

**Final Report
of the
Workshop on Microfinance Promotion in
Post-Tsunami period**

Sri Lanka Foundation Institute, Colombo 7, 4 March 2005

Jointly organized by:

The German Technical Cooperation (GTZ) supported Rural Banking Innovations Project (RBIP) of People's Bank, Plan and the Stromme Foundation

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Introduction

A workshop on 'Microfinance promotion in post-tsunami period' was held on Friday 4 March 2005, at the Sri Lanka Foundation Institute, Colombo 7. This workshop was jointly organized by Plan, Stromme Foundation, and the German Technical Cooperation (GTZ) supported Rural Banking Innovations Project (RBIP) of People's Bank. The purpose of organizing this workshop was to bring together practitioners, microfinance experts and other stakeholders to discuss the current status and next steps to be taken in promoting microfinance in post Tsunami Sri Lanka.

The workshop consisted of three panels moderated by Mr. Indrajith Wijesiriwardana, Microfinance Consultant, Mr. Syed Hashemi, Senior Microfinance Advisor, World Bank and Mr. Charita Ratwatte, Managing Director, Sri Lanka Business Development Centre, respectively. The panels focused on three themes of immediate relevance to microfinance institutions in the post Tsunami period:

- (i) loan write offs versus loan rescheduling in post-disaster scenarios,
- (ii) the roles of grants versus loans in the process of rebuilding microfinance institutions in the reconstruction and recovery process, and
- (iii) areas of complementarity and the need for coordination of efforts.

Many high-ranking officials from Ministry of Finance and Planning, Central Bank and commercial banks, microfinance institutes, NGOs, members of World Bank, local and international microfinance consultants and the representatives from various institutions were among the panellists and the participants. The participation from the north and east provinces and from the tsunami-affected areas were of significant importance.

Opening Remarks

The workshop chair, Dr. Dirk Steinwand, Principal Advisor, German Technical Cooperation (GTZ), requested the participating institutions to suggest ways to improve coordination in the wake of post tsunami efforts.

In his opening remarks, Mr. Gunasekara, Additional Director General, Department of Development Finance, Ministry of Finance and Planning stated that the objective of the workshop was "to develop recommendations on how to move forward' on tasks set on the promotion of microfinance in post-tsunami period.

Plenary Panel Discussions

Panel 1:

Theme

Loan Write-Offs versus Rescheduling in Post-Disaster Scenarios

Moderator: Mr. Indrajith Wijesiriwardana, Consultant Microfinance

Panellists: Mr. Emil Anthony, Deputy Managing Director, SEEDS
Mr. A. L. Somaratne , AGM (SME & Auto Finance), NDB
Mr. P.V. Pathirana , Deputy General Manager, People's Bank
Mr. Moses Mugarura, MF Consultant, Stromme Foundation

The participants and the panellist raised the following issues.

- Loan write-off is an accounting entry. It's a legal obligation. It doesn't mean that recovery effort should stop and should not be mixed up with loan forgiveness
- After the loan is removed from the Balance Sheet it should be kept as an off Balance Sheet item.
- A clear policy for loan write-offs should be defined
- An independent assessment should be carried out by the institution to write-off loans
- Loan disbursements should be subject to insurance.

- When writing-off a loan, a case-by-case and client-by-client analysis should be made.
- Rescheduling was supply oriented not demand oriented in Bangladesh.

Mr. Pathirana defined Loan Rescheduling as " a program of relief offered to a loan defaulter, where a Financial Institute has reasonable ground to ascertain that although the borrower is presently unable to repay the loan (due to inadequate cash inflow), he /she will be able to repay it through an adequate expected cash flow in the future, whereby a further period is granted to repay the interest and capital that are due".

He also stated that a decision on rescheduling loan repayment should be based on detailed assessment of client temporary loss of income. MFI should not write off unless a customer met with a tragic death or went missing. Experience has shown that writing off loans is likely to cause a bad repayment culture

Mr. Moses Mugarura, stated in special circumstances the loans should be written off because

- It is good practice
- It is inevitable in time
- Cost of recovery might be higher than the amount collectable
- To separate performing and non-performing loans.
- Bad loans overstate assets and aggravate PaR rate

However Mr. Mugarura also emphasized that writing off does not mean to not to follow up on the loan enforcement towards the client.

Mr. Mugarura also shared some of his international experiences to the participants.

A MFI in Guatemala retained Bad Debts on its books for 4 years and accumulated a PAR rate of 15%. 90% of those loans were past-due for more than 180 days. Had they written off all loans 180 days past due each year the PAR rate would have been as low as 1.5%.

Because of inadequate Loan Loss Provisioning, Corposol the largest MFI in Columbia was near collapse due to declining Portfolio Quality that had been

understated by some Audit firm. It was later found in statements to be overstated by millions of dollars (1996).

Mr. A. L. Somaratne told that the write off decision should be based on 2 factors.

1. Profitability of the Institution
2. Frequency of natural disaster

He also stated that for financial institutions as intermediaries, it is difficult to write-off assets since they are not owned by the bank but by the depositors. And if the profitability goes down the customer's confidence of the institute also will be badly damaged and for the third point he mentioned that if the frequency of natural disasters were high writing off loans, it would build a bad credit culture in the society.

Mr. Emil Anthony stated, " Tsunami is special circumstance. Therefore it is necessary to write-off only the interest portion"

Summary of Discussion of Panel 1

Following the plenary presentations and discussion the moderator concluded that

- Loan write offs or rescheduling are not the first, second or third option but may be the last option in a disaster period.
- MFIs first preference should be to help the customer. One option is stop collection for a short period or collect only the interest component.
- Loan write offs or rescheduling should be demand oriented not supply oriented and should be made case by case.
- Balance Sheet must represent the portfolio quality. If MFIs portfolio is affected, it should be clearly shown in the Balance Sheet.
- Loan write off is the last option. It will not damage the Balance Sheet if the Institution had maintained a loan loss provision.
- Microfinance is one way of serving the poor but not the only way as such write-off is not a best practice to make a sustainable MFI.

Panel 2:

Grants versus Loans

Moderator: Mr. Syed Hashemi, Senior Microfinance Advisor, World Bank

Panelists: Mr. A.L. Anverdeen, Branch Manager Batticaloa Akkaraipattu, HNB
Mr. Nimal Martinus, Regional Director, Stromme Foundation
Ms. Nicoleen, microfinance specialist, GTZ Jaffna
Mr. Shakila Wijewardena CEO, SEEDS
Mr. Nihal Kirialle, Senior Manager, Development Finance, Seylan
Bank

The following issues were raised by the participants and from the panellists during the discussion.

- Differentiate where grant is needed and not.
- MFI are not the best channel to deliver grants
- There is no single entity or policy to uplift the lives of the victims. It has been politicised or taken so lightly.
- Interest gap in Microfinance should be decided only by the market force.
- There should be a proper criteria for grants
- Grants should be invested in infrastructure
- There should be a close monitoring system for loans and grants
- Grants should also have post audit supervision
- Unlike banks MFIs do not have the power to get the money back from the clients if there is a default.
- Grants destroy the Microfinance Industry.
- Giving loans at a very low interest MFI cannot cover their administrative costs. As such long-term impact will be negative.
- Microfinance clients are not particular about the interest rates

Most participants agreed that the Susahana Loan Scheme from the Central Bank at 6% interest rate in Tsunami affected areas would badly affect the microfinance industry in Sri Lanka.

Mr. A.L. Anverdeen, stated, "Grants and loans can be combined together to uplift the lives of those affected by Tsunami"

Mr. Nimal Martinus, stated "Sustainability is the fundamental requirement for a MFI. To maintain the sustainability of the Financial Institute, they should not grant but they have to inspect, lend, recover and have to sustain".

According to Mr. Martinus, there are two types of MFIs.

1. Receives money from donors and grant. For this type, sustainability is not the issue. They continue their work for poverty elevation.
2. Collect money from the society and lend money to make profit.

According to Ms. Nicoleen, there should be a balance where grants can be complemented by credits. In a natural disaster we have to go for grants for immediate relief as grants can enhance the livelihood of affected areas. She said that grants should never be combined with credit activities. There should be a clear separation; otherwise it will confuse the client.

Mr. Shakila Wijewardena mentioned that the positive or negative impact of a grant does not depend on the grant itself; but the way it is delivered. That is the timely approach and the selection process.

He further explained, there should be a clear demarcation between grants and loans and a proper MIS to monitor these. Grants can be utilized to support common facilities; such as rebuild tsunami affected institutions, business development and knowledge sharing.

Mr. Nihal Kirialle, stated that it is necessary to have a better understanding of the situation in which the grant is needed. He also told that the recent disaster was beyond the capacity of MFI. As such grants should be utilized to restore the lives of the people. Grants must be eventually combined with loans

Summary of Discussion of Panel 2

- Grants should be clearly separated from loans.
- Grants should only be used for immediate relief measures in order not to create a dependency mentality
- Immediate access to loans is for clients more important than the level of interest rates
- MFI should be allowed to charge cost covering margins in order to safeguard sustainability of the institution.
- Margins for MFI of 3-4% as offered by the Susahana Loan Scheme are too low to cover costs.

Panel 3:

Theme

Coordination of Efforts

Moderator: Mr. J.C. Ratwatte, Managing Director, SLBDC

Panellists: Mr. Krishan Spencer, Addl. Managing Director, NDTF
Mr. Moses Mugarura, Consultant, Stromme Foundation
Mr. K. Balasubramaniam, Regional Manager, Industrial Development Board, Jaffna
Mr. L.B. Dasanayaka, CEO, Sanasa Federation
Mr.M.M. Attanayake , CBSL, Director Regional Development

The following issues were raised by the participants and from the panellists during the discussion.

- Practitioners and donors should come together and develop a national policy.
- A forum, which consists of MFIs, should be formed.
- Coordination should start from the district level and then be expanded to national level.
- MFIs should have a common goal/concept. And this should be clearly defined.

- Central Bank of Sri Lanka should control MFIs and protect the savers.

- Enforcement of laws and regulations for a proper coordination.
- Government should act as the development partner in coordination.
- All MFIs should have a common mission.
- MFIs should adapt best accounting standards.

Addressing the audience, Mr.M.M. Attanayake stated that coordination is essential to design, implement, monitor and evaluate. For the purpose of this MFI should analyse

1. The Demand for financial needs
2. The Supply side
 - Asses stock of resources availability
(Financial resources from donors, internal sources, Central Bank, International sources, Human Resources and Financial Resources)

Coordination among microfinance practitioners is needed in ranking the sequence of the program.

1. What should be done first
2. How much
3. What is the intensity
4. How could we go above it
5. What is the time frame
6. What should be the basis

He also told that it is necessary to bring various sectors such as health, education, tourism, etc and the MFI together, if not there will be a waste of both human and financial Resources.

To achieve the targets of MFI there should be coordination among coordinators.

Mr. Krishan Spencer mentioned that there should be a central and decentralized programs for proper coordination in delivery channels..

Mr. Moses Mugarura mentioned that it is necessary to clearly identify who are the stakeholders i.e. Government (Ministry of Finance), competitors, practitioners and donors.

Mr. L.B. Dasanayaka, pointed out that different agenda of MFIs, the competition among them, the time constraints, and cost involved are the major challenges for a proper coordination.

In order to minimise these he emphasised that the MFIs should.

- work towards a common goal
- avoid rendering services of same nature
- minimise misuse of funds
- create and protect the financial culture

Summary of Discussion of Panel 3

Following the plenary presentations and discussion the moderator concluded that

The moderator concluded that both harmonisation and coordination is necessary for this theme. Harmonising approach could be made better through staff training, adapt best accounting standards for MFIs, proper customer database, good MIS and etc. All participants unanimously agreed that there should be a forum, which consists of MFIs should be formed

IV. www.microfinance.lk - An introduction to microfinance website

Mr. Nishanthan Kailainathan, Consultant, Rural Banking Innovations Project (RBIP) described the objectives and function of the microfinance website as:

1. The Microfinance institutions and development practitioners promoting microfinance can post and receive the following information:
 - The contact details of their institutions;
 - Kind of assistance they can offer for the tsunami victims;

- Kind of assistance they need to start and continue tsunami related microfinance activities;
- Kind of assistance donors are ready to offer for tsunami related microfinance activities;
- How donors can respond prudently and rapidly to natural disasters in order to provide sustainable and commercially viable microfinance;
- Some best practices to adapt during post disaster situations;
- Up-coming events, latest news on tsunami related microfinance activities, etc.

2. The Online Forum:

Parties interested can join the GTZ/RBIP microfinance community and browse directly in any of the forums listed or start posting their own messages and thereby participate in online discussions.

VI. Next Steps

Dr. Dirk Steinwand said participants had met most of the objectives on how to move forward on tasks set on the promotion of microfinance in post-tsunami period. The post tsunami area should be used not only to rebuild the former status quo, but to use it as a chance to strengthen the microfinance industry. This requires

- A sound regulatory framework by the policy makers
- An environment that allows MFI to charge cost covering interest rates.
- Strict discipline with regard to loan forgiveness.
- The implementation of international best practices in microfinance.

In order to achieve these goals participants felt it is important to re-establishment the MFI network in order to exchange experience and knowledge among practitioners and to enter into dialogue with policy makers.

Acronyms

CBSL	Central Bank of Sri Lanka
CEO	Chief Executive Officer
GTZ	German Technical Cooperation
MFI	Microfinance Institute
NDB	National Development Bank
NDTF	National Development Trust Fund
RBIP	Rural Banking Innovations Project
SEEDS	Sarvodaya economic enterprises development services
SLBDC	Sri Lanka Business Development Center
MIS	Management Information System