

# Lessons learned from implementing Microfinance in a post-tsunami environment

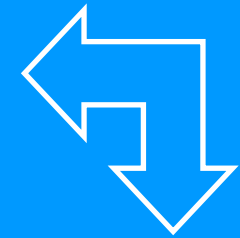
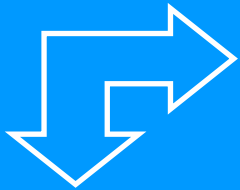
## SRI LANKA

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# Pre-Tsunami MF landscape



## Outreach

- High number of MFIs and broad institutional diversity
- Dominance of small MFIs / community based groups
- Regional differences: South & West vs. North & East

## Services

- Thrift culture: more deposit than lending business
- 5-7% interest on deposits- lending rates between 14-16%

## Financial sustainability

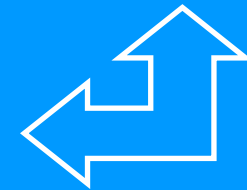
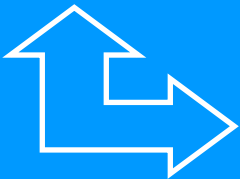
- Spread does not cover the real costs
- Low recovery rates (sometimes as low as 65%)
- Lack of efficiency, transparency and professionalism

## Estimations 2004:

- 1,200 branches of Cooperative Rural Banks
- 8,500 Thrift and Credit Cooperative Societies
- 1,000 Samurdhi Banks
- 6 Regional Development Banks
- Hundreds of NGOs, limited companies, etc.

## Regulation and supervision

- No national Microfinance strategy
- No integrated regulatory framework



# Tsunami Effects

## Tsunami- Effects on livelihood

- More than 200,000 livelihoods were lost as a direct result
- A further 125,000 jobs were indirectly affected
- Overall, 10,981 business units affected
  - Trade 43%, Other Services 13%, Fishery (and related) 13%, Tourism 6%, Other 10%

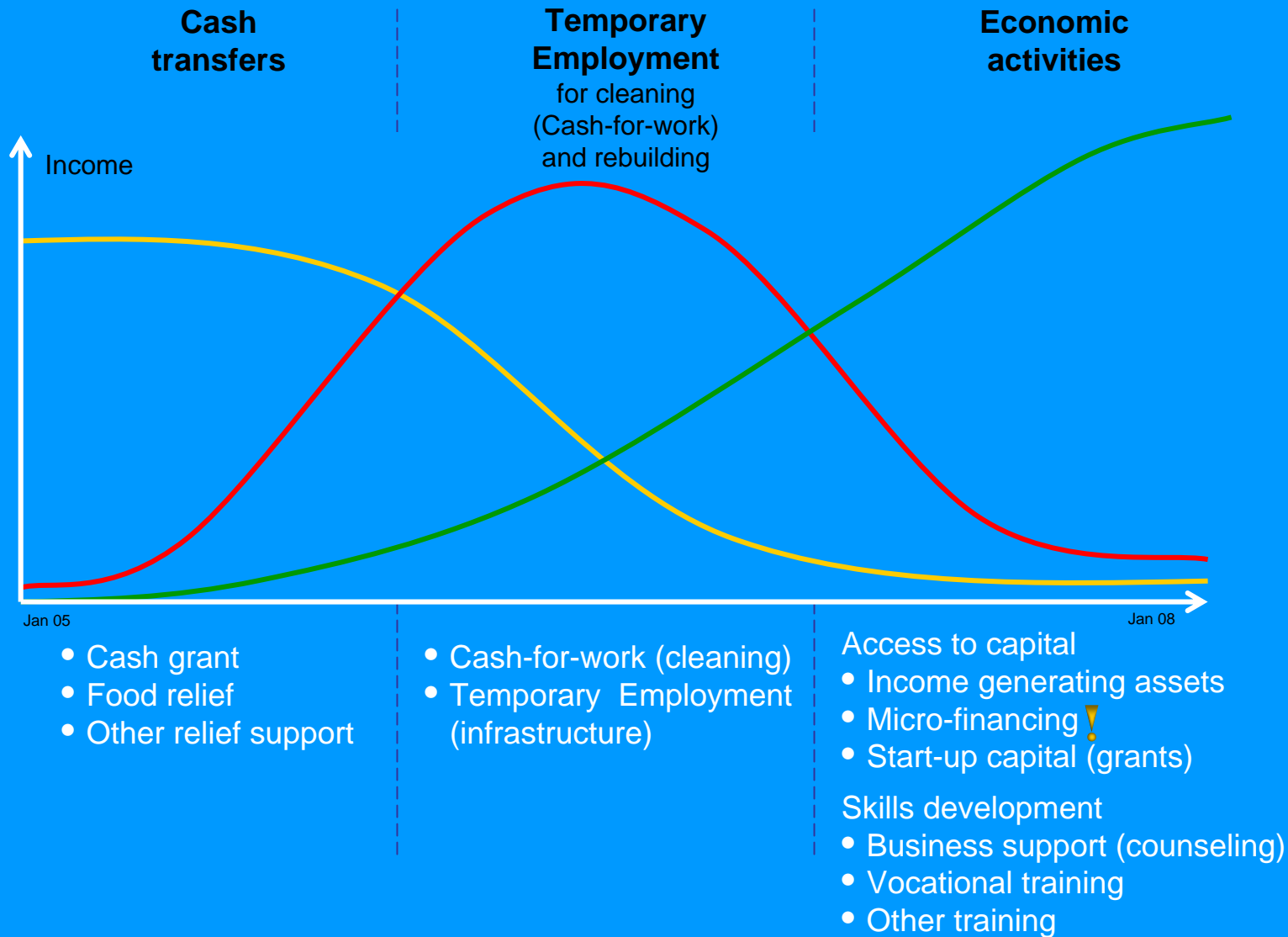
Data taken from TAFREN

## Tsunami- Effects on MFI

- Around 27,000 affected clients  
(North & East 12,000; South 15,000)
- Loss or damage to property  
(Approx.: North and East Rs.106,266,000; South Rs. 216,000,000)
- Books and accounts destroyed or damaged
- Members lost their livelihood and are not able to repay their loan

Data taken form SLBDC and GTZ Survey 03.2005

# Income Recovery Program (IRP) developed by TAFREN



# Microfinance Assistance programs (status September 2005)

## Programmes (planned, on-going or implemented)

- of 17 donors, governments and other funders
  - mostly nationwide -
- of 19 INGOs
  - focused on South and East

Not all of them are specifically Tsunami related

## Dominance of Financial assistance

### Examples:

ADB: US \$ 13 Mio loan to NDTF – 2% to NDTF, 7% to end borrowers

CBSL: SLR 5 billion loan fund through MFIs – 3% to MFIs, 6% to borrowers

### Technical assistance

Targeting the lack of

- efficiency
- transparency and
- professionalism

of Microfinance Institution

# Status of implementation



**Many of the microfinance programmes still in planning stage or have just recently started**



**Institutional weakness of MFIs hinders an increase in lending activities**



**Subsidized credit lines mainly replace existing loans**



**Over-liquidity of the market**

Traditional high savings rates

INGO and donor Microfinance programs (pre- and post-Tsunami)

Funds for post-Tsunami livelihood

# Status of implementation (Findings of ILO Survey regarding the provision of business loans)

(April 2005)

## Applications (21% of affected (potential) entrepreneurs)

- Accepted applications: 85 %
- Only 13% of affected women applied, compared to 25% of men
- Success rate of women's applications (70%) compared to men (90%)
- Highest density of applicants in the South
- Lack of financial institutions hindered applications in the N&E
- Lack of information hindered applications of women and in the N&E

### Main reason for refusal:

- Collateral

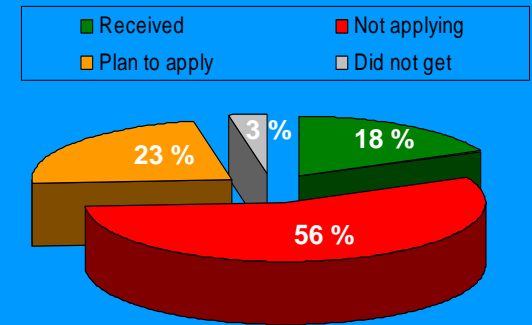
## Additional applications (23% of affected (potential) entrepreneurs)

### Main reason for hesitation:

- Unwillingness to take the risk (24%)
- Lack of knowledge of how to do it (23%)
- Lack of collateral (17%)
- Lost of social infrastructure

## Main Provider of Business loans:

- Banks (56%), Microfinance Institutions (35%)



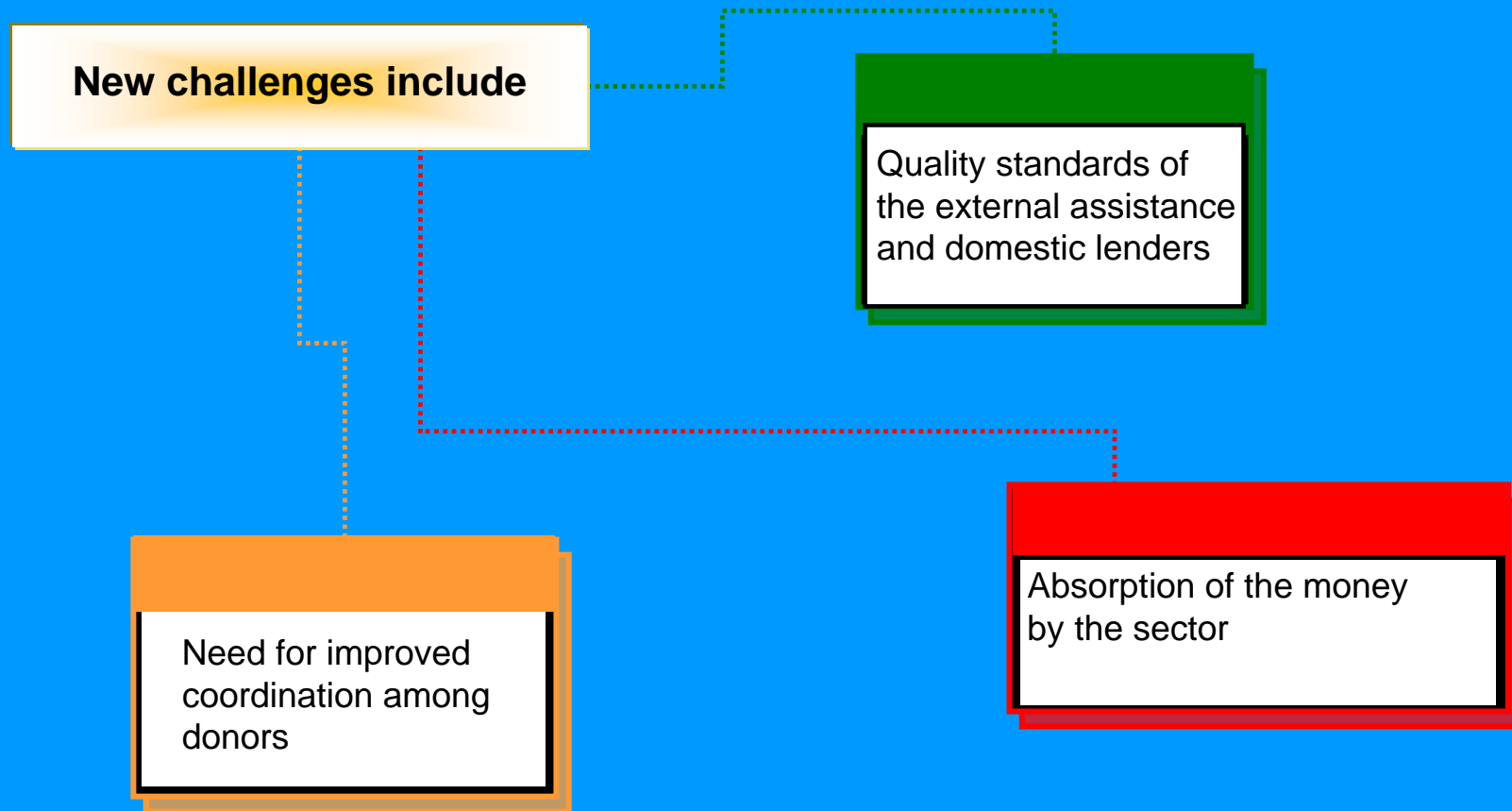
# Lessons learned

- ➔ Pre-Tsunami structural weaknesses of MFI become more acute after Tsunami
- ➔ People that lost all their assets rather need a grant instead of a loan
- ➔ Actual demand for credit not as high as expected (according to ILO survey)
- ➔ Subsidized credits do not bring great relief for the financial situation of the customers
- ➔ Credit lines with interest caps hardly reach new clients
- ➔ Too early to assess effect of grant programs on repayment culture



# Challenges ahead

Many of the challenges of the pre-Tsunami period prevail:



*Thank you!*