CENTRAL BANK OF SRI LANKA

THE 23RD ANNIVERSARY LECTURE OF THE
CENTRE FOR BANKING STUDIES

MICROFINANCE AS AN INSTRUMENT FOR SMALL ENTERPRISE DEVELOPMENT : OPPORTUNITIES AND CONSTRAINTS

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CENTRE FOR BANKING STUDIES

OCCASIONAL PAPERS : NUMBER 52 – 2004

ISSN 1391 – 3832

Printed at the Central Bank Printing Press,
58, Sri Jayewardenepura Mawatha, Rajagiriya and
Published by the Central Bank of Sri Lanka, Janadhipathi Mawatha,
Colombo 1.

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Microfinance as an Instrument for Small Enterprise Development : Opportunities and Constraints

by

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26 Octber 2004

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Being a macroeconomist, Professor Colombage contributed in the fields of monetary policy, international finance, public finance and econometric modelling during his long tenure in the Economic Research Department of the Central Bank. As the Director of Statistics, he conducted several sample surveys including the Consumer Finances and Socio Economic Surveys. He also carried out research projects in collaboration with the University of Manchester, Asian and Pacific Development Centre, Friedrich Ebert Stiftung, South Asian Network of Economic Research Institutes, UNDP, ILO and UNU-WIDER. He has published several books/ monographs including *"Is Export-led Growth a Myth?: A Critical Assessment of Twenty Five Years of Economic Liberalization in Sri Lanka", "Economy of Sri Lanka in the Liberalized Phase", "Payments and Monetary Cooperation in South Asia"* and *"Monetary Policy in an Open Economy"*. He contributed a series of research papers to the Central Bank's journal, *Staff Studies*. The papers that he presented at recent international conferences include "Nexus between Exports and Economic Growth in Sri Lanka: An Econometric Analysis", "Financial Sector Reforms in Sri Lanka: Achievements and Constraints", and "Legal and Regulatory Framework of Micro Financing in Sri Lanka". Currently, he is conducting research on "Inflation Targeting as a Framework for Monetary Policy".

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Microfinance as an Instrument for Small Enterprise Development: Opportunities and Constraints

Prof. S. S. Colombage

It is a great honour for me to deliver the Twenty Third Anniversary Lecture of the Centre for Banking Studies (CBS) of the Central Bank of Sri Lanka. The CBS, then known as the Rural Banking and Staff Training College, was established in 1981 with a view to impart training to officials in the banking sector. Since then, it has provided immense service to the banking and financial community by offering training programmes, workshops and seminars on a variety of subjects including commercial banking, rural banking, financial sector, information technology, management and skills development. In addition, the CBS conducts commemorative lectures and public seminars on topical issues. This is one such event.

The Director of the CBS permitted me to focus on a theme of my choice for today's lecture. So, I opted to talk on microfinance, and he gladly endorsed my suggestion. Some of my former colleagues in the audience may wonder why I selected this topic, because I dealt mostly with macroeconomic problems and policy issues during my long career in the Central Bank. I have chosen this theme for several reasons. I thought of making use of this opportunity to disseminate the original findings of some pioneering research work on microfinance that I am involved in at present. I may mention here that about six years ago, I was privileged, as Director of Statistics, to present the final report of the Central Bank's Consumer Finances and Socio Economic Survey (1996/97) in this very same venue. I have more or less a similar task today, but in a different capacity. At a time when microfinance sector is growing at a rapid rate, it is important to examine its implications. The subject of microfinance, of course, is directly relevant to the development policies and activities of the Central Bank.

In my presentation, I intend to highlight the key findings of an Impact Assessment Survey of Microfinance conducted in Hambantota and Moneragala Districts.[1/] By definition, microfinance provides a variety of small-scale financial products including credit, savings, insurance and business development services to poor people. These people usually do not have access to commercial banks and other formal financial institutions. Some of the key characteristics of microfinance are easy access for poor people, group-based lending, less or no collateral requirements and reasonable interest rates. Microfinance is increasingly recognized as an effective instrument for poverty reduction. It is widely believed that such credit enables poor people to engage in their own small enterprises, and thereby to raise their incomes, and to accumulate assets. This brings about a progress in living conditions of the poor; improvements in food intake, health, housing, education etc. Savings and insurance facilities provided under microfinance help to reduce various kinds of risks faced by the poor. Microfinance institutions (MFIs) also provide a variety of enterprise services like skills development training, advisory and counselling services, technical advice and market guidance. Hence, microfinance is said to be based on a "credit plus" approach. Another major benefit of microfinance is its "empowering" effect, which goes beyond increased economic returns. In particular, microfinance is considered to have

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1/ This survey is a part of an ongoing research project on Impact Assessment of Microfinance conducted by the Department of Social Studies of the Open University of Sri Lanka in collaboration with the University of Lund, Sweden. This three-year project (2003-05) is sponsored by the Swedish International Development Co-operative Agency (SIDA) under the Asian Swedish Research Partnership Programme. This research project was initiated by Mr. Upali Vidanapathirana, Former Dean, Faculty of Humanities and Social Sciences. Prof. S.S. Colombage and Prof. (Ms.) Alia Ahmad of the University of Lund are the principal researchers of the project. The field work was coordinated by Mr. A.S. Chandrabose of the Department of Social Studies. Dr. Mahim Mendis, and Messers Shantha Abeysinghe, Theodore Fernando and N. Morais of the Department assisted me in field supervision. Messers S. Shivakumaran and H.W. Gunasekera provided assistance to develop the questionnaire. Mr. R. B. Weerasinghe carried out electronic data processing. Field investigations were done by a group of graduates of the University of Ruhuna who were especially trained for the project. The author is grateful to all of them.

potential to empower rural women through its group saving and lending mechanism.

There are a few studies focusing on the performance of certain microfinance institutions and programmes in Sri Lanka. Dias (2001), Hewavitharana, (undated) and Mithraratna (2003) have reviewed the progress of the Women's Development Federation (WDF), also known as *Janaskthi* banks, in Hambantota. In a more rigorous analysis, Wickrama (1998) evaluates the Social Mobilization Programme in Hambantota district by using quantitative and qualitative data collected through a sample survey. Most of these studies focus on a single microfinance programme, and therefore, they lack a wider coverage. Also, these studies, with the exception of those of Hewavitharana and Wickrama, merely provide descriptions of the structure and historical progress of a particular scheme without presenting any critical analysis.

Moreover, the current studies on microfinance pertaining to Sri Lanka do not adequately address the question, what microfinance programmes can and cannot achieve. Most studies, without applying any scientific tests, merely accept the hypothesis that microfinance does have positive socio-economic effects. A major objective of our study is to fill this lacuna. By applying the relevant statistical techniques, various hypotheses on the nexus between micro credit and different socio-economic variables are tested in this analysis using the sample data. We have adopted a broader approach in our study taking into account a multitude of factors affecting the performance of microfinance clients and small enterprises.

2. Emergence of Microfinance Institutions

In recent times, microfinance has evolved as a major instrument to provide financial facilities to small entrepreneurs in developing and developed countries. So, microfinance is relatively a new concept. But its credit delivery mechanism is not so strange to us. Some form of micro or small credit delivery mechanism had been existent in Sri Lanka since the beginning of the last century. Co-operatives, rural banks, state banks and the Central Bank were instrumental in such small credit disbursements to farmers and other small entrepreneurs. These credit arrangements were, however, not identified as microfinance. While replacing the traditional state-sponsored credit schemes that became a failure over the decades, microfinance is expected to play a vital role in meeting a variety of credit, saving and risk-management needs of the poor who run small enterprises. This study will evaluate the effectiveness of microfinance schemes in fulfilling this role.

In Sri Lanka, the origin of micro financing can be traced back to the early 1900s. In 1911, the British government passed legislation to set up credit co-operatives in Sri Lanka. However, the government did not interfere with the activities of the co-operatives in the initial phase up to 1942. Village superiors like landlords and village headmen dominated the co-operative societies. These societies did not show much growth during the initial phase. Following the food shortages emanated from the Second World War, the government got involved in the co-operative movement in the second phase that began in 1942. The government initiated forming Co-operative Agriculture Production and Sales Societies (CAPS), and provided credit facilities to them. The number of CAPS rose from 26 societies with 8,694 members in 1947 to 994 societies with 247,000 members in 1957.

In the post-independence period, the government concentrated largely on agricultural credit, particularly for paddy cultivation. These credit facilities were granted mainly through the two state-banks, the Bank of Ceylon and People's Bank. Under various rural credit schemes, the Central Bank provided funds to the two banks at subsidized interest rates. These cultivation loans were written off in many instances due to political pressures. In 1964 the government established the Co-operative Rural Banks (CRBs). This was a major contribution in the field of microfinance.

However, microfinance, in its strict sense, was not evident in Sri Lanka until 1986. During 1986-1991, the government initiated an array of policy measures to expand credit facilities to the poor under its poverty alleviation strategy. The Ministry of Finance and the Central Bank initiated the Regional Rural Development Banks (RRDBs) in 1986. As a major poverty alleviation strategy, the government launched the *Janasaviya* programme in 1989. Under that programme, the poorest families who received *Janasaviya* benefits were assisted with credit facilities for viable self-employment projects with a view to promoting income generating activities on a sustainable basis. The government established the *Janasaviya* Trust Fund in 1990. The Small Farmers and Landless Credit Project was launched by the Central Bank in 1991. All those programmes had some form of microfinance component.

In 1996, the government replaced the *Janasaviya* programme with the *Samurdhi* Development and Credit Scheme to promote income generating self-employment opportunities among the poor so as to raise their income levels, thereby making them self-reliant and self-supporting. In 1997, the government established the *Samurdhi* Authority and its microfinance scheme. Under that scheme, the beneficiaries were eligible to obtain loans of up to Rs.10,000 for undertaking new income generating activities or expanding an existing business. As part of this movement, *Samurdhi* Bank Societies (SBS) were set up throughout the country to promote savings and to disburse credit.

The other major institutions and programmes that provide microfinance facilities include Regional Development Banks (RDBs), Self-Employment Promotion through Micro-Enterprise Credit (*Surathura* Scheme), Sarvodaya Economic Enterprise Development Services (SEEDS), *Gami Pubuduwa* Scheme, Thrift and Credit Co-operative Societies (TCCSs) Credit Scheme – *SANASA, Janasakthi* Banking Societies (in Hambantota) and Women's Development Federation (in Hambantota). Details of these major microfinance institutions are given in Appendix Tables A2 and A3. Apart from these major MFIs, there are thousands of other organizations involved in small credit delivery spread all over the country.

3. Conceptual Framework and Methodology

As stated earlier, the major focus of this study is to analyze the causal relationship between microfinance facilities and the small enterprises. This link is rather complex, because a wide range of mediating and external factors intervene in the living conditions of the clients and performance of their small enterprises. Mediating variables are those factors that foster or inhibit opportunities for change, but are not directly linked to the programme, *e.g.* social and cultural background, gender of client, number of household members, environmental conditions and price of enterprise inputs. External factors cause or lead to changes, irrespective of the programme, *e.g.* increases in household income due to factors other than clients' activities such as changes in macro-economic conditions. Therefore, we have attempted to take into account such mediating and external factors in collecting and analyzing data in this study.

As an initial step of this study, a sample survey was conducted in Hambantota and Moneragala Districts. These are two of the most deprived districts in the island. Approximately, 43 per cent of the population of the Hambantota District and 37 per cent in the Moneragala District are poor in terms of the Headcount Index, according to the Household Income and Expenditure Survey-2002 of the Department of Census and Statistics (Appendix Table A1).

The main survey instrument used in our survey was a structured questionnaire focusing on socio-economic effects of microfinance. Information was gathered mainly through quantitative tools supplemented by a few qualitative tools including focus group discussions. This survey will be extended to several other districts including Anuradhapura and Nuwara Eliya. Also, we intend to conduct a qualitative survey in the next stage of the survey to ascertain, more specifically, the impact of microfinance on client empowerment. It will focus on women clients through in-depth interviews to determine if and how women have been empowered by their participation in the programmes.

Broadly, microfinance is considered beneficial to the clients in view of factors like easy access, absence of collateral requirements, flexible repayment mechanism and low interest rates, in comparison with other rural lending arrangements. As the poor are generally excluded from access to credit facilities of commercial banks and other formal financial institutions, microfinance has been increasingly recognized as an alternative and trouble-free source of credit. However, considerable disagreements on microfinance can be found in the literature. Some writers (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997) argue that microfinance brings about immense socio economic benefits. In contrast, some other researchers (Adams and Von Pischke, 1992; Buckley, 1997; Montgomery *et al*, 1996; Rogaly, 1996; Wood and Shariff, 1997) point to the negative impacts of microfinance. Between these two extremes, there are some other writers (Hulme and Mosley, 1996; Mosley and Hulme, 1998) who believe that although microfinance has several beneficial effects, it does not help the poorest, as is so often claimed.

Given the above diverse views, it is important to assess the impact of microfinance on households and micro enterprises in the context of Sri Lanka. The methodology underlying the survey of this study is based on a framework developed by the SEEP Network (2000) as part of the wider AIMS programme funded by the USAID.[2/] This conceptual framework places the family/household at the centre of its analysis. The reason is that small enterprises are closely linked with the family/household. Accordingly, it is theorized that microfinance exerts its impacts at four levels:

1. At the *family/household level*: Small enterprises backed by microfinance contribute to net increases in

2/The Small Enterprise Education and Promotion (SEEP) Network is an association of more than forty U.S. and Canadian NGOs that work with hundreds of local organizations on microfinance development. SEEP engages in research, documentation, and training activities aimed at improving member practice. Since its inception, SEEP has focused on monitoring and evaluation issues as a critical part of its program; its Evaluation Working Group facilitates SEEP's work under the Assessing the Impact of Microenterprise Services (AIMS) project.

family/household income, asset accumulation and labour productivity. Increased income also leads to improvements in education and health conditions of the family/household.

2. At the *enterprise level*: Microfinance leads to improvements in production, employment, assets and profits of small enterprises.
3. At the *individual level*: Microfinance has positive effects on individual's income, decision making capacity, which in turn, lead to strengthen the economic portfolio of the family/household.
4. At the *community level*: Small enterprises generate new employment opportunities and backward and forward linkage industries, and also attract new investment and income from outside the community.

Using the above framework a structured questionnaire was designed in this study to collect data on a wide range of dimensions covering (*a*) natural environment and physical infrastructure, (*b*) characteristics of households and clients, (*c*) utilization of micro credit, (*d*) soundness of enterprises, labour inputs and profitability, (*e*) savings and entrepreneurship of clients, (*f*) fixed assets and durable consumer goods in households, (*g*) housing improvements, (*h*) dietary changes and food security, and (*i*) clients' assessments about microfinance institutions/programmes.

The sample survey was conducted in Hambantota and Moneragala districts during the six-month period, July-December 2003. It was expected to cover about 400 clients; this number was allocated between the two districts in proportion to the total population of each of them. We used the group/member lists of the banking societies as the sampling frame for the survey. Each banking society has about 80-100 groups each consisting of five members or microfinance clients. A total of 50 banking societies were chosen on a random basis from selected microfinance providers in both districts. By applying the systematic sampling method, 408 clients were chosen from these societies; 227 clients from the Hambantota district and 181 clients from the Moneragala district. In the Hambantota district, the survey covered the *Janashakthi* Bank Societies, Social Mobilization Foundation (SMF), Sarvodaya Economic Enterprise Development Services (SEEDS), Ruhunu Development Bank and Seylan Bank. In the Moneragala district, SEEDS and Uva Development Bank were covered. In addition, we selected 112 individuals who are waiting to obtain their membership or credit facilities from microfinance institutions. These incoming clients or non-clients are treated as the control group in our study.

The main objective of the survey was to assess the socio-economic impact of microfinance on the clients' living conditions and their small enterprises. In other words, we attempted to find out through this field survey whether the microfinance clients are a happy lot. The survey focused mainly on the following issues:

- Demographic and socio-economic features of households,
- Impact of microfinance on enterprises,
- Impact of microfinance on households,
- Empowerment of women,
- Client satisfaction and feedback, and
- Constraints faced by small enterprises.

Let us now examine the major findings of the survey in each of the above fields.

4. Demographic and Socio-Economic Features of Households

Women play a major role in microfinance (MF) activities, particularly in the Hambantota district. Women account for two thirds of the total number of MF clients. This is a common feature that can be observed in MF sector in most countries. For instance, the Grameen Bank scheme in Bangladesh, which is considered as a pioneering model of microfinance, is totally a women's bank. Similarly, the Janasakthi Bank in Hambantota is exclusively owned and run by women. Age-wise, about 60 per cent of the MF clients covered in the survey are in the age group between 26 and 45 years (Table 4.1).

Table 4.1

Percentage of Clients by Gender and Age

Year	Male	Female	Total
<18	0.00	0.37	0.25
19-25	9.49	5.54	6.86
26-35	32.12	24.35	26.96
36-45	30.66	34.32	33.09
46-55	19.71	39.52	26.23
56>	8.03	5.90	6.62
Tolal	100.00	100.00	100.00

We also addressed the question, how far microfinance services reach the poor. About 93 per cent of the sampled households of clients receive an income of less than one dollar a day per person. Around 82 per cent of them spend less than the Minimum Required Adult Equivalent Food Expenditure (MRAEFE) of Rs.1,338.48 per adult per month.[3/] About 87 per cent of the households spend more than 50 per cent of their total expenditure for food. Based on all these poverty indicators, we can infer that 80 - 90 per cent of the households of clients assisted by MFIs are living below the poverty line in the two districts. In comparison, around 96 per cent of the households of the non-clients covered in the survey receive less than a dollar a day per person. Almost 100 per cent of them spend less than the MRAEFE level. Approximately, 90 per cent of the non-client households spend more than 50 per cent of their total expenditure for food. Thus, poverty seems to be more acute among non-clients. However, the extent of poverty is more or less similar between the two groups.

3/This is based on the criteria used in the Household Income and Expenditure Survey – 2002 of the Department of Census and Statistics.

5. Impact of Microfinance on Enterprises

We attempted to evaluate the impact of microfinance on small enterprises by using several indicators including profitability, changes in businesses, business criteria and practices, resource base, and utilization of micro credit. According to the survey, a little over 40 per cent of the clients and 30 per cent of non-clients gained profits from their enterprises. Thus, the performance of clients looks better.

We also examined whether the two groups changed their business practices (Table 5.1). About 22 per cent of the clients expanded the size of their enterprises while less than 4 per cent of the non-clients did such expansion. Approximately, 13 per cent of the clients and 5 per cent of non-clients added new products. Clients took more positive steps as regards all other business practices as well. Therefore, we could infer that microfinance has helped the borrowers to develop their enterprises.

Table 5.1
Changes in Business Practices (previous 12 months)

Change	% of Clients	%of Non-clients
Expanded size of enterprise	22.30	3.57
Added new products	12.99	4.46
Hired more workers	6.86	1.79
Improved product quality	7.35	1.79
Reduced costs by buying inputs in bulk	6.37	0.89
Reduced costs with cheaper credit	9.31	0.89
Developed new enterprise/s	11.52	7.14
Sold to new markets/locations	8.09	3.57

When starting a business, both clients and others based their decisions largely on family traditions (Table 5.2). A large proportion of both groups also consider demand for the product when opening a new venture. Skills of the family are taken into account by about two thirds of the clients. Overall, most of the clients as well as non-clients are inclined to carry on the family-based traditional ventures even after taking micro credit. Clients follow the traditional

Table 5.2
Business Criteria Adopted in Opening a New Business

Criteria	% of Clients	%of Non-clients
By tradition	75.74	87.50
Based on demand for product	72.06	66.96
Based on working capital requirements	27.21	36.31
Based on skills of the family	66.18	16.91
Other	10.05	1.79

occupations, in spite of the technical and market guidance given by several micro credit providers to promote innovative enterprises. Also, we have observed that the clients do not consider project feasibility when they start a new venture.

Clients appear to have performed more rationally with regard to business practices (Table 5.3). However, clients' performance with respect to money management and accounting practices does not seem to be very satisfactory. Only about 20 per cent of the clients keep cash balances of the enterprises separately from their personal money. About 60 per cent of the clients were unable to show any proper records of their enterprises. Only 25 per cent of the clients had a permanent outlet for sales, and only 6 per cent had separate storage facilities. Thus, MFIs need to pay more attention to provide training and financial facilities to

Table 5.3
Business Practices Adopted in Operating a Business

Business Practice	% of Clients	%of Non-clients
Keeping enterprise money separately	20.83	8.93
Computing profits based on records	40.20	24.11
Identifying products with high profits	51.96	31.25
Entrepreneurs who pay themselves a wage	4.90	2.68
Fixed permanent location for sales	24.51	15.18
Separate fixed location for storing	6.37	7.14

improve their accounting practices and to improve infrastructure.

Technological improvements are vital in enhancing productivity and profitability of an enterprise.[4/] Technology fosters labour productivity by enabling workers to produce more output using the same amount of capital. But new technology is hardly used in the small enterprises covered by this survey (Table 5.4). Apart from buying small tools and accessories, both clients and non-clients did not expand their resource base in the immediate period prior to the survey. Inadequate technological progress prevents any significant improvement in factor productivity. A country's ability to improve its standard of living over time depends entirely on its ability to raise its output per worker (Krugman, 1997).[5/] The survey results clearly illustrate that the small enterprises

Table 5.4

Changes in Resource Base

Change	% of Clients	%of Non-clients
Purchased small tools/accessories	28.43	24.11
Purchased major tools/equipment/machinery	6.13	1.79
Purchased light transport equipment	3.43	1.79
Purchased medium-size transport equipment	5.15	2.68
Invested in storage structures	2.21	1.21
Minor investment in production site	2.94	2.68
Investment in structures for marketing site	6.13	2.68
Invested in buildings	1.23	0.89
Invested in lands	6.37	1.79

4/Recent economic growth theories extend the traditional approach by making the rate of technological change endogenous. The production function for an individual firm can be expressed as:

$$Y = F\ (K,N,A)$$

Where, Y = Output K = Capital N = Labour A= Technology

Thus, advances in technological applications and knowledge enhance the productivity of a firm.

5/Krugman states, "Productivity isn't everything, but in the long run it is almost everything."

backed by microfinance in both districts are handicapped by the lack of any technological advancement.

Around 85 per cent of the clients reported that they utilized their MF loans for investment (Table 5.5). Thus, the bulk of micro credit is used for productive purposes. However, there might be some exaggeration in this figure, as clients are generally reluctant to declare that the loans are used for other purposes fearing that they may not receive

Table 5.5
Utilization of Loans

Purpose	% of Clients
Invested in business	85.05
Food	5.88
Clothes/household items	4.41
To give/lend to others	4.17
Keep part in hand/repay loan	2.7
For medical expenses	3.92
For education	1.47
Housing	8.09

loans in the future. A few clients have used a part of their loans to meet domestic expenses as well.

Approximately 91 per cent of the clients used their profits to buy food (Table 5.6). Profits are also used to meet other basic needs like health, clothing and education. Thus, small enterprises help to raise the living conditions among the low-income families to a certain extent. It is significant to note that 12 per cent of the clients were able to save a part of their profits. About 29 per cent of clients used profits for reinvestment.

Now, let us attempt to test the null hypotheses that the mean value of sales and mean value of profits are the same for all clients irrespective of the duration of their membership with MFIs. For this purpose, we categorized the clients into four groups depending on their membership duration; 0-2 years, 3-5 years, 6-10 years and above 10 years. The One-

Table 5.6
Utilization of Profits by Clients

Purpose	% of Clients
Lands & buildings	0.74
Transport & communication	1.23
Consumer durables	1.23
Fuel & lighting	2.45
Savings	12.01
Housing items	12.25
Clothing	13.73
Miscellaneous	16.18
Repay loans	21.82
Re-investment	28.68
Health care	37.99
Education	38.24
Food	91.18

way Analysis of Variance (ANOVA) results indicate that both null hypotheses can be rejected at 99 per cent confidence interval (Table 5.7). This means that sales and profits vary with the duration of the membership.

Table 5.7
ANOVA: Profits and Sales by Membership Duration

		Sum of Squares	df	Mean Square	F	Sig.
SALES						
	Between Groups (Combined)	5.89E+09	3	1.96E+09	5.039371	0.00194
	Within Groups	1.57E+11	404	3.89E+08		
	Total	1.63E+11	407			
PROFITS						
	Between Groups (Combined)	3.78E+09	3	1.26E+09	5.907119	0.00594
	Within Groups	8.61E+10	404	2.13E+08		
	Total	8.99E+10	407			

6. Impact of Microfinance on Households

The "credit plus" approach adopted by many MFIs is expected to uplift the living conditions of low-income families in the under-privileged villages. Specifically, group formation enhances organizational capacity among the villagers. The clients are offered a variety of services including savings, credit, insurance and skills development. This Section attempts to gauge the effects of these services on household welfare.

About 28 per cent of the clients, as compared with 24 per cent of non-clients, reported that their income increased in the 6 months preceding the survey (Table 6.1). But the income changes between clients and non-clients are not statistically significant.

Table 6.1
Changes in Income in the Previous 12 Months

Change	% of Clients	%of Non-clients
Declined substantially	4.17	0.89
Declined	27.21	27.68
No change	39.21	46.43
Increased	27.94	24.11
Increased substantially	1.47	0.89
Total	100.00	100.00

Major reasons for the increases in income are expansion of the business or starting a new venture (Table 6.2).

Table 6.2
Reasons for Increase in Income

Reason	% of Clients	%of Non-clients
Expanded the enterprise	12.75	4.46
Started a new enterprise	7.84	4.46
Bought inputs at low cost	0.25	0.00
Sold goods to new markets	1.23	0.00
Got a job	0.74	5.36
Got the loan promptly	0.49	0.00
Other	5.88	9.82

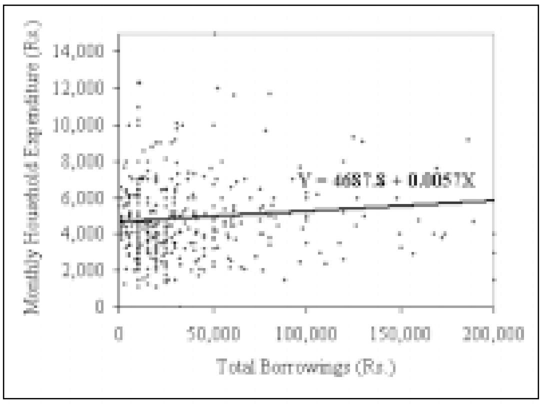
Meanwhile, around 14 per cent of clients and 16 per cent of non-clients reported that their incomes declined as a result of crop failures (Table 6.3). This reflects the over-dependence of the clients on agriculture in both districts. Family illnesses, loss of jobs and low sales were the other major factors that adversely affected income levels.

Table 6.3
Reasons for Decline in Income

Reason	% of Clients	%of Non-clients
Loss of job	1.72	0.89
Illness	4.17	8.04
Low sales	5.39	1.79
Decline in agricultural output	14.46	16.07
Other	5.15	1.79

We have observed that there is a moderate positive relationship between the total amount of MF loans taken by clients and their household expenditure (Figure 6.1). The expenditure of households hovers around Rs.5,000 per month. This can be mainly attributable to the fact that around 90 per cent of the clients fall within this category as explained earlier in this paper.

Figure 6.1
Relationship Between Expenditure and Borrowings



We have also attempted to ascertain the causal relationship between household expenditure and several independent variables, namely, the total amount of loans, land size and distance from the closest town. The log linear regression results show that the coefficient for loans is significant at 95 per cent confidence level (Table 6.4). These statistical computations indicate that a 1 per cent increase in MF loans results in a 0.06 per cent increase in the household expenditure. However, this needs to be interpreted carefully, because the low R^2 indicates that this a poor statistical fit. Therefore, we cannot infer that there is any significant causal link between household expenditure and micro credit.

Table 6.4

Log Linear Regression

Dependent variable : Household expenditure
Number of observations: 408

Variable	Coefficient	Std. Error	t-Statistic	Prob.
No. of employees	0.3174	0.0951	3.3384	0.0009
Total amount of loans	0.0626	0.0248	2.5201	0.0122
Size of land	0.0164	0.0249	0.6576	0.5113
Distance from town	-0.0293	0.0329	-0.8914	0.3734
Constant	7.7677	0.2596	29.9277	0.0000

R-squared	0.056603	Mean dependent var	8.408346
Adjusted R-squared	0.045168	S.D. dependent var	0.483419
S.E. of regression	0.472376	Akaike info criterion	-1.485149
Sum squared resid	73.63574	Schwarz criterion	-1.428222
Log likelihood	-221.5819	F-statistic	4.949967
Durbin-Watson stat	1.748996	Prob (F-statistic)	0.00069

We tested the null hypothesis that there is no difference between the mean expenditures of clients and that of non-clients (Table 6.5). The test shows that this hypothesis cannot be rejected, implying that there is no significant difference between the average household expenditures of clients and non-clients. This can be mainly attributable to the external factors like drought and other natural disasters in the two districts. The impact of such disasters on agricultural output is felt frequently by both groups resulting in low income, low expenditure and low savings.

Table 6.5
Independent Samples t-Test
Mean Household Expenditure of Clients and Non-clients

	Levene's Tests for Equality of Variances		t-test for equality of means			
					Sig	Mean
	F	Sig	t	df	(2-tailed)	Diffe-rence
Equal variances assumed	5.582	0.019	0.511	518	0.610	147.0361
Equal variances not assumed			0.656	280	0.512	147.0361

As regards saving habits, there does not seem to be any significant difference between the two groups. Around 55 per cent of the interviewed clients and 49 per cent of non-clients reported that they have some amount of personal savings. Meanwhile, around 35 per cent of clients and non-clients experienced a decline in their savings while about 20 per cent of them had a rise in savings. Although MFIs inculcate savings habit, there is no statistically significant difference between the savings levels of the two groups.

Table 6.6
Pearson Correlation Matrix

		Income	Expen-diture	Sav-ings	Micro Credit	Profit
Income	Pearson Correlation	1.000	.306**	.349**	.190**	.130**
	Sig. (2-tailed)	.	.000	.000	.000	.009
Expenditure	Pearson Correlation		1.000	.003	.120*	.070
	Sig. (2-tailed)		.	.950	.015	.155
Savings	Pearson Correlation			1.000	.140**	-.036
	Sig. (2-tailed)			.	.005	.463
Micro Credit	Pearson Correlation				1.000	-.074
	Sig. (2-tailed)				.	.134
Profit	Pearson Correlation					1.000
	Sig. (2-tailed)					.

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

We used the Pearson correlation technique to test whether the null hypotheses that micro credit does not affect income, expenditure or savings among clients (Table 6.6). The correlation coefficient for income and savings against micro credit is significant at 0.01 level while the that for household expenditure is significant at 0.05 level.

As regards household assets, both clients and others own similar items like radios, televisions, furniture, telephones and motorcycles (Table 6.7). However, more clients own high-valued assets like three-wheelers, cars and tractors.

Table 6.7
Ownership of Household Assets

Asset	% of Clients	% of Non-clients
Value less than Rs. 2,000		
Radio	70.83	65.18
Tape recorder	51.47	69.64
Furniture	94.12	94.64
Value Rs. 2,000-20,000		
Bicycle	74.26	85.71
Cooker/Refrigerator	9.80	13.39
Television	68.14	64.29
Telephone	4.90	5.36
Value above Rs. 20,000		
Motor bicycle	18.87	22.32
Motorcar	1.47	0.00
Three wheeler	3.19	1.79
Tractor	9.31	7.14

The study also assessed the effects of micro credit on household welfare conditions like dietary levels, education and housing. As regards diet and food security both groups experienced similar changes. Around 80 per cent of clients and non-clients reported that there was no change in diet or food security in the period immediately preceding the survey. Approximately, 10 per cent of them indicated an increase in the food intake and the balance 10 per cent experienced a decline. Also, there is no remarkable difference in school expenditure between the two groups. Clients made more improvements to their houses as compared with non-clients (Table 6.8). But again, the differences are marginal. This indicates that the profits earned by the clients from their small enterprises are not sufficient to make any significant impact on housing conditions.

Table 6.8
Housing Improvements

Nature of improvement	% of Clients	%of Non-clients
Bought a new house	11.76	11.61
Repaired/improved the house	22.30	17.86
Extended the house	7.35	6.25
Improved water/sanitary etc.	4.90	1.79
Lighting/electricity	6.62	5.36

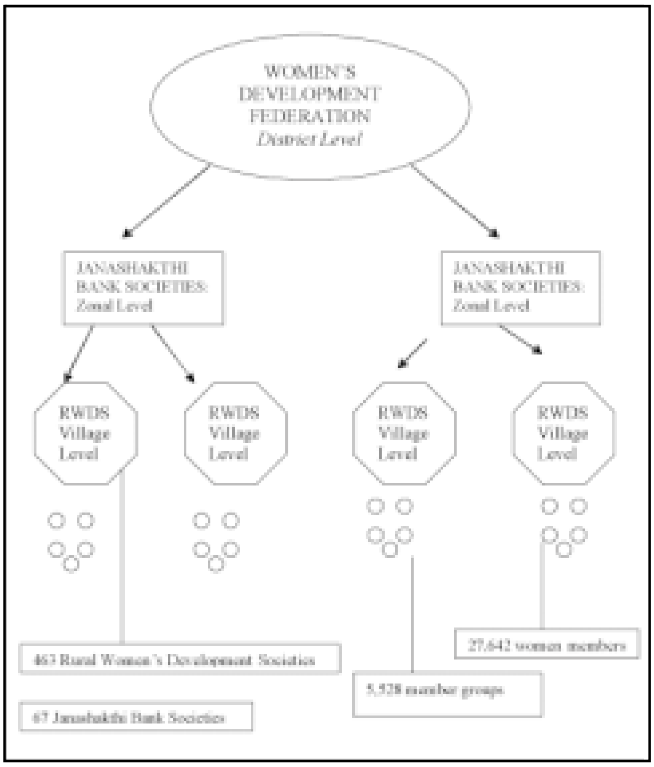
7. Empowerment of Women

Empowerment of women is considered as a major outcome of microfinance. Broadly, empowerment refers to an enhancement of "power" of an individual or a group. MkNelly and McCord (2001) articulate how microfinance can foster women's empowerment. By offering poor households access to formal or semi-formal financial services, microfinance has the potential to empower its clients in a variety of ways; (*a*) income-generating opportunities created through microfinance could provide greater economic security and power to clients, and (*b*) group formation and management could link clients with networks beyond their neighbourhood or community. It is widely accepted that the microfinance programmes that target women have greater empowering potential, because they are usually marginalized in the society. Microfinance services enable women to develop their own income-generating activities, and thereby to foster *internal attitudes* (self-reliance, self-confidence and self-worth). The participating women in microfinance are also able to develop their *external relations* (greater bargaining power within the household and leadership in the community). Small groups, which form the foundation of most microfinance schemes, empower women through mutual support, exchanging of new ideas, group responsibility and leadership.

Information on the extent of women's empowerment and capacity building facilitated by the microfinance providers covered under our survey was collected mainly by means of the discussions with the managers of microfinance institutions, and focus group discussions with the microfinance clients. It was observed that the group mechanism adopted by the *Janshakthi* Bank Societies, Social Mobilization Foundation, SEEDS, Ruhuna Development Bank, Uva Development Bank and Seylan Bank have substantially contributed to women's empowerment and capacity building.

For example, let us consider the role played by the Women's Development Federation (WDF), known as *Janashakthi*, in the Hambantota District. The *Janashakthi* programme has five fundamental principles, namely, (*a*) respect for humanity and social justice, (*b*) commitment towards development of poor families, (*c*) participation of women, (*d*) strong belief in the individual and collective potentials of poor families, and (*e*) multi-dimensional development approach. This microfinance scheme widely uses the method of group lending for loan disbursements (Figure 7.1). The WDF, placed at the top of the organization, coordinates and supervises the activities of the 67 *Janashakthi* Bank Societies (JBS). In turn, the JBS oversee the 463 village level Rural Women Development Societies (RWDS). The RWDS consist of 5,528 smaller 5-member groups. The *Janashakthi's* organizational structure is based on a bottom-up approach. Its leadership, management and staff are drawn from the grass-root level membership. Each 5-member group guarantees repayment of loans by its members.

Figure 7.1
Organizational Structure of *Janashakthi* Banks



The small groups operating at the bottom of the organizational structure of the WDF have greatly facilitated to enhance women's empowerment and capacity building in many ways. These small groups made up of mothers or women from each family meet every week. These group meetings have given the members the opportunity to exchange knowledge and experience with regard to savings, credit, enterprise development etc. The mutual cooperation evolved through this mechanism has helped women to develop self-confidence. They have been able to build up savings within each group through common funds. The groups deposit their surplus funds with the JBS. The group members have the facility to obtain loans from the JBSs. The respective group recommends loan applications, and guarantees the repayment of loans taken by its members. This mechanism has eliminated the traditional requirement of collateral or outside guarantee. Thus, the small group mechanism has enabled the female members to develop self-help between families, and to uplift their living conditions.

8. Client Satisfaction and Feedback

The survey found that features like lack of collateral requirements, low interest and efficiency of group system are the main attractions of MFIs (Table 8.1).

Table 8.1

Features of MF Programs that Clients Liked Most

Feature	% of Clients
Lower interest rates	70
Efficiency	46
Group system	40
No collateral	40
Flexible loan repayment	19
Savings/insurance facilities	11
Training & technical assistance	8
Regular flow of fixed capital	4

More than 50 per cent of the clients reported that they do not have any complaints against MFIs. However, some clients expressed their displeasure with respect to things like poor attitudes of loan officers, group problems, small size of loans and high interest rates (Table 8.2).

Table 8.2

Features of MF Programs that Clients Disliked Most

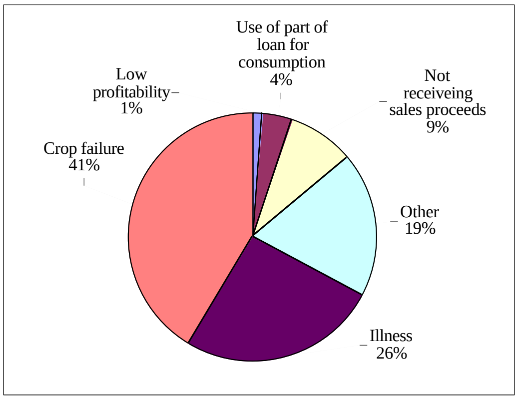
Feature	% of Clients
Nothing to complain about	54
Unpleasant attitudes of loan officers	11
High interest/commission charges	11
Problems of groups	9
Inadequacy of loan size	7
Repayment rules	5
Unfavourable loan cycle	4
Too many meetings/Meetings too long	3
High transaction cost in getting loans	3
Collateral rules	3
Forced savings & insurance premium	3
Inconvenient meeting places	2
Repayment period of loans	1

9. Constraints Faced by Small Enterprises

- Although MFIs provide a multitude of services, the small enterprises do not seem to have grown sufficiently owing to various mediating and external factors. Unfavourable natural environment in the two districts is a major constraint to growth. In the 6 months prior to the survey, 32 per cent of the clients faced drought condition, 4 per cent faced floods and another 4 per cent were attacked by wild elephants. The small enterprises are also handicapped by inadequate physical infrastructure. About 22 per cent of the MF clients are living in areas where there are no proper access roads and other basic infrastructure facilities like hospitals, schools, markets, electricity and water.
- Approximately, 41 per cent of the clients had difficulties in repaying their loans mainly on account of crop failures (Figure 9.1). This reflects the heavy dependence of the clients on agriculture. Other factors are illness in the family, low sales of products and low profitability.

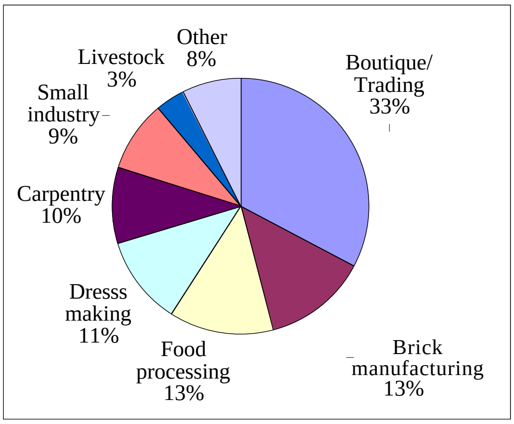
Figure 9.1

Reasons for Loan Repayment Difficulties (Percentage of Clients)



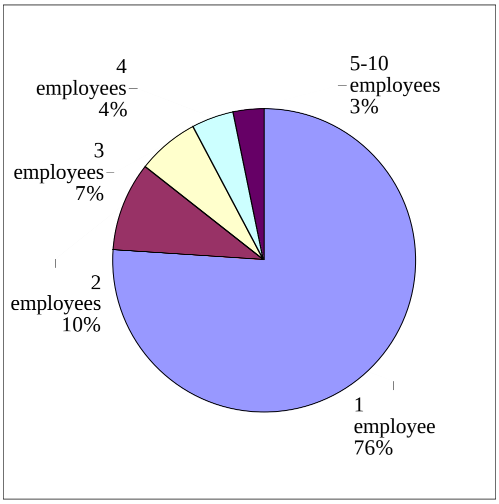
- The MF loans are offered to the clients on the assumption that all of them are good entrepreneurs. Obviously, this is not a realistic assumption. A majority of the clients do not display entrepreneurial skills in accounting, book keeping, business management or money management.
- Limited product diversification is another major impediment to growth in the two districts (Figure 9.2). As much as one third of the total amount of MF loans has been used to run a boutique or to carry out small trading. Other major MF activities are brick making, food processing, confectionary, dressmaking, carpentry and cement products. All these activities have low value added, and new technology is hardly used in such activities. Only 40 per cent of the total number of clients had engaged in an income generating activity other than cultivation in the preceding four weeks.
- Small enterprises also suffer from lack of economies of scale. As we noted earlier, these enterprises are very small. Three fourths of the total number of enterprises surveyed

Figure 9.2
Small Enterprises by Products
(Percentage of Enterprises)



has only one employee, *i.e.* the client (Figure 9.3). Only 10 per cent of the enterprises have two employees including the client. The other few enterprises had 3 to 10 employees.

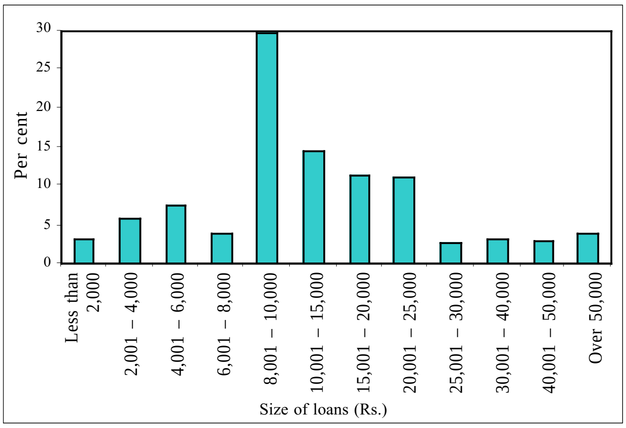
Figure 9.3
Small Enterprises by Number of Employees
(Percentage of Enterprises)



- The loans taken by the clients are very small. About one half of the total number of clients took loans of less than Rs.10,000 (Figure 9.4). About 90 per cent of the loans are less than Rs.30,000. By investing such small loans, the clients are not in a position to start a sizeable enterprise. As a result, they are compelled to carry on their very small cottage industries.

Figure 9.4

Size of Loans



- In today's open economy environment, a country's economic growth largely depends on productivity improvements through skills and knowledge development rather than increases in production inputs. Specifically, development is expected to achieve mainly through E-Economy, K-Economy etc. In this context, it is questionable how small enterprises could survive in such an environment. Of course, they are supported by the services provided by MFIs. But the potential to enhance productivity in such enterprises is limited, given their inherent weaknesses like small size and outmoded technology.

- Increasing productivity and innovation are results of competition. They depend on (*a*) macroeconomic, political, legal, social and cultural environment, and (*b*) micro-economic foundations. Overall, small enterprises backed by MFIs have competitive advantages like access to credit without collateral, technical guidance and training, group solidarity, marketing guidance and insurance coverage. But they also have many competitive disadvantages as discussed in the above sections. These include lack of economies of scale, skills and knowledge deficiencies, absence of technology diffusion, natural calamities, poor physical infrastructure, lack of research and development (R&D) investment, limited market integration and lack of product diversification.[6/]

10. Conclusion and Policy Recommendations

Various types of microfinance institutions and programmes that are geared to promote self-employment and small enterprises among the poor, particularly among women, have evolved in Sri Lanka during the last three decades. These schemes provide financial services to the poor who are usually excluded from commercial banks and other formal financial institutions. Based on the 'credit plus' approach, microfinance institutions provide different kinds of financial services like micro-saving, micro-credit, micro-insurance and business development services. Group-based saving and lending, easy access, and less or no collateral requirements are some of the key characteristics of microfinance. The contribution of microfinance to the poor extends beyond its positive impact on households' economic conditions. Microfinance has the potential to empower its clients, particularly female clients, by providing them with self-reliance, self-confidence, self-worth and decision making powers through interactions with the group members and the rest of the community. The capability of microfinance in empowering poor women has been well established by numerous empirical studies conducted in developing countries.

6/Wickrama (1998) argues that although microfinance programmes have accomplished a lot, and have revealed the potentials, they have yet to prove their long-term financial, economic and institutional sustainability by overcoming several constraints.

Given the above positive effects, it is generally believed that microfinance fosters small enterprises, and thereby uplifts the standard of living of the poor. However, I perceive that there is considerable ambiguity with regard to the robustness of this popular belief, as there are hardly any in-depth studies on the effectiveness of microfinance schemes in countries like Sri Lanka. The currently available most studies, without applying any statistical tests, merely accept the hypothesis that microfinance does have positive socio-economic effects. In the absence of any objective impact assessments, the vast amount of financial and other resources put into these schemes would be rendered fruitless. Filling this lacuna is a major objective of this study. By adopting a broader approach, we have taken into account a multitude of variables affecting the performance of microfinance clients and small enterprises.

The survey reveals that the limited product diversification is a major drawback of small enterprises in the two districts. Most microfinance clients are inclined to carry on their traditional family enterprises without making any effort to engage in new income-generating activities. This is an outcome of various factors including clients' risk aversion, inadequate technological and business guidance on new products, non-availability of resources, lack of R&D initiatives and lack of innovation. As a result, the clients' small enterprises largely concentrate on a few products like small trading, brick manufacturing, basic food processing, dress making and carpentry. Such activities are generally associated with low value added products. Most investments supported by microfinance soon reach a plateau due to the low value added. This is a major reason for the low profit and low productivity levels of small enterprises, as revealed in this study. The outcome is that most microfinance clients have not been able to move from 'below the poverty line' to 'above the poverty line' situation, in spite of their small enterprise activities.

Policy makers and microfinance providers need to pay attention to initiate product diversification so as to overcome the above problems. In this regard, actions like project identification and planning, training, R&D, innovation and business development services are crucial. We have observed that, most commonly, loans were obtained to finance the existing activities rather than to diversify into new fields. This can be attributable to the lack of application of any feasibility studies or project identification. In this context, microfinance clients as well as microfinance providers need to be provided with basic training in fields like selecting a small business, managing a small business, marketing, and accounting and finance.[7/] Lack of technological application is a major cause of low productivity and poor product quality. Therefore, policy makers and microfinance provides should take initiatives to raise general awareness about the role of technology in promoting productivity and product quality.

Another drawback of small enterprises that we have observed is the lack of economies of scale. This is largely due to the fact that most of these enterprises are run by the client herself or himself, and there are no other employees. Most of the micro loans provided to these enterprises are fairly small in size. Such loans are hardly adequate to set up a factory or to buy machinery. Thus, these enterprises, very often, remain as cottage industries. Moreover, the underlying assumption in providing microfinance is that each and every client would be a successful entrepreneur. Obviously, this is not a realistic assumption, as reflected in the poor performance of most small enterprises covered in this survey. In the background of the lack of economies of scale, under-capitalization and limited ability of individual entrepreneurs, most ventures ended up with low profits and low incomes as elaborated earlier. These problems need to be dealt with immediately. One way of overcoming the problem of limited economies of scale would be to network the small enterprises. At present, several enterprises in each village are built around same types of activities. Networking of such enterprises would bring about benefits like greater economies of scale, higher productivity and profits, common purchase of raw materials,

7/ Some of these training facilities are already provided by institutions like the SEEDS, Janashakthi Bank Societies, Centre for Banking Studies of the Central Bank of Sri Lanka and the Open University of Sri Lanka. However, a concerted effort is needed to prompt the clients and microfinance providers to apply the business practices in their day to day operations.

optimal use of resources, market gains and minimization of wastage. Once the small enterprises evolved through such networking gather momentum, they could jointly invest in bigger projects, thus overcoming limitations of economies of scale. Networking may also be used to develop backward and forward linkages which are hardly available now. Access to markets beyond the village level should also be pursued through enterprise networks. There might be potential to access new markets not only locally but globally as well. Product quality is crucial to compete in such markets, and therefore, necessary mechanisms should be evolved to ensure high standards of the products.[8/] Unless the Government, Central Bank, MFIs, NGOs and foreign donors address these problems effectively and urgently, it is doubtful whether the household-based small enterprises could sustain for long in the open economy environment, as clearly proved by the findings of this survey.

An appropriate financial infrastructure is a prerequisite to sustainable operations and outreach of microfinance institutions. In this regard, practices such as efficient management information systems, accounting and auditing standards, and self-regulatory mechanisms are crucial. The survey reveals that some microfinance institutions have not been able to adopt such virtuous practices due to factors like inadequate resources and lack of training facilities. Such facilities should be given to the microfinance providers, wherever possible, to improve the situation. A proper legal framework for supervision and regulation of microfinance institutions is also needed not only to ensure sustainability of microfinance providers but also to safeguard the interests of the depositors.[9/] However, legal and regulatory systems should not be detrimental to the growth of the microfinance sector.

8/The Forward Sales Contract System (*Govi Sahanaya*), which was initiated by the Central Bank of Sri Lanka in 1999, is such a mechanism aimed at ensuring the quality of products as well as a fair price for the farmers' produce.

9/The author, as the National Expert, has completed the country study (Colombage, 2003a) for the 'Survey on the Policy, Legal and Regulatory Environment for Microfinancing in Asia' conducted by the Asian Productivity Organization, Tokyo.

Provision of microfinance services alone is insufficient to develop small enterprises. Apart from the unfavourable natural environment in the areas covered in this study, unsatisfactory infrastructure is also found to hamper the development of small enterprises to a large extent. These problems might be common to many other areas in the country as well. The government and other stakeholders, therefore, need to pay attention to improve infrastructure facilities pertaining to road network, water supply, electricity, telecommunications etc., so as to create an enabling environment for sustainable development of small enterprises.

Macroeconomic setting also should be conducive to the growth of small enterprises. In Sri Lanka, the financial sector reforms adopted as part of the structural adjustment package over the years have gradually paved the way to evolve a more market-oriented financial system, partly in the form of microfinance, for small enterprises. The other structural adjustments include trade liberalization, tax reforms, privatization, floating exchange rates and labour market reforms. The impact of such structural adjustments on the microfinance sector or small enterprises is not very clear, as such issues have not been empirically analyzed yet. The ongoing structural reforms have been accompanied with stabilization policies, mainly monetary and fiscal policies. Despite the demand management policies adopted by the monetary and fiscal authorities to achieve macroeconomic stability, the country has been facing imbalances from time to time. These include high inflation, budget deficits and external payments disequilibrium. These are an outcome of various internal and external factors. Such imbalances, particularly high inflation rates, are unfavourable not only to consumers but also to the business community including small enterprises. In this context, the recent initiative taken by the Central Bank to prioritize price stability, as its major objective, is commendable. In sum, a coherent macro-economic policy framework, among other prerequisites that I explained above, is imperative for long-term sustainability of small enterprises backed by microfinance services.

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Appendix

Table A1: Poverty Indicators (a)

Area	Percentage of poor households			Head count index %	Poverty gap index %
	1990/91	1995/96	2002	2002	2002
Sri Lanka	**30.4**	**26.7**	**23.9**	**27.9**	**23.6**
Sector					
Urban	18.2	13.4	7.9	9.7	21.1
Rural	34.7	28.7	26.4	31.0	24.2
Estate	20.5	26.1	22.1	27.9	15.5
Province					
Western	20.1	12.2	12.2	14.3	20.4
Central	33.5	35.4	25.6	30.3	21.7
Southern	32.6	32.5	26.2	30.6	26.7
North Western	33.6	30.4	28.3	34.9	22.3
North Central	39.0	26.1	29.3	33.8	25.5
Uva	38.1	33.9	36.4	41.4	25.8
Sabaragamuwa	36.7	40.0	34.7	40.6	24.7
District					
Colombo	16.4	9.0	5.9	6.9	16.7
Gampaha	17.9	11.4	13.8	16.6	21.3
Kalutara	31.2	20.3	21.8	24.4	21.2
Kandy	37.4	36.3	25.7	29.9	21.1
Matale	36.6	45.7	31.1	37.0	26.0
Nuwara Eliya	22.6	28.7	21.7	27.0	19.1
Galle	30.7	32.1	17.8	21.6	25.8
Matara	32.2	34.8	29.5	33.9	25.9
Hambantota	36.8	30.3	37.8	42.9	28.4
Kurunegala	35.3	29.5	30.5	36.6	23.3
Puttalam	29.2	32.5	23.6	31.4	20.0
Anuradhapura	41.1	25.6	29.5	34.3	26.5
Polonnaruwa	34.1	27.3	29.0	32.8	23.5
Badulla	38.8	27.1	37.7	43.6	25.6
Moneragala	36.5	47.7	33.8	37.1	26.2
Ratnapura	31.6	44.1	37.4	43.3	23.0
Kegalle	42.2	35.5	31.5	37.1	27.2

Source: Department of Census and Statistics, Household Income and Expenditure Survey, 1990/91, 1995/96 and 2002

(a) Excluding the North and East.

Table A2: Characteristics of Major Microfinance Institutions/Programmes

Institution/ Programme	Legal Status	Funding Source	Governance System
Samurdhi Programme	Samurdhi Authority of Sri Lanka Act, No. 30 of 1988	Government and members' savings	Samurdhi Authority of Sri Lanka
Regional Development Banks (RDBs)	Banking Act, No. 30 of 1988, as amended by the Banking Amendment Act, No. 30 of 1995	Central Bank, Bank of Ceylon & People's Bank	Board of Directors of RDBs
SANASA Development Bank	Banking Act, No. 30 of 1988, as amended by the Banking Amendment Act, No. 30 of 1995	Members' savings	Board of Directors of SANASA Dev. Bank
Farmers' Banks	Agrarian Development Act, No. 46 of 2000	Government and members' savings	Dept. of Agrarian Development
Gemi Pubuduwa Scheme	Banking Act, No. 30 of 1988	Hatton National Bank	Hatton National Bank
Rural Baking Innovative Project (RBIP)	Banking Act, No. 30 of 1988	People's Bank and GTZ	People's Bank and GTZ
Sarvodaya Economic Enterprise Dev. Services (SEEDS)	Companies Act, No. 17 of 1982	Donor funds, NDTF, and Members' savings	SEEDS Guarantee Ltd.

Table A2: Characteristics of Major Microfinance Institutions/Programmes *(Contd.)*

Kantha Ran Divi Maga	Banking Act, No. 30 of 1988	Bank of Ceylon	Bank of Ceylon
Janasakthi Banking Societies	Society Ordinance and Voluntary Social Services Organization (Registration and Supervision) Act, No. 31 of 1980	Donor funds, NDTF and Members savings	Women Dev. Federation, Hambantota
Co-operative Rural Banks (CRBs)	Co-operative Societies Law, No. 5 of 1972	NDTF and Members' savings	Co-operative Dept. & Multi-purpose Co-operative Societies (MPCS)
Thrift and Credit Co-operative Societies (TCCSs)	Co-operative Societies Law, No. 5 of 1972	NDTF and Members' savings	SANASA Federation
Small Farmers and the Landless Credit Project (SFLCP)	Administrative Agreement with the Government by the Central Bank of Sri Lanka	Revolving Funds	Central Bank of Sri Lanka
Poverty Alleviation Microfinance Project (PAMP)	Administrative Agreement with the Government by the Central Bank of Sri Lanka	Donor funds, government, JBIC and Revolving Funds	Central Bank of Sri Lanka

Source: Central Bank of Sri Lanka

Table A3: Savings Mobilization and Loan Distribursements of Selected MFIs – 2003

Rs. Million

Type of Savings	Co-operative Rural Banks (CRBs)	Regional Development Banks (RDBs)	SANASA	SEEDS	Janashakthi Bank	SANASA Development Bank	Total	Percentage
Total savings	**18,688**	**6,344**	**4,902**	**n.a.**	**6S**	**1,490**	**31,489**	**100.0**
Savings	13,477	4,102	1,385	n.a.	28	380	19,372	61.5
Special savings	5,211	0	1,899	n.a.	17	6	7,133	22.7
Fixed deposits	0	2,242	741	n.a.	1	943	3,927	12.5
Shares		0	877	n.a.	19	161	1,057	3.4
Total loans granted	**3,327**	**6,345**	**3,176**	**1,039**	**367**	**646**	**14,900**	**100.0**
Agriculture	850	497	573	103	308	7	2,338	15.7
Animal husbandry	101	64	165	29	0	0	359	2.4
Fisheries	33	47	0	18	0	0	98	0.7
Small industries	280	340	62	157	29	12	880	5.9
Building constrution	185	0	1,233	0	0	56	1,474	9.9
Projects/commerce	226	499	288	564	0	209	1,786	12.0
Other	1,652	4,898	855	168	30	362	7,965	53.5

Source: Central Bank of Sri Lanka