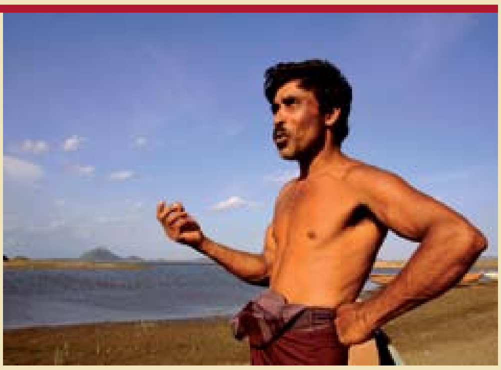
# Review of Post-Tsunami Micro Finance in Sri Lanka



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with the support of IPS, Sri Lanka

May 2008

COOPERATION SRI LANKA FEDERAL REPUBLIC OF GERMANY gtz

Oxfam Novib

Strømme Foundation Help for Selfhelp

Plan 60 years of working with children in Asia

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# Abbreviations and Acronyms

| | |
|---|---|
| ADB | Asian Development Bank |
| AMF | Agro Micro Finance |
| BRAC | Bangladesh Rural Advance Commission |
| CBO | Community based organisation |
| CBSL | Central Bank of Sri Lanka |
| CGAP | Consultative Group to Assist the Poor |
| FGD | Focus group discussions |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit – German Agency for Technical Cooperation |
| HPDF | Habaraduwa Participatory Development Foundation |
| IGA | Income generation activity |
| INGO | International Non Government Organization |
| IPS | Institute of Policy Studies |
| JBIC | Japan Bank for International Cooperation |
| ME | Micro enterprise |
| MFI | Micro finance institution |
| MIX | Microfinance Information eXchange |
| NDTF | National Development Trust Fund |
| OSS | Operational self sufficiency |
| ProMiS | Promotion of the Microfinance Sector |
| PAR | Portfolio at Risk |
| RADA | Reconstruction and Development Authority |
| SEEDA | Social Economic and Education Development Association |
| SEEDS | Sarvodaya Economic Enterprise Services Development (guarantee) Limited |
| SWEIDO | Social Welfare Economic and Industrial Development Organization |
| UNDP | United Nations Development Programme |
| USAID | United States Agency for International Development |
| WDF | Women's Development Federation |

# Executive Summary

The members of the Donor Microfinance Network in Sri Lanka have been interested in evaluating the impact of the Tsunami aid influx, with special reference to the MF sector and thus commissioned a study; ProMiS (GTZ) was assigned with coordination of the study. The donors who supported the study include Oxfam NOVIB, Stromme Foundation, Plan Sri Lanka GTZ, World Bank and ADB.

The objective of the study is to identify, analyze and evaluate the different donor[1] microfinance programs that were established/supported as an immediate response to the Tsunami and the impact of those programs on MFIs and their clients and spillover effects on the MF sector in general. As a second focus, the study provides an evaluation of the impact of the donor programs from the perspective of the clients whom they intended to reach. This information is to provide valuable insight in case of disasters elsewhere and can help the Sri Lankan MF sector to mitigate shortcomings and establish/re-establish good practices.

Four districts that were badly affected by tsunami have been chosen for coverage by the steering committee. These were Galle and Hambantota in the south, and Ampara and Batticaloa in the east. The eastern districts were conflict affected as well. 12 micro finance providers were covered under the study. MFIs with a large branch network, out reach and portfolio in the tsunami affected areas and with operations preferably in both eastern and southern districts to draw comparisons, were chosen. Client surveys were carried out with 360 directly affected clients. Key informant interviews and focus group discussions were the major tools used to elicit qualitative information. Semi structured interviews were conducted among selected microfinance providers, donors and apex funders. The study was carried out in 2007.

The tsunami created severe damage to MFIs and their clients as the study reveals. Loss of records, loan portfolio turning bad due to inability/death of clients to repay loans have been some of the effects on MFIs. Withdrawal of savings leading to fund shortage to lend to borrowers was experienced by a few MFIs in the initial year after tsunami. The major losses to clients have been loss of livelihoods and damage to houses.

Overall, there have been several positive developments due to post-tsunami funding by donors. The supply of funds to MFIs increased manifold and most of the MFIs could expand their operations. The MFIs in general could increase their outreach and saturate the market. Some of the MFIs diversified their portfolio and provided different loan and savings products. MFIs could access competitive sources of funding thus reducing their cost of funds. Additionally, many donors provided technical support to MFIs in MIS and computerisation leading to greater transparency. Donors also developed a network for co-ordination of donor activities in the sector. This was steered by ProMiS (GTZ). Funders have attempted to share information on micro finance investments through this network and also through the ProMiS website (www.microfinance.lk).

However, there is little operational co ordination among multi lateral, bi lateral donors, INGOs and Government. This has resulted in duplication of programmes and expansion in areas which were already

1 Donors include multilateral, bi lateral and International NGOs.

having many access points. The east, though most affected, received less support. Expansion of the operations by MFIs has also led to competition which has led to different results. Many MFIs faced high staff turnover due to expansion of activities in the sector but this gave an opportunity to MFIs to assess and change their HR policies. Operational expenses increased for MFIs due to increase in the salary of staff.

MFIs under study adopted good practices in identifying the needs of clients. Donors have helped some of the MFIs to develop such practices. However, the practices could not be followed smoothly. Though the MFIs intended to target the directly affected if not most affected, there were disbursement pressures.

Overall the design of various donor programmes to the MFIs under study has been found appropriate barring a few. The donor funding to these institutions have been through various instruments such as loan funds to bulk financiers; soft loans to MFIs; grants to augment their loan fund; grants to build capacity of institution and clients and grants to cope with co variant risk faced by local institutions. Grant support to a few MFIs for loan write off had not been appropriately utilised in all cases. There has been imbalance between supply of loan capitalisation funds and capacity building funding. To maintain the expanded scale of operations of MFIs, access to commercial funds is necessary but has not been established, even as the donors seek to end their involvement.

However, not all donors had been strategic in supporting institutions. Several multi sectoral livelihood development programmes that included micro finance components have been funded by donors. Many of these are unlikely to become sustainable providers of microfinance in the long run since they do not have a clear vision, lack systems, financial expertise and critical mass.

The technical assistance by some donors has helped in improvement of systems including loan portfolio tracking system within MFIs. Capacity development of staff and development of suitable risk mitigation products required more attention. The micro banking software supported by GTZ ProMiS has been highly appreciated. Transparency in reporting financial and social performance however, has a long way to go. Portfolio quality reports are the most difficult to find.

Where donors have had core competency in micro finance and supported stand alone micro finance operations of MFIs, there have been vigorous and appropriate monitoring systems in place. However, there are many other donors who have not been rigorous in monitoring. Outreach, portfolio and sustainability indicators do not find a specific mention in their progress and evaluation reports.

The donor funding for post-tsunami relief and rehabilitation of livelihoods has had mixed results for the clients. The clients received more grant support from Government and other NGOs than their MFIs. Some of the MFIs wrote off loans where the borrower had suffered severe damage providing relief to the household. More women were included in post-tsunami programmes and thus access of financial services for women increased. The number of access points increased for the clients thus increasing their access to financial services especially loans. Loan sizes have increased creating an opportunity for clients to take up income generating activity/micro enterprise development.

With clients accessing loans from many MFIs, the overall debt at household level has also increased. However, with not many efforts for development of new opportunities or diversification of income generation activities, some of the clients face difficulties in repaying loans. Although many of the relocated clients could access financial services, they found it difficult to regain their enterprise status since the relocated areas were far away from markets and costs of transportation were high. The client needs for marketing support, business development services have largely been unmet. Overall, nearly 50 percent of the clients at the time of the study felt that their livelihood opportunities have substantially deteriorated post-tsunami, 35 percent felt that there was no change as compared to pre-tsunami and the rest mentioned that the position has improved post-tsunami.

There is a concern that the tsunami led to a flood of grants which has led to creation of dependency at client level. With large donor funded Government programmes insisting on subsidised loans to clients, the MFIs in turn had to offer subsidised loans in the tsunami affected areas. One year after a catastrophic disaster is time enough to stop providing grants and there after cash and in-kind grants should have been given only as an exception. But the grants to clients continued even after two years in some cases and affected the MFIs' performance. The growth in loan portfolio was slower and dependency culture among clients was created.

The key recommendations from the study include the following. MFIs covered under the study have followed the right sequence of relief for community, in-kind grant for enterprises and subsidised loans followed by commercial loans. The key issue has been the length of the period for which the subsidised interest rate should be operational. There has been little clarity on how long subsidised interest would prevail, giving the impression to the borrowers that the cost of credit would be low. While the need to reduce the cost of credit for restoration of livelihoods is well accepted, the subventions should have been separately given as an interest subsidy available to the client for a specified period. This would have enabled the client to appreciate the true cost of the loan and the extent to which s/he is subsidised as also the period up to which it would be available. The resultant transparency would have had a beneficial impact on both the clients and the lending MFIs.

The most affected have suffered deep mental trauma and could not seem to utilise the aid to benefit fully from the same. They required a very different package and longer term of support to provide ideas and hand hold them through the process of rehabilitation.

Networking among MFIs could have helped in reaching out to some of the unreached clients and avoiding excess funding of others. A formal platform of NGOs/MFIs operating in given geographic locations would be helpful in facilitating coordination and exchange of information.

Staff training should receive adequate attention. Key training areas include market research, product development especially savings and insurance and disaster management.

Donors should support only selected institutions that have the capacity and sound business ideas and plans to improve financial services. Donors should assess the feasibility of the plan of the MFIs to access commercial funding.

Donors need to provide coordinated aid. Competitive behaviour among a few donors has to some extent distorted ground level efforts, flooding some areas with relief and starving others. The donors need to form a coordinating body and exchange transparent reports on aid to various organisations. Supporting a few institutions with clear vision, proven track record and capacity to expand services would have worked better than funding many to take up micro finance activity. In areas with many access points, support should be given to institutions which are filling the gaps that are not met by others.

Targets with timelines in relief and rehabilitation tend to take focus away from the clients. At times grants and loans for livelihoods were given to clients before they were physically and mentally ready to commence operations. Post disaster work has to be handled sensitively without excessive focus on targets in physical terms.

The major loss has been records and resultant issues in tracking loans and clients at some of the branches and CBOs. Sound MIS, backing up of data and storage of business data in secure locations are vital requirements for institutions operating in disaster prone areas.

Monitoring systems of donors should include the key indicators to measure the financial performance and health of the MFIs. A study of systems of MFI and appropriate technical assistance to develop accounting and portfolio measurement systems need to form part of the package of assistance by donors. Donors can also insist on MFIs reporting key indicators to a co-ordinating body such as the Donor Microfinance Network co-ordinated by GTZ.

Technical assistance to mainstream savings and insurance services to MFIs and insurance companies, awareness and usage training for clients need to be packaged and supported by donors. Savings and insurance services are needed after the initial loaning post disaster for long term sustainability and enabling coping mechanism of the households.

Aid for disaster relief should be followed by comprehensive livelihood development programmes. Psychological counselling is very important if the most affected have to find their feet. Funds provided for the activities that were pursued by the clients prior to tsunami have worked well. Wherever feasible, the familiar activities should continue to be supported so as to ensure that recovery time for the client is short. The support from donors should be phased to address the needs of most affected and relocated clients since they have serious continuing issues in resuming livelihoods.

# Chapter 1 Introduction

## 1.1. Post-tsunami funding – key issues[1]

The December 2004 tsunami is one of the worst natural disasters experienced by Sri Lanka in recorded history. With over 35,000 dead and over 800,000 displaced it is a disaster of a magnitude that the country was ill equipped to deal with. Thirteen of the country's twenty five districts were affected with the North and East provinces accounting for over two thirds of deaths and nearly 60% of the displaced. Conflict related issues in these provinces further increased the magnitude of the problem. Overall, the north-east was most affected. In the south, the districts of Hambantota, Matara and Galle were severely damaged. Economically the tsunami was a huge blow to the country. Reconstruction and Development Authority, Sri Lanka (RADA) estimates that about 150,000 people lost livelihoods – about 80 per cent of the affected lost their main source of income; 90 per cent lost their productive assets including the abodes. Local economies were also in disarray. Micro and small businesses (including fisheries, tourism, textiles, coir and carpentry) were the activities most affected[2]. As most were in the informal sector they were also not covered by any work related insurance. The task of relief, rebuilding and rehabilitation was huge. By December 2006, almost 80% of the livelihoods had been restored. However, RADA finds identification and targeting the deserving beneficiaries is a continuing problem due in part to duplication, lack of accurate, up-to-date information and the special needs of a sector/district at a given time[3].

There were several issues facing the micro finance sector even pre-tsunami. Several studies[4] bring out the strengths and weaknesses of the micro finance sector. The micro finance market has been pluralistic with high penetration by many different types of institutions, employing a wide range of micro finance models and methods. Micro credit market saturation is high – the number of loan accounts was165 percent of the number of poor. An appropriate legal, regulatory and supervisory framework conducive to micro finance was needed. Bulk of micro credit is funded through Government banks and programmes, through subsidised credit, which is not sustainable. Co operatives are the dominant model with very large outreach especially for savings collection. Many of the micro finance institutions that were functioning in the country were not operating on sound business principles. While these MFIs might be fulfilling their social mission, they were not charging interest rates that would achieve cost recovery. Performance and reporting standards were yet to develop. Capacity building of these institutions was a priority.

Sri Lanka has had a long tradition of informal and Government sponsored savings programmes; there are nearly as many deposit accounts as the number of people in the country. More than 40 funding agencies ranging from public donors, international investors, INGOs, ministries and local private investors support micro finance. The total micro finance budget of donors, according to CGAP, for the period 1999

1 CGAP,2006, Micro Finance In Sri Lanka- Interview with Dirk Steinwand and Eric Duflos,
CGAP,2006, Country Level Effectiveness and Accountability Review, Sri Lanka.
CGAP, 2006, Post-tsunami Funding: stories from Sri Lanka.
CGAP,2005, Beyond Survival – How today's Tsunami aid can help fight poverty in the long run.
GTZ Promis, 2005, Lessons learned from implementing micro finance in post-tsunami environment, presentation in New Delhi by Dr.Dirk Steinwand.
OXFAM NOVIB,2006, Three evaluation reports of Post-tsunami funding.

2 ILO (2005), Rapid assessment of the tsunami's impact on livelihoods in affected areas in Sri Lanka

3 RADA,2006, Income Recovery programme.

4 ADB, 2002, Commercialisation of micro finance in Sri Lanka; Aus Aid and GTZ, 2002, National Micro Finance Study of Sri Lanka, Survey of policies and Practices;

– 2005 was nearly $ 200 million. The wide spread damage caused by the tsunami evoked a strong response from the world community and aid poured into Sri Lanka. According to a World Bank report, post disaster spending in Sri Lanka amounts to $ 1000 per capita, compared to the typical $ 25 to $ 70 per capita spent in the case of past catastrophes. For micro finance alone, funders have reportedly committed over $ 85 million for 2005 to be spent in next years.

Donors like UNDP, ADB, and JBIC provided micro finance through bulk financiers like Central Bank and NDTF. These apexes have insisted on interest cap on end borrower, usually at 6 percent declining balance, which by some accounts is only a third of what should normally be charged by the institutions to recover their costs. While the interest cap may be monetarily beneficial to affected clients in the short run, the long term effect on institutions, especially micro finance institutions, is likely to be adverse. Moreover, going by the past experience of providing subsidised credit, the key issue likely to be faced is that the formal institutional credit may not reach those affected most[5]. UNDP has rightly concluded[6] that participating credit institutions (usually regulated by Central Bank) tended to lend to those who were credit worthy and could furnish collateral. MFIs and CBOs have been more successful in reaching the neediest.

Many donors supported short term and medium term initiatives of post-tsunami rehabilitation through NGO/MFIs. Micro credit was usually an additional component to multi sector programmes funded by donors leading to proliferation of micro credit programmes. While the loan funds provided to micro finance/banking institutions with good track record and systems are likely to have been utilised and recycled effectively, such funds provided to the multi purpose organizations with little specialised expertise in micro finance, are not likely to have been utilised sustainably. Some donors created new institutions for disbursing credit rapidly. How far these new MFIs will be sustainable is a concern since the country had many credit access points especially in the south, even pre-tsunami.

Several MFIs were also involved in providing aid and later in loans (business). CGAP has observed that some of the well established institutions provided relief in a strategic manner. With many new organisations setting up operations in the affected areas, the short term effect on even some of the well established institutions has been severe. The clients of these institutions have been targeted by other organisations with cash grants etc., since there has been very little co ordination. A few donors have also been pressurising MFIs to distribute cash grants. There are several lessons to be learnt from the experience gained so far.

Targeting can be an issue; CGAP has reported that with aid efforts targeting the most affected defined in terms of some professions, locations etc., these households get more aid and thus become better off post-tsunami than those in the same villages who were not *most affected* by tsunami. This leads to equity issues at community level and hence some of the donors have expanded the programme outreach to indirectly affected households, villages and districts as well. However, whether the directly affected households could get the micro finance services to revive and continue their income generation activity (IGA)/micro

5 In case of macro level loan schemes such as Susahana, beneficiaries are required to provide a police report and a letter from the Grama Niladhari (The government official who links the village people with the public civil service), confirming that they are tsunami affected. Whilst this may deter deception or fraud on the part of beneficiaries to some extent, it could also work the other way. It may be difficult for some to obtain police reports especially if all their documentation has been destroyed. Furthermore in some cases, Grama Niladhari's may not certify damages without extorting a fee from beneficiaries first. This could result in the non target group people obtaining funds.

6 UNDP, 2006, Looking back and looking forward, UNDP and Post-tsunami recovery in Sri Lanka.

enterprise (ME) needs to be studied.

Moreover, some regions though severely affected by tsunami, had been suffering from conflict related problems and there are not many access points for micro finance services in these districts. There can be regional difference in the revival and continuity of the IGA/micro enterprises in these regions.

The Donor Microfinance Network in Sri Lanka is a forum which is committed to working together for the sustainable development of the MF sector in Sri Lanka. The Network and its members have been interested in evaluating the impact of the Tsunami aid influx, with special reference to the MF sector, especially in view of the key issues narrated above. Some members of the Donor Microfinance Network viz, Oxfam NOVIB, Stromme Foundation, Plan Sri Lanka, GTZ, World Bank and ADB supported the study and ProMiS (GTZ) was assigned with coordination of the study. The study "Review of Post-tsunami Micro Finance in Sri Lanka" was carried out by Mrs. Girija Srinivasan, Consultant with the support of a team of researchers from the Institute of Policy Studies and Mr. Eranjith Padmakumara and Mr. Joseph Emilrajan, Financial Analysts. IPS carried out the client level survey and the financial analysts conducted the financial analysis of the operations of the MFIs.

The review team would like to thank all those who gave their valuable advice and time and supported the team in fulfilling its task.

# Chapter 2 Study design

## 2.1. Study objectives

The operational environment for the Sri Lankan MF Sector and Institutions (MFIs) has changed considerably post-tsunami with the influx of a considerable amount of donor funds which were channeled through grants, soft loans, subsidies etc. Many of the MFIs who had no operations in the affected areas, set up new branches in these areas to be able to engage in tsunami relief activities. Many MFIs started providing loans with low or zero interest, soft terms and also grants in cash and in-kind. These changes were mainly driven by donor funded relief programs which included microfinance and livelihood recovery components.

The objective of the study is therefore, to identify, analyze and evaluate the different microfinance programs that were established/supported by donors as an immediate response to the Tsunami and the impact of those programs on MFIs and their clients and spillover effects on the MF sector in general. The donor programmes are essentially implemented through various institutions. Since these institutions are reaching out to the clients and they may have accessed a variety of donor funds/implemented more than one programme, the study focused on institutions that were predominantly reaching out to the tsunami affected population. Thus micro finance institutions that implemented the programmes were selected for study rather than the donor programmes.

As a second focus, the study provides an evaluation of the impact of the donor programs from the perspective of the clients whom they intended to reach. This information is to provide valuable insight in case of disasters elsewhere and can help the Sri Lankan MF sector to mitigate shortcomings and establish/re-establish good practices. Recommendations as to how to reach this final goal of improving the MF sector in Sri Lanka with the insight gained is one of the main results of this study, together with recommendations for the donors on how to influence these improvements. Another key outcome of the study is in the form of "lessons learned" on the effectiveness and impact of different strategies at the different stages of a post-disaster situation.

The objectives of the study are

1. To carry out a survey to assess the impact and effectiveness of post-tsunami microfinance programmes in Sri Lankan MFIs and clients and to identify spill over effects of these programmes on the micro finance sector.

2. To identify lessons learnt on post-tsunami funding for micro finance.

3. To provide recommendations to donors to adjust their concepts, policies and practices for development of the sector.

Clients who were directly affected by the tsunami were considered to be the target client group for study. The directly affected clients were defined as those that have lost one or more of the following. a) Lost assets, b) lost house and household goods c) family members including dependents, d) lost livelihoods (jobs) on account of employers' assets/life having been lost. Special emphasis has been on clients who are relocated; especially the constraints experienced by them in pursuing their livelihoods. Tsunami has also created many women headed households, first time entrepreneurs, new poor i.e. low income groups who were severely affected. How far the MFIs have been able to provide need based services to them has been studied. The key impact for the purpose of this study has been taken as revival/setting up of IGA/ Micro enterprise. The effectiveness of MFI in reaching the affected households and meeting genuine client needs; the timeliness and adequacy of finance extended to revive IGA/micro enterprise was studied. The impact on household and enterprise - assets, income, expenditure etc., have not been included in the terms of reference probably because these impacts stabilise over a longer period of time; may be three to four years in case of directly/severely affected borrowers. Impact also depends on how long the client has been with the micro finance programme, the household's access to other financial services etc., Hence the study did not focus on individual, household and enterprise level impacts on assets, income and expenditure, employment etc., However, clients' perception on their living standards pre and post-tsunami has been captured. The regional differences in the impact at client level have also been analysed.

The donor funding to micro finance institutions has been through various instruments such as loan funds to bulk financiers; soft loans to MFIs; grants to augment their loan fund; grants to build capacity of institution and clients and grants to cope with co variant risk faced by local institutions. The response of the micro finance institutions to the client needs has been varied. While some have been involved in need based relief and continuing to channel grants, others have been focusing on micro finance only. The study covers the practices of micro finance institutions in different stages – relief and restoration. The processes adopted in assessing the client needs and providing responsive services have been studied to draw key lessons.

Some of the institutions faced severe competition with the entry of more players at the grass root level especially from those who were not following good practices of micro finance. The difficulties faced by these institutions (client drop out/inactivity, staff attrition, portfolio quality), their coping mechanisms (communication strategy, changes in policy, product introduction and changes), was studied in detail. Overall the effect of these changes on the efficiency, portfolio quality and profitability of the institutions has been assessed[1]. Pre and post-tsunami comparisons were drawn by analysing the trend for the last three years. The growth of the institution and the extent of its dependence on donor for continued working have also been studied in respect of the selected institutions.

How far donors have been able to influence emergence of best practices with regard to their products, procedures and setup and strengthen the institutions has been a focus area of the study. The study analysed these strategies, and evaluated their relative impact and effectiveness, and comments on whether the strategies and practices adopted had an effect on the long term sustainability of these MFIs.

1 For the People's Bank, micro finance portfolio to overall portfolio is very small even at branch level. Hence post-tsunami impact on profitability of the micro finance portfolio at branch level was not studied.

## 2.2. Hypotheses tested

The donor interventions through appropriate funding led to :

At the client level

- Restoration/revival of livelihood activities
- Improved livelihood opportunities
- Diversification of IGA achieving reduction of covariant risks

At the MFI/Bank level

- Clear targeting of the most deserving post-tsunami clients was possible
- Improved processes expedited response to clients
- Product innovations to suit post-tsunami situation designed
- Expanded the scale of operations of MFIs
- Improved efficiencies/profitability

At the donor level

- The interventions were the most appropriate for the local conditions
- The designs encouraged MFIs to expand involvement in a strategic and sustainable manner.
- The designs ensured good practices of micro finance to be followed.
- Monitoring systems measured performance of implementing MFIs/banks periodically and influenced mid-course correction whenever warranted.

Sectoral level

- The interventions have improved the adoption of good practices in micro finance services.
- The reporting and performance measurement standards have been improved.

The results of the hypotheses tested are presented in Chapter 6. Some of the key questions that were explored during the study are given in annexure 1.

## 2.3. Data collection tools and methods

The data for the study was collected both by qualitative and quantitative techniques. Client surveys were carried out. Key informant interviews and focus group discussions were the major tools used to elicit qualitative information. Secondary data was collected from published and unpublished reports, newspaper articles and records maintained by micro-finance organisations. Semi structured interviews were conducted among selected microfinance providers, donors and apex funders. Outline of study tools by level of enquiry is given in annexure 2.

## 2.4. Sample

Four districts have been chosen for coverage by the steering committee – Galle, Hambantota, Ampara and Batticaloa. The criteria used for selection of MFIs, branches, CBOs, clients are given in annexure 3. Keeping the criteria in view, the following institutions were selected for study.

Table 1 - MFIs studied

| NAME OF ORGANIZATION | GALLE | HAMBAN-TOTA | AMPARA | BATTI-CALOA |
|---|---|---|---|---|
| People's Bank | | ✓ | | ✓ |
| Arthacharya Foundation | ✓ | ✓ | | |
| Sewa Lanka | ✓ | | ✓ | |
| BRAC- Sri Lanka | | ✓ | ✓ | |
| Habaraduwa Participatory Development Foundation | ✓ | | | |
| Social Welfare Economic and Industrial Development Organisation (SWEIDO) | | | ✓ | |
| Women's Development Federation (WDF) | | ✓ | | |
| Sareeram | | | | ✓ |
| SEEDS | ✓ | | | ✓ |
| MFI selected on the basis of peer discussion | Agro Micro Finance | Sanasa | Sanasa | Social Economic and Education Development Association |

A brief write up on the operations of each MFI is included in annexure 4.

Two CBOs from each branch were chosen for study in consultation with the branch manager and staff. In all, 360 clients were surveyed – 200 from the south and 160 from the east. The women clients surveyed were 170 from the south and 112 from the east, totaling 282, thus forming 78 percent of the clients interviewed. Apart from in depth survey of clients, FGDs were also conducted with some of them, focusing on qualitative parameters. Where possible, FGDs covered clients who were relocated /still in camps.

Two key informants on an average were selected for each branch; these were individuals based in close proximity to the CBOs. Key informants were Grama Niladhari, Samurdhi Officers[2] or School Principals. Overall they had the ability to comment on the post-tsunami credit environment.

2 "Samurdhi" is a Government sponsored poverty alleviation programme and Samurdhi Officer is the grass root level official who directly deals with the clients on behalf of the government.

Table 2 - Sample size

| DETAILS | HAMBANTOTA | GALLE | AMPARA | BATTICALOA | TOTAL |
|---|---|---|---|---|---|
| Total branches | 5 | 5 | 4 | 4 | 18 |
| Total villages | 10 | 10 | 8 | 10 | 38 |
| Average Client per branch | 20 | 20 | 20 | 20 | |
| Client Survey | 100 | 100 | 81 | 80 | 361 |
| FGD with clients – one per branch* | 10 | 10 | 6 | 6 | 32 |
| FGD - relocated,/ still in camps | 3 | 6 | 0 | 2 (in camps) | |
| Key informants – one/ two per village | 9 | 7 | 10 | 6 | 32 |

* Can be the same clients as those covered under survey.

The list of villages, CBOs covered, FGDs with clients, and key informants is given in annexure 4.

## 2.5. Time frame of the study

The study design was pilot tested in Arthacharya Foundation, in May 2007. The main field work was carried out between May and August. The financial analysis of the MFI operations was carried out between August and December 2007 since availability of audited reports was delayed in some MFIs. The list of people met is given in annexure 5. Institute of Policy Studies of Sri Lanka carried out the field research with a dedicated team comprising Ms. Ganga Tilakaratna, Ramali Perera, Ayodya Galappattige and Roshini Jayaweera. Financial analysts, Mr. Eranjith Padmakumara and Mr. Joseph Emilrajan, carried out the financial analysis of performance of MFIs.

## 2.6. Constraints

Reaching the eastern districts posed problems because of security issues. While the client level data could be gathered, the CBO and MFI level financial data has been difficult to obtain.

The lack of data on outreach and performance indicators at MFI level has been widely acknowledged. Some of the MFIs do not prepare the financial statements and reports on the micro finance operations separately. It has been difficult to gather separate data for micro finance operations from MFIs in the east. Not many of the selected institutions had acceptable norms of reporting. Performance data was difficult to obtain in some of the institutions. In such cases of severe data inadequacy, at best, the study highlights the difficulties and shortfalls in the systems that require attention.

## 2.7. Acknowledgement

The study team places its deep appreciation to Dr. Dirk Steinwand and Ms. Roshini Fernando, GTZ ProMiS, for their timely advice and backstopping the study effectively. Our gratitude to the donors, especially the steering committee, for taking the initiative for commissioning this crucial study and providing critical feed back during the course. Our sincere thanks to all the MFIs, CBOs and their clients, for sparing their valuable time and extending co operation for the study.  Our special thanks are for the key informants who provided qualitative information.

# Chapter 3 Extent of loss for MFIs and clients

## 3.1. Extent of Loss/Damage: Institutional Comparison

All 12 institutions covered, suffered losses from the tsunami; the extent of loss depended on distribution of branch network and geographic concentration of portfolio. WDF, based in only one district and with operations in coastal villages, suffered heavier losses compared to larger institutions such as SEEDS with a diverse portfolio covering nearly all the districts in the country.

Table 3 - Extent of loss of MFI clients and effect on MFI

| MFI | DAMAGE TO CLIENTS | EFFECT ON MFI |
|---|---|---|
| Arthacharya Foundation | • 43 CBOs operating in Galle and Hikkaduwa branches were severely affected.<br>• Nearly 200 out of the 400 client CBOs functioning were directly or indirectly affected by tsunami.<br>• About 55 percent of clients were directly affected. | • Rs. 1.3 million loans representing 4 percent of loans outstanding in 2004 had to be written off .<br>• Savings withdrawal by clients was not high post-tsunami since Government provided Rs.5,000 for meeting household cash needs. |
| Habaraduwa Participatory Development Foundation | • 23 CBOs, amounting to 32 percent of the total client CBOs, were affected.<br>• 11 members died.<br>• 762 members (22 percent of total) were directly affected.<br>• Livelihoods of 498 members severely affected. | • Rs.2.4 million amounting to 13 percent of loans outstanding were affected.<br>• No loans have been written off.<br>• Savings withdrawal by clients was not high post-tsunami since Government provided Rs.5,000 for meeting household cash needs. |
| SWEIDO | • 288 out of 291 client CBOs in Ampara district were affected.<br>• Livelihoods of 1,439 clients out of 1,454 of the branch were affected. | |
| WDF | • Out of 3,5000 members as of Dec 2004, 184 died.<br>• 159 members lost their husbands,<br>• 1,500 members lost at least one family member.<br>• 2,000 members lost property.<br>• Rs. 6 million worth of enterprises were lost. | • Rs.6.5 million, amounting to 14 percent of outstanding loans, had to be written off.<br>• 5 full time staff and 16 voluntary staff died.<br>• Most of the staff had suffered personal loss. |
| Sareeram | • Livelihoods of about 80 percent of the clients were affected. | • Rs 7 million written off during the year 2006 in respect of loans in tsunami affected areas.<br>• The MFI faced funds shortage due to loan write off. |

| MFI | DAMAGE TO CLIENTS | EFFECT ON MFI |
|---|---|---|
| SEEDS | • 38 societies fully destroyed.<br>• 48 partially damaged. 11 % of client CBOs were affected.<br>• 754 society members were killed.<br>• 10,385 members (3.5% of total) were affected. | • Loan portfolio of Rs.52 million was affected, amounting to 6 percent of the total portfolio.<br>• No loans have been written off.<br>• Societies withdrew savings*. |
| Sanasa | • 384 Sanasa societies were affected.<br>• 40,000 members left homeless. | |

Note – BRAC, SEWA Finance and SEEDA commenced operations in these districts post-tsunami. Agro Micro Finance did not provide details.

* SEEDS Batticaloa had to cope with significant withdrawal of savings by clients. This led to a shortage of funds to deal with increased loan demand. The support from Sarvodaya - the parent NGO - was timely but still the branch staff felt that they could not meet the client needs fully since the client demand peaked with most of the clients demanding loans at a time.

During the relief period ranging up to March 2005 in the south and June in the east, MFIs report that transactions were limited in the tsunami affected area. The effect on MFIs could be assessed only by March 2005.

## 3.2. Loss to clients surveyed

The survey covered 360 directly affected clients of MFIs. The nature and extent of damage suffered by these clients are presented in the table below. Out of 360 surveyed, 325 had suffered multiple losses.

Table 4 - Extent of damage to clients

| Loss or Damage | NUMBER AND % OF CLIENTS AFFECTED IN THE DISTRICT | | | | | | |
|---|---|---|---|---|---|---|---|
| | Galle | Hambantota | Ampara | Batticaloa | Total | % of clients | % of women |
| Loss of family member(s) | 8 | 28 | 11 | 4 | 51 | 14 | 9 |
| Complete damage to house | 35 | 28 | 30 | 33 | 126 | 35 | 29 |
| Partial damage to house | 53 | 21 | 43 | 14 | 131 | 36 | 30 |
| Loss of workplace/livelihood | 63 | 71 | 32 | 45 | 211 | 58 | 47 |
| Partial damage to workplace/livelihood | 35 | 38 | 28 | 26 | 127 | 35 | 25 |
| Loss of clients/market for products | 90 | 96 | 59 | 69 | 314 | 87 | 67 |
| Loss of links to general day to day needs (shops, institutions etc) | 51 | 76 | 10 | 13 | 150 | 41 | 34 |
| Providing for relatives who were directly affected | 1 | 4 | 12 | 4 | 21 | 6 | 4 |
| Other | 1 | 1 | 0 | 0 | 2 | 0.6 | 0.6 |

Nearly 87 percent of clients have suffered losses to their livelihoods - either due to complete or partial damage to workplace or equipment, or damage to market place and/or lesser sales since their clients were affected by tsunami. Livelihoods of clients were significantly affected in all the districts with clients from Hambantota and Galle reporting to be the worst hit. Damage to houses was a serious issue faced by clients from the east.

The state had responded to the emergency through various grant supports. The grants were provided through the state owned banks and funding was obtained from a consortium of donors (namely, World Bank, ADB, Swiss Development Co operation and others)[1]. For the purpose of distribution of the monthly cash grants, bank accounts were opened for all the beneficiaries in order to facilitate the distribution process. This had the added benefit of creating accounts for many who were not part of the formal financial sector. In addition to this, the state also undertook a number of measures for rebuilding of houses for tsunami affected households.

1 IPS (2005) State of the Economy 2005

# Chapter 4 Livelihood promotion post-tsunami and impact on clients

## 4.1. Client needs during relief period

The client needs during this phase were for fulfilling basic needs such as clean water, utensils for cooking, shelter, medicines etc., which is nonfinancial in nature. Clients required cash for meeting some expenditure such as transportation, medicines and food. In the south, the MFIs provided in-kind relief for the first 3 months, whereas all MFIs in the east had continued the relief efforts up to about 6 months.

Table 5 a - Client needs during the relief stage

| CLIENT NEEDS | FINANCIAL NEEDS | NON-FINANCIAL NEEDS |
|---|---|---|
| | Needs are more for non-financial support. Cash was needed for transportation, medical treatment, food and clothes. | Needs were mainly for consumption items such as food, medicine, water, utensils and temporary shelters. |
| Response of the MFIs | • The MFIs under study did not provide cash grants. | • All MFIs provided support to their clients in the form of dry rations, medicines, water, temporary shelters and kitchen utensils. In some cases counselling services were also provided. |
| Response of State/ Government | • Rs. 2,500 for lost cooking equipment. Rs. 5,000 monthly allowance (for 4 to 6 months) for directly affected families*.<br>• A weekly tsunami coupon of Rs. 375 was provided (for 10-12 weeks, but varies) with a Rs. 200 cash component and Rs. 175 food ration available through the Multi Purpose Co-operative Societies. | |
| Response of Other NGOs | • Assistance obtained from various NGOs was extensive. Cash grants were obtained for immediate consumption items, shelters etc. | • A larger number of clients have obtained in-kind grants for general consumption, household items, sanitation and temporary shelters. |

* Eligibility criteria are not strictly defined and discretion is left to the Grama Niladhari. This grant, a start up allowance, was provided to tsunami affected households through People's Bank and in some cases, Bank of Ceylon. The distribution of this grant has been reported to be ad hoc, with families obtaining different number of instalments.

All MFIs under the study provided support not only to their clients but also to the entire affected community in the initial relief period. A few MFIs were involved in clearing of debris. Arthacharya in Galle helped clean up houses, BRAC cleaned wells as they had been polluted. HPDF, SEEDS, Agro Mart, (the NGO promoting Agro Finance) arranged for counselling services for the severely affected families. However, none of the MFIs provided cash grants during this phase. As per the client survey, 8 percent of the clients obtained in-kind grants and 5 percent of the clients obtained loans from their MFIs for non income generating activities during this phase. Whilst these numbers may seem small, the majority of clients have obtained many forms of support from the government, and from other NGOs.

Nearly 21 percent of the clients surveyed had obtained cash grants from other NGOs for various consumption needs. 47 percent clients received in-kind grants from other NGOs in the form of household items, water and sanitation, temporary shelters etc., State support during this phase was predominantly cash grants. 54 percent of the clients obtained state support in the form of cash for relief measures (other than housing). However, there appears to be a disparity across regions. Nearly 75 percent of the clients from the south had received state support where as the corresponding figure for the east is only 28 percent[1]. Overall only 10 clients from the south did not receive any aid during this period. All clients had received aid in the east.

Focus group discussions with clients were held to assess their satisfaction with the support provided by the MFIs. Out of 18 branches covered under the study, in 8 branches in the east, clients felt that the MFI had not responded to their needs for grants such as clothes, shelters, small financial needs for purchase of medicines etc. In the case of People's Bank which was dispensing the Government programme, clients felt that the services were delayed.

*Thus the MFIs under study have provided need based, in-kind support during this phase. They extended support often for the entire village/community. None of them provided cash grants. Clients overall have received more in-kind grants than cash grants. The support received by the clients in eastern districts from all sources – MFI, state, other NGOs - appears to be inadequate compared to their needs.*

## 4.2. Client needs during recovery and revival

The recovery and revival phase commenced 3 to 6 months after the tsunami struck. The duration of the recovery period varies in different districts, MFIs and clients. Major client needs during this phase were for rebuilding houses and restarting income generation activities. The needs were for both cash and in-kind grants. Clients also needed technical support such as training, business development services. The client needs and the response from MFIs and others is presented in table below;

1 Out of the clients surveyed many got support from the state for their housing needs in the east and not for basic needs.

Table 5 b – Client needs during recovery and revival

| CLIENT NEEDS | NON INCOME GENERATION ACTIVITIES | | INCOME GENERATION ACTIVITIES | |
|---|---|---|---|---|
| | Financial Needs | Non Financial Needs | Financial Needs | Non Financial Needs |
| | • Cash for rebuilding houses | • Building Materials, Housing<br>• Household items (furniture)<br>• School equipment for children | • Cash for re starting businesses | • Machinery and operating materials for IGA<br>• Training, market assistance |
| Response of the MFI | | • Some household items such as furniture were provided by MFIs.<br>• School equipment also provided by a few such as WDF. | • Most MFIs provided low interest loans to restart businesses.<br>• Sewa Lanka provided cash grants to restart IGA. | • Many MFIs provided in-kind grants of machinery and/or equipment to restart IGA. |
| Response of State/ Government | • Clients obtained cash grants to rebuild their houses.<br>• Rs. 100,000 for partially damaged house<br>• Rs. 250,000 for fully damaged house<br>• Rs. 500,000 loan after progress on house (there was only one case like this) | | • Under the Susahana loan scheme funds were provided to partner organisations at 2% and to end borrowers at 6%. | |
| Response of Other NGOs | • Other NGOs and well wishers contributed large sums for the rebuilding efforts.<br>• There were a number of new housing schemes funded by various parties that were setup.<br>• 76 clients had obtained 87 grants from Other NGOs for housing purposes. | | • Clients have obtained loan from other MFIs/ NGOs. | • Machinery and operating materials (cloth, coir, items for sale in small shops) |

To rebuild their houses, 31 percent of the clients obtained cash grants from the Government and 25 percent from other NGOs. None of the MFIs under study provided cash grants for this purpose. Housing needs were largely unmet.

Many of the MFIs being studied provided in-kind grants of machinery and/or equipment (such as coir machines, sewing machines, boats, fishing nets, ovens etc) to restart IGA. Arthacharya, SEEDA, SARE-ERAM did not provide any cash or in-kind grants for income generation or revival of IGA. 20 percent of the clients have received in-kind grant for income generation activities from their MFIs under study.

12 percent of the clients have obtained in-kind grants for income generation activities from various other NGOs and other MFIs. These percentages are not mutually exclusive.

No MFI under study provided any cash grants for income generation activities during the revival period. In the case of two MFIs, cash grants were provided through the parent NGOs. Agromart provided Rs. 3,000 each for 50 businesses and for sanitary facilities while Agro Micro Finance provided loans. Sewa Lanka Foundation provided cash grants of Rs. 5,000-25,000. Clients had to contribute 20% of cost. While most MFIs completed in-kind support by middle of 2006, a few like Agro Micro Finance, continued to provide in-kind grants during 2007.

All the MFIs provided loans for income generation activities during this phase at subsidised interest rates. 96 percent of the clients received loans from the MFIs under study for re starting their businesses. 42 percent of the clients took loans from other MFIs/NGOs as well. Two MFIs commenced lending in the affected areas as early as January 2005. 7 others commenced by March 2005. In the initial phase loans were provided at zero interest (BRAC and WDF) or at subsided rates of 6 to 8 percent. Rates have slowly returned to the market level from early 2007.

Clients overall are satisfied with the efforts of MFIs. There was general concern that their housing needs went largely unaddressed. Some MFIs (e.g. SEEDS) had varied experience. The MFI had provided in-kind grants for economic activities only to their clients whereas the entire village was expecting such support. This created altercations and disturbance in the community, particularly in the east. However, in Galle, the Institution, with the support of Sarvodaya, the parent organisation, built 1200 houses and partially funded furnishing them. Since most of such assistance was for non members of SEEDS, the long term clients of the institution were upset and threatened to stop repayment of loans.

*Overall, for relief and recovery, 66 percent of clients obtained some form of support from the government though there appears to be disparity between the south and the east. 81 percent of the clients in the south had obtained at least some support from the state whereas this figure was only 48.1 percent for those in the east.*

## 4.3. Livelihood development strategies of MFIs

Livelihood development activities in a post disaster situation can include short term activities such as cash for work, cash grants and in-kind grants and long term activities such as micro finance, skills training, and business development services, including marketing services. MFIs had developed their strategies for livelihood revival of clients. Some of the different strategies are presented below

BRAC has been working in disaster prone areas and has well developed strategies for revival of livelihoods. BRAC, which worked only in tsunami affected areas in Sri Lanka, categorised the affected into three – i)widows who lost property and women headed households, ii)women with disabled husbands and iii)households that lost all property, and the poor. The first category was considered as the most affected and given priority. BRAC consulted Grama Niladhari in identifying the most affected. As a sequence of activities, BRAC provided first in-kind grants, then zero interest loans and there after loans at commercial rates. BRAC assessed the individual enterprise needs and provided up to Rs.15,000, usually for materials, as in-kind grant. BRAC found that many of the households received capital assets as in-kind grant but were unable to use them for want of raw material and inputs for commencing production. The materials were purchased together with the clients to ensure standard quality. An asset book was provided to each client and the utilisation of the assets was checked by the staff[2]. For every 100 clients, one staff member was placed who contacted the clients on a weekly basis in the initial one year to help them to revive their livelihoods. Options were provided to clients on loan duration, when loan was provided.

SEWA Lanka Foundation carried out extensive relief operations especially in the east and north. The organisation categorised the affected community into three categories – fully damaged (loss of lives, completely damaged house, loss of livelihood), partially damaged (loss of goods in house or business place) and minimal damage to person or livelihood. Priority for grants was given to relocated clients. SEWA Lanka Foundation had no previous experience in micro finance. The organisation initiated micro finance activities post-tsunami since the CBOs were in disarray. Since there were several other organisations involved in micro finance, SEWA Lanka engaged consultants to arrive at organisational strategy for revival of livelihoods. Based on this input, three major initiatives were planned – grants, loans and livelihood development services. Out of Rs. 400 million grant support received by Sewa Lanka nearly 100 million was given as grants to households, 90 million was given as loans and 210 million was given as grant cum loan. The loans are to be returned by the borrowers to SEWA Finance. Thus the MFI did not provide direct grants to clients. Sewa Lanka set up a Business Development Services unit with 10 dedicated staff who trained the field officers in developing a business plan for each household. 100 staff members were deployed to develop a simple livelihood plan for each household. The plan had details of capital requirements and the field officer decided whether grant, loans or grant cum loans were to be provided to the household. No new businesses were initiated among clients; only old livelihoods, for which the clients had skills, were revived. Nearly 7,000 households have been supported for livelihood interventions. Most of these families are from the north and east where not many MFIs or NGOs are operational.

Arthacharya categorised clients into directly affected and indirectly affected. Persons who could not fulfil even their basic needs such as housing were identified as directly affected. Indirectly affected are those who lost only their livelihoods. Arthacharya provided in-kind grants for consumption purposes during the relief period. It convinced its donors to allow it to provide loans and not grants for livelihood revival[3]. The major strategy was to provide low interest loans to revive businesses. Arthacharya did not provide any new training for its members since clients were engaged in enterprises pre-tsunami. Only new women clients who were first time entrepreneurs were provided "start your business" training. Loans were provided as early as February 2005 for revival of livelihoods and the most affected were provided loans in April 2005.

SEEDs, apart from conducting participatory appraisal of needs, involved the CBO officials and where possible, the Grama Niladhari, in finalisation of needs for grants to the clients[4]. The field staff were also trained in conducting the need assessment and communication with clients. SEEDS provided a package of loan at low interest rates, training for business revival and new skills and positive thinking programme for psychological well being. Grace period of up to 3 months for loan repayments was provided to clients affected by the tsunami.

HPDF had categorised the most affected as those who lost the breadwinner and property. The MFI in

2 BRAC Kalmunai has reported that a few clients had mis-utlised the grants.

3 The MFI faced many issues because of this strategy.

4 The institution has specifically acknowledged the funding by NOVIB to undertake this exercise.

the initial phase did not target the most affected for IGAs since they were psychologically not prepared to undertake any livelihood activities.

*The MFIs adopted good practices in identifying client needs. The sequencing of post-tsunami efforts for livelihood reconstruction was appropriate in the case of most MFIs. Emergency relief, followed by in-kind grants, soft loans and then normal loans was the sequence adopted by many. Grant provision has increased loyalty and has helped clients in their path to recovery. However, the lending business of the MFIs has decreased during that period. However, some MFIs felt that the soft loans for a prolonged period were not critical for livelihood revival and on the other hand created dependency syndrome.*

## 4.4. Forms of Support extended by the MFIs post-tsunami

Almost half the clients (49%) joined the MFIs under study after the tsunami. In the case of BRAC, which only commenced operations in Sri Lanka in 2005 as a result of the tsunami, all the clients joined post-tsunami. In the case of the People's Bank Batticaloa branch also, the majority of clients were new clients since Susahana loan scheme was operated through commercial banks.

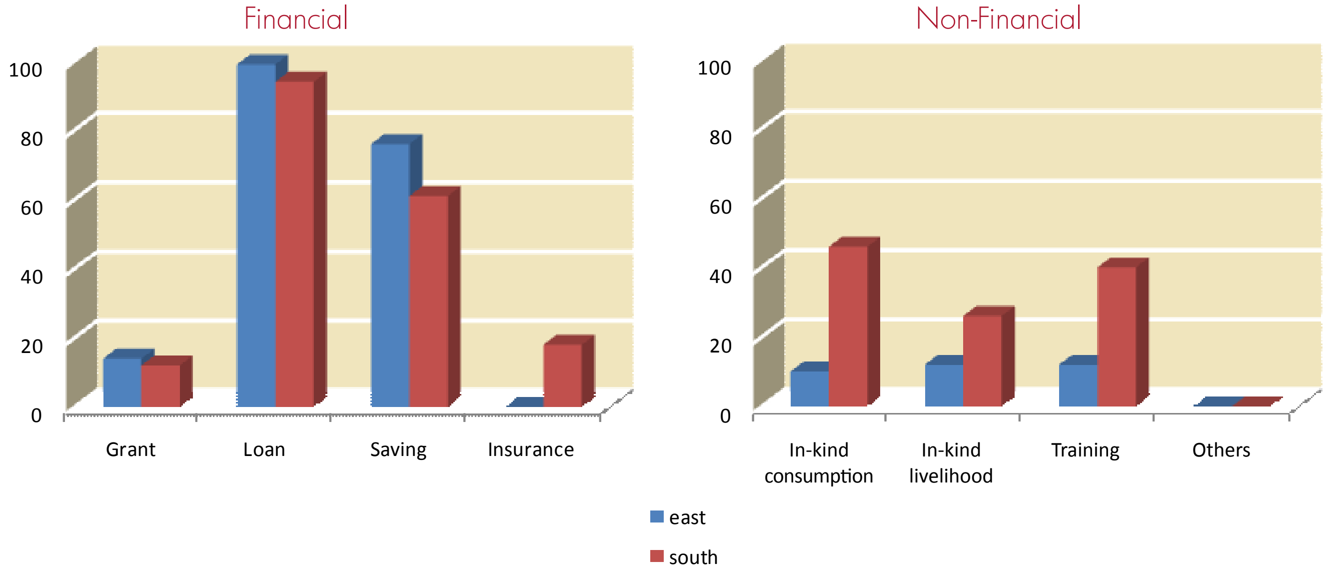
The type of livelihood development support provided to new and existing clients is illustrated below.

Table 6 – Services to clients by MFIs

| | FINANCIAL ( in percentage) | | | | NON-FINANCIAL ( in percentage) | | | |
|---|---|---|---|---|---|---|---|---|
| | Grant | Loan | Saving | Insurance | In-kind consumption | In-kind livelihood | training | other |
| after[a] | 7 | 95 | 59 | 7 | 23 | 14 | 24 | 0 |
| before[b] | 19 | 98 | 76 | 13 | 37 | 26 | 31 | 2 |
| total[c] | 13 | 96 | 68 | 10 | 30 | 20 | 28 | 1 |

Percentages calculated as a % of clients who joined a) after b) before and c) total

Chart 1a & b - Services to clients by region (in percentage)



Over 96 percent of clients have obtained loans from the MFI and over 68 percent have saved. Insurance service is not reaching many. The cash grants has been reported by 13 percent of clients who had received such grants from the parent NGO of MFIs. In terms of in-kind and other non-financial support, 30 percent of clients have obtained in-kind support for consumption and nearly 28 percent have received some form of training from MFIs. 20 percent had also obtained in-kind support for income generating activities. Overall, clients who have been with the MFIs even prior to tsunami have received better support.

Comparison between the two regions, however, brings out sharp differences. Insurance service has not been available to any clients from the east. The non-financial support has also reached fewer of the clients in the east as compared to the south.

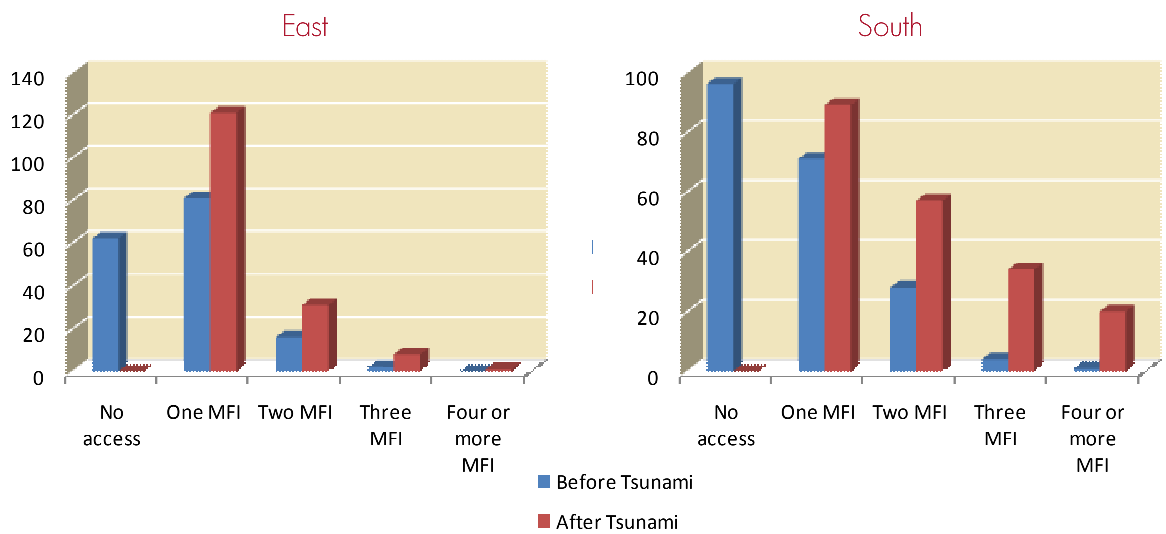
Thus in terms of financial services, loans have been availed by most number of clients, followed by savings. Insurance as a product is still not well developed among the MFIs and clients. Though many clients had expressed the need for training and market assistance, this has not been addressed by most of the MFIs.

## 4.5. Effect and impact on clients and their livelihoods

Access to micro finance - Prior to the tsunami, Sri Lankans had access to financial services through 14,000 points of service i.e. on an average of one per 1,300 persons. Across all institutions the volume of deposits was double the volume of loans, leading to the conclusion that client demand for credit is largely unmet.

However, post-tsunami, with existing MFIs expanding their operations into new areas and new MFIs commencing operations, the access points increased at village level. The access of clients to number of MFIs pre and post-tsunami is presented in the table below

Chart 2 a & b – Access to MFIs before and after the tsunami



Though the majority of the clients are reported to have access to only one MFI, 55 percent of the clients in the south and 25 percent in the east had multiple access.

The MFIs in the south were aware that several other MFIs were operational in their area and the new clients could have been members of these organisations as well. They relied on CBOs to check the level of indebtedness of clients and accordingly recommend loans.

Arthacharya points out "we build client capacity; such clients have the knowledge and confidence to link up with other MFIs. We see it as their increased capacity to handle finance."

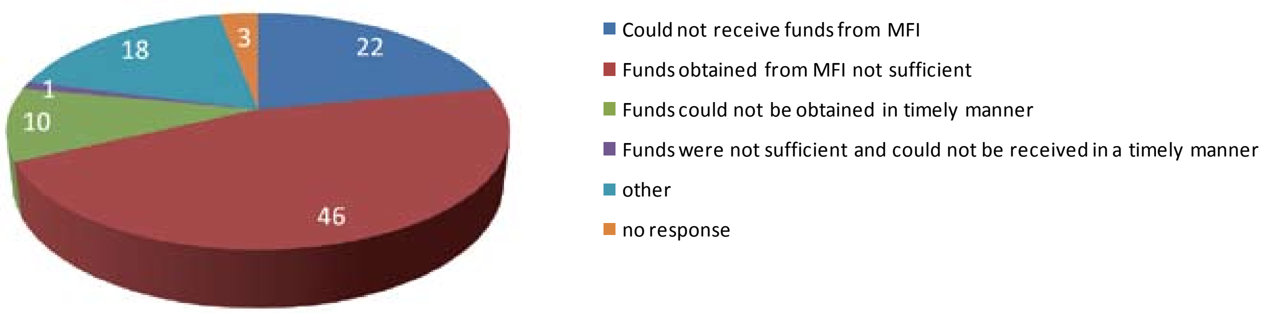
Mrs. S was a housewife with skills in sewing. She was a member of a MFI since last twenty years. She was the leader of the CBO formed by the MFI. She was a regular saver and occasional borrower. She was also a member of a fisher co operative in the name of her father-in-law who was a fisher. Thus, pre-tsunami she was member of two MFIs.

Post-tsunami her husband lost his job since the hotel he was working in was destroyed in the tsunami. The household was categorised as directly affected. She borrowed Rs. 100,000 from the fisher co operative as tsunami relief loan for buying a designer machine. She also became member of four other MFIs who started operations post-tsunami. She became leader of one more CBO. She got three sewing machines as in-kind grant. One more sewing loan she obtained on part grant and part loan basis. She is borrowing from 4 MFIs now and she is defaulter to two of them. She continues to save in the first MFI where she has been member for the last 20 years but she is not borrowing from this MFI. She expects that the other three MFIs will wind down operations in the near term and her net position will improve.

Mrs. D lost her home, husband and two out of three children due to the tsunami. She lived in a camp for 18 months and has recently rented a place in the same village as Mrs. S. Though she knew tailoring, she could not take up this activity due to lack of adequate place in the shelter and also because she was not in right frame of mind to carry out any activity. She finds that not many are willing to give grants to her now and loan size is inadequate to purchase the machinery and materials to commence the activity. She is also not sure of the market since already there are many tailors in the village.

Borrowing from informal sector - Nearly a third of clients (113) had approached the informal sector for their credit needs following the tsunami. Reasons are as follows.

Chart 3 – Reasons for borrowing from informal sources



The informal lenders consisted of money lenders, shop keepers and friends. Nearly 68 percent of such respondents borrowed from the informal sector since MFIs were not able to meet the funds needed. Another 10 percent found the timeliness an issue. The tsunami had a devastating effect on the poor and on many lower middle class who were living close to the sea. Thus the tsunami created many "new poor" who had larger scale of operations prior to tsunami and were thus capable of absorbing higher loans. Thus the initial loan provided by MFIs was found to be inadequate by these clients. MFIs also had loan eligibility rules such as minimum membership period where as the clients needed cash immediately to commence operations. Some of the MFIs like Arthacharya, WDF and Habaraduwa had responded by changing their rules; however, the client needs have been different.

The other major reason for borrowing from informal sources has been debt swapping, i.e. paying off existing loans from institutions since some of the informal loans are more flexible in terms of repayment period and interest free.

Gender dimension - Coverage of women has increased post-tsunami as indicated by almost all MFIs. Some of them have been targeting mostly women such as Arthacharya, WDF, HPDF, etc., BRAC and SEEDA, who commenced operations post-tsunami, have a coverage ratio of 100 and 75 percent respectively. Other MFIs who had both men and women as clients have reported increase in coverage of women. SAREERAM pre-tsunami had lent to very few women; post-tsunami 86 percent of its clients are women. Kalmunai, Sanasa has reported 35 percent increase in the number of women clients. People's Bank, Kalmunai branch reports 60 percent increase in loan disbursement to women. None of the MFIs expressed difficulties in lending to women.

Over indebtedness - With increase in access points, a general concern has been the over indebtedness of the clients. The clients were asked about their repayment ability and problems faced, if any. CBOs and Key Informants were questioned on the level of indebtedness and if this has changed post-tsunami. The perception of the key informants about the general indebtedness of the villagers due to post-tsunami funding was ascertained. CBOs have responded in relation to their members and clients. Loan portfolio quality of the MFIs was also ascertained and this is discussed in the next chapter.

Clients - 49 clients (14 percent) mentioned that they had problems in repaying their loans to the selected MFI in the post-tsunami period. In nearly 70 percent of the cases the MFI had either rescheduled or restructured the loans. Very few loans were written off. There were also cases (20 clients) where clients didn't have a problem making payments however their loans were either rescheduled or written off.

CBOs – Nine out of ten CBOs in Galle and 6 out of 8 CBOs in Hambantota covered under the study felt that their members were over indebted since the members have borrowed from multiple institutions stating the purpose of the loan as income generation activity /business but have utilised the funds for other purposes. All of them, however, had stated that the members were repaying the CBO loans regularly. In the east, out of 16 CBOs covered, only two mentioned that members were over indebted and they had problems in recovery.

Key informants – out of the 33 key informants interviewed, 23 felt that post-tsunami, more MFIs have started operations in their areas and the clients of MFIs were borrowing from multiple sources and were over indebted. Interestingly, almost all the key informants in the east felt that people were over indebted and were not using the loans for productive purposes and MFIs' recoveries would be affected in the near future.

Revival of livelihoods - In all, out of 360 clients of MFIs interviewed, 305 had an on going livelihood activity which was commenced pre-tsunami. 55 clients had commenced their present livelihood activity post-tsunami. The gender and district disaggregated present profile of livelihoods is given below

Table 7 – Type of livelihoods of clients

| LIVELIHOOD ACTIVITY | GALLE | | HAMBANTOTA | | AMPARA | | BATTICALOA | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| | M | F | M | F | M | F | M | F | M | F |
| STARTED BEFORE TSUNAMI | | | | | | | | | | |
| Manufacturing | 2 | 21 | 1 | 20 | 1 | 1 | 0 | 5 | 4 | 47 |
| Handicraft/Carpentry | 0 | 3 | 2 | 3 | 1 | 1 | 0 | 10 | 3 | 17 |
| Fisheries | 0 | 6 | 1 | 2 | 14 | 8 | 10 | 2 | 25 | 18 |
| Trade/Vendor | 0 | 38 | 18 | 32 | 1 | 2 | 9 | 8 | 28 | 80 |
| Tailoring | 0 | 12 | 1 | 4 | 0 | 1 | 1 | 1 | 2 | 18 |
| Agriculture and livestock | 0 | 4 | 0 | 1 | 6 | 23 | 3 | 5 | 9 | 33 |
| Other | 0 | 6 | 3 | 3 | 0 | 0 | 1 | 9 | 3 | 18 |
| Total | 2 | 90 | 26 | 65 | 23 | 36 | 24 | 40 | 74 | 231 |
| STARTED AFTER TSUNAMI | | | | | | | | | | |
| Manufacturing | 0 | 1 | 1 | 4 | 0 | 1 | 1 | 2 | 2 | 8 |
| Fisheries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 2 |
| Trade/Vendor | 0 | 5 | 0 | 4 | 1 | 5 | 0 | 1 | 1 | 15 |
| Tailoring | 0 | 1 | 0 | 0 | 0 | 3 | 0 | 1 | 0 | 5 |
| Agriculture and livestock | 0 | 0 | 0 | 0 | 0 | 12 | 2 | 5 | 2 | 17 |
| Other | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 3 |
| Total | 0 | 8 | 1 | 8 | 1 | 21 | 3 | 13 | 5 | 50 |

In all, 294 clients were covered under focus group discussions to ascertain their current status of livelihoods. While majority of them, 273, are pursuing their original livelihoods which they were carrying on prior to tsunami, 3 clients have reported loss of livelihoods.

18 clients from the south have changed their livelihoods due to relocation. MFI branch- wise gender disaggregated data on status of livelihoods of clients is given in annexure 7.

Relocated clients/ clients in camps – 69 percent of the clients who were relocated have commenced their income generation activities. FGDs with the relocated clients reveal that those involved in fisheries, coir, salt production and trade suffered due to relocation. Lack of transportation facilities and distance from markets were the major impediments for pursuing livelihoods. Fishers felt that they faced the threat of theft/sabotage of their fishing gear. Lack of markets was the major constraint for the traders. The clients in shelters in the east are continuing with their original IGA but face twin issues of lack of adequate capital and lack of adequate space.

MFIs have initiated several measures to respond to the needs of clients who are relocated. For example, SEEDS and WDF have formed new CBOs in relocated villages. SEWA Lanka gave priority to relocated clients for grant distribution. 6 MFI branches in the south felt that overall, the relocated clients faced several issues as mentioned above. In the east, none of the MFIs reported that the relocated clients had issues in restarting businesses. They also confirmed that the clients needed more financial assistance to improve their livelihoods.

MFI-wise response on relocated clients and the responses of key informants are given in annexure 8.

*China Friendship Village, Kurunduwatte, Galle*

A lost her husband and house in the tsunami. She has been relocated in a place 6 kilometers from her earlier house. She was managing a salon prior to the tsunami. She wants to set up a salon in the relocated place and finds Rs.7,000, which the MFI is offering as the loan, too small to buy salon equipment. "I do not want charity. I want a larger size loan at reasonable terms so that I can earn a decent livelihood and bring up my two boys".

B in the relocated village also lost her husband and three shops which she was managing prior to the tsunami. Since she knew sewing she took a loan of Rs, 7,500 and set up a boutique. Since the place is far off from market, sales are low; moreover her only son who has to commute long distance to reach the school has turned morose and she is not able to manage her boutique since she frequently goes to school to check on her son.

## 4.6. Perception of clients on their current status as compared to pre-tsunami

Clients' own perception on their current status as compared to pre-tsunami was assessed on different parameters including present status of livelihood.

Table 8 – Perception of clients on their status

| | HH Income | Liveli-hood | Housing | Asset | Savings | Water/ sanita-tion | Access to health | Living std |
|---|---|---|---|---|---|---|---|---|
| Deteriorated substantially | 62 | 48 | 41 | 53 | 31 | 46 | 31 | 43 |
| Deteriorated marginally | 92 | 109 | 81 | 96 | 58 | 33 | 37 | 75 |
| No change | 143 | 127 | 149 | 181 | 222 | 232 | 272 | 185 |
| Improved marginally | 57 | 64 | 58 | 22 | 42 | 27 | 10 | 44 |
| Improved substantially | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |

Note – for some aspects, some clients did not respond and so the total of the responses is less than the number of clients surveyed.

Maximum number of clients felt deterioration in the status of their livelihoods as compared to other parameters. Compared to the number of clients who felt that their livelihoods has deteriorated (157) and income has fallen (154), the number of clients reporting deterioration in the savings (89) and living standard (118), are fewer. Access to loans has obviated the need to withdraw savings to cope with cash flow needs. Another reason is the large scale aid that has been accessed by these clients.

Further analysis of the above data has been carried out for those who reported disruption to livelihoods. (Nearly 90 percent of the clients had reported complete loss of livelihood, partial/ complete damage to work place and loss of market and customers). Their perception on the present status of livelihood with gender disaggregation is given in the table in annexure 9. Overall, clients in Galle and Ampara have reported deterioration. More women than men respondents have reported marginal or substantial deterioration of livelihoods.

Large scale damage caused to infrastructure especially markets, roads and hotels has been slow in building up. Certain sectors which were over crowded even prior to tsunami attracted more asset creation with large scale in-kind grant support to households. Such increase in assets led to over crowding and coupled with slow market development led to deterioration of incomes for households. Coir industry and small scale fisheries are two examples, where coir machines and small boats have been supplied to many households who are not able to have gainful self employment. Many households who were working as labourers or on hired/rented machines, now have become owners.

Relocated clients that are mostly pursuing their original livelihoods are suffering due to distance from markets/place of business, lack of water and electricity and occasionally destruction by wild animals. More over, due to fresh out break of conflict, many had to temporarily face closure of livelihoods in the east.

The MFIs, state government and other NGOs have provided short term livelihood development measures such as cash grants and in-kind grants. Longer term measures such as loans have been provided by most of the MFIs. However, one can conclude that mere provision of loans does not promote sustainable livelihoods. The client needs for business development services and marketing assistance were not addressed fully. The Executive Director of a well established MFI commented “Markets were affected. People had lower purchasing power. Traditional activities could not restore the original income levels. New skills were needed. New opportunities had to be found, especially for the relocated. This required intensive development work which many MFIs were not equipped to do”.

# Chapter 5 Performance of MFIs

## 5.1. Outreach and other key indicators

Agro Micro Finance is incorporated under the Companies Act and has been functioning since 1999. The MFI is operating in eight districts, many of which were affected by the tsunami. The MFI has several lending schemes but does not mobilise savings. It borrows from NDTF and Stromme Foundation at subsidised rates.

| AGRO MICRO FINANCE | | 2004/05 | 2006/07 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 2,249 | 4,496 | 50 |
| Number of branches | Number | 8 | 8 | - |
| Number of total staff | Number | 47 | 66 | 20 |
| Loan outstanding | Amount | 31,409,648 | 95,106,292 | 101 |
| Savings | Amount | Not Applicable | | |
| Total assets | Amount | 40,835,972 | 120,363,875 | 97 |

The MFI has experienced tremendous growth, especially in the year 2006/07. Post-tsunami the institution has registered annualised growth of 101 percent in loan portfolio vis a vis the membership growth of 50 percent and staff increase of 20 percent. Loan portfolio is the major asset of the institution. Equity of Rs. 50 million received in the year 2006/07 has been deployed as loans and has enabled the institution to post profits.

Arthacharya Foundation is a national not-for-profit NGO functioning in seven districts. The organisation is working with a large number of donors in promoting micro enterprises through savings and credit, and also working in health and sanitation. Micro finance operations form about 60 percent of the organisation's activity. The organisation has been successful in combining solid waste management with the micro finance and CBO building. The organisation has a number of funders for the micro finance operations[1].

1 NDTF (World Bank) through People's Bank, Sanasa Development Bank, Rabobank Foundation, Seylan Merchant Bank, Central Bank of Sri Lanka, Wayamba Dev. Bank are some of present funders for the micro finance programme.

| ARTHACHARYA FOUNDATION | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 10,479 | 19,075 | 41 |
| Number of branches | Number | 11 | 15 | 18 |
| Number of total staff | Number | 85 | 135 | 29 |
| Loan outstanding | Amount | 29,273,655 | 118,860,243 | 153 |
| Savings | Amount | 24,744,559 | 75,249,556 | 102 |
| Total assets* | Amount | 72,279,001 | NA | 124 |

* the position of 2004 and 2005 only are available since the audited accounts for the year ended 2006 were not available when the MFI was visited in July 2007. The annualised change in percentage for assets is for the year 2004 to 2005.

Post-tsunami the organisation expanded its activities geographically by opening branches in new districts. The outreach of the organisation has increased 41 percent whereas the loan portfolio has grown 153 percent on an annualised basis. The average loan size was raised by the organisation in response to the needs of clients post-tsunami and also to face competition from more aggressive MFIs. New loan products were also introduced. Savings has also increased more than 100 percent on an annualised basis reflecting the confidence of the clients in depositing savings with the institution. Total assets of the organisation have also grown 124 percent from 2004 to 2005 reflecting high growth rate of this organisation in every aspect, mostly due to increased donor funding for post-tsunami revival and rehabilitation.

BRAC set up operations in Sri Lanka for undertaking post-tsunami rehabilitation activities. It is registered as a not-for-profit NGO. BRAC is operating in seven districts which had been severely affected by the tsunami. Oxfam NOVIB was the major initial funder for the micro finance operations of BRAC. BRAC offers only loan products.

| BRAC | | 2005 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 3,285 | 26,373 | 703 |
| Number of branches | Number | 7 | 7 | - |
| Number of total staff | Number | 180 | 204 | 13 |
| Loan outstanding | Amount | 69,143,203 | 248,344,847 | 259 |
| Total assets | Amount | 249,185,584 | 411,974,028 | 65 |

BRAC has quickly expanded the outreach as well as loans since establishing operations in Sri Lanka. Within a year of operation the number of clients reached has touched 26,373 making it one of the larger MFIs in Sri Lanka. Well established management practices and systems have enabled the MFI to quickly scale up. Though the initial operations were through grant funds from BRAC and Oxfam NOVIB, BRAC has recently approached commercial banks for loans for expanding its loan portfolio.

HPDF has been operational since 1993 as a not-for-profit NGO in two divisions of Habaraduwa district. The major activities have been micro finance and micro enterprise development. HPDF adopts the CBO methodology in which the CBO recommends the loans and monitors the borrower. However, the savings and loans operations are managed by HPDF directly.

| HPDF | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 3,840 | 5,361 | 20 |
| Number of total staff | Number | 24 | 35 | 23 |
| Loan outstanding | Amount | 18,169,970 | 72,290,750 | 149 |
| Savings | Amount | 16,556,296 | 44,553,940 | 85 |
| Total assets | Amount | 27,132,658 | 102,073,080 | 138 |

While the out reach has increased only 20 percent, the loans outstanding has registered phenomenal growth due to post-tsunami subsidised loan funds made available to the MFI by NDTF, Farms Lanka and Help Age. Savings have also increased 85 percent since the MFI disburses loans equal to four times the savings of a member.

SEEDS is registered as a company and has been operating since 1998 in 24 districts of Sri Lanka. The organisation follows a credit plus approach, combining credit with training and enterprise development services. Nearly 90 percent of the operations relate to micro finance. The organization follows the CBO methodology where the CBOs work as independent village banks mobilisng savings and undertaking internal lending. They borrow from SEEDS for on lending to members. CBOs also deposit savings with SEEDS.

The MFI offers savings, loans and insurance services[2]. SEEDS has a strong focus on mobilising savings both at the CBO level, as well as, at the organisational level. SEEDS also offers loan insurance which liquidates the loans liability on death of a member. Upon the death of a member, the outstanding debt is paid off under the insurance and the already repaid part of the loan is refunded to the family of the deceased[3].

The largest donor was Oxfam NOVIB and the others are USAID, ETIMOS and Plan. The MFI had access to subsidised as well as commercial loans pre-tsunami; 48 percent of loans outstanding to external organisations were from commercial banks. However, post-tsunami the loans from commercial banks have decreased substantially since the MFI accessed subsidised loans; in 2006 only 10 percent of the MFI borrowings outstanding to external funders were from commercial banks.

2 SEEDS and HNB Assurance Ltd (HNBA) have joined hands to develop a comprehensive life and non-life insurance product. HNBA, a licensed Insurance Company, and SEEDS, as an intermediary Company entered into an agreement and established the First Partner Agent Model in Sri Lanka with the technical assistance of ADB.

3 The scheme is financed by a one-time, up-front charge of 2.5% on the face amount of a loan, which is then placed in a special fund at SEEDS. Loans are generally of relatively short duration; most being for 1-2 years. The fund has continually grown and stands today at LKR 86 million. No actuarial evaluation has ever been made of the fund adequacy.

| SEEDS | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 668,612 | 866,316 | 15 |
| Number of branches | Number | 23 | 25 | 4 |
| Number of total staff | Number | 709 | 883 | 12 |
| Loan outstanding | Amount | 2,557,391,889 | 3,450,146,441 | 17 |
| Savings | Amount | 1,827,940 | 3,008,630 | 32 |
| Total assets | Amount | 3,344,273,684 | 4,830,058,105 | 22 |

SEEDS is the second largest national level MFI and has well established operations in tsunami as well non tsunami affected areas. . While its overall outreach has increased by 15 percent, loan growth has increased by 17 percent. With the introduction of a compulsory savings product, savings growth has been 32 percent on an annualized basis. While total assets have grown by 22 percent, the organisation has increased long term investments such as treasury bonds by 50 percent between 2004 to 2006.

Some of the branches which were in tsunami affected areas such as the Galle branch have registered growth rates of more than 30 percent on an annualised basis in loans outstanding and total assets. The growth has been more in the year 2005 as compared to 2006 since the organisation stepped up lending immediately after the tsunami. However, as compared to other MFIs which have received post-tsunami donor funding, the growth rates are not very aggressive.

WDF is registered as a not-for-profit NGO and has been functioning in Hambantota district since 1989. The objectives of the WDF are savings mobilisation and investment. WDF is a federation of CBOs; the CBOs are independent entities managing their own resources and personnel. WDF provides capacity building support to the CBOs and also provides loans to CBOs in need. Savings, loans and in-house insurance are the financial services provided by WDF. The consolidated financial statement of CBOs and the head office is taken as the basis for analysis in this study for want of disaggregated information of their operations in tsunami affected areas.

| WDF | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 30,039 | 32,910 | 5 |
| Number of total staff | Number | 280 | 298 | 3 |
| Loan outstanding | Amount | 48,914,799 | 186,240,124 | 140 |
| Savings | Amount | 100,737,332 | 152,003,263 | 25 |
| Total assets | Amount | 316,250,800 | 510,604,989 | 31 |

The WDF has registered phenomenal growth in loan portfolio as compared to other aspects such as outreach, number of staff, savings etc., The primary reason has been the increased loan size to face competition from other MFIs. Moreover, the disaster became a rallying point for the MFI to activate some of the CBOs that were inactive before the tsunami. Post-tsunami the organisation received grant support from World Bank, Plan International for loan write off, and from USAID, Micro Soft and Concern for equipment for members and training.

SEWA Finance, a subsidiary of SEWA Lanka Foundation, has been registered as a company to carry on micro finance activities. SEWA Lanka Foundation had received donations and grants from donors for undertaking micro finance activities for tsunami affected. The foundation however, has provided need based grant cum loan to the borrowers and has channelised the repayments of the borrowers to SEWA Finance to form its capital base.

| SEWA Finance | | 2006/07 |
|---|---|---|
| Outreach | Number | 5,337 |
| Number of staff | Number | 70 |
| Loan outstanding | Amount | 100,773,209 |
| Total assets | Amount | 119,216,933 |

SEWA Finance provided loans to the CBOs formed by the SEWA Lanka Foundation and thus has a ready base. This enabled the MFI to achieve scale quickly. NOVIB was the major donor for SEWA Foundation.

Sareeram has been functioning as a not-for-profit NGO since 1990. It is presently working in 82 village societies of 12 divisional secretariats of three districts in the north east/east of Sri Lanka which are affected by the ethnic war. Micro finance is one of its integrated community development activities comprising 75 percent of its operations, with health, sanitation and education being the other sectors.

| SAREERAM | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 5,095 | 7,500 | 24 |
| Number of total staff | Number | 59 | 73 | 12 |
| Loan outstanding | Amount | 19,077,715 | 98,778,234 | 209 |
| Savings including loan security deposit | Amount | 1,975,097 | 18,802,208 | 426 |
| Total assets | Amount | 55,980,340 | 157,572,398 | 91 |

As compared to the increase in outreach and number of staff, the growth in portfolio of loans and savings has been phenomenal. The NGO had introduced voluntary with drawable savings product from 1993. In 2005, loan security deposit was introduced where 10 percent of the loan amount is held as security by the NGO till the loan is repaid, which has led to the annualised growth rate of 426 percent. This NGO being well established in the east has expanded operations post-tsunami with funding support from NDTF and Stromme Foundation apart from others. Post-tsunami, the organisation's operations in microfinance have expanded much more than its other developmental activities.

Sweido has been functioning as a not-for-profit NGO since 1998 in Ampara district. The major activities of the organisation apart from micro finance have been enterprise development, water and sanitation and construction of shelters.

| SWEIDO | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 1,419 | 3,376 | 69 |
| Number of staff | Number | 17 | 32 | 44 |
| Loan outstanding | Amount | 6,010,581 | 19,459,964 | 112 |
| Loan security deposit | Amount | 602,863 | 2,712,245 | 175 |

The organisation like other MFIs has registered high growth rates in loan portfolio. The savings has registered impressive increase primarily on account of loan security deposits. NDTF and SCISL have been the major funders for the micro finance operations.

SEEDA is a small MFI operational in Batticaloa. The MFI received funding from SLCDF for lending.

| SEEDA | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number | 38 | 183 | 191 |
| Number of total staff | Number | 5 | 5 | - |
| Loan outstanding | Amount | 818,157 | 2,528,926 | 105 |
| Savings | Amount | 187,762 | 411,586 | 60 |
| Total assets | | 943,529 | 4,390,534 | 183 |

Though the growth rates in percentage are high, the base of the MFI is very small. SEEDA has reported that due to paucity of funds it could not expand its operations post-tsunami.

Sanasa Kalmunai has been functioning since 1986 as a co operative in Amparai district. In addition to micro credit the society undertakes sale of furniture to earn additional income for the society. The society did not receive any donor support for post-tsunami operations.

| SANASA KALMUNAI DISTRICT THRIFT & CREDIT COOPERATIVE SOCIETY | | 2004 | 2006 | ANNUALISED CHANGE (in percentage) |
|---|---|---|---|---|
| Outreach | Number of CBOs | 435 | 437 | 0 |
| Number of staff | Number | 14 | 14 | - |
| Loan outstanding | Amount | 18,640,797 | 18,424,277 | (1) |
| Savings | Amount | 10,667,881 | 8,948,660 | (8) |
| Total assets | amount | 24,506,589 | 23,268,502 | (3) |

The co operative has registered negative growth rates in most of the parameters. It has been in losses even prior to tsunami and the losses have increased post-tsunami, leading to further erosion in assets. The MFI did not get any external funding/donor support post-tsunami for lending to the clients and had to rely on internal funds to meet client demands. Lack of funds coupled with poor recovery of loans led to lower turnover. Though 3,000 of their clients were affected by the tsunami and required loans to revive their enterprises, the institution could provide loans only to 50 percent of them leading to client dissatisfaction.

## 5.2. Summary

| GROWTH in percentage | 0 to 25 | 26 to 50 | 51 to 75 | 76 to 100 | more than 100 |
|---|---|---|---|---|---|
| Outreach | 5 | 2 | 1 | | 21* |
| Number of staff | 8 | 2 | | | |
| Loan outstanding | 2 | | | | 8 |
| Savings | 2 | 1 | 1 | 1 | 3 |
| Total assets | 2 | 1 | 1 | 2 | 4 |
| * BRAC being a new entrant achieved such high percentage. SEEDA had a small base. | | | | | |

The MFIs covered under the study are among the well established/ renowned ones that attracted large donor funding. The effect of such funding on the operations of the MFIs has been phenomenal, with eight of the ten MFIs covered in the study registering more than one hundred percent growth in loan portfolio. The growth rates in loans were not matched by the growth in client outreach. The growth rate in loan portfolio indicates that the MFIs have met the demand for loans with large scale funding from donors. Many of the MFIs increased their loan size to meet the competition from others. However, the loan off take during 2005 was low in most of the MFIs since many clients did not take loans as they were not sure of their capacity for repayment in an uncertain environment.

The scaling up of BRAC which follows a different model as compared to most of the other MFIs in Sri Lanka has interesting insights. BRAC finds that with the CBO model followed by other MFIs in Sri Lanka, the operations cannot be expanded fast. CBO takes the responsibility for selection of borrowers and repayment of loans and the direct contact of the MFI with individual members is low, leading to lower repayments over a period of time.

However, Arthacharya which has recorded high growth rates in outreach and loan portfolio, feels that they could expand within a short time due to the CBOs. "As an organisation we have limited capacity to expand. The well trained federations and CBOs played a key role in expansion."

## 5.3. Competition and its effects

The expansion of operations into areas which had many access points, brought about severe competition among MFIs. All the MFIs except People's Bank faced competition from other MFIs. People's Bank, being a Government bank, dispensed loans under special schemes/subsidies of the Government and thus had its niche. However, the MFIs in southern Sri Lanka had been facing competition for nearly a decade. The competition became intense post-tsunami. Understanding and responding to client needs through development of appropriate products and services has been mentioned as a positive effect. Attrition of staff and client drop out have been articulated as some of the adverse effects. Overall, the competition was termed as a destructive one by well established MFIs in the south.

Attrition of staff - Many of the MFIs have reported attrition of staff. People's Bank, Arthacharya and Habaraduwa have not faced a serious issue. In the case of Arthacharya, since many of the present staff are the children of long term clients, they did not face a serious attrition. However, where staff attrition occurred, it was mostly during 2005 when MFIs and INGOs were expanding operations and offered high salaries to the trained MFI staff. Well established MFIs like WDF, Agro Micro Finance were hit. Disturbance in relationship with clients was the key problem faced by Agro Micro Finance.

> Arthacharya recruits young local people from families of clients. The lowest worker, the community facilitator has 12 years of formal education and they are promoted to higher levels. Since the organisation is 15 years old, many staff have grown with the organisation and have high commitment levels. However, when some INGOs offered the staff salaries that were three times the salary they were drawing from Arthacharya, a few of them left. Now, the INGOs have wound down operations and the staff are stranded and feeling embarrassed to come back to the MFI.

All MFIs had increased the salary of staff to face the competition. Sareeram, for example, has reported that they increased the salary in order to retain staff. MFIs like AMF, SEEDS, WDF, SEEDA took comprehensive measures revising their HR policy – revision of salary, introducing performance based incentives, creating pension scheme, training and exposure visits to staff etc., An NGO which started micro finance operations post-tsunami had absorbed many staff of other MFIs by offering higher salaries. With donor funding tapering off, the MFI is now not able to maintain the salary levels; consequently it is facing difficulties in maintaining satisfaction levels of staff and their retention.

Thus the competition on one hand led to staff attrition, increased operational cost in terms of training and higher benefits to staff leading to lesser net margins. On the other hand the scarcity of human resources led to comprehensive human resource policy revision in some of the MFIs.

Client drop out - Out of 18 branches under study, 5 have reported that clients dropped out and joined other MFIs. Sanasa, Arthacharya and Agro Micro Finance have faced this issue. Some of the clients who joined Arthacharya after the tsunami with expectations of obtaining grants left after about 18 months. In the Hambantota branch of Arthacharya which was opened post-tsunami, a number of clients were relocated and hence had to drop out on account of the distance to the branch. Member enrolment and savings targets for the branch could not be met. The MFI has planned to open new CBOs in the areas where clients have been relocated. Grants created their own dimensions. For example, SEEDS Galle felt that while grants helped people to rebuild their lives, some clients left the organisation since they did not get benefits. However, none of the MFIs have considered client attrition as a serious problem since the clients have multiple membership rather than leaving one MFI to join other.

Many MFIs invested in communication strategy to build awareness of clients about their operations. As Arthacharya mentioned "Our earlier work helped us. Clients were loyal to us and they did not want to lose us since they knew we would be there with them in the longer term. We invested in communication with clients assuring them of longer term support and emphasising on repayment ethics. Occasionally they borrowed from others in order to repay our loans".

Some of the MFIs with longer term operations in the area like WDF, Sanasa had faced the problem of "idle clients". Managing Director of WDF says "Many small NGOs commenced operations in the coastal region within six months of the tsunami. The next one and half years saw a drop in the number of active members, who did not attend meetings, did not save or take loans, especially in the coastal Janashakthi banks". During field visits, some of the CBOs mentioned that their members have joined other MFIs and taken loans from them. Such members continue to undertake only such financial transactions such as membership fee, minimal savings etc. that will keep their membership with the CBO intact.

From the field study it is clear that all MFIs faced client drop out and client idling. Some of them that follow CBO methodology (where the MFI lends to CBO and CBO then on lends to the members) did not have robust systems to capture the data on client drop out at CBO level. It is likely that though client drop outs may not have occurred as such, many clients would have turned idle. Thus client drop out and client idling have been issues which are not captured and examined adequately within the MFIs.

Product development - MFIs, in order to respond to client needs and face the competition from other MFIs, made changes to their existing financial services. All MFIs revised their rate of interest downward. Minimum membership period to be eligible for loans was relaxed. For example, HPDF lends to a client only after 6 months of being a member and this condition was relaxed during the initial months after tsunami. Arthacharya which insisted on compulsory savings of up to one third of the loan amount for sanction of loan, decreased it to one fifth of loan amount post-tsunami. SEEDS lends to members of CBOs and also directly to individual clients, who are mostly men. SEEDS changed its norms for collateral and did not insist on collateral for affected members of CBOs. They introduced loan security deposits up to 10 percent of the loan amount as collateral. Apart from these measures, new product development was also initiated by some of the MFIs.

Table 9 - Financial services offered by MFI pre and post-tsunami

| NAME OF MFI | SAVINGS | LOANS | INSURANCE |
|---|---|---|---|
| **AGRO MICRO FINANCE** | | | |
| Pre-tsunami | • no | | • no |
| Post-tsunami | • no | | • no |
| **ARTHACHARYA FOUNDATION** | | | |
| Pre-tsunami | • Compulsory savings, general savings, children savings | • Consumption, agriculture, fisheries, small scale enterprises. | • no |
| Post-tsunami | • Same as above | • Apart from above, housing and sanitation,<br>• New Year loan, education loan were introduced. | • no |
| **BRAC** | | | |
| Post-tsunami | • Compulsory savings deposited with banks and not collected by MFI | • Micro enterprise loans | • no |
| **HPDF** | | | |
| Pre and post-tsunami | • Four types of savings – three at HPDF and one at CBO level. | • Ten types of loan products - Housing, consumption, sanitary loans, home gardening, festival, redemption of old debt, foreign employment. | • Loan security,<br>• loss of wages in case of hospitalisation. |
| **WDF** | | | |
| Pre-tsunami and post-tsunami | • Compulsory and voluntary savings products | • Loan products for enterprise and housing | • yes |

| NAME OF MFI | SAVINGS | LOANS | INSURANCE |
|---|---|---|---|
| **SEEDS** | | | |
| Pre-tsunami | • Voluntary savings | • Four types of loan – income generation, consumption, enterprise development and solar loans. | • Loan insurance provided with support of Hatton National Bank for loanees of larger employment generation loans. |
| Post-tsunami | • Compulsory savings introduced apart from voluntary savings | • Same as above | • Micro insurance being commenced with Hatton National Bank. |
| **PEOPLE's BANK** | | | |
| Pre and post-tsunami | • Three types of savings products with the bank | • Two loan schemes for micro enterprises | • no |
| **SAREERAM** | | | |
| Pre and post-tsunami | • Compulsory savings for loan security and voluntary savings. | • Loan for enterprise | • no |
| **SEEDA** | | | |
| Pre and post-tsunami | • Compulsory savings | • Cultivation loan and general loan | • none |
| **SWEIDO** | | | |
| Pre and post-tsunami | • Compulsory savings for loan security | • Loan for enterprise | • no |
| **SEWA FINANCE** | | | |
| Post-tsunami | • Compulsory savings<br>• (east) | • Enterprise loan | • no |
| **SANASA KALMUNAI** | | | |
| Pre and post-tsunami | • Compulsory savings | • Loan for enterprise | • no |
| Note - BRAC, SEWA Lanka started micro finance post-tsunami. | | | |

Pre-tsunami, voluntary savings was offered by four MFIs and compulsory savings by ten MFIs. Insurance-like products were being made available by three MFIs. Except for SEEDS which has introduced compulsory savings and a micro insurance scheme, there has been little change between the pre and post-tsunami situation.

Post-tsunami, except Arthacharya none of the other MFIs have reported new loan product development. MFIs have introduced loans to clients with different loan terms and interest rates depending on the source of loan funds. For example, MFIs state they have introduced loan products such as NDTF loan, Etimos loan, USAID loan etc., How far these loans have been developed based on a market survey and assessment of client needs is a moot question. The maximum loan amount has been Rs.100,000 for enterprise promotion with repayment term of 24 to 36 months which is suitable for enterprise development.

Table 10 – Interest rate charged

| RATE OF INTEREST CHARGED (% P.A) | 2004 | 2005 & 2006 | |
|---|---|---|---|
| | | TSUNAMI AFFECTED AREAS | NON TSUNAMI AFFECTED AREAS |
| Agro Micro Finance | 28 | 6 - 18 | 28 |
| Arthacharya Foundation | 14 flat | 6-8 | 14 flat |
| BRAC | | 1st loan: 0<br>2nd loan: 10 | |
| HPDF | 24-36 | 6 | 24 - 36 |
| SEEDS | 24 | 6 | 24 |
| WDF | HO – CBO: 12-14<br>CBO – end borrower: 24 | 12 | HO - CBO: 12-14<br>CBO - end borrower: 24 |
| Sareeram | 30 | 6 | 30 |
| SEEDA | 24 | - | 24 |
| SEWA Lanka | NA | HO - CBO: 8<br>CBO - end borrower: 8 -12* | 24** |
| SWEIDO | 24 | 6 | 24 |
| Sanasa Kalmunai | 18 | - | 18 |

* Tsunami –Sewa Lanka Foundation
** Non-Tsunami –Sewa Finance

Housing was the major need post-tsunami. HPDF and WDF had a housing loan product even prior to tsunami. Housing loan has been introduced only by Arthacharya. The MFI says “Though many houses were built, one section’s needs were not met – the poor whose houses were partially damaged. They did not go to camp but continued to live in such damaged houses. Latrines were destroyed by the tsunami and since 96 percent of our clients are women, we introduced housing and toilet construction loans. These products are usually for old clients with loan size of Rs.75,000 repayable in four years”. Many MFIs did not introduce housing/repair loans because they did not have the capacity to grant the larger amounts and longer durations required for housing loans.

Overall, though the MFIs state that they have introduced different loan products, they appear to have done it based more on donor specifications than client needs. Micro insurance as a product is yet to receive adequate attention and most of the MFIs are keen to introduce micro insurance. Thus the product development to suit client needs has not received adequate attention.

Other effects of competition - Overall, the competition has been severe in the south. As a CBO head narrates “So many MFIs are operational in our area now that we find it difficult to count. In this small village, seven MFIs are lending”.

MFIs felt that competition provided an opportunity to address the weaknesses prevailing even pre-tsunami. SEEDS Galle, for example, felt that stronger management would have enabled them to cope with competition. “Pre-tsunami there was complacence since we did not face much competition and post-tsunami we understood we need to be more organised to face competition. The branch has developed a five year development plan wherein services that can strengthen the member base are the focus.” In order to assess the risk of larger loan exposure of clients, staff have been trained to carry out risk analysis. MFIs working through the CBO model such as SEEDs, SANASA and womens’ banks under WDF, felt that the competition helped the CBOs to become stronger. CBOs which had become dormant had fresh agendas in terms of providing tsunami relief, which helped the members to rally together and revive the CBOs.

There were several changes at the operational level of MFIs. The MFIs needed to be efficient and had to speed up their loan sanction since even while processing the loan application, the clients reported receiving loans from other MFIs and this led to idle funds at branch level. Almost all the MFIs reduced their interest rate to face competition. Moreover, they had to increase staff salaries to retain staff. Thus their profit margins were reduced. Some MFIs like Arthacharya had to reduce the compulsory savings requirement that was necessary for availing loans by members which increased the cost of funds. The new MFIs were charging subsidised interest rates and the clients expected the same from Arthacharya. The MFI states that the subsidised loans have created dependency culture.

A few MFIs introduced new loan products to attract and retain clients. For example, SEEDS provided longer term loans. Competition resulted in larger loan sizes. Arthacharya increased the first loan size from 5,000 to 7,500. Similarly WDF which used to lend Rs.1,500 after 3 months of membership raised the first loan to Rs 5,000 within one month of membership.

However, for well established MFIs the competition led to different kinds of pressures in the field. With little co ordination, new players came in with no institutional structures and ended up disturbing the existing structures. Some penetrated the existing structure through local politicians which caused disturbance. The perception of the clients about stability of the MFIs in terms of their past performance has helped the longer term players in retaining clients.

## 5.4. Financial performance of post-tsunami operations on MFIs

The effect of vigorous expansion of lending on the efficiency, portfolio quality and profitability of MFIs are analysed and presented below. This analysis relies on the financial reports and other data supplied by MFIs. Some have been able to provide necessary information while others have provided only scanty information. The portfolio quality reports have not been provided by a few. Since 6 of the MFIs covered under the study are also reporting to MIX on some of the common parameters, the results of the analysis were compared with the reports of MIX. Significant variance is noted. However, for the purpose of this study it has been assumed that the field investigators have been able to carry out a measure of verification of the data produced.

Moreover, the financial statements of all the four MFIs from the east viz., Sareeram, SEEDA, Sweido and Kalmunai DTCCS are for the institution as a whole and not for micro finance alone. Hence only a few of indicators of these MFIs are comparable with other MFIs.

Operational self sufficiency (OSS) is a key indicator to assess the revenue generation to cover costs before tax. To calculate the operational self sufficiency the total financial income of the MFI consisting of the income from loans and other short term and long term investments have been considered. The expenses include operational, financial costs, loan loss provisions and write off expenses. The grants received from donors, management cost support provided by NDTF etc., have not been included in these calculations.

Table 11 – Operational self sufficiency

| MFI | 2004 | 2005 | 2006 |
|---|---|---|---|
| Agro Micro Finance | 85.67 | 72.39 | 94.43 |
| Arthacharya Foundation | 93.04 | 75.88 | 105.41 |
| BRAC | | 7.79 | 36.43 |
| HPDF | 125.68 | 96.19 | 111.66 |
| SEEDS | 110.44 | 106.54 | 107.50 |
| SEWA Finance | | | 53.07 |
| WDF | 74.06 | 89.59 | 137.43 |

There has been a fall in operational self sufficiency during 2005; MFIs with concentration of loan portfolio in tsunami affected areas faced the largest dip. Increase in staff costs due to increase in pay package to retain staff and increase in costs of training of new staff contributed to lower OSS. Moreover, MFIs had to reduce interest rates on their loans abiding by the rules set by the funders and also to face competition from large scale subsidised lending by other players. A few MFIs like Arthacharya followed good practices and promptly wrote off unrecoverable loans in 2005 which increased the costs affecting the OSS. However, in 2006 - 07 almost all the MFIs have improved their performance. The OSS of SEEDS has dropped as compared to pre-tsunami due to higher operational expenditure incurred.

A glance of revenue and cost structures throws light on differences across institutions. Financial revenue ratio reflects the efficiency of the institution in generating income from deploying its resources in different forms of assets. Comparison of the ratios of different institutions would provide an indication of the relative efficiencies. For calculating the ratio the total income from operations and investments of the MFI has been considered against the average total assets of the MFI.

Table 12 - Financial revenue ratio

| MFI | 2005 | 2006 |
|---|---|---|
| Agro Micro Finance | 9.82 | 11.60 |
| Arthacharya Foundation | 1.04 | NA |
| BRAC | 1.13 | 1.65 |
| HPDF | 4.13 | 4.37 |
| SEEDS | 3.30 | 3.46 |
| SEWA Finance | | 6.16 |
| WDF | 2.70 | 3.08 |

Agro Micro Finance seems to be highly efficient in revenue generation as its FRR is as much as twice that of the next best institution. Though in absolute terms the ratio is low for BRAC, the pace of growth between 2005 and 2006 has been vigorous since the institution has increased the rate of interest on loans from 0 percent to 10 percent flat during the year. All the institutions under study are improving their performance during the years under study.

The institutions devote thirty five to eighty five percent of their funds to their loan portfolio, with SEWA Finance and Agro Micro Finance allocating 85 percent for their loan portfolio. On the other hand, WDF allocates only 36 percent and Arthacharya 46 percent of their assets to loan portfolio. Others allocate at least 70 percent of their assets to their credit activities.

Profitability may be overstated in some of these institutions. Three institutions did not make any loan loss provision and in a few others the provision was minimal. In some institutions the loan loss provision is included under operational expenditure as a lump sum and not reported in a transparent manner. With some of the institutions not willing to report the arrears and PAR figures, it has been difficult to judge the adequacy of loan loss provision and make comparisons across institutions. One of the institutions provided only the ratios and not the underlying numbers. If these institutions take into account risk levels in their portfolios and provide for them adequately, their profitability would decline further.

Table 13 – Portfolio at risk

| Portfolio at risk > 30 days | 2004 | 2005 | 2006 |
|---|---|---|---|
| Agro Micro Finance | Not available | | |
| Arthacharya Foundation | 11.91 | 8.97 | 5.35 |
| BRAC* | | 4.80 | Not available |
| HPDF | Not available | Not available | 4.97 |
| SEEDS* | 1.08 | 9.99 | 20.29 |
| SEWA Finance | | | Not available |
| WDF | 10.47 | 3.06 | 1.56 |
| Sareeram* | 2.45 | 5.28 | 6.24 |
| SEEDA | Not available | | |
| SWEIDO | Not available | | |
| Sanasa Kalmunai | Not available | | |

* As reported in MIX.

Only for four institutions the data on portfolio quality was available for 2006. Except Arthacharya and Sareeram, reliable data on portfolio quality of the MFI as a whole for all three years was not made available. While the portfolio quality of Arthacharya is improving, that of SEEDS has deteriorated substantially. The lack of information in some institutions and the unwillingness to part with information by some others does not augur well.

Number of active loan clients per loan officer - The number of active clients per loan officer is a measure of efficiency of the institution. However, industry standards vary as per the methodology used.

Table 14 – Active loan clients per loan officer

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Number of active loan clients per loan officer | | | |
| Agro Micro Finance | 204 | 204 | 166 |
| BRAC | | 24 | 118 |
| HPDF | 426 | 465 | 412 |
| SEEDS | 326 | 463 | 445 |
| SEWA Finance | | | 73 |
| WDF | 41 | 40 | 52 |
| Number of active clients per staff member | | | |
| Arthacharya Foundation | 123 | 110 | 141 |
| Sareeram | 67 | 100 | 103 |
| Sanasa Kalmunai ( CBOs) | 14 | 14 | 14 |
| SWEIDO | 18 | 49 | 33 |

The staff efficiency comparisons should be seen in the context of the quality of engagement with the clients. In the post-tsunami situation, staff had to do much more than process loan proposals. In some institutions the staff engaged in relief and rehabilitation while in others they confined themselves to analysing resource requirements and providing loans for the same. These differences are not factored in the following analysis.

SEEDS and HPDF had high client loan officer ratio on account of their adopting the CBO approach to lending. For Agro Micro Finance, since it is adopting individual lending methodology the active client rate is low. Moreover, Agro Micro Finance recruited staff during the year 2006 to expand its operations and the staff are yet to achieve their full potential. BRAC in the initial two years was adopting relief and revival measures deploying one staff per 100 clients. During 2007 the institution is moving from relief to full scale micro finance operations with higher ratio of 350 clients per loan officer. Sareeram has mentioned that each loan officer will in future manage 200 to 300 clients. Institutions like SEEDS had to cope with increased work pressure – for example, in Galle, SEEDS staff were managing 15 CBOs each which had doubled post-tsunami.

Among the other MFIs for which active clients per staff (and not per loan officer) ratio is only available, Arthacharya[4] and Sareeram have improved the client coverage per staff over the years. Both follow the CBO approach. Thus across the sector, the efficiency of staff is found to be improving.

4 In the Galle branch of Arthacharya, pre-tsunami the ratio was 201 clients per staff and it has increased to 277 post-tsunami.

# Chapter 6 Effect of donor funding on micro finance sector in Sri Lanka

Overall, there have been several positive developments due to post-tsunami funding by donors. The supply of funds to MFIs increased manifold. With donor support, especially through grants and subsidised loans, most of the MFIs could expand their operations. The MFIs in general could increase their outreach and saturate the market. Some of the MFIs diversified their portfolio and provided different loan and savings products. MFIs could access competitive sources of funding thus reducing their cost of funds. Some of the donors have streamlined the systems of MFIs and provided technical support in MIS and computerization, contributing to their higher capacity and leading to greater transparency. Donors also developed a network for co-ordination of donor activities in the sector. This was steered by ProMiS (GTZ). Funders have attempted to share information on micro finance investments through this network and also through the ProMiS website (www.microfinance.lk).

However, there is little operational co ordination among donors, INGOs and Government. This has resulted in duplication of programmes and expansion in areas which were already having many access points. Expansion of the operations by MFIs has also led to competition which has led to different results. Many MFIs faced high staff turnover due to expansion of activities in the sector but this gave an opportunity to MFIs to assess and change their HR policies. Operational expenses increased for MFIs due to increase in the salary of staff.

MFIs under study adopted good practices in identifying the needs of clients. Donors have helped some of the MFIs to develop such practices. However, the practices could not be followed smoothly. Though the MFIs intended to target the directly affected if not most affected, there were disbursement pressures; as one branch manager of a MFI says "*We were running after our targets. We did not have time to distinguish who were affected and who were not. We did not have time to do any analysis.*"

Moreover, the operating environment brought its own pressures; the MFI and key informants narrate various instances where similar need based approaches were not followed by other NGOs/INGOs. As the head of a professional run MFI narrates, "*Post-tsunami, aid poured in. There were many organisations who distributed cash. There were charity organisations which had good intentions and distributed. There were several others who helped out of pity. There were some religious organisations who tried to fish in troubled waters. There was a distribution spree. The poor had all kinds of household goods which they had never used before – TV, cupboards, mattresses, steam iron, sewing machines etc., This was followed by a selling spree of all these items. Several agencies distributed in-kind assets for IGAs which went idle. In all, too much of sympathy, but very little seasoned development work. Much of our time went in communicating with our clients on what is good aid*".

However, lack of co ordination among donors and also among MFIs led to situations of excess aid flowing to a few areas and families, leading to inequitable distribution. During discussions with MFIs and key informants one gets the impression that some of the donors were probably too keen and did more than what was necessary. As an industry leader describes the situation in 2005 "With many donors, including individuals, keen to be part of the rehabilitation efforts, the MFIs could shop around. On an average, two donors visited us each week. We would have been destroyed by the money. We had an opportunity to select donors. We preferred to work with our existing donors with higher level of funding" says a south based MFI.

Some of the donors have been strategic in supporting programmes which will make a difference to clients/ MFIs and the sector. The strategic support included a) choosing institutions with strategic clarity who had a clear vision to be sustainable, b) technical assistance to MFIs to develop their post disaster development strategy and c) technical assistance for improvement in systems. However, not all donors had core competency in micro finance, nor have they been strategic in supporting institutions. In a country with many access points, the donor funding led to expansion of the operations of MFIs not only in the east which had lesser number of access points, but also in the already well banked south. Several multi sectoral livelihood development programmes that included micro finance components have been funded by donors. Many of these are likely to fail since they do not have a clear vision, lack systems, financial expertise and critical mass.

Overall, the design of various donor programmes to the MFIs under study has been found appropriate. The donor funding to these institutions has been through various instruments such as loan funds to bulk financiers; soft loans to MFIs; grants to augment their loan fund; grants to build capacity of institution and clients, and grants to cope with co variant risk faced by local institutions. Grant support to a few MFIs for loan write off had not been appropriately utilised in all cases. One MFI used this opportunity to write off several loans which were overdue pre-tsunami and in respect of which the clients still had the capacity to repay. The key learnings are i) the need for achieving donor co ordination[1] and information sharing on the support given to the MFIs and ii) strict norms for write off with close monitoring of the process. There has been imbalance between supply of loan capitalisation funds and capacity building funding.

The technical assistance by some like Etimos, Stromme Foundation, GTZ ProMiS has helped in improvement of systems including loan portfolio tracking systems within MFIs. Capacity development of staff and development of suitable risk mitigation products requires more attention. The micro banking software supported by GTZ ProMiS has been highly appreciated. Transparency in reporting financial and social performance however, has a long way to go. Portfolio quality reports were the most difficult to obtain during the study. As a donor points out "MFIs need a vision. Training and technical assistance has limited results if NGO MFIs don't adopt the good practices".

The monitoring systems of donors on the performance of micro finance programmes have been varied. Where donors have had core competency in micro finance and supported stand alone micro finance operations of MFIs, there have been vigorous and appropriate monitoring systems in place. Funders such as USAID (Revive), NDTF, Etimos and Stromme have been insisting on monthly reports on MFI operations such as operational efficiency, portfolio quality etc., Most of them carried out field inspections. Many of these monitoring methods and ratio calculations are new to MFIs and therefore providing monitoring reports has helped them develop their own monitoring systems. Some of the donors have also provided technical assistance to MFIs to help them meet these requirements.

However, there are many other donors who have not been rigorous in monitoring. Though they call for progress reports and carry out evaluations, performance of micro finance – outreach, portfolio and sustainability indicators- do not find a specific mention in most of the reports.

1 The donor microfinance network was set up for this very purpose – to share information on the various donor interventions in the sector. A database of this information was also built up on the ProMiS website. However, it would seem that donors did not make full use of this information and supported areas which were already over-served and/or institutions/programmes which were not sustainable

The donor funding for post-tsunami relief and rehabilitation of livelihoods has had mixed results for the clients. Existing clients of MFIs who had suffered losses due to the tsunami benefited from in-kind grants as well as loans. Some of the MFIs wrote off loans where the borrower had suffered severe damage, providing relief to the household. More women were included in post-tsunami programmes and thus access of financial services for women increased. The number of access points increased for the clients, thus increasing their access to financial services, especially loans. Loan sizes have increased, creating an opportunity for clients to take up income generating activity/micro enterprise development. With clients accessing loans from many MFIs, the overall debt at household level has increased. However, with not many efforts for development of new opportunities or diversification of income generation activities, some of the clients face difficulties in repaying loans. The increase in debt level of the households has been acknowledged by key informants as well as CBO leaders and most opine that households are excessively indebted post-tsunami. Although many of the relocated clients could access financial services, they found it difficult to regain their enterprise status, for which MFIs/donors could do little. The client needs for marketing support and business development services have largely been unmet.

There is a concern that the tsunami led to a flood of grants which has led to creation of dependency at client level. With large donor funded Government programmes insisting on subsidised loans to clients, the MFIs in turn had to offer subsidised loans in the tsunami affected areas. The MFIs with concentrated operations in tsunami affected regions had to face a fall in income. Moreover, the time line for grant support is very important, especially when the same is routed through MFIs which normally make interest bearing loans. One year after a catastrophic disaster is time enough to stop providing grants and thereafter cash and in-kind grants should have been given only as an exception. But the grants to clients continued even after two years in some cases and affected the MFIs' performance.

The head of a MFI mentions "*We had always believed in building people's strengths and taking them out of a dependency mentality. We were the first to start loans post-tsunami - as early as February 2005. We faced liquidity problems initially, since not many lenders were keen to support MFIs to lend in tsunami areas. NDTF kept watching; when they started lending to MFIs to on-lend in tsunami areas in April 2005, they came with an interest cap at the insistence of a large donor. Such subsidies killed initiatives of people since many could afford to pay a higher rate of interest. A dependency syndrome was created which undermined all our work of earlier years*".

The stoppage of funding by some donors in parts of Sri Lanka two years after the tsunami has put a question mark over the sustainability and continued operations of some MFIs. Supported by the post-tsunami funding available, MFIs had expanded their client base and loan portfolio. To maintain the expanded scale of operations, they would need funds. However, access to commercial funds has not been established, even as the donors seek to end their involvement. Proper planning, both from MFI and Donor, was necessary. The fact that the MFIs would need to continue to function even after the relief phase was completed does not seem to have been factored in while the strategies were formulated to involve MFIs in relief and rehabilitation work.

The hypotheses tested and results are presented below.

| | THE DONOR INTERVENTIONS THROUGH APPROPRIATE FUNDING LED TO | RESULTS |
|---|---|---|
| At the client level | a. Restoration/revival of livelihood activities | Largely achieved |
| | b. Improved livelihood opportunities | Under achieved |
| | c. Diversification of IGA, achieving reduction of covariant risks | Not enough has been done |
| At the MFI/Bank level | d. Clear targeting of the most deserving post-tsunami clients was possible | Largely achieved |
| | e. Improved processes expedited response to clients | Largely achieved |
| | f. Product innovations to suit post-tsunami situation designed | Under achieved |
| | g. Expanded the scale of operations of MFIs | Largely achieved |
| | h. Improved efficiencies/profitability | Short term – under achieved. Long term results can be positive |
| At the donor level | i. The interventions were the most appropriate for the local conditions | Largely achieved |
| | j. The designs encouraged MFIs to expand involvement in a strategic and sustainable manner. | Largely achieved |
| | k. The designs ensured good practices of micro finance to be followed. | Mixed results in the institutions studied |
| | l. Monitoring systems measured performance of implementing MFIs/banks periodically and influenced mid-course correction whenever warranted. | Mixed results depending on individual donor systems. |
| At the Sectoral level | m. The interventions have improved the adoption of good practices in micro finance services. | Under achieved |
| | n. The reporting and performance measurement standards have been improved. | Under achieved |

# Chapter 7 Key Recommendations

The choice of MFIs to channel relief has both advantages and disadvantages. MFIs run commercial operations and by channelling grants they loosen the discipline in the relationship with their clients. On the other hand, their presence in the field enables quick mobilisation and delivery of relief in the aftermath of a disaster. Further, after the relief phase is over, the MFI would be in a position to provide finance for livelihood restoration among the affected populace. It is necessary to make the grants procedure flexible for the MFIs to be able to segregate grant delivery from their business loans and maintain the discipline necessary in a credit relationship.

MFIs covered under the study have followed the correct practices of avoiding cash grants. They have also followed the right sequence of relief for community, in-kind grant for enterprises and subsidised loans, followed by commercial loans. The key issue has been the length of the period for which the subsidised interest rate should be operational. There has been little clarity on how long subsidised interest would prevail, giving the impression to the borrowers that the cost of credit would be low. Going back to market rates has been a difficult and prolonged process for MFIs with many subsidised loans in operation. While the need to reduce the cost of credit for restoration of livelihoods is well accepted, the subventions should have been separately given as an interest subsidy available to the client for a specified period. This would have enabled the client to appreciate the true cost of the loan and the extent to which s/he is subsidised as also the period up to which it would be available. The resultant transparency would have had a beneficial impact on both the clients and the lending MFIs.

Targeting needy clients has been an issue. With most donors insisting on providing grant support for the directly affected and most affected, many others in the villages have felt that the economic status of some of the affected has improved post-tsunami due to the aid. Moreover, the most affected have suffered deep mental trauma and could not seem to utilise the aid to benefit fully from the same. They required a very different package and longer term of support to provide ideas and hand hold them through the process of rehabilitation.

MFIs should have avoided unhealthy competition by exchanging information on areas of operation and clients. Networking among MFIs could have helped in reaching out to some of the unreached clients and avoiding excess funding of others. Coordination among MFIs/NGOs has to be consciously arranged through suitable mechanisms in such situations to ensure that scarce resources are optimally utilised. A formal platform of NGOs/MFIs operating in given geographic locations would be helpful in facilitating coordination and exchange of information. The focus should be on regular and periodic meetings for exchange of information among member NGOs/MFIs.

Staff training should receive adequate attention. All the MFIs covered under the study emphasised the necessity for human resource development, training and capacity development of staff. Key training areas include market research, product development, especially savings and insurance, and disaster management. Staff of MFIs/NGOs working in disaster prone areas should be trained in the basics of dealing with post-disaster situations as part of their normal skill sets. This would ensure that institutions are well prepared to deal with crises and respond swiftly to client needs.

Donors should support only selected institutions that have the capacity and sound business ideas and plans to improve financial services. Ability of institutions to continue to provide services to clients even after the relief/rehabilitation effort of donors stop, should be a key criterion in selection of organisations. The older MFIs felt that the donors had a tendency to work through new institutions or programmes rather than existing institutions. Institutions which did not have sound business and operational models have been supported by some donors, leading to unsustainable practices and also severe competition. New institutions that come up to channel grants and aid should be rigorously appraised for possible rent-seeking behaviour.

Donors should assess the feasibility of the plan of the MFIs to access commercial funding. Since 2007, many donors do not support NGO MFIs in southern Sri Lanka. On account of this, the MFIs would find it difficult to continue financing their clients at the expanded level of operations. This is seen as a key risk by southern MFIs who expanded operations with grants and subsidised loans and are in need of commercial loans. The strategies for involving commercial entities in relief and rehabilitation should take note of the needs of clients and institutions after the relief phase, especially for financial resources. If this is not planned well, it might adversely impact the clients in the rehabilitation phase, through scarcity of adequate funds for their livelihood activities. The institutions would also suffer, being unable to sustain their expanded operations.

Donors can also insist on MFIs reporting to a co-ordinating body such as the Donor Microfinance Network co-ordinated by GTZ, on outreach and financial performance indicators. There is a need to develop inventory of micro finance providers and the data should include outreach and financial performance indicators. Key strengths of the organisation and future plans can also be reported. This will ensure transparency of data and donors can choose the institutions which require funding.

Donors need to provide coordinated aid. Competitive behaviour among donors has to some extent distorted ground level efforts, flooding some areas with relief and starving others. The donors need to form a coordinating body and exchange transparent reports on aid to various organisations. Supporting a few institutions with clear vision, proven track record and capacity to expand services would have worked better than funding many to take up micro finance activity. Network of CBOs and MFIs needs to be consulted and aid flow has to be coordinated. In areas with many access points, support should be given to institutions which are filling the gaps that are not met by others.

Targets with timelines in relief and rehabilitation tend to take focus away from the clients. MFIs reported that the pressure to disburse funds created the potential for donors to spend money without ensuring probability of positive outcomes. At times the easiest ways of spending grants were sought after, leading to redundant relief material being dumped with clients, and grants and loans for livelihoods given to clients before they were physically and mentally ready to commence operations. Post disaster work has to be handled sensitively without excessive focus on targets in physical terms. Donors should develop greater patience in dealing with NGOs and MFIs in post-disaster situations.

The major loss has been records and resultant issues in tracking loans and clients at some of the branches and CBOs. Sound MIS, backing up of data and storage of business data in secure locations are vital requirements for institutions operating in disaster prone areas.

Monitoring systems of donors should also include the key indicators to measure the financial performance and health of the MFIs. A study of the MFI's systems and appropriate technical assistance to develop accounting and portfolio measurement systems need to form part of the package of assistance by donors. Accounting, performance and reporting standards for MFIs should be introduced to ensure that funds are well applied. The MFIs should be required to focus on their financial performance and pursue strategies for sustainability. Auditing firms and companies also require capacity building in auditing and reporting on micro finance institutions.

Product innovation has not been attempted by most of the MFIs. Donors have focussed understandably on grants and loans. After the initial lending following a disaster, savings and insurance services are needed more than credit for long term sustainability and enabling coping mechanism of the households. Technical assistance to mainstream savings and insurance services to MFIs and insurance companies, awareness and usage training for clients need to be packaged as part of interventions and supported by donors.

Disaster relief does not stop with aid for a limited period. Comprehensive livelihood development programmes are needed. Psychological counselling is very important if the most affected are to find their feet. Funds provided for the activities that were pursued by the clients prior to tsunami have worked well. Wherever feasible, the familiar activities should continue to be supported so as to ensure that recovery time for the client is short. The support from donors should be phased to address the needs of most affected and relocated clients since they have serious continuing issues in resuming livelihoods.

# Annexure 1

## Key questions for the study

### Livelihood restoration

1) What were the strategies adopted by the MFI to rebuild the livelihoods of affected clients?
2) Did the MFI adopt any new/different strategy compared to what existed pre-tsunami?
3) How did the new branches/MFI choose their clients?
4) Was it difficult to provide financial services to the most affected for livelihood activities? How did the MFI address this difficulty?
5) What were the needs of clients? Could the MFI respond to the needs? If some needs were not met, why not?
6) How did the MFI respond to the needs of clients who were relocated? Could they restart their activities? What are the issues being faced by them?
7) Was there any external influence and how did it affect the work of the MFI?
8) If the MFI provided grants to restore livelihoods, what were the positive and negative outcomes on the institution and clients?
9) Were any new livelihood activities introduced; if so, with what level of success?

### Relief

10) What were the needs of affected clients at different time periods? What was the process adopted to assess needs?
11) How did the MFI respond to the client needs at relief stage?
12) What were the issues faced, including targeting?
13) What are the positive and negative impacts of involving in relief work?

### Livelihood restoration

14) What were the strategies adopted by the MFI to rebuild the livelihoods of affected clients?
15) Did the MFI adopt any new/different strategy compared to what existed pre-tsunami?
16) How did the new branches/MFI choose their clients?
17) Was it difficult to provide financial services to the most affected for livelihood activities? How did the MFI address this difficulty?
18) What were the needs of clients? Could MFI respond to the needs? If some needs were not met, why not?
19) How did the MFI respond to the needs of clients who were relocated? Could they restart their activities? What are the issues being faced by them?
20) Was there any external influence and how did it affect the work of the MFI?
21) If the MFI provided grants to restore livelihoods, what were the positive and negative outcomes on the institution and clients?
22) Were any new livelihood activities introduced; if so with what level of success?

### Effect of tsunami funding on MFIs

23) Is there a change in local credit culture post-tsunami? How and why did this change post-tsunami according to clients/MFI staff?
24) What were the effects of increased competition post-tsunami? Positive and negative - client drop out/inactivity, staff attrition, growth in financial services, change in products, efficiency of services.
25) Post-tsunami position on portfolio quality, operational efficiency and profitability.
26) If the MFI is charging subsidised interest rates, what is the effect and when can they return to normal rates?
27) If the MFI has expanded operations post-tsunami, how will they sustain the operations?

### Donor support to MFI

28) How effective was the donors' support during relief and restoration of livelihoods?
29) Has the funding increased the dependency of the MFI on donor funding?
30) How does it affect operational efficiency and profitability of the MFI?
31) How has it helped to build the capacity of the MFI and clients?
32) Has it helped in accounting, performance and reporting standards for MFIs?
33) Were donor's processes friendly and helped in quick action by MFI?
34) Was donor's emphasis on quick action taken to mean waiver of financial and operational disciplines?

# Anneure 2

## Outline of study tools

Semi-structured checklists and data formats were used to collect specific information; the study tools were designed with the idea of quantifying the impact on institutions; the qualitative information especially on reaching to most affected households, responding to their needs will be cross-checked from different sources, and also to understand from different perspectives: 'the CBO', group leaders, individual members, key informants in the village, the MFI field worker and MFI management.

### Outline of study tools by level of enquiry

| LEVEL OF ENQUIRY | RESPONDENTS | TOOLS | FOCUS |
|---|---|---|---|
| District/ Division/ GN division | • Govt official co coordinating post-tsunami operations, NGO/ MFI/bank heads | • Semi-structured interviews<br>• Data collection | • Pre and post-tsunami micro finance programme in the area<br>• Background of MFIs and post-tsunami support provided by them<br>• Lessons learnt<br>• What were negative outcomes<br>• What should be done differently in such situations in future. |
| MFI/Bank | • Senior management and operational heads | • Semi structured interview<br>• Time line for post-tsunami activities<br>• Data collection | • Post-tsunami needs of clients and MFI, donor support<br>• Lessons learnt in grant and loan disbursement to clients.<br>• Product improvement/diversification<br>• Changes in portfolio quality, operational efficiency, funding support and profitability.<br>• Spillover effect on industry |
| MFI - Field staff | • Community Coordinator, NGO field worker, Bank Field Officer | • Semi-structured interviews<br>• Focus Group Discussions (FGDs) with staff | • Approach to post-tsunami micro finance operations.<br>• Experience and issues faced in each stage.<br>• Lessons learnt<br>• Level of ability and skills; what they were prepared for; what they were not prepared for<br>• What could have been more effectively/ differently |
| Village | Key informants:<br>• Grama Niladhari<br>• School teachers<br>• Village Secretary<br>• Community Coordinator | • Semi-structured interviews | • List of CBOs in the village<br>• The activities of MFIs post-tsunami<br>• Directly affected households and their livelihood revival<br>• Most affected and their livelihood revival<br>• Lessons learnt – what was most helpful<br>• What was least helpful<br>• What should be done differently in future |

| LEVEL OF ENQUIRY | RESPONDENTS | TOOLS | FOCUS |
|---|---|---|---|
| CBO/ village organization members | • Group leader<br>• treasure<br>• Book-keeper | • Record review<br>• Semi-structured discussions | • CBO records and financials – pre and post-tsunami<br>• Directly affected and their livelihood revival<br>• Lessons learnt –<br>• Risk mitigation mechanisms – are they now covering such risks in any way? |
| Clients | • CBO Members<br>• Individual clients | • FGDs and case studies<br>• Individual interviews | • Grant and loan usage for IGA/ME revival<br>• Issues in IGA/ME revival<br>• Client satisfaction |
| Most affected | • People relocated<br>• women headed HH<br>• new poor<br>• complete loss of enterprise. | • FGDs | • Revival/setting up of IGA/ME<br>• Difficulties in IGA/ME |
| Donors | • Staff | • Semi structured interviews | • Details of micro finance funding<br>• Monitoring mechanism<br>• Exit strategy<br>• Achievements and shortfalls<br>• Lessons learnt<br>• quick vs good results – is there a trade off; is a long term vision possible even when dealing with a catastrophe |

# Annexure 3

## Sampling criteria and process followed

### MFIs/bank

The basic data on micro finance providers, their outreach, and their programmes for post-tsunami rehabilitation and reconstruction are not readily available. The first step there fore has been to gather this data. The data on large donor funded programmes dedicated to financial services through bulk financiers such as NDTF, CBSL are easy to collect.

However, many donor programmes are integrated livelihood development programmes where micro finance is one of the components. Collection of data on the size of micro finance loan fund, allocation for capacity building of clients and MFI, number of ultimate borrowers covered, and exit strategy is proving to be time consuming. Some of the donors have carried out mid term/ ex-post evaluation tsunami projects. However, performance of micro finance – outreach, portfolio and sustainability indicators- do not find a specific mention in most of the reports.

For the study purpose, the major institutions involved in providing post-tsunami micro finance loans are ascertained from the funding institutions like CBSL, NDTF and also from MFIs (peer level checking).

While selecting institutions, the following major criteria have been taken into account;

1) The branch network and out reach in the tsunami affected areas/villages in the four districts (the larger the network and outreach in tsunami affected areas as compared to total network and outreach, higher is the priority).
2) Institutions that existed before the tsunami and those came into micro finance operation as a response to clients needs post-tsunami/institutions which expanded operations into tsunami affected districts. (Balanced coverage of both types)
3) Institutions with operations preferably in both eastern and southern districts to draw comparisons.
4) Institutions with different types of lending methodology.
5) Institutions with more number of donors.
6) Institutions with large donor funding vis a vis low donor funding.
7) Past record of targeting low income and poor clients;
8) Institutions that have/had substantial portfolio in the tsunami affected areas.
9) One institution in each district which did not receive substantial donor funding – (this may be difficult to find since the good organisations have had a lot of donor support). However, efforts will be made to find such institutions to draw comparison.

### Branch selection

The district branches were selected in consultation with the Head Office and those with the highest number of tsunami affected clients and tsunami loans were chosen. In the case of MFIs such as Women's Development Federation (Hambantota) and Habaraduwa Development Foundation (Galle) that are based only in one district, the Head Office was taken as the branch. This was also the case with SWEIDO and Sareeram. In the larger institutions that have head offices based in Colombo, the Head Office was interviewed in addition to the two selected branches.

### Village selection

Villages were selected on the basis of their distance from the district head quarters/major towns. The farther villages were usually selected for study.

### Selection of Community Based Organisations (CBO)

Two CBOs from each branch were chosen for study in consultation with the branch manager and staff. Efforts were made to select one CBO (per branch) which was either relocated (due to the tsunami) or which comprised many relocated clients or clients still in camps (this was only the case for the east). People's Bank deals directly with clients and not through CBOs. In all, 34 CBOs were covered under the study. The list of CBOs covered under the study is given in annexure .

### Client Selection

Clients who were directly affected by the tsunami were considered to be the target client group for study. Since the impact on clients affected by the tsunami was a core focus area for the study, some basic assumptions were made on the clients to be studied.

The directly affected clients were defined as those that have lost one or more of the following. a) lost assets, b) lost house and household goods c) family members including dependents, d) lost livelihoods (jobs) on account of employers' assets/life having been lost.

The most affected households were those who experienced many of the losses listed above. However, the study was flexible to accommodate the perception of MFIs and the community as to what constituted "directly affected" and such HHs were included in the study.

### Focus Group Discussions with clients

Apart from in-depth survey, FGDs were also conducted with some of the clients. The focus of the FGD was on qualitative parameters. In the south, Focus Group Discussions (with approximately 10 clients) took place, with clients from each CBO. One Focus Group Discussion from each branch was with relocated clients, where such a group was available.

Due to various constraints the Focus Group Discussions in the east were organised in a different manner. One Focus Group Discussion was held with approximately 10 clients from each branch. In addition 2 Focus Group Discussions were held in each district with clients who were still in camps or relocated. In the Batticaloa district this covered the clients of SEEDs and of SEEDA and in the Ampara District this covered the clients of Sewa Lanka and Sanasa

### Key Informants

Two key informants on an average were selected for each branch. These were individuals who were based in close proximity to the CBOs. Key Informants were Grama Niladharis, Samurdhi Officers or School Principals. Overall they had the ability to comment on the post-tsunami credit environment.

# Annexure 4

## Brief on MFIs

### Arthacharya Foundation

Arthacharya Foundation was started in 1992. Arthacharya Foundation is a national NGO engaged in poverty alleviation, targeting the poorest of the poor. The organization is basically involved in a program where the poorest of the poor are brought to the main stream by identifying and facilitating the poorest of the poor to build their own community groups, providing access to credit at market rates, and monitoring and evaluating their programs

<u>Micro-finance Programme Process</u>

Arthacharya had identified Seven Steps to Take Target Group Poor Households Out of Poverty :

Step 1: Identification of poor households and targeting

Step 2: Social mobilization: analysis, awareness and conscientization

Step 3: Institution building, small group formation and intra group activities.

Step 4: Institution building, CBO formation, inter group and collective activities.

Step 5: Identification of feasible projects and training

Step 6: Micro credit extension and micro enterprise development

Step 7: Increased incomes and savings, taking the poor out of poverty and to the mainstream of development

### Agro Micro Finance (AMF)

The institution was separated from its sister institution Agro Mart in 2000. AMF has 7 regional offices in seven districts - Ampara, Galle, Hambantota, Kurunegala, Matara, Moneragala and Puttalam. Agro Mart is considered to be the sister organization of AMF and the clients of AMF are the members of the Agro Mart CBOs. AMF provides credit and Agro Mart nurtures and trains the CBOs.

In addition to this, AMF has started open market lending, hence, lends to some clients directly (mainly after the tsunami). However, these clients are encouraged to join CBOs of Agro Mart.

### Habaraduwa Participatory Development Foundation (HPDF)

The HPDF was started in 1993 as a research project under the Rural Development and Research Institute. This was established to revive the livelihood of the low income villages by empowering them and after two and half years they obtained external aid.

Initially they made small groups and the collection of human and physical resources within a small group enabled them to maintain funds, welfare and savings within the group and they provided loans as and when the need arose. This was carried forward further and now there are rural organisations (collection of small groups). HPDF now works with 5,985 families.

## People's Bank

The People's Bank (PB) was established as a commercial bank in 1961. It is the successor of the Co-operative Federal Bank. The bank was formed mainly to provide finance for production and development to the rural sector, going beyond the mandate of the other commercial banks. Hence, its mandate involves development of the co-operative movement and the promotion of rural finance and agricultural credit.

At present there are several products coming under development banking: Small & Medium Enterprise Loans, Kapruka - Coconut Cultivation Loans, Govi Sahanaya - Forward Sales Agreements, New Comprehensive Rural Credit Scheme (NCRCS) Paddy & Subsidiary Crops, Paddy Pledge Loans, Micro Finance Loans (People's Fast), Forward Sales Contract and Skills Development. People's Bank adopts different methodologies in lending to micro entepreprenuers. It directly dispenses credit under sponsored programmes like Susahana. It also undertakes wholesale lending to development banks, co operatives and MFIs.

## SAREERAM Sri Lanka National Foundation (Inc)

Sareeram is a non-profit NGO established in 1990. The NGO started micro finance services in a limited way, in the year 1992. This process has been developed gradually year by year with the help of additional donor funds and adequate capacity building training programme for staff. Activities expanded to a large operational area and introduction of a software system and modern equipment was implemented. The number of beneficiary partners is large. The availability of funds for the MFI is limited. So far the organisation has provided credit only for 50% of the total membership. Main challenge confronted is to find additional funds to accommodate the balance 50% of the beneficiary partners.

The mission of the institute is to achieve immediate and sustainable development for communities affected by the man made and the natural disasters through implementation of appropriate planned activities to create permanent peace and eradication of poverty. This includes micro finance services and integrated community development activities. Other areas of work include pre-school services; infrastructure development such as construction of roads, secretariats, markets, training centres, playgrounds and rest rooms, under various donor funded projects; educational, cultural and sports activities; environmental and nutritional programmes; spiritual advancement programmes; programmes on permanent peace making through unity among multi ethnic groups and religions.

## BRAC Sri Lanka

Following the devastating tsunami in Sri Lanka in 2003, BRAC management decided to go to Sri Lanka with an immediate relief and rehabilitation programme. In May, 2005, BRAC registered in Sri Lanka as a Non-Government Organisation in order to expedite its work and run development programmes in the fields of social services, livelihood and capacity development.

BRAC Sri Lanka has been implementing its rehabilitation and livelihood activities in 7 districts, through 33 branches in the districts worst affected by the tsunami. The programme is working with 28,983 members. During the relief phase, BRAC undertook several common activities. Among them are: cleaning and disinfecting the contaminated water wells, constructing latrines to prevent health hazards, replacing lost and damaged school materials of tsunami affected school students. As part of livelihood development programmes, BRAC has been implementing sustainable livelihood activities for tsunami affected people in some selected areas in Sri Lanka over a period of two years.

### SANASA Development Bank

In 1997, as a response to the trends ushered in by globalization and a changing national economy, the SANASA Development Bank (SDB) was registered as a Licensed Specialized Bank by the Central Bank of Sri Lanka. Formed by various SANASA Primary Societies and the SANASA Federation, the SDB is a bank of cooperative microfinance.

The SDB now functions as the financial apex institution for the SANASA movement. Although bound by Sri Lankan banking law, the SDB is 100% cooperative owned and caters directly to members of the SANASA movement. Thus, the SDB is a professional organization providing sustainable microfinance to the Sri Lankan people.

Powered by a community based approach and a professional staff, the SDB represents a development tool like no other. The SDB currently has 27 branches island-wide and plans to open more by the end of 2007. The result is a finely tuned system for delivery of microfinance needs to SANASA primary societies who can then lend to their members.

The scope of the SDB is not merely the SANASA movement, but caters to the finances of private clients as well as Community Based Organizations (CBOs), local NGOs and cooperative entities. Thus the SDB presents an attractive option for partnered community development in post-tsunami Sri Lanka.

### SEEDS

SEEDS is the economic arm of Sarvodaya. Its main objective is to alleviate poverty by promoting economic empowerment of rural people for a sustainable livelihood. It was transformed as a separate legal entity by incorporation as a company limited by guarantee, under the Companies Act of Sri Lanka.

SEEDS was established as the Economic Empowerment arm of the Sarvodaya Movement in 1986, and became operational in 1987. From small beginnings, SEEDS has grown into a national level institution and a leading micro finance practitioner in the country. It operates with 26 district and sub-district offices island-wide. SEEDS is the holding company for three distinct yet integrated units known as the Banking, Enterprise Services and Training Divisions. In carrying out its mission "to eradicate poverty by promoting economic empowerment for a sustainable livelihood", SEEDS promotes human development that is truly grassroots centred, by empowering people and communities through innovative financial, business development, and capacity building interventions. SEEDS works in partnership with government, semi-government, banking and corporate sector organizations to further its goal of poverty reduction. As at December 2004, SEEDS' Economic Program covered over 3,471 Sarvodaya Shramadana Societies with a largely rural membership of over 741,000.

### Sewa Lanka Foundation

Sewalanka Foundation was registered in 1982 under the Companies Act No.17 and the NGO Registration Act. It is now one of the largest development NGOs in Sri Lanka. Sewalanka has specialized in helping the rural poor transition from relief to self-sufficiency and sustainable development through social mobilization and strengthening the capacity of community-based organizations (CBOs). These CBOs are self-governed; self managed and registered with the government of Sri Lanka.

Sewalanka's initial approach to microfinance was to work with CBOs to establish self managed revolving loan funds made up of member savings. The intention was to link these CBOs with commercial lenders once they established strong institutional systems and clear records of their credit history. However, it soon became clear that the existing rural lenders were not meeting all of the financial needs of these established CBOs.

Microfinance lenders preferred CBO members to become direct clients of their own institutions and form groups under their own patronage in order to access small-scale loans. They also put rigid limits on loan size and repayment periods. This delivery model negated the existing institutional capacity of Sri Lanka's CBOs. Commercial lenders required collateral and did not recognize the peer guarantee system. Most CBOs remained undercapitalized, with long waiting lists and suboptimal loan sizes.

Sewalanka Community Financial Services Ltd. (Sewa Finance) was incorporated as a Public Limited Company under the Companies Act No 17. in order to fill this gap. By providing affordable wholesale loans to CBOs, Sewa Finance infuses more capital into their microfinance portfolios, strengthens their institutional capacities and increases their ability to support enterprise development and community investments.

### Women's Development Federation (WDF)

The WDF is initiated as a result of effective mobilisation of women by a government led poverty alleviation program in the late 1980's. The organisation is a women's organization, where all the board, management, staff and constituents are poor women. WDF started operations in 1989 as a community help program to educate women on health and nutrition issues. They also commenced a number of sanitation projects. The institute's mission is mobilisation of poor women to understand the causes of poverty such as economic, social and political forces and to develop them to combat such forces by better resource management and effective utilisation of their latent potential through establishment of a net work of sustainable grassroots organisations.

There are 84 Janashakthi banks with 37,000 members. On average, there are 300 to 400 members per bank. 4 to 5 banks fall under one region or zone. In total, there are 18 zones. There are regional officers employed by the Head Office who work on the field and inspect accounts and administrational aspects of the group/ i.e. 2 officers per zone. 2 women are employed at each bank for finance and administration. Each member has to buy shares for Rs.500. The banks manage their own costs and operations. Any excess savings go to the Federation which uses it for investment or for lending to Janashakthi banks.

# Annexure 5

## List of villages and CBOs covered, FGD locations and key informants

List of villages

| NAME OF MFI AND DISTRICT | VILLAGE | NUMBER OF CLIENTS SURVEYED | NUMBER OF CLIENTS COVERED BY FGD |
|---|---|---|---|
| HAMBANTOTA | | | |
| BRAC | Samagipura | 10 | 5 |
| | Siribopura | 10 | 8 |
| Arthacharya Foundation | Medaketiya | 10 | 9 |
| | Nagaraniwasa | 10 | 9 |
| Sanasa | Ambalantota | 10 | 10 |
| | Gurupokuna | 10 | 10 |
| Women's Development Federation | Siribopura | 10 | 10 |
| | Hambantota East | 10 | 10 |
| People's Bank | Hambantota East | 10 | 10 |
| | Sippikulama | 10 | 10 |
| GALLE | | | |
| Arthacharya Foundation | Walahanduwa | 10 | 10 |
| | Mahamodara Watta | 10 | 10 |
| Habaraduwa Participatory Development Foundtion | Welletota | 10 | 12 |
| | Morampitigoda | 10 | 11 |
| SEEDS | Thalapitiya | 10 | 10 |
| | Kahawa | 10 | 9 |
| Sewa Lanka Foundation | Goviyapana | 10 | 8 |
| | Galagoda Watta | 10 | 11 |
| Agro Micro Finance | Deawata | 10 | 10 |
| | Hikkaduwa | 10 | 10 |
| AMPARA | | | |
| Sanasa | Karitheevu | 10 | 10 |
| | Sainthamaruthu | 10 | 6 |
| SWEIDO | Thampiluvil | 10 | 0 |
| | Thirukovil | 10 | 10 |

| NAME OF MFI AND DISTRICT | VILLAGE | NUMBER OF CLIENTS SURVEYED | NUMBER OF CLIENTS COVERED BY FGD |
|---|---|---|---|
| Sewa Lanka | Karaithivu | 10 | 05 |
| | Kalmunaikudy | 10 | 10 |
| BRAC | Sainthamaruthu 04 | 11 | 0 |
| | Sainthamaruthu | 10 | 10 |
| BATTICALOA | | | |
| SEEDS | Navatkuda East | 10 | 05 |
| | Periyauppodai | 10 | 10 |
| People's Bank | Vettukadu | 10 | 0 |
| | Kangayanodai | 10 | 10 |
| SAREERAM | Kalmunai | 11 | 10 |
| | Manachenai | 9 | 0 |
| SEEDA | Kalawanchikudy South | 10 | 10 |
| | Kirankulam | 10 | 05 |

CBOs covered

| NAME OF MFI AND DISTRICT | NAME OF CBO |
|---|---|
| HAMBANTOTA | |
| BRAC | 1. BRAC Sri Lanka – Hambantota West |
| | 2. BRAC Sri Lanka - Siribopura |
| Arthacharya Foundation | 1. Nagara Niwasa CBO |
| | 2. Medaketiya CBO |
| Sanasa | 1. Ambalantota Urban Businessmen's Sanasa Society |
| | 2. Gurupokuna Sanasa Society |
| Women's Development Federation | 1.Siribopura Janashakthi Bank |
| | 2. Hambantota East Janashakthi Bank |
| People's Bank | Did not have CBOs |

| NAME OF MFI AND DISTRICT | NAME OF CBO |
|---|---|
| GALLE | |
| Arthacharya Foundation- | 1. Arthacharya Foundation- Mahamodara |
| | 2. Arthacharya Foundation- Walahanduwa |
| Habaraduwa Participatory Development Foundtion | 1. Habaraduwa Participatory Development Foundtion - Morampitigoda |
| | 2. Habaraduwa Participatory Development Foundtion- Welletota |
| SEEDS | 1. Kahawa Ekamuthu Sarvodaya Limited |
| | 2. Sandatharu Development Bank |
| Sewa Lanka Foundation | 1. Shakthi Sewa Samithiya - Goviyapna |
| | 2. Suba Sadaka Sewa Samithiya- Galagoda Watta |
| Agro Micro Finance | 1.Agromart Foundation - Dewata |
| | 2. Agromart Foundation - Diwulduwa |
| AMPARA | |
| Sanasa | 1. Vishnu Thrift co-op Society- Karaitheevu |
| | 2. Sainthamaruthu Al- Huta Small Industrial Labours Thrift Co-op Society |
| SWEIDO | 1. Kannahi Society – Thirukovil 01 |
| | 2. SWEIDO – Tambiluvil 01 East |
| Sewa Lanka | 1. Seacsho Fishermen Co-op Society - Kalmunayi |
| | 2. Karaithiu Vikneshwara |
| BRAC | 1.BRAC Society – Sainthamaruthu 04 |
| | 2. BRAC Society - Sainthamaruthu |
| BATTICALOA | |
| SEEDS | 1.Annai Theresha Sarvodaya - Periyauppodai |
| | 2. Poonochimunai Sarvodaya Society – Navatkuda East |
| People's Bank | 1. Mohedeen Fishers Men's Society |
| | 2. Vegetable Business Society |
| SAREERAM | 1. Jasmin Group - Kalmunai |
| | 2. Gandi Group - Kalmunai |
| SEEDA | 1. SEEDA Kalawanchikudy South |
| | 2. SEEDA Kirankulam Rural Society |

## List of Key Informants

| NAME | DESIGNATION | DISTRICT AND VILLAGE |
|---|---|---|
| Nishanthi de Silva | Samurdhi Animator | Galle/ Hikkaduwa – Uduwaragoda |
| Darmadasa D.K | Grama Niladhari | Galle/ Hikkaduwa – Uduwaragoda |
| Janaka Deshapriya | Samurdhi Animator | Galle/ Mahamodarawatta |
| Gamini Gunasekara | Retired Clerk | Galle/ Habaraduwa- Goviyapana |
| Nihal Piyarathna | Samurdhi Animator | Galle/ Habaraduwa - Morampitigoda |
| Dias P.B.D.R. | Grama Niladhari | Galle/ Habaraduwa - Morampitigoda |
| Indrapali | Retired Principal | Galle/ Hikkaduwa - Goviyapana |
| | Grama Niladhari | Hambantota/Tangalle- Nagara niwasa |
| Sarath Pathiranage | President- Village Development Society | Hambantota/ Sri Mahinda Rajapaksha Gammanaya |
| Jinananda H.A | Grama Niladhari | Hambantota- Ambalantota |
| Sumith E.K.A | President- Fishermen's Society | Hambantota- Ambalantota |
| Shanthasiri K.G | Grama Niladhari | Galle/ Kadawath Sathara - Dewata |
| Nimal de Silva | Grama Niladhari | Galle/ Hikkaduwa – Diwul duwa |
| Nipuna C | Grama Niladhari | Hambantota - Siribopura |
| Dayarathna H.M | Grama Niladhari | Hmabantota – Hambantota East |
| Rathnasiri G.G | Grama Niladhari | Hmabantota – Hambantota West |
| Umarlebbai S.M | Grama Niladhari | Ampara- Saintjamanthu |
| Ketheesvaran | Grama Niladhari | Ampara- Karaitheevu |
| Shanthi K | Samurdhi Animator | Ampara- Thampoluvil |
| Geeventhera Kumar | Grama Niladhari | Ampara –Therukkovil |
| Ramesh Kumar | President - Rural Development Society | Ampara - Karaithvu |
| Jabbar S.L.A | Grama Niladhari | Ampara – Kalmunai |
| Gafoor A.A | Samurdhi Animator | Ampara - Sainthamaruthu |
| Kalideen A. M | Samurdhi Animator | Sainthamaruthu nimator |
| Surendiran N | Secretary – Rural Development Society | Batticaloa – Kirankulam |
| Thavrajah P | President- Veveganada Community | Batticaloa – Onthchchimadam |
| Dharmalingam | Nursing Officer | Ampara - Manachenai |
| Wasanthi Kumari | Samurdhi Animator | Ampara -Kalminai |
| Mohomad Munaff | Samurdhi Animator | Batticaloa – Kangegan Odai |
| Amurtha S | Grama Niladhari | Batticaloa – Kulliyan Kadu |
| Rasool A.B.A | Principal | Batticaloa – Poonochemynai |
| Rajendiran | Principal | Batticaloa – Periyauppodai |

Client coverage

| COVERAGE | CLIENTS SURVEYED | | | CLIENTS COVERED UNDER FGD | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| SOUTH | | | | | | |
| Agro Mart | 0 | 20 | 20 | 2 | 18 | 20 |
| BRAC | 0 | 20 | 20 | 0 | 13 | 13 |
| Arthacharya Foundation- Hambantota | 0 | 20 | 20 | 0 | 18 | 18 |
| Arthacharya Foundation- Galle | 0 | 20 | 20 | 0 | 20 | 20 |
| HPDF- Galle | 0 | 20 | 20 | 0 | 23 | 23 |
| SEEDS Galle | 2 | 18 | 20 | 0 | 19 | 19 |
| Sewa Lanka Foundation - Galle | 1 | 19 | 20 | 1 | 18 | 19 |
| Sanasa - Hambantota | 8 | 12 | 20 | 9 | 11 | 20 |
| WDF - Hambantota | 0 | 20 | 20 | 0 | 20 | 20 |
| People's Bank - Hambantota | 19 | 1 | 20 | 18 | 2 | 20 |
| EAST | | | | | | |
| BRAC | 0 | 20 | 20 | 0 | 10 | 10 |
| Sanasa - Ampara | 10 | 10 | 20 | 10 | 6 | 16 |
| SWEIDO – Ampara | 1 | 19 | 20 | 1 | 9 | 10 |
| Sewa Lanka - Ampara | 10 | 10 | 20 | 6 | 9 | 15 |
| SEEDS - Batticaloa | 0 | 20 | 20 | 0 | 15 | 15 |
| People's Bank- Batticaloa | 18 | 2 | 20 | 10 | 0 | 10 |
| SAREERAM - Batticaloa | 0 | 20 | 20 | 0 | 10 | 10 |
| SEEDA | 10 | 11 | 20 | 4 | 11 | 15 |

# Annexure 6

## List of people met

| Name of organisation | Name of persons | Contact details |
|---|---|---|
| | SOUTH | |
| BRAC | Mr Faridur Rahaman – Country Manager | 111, Station Road, Angulana, Moratuwa |
| | Mr. Badrul Alam- Regional Manager | 111, Station Road, Angulana, Moratuwa |
| BRAC - Hambantota | Mr. Muzam – District Manager<br>Ms. S.E. Nirosha – Branch Manager | 186-B, Tangalle Road, Indivinna, Hambantota<br>Email: muzambrac@yahoo.com |
| People's Bank | Mr. P.V. Pathirana<br>Senior Deputy General Manager (Business Support & Productivity Management) | Email: pathi@peoplesbank.lk |
| People's Bank - Hambantota | Mr. Sunil Fernando - General Manager | Poeple's Bank , Tangalle Road, Hambantota<br>Phone 94 472220270 |
| Arthacharya Foundation – Head Office | Mr Sathis de Mel – Executive Director | 16/1, 1/1, Galle Road, Mount Lavinia<br>Phone: 94 114 205840 |
| Arthacharya Foundation -Hambantota | Mr Malinda Pradeep Kumara – Branch Manager | 51/A, Weeraketiya Road, Tangalle<br>Phone: 94 472241635 |
| Arthacharya Foundation- Galle | Mr. Nishshanka Lakpuara – Branch Manager | 346, Colombo Road, Dadella, Galle<br>Phone: 94 914907044 |
| Sanasa - Hambantota | Mr Lakruwan – Branch Manager<br>Mr Yapa – Assistant Manager | Main Street, Ambalantota<br>Phone: 94 472 225466 |
| Women's Development Federation - Hambantota | Ms Sriyani Mangalika – General Manager<br>Ms Chandrani Samararathna – Development Manager | WDF, Tangalle Road, Hambantota<br>Phone: 94 472221022 |
| Habaraduwa Participatory Development Foundation - Galle | Ms H. J. Kanthi – President<br>Ms. Yamuna Senanayaka | Meepe Road, Katukurunda, Galle<br>Phone: 94 912237617 |
| SEEDS - Galle | Mr. Sunil Adihetti – District Manager | 1/292, Wakwella Road, Galle<br>Phone: 94 912242185 |

| Name of organisation | Name of persons | Contact details |
|---|---|---|
| Sewa Lanka Foundation - Galle | Mr Jagath – District Director | Galle District Office, Galle<br>Phone: 94 912282674 |
| Agro Micro Finance | S.W. Kiriarachchi - Chairman | No. 25 Chapel Lane<br>Nugegoda |
| | Mr Kamalsiri - Manager | No. 25 Chapel Lane<br>Nugegoda |
| Agro Micro Finance - Galle | Samantha Rathnayaka – General Manager | Dadella, Galle<br>Phone: 94 914385281 |
| | EAST | |
| Sanasa - Ampara | Mr Razak – General Manager | Kalmunai District Thrift and Credit Co-op Society Union Ltd, Main Street, Ninthavur<br>Phone: 94 672251031 |
| SWEIDO - Ampara | Mrs. Vasatharani – Micro Finance Coordinator | SWEIDO Vision, Temple Road, Thirukovil<br>Phone: 94 672265036 |
| Sewa Lanka - Ampara | Mr Bandara - Director | Kalmunai Road, Udayapura, Ampara<br>Phone: 94 635676766 |
| BRAC - Ampara | Mr Azar | 112, New Town Hall Road, Kalmunai<br>Phone: 94 672220031 |
| SEEDS - Batticaloa | Mr Ma Thivanan – Regional Coordinator | 17, Govindan Road, Batticaloa<br>Phone: 94 652223977 |
| People's Bank-Batticaloa | Mr Suresh Haran – Staff Assistant | Main Road, Kattankudy<br>Phone: 94 652246598 |
| SAREERAM - Batticaloa | Mr Logaswaran - Chairman | Sri Lanka National Foundation, Head Quarters, Thalankudah, Arayampathy<br>Phone: 94 652246667 |
| SEEDA | Mr. Sanmugam - President | Main Road, Kalawanchikudy<br>Phone: 94 652250997 |

## List of MFIs visited by financial analysts

| Name of MFI | Contact Person | Address | Date visited |
|---|---|---|---|
| Visited by Mr. Eranjith Padmakumara | | | |
| Agro Micro Finance | Mr. Kamal<br>Manager - Credit | Tel : 011-4303533<br>011-2818053<br>011-2824747<br>Email: infor@agromicro.org | November, 2008 |
| Arthacharya Foundation | Mr. Mahinda<br>Manager - Credit | Tel : 941-2737143<br>941-4200680<br>Fax: 941-2737143<br>Email: sulak@mail.ewisl.net | August, 2007 |
| BRAC | Country Director / CEO | Tel : 011-4853063 | September, 2007 |
| Habaraduwa Participatory Development Foundation | Ms. Kanthi<br>(President) | Tel : 091-2282039<br>Fax: 091-2282599<br>Email: hpdf@sltnet.lk | September, 2007 |
| SEEDS | Mr. Emil Anthony<br>Deputy MD | Tel : 011-5558081<br>Fax: 011-2655122<br>Web: www.seeds.lk | September, 2007 |
| SEWA Finance | CEO - Sewa Finance<br>Mr. Mahinda (Sewa Lanka) | Tel : +94(0)112815050-52<br>Fax: +94(0)112769705 | December, 2007 |
| WDF | Ms. Sriyani (G.M) | Tel : 047-2221022<br>Fax: 047-2221022 | December, 2007 |
| Visited by Mr. J.Emilrajan | | | |
| SAREERAM | Mr.A.Logeswaran<br>Chairman | Tel: 065-2246104 | 15 Sep & 02 Dec |
| SWEIDO | Ms.Mathy<br>Credit Officer | Tel: 067-2265036 | 18 Sep & 01 Dec |
| Sanasa - Kalmunai | Mr.M.A.Abdul Razack<br>General Manager | Tel: 067-2251031 | 17 Sep & 01 Dec |
| SEEDA | Mr.K.Sanmugan<br>President | Tel: 065-2250997 | 16 Sep & 03 Dec |
| SEEDS - Batticaloa | Mr.V.Mathivannan<br>Regional Coordinator | Tel: 065-2223977 | 16 Sep & 03 Dec |

# Annexure 7

## MFI branch-wise, gender disaggregated data on status of livelihood revival

| MFI | Number of clients covered | | Number of clients pursuing original jobs | | Number of clients pursuing other job/livelihood | | Number of clients jobless/without any livelihood | |
|---|---|---|---|---|---|---|---|---|
| | Total | Out of which, women | Total | Out of which, women | Total | Out of which, women | Total | Out of which, women |
| Agro Micro Finance | 20 (10) | 18 (10) | 20 | 18 (10) | 0 | 0 | 0 | 0 |
| BRAC - Hambantota | 13 (8) | 13 (8) | 12 | 12 (8) | 1 (0) | 1 (0) | 0 | 0 |
| Arthacharya Foundation - Hambantota | 18 | 18 | 18 | 18 | 0 | 0 | 0 | 0 |
| Arthacharya Foundation - Galle | 20 (20) | 20 (10) | 13 ( 3) | 13 (3) | (7) | (7) | 0 | 0 |
| Habaraduwa Participatory Development Foundation - Galle | 23 | 23 | 23 | 23 | 0 | 0 | 0 | 0 |
| SEEDS - Galle | 19 | 19 | 19 | 19 | 0 | 0 | 0 | 0 |
| Sewa Lanka - Galle | 20 (11) | 19 (10) | 13(5) | 12(4) | 7 (6) | 7 (6) | 0 | 0 |
| Sanasa -Hambantota | 20 (20) | 11(11) | 20 (20) | 11 (11) | 0 | 0 | 0 | 0 |
| WDF - Hambantota | 20 (20) | 20 (20) | 17 (17) | 17 (17) | (1) | (1) | (2) | (2) |
| People's Bank - Hambantota | 20 (20) | 2(2) | 20 (20) | 2 (2) | 0 | 0 | 0 | 0 |
| SWEIDO | 10 | 9 | 10 | 9 | 0 | 0 | 0 | 0 |
| BRAC - Ampara | 10 | 10 | 10 | 10 | 0 | 0 | 0 | 0 |
| Sanasa -Ampara | 16(6) | 6(2) | 16(6) | 6(2) | 0 | 0 | 0 | 0 |
| Sewa Lanka - Ampara | 15(5) | 9(5) | 15(5) | 9(5) | 0 | 0 | 0 | 0 |
| Sareeram -Batticaloa | 10 | 10 | 10 | 10 | 0 | 0 | 0 | 0 |
| People's Bank - Batticaloa | 10 | 0 | 10 | 0 | 0 | 0 | 0 | 0 |
| SEEDS -Batticaloa | 15(5) | 15(5) | 15(5) | 15(5) | 0 | 0 | 0 | 0 |
| SEEDA - Batticaloa | 15 (5) | 11(3) | 14(4) | 10(2) | 0 | 0 | (1) | (1) |

Note – Figures in brackets indicate relocated clients out of total clients.

# Annexure 8

## MFI and CBO response on relocated clients

| | MFI | FGD | KI |
|---|---|---|---|
| Agro Micro Finance, Galle | • Provided loans and directed to Agromart to provide grants and training.<br>• For new IGA, loans of Rs.15,000 and Rs.20,000 .<br>• Jobs were mainly in coir, small shops, cinammon related manufacturing etc.<br>• Some restarted, others not able to as they lost market for their produce due to relocation. | • Change in environment and transportation problems affected IGA.<br>• They have restarted but have problems. | • Around 50 families relocated.<br>• Involved in coir production, fisheries, trade and sewing etc.<br>• Relocation was a problem for those in fisheries as they were too far away to continue IGA |
| Habaraduwa Participatory Development Foundation, Galle | • Not many relocated people.<br>• Didn't want to change livelihood so didn't move. | | • Around 20-30 families in the area relocated.<br>• Casual workers, coir production, fisheries those involved in limestone related businesses.<br>• They come back to carry on the same work as no market, no water in new location.<br>• They have many transport issues. |
| SEEDS, Galle | • Established a new CBO in relocated village.<br>• Majority were relocated to the same place- involved in coir, groceries, food production and a few in fisheries | | • 28 families relocated, pursuing fisheries, coir production.<br>• Also a few government workers.<br>• Due to the distance most are not continuing same IGA.<br>• Problems in transportation and new environment (especially for coir) prevents from continuing |
| SEWA Lanka, Galle | • Loan programs did not change, but in distribution of grants priority was to relocated members.<br>• However they had to ensure they formed a new CBO in area of relocation else no grant provided.<br>• Could not start original IGA due to transport problems and long distances.<br>• Also new environment prevented this. | | • Around 30 families relocated. Involved in fisheries, coir production or employees in hotels.<br>• Not received necessary assistance.<br>• Unable to manage loans and grants now over indebted.<br>• Not restarted original IGA. |

| | MFI | FGD | KI |
|---|---|---|---|
| Artha-charya Foun-dation, Galle | • 150 clients were relocated in a housing scheme.<br>• MFI issued loans to start businesses which were created according to their environments (groceries, gardening, solid waste management training etc).<br>• Some have restarted but they face issues in terms of distance- the scheme is very far from the main road where buses travel.<br>• Also facing marketing problems. | • No market for products anymore.<br>• Traveling cost is very high if they are to take produce to previous location.<br>• No space to work. | • 60-70 families relocated- fisheries groceries etc.<br>• Still in same enterprise. |
| Artha-charya Foun-dation, Hamban-tota | • Created CBOs in the relocated villages.<br>• Relocated were mainly involved in fisheries, groceries, manufacturing of food and handicrafts.<br>• Especially those in fisheries had an issue restarting due to transportation issues.<br>• No electricity and roads and distance too great. | | • About 300 families relocated.<br>• They are mainly pursuing fisheries and small businesses.<br>• Same livelihoods continued, come back to this village, work and return to their homes.<br>• Relocated people obtained houses fairly close so ok. |

# Annexure 9

## Client perception - gender, region disaggregated

| District | Loss/damage of liveli-hoods/cli-ents/market | Current Status of Employment | | | | |
|---|---|---|---|---|---|---|
| | | Deteriorated substantially | Deteriorated marginally | No change | Improved marginally | Improved substantially |
| Galle | 90 | 18 | 38 | 20 | 14 | 0 |
| Out of which, women | 88 | 18 | 36 | 20 | 14 | 0 |
| Hambantota | 96 | 19 | 13 | 28 | 34 | 2 |
| Out of which, women | 69 | 18 | 10 | 19 | 20 | 1 |
| Ampara | 59 | 2 | 23 | 32 | 2 | 0 |
| Out of which, women | 42 | 2 | 16 | 22 | 1 | 0 |
| Batticaloa | 69 | 3 | 23 | 35 | 8 | 0 |
| Out of which, women | 44 | 1 | 18 | 19 | 6 | 0 |

# Annexure 10

## Explanation on financial statements

### Income and expenditure statement

| Operating Income | Definition/ items included |
|---|---|
| Interest & fee income from loans | All income on loans made to clients (use cash basis, or separate accrued interest from actual receipts. Don't accrue interest on non-performing loans) |
| Income from other finance -related services | For example, fee from savings accounts |
| Income from investment | Interest from bank accounts or investments in market instruments used primarily for liquidity management. |
| Interest & fee expenses | Interest and fee expenses for all loans, deposits or other liabilities funding the financial service operation |
| Loan loss provision expenses | Cost of creating/maintaining the loan loss provision. If current period write-offs exceed reserves, take this expense here. |
| Loan written off | Occur only as an accounting entry. Does not mean that loan recovery should not continue to be pursued. |
| Administrative expenses-Personnel | All staff and consultant costs, including payroll taxes and fringe benefits (preferably on an accrual basis, especially in the case of major future benefits like severance pay obligations) |
| Other administrative expenses | Broken out into no more than ten categories (e.g. rent, transportation, supplies, utilities, fee, depreciation, other admin. expenses |

## Balance sheet

| | |
|---|---|
| **ASSETS** | |
| Cash and Due from Banks | Cash on hand, sight deposits, checking accounts or other instruments paying little or no interest |
| Reserves in Central Bank | Relevant only for licensed financial intermediaries |
| Short term investment in market instruments | Interest bearing deposits and investments in financial investments, where the principal purpose is liquidity management |
| Total loan portfolio | Total outstanding balance of loans to clients, including loans past due, but not written off |
| (Loan loss reserve ) | A negative asset account: set-aside for estimated future losses on problem loans, which have not yet been written off. |
| Other short term assets | Accounts receivable, accrued interest on investments |
| Long term investments | Stock in any other enterprises, or other long- term, illiquid assets that earn returns |
| Net fixed assets | Land, buildings and equipment, net of accumulated depreciation |
| **LIABILITIES** | |
| Savings Accounts :forced | Compulsory savings required as part of the credit methodology |
| Savings Accounts :voluntary | Sight deposits from the general public |
| Time deposits | Certificates of deposit from the general public |
| Loans: Commercial Banks | Loans to the MFI at market rates from banks or other financial institutions |
| Loans: Central Bank | Rediscount or other special lines of credit from the Central Bank |
| Loans: subsidized | Concessional loans from donors |
| Other short term liabilities | Accounts payable, accrued interest to be paid on loans and deposits, etc. |
| Other long term liabilities | Mortgages on property etc. |
| Total liabilities | |
| **EQUITY** | |
| Paid in equity from shareholders | Equity contribution of owners of stock |
| Donated equity -prior year cumulative | Equity received through cash donations in prior years |
| Donated equity -current year | All cash grants/donations (including those from the income statement) |
| Prior years retained earnings with donation / losses | Accumulated earnings from prior periods only |
| Current years retained earnings/ losses | Current year operating profit (loss) |
| Other capital accounts | Any special reserves or other capital accounts plus the difference between non-operational income and expense. |

# Annexure 11

## Financial statements and MFI vs NGO operations

Institutions covered by Mr. J.Emilrajan

| Operating Income | SEEDS | Sareeram | SWEIDO | Kalmunai | SEEDA |
|---|---|---|---|---|---|
| Interest & fee income from loans | MF | MF | MF | MF | MF |
| Income from other finance -related services | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Income from investment | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Interest & fee expenses | MF | MF | MF | MF | MF |
| Loan loss provision expenses | MF | MF | MF | MF | MF |
| Loan written off | MF | MF | MF | MF | MF |
| Administrative expenses-Personnel | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Other administrative expenses | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Cash donations | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Non operational income | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Non operational expenditure | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| MF - Micro Finance | | | | | |

| | SEEDS | Sareeram | SWEIDO | Kalmunai | SEEDA |
|---|---|---|---|---|---|
| | | | Assets | | |
| Cash and Due from Banks | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Reserves in Central Bank | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Short term investment in market instruments | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Total loan portfolio | MF | MF | MF | MF | MF |
| (Loan loss reserve ) | MF | MF | MF | MF | MF |
| Other short term assets | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Long term investments | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Net fixed assets | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Total Assets | | | | | |
| | | | Liabilities | | |
| Savings Accounts :forced | MF | MF | MF | MF | MF |
| Savings Accounts :voluntary | MF | MF | MF | MF | MF |
| Time deposits | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Loans: Commercial Banks | MF | MF | MF | MF | MF |
| Loans: Central Bank | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Loans: subsidized | MF | MF | MF | MF | MF |
| Other short term liabilities | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Other long term liabilities | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Total liabilities | | | | | |

| | SEEDS | Sareeram | SWEIDO | Kalmunai | SEEDA |
|---|---|---|---|---|---|
| Equity | | | | | |
| Paid in equity from shareholders | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Donated equity -prior year cumulative | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Donated equity -current year | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Prior years retained earnings with donation / losses | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Current years retained earnings/ losses | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| Other capital accounts | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO | Integrated for NGO |
| MF - Micro Finance | | | | | |

Institutions covered by Mr. Eranjith Padmakumara

| Operating Income | Agro Micro Finance | Artha-charya Foundation | BRAC | HPDF | SEEDS | SEWA Finance | WDF |
|---|---|---|---|---|---|---|---|
| Interest & fee income from loans | MF | MF | MF | MF | MF | MF | MF |
| Income from other finance -related services | MF | | | MF | MF | MF | MF & related training income |
| Income from investment | MF | MF | | MF | MF | MF | MF |
| Interest & fee expenses | MF | MF | | MF | MF | MF | MF |
| Loan loss provision expenses | MF | MF | MF | | MF | MF | MF |
| Loan written off | MF | MF | | MF | MF | MF | MF |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Administrative expenses- Personnel | MF | MF | MF | MF | MF | MF | MF |
| Other administrative expenses | MF | MF | MF | MF | MF | MF | MF |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash donations | MF | | Inter-grated | | MF | MF | MF |
| Non operational income | | | | | MF | MF | |
| Non operational expenditure | | | | | | | |
| MF - Micro Finance | | | | | | | |

Balance sheet

| | Agro Micro Finance | Artha-charya Foundation | BRAC | HPDF | SEEDS | SEWA Finance | WDF |
|---|---|---|---|---|---|---|---|
| | | | ASSETS | | | | |
| Cash and Due from Banks | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Reserves in Central Bank | | | | | | | |
| Short term investment in market instruments | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Total loan portfolio | MF | MF | MF | MF | MF | MF | MF |
| (Loan loss reserve ) | MF | MF | MF | MF | MF | MF | MF |
| Other short term assets | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Long term investments | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Net fixed assets | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Total Assets | | | | | | | |

| | Agro Micro Finance | Artha-charya Foundation | BRAC | HPDF | SEEDS | SEWA Finance | WDF |
|---|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | | |
| Savings Accounts :forced | MF | MF | | MF | MF | MF | MF |
| Savings Accounts :voluntary | MF | MF | | MF | MF | MF | MF |
| Time deposits | MF | MF | | MF | MF | MF | MF |
| Loans: Commercial Banks | MF | MF | | MF | MF | MF | MF |
| Loans: Central Bank | | | | MF | | | MF |
| Loans: subsidized | MF | MF | MF | MF | MF | MF | MF |
| Other short term liabilities | MF | MF | Inte-grated | MF | MF | MF | MF |
| Other long term liabilities | MF | MF | Inte-grated | MF | MF | MF | MF |
| Total liabilities | | | | | | | |
| EQUITY | | | | | | | |
| Paid in equity from shareholders | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Donated equity -prior year cumula-tive | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Donated equity -current year | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Prior years retained earnings with do-nation / losses | MF | MF | Inte-grated | Inte-grated | MF | MF | MF |
| Current years retained earnings/ losses | MF | MF | MF | MF | MF | MF | MF |
| Other capital ac-counts | MF | MF | Inte-grated | Inte-grated | MF | MF | Inte-grated |
| Total Equity | | | | | | | |
| Total liabilities and equity | | | | | | | |

MF - Micro Finance