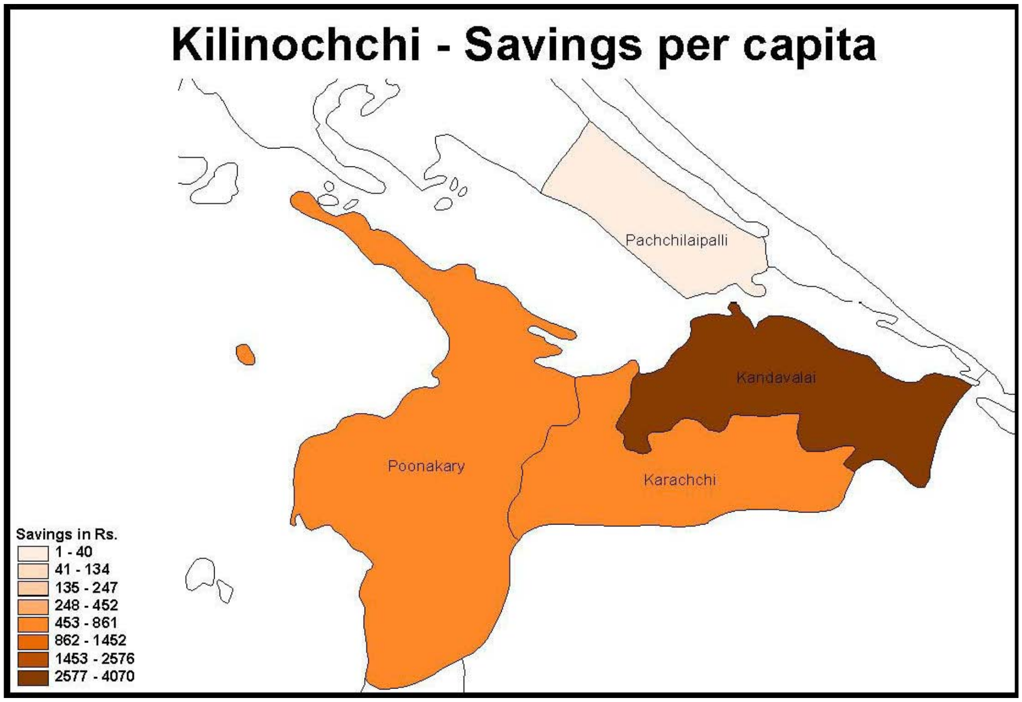


Chart 44 Kilinochchi District Per Capita Savings Value as at Dec 2002 by DS Division

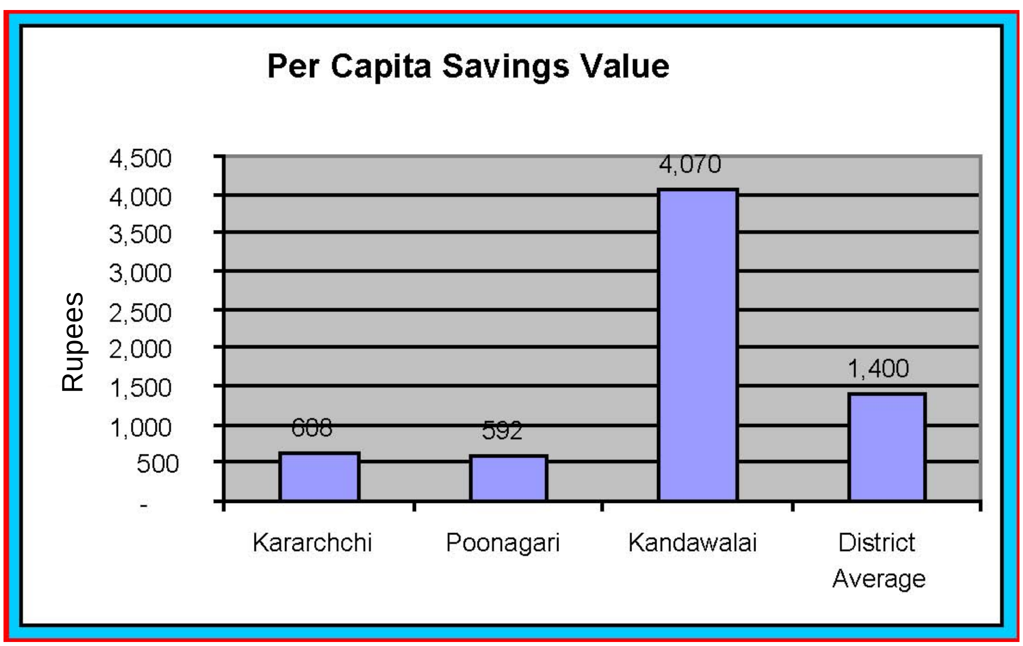
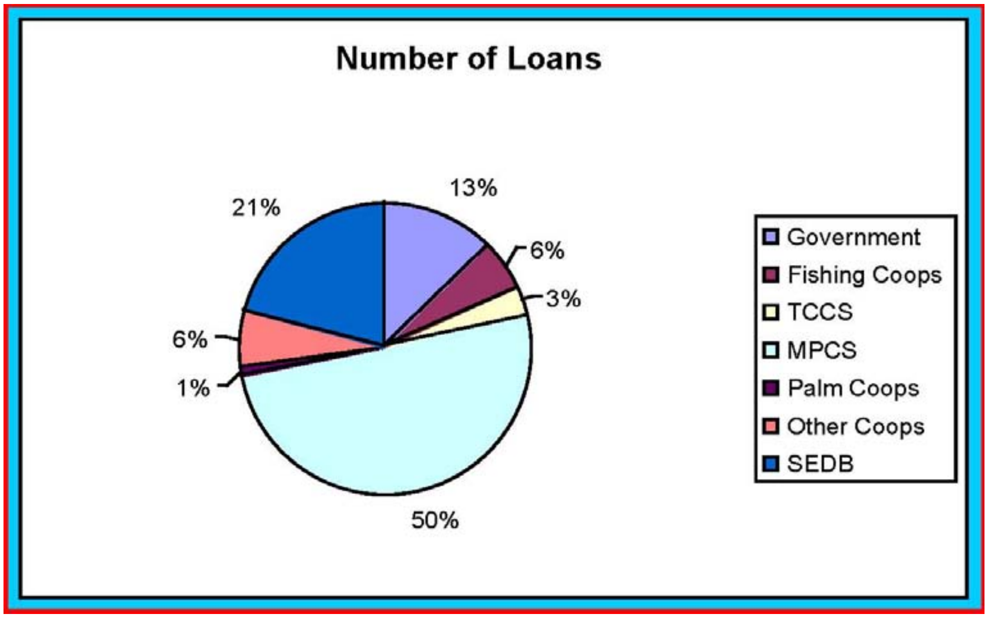


Chart 45 Kilinochchi District Number of Loans in 2002 by Group

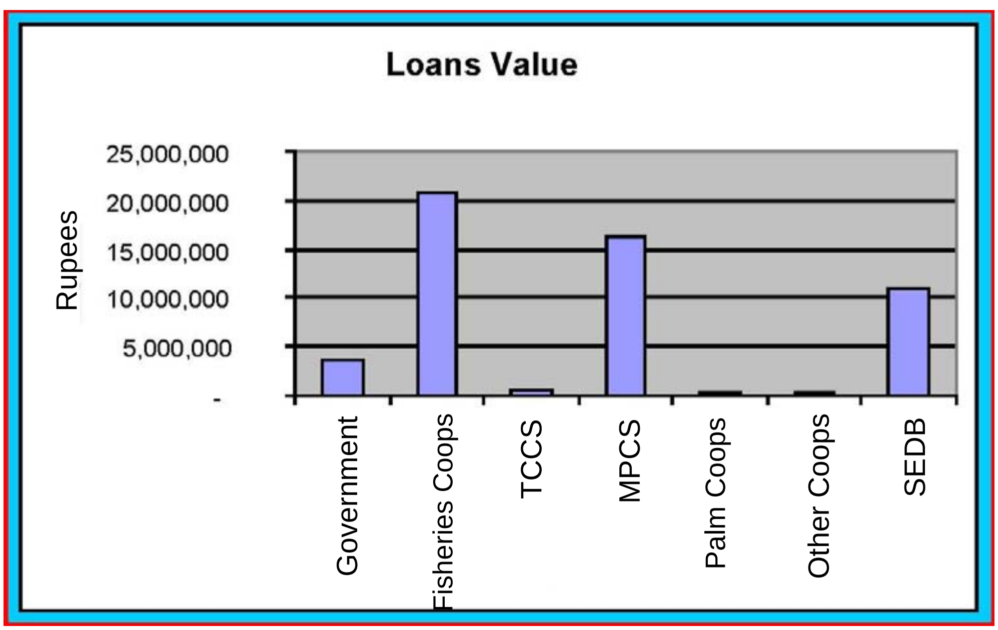


In terms of micro-credit, a total of 3,152 loans were identified as being issued during 2002. This is equivalent to around 24 loans per 1000 people.

In terms of practitioners, MPCS issued the largest amount of loans in the district in the year 2002 with a total of 1,588 loans disbursed. This is followed by SEDB with 658 loans, government practitioner activity with 400 loans, other coops (Livestock Breeders Society) with 200 loans, TCCS with 98 loans and palm production societies with 31 loans in the year 2002.

A total of 52,928,210 rupees in micro-credit was disbursed in the district during the year 2002. In terms of population, this is equivalent to 400 rupees per person in the district.

Chart 46 Kilinochchi District Loans Value in 2002 by Group



In terms of practitioners, the fishing cooperatives societies and union disbursed the highest amount of micro-credit during the year 2002 with a total value of 20,864,580 rupees issued in loans. This was followed by the MPCS with 16,310,330 rupees in loans, SEDB with 11,050,000 rupees in loans, government practitioner activity (WRDS & NEIAP) with 3,786,700 rupees in loans, TCCS with 461,000 rupees in loans, other coops (livestock breeders) with 300,000 rupees in loans and palm production societies with 155,000 rupees in loans.

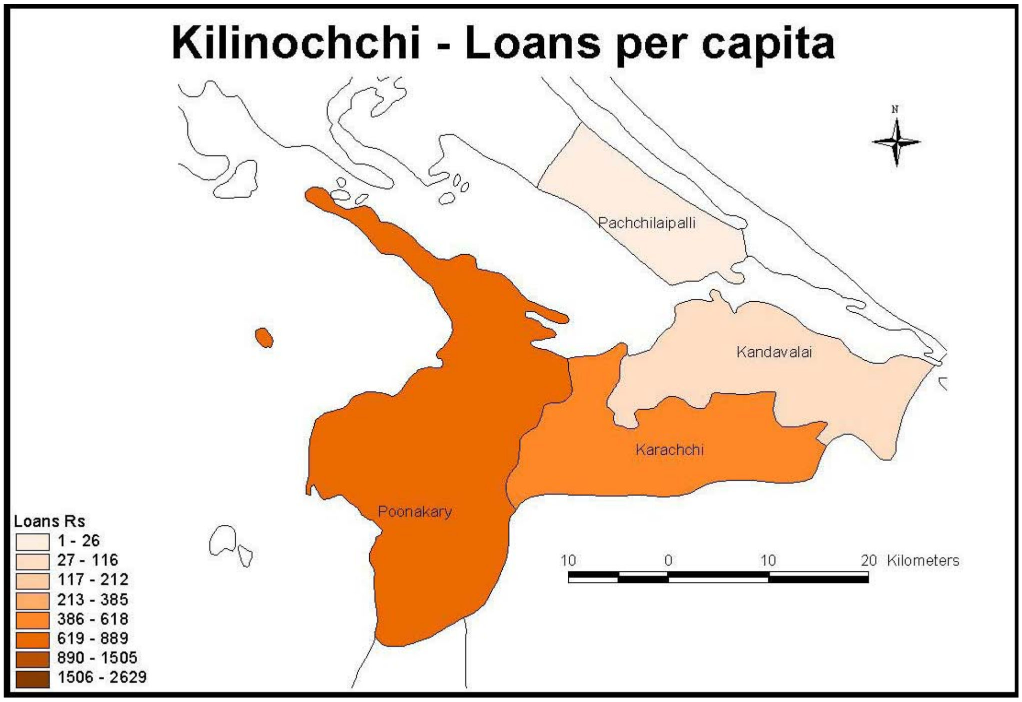


Chart 47 Kilinochchi District Per Capita Loans Value Disbursed in 2002 by DS Division

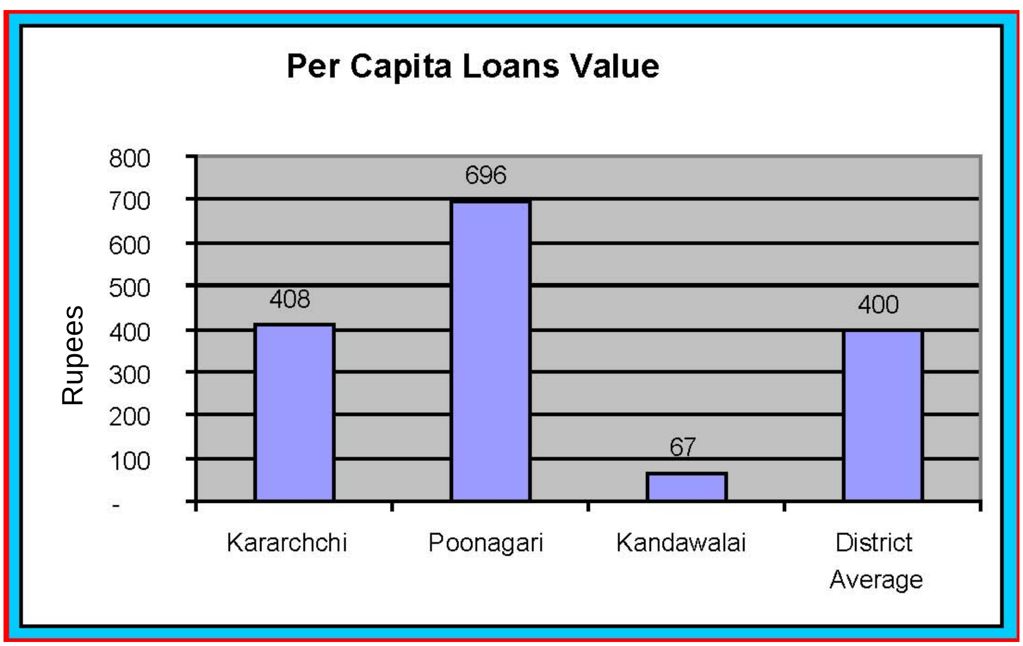


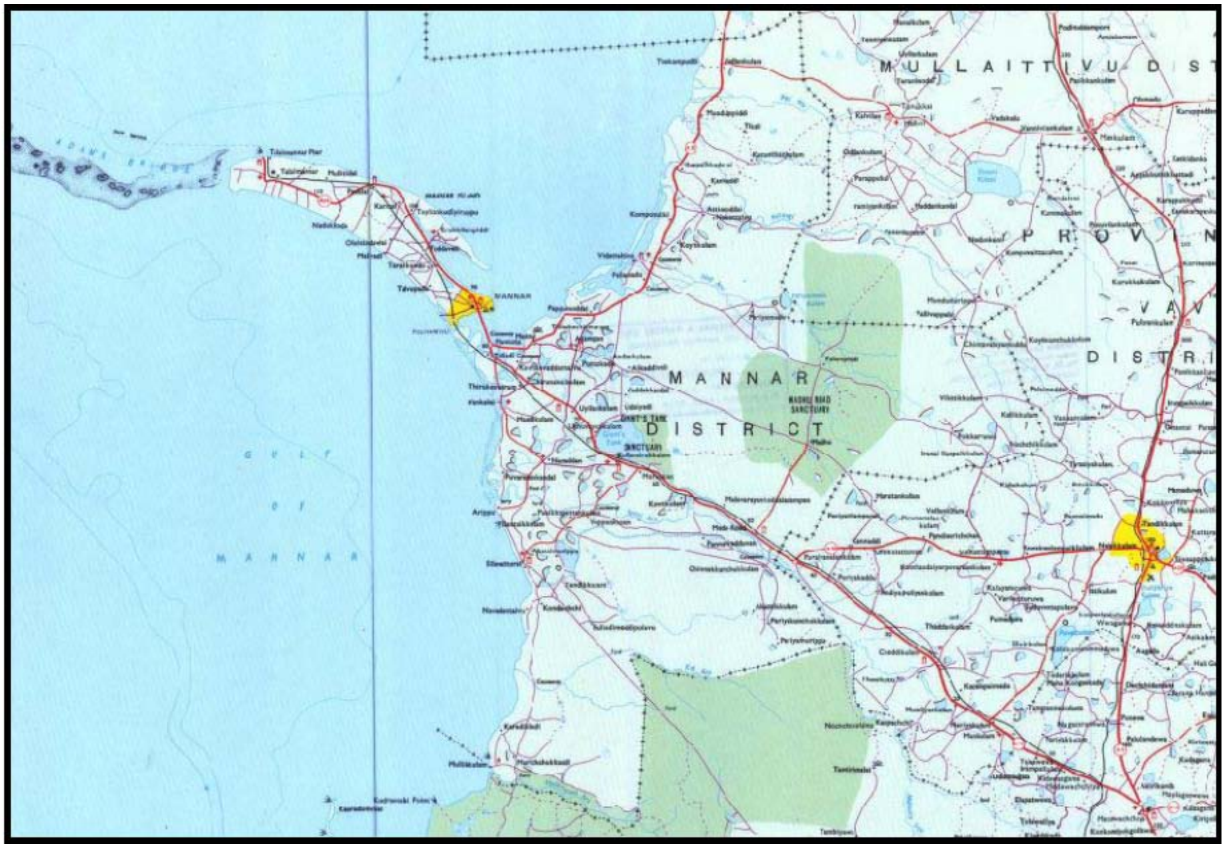
Table 18 Kilinochchi District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
Rural Development Societies (RDS)	24	56,000	-	-	2,333	
Women's Rural Development Soc.	14	120,000	23	42,000	8,571	1,826
Thrift & Credit Societies	436	476,967	98	461,600	1,094	4,710
Multi-Purpose Cooperative Soc.	22,236	160,174,602	1,588	16,310,330	7,203	10,271
Fishermen's Cooperative Soc.	588	2,029,610	145	19,029,000	3,452	131,234
NEIAP (WB)	-	-	377	3,744,700		9,933
Social Economic Development Bank	4,482	20,280,235	658	11,050,000	4,525	16,793
Fisheries Union	11	650,000	32	1,835,580	59,091	57,362
Livestock Breeders Society	-	-	200	300,000		1,500
Palm Production Society	401	1,086,296	31	155,000	2,709	5,000
Farmers Organizations	21	423,000	-	-	20,143	
Kilinochchi District Total	28,213	185,296,710	3,152	52,928,210	6,568	16,792

Table 19 Kilinochchi District Microfinance Supply 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Kararchchi	19,603	42,230,806	2,804	28,354,630	69,515
Poonagari	4,040	19,185,904	290	22,534,580	32,392
Kandawalai	4,570	123,880,000	58	2,039,000	30,435
Kilinochchi District Total	28,213	185,296,710	3,152	52,928,210	132,342

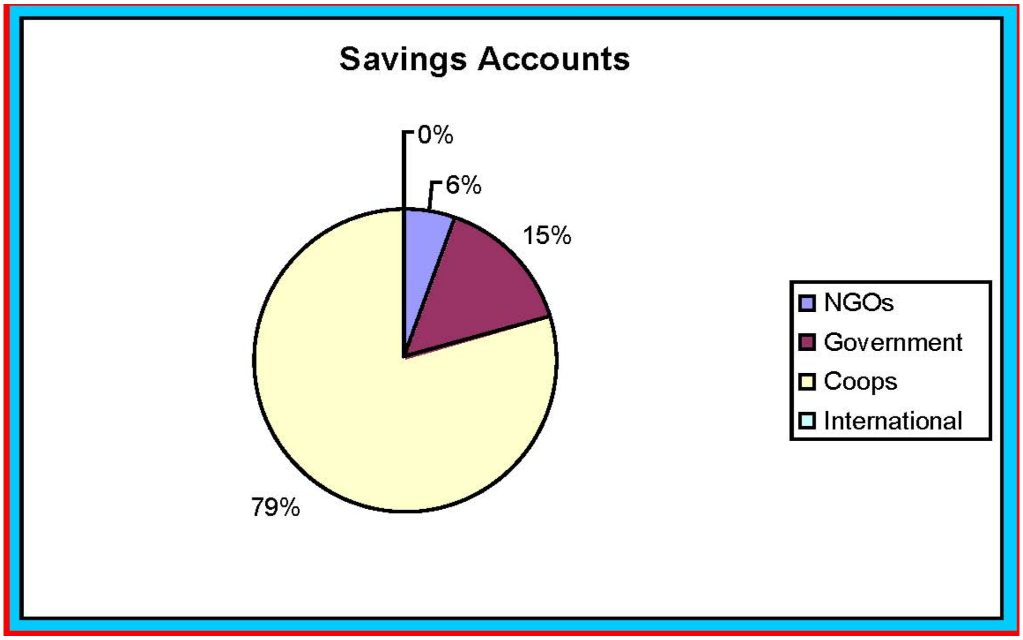
Mannar District



2.6. Mannar District

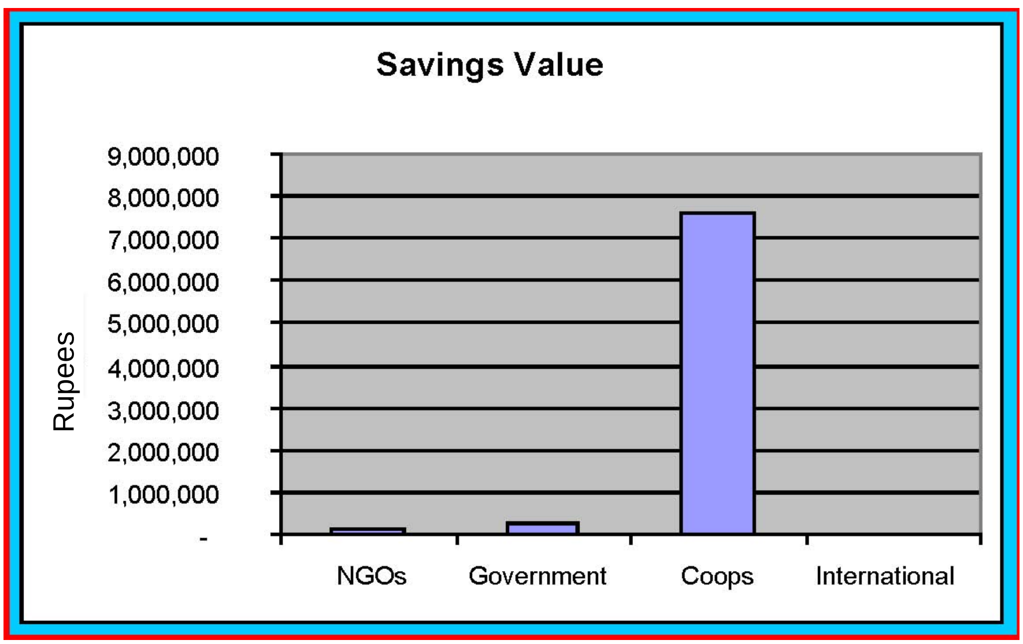
A total number of 3,317 savings accounts were identified as at December 2002 in the district. This is equivalent to approximately 36 savings accounts per 1000 people.

Chart 48 Mannar District Savings Accounts as at Dec 2002 by Group



In Mannar, the cooperative sector has the most individual or group savings accounts in the district, with 2,631 accounts as at December 2002. This is followed by government practitioner activity with 495 accounts and NGOs with 191.

Chart 49 Mannar District Savings Value as at Dec 2002 by Group



The total value of micro-savings in the district was identified at only 7,974,862 rupees. This is equivalent to 87 rupees per person in the district.

In terms of practitioner activity, the coops had a total of 7,633,852 rupees in deposits as at December 2002. This is followed by government practitioner activity (RDS & WRDS) with 233,974 and NGOs with 107,036 rupees in savings deposits.

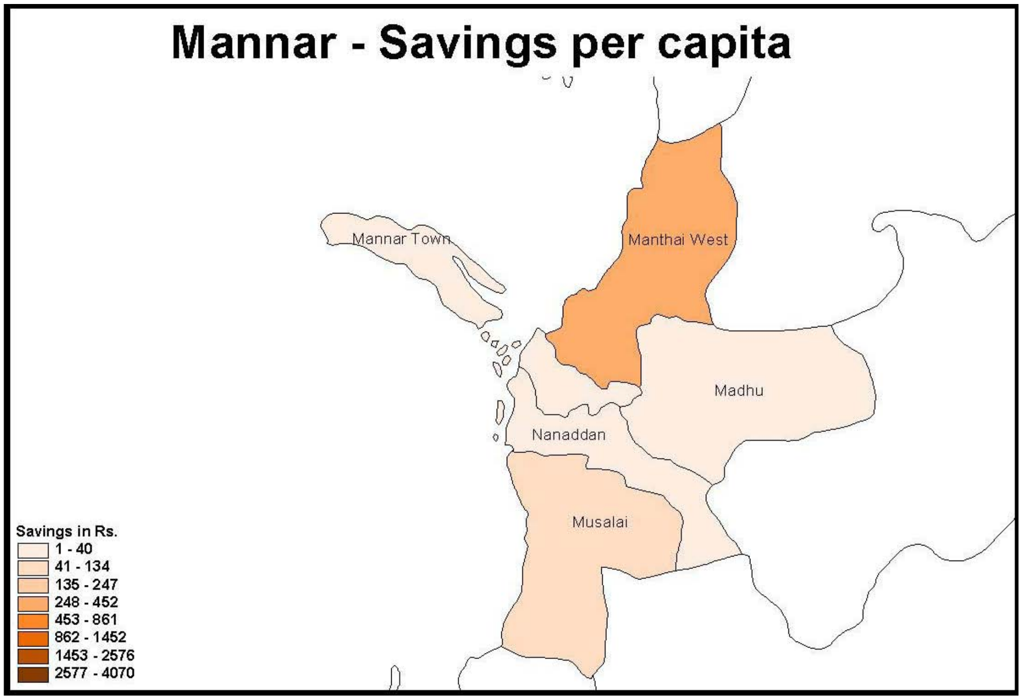
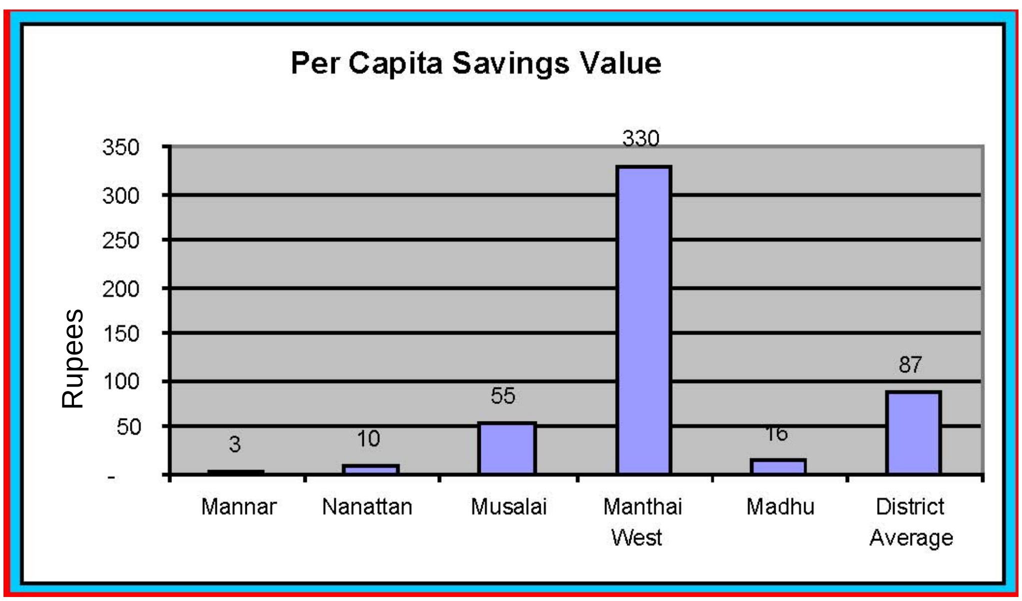
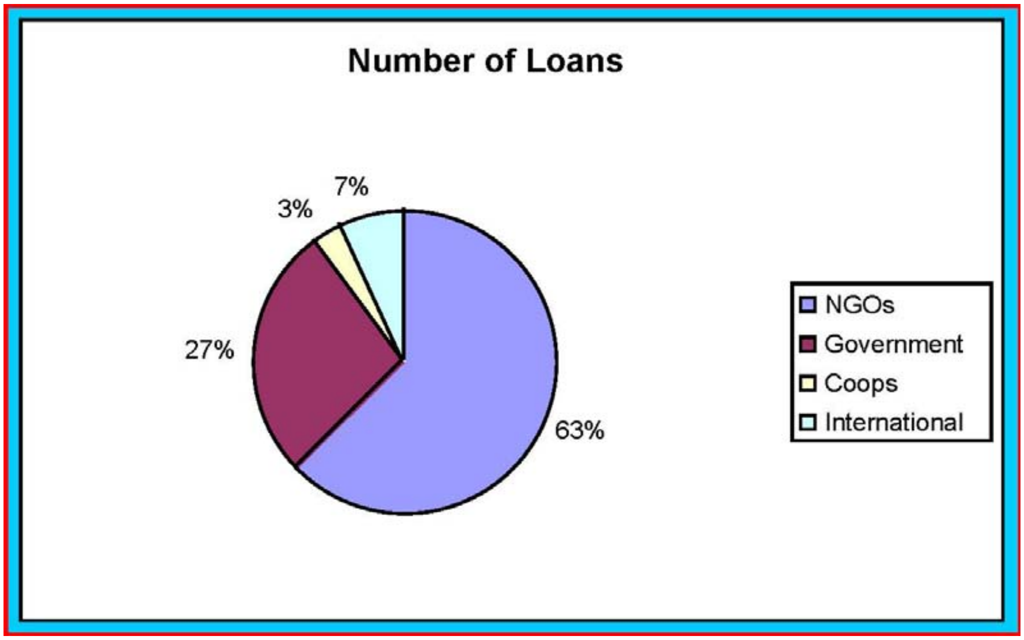


Chart 50 Mannar District Per Capita Savings Value as at Dec 2002 by DS Division



A total number of 3,747 loans were disbursed in the district during the year 2002. This is equivalent to 41 loans per 1000 people

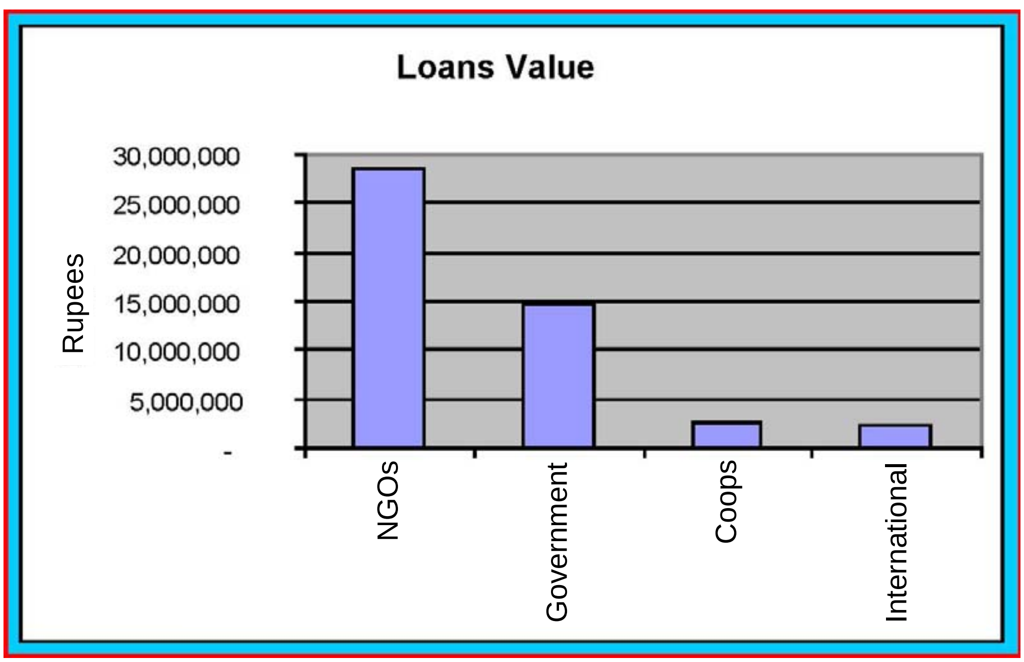
Chart 51 Mannar District Number of Loans Disbursed in 2002 by Group



In terms of practitioners, the NGO sector is the largest micro-credit service provider disbursing 2,338 loans during the year 2002. This is followed by government practitioner activity (RDS, WRDS. NEIAP) with 1,026 loans, direct international practitioner activity (World Vision & Zoa) with 255 loans and the cooperative sector with 127 loans.

In terms of loans value, a total of 48,125,460 rupees was disbursed in the district in the year 2002. In terms of population, this is equivalent to 522 rupees per person in the district.

Chart 52 Mannar District Value of Loans 2002 by Practitioner Group



In terms of practitioners, the NGOs provided the majority of micro-credit services in the district, disbursing a total of 28,478,860 rupees during the year 2002. This is followed by government practitioner activity with a total of 14,789,000 rupees, cooperatives with 2,655,100 rupees and direct international practitioner activity with 2,202,500.

Below are charts and tables that present more detailed overviews of microfinance supply in the district, by actors and per capita averages by DS Division.

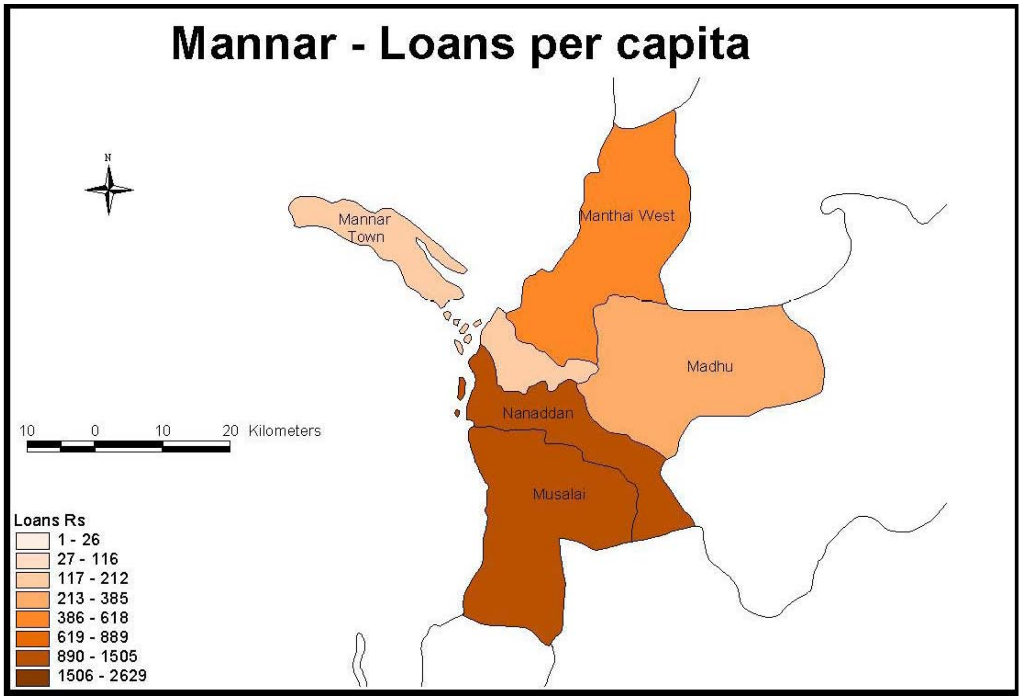


Chart 53 Mannar District Per Capita Loans Value 2002 by DS Division

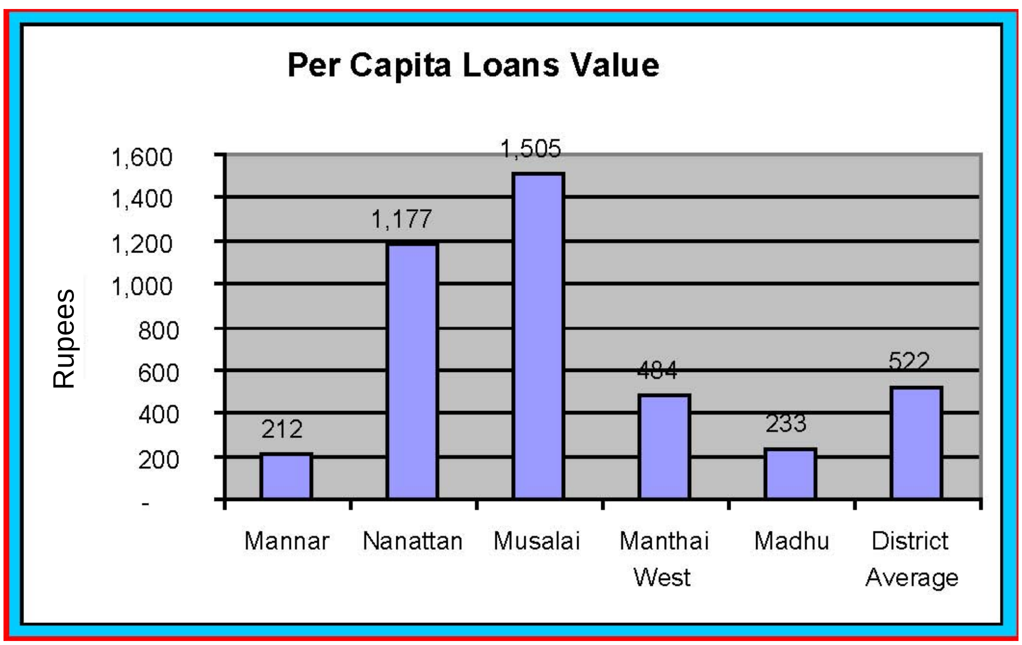


Table 20 Mannar District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
CTF	-	-	10	1,000,000	-	100,000
MARR	145	107,036	419	3,027,350	738	7,225
MWDF	-	-	214	1,418,510	-	6,629
NEAIP	-	-	440	8,800,000	-	20,000
RDF		-	1,513	21,563,000	-	14,252
TCCS	146	502,905	45	540,000	3,445	12,000
Valvuthayam	-	-	137	669,000	-	4,883
World Vision	-	-	64	565,000	-	8,828
WWDO	-	-	20	200,000	-	10,000
Y'GRO	-	-	25	601,000	-	24,040
Zoa	-	-	191	1,637,500	-	8,573
WRDS	218	67,452	274	3,038,000	309	11,088
RDS	277	166,522	312	2,951,000	601	9,458
FO	327	262,362	55	1,907,550	802	34,683
MPCS	1,369	3,474,427	-	-	2,538	-
PCDCS	789	3,394,158	27	207,550	4,302	7,687
District Total	**3,271**	**7,974,862**	**3,746**	**48,125,460**	**2,438**	**12,847**

Table 21 Mannar District Microfinance Supply 2002 by DS Division

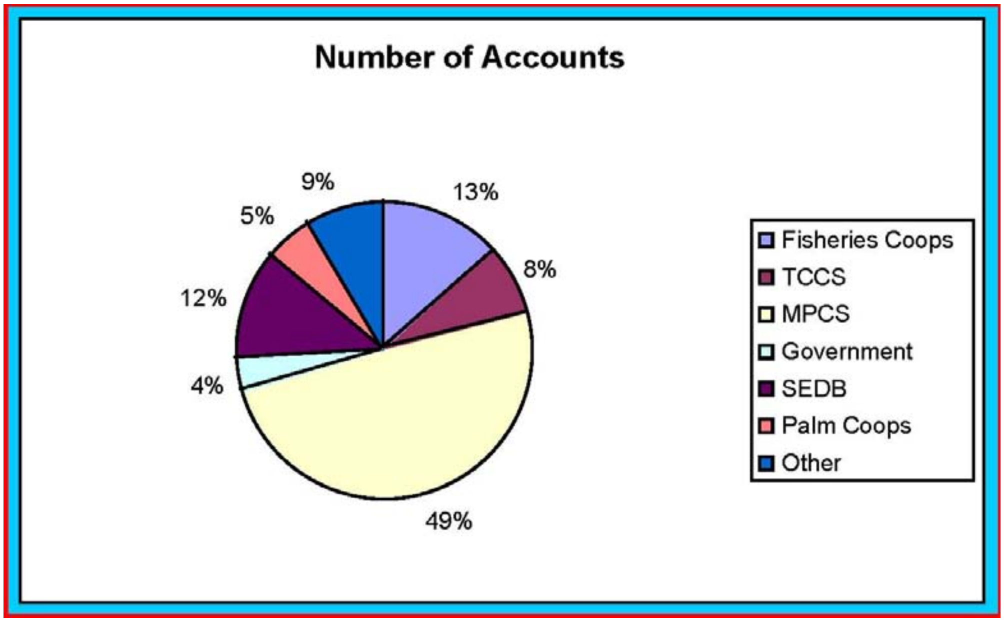
DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Mannar	77	136,917	605	8,487,510	40,054
Nanattan	57	181,538	1,091	22,396,010	19,020
Musalai	15	171,016	458	4,659,190	3,095
Manthai West	2,905	7,364,746	1,238	10,801,750	22,297
Madhu	263	120,645	354	1,781,000	7,652
District Total	**3,317**	**7,974,862**	**3,746**	**48,125,460**	**92,118**

Mullaitivu District

2.7. Mullaitivu District

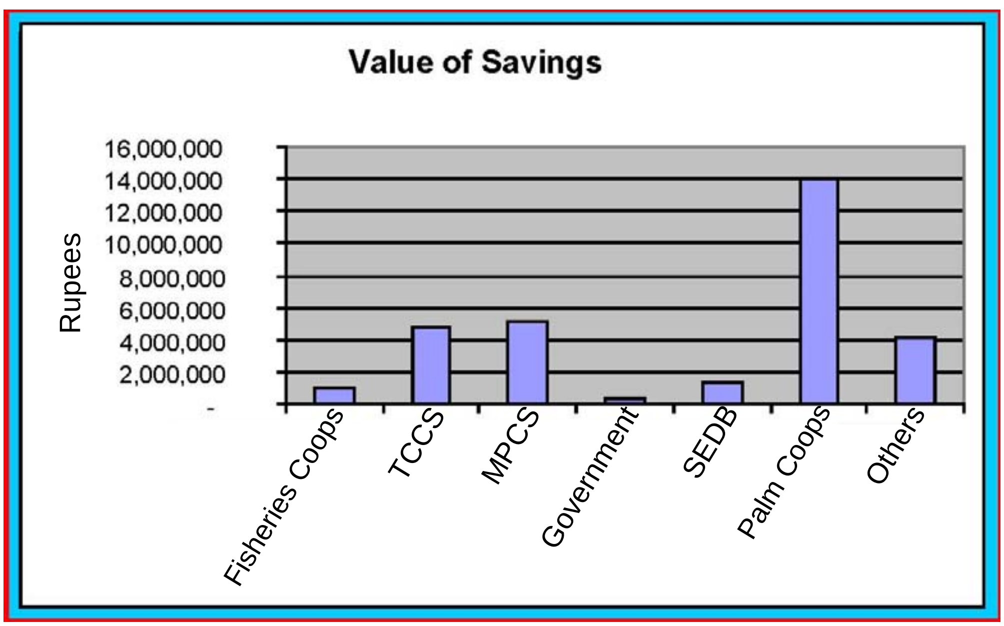
A total of 17,597 savings accounts were identified in the district as at December 2002. In terms of population, this is equivalent to 126 savings accounts per 1000 people.

Chart 54 Mullaitivu Number of Savings Accounts as at Dec 2002 by Group



In terms of practitioners, MPCS had the largest number, with 8,653 savings accounts as at December 2002. This is followed by the fisheries cooperatives with 2,351 accounts, TRO's SEDB with 2,163 accounts, other organisations (the TECH rural bank) with 1,500 accounts, TCCS with 1,350 accounts, palm cooperatives with 918 accounts and government practitioner activity with 648 accounts.

Chart 55 Mullaitivu Savings Value as at Dec 2002 by Group

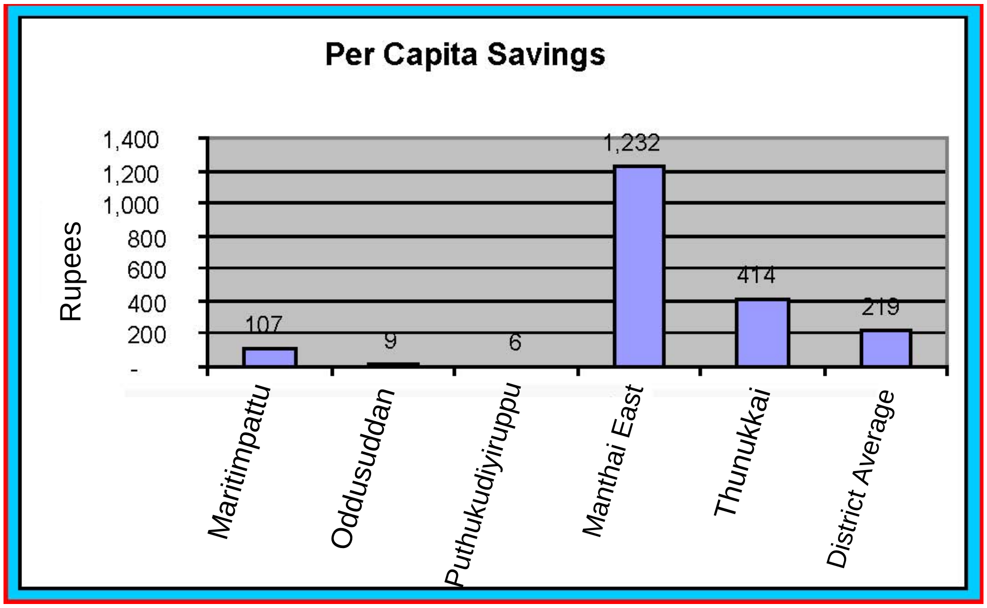


In terms of savings value, a total of 30,477,958 rupees in savings deposits were identified in the districts. In terms of population, this is equivalent to 219 rupees in savings per person.

In terms of practitioners, the palm production and development societies have the highest amount of savings mobilised with a total of 14,000,093 rupees in deposits as at December 2002. This is followed by MPCS with 5,129,410 rupees, TCCS with 4,799,385 rupees, the other coops and the TECH Rural Bank with 4,000,000 rupees, fisheries societies with 954,971 and government practitioner activity with 248,300.

In terms of micro-credit, a total of 2,526 loans were identified as being disbursed in the district during the year 2002. In terms of population, this is equivalent to 18 loans per 1000 people.

Chart 56 Mullaitivu District Per Capita Savings Value as at Dec 2002 by DS Division



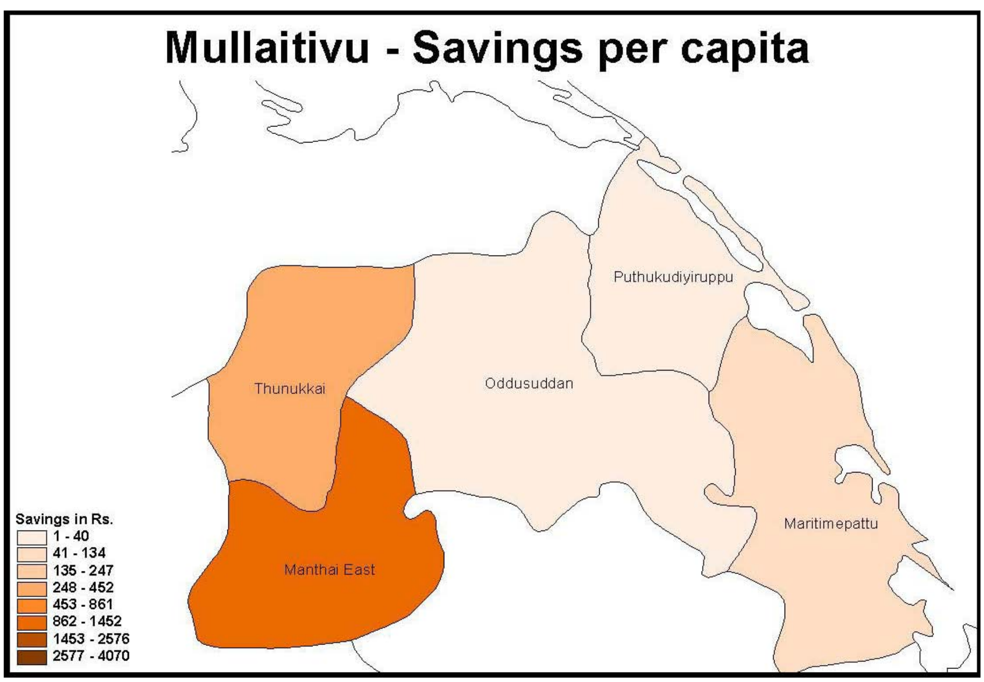
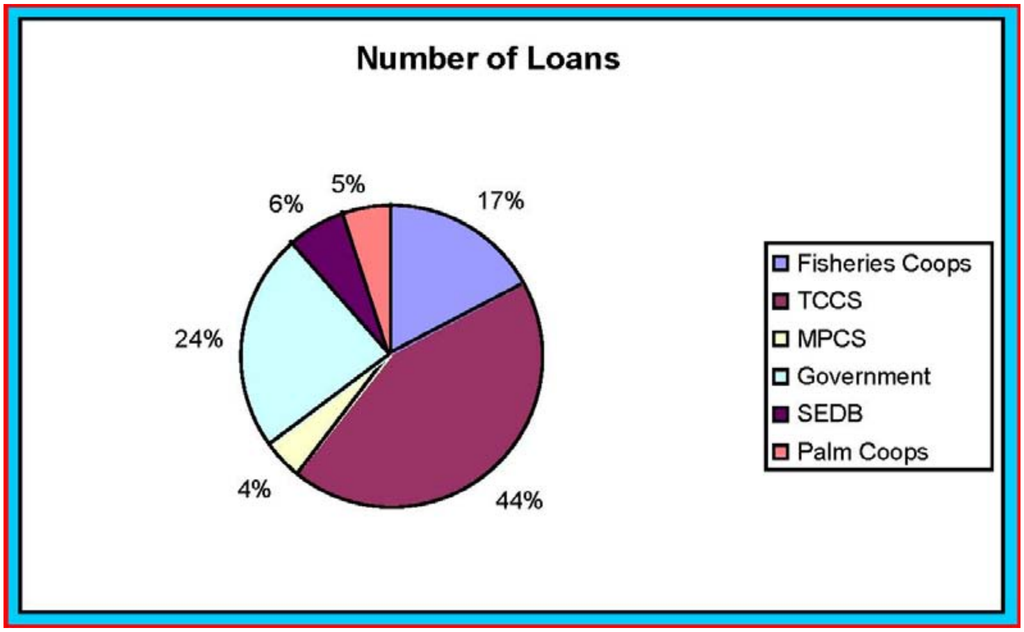


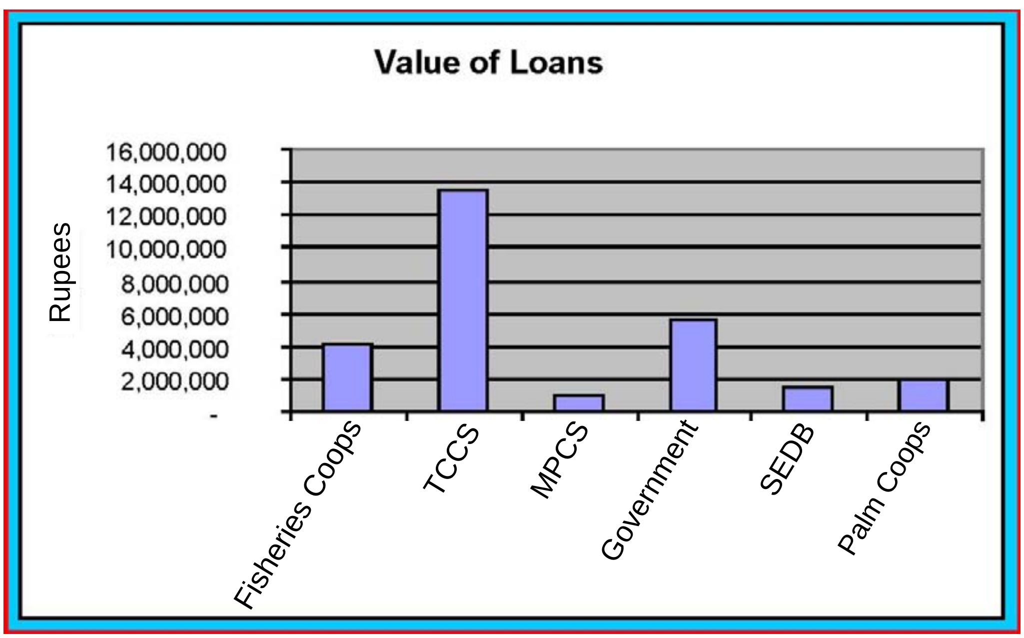
Chart 57 Mullaitivu District Number of Loans During 2002 by Group



In terms of practitioners, TCCS provided the largest number of loans in the district, disbursing a total of 1,094 loans during the year 2002. This is followed by government practitioner activity (WRDS) with 604 loans, fisheries coops with 434 loans, SEDB with 159 loans, palm coops with 130 loans and MPCS with 105 loans.

A total disbursement value of 27,714,358 rupees was identified for the year 2002. In terms of population this is equivalent to 199 rupees per person.

Chart 58 Mullaitivu District Loans Value in 2002 by Group



In terms of practitioners, the highest amount of money was provided by TCCS with 13,481,366 rupees in loan dispersals during the year 2002. This is followed by government practitioner activity with 5,580,250 rupees in loans, fisheries cooperatives with 4,113,488 rupees in loans, palm cooperatives with 2,045,190 rupees in loans, SEDB with 1,565,000 rupees in loans and MPCS with 929,064 rupees in loans for the same period.

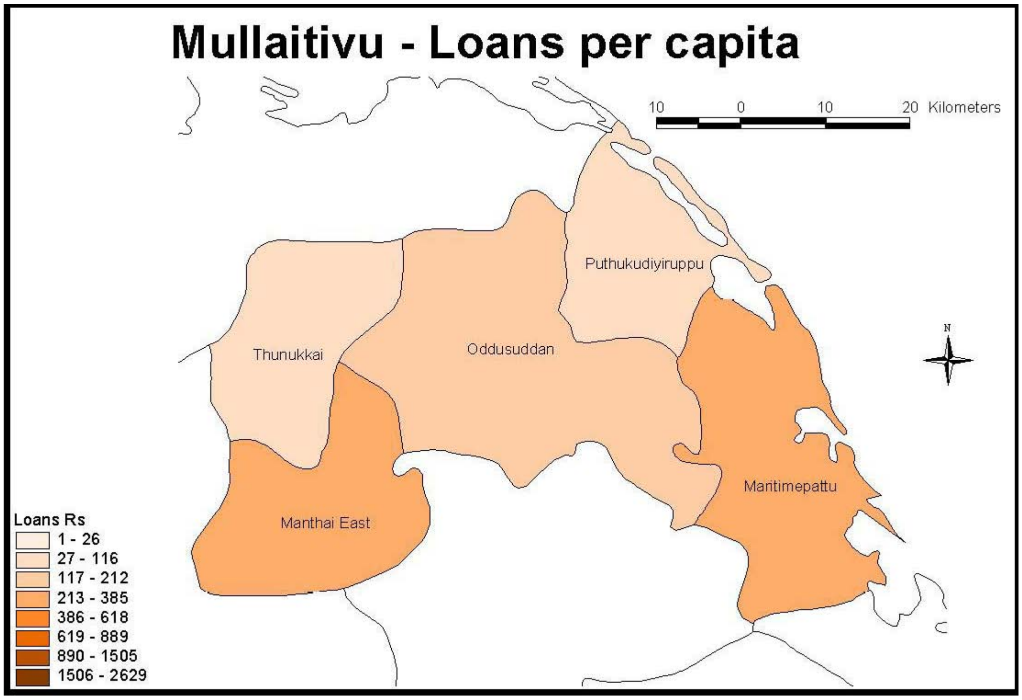


Chart 59 Mullaitivu District Per Capita Loans Value in 2002 by DS Division

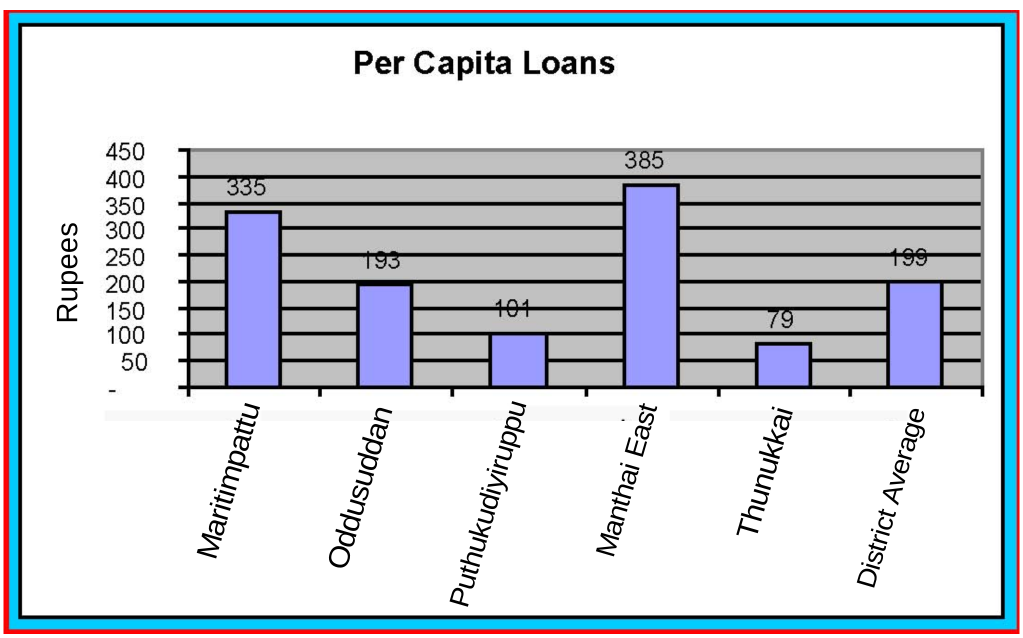


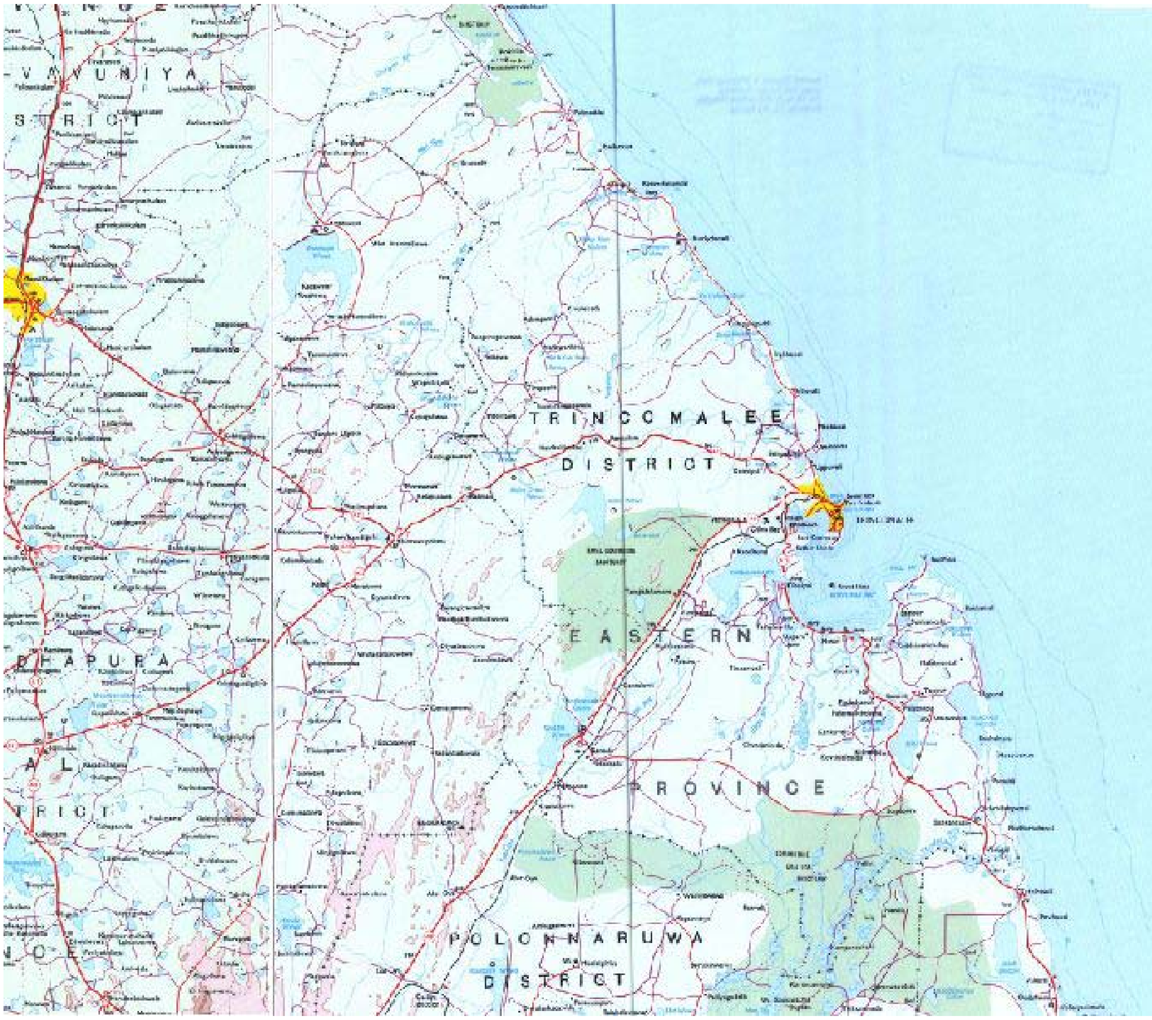
Table 22 Mullaitivu District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
Rural Development Societies	28	110,000	-	-	3,929	-
Women's Rural Development Societies	620	138,300	604	5,580,250	223	9,239
Thrift & Credit Co-operative Societies	1,350	4,799,385	1,094	13,481,366	3,555	12,323
Multi-Purpose Co-operative Societies	8,653	5,129,410	105	929,064	593	8,848
Fishermen's Co-operative Societies	2,284	644,632	379	3,597,488	282	9,492
Social Economic Development Bank	2,163	1,259,962	159	1,565,000	583	9,843
Fisheries Federation Bank	67	310,339	55	516,000	4,632	9,382
Farmer's Organizations	14	85,000	-	-	6,071	-
Palm Production Societies	612	7,000,000	65	1,670,990	11,438	25,708
Palm Development Societies	306	7,000,930	65	374,200	22,879	5,757
Rural Bank TECH	1,500	4,000,000	-	-	2,667	-
Mullaitivu District Total	**17,597**	**30,477,958**	**2,526**	**27,714,358**	**1,732**	**10,972**

Table 23 Mullaitivu District Microfinance Supply 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Maritimepattu	5,000	3,713,434	953	11,585,798	34,606
Oddusuddan	476	180,700	382	3,756,000	19,496
Puthukkudiyiruppu (PKI)	650	325,484	590	5,152,500	50,872
Manthai East (Pandiyankulam)	4,609	18,083,941	442	5,655,060	14,684
Thunukkai	6,862	8,174,399	159	1,565,000	19,733
Mullaitivu District Total	**17,597**	**30,477,958**	**2,526**	**27,714,358**	**139,391**

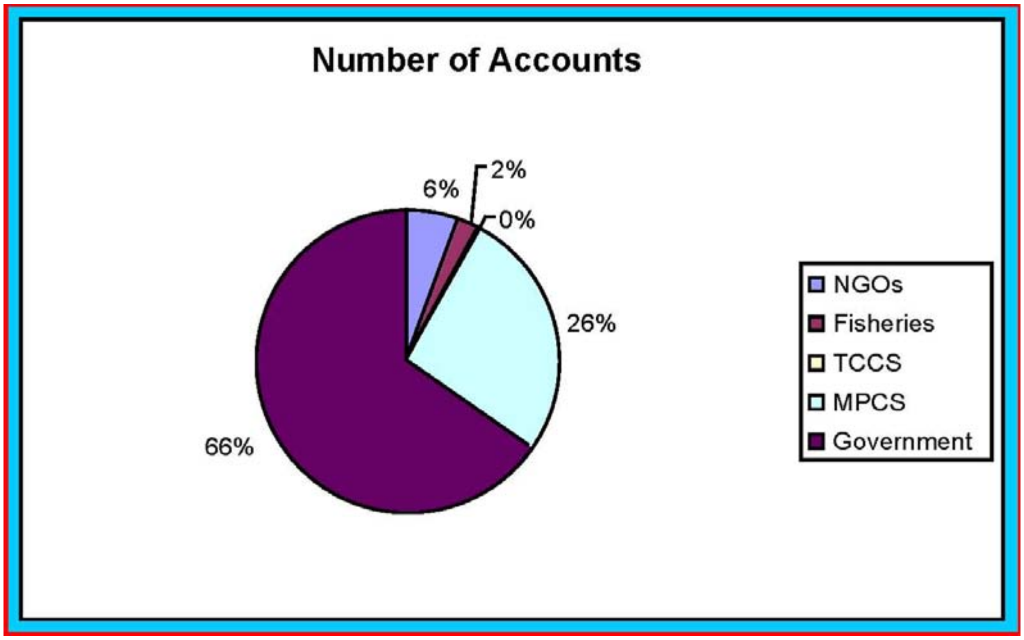
Trincomalee District



2.8. Trincomalee District

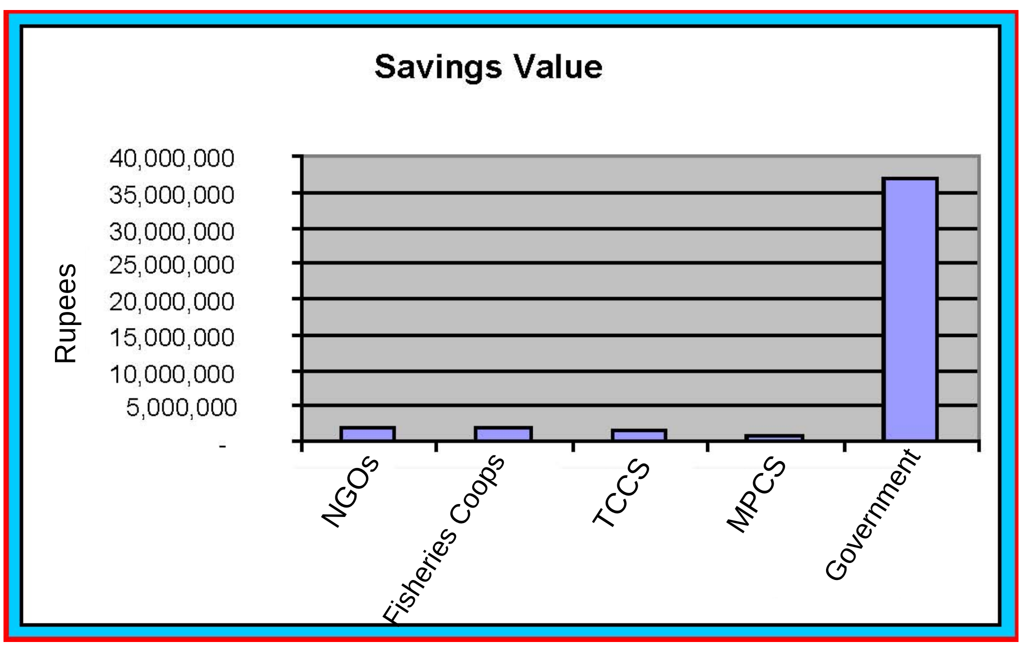
A total of 95,545 savings accounts were identified in the district as at December 2002. In terms of population, this is equivalent to 262 savings accounts per 1000 people.

Chart 60 Trincomalee District Number of Savings Accounts as at Dec 2002 by Group



In terms of practitioners, government practitioner activity had the most accounts with 62,453 savings accounts as at December 2002. This is followed by MPCS with 25,095 accounts, NGOs with 5,685 accounts, fisheries cooperatives with 2,006 accounts and TCCS with 306 accounts.

Chart 61 Trincomalee Savings Value as at Dec 2002 by Group



In terms of savings value, a total of 43,300,191 rupees in savings deposits were identified in the districts. In terms of population, this is equivalent to 119 rupees in savings per person.

In terms of practitioners, government practitioner activity had the highest amount of savings mobilised with a total of 36,794,848 rupees in deposits as at December 2002. This is followed by fisheries cooperatives with 2,045,900 rupees, NGOs with 1,784,493 rupees, TCCS with 1,715,911 rupees and MPCS with 959,039 rupees for the same period.

In terms of micro-credit, a total of 4,474 loans were identified as being disbursed in the district during the year 2002. In terms of population, this is equivalent to 12 loans per 1000 people.

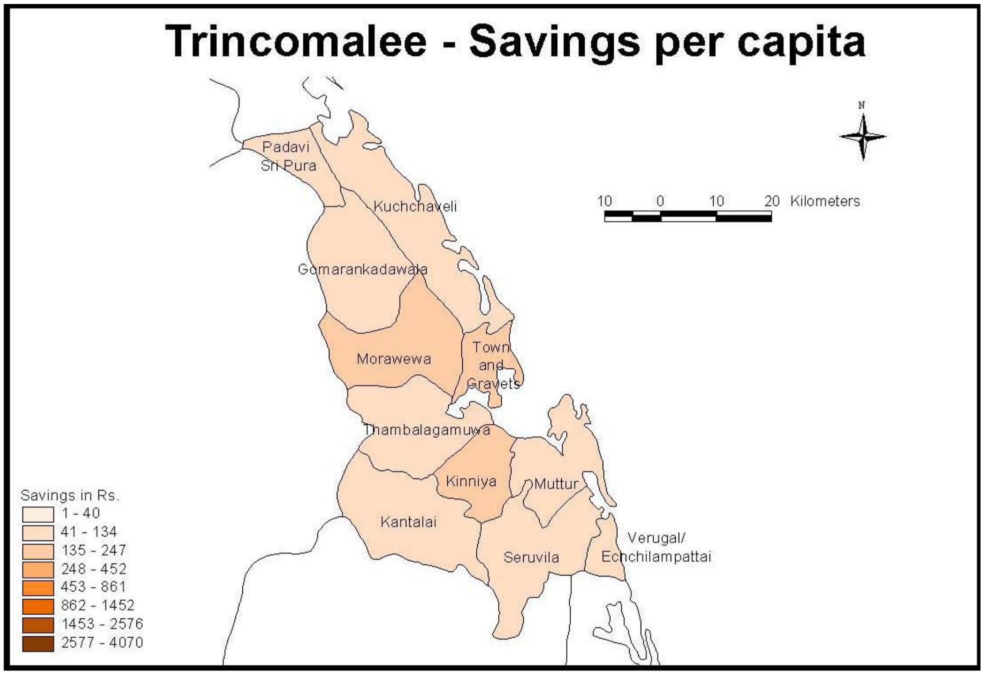


Chart 62 Trincomalee District Per Capita Savings Value as at Dec 2002 by DS Division

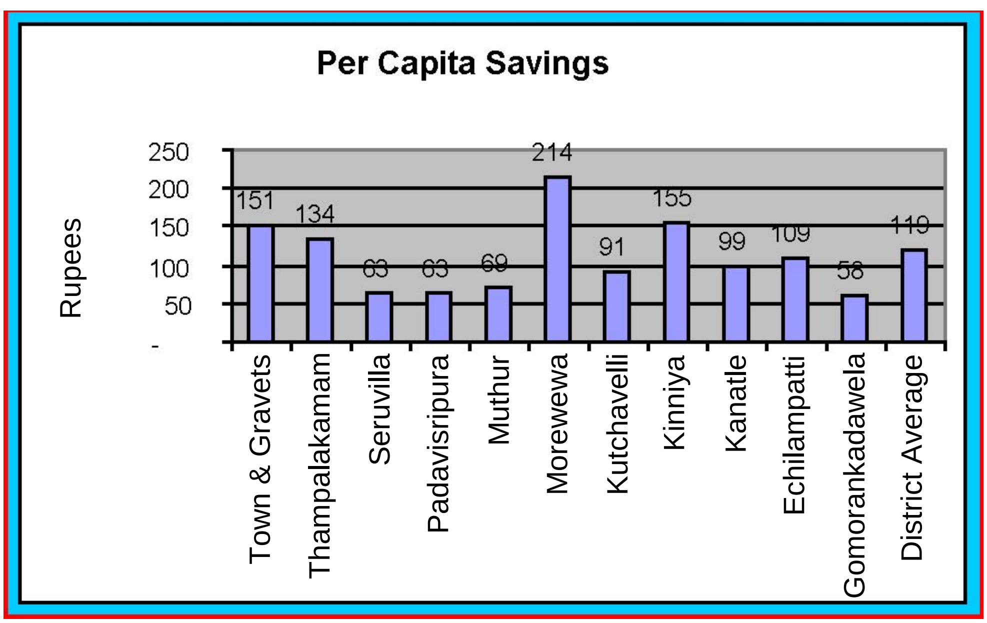
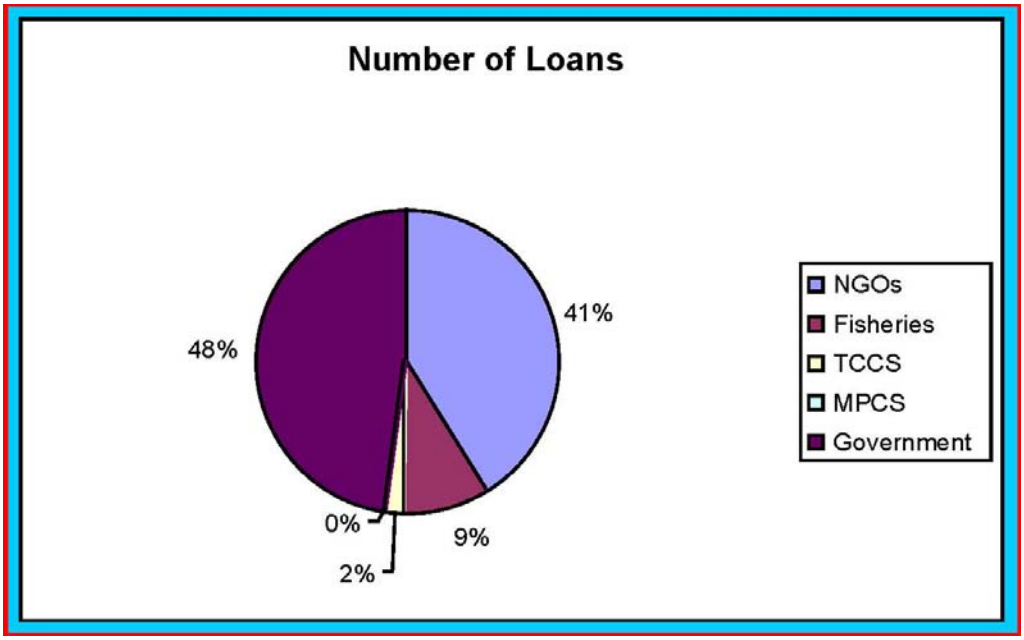


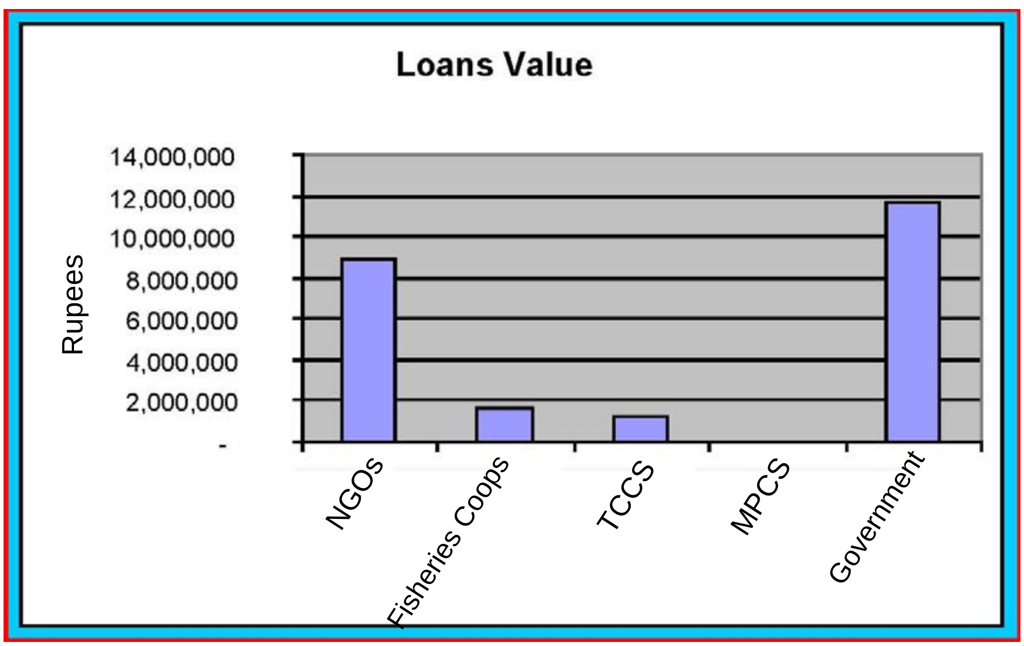
Chart 63 Trincomalee District Number of Loans During 2002 by Group



In terms of practitioners, government practitioner activity provided the largest number of loans in the district, disbursing a total of 2,137 loans during the year 2002. This is followed by NGOs with 1,840 loans, fisheries coops with 410 loans and TCCS with 87 loans for the same period.

A total disbursement value of 23,445,096 rupees was identified for the year 2002. In terms of population this is equivalent to 64 rupees per person.

Chart 64 Trincomalee District Loans Value in 2002 by Group



In terms of practitioners, the highest amount of money was provided by government practitioner activity with 11,602,665 rupees in loan dispersals during the year 2002. This is followed by NGOs with 8,906,600 rupees in loans, fisheries cooperatives with 1,711,827 rupees in loans, and TCCS with 1,224,004 rupees in loans for the same period.

The following tables and charts provide more detailed information on actor activity and present per capita savings and loan values at the DS Divisional level.

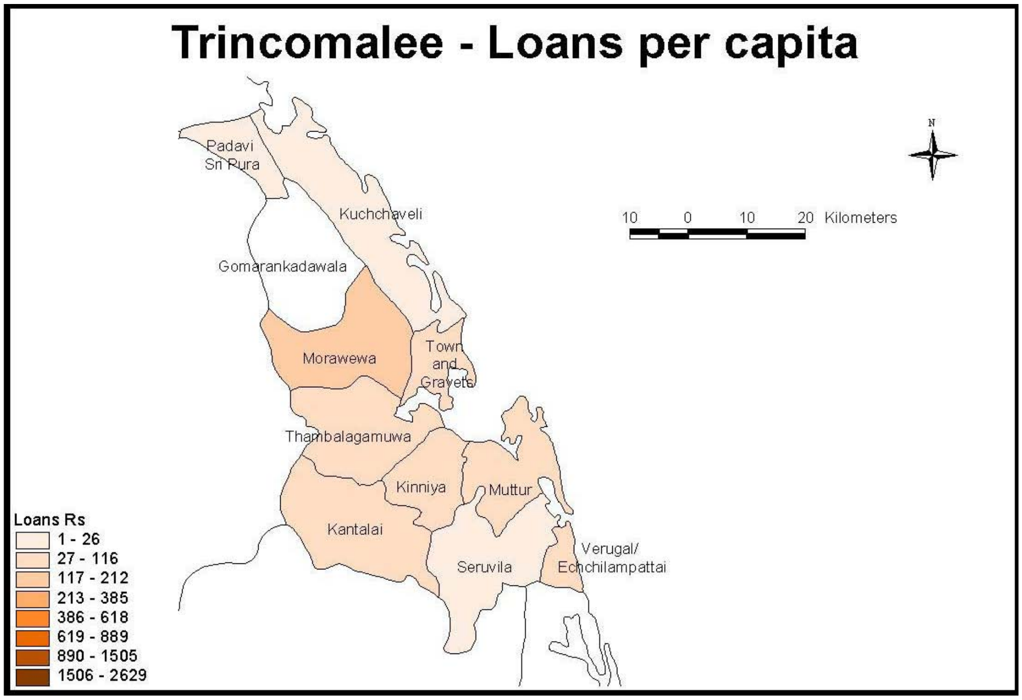


Chart 65 Trincomalee District Per Capita Loans Value in 2002 by DS Division

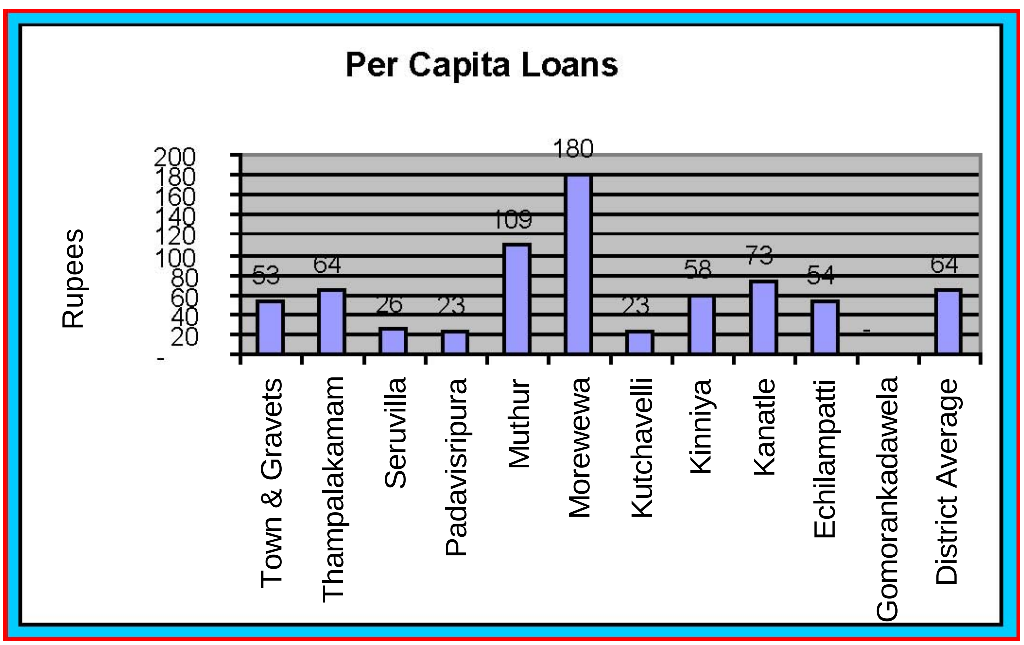


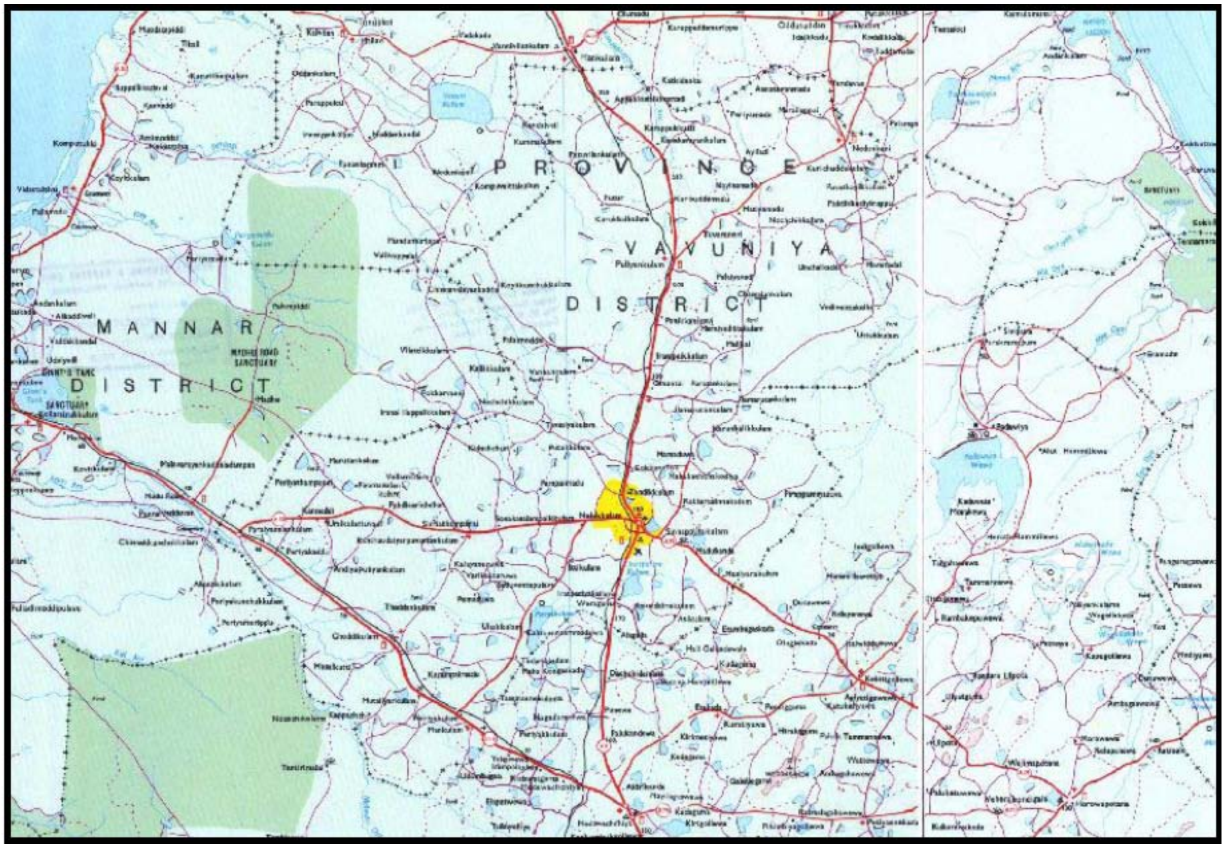
Table 24 Trincomalee District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
Aham	55	75,000	55	230,000	1,364	4,182
EWDC	19	28,199	79	543,000	1,484	6,873
FCS	2,006	2,045,900	410	1,711,827	1,020	4,175
Gandiseva	250	175,000	75	372,500	700	4,967
MPCS	25,095	959,039	-	-	38	
RDS	868	164,500	514	5,652,295	190	10,997
Rotary	-	-	13	80,000	-	6,154
Samurdhi	61,518	36,627,098	1,622	5,947,370	595	3,667
Sarvodaya	424	230,200	40	50,000	543	1,250
Sewa Lanka	3,450	797,500	362	4,320,600	231	11,935
SSED	880	256,479	895	1,796,500	291	2,007
TCCS	306	1,715,911	87	1,224,004	5,608	14,069
TDDA	487	209,315	111	973,000	430	8,766
TDRWA	-	-	90	301,000	-	3,344
TIDA	120	12,800	120	240,000	107	2,000
WRDS	67	3,250	1	3,000	49	3,000
District Total	**95,545**	**43,300,191**	**4,474**	**23,445,096**	**453**	**5,240**

Table 25 Trincomalee District Microfinance Supply 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Town & Gravets	14,913	15,439,241	790	5,413,954	102,487
Thampalakamam	13,849	4,199,606	375	2,004,000	31,236
Seruvilla	2,994	732,610	90	301,000	11,591
Padavisripura	2,460	687,877	21	250,000	10,915
Muthur	12,837	4,309,157	1,187	6,751,731	62,080
Morawewa	2,463	1,095,467	230	923,000	5,124
Kutchavelli	7,368	1,875,117	781	479,870	20,606
Kinniya	26,883	8,621,263	510	3,212,441	55,628
Kantale	8,114	4,691,423	421	3,484,100	47,525
Echilampattai	2,245	1,267,110	69	625,000	11,581
Gomorankadawela	1,419	381,320	-	-	6,545
District Total	**95,545**	**43,300,191**	**4,474**	**23,445,096**	**365,318**

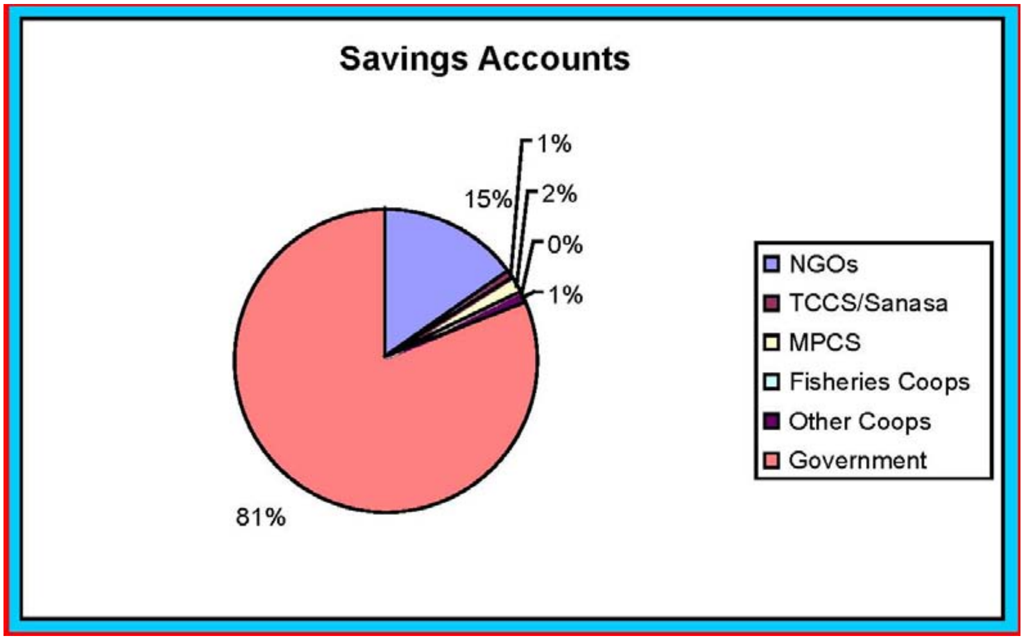
Vavuniya District



2.9. Vavuniya District

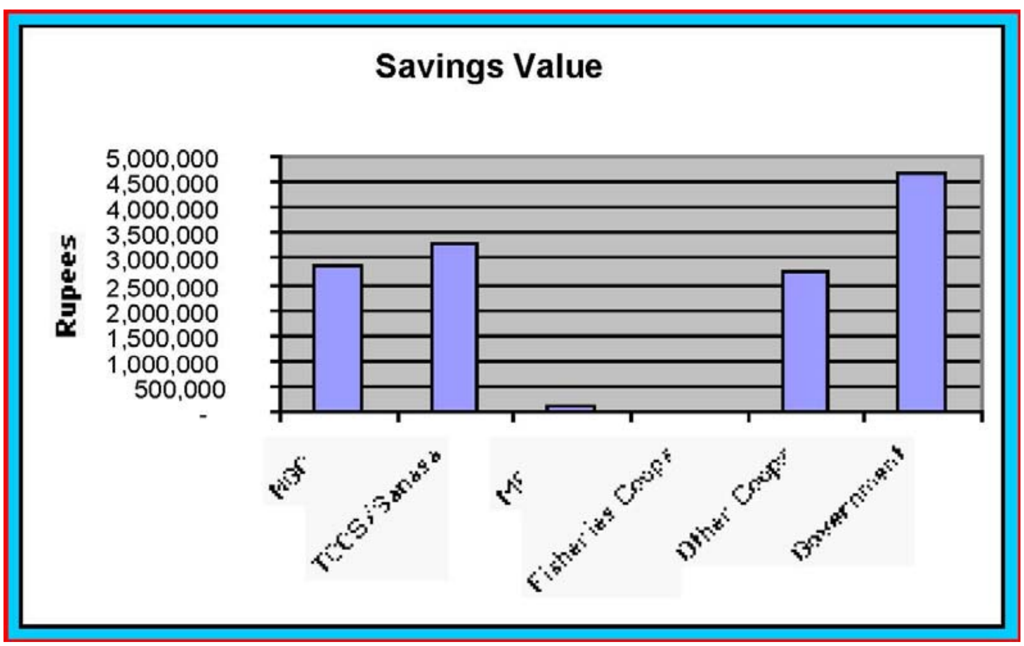
A total of 13,377 savings accounts were identified in the district as at December 2002. In terms of population, this is equivalent to 93 savings accounts per 1000 people.

Chart 66 Vavuniya District Number of Savings Accounts as at Dec 2002 by Group



In terms of practitioners, government practitioners had the most accounts with 10,834 savings accounts as at December 2002. This is followed by NGOs with 2,026 accounts, MPCS with 229 accounts, TCCS/Sanasa with 123 accounts, other cooperatives with 148 accounts and fisheries cooperatives with 17 accounts.

Chart 67 Vavuniya District Savings Value as at Dec 2002 by Group



In terms of savings value, a total of 13,741,210 rupees in savings deposits were identified in the districts. In terms of population, this is equivalent to 96 rupees in savings per person.

In terms of practitioners, government practitioner activity had the highest amount of savings mobilised with a total of 4,660,187 rupees in deposits as at December 2002. This is followed by SANASA with 3,322,877 rupees, NGOs with 2,861,877 rupees, other cooperatives with 2,755,100 rupees, MPCS with 121,429 rupees and fisheries cooperatives with 20,000 SLR for the same period.

In terms of micro-credit, a total of 3,563 loans were identified as being disbursed in the district during the year 2002. In terms of population, this is equivalent to 25 loans per 1000 people.

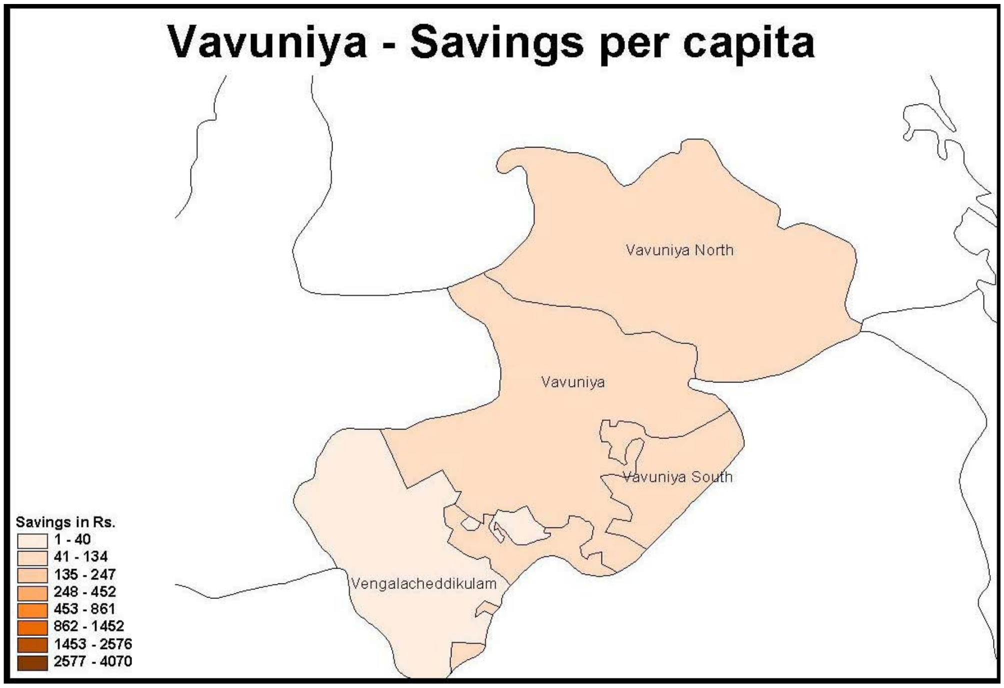


Chart 68 Vavuniya District Per Capita Savings Value as at Dec 2002 by DS Division

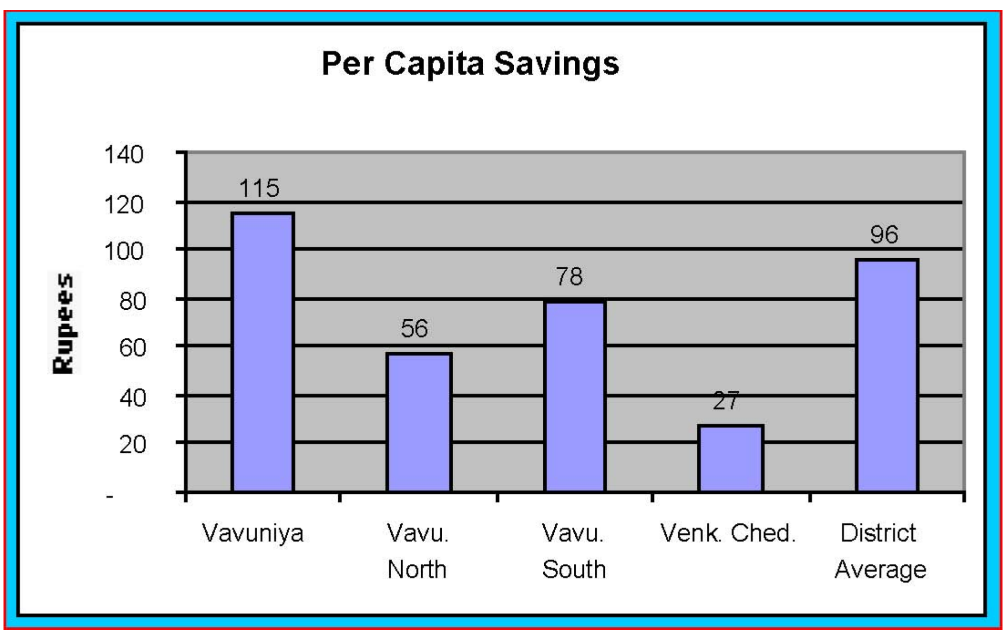
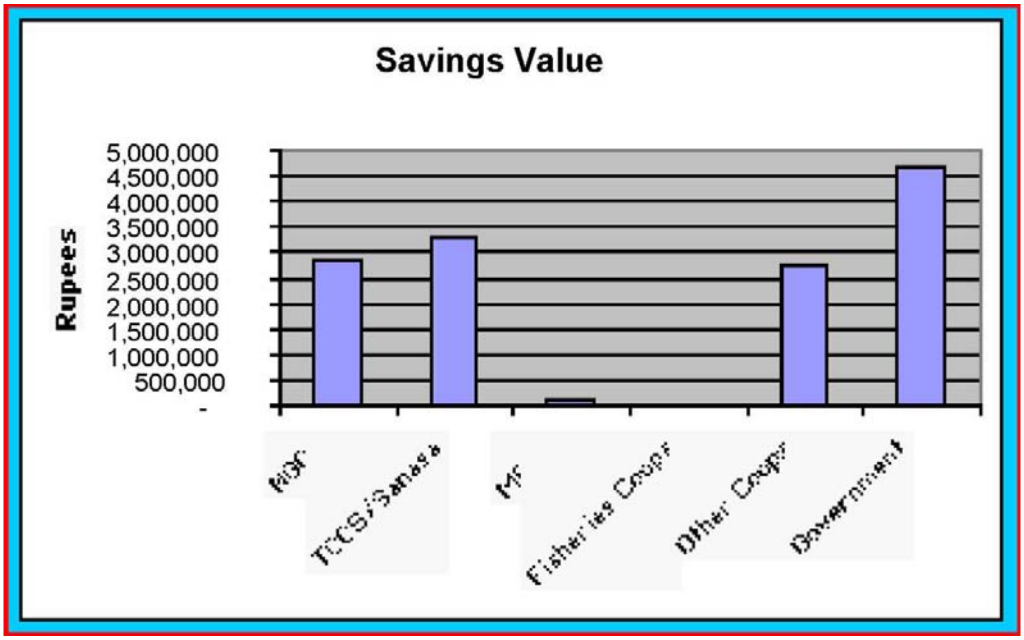


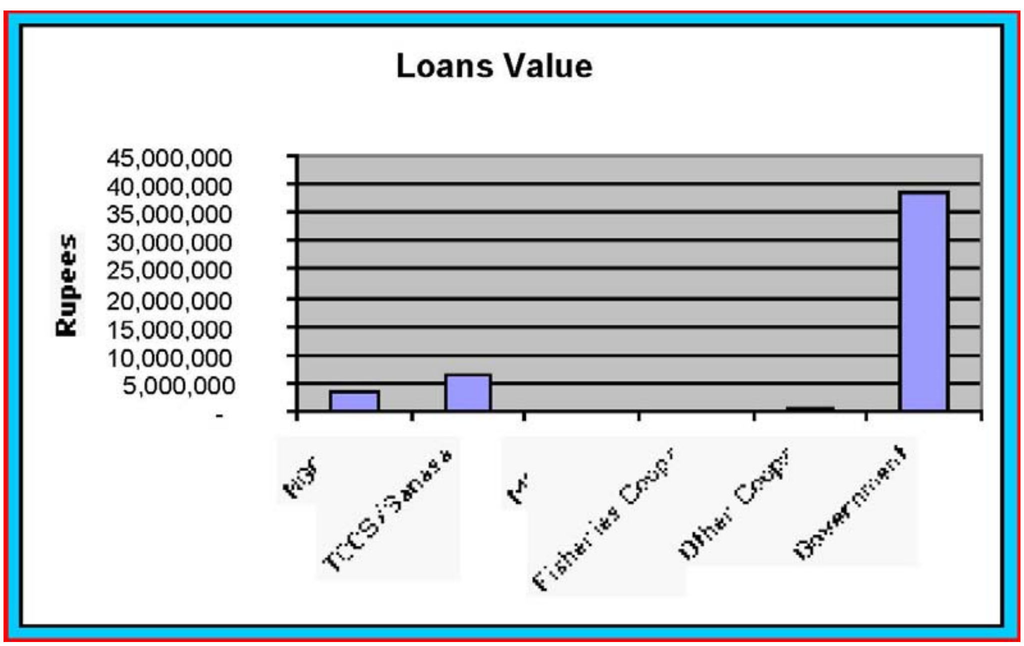
Chart 69 Vavuniya District Number of Loans During 2002 by Group



In terms of practitioners, government practitioner activity provided the largest number of loans in the district, disbursing a total of 3,024 loans during the year 2002. This is followed by NGOs with 375 loans, other coops with 106 loans, SANASA with 40 loans (to TCCS groups) and fisheries cooperatives with 18 loans for the same period.

A total disbursement value of 48,811,976 rupees was identified for the year 2002. In terms of population this is equivalent to 340 rupees per person.

Chart 70 Vavuniya District Loans Value in 2002 by Group



In terms of practitioners, the highest amount of money was provided by government practitioner activity with 38,358,951 rupees in loan dispersals during the year 2002. This is followed by SANASA with 6,269,000 rupees in loans, NGOs with 3,406,025 in loans, other cooperatives with 734,000 in loans and fisheries cooperatives with 44,000 in loans.

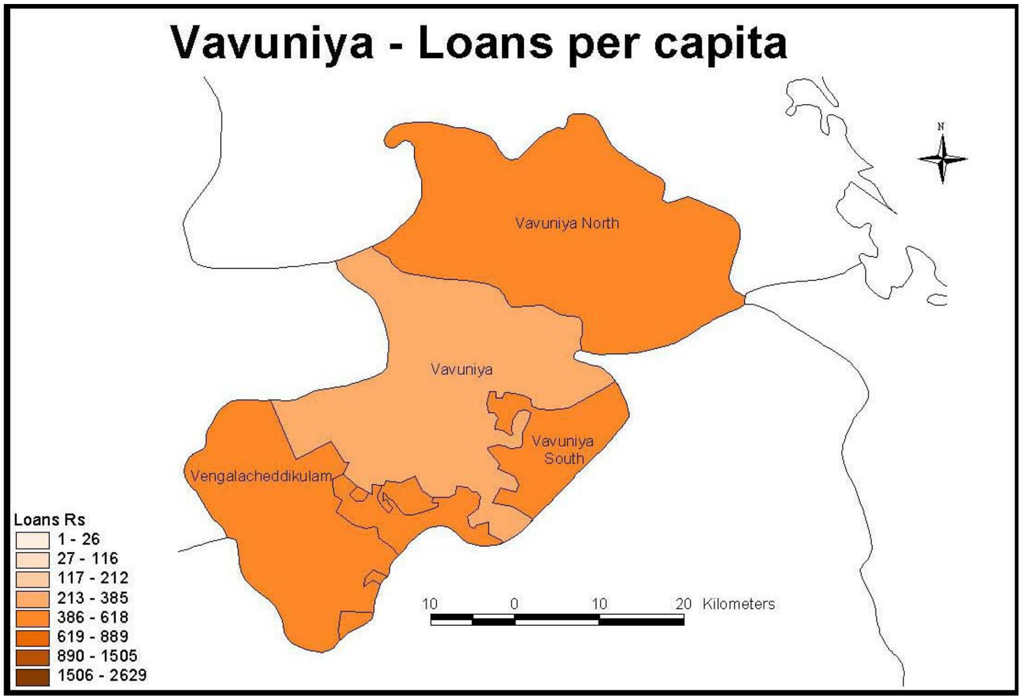


Chart 71 Vavuniya District Per Capita Loans Value in 2002 by DS Division

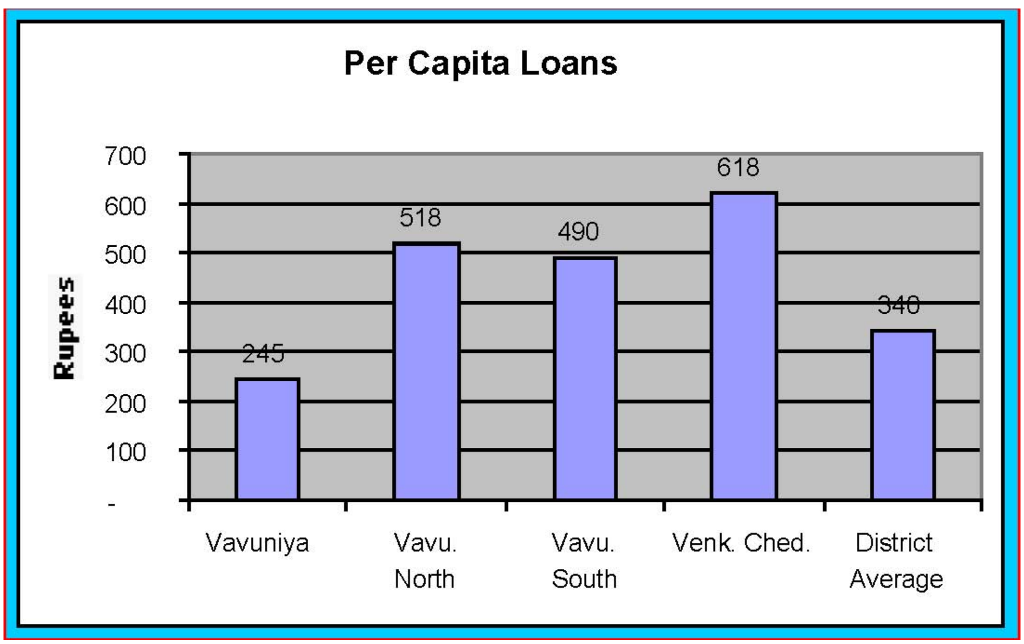


Table 26 Vavuniya District Microfinance Supply 2002 by Actor

Name of Organization	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	ASV	ALV
Agro Societies	52	90,557	23	250,000	1,741	10,870
CTF	-	-	8	40,000		5,000
FCS	17	20,000	18	44,000	1,176	2,444
FIRM	15	182,239	72	625,000	12,149	8,681
FOSDOO	972	906,373	26	159,900	932	6,150
LIFCO	83	335,261	2	30,000	4,039	15,000
LOCS	1	2,365	27	270,000	2,365	10,000
MPCS	229	121,429	-	-	530	-
MWM	1	28,000	10	30,000	28,000	3,000
NEIAP	-	-	2,429	34,934,951		
NGACDO	2	18,000	6	90,000	9,000	15,000
NYSC	10	1,780	7	70,000	178	10,000
ORHAN	-	-	35	194,125		5,546
PDCS	2	2,325,137	47	114,000	1,162,569	2,426
RDF	285	714,780	79	445,000	2,508	5,633
Samurdhi	10,834	4,660,187	595	3,424,000	430	5,755
SANASA	123	3,322,616	40	6,269,000	27,013	156,725
SEED	7	525,000	89	1,322,000	75,000	14,854
WDC	444	237,485	-	-	535	-
WDRC	300	250,000	50	500,000	833	10,000
Total	**13,377**	**13,741,210**	**3,563**	**48,811,976**	**1,027**	**41,192**

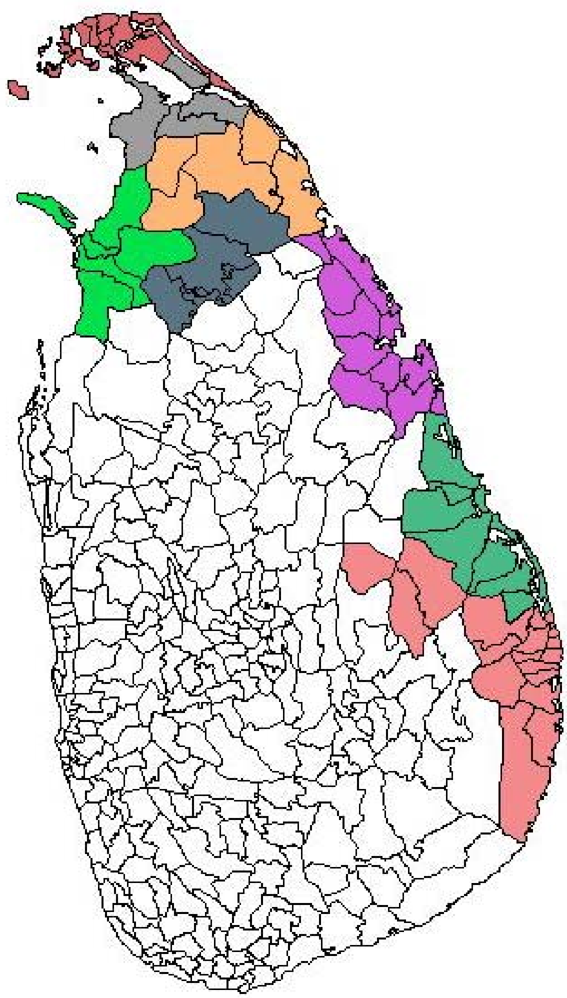
Table 27 Vavuniya District Microfinance Supply 2002 by DS Division

DS Division	No. of Savings A/Cs	Value of Savings as at Dec 2002 (SLR)	No. of Loans 2002	Value of Loans 2002 (SLR)	Population
Vavuniya	11,504	11,119,625	443	23,659,918	96,675
Vavu. North	350	746,677	122	6,865,300	13,242
Vavu. South	1,183	1,480,516	588	9,282,603	18,945
Venk. Ched.	340	394,392	32	9,004,155	14,561
Total	13,377	13,741,210	1,185	48,811,976	143,423

Part 3

Developing Microfinance

in the North and East Region



3. Introduction

This part of the report is concerned with developing the quality, outreach and effectiveness of microfinance service provision in the North and East region. It begins by presenting *'development summaries'* for each district/area of the region. This is followed by a regional level analysis of current stakeholder activity. Key issues facing the sector at this time concludes with sections on building frameworks of economic recovery and conflict sensitivity.

3.1. District Summaries

3.1.1. Ampara District

Microfinance service provision in Ampara district is interestingly poised. The district has a broader, stronger compliment of service provision than many other parts of the North and East region, on the other hand access to services and levels of supply vary considerably from area to area. Located both on the coast and bountiful plains suitable for paddy production parts of the district are appreciably wealthier than most of the rest of the North and East region. However, significant levels of poverty persist in parts of the district.

In terms of practitioners, the district has a thriving NGO sector and the Ampara NGO Consortium based in Akkaraipattu is probably the strongest consortium in the country. However, SEEDS does need to expand its outreach to include more divisions than at present. Samurdhi has been operating in the district since 2001 and has mobilised more savings and is issuing more loans than anywhere else in the region – although the organisation is still more focussed on the savings than micro-credit. FCS, TCCS and MPCS are all functioning well enough in different parts of the district but notably less so in other parts. The district does not have access to the services of a regional development bank and few commercial banks are providing specialised microfinance or SME products. Arguably, more than anywhere else in the region, Ampara District is most ready for increased commercialisation of microfinance approaches.

The main requirement for the district is the strengthening the overall framework of financial services provision, although increase in subsistence level loans is still necessary. The priority areas in this regard are threefold. Firstly, the NGOs provide vital micro-credit services to the poorer population in the district, but are not particularly focussed on providing higher level loans aimed specifically at supporting the poor entrepreneurs . Secondly, much of the cooperative sector is more savings oriented than credit oriented. Thirdly, access to commercial MSME products is limited.

Overall, the district can be characterised as having a broader framework of services provision than other parts of the North and East Region, but this framework needs to be strengthened and become more integrated. In particular, linkages that allow the entrepreneurial poor to 'graduate from the group level up through both NGOs and cooperatives into more commercial products are required. Specialised products for the entrepreneurial poor that incorporate EDS and entrepreneurship training alongside an RLF needs to be developed created with MFI service providers at the apex level.

The Akkaraipattu NGO Consortium would be an excellent vehicle for the development of this kind of product for NGO and CBO clients. The same type of products are also required for the cooperatives sector, where apex level cooperatives, such as SANASA, MPCS and Fisheries Unions, particularly could be encouraged to develop a similar product. Capacity building of these apex bodies would likely form an integral part of any planned intervention.[23]

In addition to the development of specialist microfinance products for the entrepreneurial poor inside NGO, CBOs and Coops, a substantial project to rebuild the cooperative sector as a primary provider of microfinance services in the district is urgently required – as it is elsewhere in the region (see key and main findings and recommendations) – as it continued technical assistance and training to the NGOs.

3.1.2. Batticaloa District

The district of Batticaloa has suffered as much trauma and upheaval as anywhere during the last two decades of armed conflict and it is a credit to all involved that there is as much activity as there is. The district has a wide variety of microfinance practitioners, but few specialised MFIs. INGOs such as CARE International have long been supporting NGOs, CBOs and FCS with income generating projects, but are struggling to attract adequate funding or move away from its traditional relief footing.

World Vision has an excellent single area-based program that demonstrates the advantages of adopting an area-based development approach and sticking to it over time. Amazingly, WVL was the second largest micro-credit service provider (in terms of volumes) after Samurdhi. Samurdhi has recently entered the district and succeeded in mobilising over seventy thousand savings account in a short space of time and has started to disburse loans.

SEEDS has started its Gateway Project in Batticaloa and is continuing to gain experience of working in conflict-affected environments, however, they have been slow to grow. Sewa Lanka has recently entered the district and is in the process of building up its operations, including income generation activities. Sarvodaya is probably the strongest national level NGO in the district, with a solid membership, a presence in grey and uncleared areas and an experienced team.

SANASA has a low savings base and no micro-credit activity. Many TCCS are defunct.
MPCS has a stronger savings and credit base and could be strengthened significantly further. FCS provides the most amount of micro-credit among the cooperatives (with assistance from CARE). Around a dozen local NGOs provide savings and credit services to their members.

Still, given the amount of practitioner activity, overall levels of supply remain quite low and significant strengthening of the framework of financial services provision is required. Microfinance service provision in the district is characterised by significant levels of social mobilisation but low levels of

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[23] The delivery of products for the entrepreneurial poor is itself differentiated depending upon the nature of the enterprise. In particular, access to increasingly higher levels of borrowing, are often necessary during the growth cycle. It is here that specialist MFIs have an important role to play in allowing clients to bridge the gap into commercial MSME products by providing credit referrals and assisting clients to overcome onerous collateral requirements. Ideally, this can be done so that higher-level loan clients are introduced to formal financial services with commercial banks through an mechanism (such as an LGF) that ensures an equable distribution of risk between the bank, the client and the MFI in which everyone has a stake in the success of the undertaking. Such a model also has the advantage of being able to handle different types of financial investment and can also be developed into a wholesale vehicle for on lending. A key advantage of such approaches is that they engage higher levels of commitment to effective product delivery and, because interest from funds can be used to cover the administrational support costs of the MFI, the financial product can become sustainable within the time span of the project cycle.

deposits and very low levels of access to micro-credit products.[24]

The CAB-E project in Batticaloa is looking at introducing more development-oriented approaches to microfinance both into CARE itself and the district as a whole. This kind of microfinance project activity needs to become more widespread, however, CARE appears to be struggling to attract additional project funding. The short-term nature of much of their funding severely limits the effectiveness of itsmicrofinance and the organization urgently needs to move its onto a microfinance activity programmatic level with longer funding cycles.

As in other parts of the region, significant efforts are required to strengthen the overall framework and linkages of microfinance services provision in the district of Batticaloa. Firstly, the cooperatives have fared somewhat better than in other parts of the region and potentially have a major role to play in the economic recovery of the district. The rebuilding of the cooperates needs to be thoroughly researched and planned at the district level and then focussed on rebuilding and growing the membership base in primary and secondary societies and capacity building and developing the infrastructure of SANASA, MPCS and the Fisheries Unions.

Secondly, the commercial banking sector has yet to start to provide microfinance products in Batticaloa district. The commercial banks' involvement is particularly important in facilitating access to finance for entrepreneurs looking start-up and expand micro-enterprises above the subsistence-level. The Peoples Bank, with its large rural branch network and links to the cooperatives, and others such as HNB and Seylan should become increasingly involved in MSME service provision. For example, the Peoples' Bank 'Peoples Fast' loan product, could be assessed from the perspective of its effectiveness and suitability for conflict affected environments, modified (possibly with different risk management instruments), and launched throughout the district.

Thirdly, with the possible exception of WVL – who only work in one area and directly implement themselves- there are no organisations in the district currently focused on economic recovery and development per se. Hopefully, the newly opened UNDP office will substantially up-scale its microfinance involvement and work to develop specialised products and funds to create better linkages and systems of graduation and training for entrepreneurs.

3.1.3. Jaffna District

The Peninsula is well known for its strong industrial drive, business acumen and high standards of educational attainment. Before the armed conflict, Jaffna Town was the second biggest economic centre in the country after Colombo. The peninsula is also famed for the impressive thrift of its people, its strong savings base relative to other parts of the country and the strength and organization of its cooperative sector. More recently, since the advent of the armed conflict, the peninsula has also become distinguished for the high levels of financial remittances it receives from Jaffna peoples' living overseas.

The provision of semi-formal savings and credit services is a popular, well-established traditional

[24] In 2002, the district had the equivalent of 288 savings accounts per every 1,000 people (although many of these are thought to be dormant) with a deposit base equivalent to Rs.306/= per person. Although the deposit base is quite low, it is spread fairly evenly throughout the district (suggesting good mobilisation coverage) with eight out of fourteen divisions having Rs. 300/= per capita savings equivalents or higher. In terms of loans, access to micro-credit is poor with only 19 loans being disbursed per every 1,000 people, equivalent to Rs. 212/= per person. This numbers of loans disbursed ranges from less than 15 loans per 1,000 people in seven divisions of fourteen divisions. Porathivupattu had the highest with 37 loans disbursed per 1,000 people. In terms of value, Koralipattu Central had the lowest per capita average with the equivalent of Rs 33/= disbursed per capita. Ten of the 14 divisions had equivalent of less than Rs. 200/= per person.

activity dating back to the founding of the cooperative movements at the turn of the twentieth century. More recently microfinance has become a popular relief, rehabilitation and development tool used by humanitarian organisations and the state alike.

Practically everyone living in Jaffna has been displaced (many on several different occasions) during the armed conflict. Aside from those who fled overseas or moved outside the region, well over one hundred thousand people were displaced at the beginning of the conflict when the government established ‘high security zones’ at various key strategic parts of the peninsula.

For example, the areas of KKS and Palaly (where the military maintain their naval, army and air forces) displaced over 130,000 people at the start of the conflict, the Muslim population around 50,000 were forcibly removed by the LTTE; all the people were cleared from the islands, other areas were completely flattened by shelling, and most other areas have suffered repeated displacements during different stages of different military campaigns where people have been fled from or towards different protagonist groups.

Some of these displacements were temporary or and localised in nature, others have been living in local ‘welfare centres’ in Jaffna, Kilinochchi or other parts of the region for a generation. As these high security zones are in key strategic positions (and house the governments 'armed forces’, resources and support structure), by and large they have remained a permanent feature of the Jaffna Landscape and, regardless of public posturing to the contrary, will likely be the last area that the government will, in practice, dismantle or make significant concessions towards prior to a permanent peace settlement being reached.

The presence and perpetuation of these zones means that not only have many people been displaced from their traditional family but they are denied access to their traditional livelihoods also. Large proportions of the displaced people were farmers and fisherman. 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.

Furthermore, 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 placement of landmines and a high incidence of unexploded ordinance in these areas compound the risk.

The demand for microfinance services is high at this time, especially for micro-credit. And the growth of service provision, to the extent that there has been any is clearly not close to matching immediate or potential demand. The need for subsistence level loans is also high at this time. The reason for this is that access to formal financial services, particularly credit, is prohibited to many.[25] Moreover, aside from the displaced populations, recently resettled or recently returned populations, there are other ‘special needs groups’ whose lives have been affected as a direct consequence of the conflict - such as war widows and landmine survivors. Further the demand for micro-credit will likely increase significantly in the short mid-term. This is because the return or resettlement of many people to (outside the high security zones) has created demand for microfinance loans for purposes of fishing and farming production as well as for micro enterprises engaged in trading and other services.

There are few or no specialised service providers proving production loans to the entrepreneurial

[25] IDPs are largely without capital (collateral) assets and have lost access to their land and homes and are therefore very poor and extremely vulnerable.

poor in the district. Equally, related non-financial service provision, such as EDS, BDS and Entrepreneurial Information Systems (EIS) is weak or non-existent.

The district of Jaffna has higher levels of micro-savings in the district relative to most parts of the region and total bank deposits place it as the eighth wealthiest district in the country. However, Jaffna also has a large population and per capita levels of micro-savings are not that high and significant variation is found at the DS Divisional level.

Continued savings mobilisation activities are required in the peninsula and this activity is probably best tackled through good coordination with the Divisional Secretariats vis-à-vis ongoing resettlement and returnee activity and through a new concerted intervention aimed at creating new,strengthening existing and perhaps even reactivating old primary cooperative societies.

To this end the cooperatives department requires further strengthening and resource allocation, including more effective MIS and GIS and microfinance and EDS training, particularly for CRBs. The FCS and PDCS should not be overlooked in this regard. The Samurdhi programme will probably have a big impact in the district as well, however, the Jaffna branch needs to be encouraged to become more transparent about its operations.

In terms of access to credit and micro-credit, however, the situation is quite different and both in absolute terms and relative to the size of its savings base, access to credit is quite poor throughout most of the district. The commercial banks do not appear to have relaxed their credit squeeze or risk-averse lending policies (including onerous collateral requirements) and with one or two exception there are few microfinance or specialist SME products on the market.

In addition, there are presently no national or regional level development banks in the region and no large-scale development finance projects being implemented. Finally, Samurdhi, which has been in the district for over two years now, has yet to commence lending to its members. Clearly increased microfinance and SME level products are required in the district at this time.

3.1.4. Mannar District

Microfinance services provision in the district of Mannar has considerable strengths and significant weaknesses. In practitioner terms, the NGOs MARR and RDF have notable microfinance experience and competence – however, both these organisation could significantly expand their outreach given appropriate funding. On the other hand, the cooperatives sector is quite weak. SANASA has been to all intent and purpose defunct for years, MPCS does virtually no microfinance, nor do the fishing cooperatives.

Somewhat ironically, levels of microfinance service provision are higher in parts of the uncleared areas than they are in the government controlled areas. This is in the main due to the ongoing efforts of DRC, World Vision, Zoa and the NEIAP project. The district has no Samurdhi presence or access to regional or national development banking services. The Peoples' Bank has the largest branch network and operates throughout the district; however, none of the commercial banks are yet supply specialised microfinance products.

In terms of current levels of supply, the district has relatively higher levels of micro-credit service provision than other parts of the region on a per capita basis. However, access to micro-credit varies considerably at the divisional level and all parts of the district are in need of significantly higher volumes of supply. In addition, the majority of loans are at the subsistence level and access to services specifically focussed on entrepreneurs, and their higher loan requirements, are in very short supply. Both in terms of the number of savings accounts and the level of deposits, the district of Mannar has the lowest level of savings than anywhere in the country. Micro-savings activity ranges from low to virtually nil, even in some of the cleared areas of the district.

The overall framework of financial services provision in Mannar is characterised by a very low savings base, insufficient access to micro-credit both at the subsistence level and with regard to products for the entrepreneurial poor. Given the large-scale displacement activity in the district and the high incidence of poverty (particularly outside of the Mannar Town area) the district urgently needs microfinance and economic recovery initiatives aimed at rebuilding the TCCS/SANASA and MPCS movements in order to rebuild basic membership structures throughout the district.

In addition, the existing strengths and capacities of the NGOs need to be built upon and encouraged to increase their outreach and membership base, develop a deeper, more differentiated range of microfinance products with regards to both savings and loans. The NGOs have knowledgeable staff, most of which have received microfinance training and have been implementing savings and credit for some time. In the short term these NGOs are best placed to deliver microfinance training and capacity building to others. They are arguably also best positioned to manage intermediate mechanisms, such as loan guarantee funds and credit referral activity to help bridge their clients into equable relationships with the commercial banks. In turn, the commercial banks need to start providing specialised microfinance products for the rural poor.

3.1.5. The Wanni Area

Microfinance service provision in the Wanni Area remains, in the main, firmly on a relief footing with around 30 area based NGOs providing a range of subsidised subsistence level income generation loans through RLF activity that is not sustainable (there are exceptions to this, such as loans funded via CARE’s Wanni Development Project that provide higher loans).

The NGOs are largely dependent on the support of a few long standing INGOs working in the region, namely, CARE, FORUT and OXFAM all of who have received various degrees of funding for income generation projects through UNHCR Micro-Projects activity from the mid-1990s until 2001-02. With the entrance of TRO and its SEDB into the field of microfinance, many of the NGOs are reported to be scaling down their income generation activity. The NEIAP project is presently providing the highest amount of income generation funding loans to WRDS and RDS. The NECORD project is currently deciding the extent to which it will engage in income generation activities.

The cooperatives on the other hand are a different story with FCS, TCCS and MPCS functioning well in different parts of the area – although in other parts they are defunct or have been completely destroyed – such as in Pallai. In some divisions, the cooperative savings base is the highest in the region whereas in others it is low. Relative to their savings base, neither the TCCS nor the MPCSs are providing much in the way of micro-credit services. The exception is the FCS who are providing higher levels and volumes of loans relative to their savings base (with assistance from CARE). Overall, micro-credit service provision remains low or very low throughout the Wanni Area.

Overall, frameworks of microfinance service provision remain very weak in the Wanni area as a whole, particularly from the point of view of access to micro-credit. The Wanni is a highly political and complex operating environment in which to launch specialised microfinance projects and the risk-averse subsidised, relief-based mentality will take some time to overcome. Given that the peace process continues, there are, however, constructive steps that can be taken in the short to mid-term.

First of all, the Peoples Bank has continued to operate its branch network throughout the conflict and because of this is fairly well respected in the area. Its loans portfolio data suggests that, in practice the majority of its lending has been in the broad area of microfinance, even if the volumes of lending are not that high. Given that the Peoples' Bank has already successfully piloted its Peoples Fast Microfinance product in Jaffna, the bank could reasonably consider introducing this specialised microfinance product into the Wanni and other areas of the North and East.

Secondly, not all the cooperatives have suffered huge displacement of their members and some have remained relatively stable and functional and are actively contributing to the reconstruction of Kilinochchi Town. Initiatives aimed at rebuilding the cooperative sector in the area as a whole remain, as elsewhere, the platform from which to develop sustainable microfinance services. As apex level organisations MPCS and FCS can potentially capacity built and funded to provide entrepreneurial loan products – as can SANASA. Significant support to rebuilding the cooperatives is key to the economic recovery of the Wanni.

Thirdly, National NGOs such as Sewa Lanka and SEEDS need to be encouraged to bring their skills into the area. Sewa Lanka already has a presence in the Wanni and is in a region wide process of developing a distinct microfinance strategy. They and other national NGOs need to be supported to expand and, where necessary, encouraged to become specialised MFIs

Fourthly, assistance for increased microfinance service provision needs to include measures that work with and capacity build TRO and the SEDB. Given that these organisations have decided to become more involved in the provision of microfinance activities in the Wanni as a whole, are starting to replace traditional NGO microfinance activity, and reflect the will of the local authorities, it is strategically important to work with these organisations to convince them of the genuine benefit of their adopting more effective, sustainable and professional approaches to microfinance.

3.1.6. Trincomalee District

Microfinance service provision in the district of Trincomalee is possibly the weakest in the whole North and East Region. This is because the cooperative sector is largely disfunctional, the NGO sector is quite small, Samurdhi has only recently arrived but is yet to start disbursing many loans, there are no regional development banks in the area and the commercial banks are not particularly involved in microfinance.

In terms of microfinance supply, Trincomalee has relatively few active savings accounts (although there are fairly high numbers of dormant accounts) and a very small deposits base.[26] Samurdhi already accounts for approximately two-thirds of all savings accounts and more than eighty percent of total micro-savings deposits. The cooperatives have less than five million rupees in savings between them and the NGOs less than two million.

Levels of Micro-credit are even worse than savings and relative to its population, Trincomalee has the worst access to micro-credit services anywhere in the North and East region (and the country). Trincomalee has both the lowest numbers per capita loans disbursed and the lowest per capita value

[26] With a population of over 365,000 people and a micro-savings deposits base of only Rs. 43 million, per capita savings equivalents are a mere Rs. 119/= per person, making it the third lowest in the region. This picture is even more gloomy at the Divisional level where averages range from a mere Rs. 58/= per person in Gomorankadawela, up to Rs. 214/= per person in Morawewa. In all, seven out of eleven divisions have per capita savings equivalents of less than Rs. 100/= per person.

of loans disbursed in the region.[27]

The district of Trincomalee needs considerable attention if an effective framework of financial services is to be established. Firstly, in the short term, the levels of funding to the existing international funder-practitioners needs to be increased so that they can expand their outreach with existing NGOs, CBOs and cooperatives. More projects (and actors) are clearly required at this time, especially by those organisations focussed more on economic recovery and economic development.

Secondly, National NGOs need to be encouraged to enter the district, or expand their existing services. The presence of specialist MFIs such as SEEDS and Agro Micro are urgently required so that they may bring their higher standards of microfinance professionalism to bear in the creation of more effective platform of service delivery. SEEDS, in particular needs to dedicate much more human resources and financial support to its Gateway expansion project and recognise that more pro-active and intense approaches are required. They also need to pay more competitive salaries if they are to stand any chance of attracting the most talented individuals – as Sewa Lanka has done. Sewa Lanka, in turn, has rapidly expanded their presence in the district need to focus on becoming a more professional microfinance service provider.

Thirdly, a comprehensive program to assess and rebuild the cooperatives sector is required in the district. As elsewhere in the region, the rebuilding of effective financial services provision in the district critically depends upon rebuilding the cooperative sector. Clearly substantial efforts will be required to rebuild SANASA/TCCS, MPCS and FCS. It is particularly important that the time is taken to effectively research, plan and coordinate the development of the sector and that a geographical area-based approach is used rather than simply focussing on one particular cooperative type over another at the expense of building effective membership platforms throughout the district.

Fourthly, there is much scope for the commercial banks to develop specialised microfinance products and profitably expand their outreach. In particular the Peoples' Bank *Peoples Fast* loan product should be introduced in the district and the HNB and others should scale-up their micro-lending activities and focus on developing innovative new products suitable for conflict-affected environments with less onerous collateral requirements. Successful microfinance products exist elsewhere in the country and a range of international success stories elsewhere in South Asia and the rest of the world can be used as examples.

Fifthly, organisations focussed on economic recovery should develop apex level micro-credit and training products specifically for entrepreneurs. Entrepreneurs need different types of training and access to higher loan requirements over time as their (micro) enterprises grow. Not everyone is an entrepreneur, so a product needs to be developed that provides linkages to different groups of different CBO, NGOs and INGOs that allow individuals to 'graduate' into another product stream. Products should be developed that provide a package of different services for clients, including entrepreneurship, leadership training, mentoring and other EDS and BDS services.

Sixthly, microfinance services provision in Trincomalee is so weak that substantial awareness raising and capacity building activities are required at the meso as well as the micro level. Apart from

[27] Trincomalee had less than 4,500 loans disbursed during 2002, with a total value of approx. Rs 23 million. This is equivalent to around 12 loans being disbursed for every 1,000 people or a per capita average of Rs. 64/= per person. At the divisional level, this ranges from zero (where no micro-credit activity was identified) in Gomorankadawela up to Rs180/= per capita equivalents in Morawewa. A total of nine out of eleven division had averages of less than Rs 75/= disbursed per person (of these, four divisions had averages of less than Rs. 30/= per person).

focusing on specific training needs and transfer of best practice, stakeholders should be encouraged to think about microfinance more holistically be brought together to work out how best to develop the framework of services provision as a whole and to agree strategies for its overall development, including broader issues such as demand-driven product development, marketing and linkages to national and international distributors, such as Tradecraft.

In other words a system, forums, training, seminars and sector development activities need to be systematically undertaken over the next one to five years to bring key stakeholders together, build consensus and plan the overall development of the microfinance sector as a whole.

3.1.7. Vavuniya District

Microfinance service provision in Vavuniya District is characterised by a low per capita savings base and credit base in the context of a relatively weak overall framework of financial services provision. Two of the three main cooperative movements, MPCS and FCS have virtually no savings or credit activity. Samurdhi has recently arrived in the district but has its savings mobilisation programme has yet to get into full swing – although there are indications that they are focussed on earlier disbursement of loans than elsewhere in the region. Government NEIAP project was the largest provider of micro-credit in the district (to WRDS and RDS). This was followed by SANASA (who are being capacity built and partnered by UNDP), which is now considerably more active than in other parts of the region.

There are no development banks operating in the district (with the possible exception of the SANASA Development Bank) Interestingly, Ceylinco Grameen has started delivering micro-credit in the district and appears to profitably capture market share with great speed. SEEDS have just started working in Vavuniya. Sewa Lanka has just started to undertake some income generation activity. None of the other national microfinance NGOs are operating in Vavuniya at this time although Sarvodaya do undertake some income generation activity.

CARE, DRC, UNDP, OXFAM are all engaged in different microfinance and income generation work with CBOs, NGOs, such as RDF, TRO and SEED, and cooperatives. Both DRC and UNDP are utilising more economic development-oriented approaches. UNDP working with SANASA to provide a district level RLF accessible to other organisations other than just TCCS. UNDP Vavuniya has strong microfinance competencies and, along with UNDP Jaffna, is running the most development-oriented project in the region and should be encouraged to expand their activities.

Relative to the population, all the cooperatives in the district are weak and require substantial, ongoing capacity building and institutional and financial strengthening. Building the cooperatives should be based on thorough research and district level planning with the GA, ACCD and other key stakeholders.

UNDP should continue to work with SANASA to increase the outreach, depth and viability of the product but also should work to build additional related non-financial services provision such as EDS, BDS alongside the existing RLF.

There is a general dearth of access to microfinance training and professional development services more generally in the district. There is a need to establish training facilities in the district and to increase the amount of meso-level capacity building being undertaken. In addition its central location and ease of access relative to the rest of the region make it an excellent location for a regional microfinance and non-financial business development services training centre.

3.2. Key Issues in Developing Microfinance

3.2.1. Levels of Microfinance Supply

The most striking feature of the microfinance sector activity in the North and East region is the low levels of supply that predominate throughout much of the region. Despite over two years of peace, microfinance supply remains characterised by low levels of savings deposits and even lower levels of micro-credit service provision. This is set against a backdrop of weak formal financial services provision by the commercial banks, including low banking density, a low deposits base, low levels of credit disbursement, few specialised microfinance or SME products and the absence of any national or regional development banks - or development finance more generally. Furthermore, there is very little access to related non-financial services such as EDS, BDS, BIS and weak private sector development infrastructure such as chambers of commerce and industry, vocational training institutes, enterprise development agencies and trade associations.

3.2.2. The Demand for Microfinance Services

The demand for microfinance services in the North and East region is clearly very high at this time and looks set to remain so for the next decade at a minimum. The main reasons for this include:

- High levels of poverty exist throughout the region and the majority of the region's population is at or below subsistence level in terms of income generation.[28]
- Over one million people have been (repeatedly) displaced inside the region and are largely without physical assets.[29]
- Formal employment opportunities are few and far between and seasonal (under) employment is common.[30]
- The resumption of traditional livelihood opportunities (farming and fishing) is becoming increasingly possible for large numbers of the regional population (although many are still unable to do so).
- Access to formal financial services (especially credit facilities) is minimal throughout much of the region and current levels of semi-formal services provision are inadequate[31]

[28] Poverty levels indices are not available for the North & East region like they are for the rest of the country and the present Sri Lanka HDI and GDP statistics which classify Sri Lanka as a medium developing country do not take into account the economic and social costs of the conflict and have yet to factor in the cost of rebuilding the North & East Region, in the event of a durable peace process. However, most estimates, such as household income surveys and other needs assessment activities undertaken by INGOs and Agencies in the region routinely place income poverty at between 80-95% percent depending on the area in question.

[29] Virtually the entire population of the North and East region has been affected by conflict and, to differing degrees has been traumatised by the loss of life, home, assets, infrastructure and the reduced ability to enjoy a sustainable livelihood. Many of these people are in need of physical and psychological counselling services.

[30] 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 (UXO) in these areas. There are also significant numbers of agricultural labourers dependent upon seasonal employment. Another 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 and are unable to undertake their usual livelihood activities.

[31] The existing network of banks is very thin on the ground in at least six of the eight areas/districts of the region. The strategies of the banks that have remained in operation has been basically to provide savings services and not to provide many loans. Where lending

- There are high numbers of female-headed households (war-widows) and other special interest groups throughout the region.[32]

Increased microfinance service provision in the short to mid-term is a key feature of the successful economic recovery of the region. This is required both with regard to semi-formal and formal financial services. These high levels of demand are by no means atypical in post-conflict settings.

This is because one of the paradoxes of conflict is that levels of entrepreneurial activity are far higher than non-conflict settings; while the working environment is much less conducive to supporting this activity. Not everyone is an entrepreneur. In non-conflict settings the figure is usually around one in ten. In the aftermath of conflict this figure is closer to two in ten, or double. This high level of entrepreneurial activity is only temporary, perhaps it will last for five or six years.

As life becomes more peaceful and local economies are rebuilt, many people return to formal employment as the opportunities arise and as infrastructures are rebuilt people feel more confident about travelling further away from home. Experience of microfinance in post-conflict settings suggests that demand for financial and non-financial services will start to increase dramatically six months to one year after the cessation of conflict. This usually continues to increase for the next two or three years and then starts to gradually decline to more normal levels. As it does so, there is a concomitant need for more services at the small and medium level.

Clearly, however, the conflict has severely constrained peoples' ability to act independently. Families are often reliant upon the welfare activities of local authorities and the international community. Over time, people this has created strategic attitudes of dependency and there needs to be a gradual move away subsidised approaches to the supply of financial services, although not necessarily non-financial services. However, this is all contingent on building sufficient access to these services in the first place.

Such service provision also needs to be aware of the changing needs of the population. Individual coping strategies in the region have tended to focus on the high mobility of assets. As such, micro enterprises are commonly designed either to be inherently portable or not to interfere with a family's mobility. As peace returns, different types of entrepreneurial activity with more fixed assets become more appealing. At the same time, however, repeated displacements during the conflict and complex issues of land access and ownership, including de-mining, means that populations will continue to relocate and resettle around the region for many years to come. There will be a need for financial services that have built-in transferability.

Building semi-formal service provision and linkages from the semi-formal sector that bridge into formal financial institutions and the SME sector more generally is necessary to support the economic recovery of the region. However, there are presently fairly few specialised microfinance intermediaries in the region, only one fledgling development bank (in the Wanni) and no wholesalers. In short, the capacity to provide an adequate system of financial services does not presently exist in the region at this time. This means that a range of new partners has to be established and that existing partners strengthened and encouraged to become specialised MFIs.

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has taken place is has usually been fully collateralised lending only and highly risk adverse policies have meant that the (meagre) levels of capital available for lending steadily decrease over time. Commercial microfinance products are virtually non-existent.

[32] At least 40,000 households and a similar number of orphans.

Quantifying demand is always problematic and a detailed study of demand would be required to appreciate the local sources and characteristics in detail. However, it is possible to make some broad-brush estimations of demand in at least three ways. First there is a high level of entrepreneurial demand in post conflict environments. Secondly it can be considered in relationship to poverty and third we can compare current levels of supply in the region with the rest of the country.

- The National Microfinance Study of 2002 estimated a total micro-credit supply of approximately USD 187 million. If one divides that by the total population of Sri Lanka then the current supply in the country as a whole is roughly 10 US dollars per person. If one were simply to transfer this average to the current regional population of approximately 2.5 million people this would equate to micro-credit supply levels of USD 25 million. Presently there is less than USD 8 million or less than one third of this amount in the region. This comparison is problematic, as the region does not have the same levels of economic activity or private sector infrastructure.

- Usually in developing countries, it is estimated that micro finance is relevant to between 50 and 60 percent of the population, this would equate to a potential demand of between 223,000 and 267,000 families. However, it has been estimated that up to ninety percent of the population of the region is classified as ‘poor’ so potential demand is possibly as high as 400,000 families. Using the lower 60 percent estimation, if one were to issue each family with one Rs. 10,000 subsistence loan (like the NEAIP project has recently been doing with resettled families) then the current total potential demand would be approximately USD 18 million accounting for existing levels of supply. If one used the higher 90 percent estimate then the current total potential demand would be approximately USD 32 million accounting for existing levels of supply.

- Demand for higher-level entrepreneurial credit services above the subsistence level is usually around one in ten of the clientele or approximately 45,000 families. On the other hand evidence from other post conflict microfinance environments suggests that this figure is twice the norm, or 90,000 families for between two and six years after the cessation of the conflict. Using the one in ten estimates, if each entrepreneur were to be issued with Rs. 50,000 then current potential demand for entrepreneurial loans would be approximately USD 22.5 million. If one uses the higher two in ten estimates, then the demand would be approximately USD 45 million. Given that the supply survey identified very little specialised entrepreneur loan activity current supply activity has not been deducted from this estimate.

We can see therefore that current estimates of potential demand range from USD 25 million when simply compared with the rest of the country and between USD 44 million and USD 76 million when using the lower or higher level estimates and factoring entrepreneurial demand into overall demand.

3.2.3. The Need for Non-Financial Services

Microfinance alone is *not* enough. Entrepreneurs working in the region also require a range of non-financial support services. Apart from access to carefully designed financial products, they need be encouraged to develop their activities above mere subsistence level income generation and start to make their enterprises more profitable.

The provision of enterprise start-up and development services is also crucial. Post-conflict environments have many opportunities to create and expand businesses. Often, enterprises need help to develop more sophisticated products that 'add-value' to their activities. Equally, there is presently very little activity or forums that are promoting knowledge about marketing products or designing products that have a high demand potential, particularly in the areas of agricultural production and the fishing industry. Entrepreneurs working across the primary sectors and usually with natural resources or raw materials are currently a long way away from the marketplaces of the major trading centres at home and abroad.

Alongside basic business services, leadership and entrepreneurship training is also necessary. This is because, while individual coping strategies have promoted micro-economic activity in recent time, they also made people very averse in taking (unnecessary) risk, and for very good reasons. Risk aversion has become habitual and as the peace process continues, expertise is now required to help people lift their horizons once again and be prepared to take the types of risks common to starting or expanding an enterprise.

3.2.4. The Need for Microfinance Training Services

Internationally recognised standards of microfinance good and best practice are readily available on internet websites through institutions such as the Consultative Group to Assist the Poorest (CGAP). There are also excellent microfinance manuals for its practical application available through some of the international agencies and organisations such as the Canadian International Development Agency (CIDA).

Tools for monitoring and evaluating microfinance interventions and processes for measuring their impact on clients and client communities are also readily available, although it must be said that these and the standards of good and best practice are rarely used by agencies and organisations practising microfinance in the region. When surveyed, the majority of local NGOs said that they had received no specialist microfinance training other than basic book-keeping and accounting for the personnel that manage the microfinance projects and programmes.

There are currently few microfinance or micro-enterprise training facilities in the region and a lack of local institutionalised microfinance training for practitioners. A few international agencies and organisations have assisted a small number of their national staff in receiving microfinance training at recognised international centres in the UK and USA. There is an urgent need for specialised services that provide basic microfinance 'good' and 'best' practice and credit-plus training of all kinds throughout the region.

The immediate requirement for microfinance awareness and training is estimated as follows:

- Awareness raising at the GoSL and International Community level - seminars and workshops in the Sinhala, Tamil and English for some two hundred managers and staff.
- Training of GoSL and Expatriate Programme and Project Officers - ten days duration intensive microfinance courses in Sinhala, Tamil and English for some sixty people.
- Awareness raising at the Cooperative Society, NGO and CBO levels - seminars and workshops in Sinhala and Tamil for some two thousand people.
- Training of Field Officers at the Cooperative and NGO levels - ten days duration intensive microfinance courses in Sinhala and Tamil for over five hundred people.
- Training of Microfinance Specialists throughout the region - a range of national and international courses/workshops of at least forty days duration for some thirty people.

3.2.5. Standards and Professionalism

Standards of microfinance practitioner activity and the methods used to undertake them vary greatly among practitioners. This is because microfinance is a multi-faceted intervention tool used by different people for different purposes. From the stance of accepted principles of 'good and best' practice, much of the microfinance activity currently underway in the region is not sustainable, suffers from slow or no growth and is oriented towards the provision of subsistence level loans that are used for consumption purposes as much as they are for purposes of economic production.

This does not, however, mean that more subsidised approaches are invalid or misguided. Partly, the issue of subsidisation, is one of philosophical approach (at least among specialists) but partly it is one of degree – most particularly in an conflict affected environment, where standards should not be prescriptive in nature but more like general heuristics that may or may not be applicable. The North and East region has a long history of emergency and relief based income generation activity that has been vital in providing populations with access to capital at the micro-level. All the main funder-practitioners, OXFAM, FORUT, Save the Children and CARE have found effective, innovative methods for utilising income generation for war affected populations. For all its faults, UNHCR funding for micro-projects in recent years was a vital contribution to the region and should not be underestimated. Equally, they all have stories about 'failures' and 'lessons learned that, with hindsight stress the need for effective research, social mobilisation and the wider dissemination and sharing of practices.'

Subsidised approaches clearly do have a time and a place in conflict and post-conflict affected environments. What is required more than prescribed, inflexible principles (for or against the issue) are adaptable, innovative approaches and effective knowledge of the local 'framework conditions' associated with social mobilisation and micro-economic development in conflict affected environments.

However, microfinance is also more than just providing savings and loans activity at the subsistence level, or being an effective membership tool for relief and rehabilitation organisations. At its best, microfinance can be a particularly effective tool in the creation of new economic opportunities for individuals. It is about creating frameworks of graduated financial (and associated non-financial) service provision linking individuals and communities with organisational structures, apex organisations, commercial banks and others.

In a region traumatised by armed conflict, loss of life, loss of assets, low economic productivity, scant formal employment opportunities and minimal access to any formal financial services, there is clearly an urgent need to use microfinance as a tool to promote self-employment and employment opportunities at the local level and for this to be undertaken systematically enough to create local frameworks for economic recovery' As such, there is clearly a need and a place to focus on financial sustainability, financial systems approaches and higher level production loans for purposes of enterprise development – even if subsidised approaches, particularly to non-financial services provision will be necessary in the short-to-mid term.

3.3. Stakeholder Analysis

3.3.1. Government Activity

The majority of government microfinance activity in the region takes place through Samurdhi and four multilateral projects funded by the World Bank and the ADB that have microfinance or income generation components in them. Of these two projects, the EPCDP and the RSDP have yet to commence. Of the other two projects, NECORD (ADB) has a microfinance or income generation component that has yet to be fully implemented in the region. So far, the project has provided Rs.30 million for revolving funds for fishing villages through fishing cooperatives in Jaffna with technical assistance from UNDP. In addition, NDTF is beginning to wholesale loans and CBSL is planning to programme with assistance from JBIC funding from the PAMP project.

In terms of micro-credit, the NEIAP project is, arguably, currently having the most significant impact in the region as a whole and seems to have replaced UNHCR in working with WRDS and RDS societies through local district and divisional secretariats. The project grants sums to returning/resettled villages, mainly WRDS, and has provided a much needed injection of capital for subsistence level income generation activity in much of the region. With the recent extension of the project it is hoped that this activity will become sustainable.

In terms of savings mobilisation, Samurdhi is the fastest growing microfinance program in the North & East region at this time and is now based in Ampara, Batticaloa, Jaffna, Trincomalee and Vavuniya. There is little doubt that, where Samurdhi starts to operate it quickly becomes an extremely effective vehicle for the mobilisation of the savings of the poor. However, the programme has yet to start to really deliver micro-credit services to anywhere like the levels it does elsewhere in the country. Loans are now being issued in Batticaloa, Trincomalee and Vavuniya, but not Jaffna.[33]The growth of Samurdhi in the North and East is admirable but it is vital that the government and donors take steps to protect the program as it is highly subsidised and under political control. The linkage between free allowances and the microfinance program must be studied and the impact of the removal of such allowances must also be investigated.

Overall, however, levels of assistance are inadequate, there are no development banks in the region, no specialised development finance projects in the region and no large scale micro economic development or SME development projects currently underway and the state-owned banks have not particularly been encouraged to introduce specialised products or increase capital made available for credit within the either the North or Eastern Provinces.

3.3.2. Donor Funding

Donor funding has not significantly increased in the area of microfinance for purposes of economic recovery and development. Some key organisations, such as DFID and USAID both traditionally interested in sustainable livelihoods and workforce development (both of which are firmly in the realm of microfinance and micro-enterprise development) are not currently funding. Other than funding provided by AusAID and NOVIB there are no large scale or even regional level microfinance and micro-enterprise economic recovery or economic development funding initiatives to have come into place since the ceasefire began over two years ago.

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[33] At the end of 2002, over 80 percent of all loans were issued in Ampara, with around 10 percent in Batticaloa and around 5 percent collectively in Trincomalee and Vavuniya. Samurdhi is not working in the LTTE controlled districts of Kilinochchi, Mullaitivu or the (partly cleared) district of Mannar.

One of the major problems faced in current mode of donor funding is the short-term nature of many investments. It is true that one must have project cycles, but project cycles which are merely 1 year or 2 years for microfinance or such economic recovery, have a tendency to result in these detrimental issues:

- Waste of donor funds
- Waste of time of donor and NGO staff
- Waste of community time and effort
- Raising of expectations which are not met
- Disturbance of serious microfinance practitioners due to the provision of short term revolving funds which are not supervised after 1 or 2 years.

Agencies such as UNHCR that are essentially relief and rehabilitation agencies and not development focused agencies were the most guilty in this type of microfinance assistance to NGOs and even to INGOs. Even embassies have many 1 year or 2 years project cycles, which include microfinance. [34]

Microfinance work should not be started and stopped in a mere 2 years. Hence donors who fund microfinance work and who want sustainability and impact should fund projects based on a business plan that shows sustainability of the organisations' microfinance work within a specific geographic area. If the initial donor does not want to expand beyond this geographic area then other donors can fund expansion.

However all this good work came to an abrupt end with the end of the project. Many of the staff who were well trained went on to find jobs in other sectors. The societies never reached any level of sustainability. The withdrawal of the staff resulted in the discontinuity of the best practices that were adopted, despite the opposition of some members. If a post evaluation is to be done now, 1 year after the project, it is certain that a majority of the CBOs/TCCS have fallen back on repayment rates and on the focus of taking the work towards sustainability.

There is clearly an urgent need to fund more mid-term microfinance end enterprise development initiatives. It would be very helpful if donors were to increasingly focus on funding microfinance activities not as components of wider programmes but as specialised project activities and give priority to those prepared specialise in microfinance and enterprise development service provision.

Equally, importantly, funding organisations should work to develop their own in-house microfinance expertise and develop guidelines for partner organisations and the setting standards of good and best practice. They should also require more adequate planning and design phases before releasing funds to practitioners.[35] There is also a need for increased funding of technical assistance activities

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[34] An example of such a project is the CAB –J project in Jaffna funded by DFID UK for CARE. This was a 1 year project, which commenced in October 2000 and ended in September 2002. A very capable, committed team leader with good experience was recruited together with some very bright undergraduates from the Jaffna University The project chose 20 villages, 10 CBOs formed or strengthened by the project and 10 TCCS. Due to the focused work done during these 2 years, savings of the 20 societies rose by Rs.1.5 million and outstanding credit grew by Rs.1.8 million. Membership of the CBOs/TCCS grew by 478 or an average of 24 members per society. 85% of the membership or 1524 members received credit. The project made considerable effort to develop best practices such as high repayment rates in societies and to provide credit at market rates with some CBOs giving credit at 24% when some other agencies were issuing loans at 10%, 12% and 18%. Staff and beneficiaries received good training and a significant investment was made in such capacity building work.

[35] This should include using better indicators, presence of training programmes, better transparency in financial accounting and management of schemes, budgeting for adequate assessment and evaluation activities and asking practitioners to commission baseline surveys that allow for more effective (or even real-time) impact assessment of programme and project activities.

that include funding for specialist training, sponsoring research into markets, technology transfer, business information, innovative delivery mechanisms (including technology) and specialised interest groups.

3.3.3. International Practitioner Activity

Given the importance of micro-enterprise development in conflict-affected environments with minimal opportunities for formal employment, there is a surprising lack of international support in the region. With the exception of the small-scale GTZ RBIP pilot currently underway in Jaffna and Batticaloa, the are no new international microfinance or micro-economic development practitioner organisations in the region. In fact, if it were not for the short-term impact of the NEIAP project over the last two years, funding levels would actually have been lower than they were in 2000 when the region was still experiencing armed conflict, just as demand is actually increasing. Simply put, there are not yet enough international organisations focussed on economic development and most, though not all, of the existing practitioners traditionally fund and practice microfinance from a relief-based footing or funding cycle.

This is not to say that there have not been substantial changes over the past two years: CARE, UNDP and to a lesser extent DRC have focussed on building stronger regional platforms. Currently, UNDP has offices in Batticaloa, Trincomalee, Jaffna, Kilinochchi and Vavuniya and is in the process of opening an office in Mannar. CARE has offices or satellite offices in Jaffna, Kilinochchi, Vavuniya, Batticaloa and Trincomalee and is also in the process of opening an office in Mannar. The DRC has offices in Vavuniya, Mannar and Trincomalee. CARE, DRC and UNDP are all engaged in trying to implement microfinance projects that are more focussed on economic recovery or development. In fact, the three organisations went through a significant process of strategic review and reorientation in the year 2000, all with the purpose of trying to make their ongoing microfinance activities more effective and sustainable. CARE, in particular, has experienced much difficulty in practically moving away from its traditional relief mindsets.

Until recently, UNHCR was the biggest funder of microfinance projects in the region, funding activity both directly through district secretariats and through funding micro-projects work with CARE, FORUT, OXFAM and Save the Children (who are no longer involved in income generation). UNHCR have been scaling their income generation activities down, but still have some involvement as part of their ‘durable solutions’ work with resettled/returnee villages. CHF International has recently started working in Jaffna and may get involved in the future and Norwegian Peoples Aid (NPA) are currently planning a socio-economic project for the resettled/returnee families in the Wanni as a follow up to its Mine Action Programme.

FORUT, who have been practising microfinance for many years, recently had a in-depth review of their microfinance activity and decided to significantly scale down their operations. CARE are in the process of expanding their microfinance ‘CAB’ (capacity building) concept and have two 3-4 year projects with income generation components in them funded by CIDA, DFID and the Dutch. However, they keep losing their most experienced microfinance staff. ZOA and World Vision (and to a lesser extent CARE and UNDP) practice their microfinance by working directly with villages and work in fewer places but with more concentration and on a longer-term basis.

3.3.4. Commercial Banking Sector

Micro-credit provision from commercial banks in the North and East ranges from virtually nil to extremely low depending on the specific area of the region with only three banks, arguably two, having specialised microfinance products of any kind. This is not to say that where banks don't have microfinance products, micro-lending activity is not going on (much of the day-to day lending of the Peoples Bank in the Wanni area, for example, would appear to be at the micro-level although only at a small scale); rather that, assuming capital is being released for lending purposes by the banks in the first place, most lending is contingent on onerous capital and collateral requirements. Regardless, the absence of microfinance activity in the commercial banking sector is a significant impediment to the economic recovery and development of the regional economy.

In the past, the two state-owned banks were amongst the biggest loaning agencies for small loans, especially for lending to farmers for paddy and agricultural production purposes. However, these loans were given at subsidised interest rates and considered a political or social cause, rather than a viable product per se. All political parties have repeatedly used this loan as a political tool, writing off outstanding loans prior to elections and crying for the plight of the poor farmers only for the sake of votes. However, as the recent elections prove, politicians fail to subsidise and protect the agricultural production sector at their peril. Still, one of the enduring contributions of the two state owned commercial banks has been to make it very difficult for a serious microfinance agency to operate in this vital market. Now the People's Bank is more focused on microfinance largely due to the Rural Banking Innovation Project, which is supported by GTZ.

The two large state banks cannot report data on small loans though People's Bank has reported a few loans under the Rural Banking Innovation Project since June 2003. Only three private banks had branches in the North and East as of the end of 2002. These three banks in total had issued only 1,913 loans below Rs.500,000 in the financial year 2002. This was one year after the peace accord was signed and after travel to these areas was restored. The 10 years prior to that would not have seen virtually any loans given by Commercial Banks resulting in the opening of LTTE banks in the 'uncleared' areas. But the very slow progress of banks in micro lending does not augur well for the economic revival of the region.

Of the private sector commercial banks, only two, namely, Hatton National Bank and Seylan Bank have focused on microfinance as a product. The reason they have focussed on microfinance is: a) due to social reasons to contribute to poverty alleviation or to rural economic development; b) as an entry point to develop future clients. Overall, the commercial banking sector has yet to see the potential of microfinance as a viable product. This is partly due to the donor assisted subsidised programs of government and NGO's in this sector and bad practices due to such programs. It is also due to the costs and time in developing the product to a viable profitable status. As a consequence, most banks do not segregate loans or savings by size and there is no focus on microfinance. This also makes it difficult for them to respond to a study such as this. Even the state banks which still give a substantial volume of small loans do not treat it as a separate product and are not in a position to give national, regional or even district level figures for their micro loans and savings activity.

In terms of microfinance service provision, and access to financial services more generally, the commercial banking sector is currently operating at only a fraction of what can be seen elsewhere in the country. In the mid-to-long term, it is essential that the financial services sector be substantially strengthened throughout the region. In particular, development finance is notable through its absence. Banking density is extremely low throughout much of the region, and most banks adopt a combination of high risk-averse lending practices and lack specialised microfinance and SME products. All of this precludes access to formal financial credit services for the significant majority of the region's population; although it should be noted that, relatively speaking, levels of financial service provision are higher in some parts of the region than in others. Parts of Ampara and Trincomalee Districts, for example, appear to have higher levels of credit provision than elsewhere in the region.

The formal banking sector should have a more thoughtful planned strategy for the North and East region rather than the "wait and see" policy adopted by the majority of actors. Banks should also be made aware that microfinance would be an important product as the majority of the people of the region are poor. This can be a good entry point for bigger housing and industrial loan products. Only two or three private commercial banks have seen the economic potential of providing microfinance services in the North and East, let alone the humanitarian or social point of view.

Some banks in the region still have very stringent policies towards loan approval and are much tougher in loan approval compared to rest of the island. These attitudes change much and banks should understand the national role it has to play in the revival of the North and East region and the peace process. A short term "profit and safety as usual" policy by banks will be a major drawback for economic revival of the region. An investment in the region is an investment in a united Sri Lanka and banks as a sector, that already make good profits, should have a long-term vision and plan for investing in the region, possibly with assistance from the government and donors for this regional expansion.

A range of graduated innovative, flexible and conflict sensitive micro-savings and micro-credit products are urgently required throughout the region as a whole, incorporating concepts such as customer transferability and third-party credit referral designed to foster linkages with other microfinance service providers and apex organisations. Micro-insurance service provision should be researched and piloted where feasible in partnership with a major insurance company, and research and technical transfer undertaken using commercialised approaches to MSME development in areas affected by conflict.

3.3.5. Non-Governmental Organisations

The NGO sector is a key microfinance, especially micro-credit service provider throughout the region. In some places, such as Jaffna where there is a strong cooperative sector and until recently NGOs were not permitted to operate, the NGO microfinance role is quite limited. In other areas, such as Mannar, and parts of Trincomalee and Batticaloa, where the cooperative movements are most inactive and commercial micro lending is virtually non-existent or very scant on the ground, NGOs are a vital service provider, especially to the most remote rural poor for example in the Wanni where TRO is a broad based service provider.

Overall, the total contribution of the national level NGOs is still very small. Part of the reason is the conditions that some donors and donor projects specify for qualifying for funding. Some donors and/or projects state that funding will be provided only for those with previous experience in the North and East region. This effectively puts up an entry barrier if national NGOs with good experience in microfinance elsewhere in the island cannot get funding to start or expand in the North and East Region. This is not a constraint just for microfinance but for many sectors of rural development work.

It is very important that the larger regional and national level NGOs be supported in the campaigns to establish regional networks of service provision. It is also important that donors and practitioners work to build the specialised microfinance capacity of these organisations. Nationally, SEEDS is the most professional and sustainable third sector microfinance service provider, but they started work in earnest in the region only in 2001 (apart from Ampara where work commenced from 2000).

Agro Micro, a microfinance NGO like SEEDS, is an offshoot of Agromart and is presently working only in the Ampara District. It is keen to work in other districts of the region but lacks donor backing. Sewa Lanka is by far the largest national NGO working in North and East region and has a large rehabilitation programme in the region only starting to focus on microfinance in 2003.

With the recruitment of a specialised microfinance expert, Sewa Lanka should consolidate its programme, develop a strategy for the North and East region and work to attain higher standards of practice. Given the fact that Sewa Lanka has been the most successful of the national NGOs in rapidly establishing a truly regional platform, they should be encouraged to improve their overall levels of microfinance competence and adopt higher standards.

Since the ceasefire TRO has rapidly expanded having a presence in all the districts of the North and East region. The TRO was founded in South India in 1985 by refugees and moved to Sri Lanka in 1987. TRO is involved in Relief, Rehabilitation and Development activities that span, education, health, food security, infrastructure, de-mining and socio-economic recovery and development. It publishes Annual Reports, is externally audited and was transparent and helpful towards the study research team.

In 1997 it established its Socio Economic Development Bank (SEDB) that manages savings and access to financial services for the regional communities. Although funded by Tamil organisations and individuals overseas it has gradually begun to receive funding and support from the international community in Sri Lanka. However, it is believed that due to its linkage with the LTTE this assistance has been limited for political and diplomatic reasons. There is a need for TRO to receive a broad stream of development assistance and support in all aspects of social and economic recovery and development.

3.3.6. Cooperatives

The cooperative organisations represent the bedrock of microfinance activity in the region. Cooperative based microfinance is a ‘traditional’ activity throughout the region dating, in some cases, as far back as the turn of the previous century. Today, the cooperative sector in the region is widely considered to be in disarray and a shadow of its former self. There is no doubt that the sector has been severely disrupted by over twenty years of armed conflict. The extent to which is it possible to rebuild the cooperative sector as a sustainable force for microfinance provision in the region is possibly the most interesting question in microfinance in the country today.

The importance of this issue was repeatedly raised by the cooperative practitioners themselves and virtually all key stakeholders that we met. When asked, the majority of key stakeholders said a) that it was important to try to rebuild the cooperative sector in the region and b) that it was possible to do so. However, agreement or understanding varied enormously on the topic of *how* to do so, or to what extent. Our findings on the subject are presented below.

Taken as a whole, the cooperatives are clearly a strong potential platform from which to deliver financial services to the poor and assist in the economic development of the region. However, it is important to remember that not only do most of the surviving cooperative institutions, including individual district cooperative departments, work more or less autonomously, but that most of the sector developments as a whole have passed the region by over the past twenty years. Simply put, most of the cooperatives in the North and East region are in the earliest stages of economic recovery – as is the region itself. Given the state of disrepair, a combination of ‘hard’ and ‘soft’ approaches that intervene directly at the district level is clearly urgently required.

The cooperative sector in the North and East region is heterogeneous. The present state of the sector reflects a myriad of economic, cultural, caste and conflict based history – some of which predates the advent of armed conflict. Further, the relationship between individual organisations and their apex level counter parts and regulators is complex and often mired by rivalries, bitterness, resentment and an unhealthy dose of mutual isolation, ignorance and misunderstanding.

Many of the primary societies that have survived the war years and remained intact, have done so with little or no outside support or assistance and are hardy and resourceful people often with a strong sense of solidarity. However, they are also entrenched with risk averse conflict mentality and coping strategies. At the same time, even with the best will in the world, the reality is that the national level cooperative organisations have very low capacity to effectively plan, formulate or deliver development initiatives in conflict-affected areas.[36]

In the short-term, approaches should be focussed on assisting economic recovery through ‘jump-starting’ the sector, with supply-push product development. Current levels of access to financial service provision and formal employment opportunities are so low that in the immediate post-conflict environment levels of entrepreneurial activity are, paradoxically, presently much higher than they have been and are likely to remain so for several years.

Any strategies to develop the sector must be conflict sensitive, tailored to the needs of the region and focussed on fostering economic recovery *leading* to economic development; rather than full-scale economic development *per se*.

This means working to create momentum in the sector by helping to rebuild the membership, assisting in the formation of new primary and secondary societies and helping local cooperative departments to reactivate old ones that have become inactive. This requires that interventions be planned for the mid-to-long-term. It also means, among other things, initially adopting subsidised approaches to microfinance and providing customised non-financial services provision as well as tailored financial products.

Looking at savings, the cooperative deposits base is very low throughout the region as a whole. Of the money that is invested, perhaps more than seventy-five percent of accounts are dormant or lost. The majority of cooperative members are not active and the savings habit has been eroded significantly. However, if the savings base is low and in a state of disarray, then the credit sector is even worse.

Access to credit is low, very low or non-existent throughout most of the region. However, FCS, TCCS and MPCS are still active in virtually all districts - though not necessarily currently involved in microfinance - and some groups are more active than others within a particular district. A strong demand for microfinance service provision was clearly identified during the study. The sources of demand for micro-credit and non-financial services are fairly well understood by practitioners throughout the region.

[36] For example, even SEEDS, the largest and most specialised microfinance intermediary organisation in the country has experienced significant difficulties in ‘rolling-out’ their regional project and underestimated the difficulties of delivering credit-plus services in conflict affected environments.

Prior to the conflict the TCCS movement was quite strong in some Northern and Eastern districts particularly Jaffna and to some extent Trincomalee. However since the conflict escalated in 1983 the TCCS movement has been in serious decline in the entire region. The main reasons are:

- Severe movement of people away from the region to Colombo and overseas withdrawing their savings
- Massive sudden displacements from their homes due to the conflict and being away in refugee camps and other locations for years not being able to repay loans or access savings.
- Inability to repay loans due to loss of income sources
- Major withdrawals of savings for survival purposes and house repair
- Breakdown of functioning of societies due to missing office bearers, loss of financial records and damage to premises
- Fraud due to lack of control by members and the governing committee.
- Lack of economic activity in the region.

It is creditable that the movement survived even to the extent it has despite such drawbacks for 20 years.

Nationally, the MPCS Co-operative Rural Banks (CRBs) may not have a charismatic leader as in Sarvodaya or TCCS to promote their cause. But over the 57 years of existence they have arguably become the main actor in microfinance (particularly with regard to micro-savings) in rural areas throughout the country as a whole, with over Rs.15 billion in deposits and over Rs.7 billion in outstanding loans. Rural people have confidence in them and they are very low cost operation with very little overheads. However they still function under the control of the 306 Multi Purpose Co-operatives in Sri Lanka and function with the systems and practices introduced by Peoples Bank during the late sixties.

The CRBs have huge governance and management issues, which need to be resolved. In addition to management and governance issues the banks need exposure to best practices in microfinance, good MIS systems and a complete revival in some parts of the region. A donor who is keen on an indigenous system that has worked well for over 50 years should assist the revival of the CRBs in the North and East region. This is equally true of the TCCSs.

However, cooperative microfinance activity is not just limited to TCCS or MPCS, but also takes place within FCS, PCDS and other societies, who also have strong traditions of providing savings and credit services to their members. The nature of the cooperatives landscape is different in each district (and division) and each cooperative group has different strengths and weakness. Any attempt to rebuild the cooperative must adopt extensive and highly participatory district level approaches to strategic planning and implementation if it is to stand any chance of success. Any rationale for planning an intervention in should be grounded in a thorough understanding of the cooperatives sector as a whole within any given locale. This requires taking the time to be inclusive and build consensus among and learn from key stakeholders in the region.

The difficulty in reviving the cooperative sector should not be underestimated. In most parts of the region, NGOs (backed by international funding) have been the biggest, or only, source of microfinance funding. Government microfinance practitioner activity has been minimal, at least in terms of national level interventions, and many populations have developed welfare-oriented attitudes of dependency. Some cooperatives are highly politicised, ethnically oriented or caste based, while others are not.[37]

At the same time, UNDP is already working with SANASA and MPCS in some parts of the region, as are some of the NGOs, such as CARE. The new national level ADB rural finance programme has a microfinance component in it, but the North and East dimension of the project has not been detailed, or budgeted yet. Given the state of the MPCS throughout the region, if the project simply tries to replicate island wide approaches in the North and East region, it will meet with great difficulty during implementation.[38]

Rebuilding the capacity of the cooperatives self-evidently requires significantly strengthening the local and provincial cooperative departments. A sustained programme of training, capacity building, institutional strengthening and strong financial assistance is clearly required at the district level. Although national level approaches are required for the development of the North and East region, they must be accompanied by strong 'bottom-up' approaches with a minimum of centralisation.

If the aim of intervention is to provide more effective access to microfinance services to the different populations of the region, then, given the disparate and heterogeneous state of the sector, interventions should preferably adopt holistic, local level approaches to developing the sector as a whole. These will need to have a strong emphasis on social mobilisation, innovative conflict sensitive product development and non-financial services support, particularly for the entrepreneurial poor.

3.3.7. Building Frameworks for Economic Recovery

At a minimum, understanding how best to develop microfinance requires having sufficient information, knowledge and foresight from which to reach informed decisions and then taking the time to act effectively to plan, finance and implement better service provision in the region. This requires first gaining a sound appreciation of current microfinance activity within the region, including different kinds of service provision, types and levels of supply and the nature of demand. Second, it requires adopting a holistic approach and taking the time to consider microfinance in terms of broader frameworks of financial services provision. Third, and perhaps most importantly, in the context of the North and East region it requires understanding the nature of the conflict itself *and* the special role that microfinance has to play in conflict and post-conflict affected environments.

Microfinance has a unique role to play in enabling the economic recovery of local economies to in the aftermath of conflict in the region at this time. Unlike many other rehabilitation activities such as housing construction, water and sanitation and infrastructure development, access to financial services and non-financial services is a less tangible but equally vital development activity. This is because access to financial and non-financial services has a unique role to play in generating economic growth at the local level through the creation of new businesses and improved livelihood

[37] Social and economic mobilisation activity can be organised along ethnic and religious boundaries and any intervention needs to carefully consider these dimensions when researching, planning and implementing it's services. The practical experiences of CARE International, CIDA and other INGOs and funders operating in Sri Lanka shows that microfinance can be used as an effective membership tool that encourages reconciliation and that groups can be multi-ethic in composition.

However, their experiences also show that when not carefully planned, microfinance schemes can be divisive, hardening the ethnic and religious boundaries. In addition if the needs of the local communities are not properly understood, the financial products can be ill-designed or simply excessive. This can inadvertently increase individual vulnerability and 'do some harm'. Effective research and product design is essential to minimise this risk.

[38] Any attempt, for example, to privatise the CRBs, could paralyse the entire process

opportunities. In the absence of many formal employment opportunities and the presence of underemployment, access to financial services becomes a crucial generator of new employment and self-employment opportunities.

Microfinance and non-financial services provision, such as entrepreneurship training and enterprise development services can be an effective enabler for rural and urban populations looking to rebuild their livelihoods in a post-conflict environment. This is because the demand for such services starts to increase dramatically levels 12-18 months after conflict has stopped and individual start to change their coping strategies. In this context, adequate access to finance and rural finance become essential to ensure to help 'jump-start' economic recovery and help local economies to make the transition away from rehabilitation towards economic development.

The role of microfinance and related non-financial services also assumes more importance in situations where access to formal services from commercial banks is limited. Again, this is not uncommon in areas that have been affected by conflict. In this context, microfinance can not only substitute for credit and savings services normally provided by the commercial banking sector, but as banks start to return, the organised social mobilisation activities that underpin microfinance can help communities regain access to formal services by providing credit referral and by developing specialised products, such as loan guarantee funds, that allow entrepreneur access to financial services without collateral requirements that they cannot meet

In post-conflict environments, the success of economic recovery lies in the creation of services that do not currently exist and in building an effective framework of access to financial and non-financial services for entrepreneurs and their enterprises.

Access to these services needs to be provided for entrepreneurs involved in starting up or expanding micro, small and medium enterprises. The range of services that are presently required are those of: credit, savings, training in business planning, marketing and management, financial management, skills training, the provision of business information services, technological inputs and professional business consultancy.

At this stage, the government and the international community need to facilitate access to these vital services through developing partner organisations to provide them. Such intervention should focus on building a framework that taps into existing community mobilisation activity and through jump-starting entrepreneurial demand at the individual and community level.[39] During the initial stages this will require strong technical and financial assistance inputs to strengthen service providers and facilitate the development of a range of inter-organisational partnerships and alliances and develop demand-driven market linkages.[40]

[39] Access to these services needs to be developed at various levels - the individual, village, and community- and across different types of organizations - CBOs, VBOs, Co-ops, NGOs, INGOs, government projects, trade associations, Chambers of Commerce, local government extension services and government ministries. Creating a robust network of access to enterprise development services depends on thorough and effective research and planning.

[40] Realising the potential of entrepreneurs in conflict-affected areas also requires developing models with high mobility and transference and where enterprise development and support services run in parallel with access to finance. This necessitates a higher transaction cost approach in the short-term but can become sustainable as localities move from a position of economic recovery into one of economic development.

3.4. Conflict Sensitivity

There is an increasing shift by multilateral and bilateral institutions, agencies and organisations towards firmly linking humanitarian and development interventions in the whole range of conflict situations worldwide. Initiatives within a conflict-affected area can have or be perceived to have a positive or negative impact on the protagonists and the communities that are the focus of the intervention. Development initiatives including microfinance initiatives can sometimes contribute towards peace building and sometimes contribute towards conflict and renewed violence between individuals, between and within communities and in geographic areas or regions.

As the utilisation of recovery and development aid to conflict prone and affected areas has grown studies on undertaking approaches that are conflict sensitive are being published. However, the majority of international agencies, institutions and organisations do not appear to undertake any conflict sensitivity training of their staff and many of the expatriates that come to serve with these bodies in Sri Lanka, and more specifically in the conflict-affected areas, have little or no understanding or basic knowledge of the language, traditions, culture, superstitions or the impact that conflict has had on the area and its communities.

The inclusion of a process, such as Peace and Conflict Impact Assessment Process (PCIA), that continues to assess the conflict creating or peace building impacts of any development initiative is essential but it was found that no such assessment process appears to be in place in microfinance initiatives in the region prompting the authors of this report to develop a guide, Microfinance in Conflict Assessment Process (MICAP), that has been published as a separate document within the study.

Findings

4. Key Findings

It was found that:

- Overall frameworks of service provision and linkages between different types of financial services provision are weak throughout the region.

- The present levels of access to financial services are insufficient to promote the successful economic recovery of the region.

- Demand for microfinance and enterprise development related service provision has greatly increased in the two years since the cease-fire began.

- The absence of mid-term funding opportunities for microfinance and enterprise development initiatives represents a significant constraint to the economic recovery and development of the region.

- There are no existing or planned government or international projects or programmes focused exclusively on the economic recovery of the North and East region through the creation of effective frameworks of financial services provision and increased access to microfinance and MSME development service provision.

4.1. Main Findings

4.1.1. Supply

It was found that:

- Overall levels of microfinance supply are low throughout the region

- Supply is greatly outmatched by demand

- Supply has not increased significantly over the last two years

- Levels of supply vary from low to very low in different districts according to the type of microfinance service in question

- The nature and characteristics of supply exhibit a high degree of heterogeneity at the district level and below

- Platforms of service delivery are weak in all districts at one or more levels of service provision throughout the region

- Savings activity is significantly lower in Mannar, Vavuniya and Trincomalee and highest in Jaffna and Kilinochchi

- Micro-credit activity is lowest in Trincomalee, Batticaloa, Mullaitivu and Jaffna and highest in Ampara, Mannar and Kilinochchi

- Significant variations in supply exist at the DS Divisional level in all districts
- All districts have low levels of savings and credit activity at the DS Divisional level
- Savings and credit activity is typically lower than the district average suggests in a majority of DS Divisions, extremely low in the bottom third and higher in a relatively few DS Divisions or isolated clusters
- Few microfinance products provide poor clients with linkages to formal financial services
- Few microfinance products are packaged with complimentary non-financial services provision – such as enterprise development services or vocational training

4.1.2. Demand

It was found that:

- Current demand for microfinance is high throughout the region
- Demand has increased significantly since the ceasefire
- Demand is growing rapidly
- Demand will continue to increase for several years (assuming the cease-fire continues)
- There is a widespread demand for microfinance and MSME products that bridge between semi-formal and formal financial services
- There is a widespread demand for microfinance and MSME products with a high degree of transferability built-in to them
- The main sources of demand are for micro-enterprise development activity in areas related to production agriculture, farming, fishing, trade-craft, services and construction
- There is a high demand for related non-financial services provision throughout the region, particularly business and enterprise development services, marketing services and entrepreneurship and leadership training
- Current demand for the number of higher-level entrepreneurial loans is estimated at between 45,000 and 90,000 in the region
- Current demand for entrepreneurial loans in terms of volume is estimated at between USD 22,500,000 and 45,000,000 in the region
- Potential demand for the number of subsistence level production and consumption loans is estimated at between 222,000 and 310,000 in the region
- Potential demand for subsistence level production and consumption loans in terms of volume is estimated at between USD 22,000,000 and 31,000,000 in the region

- Total potential demand for all micro-credit is estimated at between 267,000 and 400,000 loans in the region

- Total potential demand for all micro-credit in terms of volume is estimated at between USD 44,000,000 and 76,000,000 in the region

4.1.3. Funding

It was found that:

- Levels of funding have not significantly increased since the ceasefire

- Most funding is project not programme based

- Existing funding is predominantly short-term in nature

- Most funding is for subsistence-level, relief-based income generation projects

- Microfinance and micro-economic development activity is rarely funded as a sector in its own right

- Few donor nations include microfinance (or micro-economic development more generally) as an area for significant programme funding or treat it as a post-conflict funding priority

- There have been few large-scale funding initiatives in the region and none focussed exclusively of microfinance or MSME development

- There are no specialised microfinance, rural finance or MSME development projects presently in the region at this time

- Large-scale projects generally treat microfinance as an income generation component inside larger relief and rehabilitation projects

- Most multilateral funded interventions adopt ‘one-country’ development approaches using highly centralised sector based economic-development approaches that are largely inappropriate for conflict-affected environments

- The majority of funders do not require that conflict sensitivity analysis be undertaken as a prerequisite for funding or provide guidelines in this regard

4.1.4. Service Provision

It was found that:

- The majority of the microfinance initiatives in the region are focused on poverty alleviation and subsistence level income generation rather than economic recovery approaches leading to development in the mid-to-long term

- The majority of microfinance initiatives implemented in the region are short term in nature, having two years project cycles or less

- The majority of external assistance for microfinance continues to utilise relief-based approaches that exclude access to finance from the private sector

- Relief based approaches to microfinance have engendered a widespread strategic attitude of dependence amongst the recipients

- The majority of microfinance initiatives adopt subsidised interest rates that inhibit increased outreach and limits portfolio growth

- The majority of microfinance initiatives do not promote the 'graduation' of clientele into formal financial service provision

- Micro-insurance service provision is noticeable by its absence

- Most microfinance initiatives do not undertake sufficient planning or baseline research activity

- The majority of practitioners in the region do not utilise internationally recognised systems to monitor the operational or financial sustainability of the schemes

- The majority of microfinance funder-practitioner and practitioner initiatives do not undertake a conflict sensitivity analysis during the planning, product development or implementation stages of the initiative

- There are probably fewer than ten microfinance specialists employed throughout the region that have the skills and experience to implement microfinance projects and programmes to international standards of good and best practice

- There is presently very little formalised training for personnel engaged in microfinance within the region and the present demand has been estimated at nearly three thousand people requiring awareness raising and training at different levels of expertise

- There is very little meso level sector development activity currently underway in the region, including awareness raising, workshops, seminars, informal networking or marketing activity

- There is no region wide microfinance network of practitioners

- Access to enterprise development services in the region, including extension services for the primary industries, is minimal and there is presently no substantive framework of EDS to support and assist the start up, development and growth of MSMEs

- The planning and coordination of microfinance initiatives is largely undertaken without access to professional microfinance and enterprise development information systems and GIS

- There is relatively little capacity building or institutional strengthening of the sector presently underway in the region

- There are virtually no intermediate financial mechanisms that allow clients to bridge across different levels of service provision

- The Cooperative Sector is the largest practitioner group in the region

- The strength and presence of the different cooperative movements varies considerably between districts

- Cooperative savings and loan activity is strongest in Jaffna and Kilinochchi and weak throughout the rest of the region

- MPCS are most active in Jaffna, Kilinochchi, Batticaloa and Mullaitivu

- TCCS are most active in Jaffna, Ampara, Mullaitivu and Vavuniya

- FCS are active throughout the fishing areas of the region

- The larger national development finance institutions, such as the National Development Bank and the DFCC Bank are absent from the region

- There are no Regional Development Banks established in the region

- The National Development Trust Fund has made little impact on the levels of microfinance credit in the region since its entry

- The commercial banking sector has yet to make any significant impact on the levels of supply for MSME credit for the region and there are almost no commercial microfinance products on the market

- Samurdhi has made a major impact on the numbers and value of savings in the region since the ceasefire but has yet to start providing credit services anywhere near levels elsewhere in the country except in Ampara

- Major externally funded microfinance programmes such as the Japanese funded PAMP continue to operate only in those areas outside of the North and East Region

- The entry of the World Bank funded NEIAP programme has had a significant positive impact on the access to microfinance credit for the resettled populations of the region

- The ADB funded National Rural Microfinance Project has yet to define or implement its plan for the North and East Region

- The ADB funded Coastal Development Project is focused only on the eastern area of the region and is in the first stages of implementation

- The GoSL has yet to fund development finance initiatives aimed at poverty reduction in the region of the kind found elsewhere in the country

- The SEEDS Gateway Programme is in the second stage of its regional expansion but has yet to make a significant impact in terms of client access to credit plus

- National level specialised MFIs that traditionally provide high quality microfinance services outside of the North and East Region have found it difficult to attract adequate funding to expand their services into the region

- Some regional level MFIs have found it difficult to attract adequate funding to expand their services within the region

Recommendations

5. Strategic Recommendation

Given that the peace process continues, the strategic recommendation of this study is that:

- The government and the international community work together to implement area based sector development approaches that will create frameworks of effective microfinance service provision that radically increase the availability of financial and enterprise services at all levels throughout the region.

- Integrated Financial Service & Enterprise Development Programmes (IFSED) be implemented in each district of the region for a minimum of five years. These programmes should include strong international technical assistance, institutional development and organisational strengthening, capacity building and direct financial instruments. Each programme would take the lead in planning and coordinating the development of financial provision among the public, private and third sector service providers and facilitate overall sector development activities, such as awareness raising, marketing, training and the coordination of financial and non financial services.

5.1. Key Recommendations

It is recommended that:

- The cooperative sector be rebuilt at the **district level** throughout the region including undertaking extensive research, planning and coordination activity with a view to significantly increase primary society membership and micro credit outreach at the divisional level.

- Apex cooperative organisations be capacity built and strengthened to provide effective entrepreneurial products linking primary societies into formal financial services provision.

- MFIs develop intermediate financial mechanisms that enable commercial banks and apex level institutions to provide financial services to entrepreneurs where risk is shared equably between the borrower, lender and intermediary.

- The GoSL urgently initiate the establishment of at least two Regional Development Banks (RDBs) in the region.

- Commercial banks, especially the state owned banks, be encouraged to develop a range of commercialised microfinance products for MSME start-up and expansion throughout the region and the present 'Peoples Fast' microfinance product be rapidly expanded throughout the region as a whole.

- District Secretariats establish a microfinance unit with specialist microfinance and enterprise development staff and microfinance, EDS and GIS capacity. In order to more effectively plan and coordinate microfinance and EDS service providers.

- Donors programmatically fund microfinance initiatives in Sri Lanka as a primary instrument for the economic recovery and development of the North and East region.

5.2. Main Recommendations

It is recommended that:

- The GoSL encourage the Samurdhi Programme to urgently increase its credit service provision throughout the region especially in the northern area.

- The GoSL initiate a medium term project proposal to access the USA funded 'Millennium Challenge Account' (MCA) that will 'jump start' the economic recovery of the North and East region.

- The NDTF release at least one third of its present funds for wholesale and retail microfinance through national, regional and local NGOs as a matter of urgency.

- All microfinance funders and practitioners within the region encourage, support and assist the establishment of microfinance training.

- All microfinance funders and practitioners in microfinance within the region encourage, support and assist the establishment of a regional microfinance network.

- The international community prioritise the provision of funding for microfinance projects and programmes where the recipients of the funding and/or their partners have demonstrable microfinance skills.

- Research be undertaken into the development of a broad range of microfinance insurance products throughout the region through a partnership forged between an International Agency such as GTZ and a major national insurance company such as Ceylinco.

- All microfinance initiatives contain components concerned with the capacity building and institutional strengthening of microfinance intermediaries (MFIs).

- A research study, similar in depth to this study be undertaken into the present supply of and demand for enterprise development services in the region as a matter of urgency.

- The International community facilitate microfinance sector development by supporting awareness raising workshops, seminars, professional development forums, exchange visits, technology transfer, new product development and the import of good and best practice for key stakeholders and practitioners at the district and regional levels.

- A Microfinance In Conflict Assessment Process (MICAP) be undertaken by all institutions, agencies and organisations that are planning, designing and/or implementing microfinance initiatives in the North and East region and other areas of the country affected by ethnic, religious and cultural sensitivities and divides.

- Donors encourage conflict sensitivity approaches be adopted in the planning and implementation of microfinance initiatives as a prerequisite to funding.

- The international community its institutions, agencies and organisations undertake awareness raising and training of their international staff in basic language skills, culture and traditions, the history of conflict and the status of development within Sri Lanka as a prerequisite for their employment.

Conclusion

It is concluded that:

With more than two and a half years of peace, the continuing return of a large number of refugees and internally displaced people and the opening of roads has resulted in a high demand for access to capital to revive livelihoods and the economy of the region. Given the low deposits base and the weakness of the commercial banking sector, it is fair to say that to a significant extent, the successful economic recovery of the region is dependent upon access to a broad range of micro-credit and MSME financial services that do not exist at the moment. Flexible savings products linked to a membership drive is clearly a central component to any rebuilding of the microfinance sector.

Despite this great need and opportunity to participate in national re-construction very few national organizations have focused on developing a serious strategy and a plan to expand their work in the region. The cooperatives are among the worst offenders with only a minimal and superficial attempt both by the Cooperative Department responsible for the CRBs and the Thrift and Credit Cooperative Movement.

Of the NGO sector only Agro Micro, SEEDS, Sewa Lanka and TRO have developed a plan or strategy for the region. Here too the progress is late and slow. The cooperative sector and NGO's cite lack of funding as the excuse for not expanding more vigorously in North East region, but equally missing was an honest commitment backed by any clear plan or strategy.

Of the commercial banks only Seylan, HNB and the Peoples' Bank with its Rural Banking Innovation Project (RBIP) project are seriously focusing on microfinance in the region. Most are continuing to put safety and profits first, preferring to wait and see, rather than taking a 'hands-on' role in the reconstruction of the North and East region.

The government has done well to expand the Samurdhi program speedily into the region but it is only in four of the eight districts and still focussed primarily on micro-savings not micro-credit. The programme still appears to be highly politicised, with significant intra-district variances. The introduction of the programme to other areas of the region should be given urgent consideration, particularly to Mannar, that has the lowest micro-savings base in the country.

With over eighty percent of the region's population below the poverty line and a similar figure dependant on self-employment in agriculture, fisheries and small business activity there is an urgent need for small-scale capital for the revival of the region. The government and the World Bank have acted with speed and commitment in this regard by providing broad based support at the community level through NEIAP. However this project alone will not fill the present demand at this level nor will it provide financial access and business development services for SME start up and expansion that is necessary for the economic recovery of the region as a whole.

The government, donors and implementing agencies need to jointly shoulder the responsibility to correct the present paucity of access to financial services through concerted action to urgently establish a supply of sustainable microfinance and financial services throughout the North and East region of Sri Lanka.

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