

AN EVALUATION OF SAMURDHI BANKS IN POVERTY ALLEVIATION

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FOREWORD

Sri Lanka has achieved number of development targets during the past decades. Among them, poverty reduction is one of the important targets. The reduction of poverty headcount ratio from 26.1 percent in 1990/91 to 6.5 percent in 2013 is the best example for the Government's achievements. Though number of projects and programmes had contributed for this achievement, the contribution of the Samurdhi programme is undoubtedly the most noteworthy. Since, the Bank is one of the major components of the Samurdhi programme it is relevant to study the performance of the Samurdhi Bank and its effects on poverty reduction in Sri Lanka. As the Samurdhi programme is a major poverty alleviation programme of the government, identification of the customers' perception and problems related to service delivery would help to improve the programme as well as service delivery system. Therefore, this study has focused on evaluating the performance of the Samurdhi Banks. The study has also attempted to identify the problems related to efficient and effective service delivery.

The findings show that, approximately 57 percent of the Bank customers' family income had increased due to the Samurdhi programme and it has also contributed 38 percent for increase of assets. As the authors have noted, fifty percent of the bank customers did not face any problem related to service delivery and getting services smoothly. But, among the weaknesses or issues faced by the customers, were that regulated account balance for loan was high, releasing the subsidy allowance was delayed, some of the officers did not provide efficient and effective services and that the maximum loan amount was not enough.

After its' nineteen years journey, the Samurdhi programme is now at a turning point with the establishment of the Department of *Divineguma*. Therefore, findings and recommendations of the study will be much helpful to direct the future programme towards improvement of the Bank and its' service delivery. I congratulate the authors for successfully undertaken and finalizing this research well within the stipulated time.

E.M. Abhayaratne
Director

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The Samurdhi Bank customers and officers provided valuable information for this study. Ms. Nandani Mendis, Assistant Director (Agriculture), Samurdhi Authority of Sri Lanka proposed the idea for this research and provided constant support for coordination with the Samurdhi Authority of Sri Lanka. Mr. K.K.L. Chandrathilaka, Deputy Director, Banking and Finance, Samurdhi Authority of Sri Lanka supported co-ordinating activities in the field.

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Mr. K.P.K.I.U Fernando, Statistical Officer, HARTI provided excellent support in field co-ordination, data collection and data analysis. Mr. C.M.I. Madushan, Mr. Suranga Udayashantha, Ms. D.M.N.K. Delpitiya, Mr. S. Sudarshan, Mr. M.I.M. Imithays and Mr. R. Nitharshan contributed as enumerators of the field survey. Prof. W.I. Siriweera edited the draft report, Ms. Dilanthi Hewavitharana did page setting, Ms. Udeni Karunarathna designed the cover page and all staff of the printing unit helped in publishing the report.

We take this opportunity to thank all of them.

M.K. Nadeeka Damayanthi

P.A. Jayamini Champika

EXECUTIVE SUMMARY

In Sri Lanka rural poverty ratio was recorded as 60 percent in 1950 and it has reduced to 9.4 percent by 2009/10. Further, national poverty ratio had been reduced from 26 percent in 1990 to 8.9 percent by 2009/10. Successive governments had followed a number of strategies such as enactment and implementation of Land Development Ordinance, implementation of redistribution policies including free health and free education as well as provisions of food subsidy and micro-finance for the poor. They had largely contributed for the achievements in poverty reduction. In the present scenario, micro-finance is being used widely as a strategy for poverty alleviation all over the world. The Samurdhi programme- a major poverty alleviation programme of the government- use micro-finance strategy under the Samurdhi Bank Unions which was implemented from 1996 onward under the Article 5 (d) of the Samurdhi Authority Act Number 30 of 1995.

This study was conducted in Kalutara, Kurunegala, Batticaloa, Anuradhapura, Monaragala, Ratnapura, Vavuniya and Jaffna districts with the objective of performance evaluation of the Samurdhi Banks and to identify issues and difficulties faced by both beneficiaries and officers related to service delivery. The total sample was 547 including the Samurdhi Bank customers; Samurdhi beneficiaries and non-beneficiaries and officers.

As revealed by the survey, around 20 percents of the Bank customers are non-beneficiaries. Of the total customers, 12.8 percent (61) were former Samurdhi recipients. However, of them only 41 percent had returned their subsidy due to improvement of family income. Fifty percent of the bank customers mentioned that they did not face any problem related to service delivery. The positive features of the Samurdhi Bank include low interest rate for credit, customer could repay the loan installment and deposit money through filed level SDO without visiting the bank, improvements in banking habits, cooperation and affability of staff, creating job opportunities through credit for income generation activities, improvement of family income as well as social networks. Social insurance scheme which was implemented under the micro-finance programme is another major positive point for the poor.

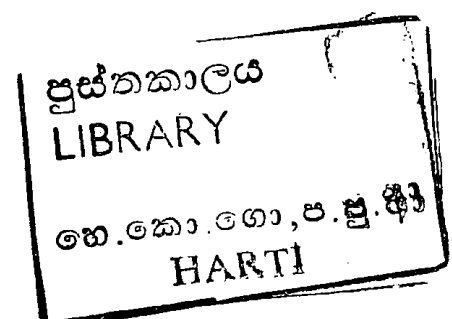
There are also some weak points in the Bank programme. First, though the Samurdhi Authority of Sri Lanka (SASL) issued the same circulars and direction for the Banks all over the country, in many occasions these directions specially decisions on maximum loan amount and collateral were implemented in different ways even within the same Divisional Secretariat Division (DSD). Second, the Authority had adopted blanket approach in implementing the rules and regulations without concern for specific conditions in different areas. Third, weak point was the non-implementation of proper, systematic and regular evaluation system for the officers. Fourth, Initial

and maximum loan amount was not sufficient when compared to the present situation. Fifth, theoretically sound but practically difficult conditions were applied for many customers. Those were problems such as need to maintain regulated proportion of group and share accounts to apply for a loan. Sixth, was not paying enough attention of the Samurdhi Banks on youth and other marginalized groups such as widows and differently abled people. With regard to the whole Samurdhi programme poor targeting was another major weakness.

The decentralization of decision making power, increase of initial and maximum loan amount, proper, systematic and regular evaluation system for officers, introduction and implementation of rating system for small groups, village societies, bank unions, ensuring the delivery of circulars on time and adaptation of modern technology by officers are the main suggestion given by research team towards more efficient and effective service delivery. In the mean time, officers suggested that there should also be a loan scheme for them facilitated through the Samurdhi Banks.

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ABBREVIATION

DSD	-	Divisional Secretariat Division
SDO	-	Samurdhi Development Officer
SASL	-	Samurdhi Authority of Sri Lanka
SP	-	Samurdhi Authority of Sri Lanka
GDP	-	Gross Domestic Products
JSP	-	Janasaviya Programme
GND	-	Grama Niladhari Division
SME	-	Small and Medium Scale Industries
NGOs	-	Non Governmental Organizations
CRB	-	Co-operative Rural Banks
RDBs	-	Rural Development Banks

CHAPTER ONE

Introduction

1.1 Background

In Sri Lanka, poverty headcount ratio was reduced from 26.1 percent in 1990/91 to 8.9 percent in 2009/10. Further, percentage of poor households based on the official poverty line has decreased from 24.3 percent in 1995/96¹ to 7.0 percent in 2009/10². All sectors-urban, rural and estate show this significant achievement reducing poverty headcount ratio from 14 percent to 5.3 percent in the urban sector, from 30.9 percent to 9.4 percent in the rural sector and 38.4 percent to 11.4 percent in the estate sector during the period of 1995/96 to 2009/10. Similarly, percentages of poor households had been reduced from 11 percent to 3.8 percent in the urban sector, 25.9 percent to 7.5 percent in the rural sector and 32.2 percent to 8.9 percent in the estate sector during the period of 1995/96 to 2009/10. However, Gini-Coefficient has been slightly increased the reference period from 0.46 in 1995/96 to 0.49 in 2009/10 for all islands (Department of Census and Statistics, 2013).

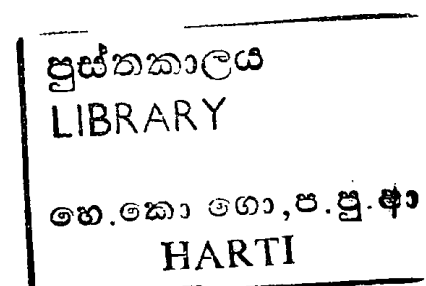
Since independence, the government of Sri Lanka has been implementing various poverty alleviation and safety net programmes such as food stamp schemes for the poor, Janasaviya³ and Samurdhi⁴. In addition, the government has implemented a number of programmes aimed at rural development such as the Ten Years Plan in 1950s, Five Years Plan in 1970s and Integrated Rural Development programme in 1980s. "Samurdhi" has been implemented since 1995 as the major poverty alleviation or social safety net programme of the government and has been conducting various programmes over the last 17 years. At present, the Samurdhi Programme (SP) is implemented by the Samurdhi Authority (SA) under the Ministry of Economic Development of Sri Lanka. To implement the Samurdhi Programme, the Samurdhi Authority employs over 27,600 employees island-wide. Of these, around 24,000 are Samurdhi Development Officers (animators), 2,000 are Samurdhi Managers and others are engaged in various job categories attached to the Colombo head office (Samurdhi Authority of Sri Lanka, 2011). The government had allocated around 0.2 percent of Gross Domestic Products (GDP) though there were slight fluctuations by years. In 2009, the government allocated 0.2 percent of GDP on Samurdhi programme (Kesavarajah, n.d.) and 01 percent of total government expenditure on Samurdhi transfer payments (Jayaweera, 2010). The government has been allocated approximately 4-5 percent of the national budget for safety net

¹ Excluding Northern and Eastern Provinces

² Excluding Mannar, Kilinochchi and Mulathivu districts

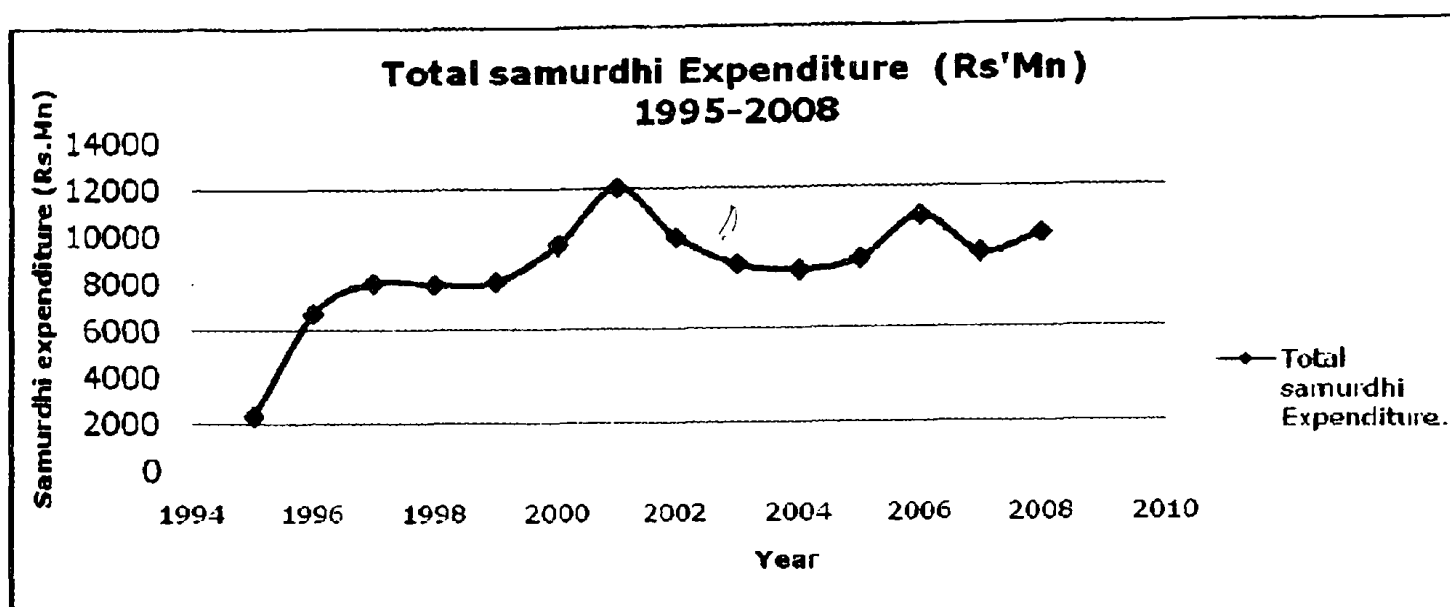
³ Literary meaning ' People's Strengthen'

⁴ Literary meaning ' Prosperity'



assistance of the Samurdhi programme (www.med.gov.lk). The Figure 1.1 depicted the total expenditure for Samurdhi programme from 1995 to 2008.

Figure 1.1: Total Samurdhi Expenditure from 1995 to 2008 (Rs. Mn.)



Source: Adopted from Kesavarajah, n.d.

The programme consists of six major components as follows.

1. Welfare programme (this consists of food stamp, subsidy for fuel, nutrition package for pregnant and lactating mothers, milk feeding subsidy for children between years two and five)
2. Social insurance support to the poor to protect during emergency situations such as hospitalization and death of a family member
3. Savings and financial assistance (Micro-credit and savings)
4. Spiritual and social development programme (anti narcotic and anti smoking projects, programme for preventing child abuse, women development projects, scholarship projects, cultural development projects, family development and moral upliftment projects)
5. Infrastructure development programme
6. Human resource development programme (livelihood development and empowerment) (Perera, N.D.).

There are number of criticisms related to the Samurdhi programme and it's implementation. Some of these are weakness of targeting⁵ (Glinskaya, 2000; Gunawardane, Meedeniya and Shivakumaran, 2007; Gamage, 2006), in

⁵ Glinskaya (2000) revealed that though poverty rate was 20 percent in 1990, Samurdhi programme covered 50 percent of the households in the country. Forty percent of the poorest households do not get support from the programme while 51, 45, 36 and 4 percent of the households in third, fourth, fifth and tenth income quintiles get support from the programme.

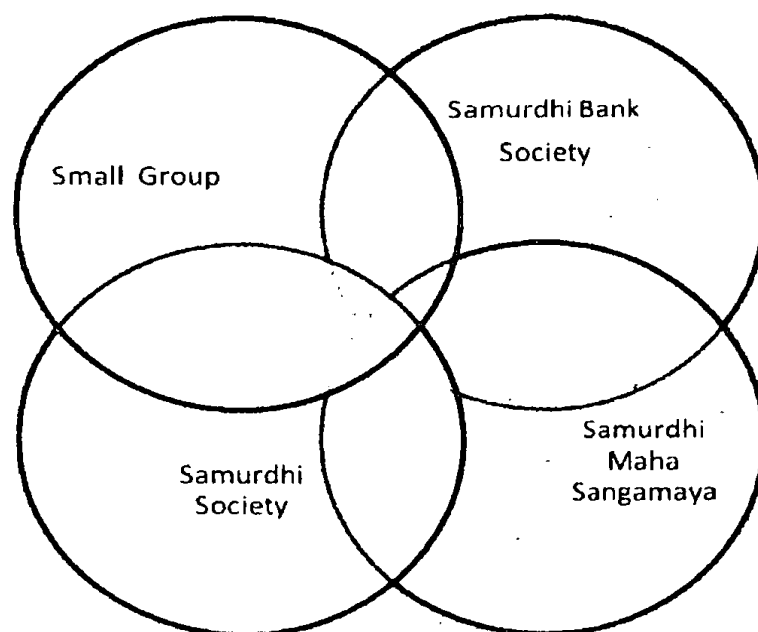
ineffectiveness⁶ (Glinskaya, 2000 and Gunatilaka and Salih, 1999) and less achievement of targets (Fernando, 2009).

Though successive governments had implemented a number of credit programmes aimed at poverty reduction such as the Janasaviya Loan Scheme, Housing Loan Scheme and Farmer Bank Loan Scheme, most of them were not successful as expected. The Samurdhi Banks were also established with the major objective of assisting poor to get rid of poverty by braking vicious circle of poverty. In addition, banks have other objectives as follows,

1. To build investment power of poor through increasing their savings
2. To provide micro-finance to the poor
3. To enhance production power and to introduce good opportunities for poor
4. To protect beneficiaries from informal money lenders or irregular loan transactions
5. To provide solution for problem of assets for surety
6. To implement bank habits through loan discipline (Samurdhi Authority of Sri Lanka, 1998).

In the first stage 250 banks were established in 18 districts and it has expanded to 1,043 by 2011 in 22 districts. The banks consist of four major components as shown in Figure 1.2.

Figure 1.2: Major Component of the Samurdhi Programme



⁶ programme is not effective in poor provinces or districts where infrastructure is (very poor) inadequate to a great extent

There are 2,588,059 members of the bank; of them 65.34 percent (1,691,112) are females. The Bank programme has LKR million 4,212 worth share capital. The Samurdhi banks provide various loan facilities belonging into different categories for their members, such as self-employment, cultivation, fisheries, distress, consumption needs and housing. Furthermore, Samurdhi Banks have released 3,721,662 loans worth at LKR 4,835 million as at 31.12.2009 (www.samurdhi.gov.lk). According to the Samurdhi Authority of Sri Lanka, 76 percent (790) bank societies have been self-sufficient financially.

1.2 Significance of the Study

Though number of reasons could have contributed for the massive achievement in poverty reduction, the Samurdhi programme may be one of the major reasons for such achievement. On the other hand, there are number of criticisms of the Samurdhi programme and its implementation. Therefore, an evaluation of performance of the Samurdhi Banks is timely. Furthermore, identification of issues and beneficiaries' perception of the banks and their implication will be useful for future direction of the Samurdhi programme.

1.3 Problem Statement

The Samurdhi programme was introduced and implemented to reduce poverty and empower the poor. Since this is the governments' major programme towards poverty alleviation in Sri Lanka, there is a need to evaluate the programme and its implications from time to time. Though the Samurdhi banks had existed around 17 years improving customers' living standards, the customer requirements are subject to change day by day. Therefore, review of past performance and identifying the trends will help to improve the programmes of the Bank. Though there are some studies related to the Samurdhi Programme, the researchers feel that there is a need for a study with a thorough focus on Samudhi Banks, their implications and impact on poverty alleviation. Therefore, this research focuses on evaluating the performance of the Samurdhi Banks Societies in poverty alleviation. This research intendeds to answer the following questions.

1. What are the positive and negative factors towards improvement of the bank?
2. What is the impact of the bank on poverty alleviation?
3. What are the customers' expectation and perception of the bank?

1.4 Objectives of the Study

The major objective of the study is to evaluate the performance of the Samurdhi Banks and to identify issues and difficulties faced by beneficiaries and officers in order to obtain and provide efficient and effective services.

The Specific objectives are,

1. To assess the strengths, weaknesses, opportunities and threats of Samurdhi Bank Societies in poverty alleviation programme
2. To assess the economic and welfare effects of Samurdhi Banks
3. To identify the perception of beneficiaries on Small groups, samurdhi societies and service delivery by Samurdhi Banks especially in terms of the quality and adequacy of service
4. To identify issues related to banking habits and empowerment of the poor.
5. To suggest best approaches and practices for the delivery of effective and efficient micro-finance services to the beneficiaries
6. To inform and educate policy makers and planners

1.5 Research Methodology

1.5.1 Sources of Data

The research utilized both primary and secondary data. Primary data was collected from the Bank's customers and key informants such as the Samurdhi Development Officers (animators), Samurdhi Managers, leaders of the Samurdhi Bank Societies.

Secondary data was gathered through research reports, symposium proceedings, journal and newspaper articles, Annual reports of the Samurdhi Authority of Sri Lanka, Central Bank publications such as the Annual Reports, Economic and Social Statistics of Sri Lanka. In addition, various publications of the Department of Census and Statistics of Sri Lanka such as the Household Income and Expenditure Survey, Poverty Statistics for Sri Lanka, Time Trends of Poverty Indicators on Population and Employment and Socio-Economic Situation have been used to collect secondary data for the study. Furthermore, the secondary data was gathered from relevant web sites and electronic media.

1.5.2 Data Collection Methods

Two types of data collection methods were used viz gathering information from secondary sources and survey methods. The secondary sources consisted of previous research report on Samurdhi programme such as *An Empirical Evaluation of Samurdhi Programme: Background paper for Sri Lanka Poverty Assessment* by Elena Glinskaya (2000) and *How Successful is Samurdhi's Savings and Credit Programme in Reaching the Poor in Sri Lanka?* by Ramani Gunathilaka and Rozana Salih (1999), research papers on *micro-finance in Sri Lanka* such as *Micro-finance in Sri Lanka: A Household Level Analysis of Outreach and Impact on Poverty* by Ganaga Tilakaratna (2005) and various reports of Department of Census and Statistics like *Poverty*

Indicators: Household Income and Expenditure Survey (2009/10), Headcount Index and Population below Poverty Line by DS Divisions –Sri Lanka (2002) and Central Banks Annual Reports.

Two types of survey methods were employed for the study. First, a questionnaire survey was conducted among a randomly selected banks customers' sample (both beneficiaries and non-beneficiaries) and the officers of the Samurdhi Authority of Sri Lanka (SASL) including Samurdhi Development Officers (SDOs) who work at bank as well as field and Samurdhi bank Managers/Assistant Managers.

Second, in-depth interviews with relevant officials who are responsible for the implementation of the Samurdhi programme in the country such as the Samurdhi Development Officers, Samurdhi Managers of the Samurdhi Authority of Sri Lanka and officers/members of the Samurdhi Controlling Board (*Maha Sangam*). Furthermore, focus group discussions with the SDOs and customers were used to clarify, triangulate and obtain detailed and in-depth information.

1.5.3 Study Area

This study was conducted in eight districts. Of them, five districts (Batticaloa, Monaragala, Kurunegala, Jaffna and Ratnapura) were selected from five provinces which indicate high level of poverty and three districts (Anuradhapura, Kalutara and Vavuniya) from three provinces which indicate low level of poverty. From each district a number of Samurdhi Bank Societies were selected for the Study (see Table 1.1 for the poverty indicators and number of Samurdhi Banks in respective districts). The Samurdhi Bank Societies were selected randomly.

Table 1.1: Poverty Indicators and Number of Samurdhi Banks in Districts

District	Poverty Ratio in 1990/91	Poverty Ratio in 2009/10	Number of Samurdhi Banks in District	Number of Banks selected for the Study
Kalutara	32.3	6.0	55	5
Kurunegala	27.2	11.7	119	12
Batticaloa	10.7 (2006/7)	20.3	28	3
Anuradhapura	24.4	5.7	52	5
Monaragala	33.7	14.5	26	3
Ratnapura	30.8	10.5	45	4
Vavuniya	-	2.3	07	2
Jaffna	-	16.1	30	5
Total		8.9	362	39

Source: Department of Census and Statistics, 2011
Samurdhi Development Authority of Sri Lanka

1.5.4 Sample Size

The total sample for the questionnaire survey was 547. It consisted of 478 customers of the Samurdhi banks (Samurdhi beneficiaries 383 and non-beneficiaries but bank customers 95) and 69 officers. District-wise distribution of the sample is given in Table 1.2. Twelve customers were randomly selected from each bank.

Table 1.2: Distribution of the Sample by District

District	Sample (Number of Persons)				
	Customers of the Banks		Officers		
	Beneficiaries	Non-beneficiaries	Managers/ Assistant Managers	SDOs (Field)	Regional Assistant
Kalutara	47	13	05	06	0
Ratnapura	42	12	03	05	01
Monaragala	33	04	03	01	0
Anuradhapura	43	18	06	03	01
Kurunegala	122	30	10	09	01
Batticaloa	35	01	04	0	0
Vavuniya	19	09	02	02	0
Jaffna	42	08	06	01	0
Total	383	95	39	27	03

Source:

1.5.5 Methods of Analysis

Simple statistical methods (graphs and tables) were used to analyze quantitative data with statistical package for social sciences. For the analysis of qualitative data, research team adopted descriptive method. In addition, for identifying the strengths, weaknesses of the Samurdhi Banks and opportunities and threats (SWOT analysis method) for the Banks were used.

1.6 Structure of the Report

This report consists of eight chapters. The first chapter is the introduction of the research including background and the significance of the study, problem statement, objectives and methodology. The second chapter presents literature review related to micro-finance, poverty, Samurdhi programme and previous study findings of the micro-finance in Sri Lanka. Third chapter gives pertinent characteristics of the sample. The fourth chapter deals with perception of the customers on service

delivery including their evaluation on banks, small groups and village Samurdhi Societies as well as impact of the programme. The fifth chapter presents and analyzes issues related to service delivery. The sixth chapter presents suggestions made by stakeholder to overcome problems mentioned by them and its improve the service delivery. The seventh chapter presents SWOT analysis related to the Samurdhi banks. The chapter eight presents summary of the study and policy implications for better service delivery.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter presents available literature related to poverty alleviation and micro-finance. Further, the chapter elaborates poverty situation in Sri Lanka, poverty alleviation programmes and Samurdhi Bank Union system. In addition, chapter provides a brief discussion on micro-finance and its impacts giving examples from the world scenario.

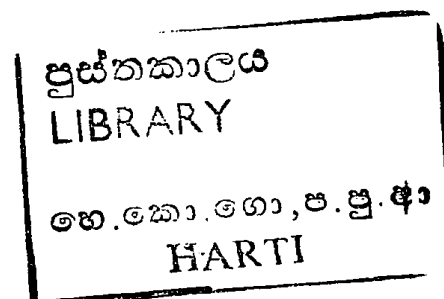
2.2 What is Poverty?

Though poverty is often defined in terms of income, it is a multi dimensional phenomenon, which causes conflict, struggle and unrest in South Asia (SAARC, 1992, ADB, 2001). Poverty is defined as lack of employment, infrastructure, housing, land, water, food and sufficient income. In this sense, poverty has spatial-infrastructure, political-economic, environmental, socio-cultural and gender dimensions. Lack of infrastructure is linked with lack of access to health services, education, communication, market and other public and private services as well as lack of income and employment opportunities (ADB, 2001). Considering the above situation poverty can be defined as a general state of deprivation, having more to do with entitlement and capacity, rather than conventional indicators such as income and nutrition (Sen, 1999). There are two approaches used to define measure and monitor poverty. These are,

1. Monetary approach
2. Non-monetary approach (Alailima, 2007).

In monetary approach, poverty is defined as a shortfall in consumption or income in relation to a poverty line. It can identify two types of poverty within the monetary approach; absolute poverty and relative poverty. Commonly, absolute poverty refers to people's basic needs and it is defined as subsistence below the minimum requirement of physical well-being (Jabbar and Senanayake, 2004). According to Amartya Sen (1981) "there is an irreducible core of absolute deprivation in our idea of poverty, which translate reports of starvation, malnutrition and visible hardship into a diagnosis of poverty, without having to ascertain first the relative picture". On the other hand relative poverty refers to income or consumption levels that are below a given percentage of the national average.

The non-monetary approach can be divided into three dimensions such as capability approach, social exclusion approach and participatory approach (Alailima, 2007). Though, it has generally been accepted that in the need of non-monetary approach



for defining, measuring and monitoring poverty, there is no consensus about which dimensions to include, what indicators to be used or which method to be adopted (Alailima, 2007, Gunawardane, 2004, Gamage, 2006). A number of dimensions have been used to capture the level of non-monetary poverty such as economy (consumption and assets), human development (education, health, safe sanitation, safe drinking water, electricity), socio-cultural dimension (dignity and network), political dimensions (power and voice) and protective aspects (conflict, natural disasters, risk of eviction) (Cader, 2007, Alailima, 2007). Most methods under the capabilities approach try to measure absolute poverty while social exclusion and participatory approach focuses on relative poverty and inequality.

2.3 Poverty Situation in Sri Lanka

According to the international measures of poverty, 6.6 percent of the Sri Lankans were below the poverty line of 1 US\$ and 45.4 percent were below the US\$ 2 per a day (Alailima, 2007). In 2004, the Department of Census and Statistics had computed an official national poverty line using consumption data. However, before that some independent researchers had attempted to measure absolute poverty in Sri Lanka⁷. According to Household Income and Expenditure Surveys in 1990/91, 1995/96 and 2002, poverty ratio was 26.1 percent, 28.8 percent and 22.7 percent respectively. Though the incidence of poverty had declined from 26.1 percent in 1990/91 to 22.7 percent in 2002, the actual number of poor people had increased from 3.7 million to 3.8 million (Department of Census and Statistics, 2002). According to Department of Census and Statistics (2011), the poverty ratio had declined from 15.2 percent in 2006/07 to 8.9 percent in 2009/10. The present government policy of providing government employments has largely contributed to declining poverty ratio.

The largest proportion of the poor population, 85 percent are from the rural sector (Gunawardane, Meedeniya and Shivakumaran, 2007, Department of Census and Statistics, 2011). Thus, poverty is a rural phenomenon in Sri Lanka. As revealed by Gunawardane *et al* (2007), there were clear differences in poverty by ethnicity. When compared with the Sinhalese (17.3 Percent in 2003/04) poverty was higher among Tamils (26.6 percent among Sri Lankan Tamils and 37.6 percent among Indian Tamils in 2003/04) and Moors (21.2 percent in 2003/04)⁸. There is a strong and

⁷ Bhalla and Glewwe in 1985 calculated poverty line in of 1969/70 as Rs.21 (person/month). Gunaratne in 1985 has calculated Rs.70 and Rs.106 (person/month) as a poverty line in 1978/79 and 1981/82 respectively. Pradhan in 1999 has calculated Rs.860 (lower) and Rs. 1,032 (person/month) as a poverty line in 1996/97.

⁸ This absolute poverty based on official poverty line in 2003/04. The relative poverty head count ratio was as follows among different ethnic groups. Sinhalese -26.4 percent, Indian Tamil – 55.5 percent, Sri Lankan Tamil -34.4 percent, Moor – 33.3 percent and Malay – 12.9 percent (Gunawardane, Meedeniya and Shivakumaran, 2007).

inverse relationship between education and Poverty. Also, poverty is higher among disabled and in households with a disabled member, regardless of poverty line or measure. Land ownership is linked with poverty and around 1/3-½ of the population in landless households were poor (*Ibid*, 2007). Households with members engaged in paddy farming (29.1 percent), vegetable farming (31.1 percent), plantation crops growing (tea-33.1 percent, rubber-27.8 percent, coconut-16.9 percent, cinnamon-28.1 percent), fishing (26.3 percent), *beedi* manufacturing (20.7 percent), brick manufacturing (28.4 percent), carpenters (21.4 percent) or construction workers (23.6 percent) had high incidence of poverty (*Ibid*, 2007). As illustrated by above figures, poverty can be identified as rural as well as agricultural sector phenomenon in Sri Lanka. Furthermore, there is wide variation in the magnitude of poverty in the country across the districts and provinces (Department of Census and Statistics, 2011, Gamage, 2006).

In terms of relative poverty, two major patterns can be observed. First, the income accrued to the bottom 20 percent of the population has remained around 5 percent of total household income in the country over the last five decades. Second, population's nutritional levels had been low, but some improvements have been recorded during the last two decades. In spite of poverty and malnutrition, Sri Lanka's achievement is impressive in terms of the physical Quality of Life Index and Human Development Index. Most indicators are comparable with those of developed countries.

2.4 Poverty Alleviation Programmes in Sri Lanka

Since independence in 1948, the Sri Lankan Government has implemented many policies and programmes that directly or indirectly benefit the poor. Until 1977, programmes that benefited the poor included provisioning of welfare, subsidies, land to landless and irrigation water and technology for agricultural production. In the post-1978 period, the Government provided social safety nets and introduced livelihood programmes for the poor.

2.4.1 The Janasaviya Programme

In 1989, the government introduced the *Janasaviya* Programme (JSP) with the aim of poverty alleviation. By replacing JSP, the Samurdhi Programme was launched by the government in 1995. The JSP was the main safety net cum poverty alleviation programme in Sri Lanka between 1989-1994. It differed from other poverty-focused programmes and welfare programmes thus far implemented in the country in three improvement ways;

1. To provide safety nets for the poor
2. Enhancing poorer people's income earning opportunities through assistance provided by the State. This includes marketing, industries, animal husbandry,

agricultural activities, infrastructure facilities development, special projects and banking and finance.

3. Social mobilization and empowerment of the poor.

The programme was to be completed in 11 rounds and target families were to graduate out of the safety net component after two years. JSP recipient were expected to contribute 20 days of work a month for community activities such as developing community infrastructure facilities at local level.

2.4.2 The Samurdhi Programme

The Samurdhi programme was launched in 1995 replacing the JSP, food stamps and mid-day meal programmes. Therefore, existing *Janasaviya* recipients, totaling 403,000 were brought under the Samurdhi programme. The main objective of the programme was to get the low income earning families to join the main stream of the country's economic process by encouraging them, whilst subsidizing them financially to enable them to maintain their living conditions at least at the critical minimum level (Samurdhi Authority of Sri Lanka, 2008). By the end of 2011, Samurdhi benefits had been bestowed on 1,541,619 families and number of small groups was 207,975 island-wide.

From 1995 to 2007, the Samurdhi Authority of Sri Lanka had completed a large number of development projects worth LKR 50,000 by providing LKR 10,000. From 2008 to 2010 it was implemented in all the villages by giving priority to 3060 villages (Samurdhi Authority of Sri Lanka, 2011). In the year 2011, projects were implemented giving high priority to irrigation and water supply and under this 5,969 projects were completed including roads/bridges (12), irrigation (248), water supply (166) and sanitary facilities (5,543). Number of beneficiary families of those projects were 142,552. The finished value of the projects was LKR 575.13 million and out of them 47.15 percent (LKR 271.18 million) was contributed by beneficiaries (*Ibid*, 2011).

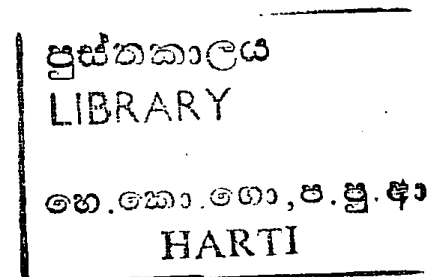
With the aim of increasing the living standards of the Samurdhi beneficiaries and low income earners and increasing the nutrition level of beneficiary families, the Samurdhi Authority of Sri Lanka implemented an animal husbandry and fisheries development programme. Under this programme, the Samurdhi Authority of Sri Lanka provided facilities for animal husbandry and fisheries development projects, introduced value added projects and provided market facilities for the beneficiaries and attended to all coordination functions related to the introduction of services and new technology to the beneficiaries. Under this programme the Samurdhi Authority of Sri Lanka implemented 8,393 projects in 2011. These projects consisted of dairy farming (1,973), goat farming (1,023), breeding of pigs (198), egg production (2,807), broiler production (281), cattle sheds (640), marine fisheries (996), inland fisheries (183), exotic fish (56), fishery and dairy products (134) and others (102). This

programme was implemented in all *Grama Niladari* Divisions (GND) which had a potential for animal husbandry and fisheries allocating LKR 400.7 million in 2011 (*Ibid*, 2011).

The Samurdhi Authority of Sri Lanka has been implementing agricultural development programmes with the objectives of ensuring self-sufficiency in food, enhancing nutrition level of the family members of beneficiaries and increasing the income and fair distribution of income and wealth (*Ibid*, 2011). Under this programme, the Samurdhi Authority of Sri Lanka implemented number of projects such as promotion of plants and planting material production (3,317), promotion of local food crops cultivation (20,079), encouragement of small scale plantation crop cultivators (2,911), home garden development programme (13,598) and development of modern agro technical and knowledge and skills of enterprises (49). The SASL spent LKR 543.36 million. Under the promotion of plants and planting material production project, 2,236 green houses were constructed island wide. Of them, 1,746 green houses were used for plant nurseries and produced vegetables, fruits, exotic flowers, export crops and other plants while the rest were used for vegetable cultivation and floriculture production (Samurdhi Authority of Sri Lanka, 2011). The home gardens were developed with fruit crops, vegetables, leafy vegetables, yams, indigenous medicinal herbs, other home gardening crops like coconuts, lemon and betel, compost production units and bee keeping units.

The industrial development programmes has been involving in development of cottage industries and uplifting the income of beneficiaries and low income families. Under this programme, during the year 2011, the Samurdhi Authority of Sri Lanka implemented 14,204 projects spending LKR 373.4 million (*Ibid*, 2011). These projects consisted of welding industry (502), carpentry (2,916), tailoring (2,984), blacksmith industry (161), masonry (1,201), lacquer industry (25), brick industry (996), jewellery and gem industry (82), rice processing industry (271), pottery (892), coconut fiber related products (787), exercise books and paper related products (854), gold and silver related products (71), cement related products (621), leather related products (119), electronic products (41), aluminum article products (36), coconut oil production (47), joss stick/lamp wick products (146), candle production (52), jaggery/sweet products (724), grinding of spices and cereals (201), bakery industry (327) and machinist work (648).

The marketing development programme has been implementing functions with the objective of strengthening and making sustainability of ongoing small and medium scale enterprises (SMEs) by providing necessary capital equipment to the low income and Samurdhi beneficiaries who are engaged in SMEs. The Samurdhi Authority of Sri Lanka allocated LKR 309.98 million for the selected projects in 2011 but spent only LKR 144.16 million as at end of 2011. Under this programme, the Samurdhi Authority of Sri Lanka has helped to started 7,727 projects. In addition, by using cyclic fund,



another 2,186 projects was started in 2011 (*Ibid*, 2011). Most of the project are sales outlets for various items.

2.5 Impacts of the Samurdhi Programme in Poverty Alleviation

In 2009, Fernando, has done an evaluation study on Samurdhi Programme in ten villages of the Panadura Divisional Secretariat in Kalutara district. The study findings show that, 62 percent of the beneficiaries' family income has increased while for the non-beneficiaries it was only 15 percent. Further, 56 percent of the Samurdhi beneficiary families' living conditions have increased. As revealed by the survey, savings of the Samurdhi beneficiary families have not improved except in the compulsory savings.

Gunathilaka and Salih (1999) had evaluated the savings and credit components of the Samurdhi programme. The study findings revealed that group savings, intra-group credit component and the Bank programme play a key role in emergency credit requirement of the Samurdhi beneficiaries. According to the study findings, the major objective of the micro-enterprise development credit component- promoting the poor to higher income growth paths- has failed. Furthermore, the findings show that micro-enterprises development credit programme was completely unsustainable in the long run.

Kesavarajh, (n.d) has done study based on secondary data for the period 1995-2008. According to his findings, though poverty ratio had declined remarkably from 2002-2006, the impact of Samurdhi transfer on poverty reduction was not satisfactory. His analysis show that Samurdhi even does not bring a households' income up to the district's per capita poverty line.

Thibbotuwawa *etal* (2012) have done a impact evaluation on household welfare with special reference on the Samurdhi programme. The findings reveal that though, the Samurdhi programme does not improve the overall household welfare, a cash transfer has a positive impact on some household welfare indicators like primary education and agricultural income. The Samurdhi recipients were not able to increase their food expenditure in order to have a more balanced diet even after receiving the transfer. Further, the primary level education showed improvement after receiving the Samurdhi benefits but the situation is different for the secondary and tertiary levels. All income generating categories, except agricultural income did not show any improvement after receiving Samurdhi.

2.6 Micro-finance

Basically, micro-finance institutions provide financial services to poor. These financial services include number of services such as saving, credit, insurance and payments for poor who were excluded from formal bank system. The Nobel committee has

recognized micro-finance as an important liberating force and an ever more important instrument in the struggle against poverty (Sengupta and Aubuchon, 2008).

The Asian Development Bank (ADB) referred micro-finance as “The provisions of a broad range of financial services that include services such as deposits, loans, payment services and insurance to poor and low income households and their micro enterprises” (ADB, 2000). Micro-finance is the provision of savings accounts, loans, insurance, money transfers and other banking services to customers that lack access to traditional financial services, usually because of poverty.

Robinson (1998) referred to micro-finance as small-scale financial services for both credits and deposits- provided to people who are engaged in farming or fishing or herding; or people who operated small or micro-enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas.

As defined by Morduch and Haley (2002) “Micro-finance is an instrument that, under the right conditions, fits the needs of a broad range of population – including the poorest-those in the bottom half of people living below the poverty line. While there will be people in this group who will not be suited for micro-finance because of mental illness etc.” Therefore, micro-finance does not address everyone. According to them, entrepreneurial skills and ability are most important factors influencing to obtain loans.

Though micro-finance and micro-credit are often used interchangeably, it has significant differences among both of them. Micro-credit is a component of the micro-finance while micro-finance involves financial services in addition to credit facilities (Okiocredit, 2005). Micro-finance plays a vital role in development in different aspects.

1. Helps very poor households to meet basic needs and protect against risks
2. It is associated with improvement in households' economic welfare
3. It helps to empower women by supporting women's economic participation and so promotes gender equity.

Credit for poor is not a new concept but innovative methods to provide credit is new such as social mobilization process, self-help groups and insurance to cover risks and distresses faced by the poor (Tilakaratna, 2005). Micro-finance service providers can be categorized into three groups according to their structure.

1. Formal institutions (Commercial and development banks)

2. Semi-formal institutions (NGOs and co-operative societies)
3. Informal sources [Professional money lenders, Rotating Savings and Credit Associations (ROSCA)].

However, the informal sector is limited to credit or rotating savings. Therefore, the term “micro-finance” includes only formal and semi formal institutions (Tilakaratna, 2005). According to Grameen Bank (2000) there are fourteen micro-finance models viz associations, bank guarantees, community banking, co-operatives, credit unions, Grammen, group, individual, intermediaries, NGOs, peer pressure, ROSCA, small business and village banking (www.dochas.ie)

With reference to micro-finance projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda, researchers have concluded that micro-finance projects have very positive impacts in reducing poverty (Littlefield, Murdugh and Hashemi, 2003). However, some scholars argue that micro-finance projects fail to reach the poorest and generally have a limited effect on income (Wright, 2000). Wright has stated that there is a significant difference between increasing income and reducing poverty. He argues that reducing poverty depend on what the poor do with the money? Often it is gambled away or spent on alcohol, so focusing solely on increasing income is not enough.

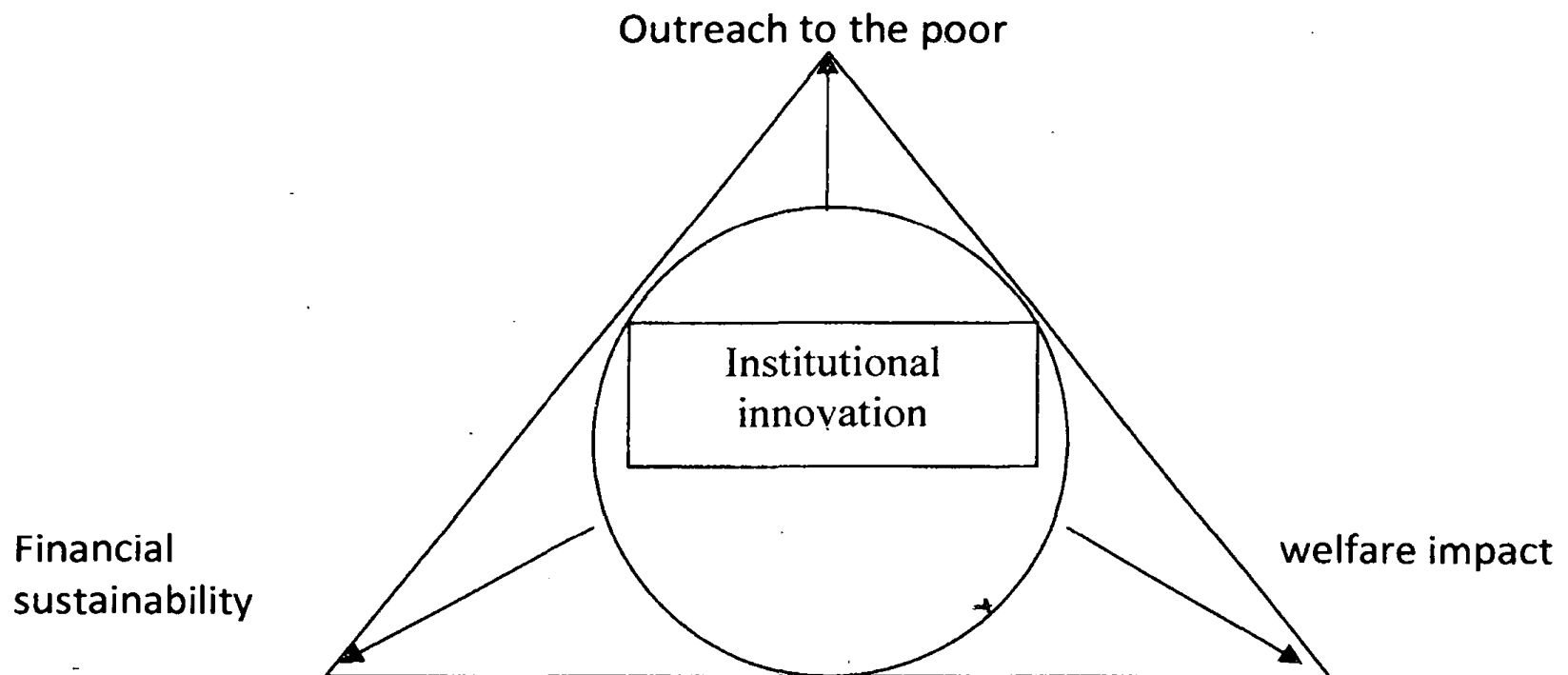
Multi-purpose tools are used by different actors for micro-finance. In Sri Lanka micro-finance use as a policy tool for poverty alleviation, profit oriented commercial activities, social or cultural development and as an intervention tool in conflict affected areas by different actors including funding organizations, funder-practitioners, practitioners and facilitator (Gant *et al*, 2002). Of them, the Samurdhi Authority acts as national level practitioner of micro-finance.

Micro-finance services were introduced in 1950s, as subsidized rural credit programmes by donors or governments. 1980 was a turning point of micro-finance, because some of micro-finance institutions such as Grameen Bank in Bangladesh and Bank Rakyat Indonesia (BRI) began to provide small loans and savings services on large scale with profit for poor. Due to increase of number of micro-finance institutions and expansion of services such as ‘from Micro-credit to savings’, pensions and insurance, some scholars have identified 1990s as the micro-finance decade. Most important event of the decade was micro-credit summit held in 1997. The summit aims to reach 175 million of world’s poorest families with credit for the self-employed and other financial and business services by the end of 2015. Though there were around 10,000 micro-finance institutions survived in 2004 they reached only four percent (30 million people) of potential clients. The United Nations (UN) considered 2005 as the international year of micro-credit (www.dochas.ie).

There are different arguments related to performance evaluation of the micro-finance institutions. Kereta (2007) citing from Mayer (2002) mentioned that

researchers need to examine “critical micro-finance triangle” to evaluate micro-finance projects based on their objectives. The critical micro-finance triangle consists of out reaching to the poor, financial sustainability and welfare impact (see Figure 2.1)

Figure 2.1: Critical Micro-finance Triangle



In this figure, inner circle represent the micro-finance innovations such as policies, technologies, organization and management. The outer circle represents the environment such as human and social capital of the poor, economic policies of the country, quality of the financial infrastructure that supports financial transactions. (Mayer, 2002).

2.7 Impacts of Micro-Finance

Large number of studies relating to micro-finance and its' impacts on poverty reduction have been conducted world-wide over the years. Many research findings reveal positive impacts of micro-finance on poverty reduction; related specially to first six millennium development goals. Many studies show that micro-finance helps to increase income and reduction in vulnerability. However, very few studies reveal positive impacts on health, nutrition and primary schooling attendance (Morduch, 2002).

Bangladesh experiences show that micro-finance participants do better than non-participants in per capita income, per capita expenditure and household net worth. Further, as revealed by this study, poverty drop out ratio had increased from 5 percent in 1991/92 to 10 percent in 1998/99 (Khandker, 2001). This result is similar in many other Asian countries like Indonesia and Sri Lanka. According to Remenyi and Benjamin (2000) micro-credit borrowers' income has increased than non-

borrowers in many Asian Countries. For example in Indonesia's annual average increase of income for micro-credit borrowers was 13 percent while it was recorded as 3 percent for non-borrowers. In Sri Lanka it was 15.6 percent for micro-credit borrowers while 9 percent for non-borrowers. Further, in India annual average income rise for micro-credit borrowers was reported as 46 percent while it was reported as 24 percent for non-borrowers.

There is a high demand for small scale commercial financial service-for both credit and savings- among the economically active poor in the developing countries. Those financial services help them to improve household and enterprise management, productivity, smooth income flows and consumption cost, enlarge and diversify their micro business and increase their income (Robinson, 2001). As pointed out Morduch and Haley, (2002), Pitt and *etal* (n.d) revealed that female borrowers have a large and significant impact on health of their children.

2.8 Micro-Finance in Sri Lanka

2.8.1 An Evolution and Expansion of Institutional Micro-Finance in Sri Lanka

Though the first institutional micro-credit organization; the Thrift and Credit Co-operative societies (TCCSs) was established in 1906, it showed slow growth till 1914. The government got involved in micro-finance sector in 1911, enacting co-operative Credit Societies Ordinance No.7 of 1911. However, later on these societies had expanded and developed. For example, these societies grew from 37 societies with 1,820 members and loans issued to the value of LKR 3,266 in 1914 to 8,435 societies with 810,250 members and loans issued to the value of LKR 2.8 billion in 2000. Further, as at end of 2000 it had deposits valued at LKR 4.2 billion (Gant *etal*, 2002).

The second involvement of the government in micro-finance sector was marked in 1942, with the establishment of Co-operative Agriculture Production and Sales Societies (CAPSSs) to increase national food production. With this initiative the government made arrangement to provide credit for farmers through the societies. There were 995 societies with 247,000 members in 1957 (*Ibid*, 2002).

The third intervention of the government was agriculture credit with low interest rate for farming community, specially for paddy farming. This had been implemented in the post independent era.

In 1964, the government had involved in the sector through establishing Co-operative Rural Banks (CRBs). The first CRB was established in March 1964 in Menikhinna in the Kandy district with the partnership between the Peoples Bank and the Co-operative movement. However, in 1997, the relationship between the Peoples Bank and the CRBs was terminated. As at the end of 2000, there were 306

CRBs with 1,476 branches and these banks had 5,524,751 savings accounts (*Ibid*, 2002).

The fifth involvement of the government marked in 1986, with the establishment of the Regional Development Banks (RDBs) by the Central Bank of Sri Lanka. Twenty two banks were established in all districts excluding northern and eastern provinces. The RDBs were restructured in 1998 and consolidated into six Regional Banks (Ruhuna, Wayamba, Rajarata, Sabaragamuwa, Kadurata and Uva). These banks had 998,448 savings accounts valued at LKR 2,567,437,645 and 487,195 loans valued at LKR 3,398,747,401 at end of the 2000 (*Ibid*, 2002).

A Non-Governmental Organization (NGO); *Sarvodaya* Economic Enterprise Development Service (SEEDS) got involved in the micro-finance sector for the first time in 1986. This year can be considered as a land mark of the micro-finance sector in Sri Lanka. In the initial stage it had established 80 societies in 5 districts while it had expanded to 2,600 societies in 18 districts in 1999. At present, large number of international and local NGOs such as Co-operative Assistance and Relief Everywhere (CARE), (Danish Refugee Council (DRC), a Norwegian relief and development agency (FORUT), German Technical Co-operation) GTZ, Oxford Famine Relief (Oxfam), Save the Children Norway (SCN), United Nations Development Programme (UNDP), World Vision Sri Lanka (WVL), a Dutch relief and rehabilitation agency (ZOA), *Sarvodaya* Economic Enterprise Development Service (SEEDS), and Agromart are involved in micro-finance sector providing different services. According to Gant *etal* (2002), seventy four local NGOs were identified in 2000. They had 19,586 saving groups with 184,573 members island wide.

The government established *Janasaviya* Trust in 1990 and the National Development trust Fund in 1991 (Tilakaratna, 2005). Then the Samurdhi Authority was established in 1994 and its' micro-finance programme was introduced in 1996.

The *Janashakthi* movement was initiated in 1989 in the Hambantota District as a member based non-governmental organization for upliftment of poor rural women and their families. The *Janashakthi* bank societies were established In March 1990 with the objective of reducing poverty by empowering women to develop individual and collective self-reliance (www.swwb.org). *Janashakthi* is completely owned and controlled by its members. It offers number of savings such as ordinary savings, children's savings, non-member savings, fixed deposits, group fund deposits, and elderly savings as well as various credit schemes such as housing loans, consumption and emergency loans and loans for production related activities. The solidarity group loan methodology has been used for all loans. Members have to buy shares and save with the programme for at least three months before becoming eligible for loans. In addition to credit and saving facilities, the *Janashakthi* Banks offer some non-financial services such as business training, a "barefoot library," nutrition and education programmes and environmental trainings for their members.

The Farmer Bank is another popular micro-finance institution in Sri Lanka. The Ministry of Agriculture and Lands started Farmer Banks in 1999 with the objective of providing credit facilities for agriculture and related activities. As at 2012, there were 515 Farmer Banks in Sri Lanka. At the end of 2001, there were 219,254 shareholders in 452 Farmer Banks branches. The share capital at the end of 2001 was reported as LKR 22 million and individual savings at LKR 38 million. The banks granted around LKR 80 million and the recovery rate was 78 percent during the *maha* season and 57 percent in the *yala* season (Gamage, 2009).

2.8.2 The Samurdhi Bank Unions

The Samurdhi micro-finance sector consists of micro-credit, savings and social insurance which consistently supported to reduce the vulnerability of the poor on some occasions such as death, hospitalization and child birth. Number of beneficiary families has been reducing over the years. The Samurdhi programme had 1,549,107 beneficiaries by the end of the 2012. Of them, around 3 percent of the total beneficiaries (52, 686 beneficiaries) had benefited from the social security fund in 2012 (Central Bank of Sri Lanka, 2012). There were 1043 bank branches island wide excluding Mannar, Kilinochchi and Mulathivu. The total number of members was 2,869,548 as at the end of 2011 while 65.6 percent were females. The Asian Development Bank identified the Samurdhi Banking Union system as the world's fourth largest micro financial structure. Table 2.1 shows the growth of membership of the banking union from 1999 to 2011.

Table 2.1: Growth of Banking Union Membership and Shares

Year	Membership		Shares	
	Total	Growth Rate (%)	Amount (LKR. Mn.)	Growth Rate
1999	1,244,936		587.175	-
2000	1,571,236	26	985.157	67.8
2001	1,706,063	9	1,383.15	40.4
2002	1,866,059	9	1,679.79	21.4
2003	2,052,495	10	1,930.30	14.9
2004	2,158,239	5	2,206.62	14.3
2005	2,253,694	4	2,601.01	17.9
2006	2,370,589	5	3,096.44	19.0
2007	2,447,999	3	3,639.53	17.5
2008	2,501,772	2	3,989.90	9.63
2009	2,588,059	3	4,212.41	5.58
2010	2,801,533	8	4,790.47	13.72
2011	2,869,548	2	5,370.53	12.11

Source: Annual Report-2011, Samurdhi Authority of Sri Lanka

When compared with 1999 data, number of memberships has increased by 130.5 percent by 2011. In the meantime share amount has increased by 814.6 percent at the reference period.

Table 2.2: Growth of Number of Accounts and Amounts Deposited

	Accounts			Amounts Deposited		
	Number of Accounts	Growth	Growth Rate	Amount (LKR. Mn)	Growth	Growth Rate
1999	1,424,652	-	-	768.96	-	-
2000	2,645,574	1,220,922	85.7	2,033.45	1,264.50	164.4
2001	3,035,233	389,659	14.7	3,111.16	1,077.71	53.1
2002	3,296,569	261,336	8.6	3,857.10	745.94	24.1
2003	3,680,786	384,217	11.6	4,710.80	853.70	18.1
2004	3,989,539	308,753	8.4	5,751.81	1,041.01	22.1
2005	4,229,575	240,036	6.0	6,824.88	1,073.07	18.6
2006	4,394,498	164,923	3.9	8,131.66	1,306.78	19.1
2007	4,613,504	219,006	5.1	9,875.63	1,743.97	17.6
2008	5,081,229	467,725	10.1	11,356.79	1,481.16	15.1
2009	5,167,854	86,625	1.7	13,536.65	2,179.86	19.2
2010	5,505,853	337,999	6.5	1,5906.77	2,370.12	17.5
2011	5,524,025	18,172	0.3	18,907.33	3,000.56	18.9

Source: Annual Report-2011, Samurdhi Authority of Sri Lanka

As at 31st December 2011, the Samurdhi Bank's unions had 5,524,025 account including member, non-member, group, *Diriya Maatha*, *Kekulu* and *Sisuraka*. The total amount of deposits had grown up from LKR 768.96 million in 1999 to LKR 18,907.33 million in 2011 (Table 2.2).

During the year 2011, 522,226 members had taken credit facilities worth LKR 13,189 million. The recovery rate for the year 2011 was 111.90 while bad debt rate was reported as 5.51 percent.

The Samurdhi Authority had introduced a number of credit programmes for various activities as follows,

1. *Mihijaya* loans programme for self-employment and income generating activities. The maximum amount issued under this scheme is LKR 100,000/=.
2. Loans for fisheries and cultivation. The amount issued under the scheme is LKR 25,000/= to 75,000/=.
3. *Kirula* Development credit scheme. Maximum loan amount is LKR 250,000/=

4. Housing loan. Maximum loan amount is LKR 50,000/=
5. *Viduli Athwela* credit scheme. The maximum loan amount is LKR 30,000/=
6. Consumer loans
7. Distress loans
8. *Swasakthi* loan scheme

The Samurdhi Authority issues loans for income generating activities with different interest rates for beneficiaries (8 percent) and low income earners (10 percent) while for other loans interest rate is 12 percent. Of the total loans highest proportion (53 percent) is given for self employment activities while least proportion (4 percent) is for consumption. As explained by the Annual report (2011) of the Samurdhi Authority, the Authority invested LKR 39,048 million in state banks by 31st December 2011.

CHAPTER THREE

Pertinent Characteristics of the Sample Population

3.1 Introduction

This chapter presents the primary data on socio-economic background of the respondents, both customers and officers of the Samurdhi Banks. Accordingly, the chapter presents data related to level of education, family income and expenditure, employment status and demographic information.

3.2 Population

3.2.1 Samurdhi Beneficiary Status

Customers of the Samurdhi banks were of two categories namely; the Samurdhi recipient and non-Samurdhi recipient. Even though, the majority of bank customers were Samurdhi recipients (80.2 Percent), it is worthwhile to note that nearly 20 percent of non-Samurdhi recipients were also engaged in transactions with the Samurdhi Bank (Table 3.1). Samurdhi Bank Societies were established in 1996, as a part of the Samurdhi programme, specially focusing on 'financial inclusion' activities among the poor segment of the society. Therefore, attracting considerable percentage of non-Samurdhi recipient customers can be considered as a great achievement in banking activity diversification.

Further, it was revealed by the survey that 20.5 percent of the customers of Samurdhi bank societies belong to female headed families. According to the Household Income and Expenditure Survey Report of 2010, this value was slightly below the national value of 23.2 percent of female headed families. Further, results of the survey indicate that average family size of the sample of respondents is 3.73, which is less than the national average of 4.0 (Department of Census and Statistics, 2010).

Table 3.1: Distribution of Customers by Samurdhi Beneficiary Status and Gender

Gender	Samurdhi Recipient (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)	Total (N =478) (%)
Female	17.2	3.3	20.5
Male	63.0	16.5	79.5
Total	80.2	19.8	100

Source: Field Survey, 2013

3.2.2 Distribution of Customers by Age Categories

As it is revealed by the survey, highest percentage of Samurdhi recipients (30.5 percent) belonged to age 40-50 years category, while the highest percentage of non-Samurdhi recipients (29.5 percent) belonged to age 50-60 years category (Table 3.2). The percentage of Samurdhi recipients below 30 years are minimum as the programme could not do a survey recently and very rarely added new families as beneficiaries in recent years. However, around 1/3 of the non-beneficiaries were less than 40 years.

Table 3.2: Distribution of Customers of the Samurdhi Banks by Age Categories

Age Category	Sumurdhi Recipient (N=383)	Non-Samurdhi Recipient (N=95)	Total (N=478)
>30 years	2.6	8.4	3.8
30-40 years	19.3	29.5	21.3
40-50 years	30.5	22.1	28.9
50-60 years	24.8	29.5	25.7
60-70 years	17.2	8.4	15.5
< 70 years	5.5	2.1	4.8
Total	100.0	100.0	100.0

Source: Field Survey, 2013

As it was revealed by the survey, 77.3 percent of the Samurdhi recipients (heads of the households) belonged to economically active⁹ segment of the country. Taking this situation in to consideration, government can think of introducing more policies and programs to get their effective contribution to the economy and at the same time making them free of subsidy dependency.

Out of the total sample of 383 Samurdhi recipients, majority of the respondents had (62 percent) received Samurdhi subsidy LKR 750.00 stamps, followed by LKR 1200.00 stamps by 28.5 percent of the sample (Table 3.3). Of the recipients who get LKR 750.00 as well as LKR 1,200 highest percentage belongs to the age category of years 40-50 while of the recipients who get LKR 210 highest percentage belongs to the age category of 50-60 years (Table 3.3).

⁹ According to the World Bank definition, population, both males and females who are either working or looking for jobs, those more than 15 years of age, is considered as economically active segment of the country. However, the upper limit of the economically active age category varies from country to country. As per the World Bank definition, retired people are not considered as economically active. As the retirement age limit is 60 years in Sri Lanka, we can consider the population between 15-60 years as the economically active segment of the country. Further, the Department of Census and Statistics, Sri Lanka (2013), has used the age range of 15-60 years, to calculate the dependence ratio.

Table 3.3: Distribution of Heads of Households by Age and Value of Samurdhi Subsidy

Age Category	Value of the Samurdhi Subsidy (Percentage)			Percentage of Total Recipient (%)
	LKR.210 (N=36)	LKR.750 (N=238)	LKR.1,200 (N=109)	
>30 years	0.0	1.6	1.0	2.6
30-40 years	2.3	12.5	4.4	19.3
40-50 years	2.1	18.5	9.9	30.5
50-60 years	2.6	14.1	8.1	24.8
60-70 years	1.6	11.2	4.4	17.2
< 70 years	0.8	4.2	0.5	5.5
Total	9.4	62.1	28.5	100.0

Source: Field Survey, 2013

3.2.3 Age Distribution of Household Members of the Customers

The total percentage of dependencies (below 15 years and above 60 years) among Samurdhi recipients were 31.8 percent, while the same value for non-Samurdhi recipients were 30.5 percent (Table 3.4). As the Table 3.4 indicates, there is no considerable difference between Samurdhi recipients and non-Samurdhi recipients by number of dependents.

Table 3.4: Distribution of Household Members of the Customers by Age Categories

Age Categories	Percentage of Household Members of Samurdhi Recipients (N=940)	Percentage of Household Members of Non-Samurdhi Recipients (N=228)	Percentage of Household Members of Total Customers (N=1,168)
>15	20.9	23.6	21.5
15-30 years	25.6	25.0	25.5
30-45 years	22.2	25.8	22.9
45-60 years	20.2	18.8	19.9
<60 years	10.9	6.9	10.1
Total	100.0	100.0	100.0

Source: Field Survey, 2013

3.2.4 Status of the Bank Customers

Among the customers of the Samurdhi Banks, majority (84.3 percent) were engaged in some sort of income generating activity (Table 3.5). It is interesting to note that

unemployment rate among customers of the Samurdhi Bank societies was very low (1.5 percent), and it is lower than the national average of 3.9 percent recorded in 2012 (Department of Census and Statistics, 2012). Another major characteristic of the sample is that it consist of considerable portion of disabled, weak or elderly respondents (9.8 percent) who are unable to contribute to the economy effectively and percentages were considerably higher among Samurdhi recipients (12.3 percent) than non-Samurdhi recipients (6.3 percent). According to the United Nations' Economic and Social Council for Asia and the Pacific (UNESCAP, 2012) report, disability percentage of Sri Lanka is 7 percent of the total population. But, disability rates among Samurdhi Recipients is slightly higher than the latest national figures.

Table 3.5: Status of Bank Customers

Livelihood Activity	Samurdhi Recipients (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)	Total (N=478) (%)
Occupant	81.7	86.3	84.3
House wife	3.1	2.1	2.6
Unemployed	1.9	1.1	1.5
Disabled/Weak/Elderly	12.3	6.3	9.8
Retired	1.0	4.2	1.7
Total	100.0	100.0	100.0

Source: Field Survey, 2013

3.2.5 Marital Status of the Customers

The distribution of heads of the households by marital status of the customers of the Samurdhi Banks (both Samurdhi recipients and non-Samurdhi recipients were) remarkably different from national figures (Table 3.6). According to the Household Income and Expenditure Survey Report (2010), national figure for percentage of widows was 7.8 percent, but the observed percentages of widows in both Samurdhi recipient and non-Samurdhi recipient categories was higher than that (10.4 percent and 8.4 percent for Samurdhi recipients and non-Samurdhi recipients respectively). The main reason is that survey covered Jaffna, Batticaloa and Vavuniya districts which have a high rate of widows due to previous conflict situation.

Table 3.6: Heads of Households by Marital Status

Marital Status	Samurdhi Recipients (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)	Total (%)
Married	86.7	83.2	86.0
Single	1.0	3.2	1.5
Widow	10.4	8.4	10.0
Divorced	1.8	5.3	2.5
Total	100.0	100.0	100.0

Source: Field Survey, 2013

3.3 Level of Education

Sri Lanka is a country with the highest Human Development Index in South Asia, which, the United Nations Development Programme (UNDP) has ranked at the 97th position in the medium human development category for the quality of life of its citizens in 2011.

Among Samurdhi recipients, the literacy rate was 98.4 percent, while among non-Samurdhi recipients, it was exactly 100 percent (Table 3.7). It is further revealed that the literacy rate of the total customers was as high as 98.7 percent. Achievement of such a high literacy rate by the poor segment of society always reflects the country's significant accomplishments in human development sector.

Table 3.7: Distribution of Customers by Level of Education

Level of Education	Samurdhi Recipients (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)	Total (%)
Illiterate	1.6	0.0	1.3
Not attended school but literate	2.9	0.0	2.3
Grade 1-5	31.3	15.8	28.2
Grade 6-11	49.9	50.5	50.0
Passed O/L	11.2	20.0	13.0
Passed A/L	2.6	13.7	4.8
Post Graduate	0.3	0.0	0.2
Not qualified to attend school	0.3	0.0	0.2
Total	100.0	100.0	100.0

Source: Field Survey, 2013

3.4 Occupation of the Customers

Out of the total 478 respondents, 84.3 percent (403 respondents) were employed (Table 3.8). Higher proportion (38.2 percent) of the sample of respondents were farmers by their main occupation, while the lowest was represented in foreign employment category (1.3 percent). The percentage of respondents engaged in self-employment as their main livelihood was quite high as 17.6 percent of the total sample.

The highest proportion of the customers in Anuradhapura, Monaragala, Vavuniya, Kurunegala and Ratnapura districts were engaged in farming (Table 3.9). Further, highest percent of the Kalutara, Jaffna and Batticaloa districts were engaged in self-employment, skills labourer and labourer respectively.

Table 3.8: Distribution of Heads of Households by Occupation

Occupation	No of Respondents	Percentage (%)
Farmer	154	38.2
Labourer	66	16.4
Engaging in business	22	5.5
Government occupant	18	4.5
Private occupant	17	4.2
Self employed	84	20.8
Skilled labour	36	8.9
Foreign employment	6	1.5
Total	403	100.0

Source: Field Survey, 2013

Table 3.9: Occupation of Heads of the Households by District

Occupation of Head of the Household	Kalutara(N=52) (%)	Batticaloa (N=36) (%)	Anuradhapura N=48 (%)	Monaragala (N=29) (%)	Kurunegala (N=122) (%)	Ratnapura (N=51) (%)	Vauniya (N=20) (%)	Jaffna (N=45) (%)
Farmer	11.5	27.8	62.5	72.4	46.7	37.3	50.0	2.2
Labourer	23.1	30.6	8.3	6.9	8.2	25.5	15.0	24.4
Businessman	3.8	16.7	4.2	10.3	3.3	3.9	5.0	4.4
Government Occupant	13.5	0.0	6.2	0.0	3.3	0.0	15.0	2.2
Private Occupant	5.8	0.0	2.1	0.0	4.9	9.8	5.0	2.2
Self-Employment	38.5	8.3	14.6	10.3	22.1	21.6	5.0	26.7
Skilled Labourer	3.8	0.0	2.1	0.0	11.5	2.0	5.0	37.8
Foreign Employment	0.0	16.7	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Field Survey, 2013

Majority of the self- employees were engaged in mobile-businesses in adjacent cities and towns especially in the festival seasons. In the skilled labourer category, the value of Jaffna district (37.8 percent) is considerably higher than in all other districts. This is due to provision of variety of job-based training programmes by both Government and NGO's among re-settled communities in the Northern Province. On the other hand, there are growing opportunities in the construction sector, especially in the Northern and Eastern provinces, where skilled labourers can easily find jobs.

3.5 Household Income and Expenditure

The survey data reveals that income of the non-Samurdhi recipients is much higher than the income of the Samurdhi recipients. As indicated by the Table 3.10, 22.2 percent of the Samurdhi recipients have earned an income between LKR 10,000 to LKR 15,000 per month. In contrast, 38.9 percent of non-Samurdhi recipient have earned an income more than LKR 25, 000.00 per month.

Table 3.10: Distribution of Monthly Family Income of Households

Income Categories (Monthly)	Samurdhi Recipients		Non- Samurdhi Recipients		Total	
	Number of Respondents	(%)	Number of Respondents	(%)	Number of Respondents	(%)
Less than LKR 1,500	30	7.8	3	3.2	33	6.9
LKR 1,500-5,000	42	11.0	7	7.4	49	10.2
LKR 5,000-10,000	68	17.8	10	10.5	78	16.3
LKR 10,000-15,000	85	22.2	15	15.8	100	20.9
LKR 15,000-25,000	81	21.1	23	24.2	104	21.7
Greater than LKR 25,000	77	20.1	37	38.9	114	23.8
Total	383	100.0	95	100.0	478	100.0

Source: Field Survey, 2013

Even though the national poverty line is set at LKR 3659.00 per person per month as at March 2013, out of the total sample of Samurdhi recipients (383), only 72 respondents (18.8 percent) have earned less than LKR 5000.00 per month (Table 3.10). In other words, out of the total sample of 383 Samurdhi beneficiaries, 81 percent said that they earned more than LKR 5000.00 per month and at the same time they continued to receive financial assistance from the government as their income was less than LKR 1,500.00 per month. On the other hand, especially the respondents of the subsidy schemes tended to give a lesser value than the actual income to government officers due to fear of losing their subsidy. Therefore, researchers have adopted an indirect way of measuring the income by means of collecting the expenditure values (both cash and material expenditure) of the households and the results are illustrated in Table 3.11.

Table 3.11: Distribution of Samurdhi Recipients by Level of Household Expenditure

Expenditure Categories (Monthly)	Number of Samurdhi Recipients	(%)
Less than LKR 5,000	46	12.0
LKR 5,000-10,000	114	29.8
LKR 10,000-15,000	100	26.1
LKR15,000-25,000	67	17.5
Total	383	100.0

Source: Field Survey, 2013

Even though 19 percent respondents said that they earned less than LKR 5,000.00 per month, Table 3.11 indicates that only 12 percent of the respondents actually spent less than LKR 5,000.00 per month. Similar pattern of differences were observed related to income categories of LKR 5,000 -10,000 and LKR 10,000-15,000 vs. corresponding expenditure categories, where percentages are higher in expenditure categories (30 percent and 26 percent) than respective income categories (10.5 percent and 16 percent). Based on these results, it can be concluded that percentage of households earning less than LKR 5,000.00 per month is as low as 12 percent of the total sample of 383 Samurdhi recipients.

3.6 Conclusion

Samurdhi Banks have been able to diversify their banking activities to attract considerable percentage of non-Samurdhi beneficiaries. Among the customers of the Samurdhi Banks, majority belonged to over 50 year age category and most of them were farmers practiced agriculture as their main occupation. As literacy level of the bank customers were high as 98.7 percent, bank can think of modernizing the service process by incorporating new technology. The current poverty level considered by the Samurdhi Authority of Sri Lanka (LKR 1500.00 per month, per family) is no longer applicable. Therefore, the government need to pay attention to re-set the income level of beneficiaries' selection according to the current economic conditions of the country.

CHAPTER FOUR

Perception of Beneficiaries on Service Delivery

4.1 Introduction

This chapter focuses on analyzing the perception of beneficiaries on Samurdhi Bank Societies. It discusses the customers' perception of small groups and Samurdhi Societies and examines the contribution of the Samurdhi Banks and Samurdhi Societies in uplifting customers' economic and welfare standards.

4.2 Customers' Perception on Small Groups and Samurdhi Society

Main objectives of the establishment of Samurdhi Banks were promoting formal credit among low income earners, minimizing informal loans and thereby rescuing the poor from the vicious cycle of indebtedness. The main instrumental arrangement for the implementation of this rural credit scheme was group guarantee system. One group consists of five members, of which one member can ask for a loan while other four members acting as collateral. If the borrower is unable to repay the loan, the due amount is deducted from the other members' accounts. Therefore, performance of the small groups is very important for the viability of the credit scheme.

The total number of small groups of the Samurdhi Authority of Sri Lanka was 207,975 as at December 2012 (Samurdhi Authority of Sri Lanka, 2011). As mentioned by the officers (36 percent) they have faced some issues related to small groups such as involvement in resolving the disputes among members.

4.2.1 Customers' Evaluation on Small Groups

As observed by the research team, small groups do not function as expected and the officers seems to ignore it as well as members in many areas. In many areas, small groups function only for getting loans and for collecting money for their group account without holding meetings. Therefore, many other important functions have been neglected by members themselves as well as officers. This fact was proved by the customers' perceptions (Table 4.1). Engagement of income generation activities is the best example. As observed by the research team, it is harmful to objectives of the Samurdhi movement and it is needed to pay more and quick attention of the relevant officers on the matter.

The majority of the respondents (more than 50 percent) have evaluated performance of the small groups under almost all the criteria such as engagement in social activities, savings, borrowing loans, repaying loans, cooperation, participation, investment, income generation activities, guidance of the officials and officer participation. This in fact remain above average level (either good or very good)

(Table 4.1). Further, 64 percent of the respondents have evaluated overall performance of their respective small groups as either very good or good.

However, according to the perception of the respondents, the highest percentage of below average ranks (20.5 percent) was received related to carrying out the income generation activities. Next highest percentage of below average ranks was for repaying loans (19.3 percent) followed by engagement of group members (18.6 percent) and investment activities of the group members (18.2 percent). Assembling of a group of people with similar interests and similar income level could be effectively utilized to address common objectives of the members. Therefore, relevant authorities should consider, small group as a good platform to generate awareness among poor segment of the society, on possible village level business ventures.

Table 4.1: Customers' Evaluation of Small Groups

Criteria	Either Never Achieved, Very Weak or Weak (N=478) (%)	Average (N=478) (%)	Either Good or Very Good (%)
Engagement in social works	18.6	27.2	54.2
Savings	14.7	29.7	55.7
Borrowing loans	13.6	29.3	57.1
Repaying loans	19.3	24.7	56.0
Cooperation	14.7	24.7	60.6
Participation	16.1	22.8	61.1
Investment	18.2	30.3	51.4
Income generation activities	20.5	26.6	52.9
Guidance of the officials	11.1	21.1	67.8
Officer participation	10.3	22.0	67.8
Overall evaluation of the group	11.2	24.7	64.0

Source: Field Survey, 2013

Unwillingness of some members to sign as guarantors of the others' loan, disputes among members and collapse of small groups due to unmatched group members are some of the issues noted by the research team. Some times group members enter into disputes with other members when their loan ran into arrears and it causes social and psychological problems.

In line with the group members' suggestions, the highest percentage of respondents (37.6 percent) indicated that motivation of inactive members of the groups, as the first priority. Within the group guarantee system, presence of an inactive member, who does not regularly update the members' accounts; always obstruct the other

group members' opportunity for borrowing loans (Table 4.2). Therefore, motivation of the inactive group members of the groups should be given top priority, by the government officials. If motivation is impossible, establishing new groups with the members of same interest can be regarded as an alternative solution. The other most important suggestions made by the respondents were assisting in enhancing marketing opportunities for local products (20 percent) and providing opportunities for self-employment related training (19.7 percent).

Table 4.2: Suggestions to Upgrade the Performance of Small Group

Suggestions to Upgrade the Performance of the Small Groups	Percentage (N=478) (%)
Providing opportunities for self-employment related training	19.67
Assisting in enhancing marketing opportunities for local products	20.08
Increased attention of government officials	12.34
Government officials should motivate inactive members of the groups	37.66
Increase the maximum limit of self-employment loan	1.67
Decrease the interest rates of the loans up to 6%	0.21
Introduce motivation program for highest savers	0.21
Dissolve weakly functioning groups and establish new groups	0.21
Provide necessary material and equipment at 50% subsidy	0.42
Conduct training programmes on members' request	0.63
No any particular suggestion	19.04

Source: Field Survey, 2013

Out of the total value of all the disbursed loans (LKR 19.2 million), 55.7 percent (LKR 10.7 million) was accounted for self-employment loans (Table 4.9). Many borrowers have started cottage industries such as producing handicraft items, tailoring, sweet industry, cashew nuts industry, artificial flower industry, and producing ornaments (Table 4.16).

However, self-employees of these sectors had to go beyond the village level, either to nearest sub urban areas or cities in other provinces to market their produce with a reasonable profit margin. Unfortunately, many of them are unable to bear the high transport cost and high market risk. Therefore, assisting in enhancing marketing opportunities for local products and providing training in improving the quality of products to suit the local and international market are very important in every aspect.

4.2.2 Customers' Evaluation of the Samurdhi Society

The customers' evaluation of Samurdhi Society (Table 4.3) and the obtained results were very similar to performance evaluation of the small groups, which was

presented in Table 4.1. Majority of the respondents (more than 50 percent) have evaluated performance of the Samurdhi Society under almost all the criteria such as members' participation, members savings at the meeting day, corporation among members, conducting training and awareness programmes on relevant fields, receiving of solutions to inquiries, carrying out income generation activities, guidance given by officials, participation of the government officials, loan supervision and carrying out common activities as above average (either good or very good).

Table 4.3: Customers' Evaluation of Samurdhi Society

Criteria	Either Never Achieved, Very Weak or Weak (N=478) (%)	Average (N=478) (%)	Either Good or Very Good (%)
Members' participation	14.2	30.3	55.4
Members savings on the meeting day	11.4	35.1	53.4
Corporation among members	12.3	32.0	55.7
Conducting training and awareness programmes on relevant fields	13.6	34.1	52.3
Receiving of solutions to inquiries	11.3	34.3	54.4
Carrying out income generation activities	15.7	30.5	53.7
Guidance given by officials	12.1	30.5	57.3
Participation of the government officials	15.1	31.2	53.7
Loan supervision	11.7	22.2	66.1
Carrying out common activities	9.6	22.6	67.8

Source: Field Survey, 2013

However, according to the perception of the respondents, the highest percentage of below average ranks (15.7 percent) was received for carrying out income generation activities. Next highest percentage of below average ranks was for participation of government officers (15.1 percent) followed by members' participation (14.2 percent). As it was revealed by the discussions with the Samurdhi field officers, policy decision of transferring Samurdhi subsidy to beneficiaries' bank accounts has adversely affected for reduction of the members participation of the meeting day and conducting of common activities through Samurdhi Society.

Table 4.4: Suggestions to Upgrade the Performance of the Samurdhi Societies

Suggestions to Upgrade the Performance of the Samurdhi Societies	Percentage (N=478)
Provide details of the loan repayment status of the borrower, to all members of the group, in advance.	7.3
Enhance marketing facilities for self employees	16.7
Provide more opportunities for self employment related training	18.8
Improve member participation in Samurdhi society	12.8
Make members aware of benefits of the Samurdhi society	20.1
Change current leadership of the group	0.5
Improve infrastructure facilities	0.3
Provide necessary material and equipment at 50% subsidy	1.6
Safeguard equal language rights for all beneficiaries across the country	0.5
Introduce mechanism to Improve member savings	0.5
No any particular suggestion	59.5

Source: Field Survey, 2013

It is noteworthy that around 60 percent of the respondents have not made any suggestion to improve the performance of the Samurdhi societies. However, 30.8 percent respondents have pointed out that, making members aware of benefits of the Samurdhi Society as an important suggestion (Table 4.4). They were of the opinion that many Samurdhi recipients, especially newly joined beneficiaries have neglected the core values of the Samurdhi programme. Hence, these members should be made aware of the importance of the Samurdhi Society and Samurdhi programme as a whole. The second most important suggestion was providing more opportunities for self employment related training (27.9 percent) followed by enhancing marketing facilities for self employees (25.6 percent). As the government always emphasizes the importance of self employment as a mean of coming out of the poverty, provisions of relevant training on identified sectors and enhancing marketing facilities should be regarded as equally important for the long term sustenance of the sector.

Within the group guarantee system, if the borrower is unable to repay the loan, the due amount is deducted from the other members' accounts. As 10.8 percent of the respondents said, they were not known how much will be deducted from their accounts, until the deduction is made by the Banks. Therefore, they have asked for details such as loan repayment status of the borrower and how much is going to be deducted from their accounts, prior to make the actual deduction.

4.3 Customers' Relationship with the Samurdhi Banks

4.3.1 Main Reasons for Transactions with the Banks

The main reason for transaction with the Banks (75 percent of total customer) was comparatively low interest rates for loans. It was the reason for 73.8 percent and

82.1 percent for Samurdhi recipients and non-Samurdhi recipients respectively. The second most important reason for Samurdhi recipients for dealing with Samurdhi Banks was fulfilling regulatory needs; which mean, as a prerequisite, every subsidy receiver must maintain at least three accounts in Samurdhi Banks, namely compulsory savings account, group savings account and share account, in order to receive Samurdhi subsidy (Table 4.5). On the other hand, for non-Samurdhi recipients, comparatively flexible loan conditions, such as group guarantee system, is the second most important reason for dealing with the banks (63.2 percent). Considering, Samurdhi recipients' and non-Samurdhi recipients' categories, ability of paying back with easy installments and closeness to the permanent residence (29.9 percent and 28.4 percent for Samurdhi recipients and non-Samurdhi recipients, respectively) were the other main reasons for dealing with the Samurdhi Banks.

Table 4.5: Main Reasons for Transactions with the Samurdhi Banks

Reasons for Transactions	Samurdhi Recipients (N=383) (%)	Non-Samurdhi Recipients (N=95) (%)	Total (N = 478) (%)
As a Samurdhi beneficiary, this is compulsory	59.1	13.7*	49.8
Comparatively high interests for deposits	4.7	1.1	4.0
Condition are comparatively more flexible for obtaining loans	51.7	63.2	53.8
Low interest rates for loans	73.8	82.1	75.1
Payable with easy installments	29.9	28.4	29.5
Close to permanent residence	14.7	29.5	17.6
Efficiency of the bank officials	7.9	8.4	7.9
Cooperation of officials/recognition for the customer	6.3	8.4	6.7
Ability to deal with the bank through village level SDO's	3.1	2.1	2.9
Due to additional benefits (such as gifts, lottery)	2.1	4.2	2.5
Relatively very small initial deposit rate (Rs 10.00)	8.4	14.7	9.6
Samurdhi officers' influence	2.6	1.1	2.3
No specific reason	0.8	1.1	0.8

* earlier they were Samurdhi beneficiaries, but due to increase of income level or other reasons they had to handover their Samurdhi subsidy. They still transact with Samurdhi banks and small groups.

Note: As this is a multi-response question, the percentages of each column exceed 100 percent.

Source: Field Survey, 2013.

4.3.2 Customers' Awareness and Perception of Annual Interest Rates of the Deposits

In line with the survey results, majority of the respondents of both categories; Samurdhi recipients and non-Samurdhi recipients (64.6 percent and 60.0 percent respectively) were not aware of the annual interest rates of the deposits (Table 4.6). However, among Samurdhi recipients, only 9 percent said that they were not satisfied with the provided interest rates for deposits, while 7.4 percent of the non-Samurdhi recipients also had the same view (Table 4.7).

Table 4.6: Customers' Awareness on Annual Interest Rate of the Deposits

Type of Customer	Awareness on Annual Interest Rate of the Deposits	
	Yes (%)	No (%)
Samurdhi Recipient (N=383)	35.4	64.6
Non-Samurdhi Recipient (N=95)	40.0	60.0
Total (N=478)	36.1	63.2

Source: Field Survey, 2013

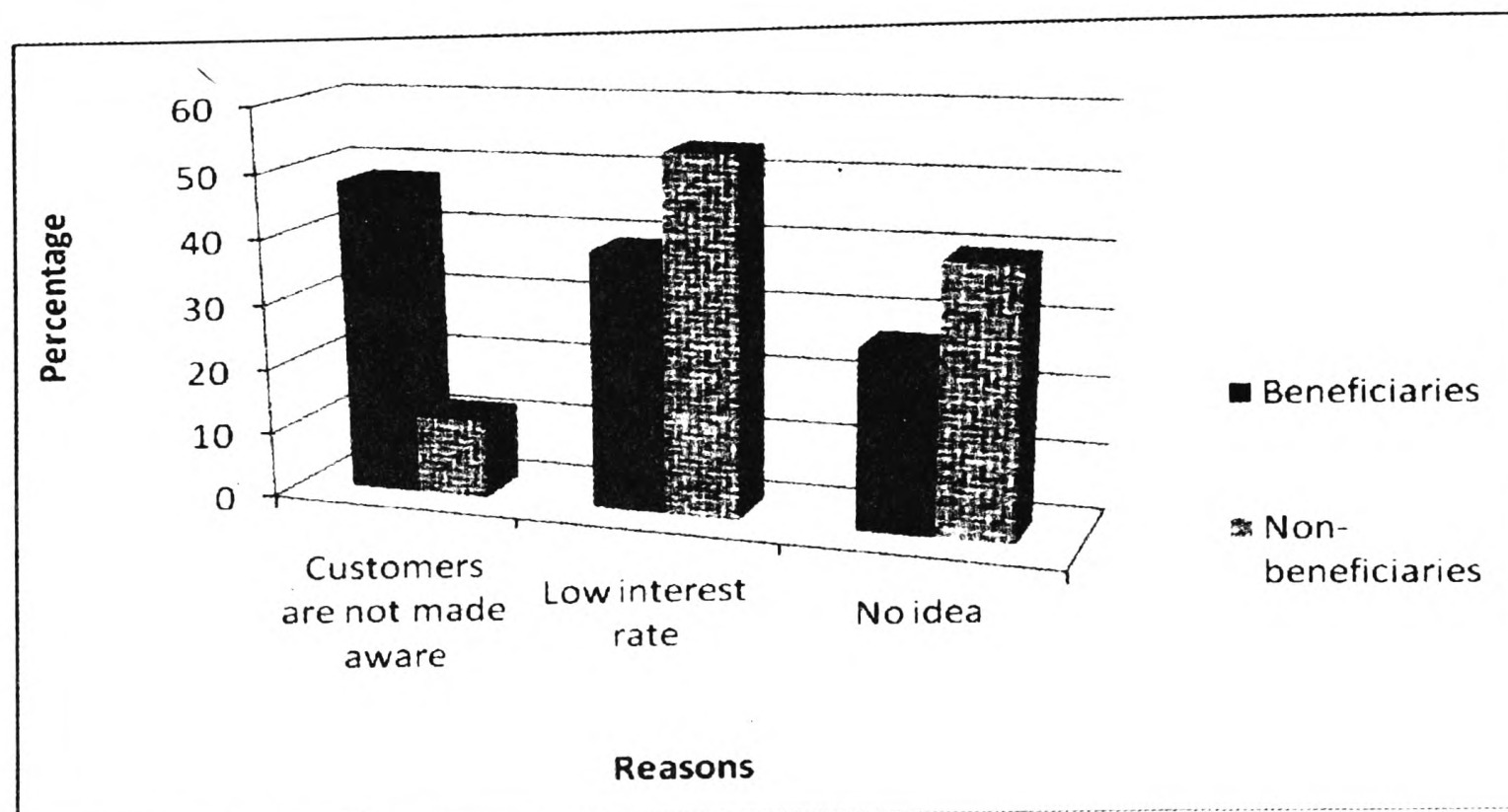
Further, of the unsatisfied customers on interest rates for deposits (41), 43.9 percent of the respondents of both categories said (41.1 percent and 57.1 percent of Samurdhi recipients and non-Samurdhi recipients respectively) that offered interest rates were lower than in other banks (Figure 4.1).

Table 4.7: Customers' Perception on Annual Interest Rate of the Deposits

Type of Customer	Customers' Perception on Annual Interest Rate of the Deposits		
	Satisfied (%)	Not Satisfied (%)	No idea (%)
Samurdhi Recipient (N=134)	48.0	9.0	43.0
Non-Samurdhi Recipient (N=38)	49.5	7.4	43.2
Total (N=172)	48.7	8.6	42.7

Source: Field Survey, 2013

Figure 4.1: Reasons for Customers' Dissatisfaction on Annual Interest Rates of the Deposits



Source: Field Survey, 2013

4.3.3 Available Loan Schemes for Customers and Their Borrowing Habits

More than 85 percent of the customers of Samurdhi banks, both Samurdhi recipients and non-Samurdhi recipients, have at least once borrowed a loan. The percentage was slightly higher in non-Samurdhi recipients' category (89.5 percent) than Samurdhi recipients' category (86 percent).

The majority of both Samurdhi recipients and non-Samurdhi recipients have borrowed loans three times or more (53.4 percent and 52.7 percent respectively for Samurdhi recipients and non-Samurdhi recipients). Around 2 percent (8) of the customers had borrowed more than ten times (Table 4.8)

Table 4.8: Frequency of Borrowing Loans from Samurdhi Banks

Frequency of Borrowing Loans from Samurdhi Banks	Samurdhi Recipients (N=383) (%)	Non-Samurdhi Recipients (N=95) (%)	Total (N=478) (%)
Once only	12.8	11.6	13.4
Twice only	19.8	25.3	12.4
Three times or more	53.4	52.7	58.6
Total	100.0	100.0	100.0

Source: Field Survey, 2013

Samurdhi Bank Societies give loans from deposits accumulated by relevant beneficiaries and for this purpose, banking unions are authorized to give only up to 80 percent of the total deposits. Samurdhi Banks offer various kinds of credit facilities for assisting income generation and ensuring improved living standard of the low income families through offering cultivation loan scheme, self-employment loan scheme, fisheries loan scheme and housing loan scheme. Further, customers are provided with relief through the consumer, distress and *Swashakthi* loan schemes to obtain financial requirements in an emergency situation without difficulty. Out of the surveyed total sample (478), 415 customers (87 percent) have borrowed loans at least once, from the Samurdhi Banks and its district-wise vs. loan category wise breakdown is depicted in Table 4.9.

Table 4.9: Customers' Borrowing Habits by Loan Categories

Loan Category	Kalutara (%) N= 60	Batticaloa (%) N= 36	Anuradhapura (%) N= 61	Monaragala (%) N= 37	Kurunegala (%) N= 152	Ratnapura (%) N= 54	Vauniya (%) N= 28	Jaffna (%) N= 50	Total (%) N= 478
Cultivation loan	10.0	44.4	21.3	32.4	16.4	14.8	36.4	14.0	19.9
Self-employment Loans	48.3	44.4	31.1	24.3	50.7	50.0	59.1	46.0	44.6
Housing loan	31.7	5.6	14.8	10.8	17.8	13.0	4.5	6.0	15.1
Consumption loan	1.7	-	-	-	3.9	3.7	-	4.0	2.3
Fisheries loan	1.7	5.6	3.3	2.7	1.3	7.4	-	14.0	4.0
<i>Swashakti</i> loan			1.6	-	0.7	3.7	-	-	0.8
Not borrowed	6.7	-	27.9	29.7	9.2	7.5	-	16.0	1.4

Source: Field Survey, 2013

In the Anuradhapura and Monaragala districts, percentage of the respondents who have not borrowed a loan at least once was around 30 percent of the total respondents of the district (Table 4.9). Out of the total respondents in each district, the highest percentage of respondents who had borrowed cultivation loans were in the Batticaloa district (44.4 percent) followed by 36.4 percent in the Vauniya district and 32.4 percent in the Monaragala district. It was revealed that, cultivation loans were very useful especially for the resettled communities in North and East to re-establish their cultivation practices. In the Vavuniya district, the percentage of disbursed self-employment loans was highest (59.1 percent), followed by Kurunegala (50.7 percent) and Ratnapura (50.0 percent). In the Kurunegala district, cashew based and iron based cottage industries were prominent, whereas *Kithul* based jaggery and honey production was the dominant form of self-employment in the Ratnapura district. Besides, considerable percentage of respondents in the

Ratnapura district had borrowed loans under self-employment category for cultivation practices of perennial crops, eg. re-planting of tea.

Table 4.10: Customers' Borrowing Habits By Loan Categories and Amounts Borrowed

Loan Category	Upper Limit (LKR)	Lower Limit (LKR)	Total Value of Disbursed Loans (LKR)	As a Percentage of Total Value of Disbursed Loans (%)
Cultivation loan	250,000	5,000	4,099,500	21.3
Self - employment Loans	250,000	5,000	10,705,000	55.7
Housing loan	100,000	5,000	3,015,000	15.7
Consumption loan	100,000	5,000	202,500	1.1
Fisheries loan	150,000	5,000	773,000	4.0
Swashakti	75,000	20,000	165,000	0.9

Source: Field Survey, 2013

Out of the total value of all the disbursed loans (LKR 19.2 million), 55.7 percent (LKR 10.7 million) was self-employment loans (Table 4.10). The second most disbursed loan category was cultivation loans, which comprised 15.7 percent (LKR 4.09 million) of the total monetary allocation, followed by allocation for housing loans (LKR 3.09 million) and fisheries loans (LKR 0.7 million). In all the surveyed districts, except in Monaragala, number of respondents who borrowed self-employment loans comprised more than 30 percent of the total number of respondents in each district (Table 4.11). Since the government always supports 'self-employment' as an effective means of coming out of poverty, the popularity gained by the self-employment loan scheme is always encouraging.

4.3.4 Borrowers' Perception on Loan Scheme and Its Implementation

Vast majority of both Samurdhi recipients and non-Samurdhi recipients (95.8 percent and 94.2 percent respectively) said that Samurdhi officials made them aware of loan conditions in advance (Table 4.11). Further, more than 90 percent of both Samurdhi recipients and non-Samurdhi recipients were of the opinion that loan conditions of the Samurdhi Banks were satisfactory and it remained above average level (Table 4.12).

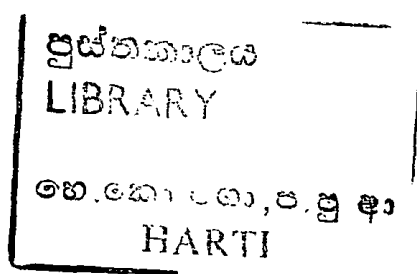


Table 4.11: Customers' Awareness of Loan Conditions

Type of Customer	Customers' Awareness on Loan Conditions		
	Yes (%)	No (%)	No Idea (%)
Samurdhi Recipient (N=383)	95.8	3.6	0.6
Non-Samurdhi Recipient (N=95)	94.2	5.8	0.0

Source: Field Survey, 2013

Table 4.12: Borrowers' Perception of Loan Conditions

Perception on Loan Conditions	Samurdhi Recipients (N=383) (%)	Non-Samurdhi Recipients (N=95) (%)
Very satisfactory	41.8	38.4
Satisfactory	49.7	54.6
Normal/average	7.6	4.7
Disadvantageous	0.9	2.3
Very Disadvantageous	0.0	0.0
Total	100	100

Source: Field Survey, 2013

4.3.5 Obtained Loans and Other Benefits by the Customers of the Samurdhi Bank

Services of the Samurdhi banks are not restricted to conventional banking activities such as accepting deposits and providing credit facilities, but they have been extended to offer variety of related services such as an insurance scheme, a housing lottery programme, conducting industry consultancy service and training programs on self-employment and providing school books for selected poor students. Besides, bank acts as a means of distributing benefits of group protection fund and loan protection fund among customers of the Samurdhi Banks.

Table 4.13: Distribution of Customers by Obtained Benefits

Benefits	Samurdhi Recipient (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)
Cultivation Loan	32.6	23.9
Self-employment loan	55.3	72.7
Consumption loan	13.8	13.6
Fishing loan	3.1	1.1
Housing loan	25.0	22.7
Distress loan	0.6	0.0
<i>Divi isura</i> loan	0.0	1.1
<i>Sipdora</i> loan	0.3	0.0
<i>Kirula</i> loan	0.0	1.1
<i>Yovun diriya</i>	0.0	0.0
<i>Swashakti</i>	0.6	1.1
<i>Widuli atwela</i>	0.6	1.1
Benefit of group protection fund	24.2	9.1
Benefit of loan protection fund	4.2	2.3
Insurance scheme	16.9	4.5
Housing lottery	21.1	4.5
Industry consultancy service	0.8	1.1
Scholarships for O/L student	0.8	2.3
Providing school books	3.1	2.3
Conduct training program	3.4	4.5

Note: As this is a multi-response question, sum of the percentages of each column exceed 100 percent

Source: Field Survey, 2013.

Out of above mentioned benefits, majority of both Samurdhi recipients and non-Samurdhi recipients (24.2 percent and 9.1 percent respectively) have obtained benefits of the group protection fund. Second most obtained benefit was housing lottery (24.2 percent and 9.1 percent respectively) followed by benefits of the insurance scheme, (16.9 percent and 4.5 percent respectively) by both Samurdhi recipients and non-Samurdhi recipients.

4.3.6 Execution of the Insurance Scheme through Samurdhi Banks

Under the Samurdhi poverty alleviation programme, an insurance scheme has been introduced with the intention of providing financial support to the account holders on special occasions such as family member's death, marriage, account holders' hospital admission, child birth, permanent disability and a disaster situation.

However, awareness of the conditions of the insurance scheme and its benefits varied widely among surveyed districts (Table 4.14).

Table 4.14: Awareness on the Samurdhi Insurance Scheme

Awareness on Samurdhi Insurance Scheme	Know About Insurance Scheme (%)	Do Not Know About Insurance Scheme (%)	Haven't Any Idea (%)
Kalutara (N=60)	68.3	11.7	20.0
Batticaloa (N=36)	91.7	2.8	5.6
Anuradhapura (N=61)	70.5	6.6	23.0
Monaragala (N=37)	94.6	2.7	2.7
Kurunegala (N=152)	80.3	3.3	16.4
Ratnapura (N=54)	70.4	9.3	20.4
Vavuniya (N=28)	46.4	21.4	32.1
Jaffana (N=50)	74.0	12.0	14.0
Total (N=478)	76.0	7.0	17.0

Source: Field Survey, 2013

Awareness was lowest in the Vauniya district (46.4 percent) and it was highest in the Monaragala (94.6 percent) followed by the Batticaloa (91.7 percent) district. Making the beneficiaries aware of insurance scheme is a responsibility of banking staff and Samurdhi officials and the programmes are normally carried out at small group members' meetings.

4.4 Impact of Samurdhi Banks on Upliftment of Social Welfare of the Customers

4.4.1 Economic Impact

The term social welfare has many definitions. According to Kaldor-Hicks compensation theory, any programme that promotes equal distribution of income within the society, can be considered as a step towards social welfare.

As per the perception of the respondents, majority (56.7 percent) have said that, obtained loans and savings had contributed to increase income of the household economy. Next, 37.9 percent respondents were of the opinion that connection with the banks had contributed to increase in assets, and at the same time 24.5 percent respondents had pointed out that they had increased the purchasing power considerably. Importantly, transactions with the Samurdhi banks had not caused any indebtedness among the poor segment of the society (Table 4.15).

Table 4.15: Impact on Household Economy

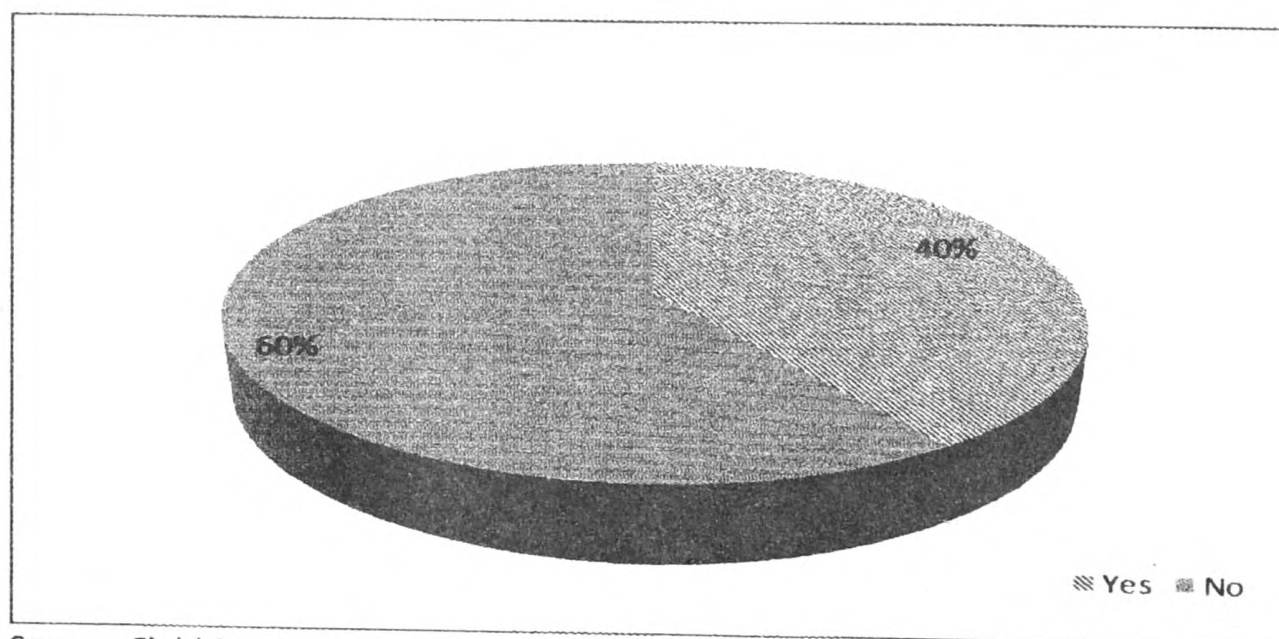
Impact on Household Economy	Kalutara (N=60) (%)	Batticaloa (N=36) (%)	Anuradhapura (N=61) (%)	Monaragala (N=37) (%)	Kurunegala (N=152) (%)	Ratnapura (N=54) (%)	Vauniya (N=280) (%)	Jaffna (N=50) (%)	Total (N= 478) (%)
Increased income	65.0	75.0	41.0	54.1	57.9	53.7	53.6	56.0	56.7
Reduction in income	3.3	8.3	1.6	0.0	1.3	1.9	17.9	32.0	6.3
Increase of assets	35.0	47.2	34.4	18.9	47.4	53.7	28.6	12.0	37.9
Decrease of assets	0.0	0.0	0.0	0.0	0.0	0.0	7.1	20.0	2.5
Increased purchasing power	31.7	2.8	37.7	21.6	27.0	20.4	32.1	10.0	24.5
Reduced purchasing power	1.7	0.0	0.0	2.7	0.0	0.0	0.0	2.0	0.6
No any change	11.7	0.0	23.0	27.0	13.2	5.6	10.7	4.0	12.3
Increased indebtedness	0.0	0.0	0.0	0.0	1.3	0.0	3.6	0.0	0.6

Note: As this is a multi-response question, sum of the percentages of each column exceed 100 percent
 Source: Field Survey, 2013

4.4.2 Creation of New Job Opportunities due to Loans/Savings

Forty percent of the customers of the Samurdhi banks have said that new job opportunities have been created due to loans/savings obtained from the bank (Figure 4.2). The sector-wise and gender-wise description of created jobs are further illustrated in Table 4.16.

Figure 4.2: Creation of New Job Opportunities due to Loans/Savings



Source: Field Survey, 2013

The highest number of jobs has been created in the livestock sector, (26 percent), followed by tailoring and small scale business sector at 16 percent each (Table 4.16). Total of 108 females and 91 males were currently engaged in full time jobs at their own places or as self-employers. Brick making, cashew nut industry and skilled labor jobs related to welding plants were the prominent form of jobs created in the Kurunegala district, while livestock sector was more famous in Job creation in the Jaffna and Batticaloa districts and sweet industry (jaggery production and sesame production) was more popular in the Ratnapura and Kalutara districts.

Regarding mean income per job per month, sweet industry had the highest income earning potential with LKR 17,400.00 per month. But, the issue related to sweet and cashew industry was the seasonal nature of income. Carpentry work had earned LKR 16,000.00 followed by skilled works such as three wheel driving and fish processing which have earned LKR 15,000 per month.

Table 4.16: Description of Created Jobs As a Result of the Transactions with the Samurdhi Banks

Type of Job Sector	Number of Full Time Employment Created			Mean Monthly Income per Job (LKR)
	Female (N=108) (%)	Male (N=83) (%)	Total (N=191)(%)	
Handicraft	6	6	6	9,167
Physical labour (Unskilled and semi-skilled)	13	10	12	12,637
Business	16	17	16	11,032
Carpentry	1	4	2	16,500
Livestock	26	27	26	8,579
Brick making	7	11	9	8,088
Mills	2	2	2	10,000
Tailoring	17	14	16	13,260
Sweets making	3	2	3	17,400
Cashew nuts industry	2	0	1	1,250
Artificial flower industry	1	1	1	9,500
Book producing	1	1	1	3,500
Producing ornamentals from glass	2	0	1	12,000
Making compost	0	1	1	1,000
Skilled labour (at garages, welding plant ect.)	1	2	1	10,500
Three wheel driver	0	1	1	15,000
Fish processing	3	0	1	15,000

Source: Field Survey, 2013

4.4.3 Non Economic Impact of Savings

Table 4.17: Development or Retardation of Status Caused by Savings

Indicator	Change in Status	Samurdhi Recipient (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)	Total (N=478)
Education	Developed	21.7	10.5	19.5
	Declined	0.0	0.0	0.0
	No any changes	78.3	89.5	80.5
Health	Developed	24.8	14.7	22.8
	Declined	0.3	0.0	0.2
	No any changes	74.9	85.3	77.0
	Declined	0.0	0.0	0.0
	No any changes	81.7	80.0	81.4
Religious & cultural	Developed	18.3	18.2	19.5
	Declined	0.0	0.0	0.0
	No any changes	81.7	81.8	80.5
Social relationships	Developed	31.9	24.2	30.5
	Declined	0.3	0.0	0.4
	No any changes	67.9	75.8	69.0
Life status	Developed	36.0	25.3	33.9
	Declined	0.0	1.1	0.0
	No any changes	64.0	73.7	66.1

Source: Field Survey, 2013

According to Table 4.17, more than 60 percent of both Samurdhi recipients and non-Samurdhi recipients, have said that neither development nor retardation occurred in any of the sectors such as education, health, religious and cultural, social relationships and life status due to savings (Table 4.17). However, 20 percent of the Samurdhi recipients were of the opinion that development has been achieved in education, health, religious and cultural sectors due to transactions with the Banks.

Further, 32 percent of the Samurdhi recipients and 24 percent of non-Samurdhi recipients have said that they have improved social relationships due to transaction with the banks. Many researchers have argued that poverty has a definite relationship with social exclusion. Poor people's ideas are not welcomed and they always had a sense of deprivation from social relationships (Sen, 2000.). Therefore, as it seems, through Samurdhi societies and small groups, poor people have gained recognition and capacity to act just as other citizens in society. Further, 36 percent of Samurdhi recipients and 25 percent of non-Samurdhi recipients have said that their life status have been improved due to saving habits.

4.4.4 Non Economic Impact of Borrowed Loans

Table 4.18: Development or Retardation of Status Caused by Loans

Indicator	Change in Status	Samurdhi Recipient (N=383) (%)	Non-Samurdhi Recipient (N=95) (%)	Total (N=478)
Education	Developed	25.8	20.0	24.7
	Declined	0.0	0.0	0.0
	No any changes	74.2	80.0	75.3
Health	Developed	29.2	24.2	28.2
	Declined	0.5	1.1	0.6
	No any changes	70.2	74.7	71.1
	Declined	0.3	1.1	0.4
	No any changes	75.7	74.7	75.5
Religious & cultural	Developed	23.0	28.4	24.1
	Declined	0.0	1.1	0.2
	No any changes	77.0	70.5	75.7
Social relationships	Developed	45.7	46.3	45.8
	Declined	1.0	3.2	1.5
	No any changes	53.3	50.5	52.7
Life status	Developed	57.7	61.1	58.4
	Declined	0.0	1.1	0.2
	No any changes	42.3	37.9	41.4

Source: Field Survey, 2013

Around 25 percent of the Samurdhi recipients have said that development related to education, health, religious and cultural sectors has been achieved due to loans from the Samurdhi Banks (Table 4.18). Out of the respondents who have experienced some development in children's' education due to loans, 95 percent have purchased computers and spent more on higher education from the income earned. Next, they have furnished the houses with new equipments, obtained electricity and made improvements in sanitary condition of the houses with the help of the obtained loans. Further, around 45 percent of both Samurdhi recipients and non-Samurdhi recipients have said that they have improved social relationships due to transaction with the banks. Through engaging in group activities and training programmes, they have enriched their exposure related to technical and marketing sectors. Self employees have got a chance to interact with different groups who are in the same sector and developed long term profitable relationships. Finally, due to financial inclusion activities of the Samurdhi Programme, around 60 percent of both Samurdhi recipients and non-Samurdhi recipients have experienced considerable upliftment of the life status.

Table 4.19: Ability to Come out of Samurdhi Beneficiaries' Group due to Increased Income

District	Status of Transferring the Samurdhi Stamp due to Increased Income (%)	
	Yes	No
Kalutara (N=60)	6.7	93.3
Batticaloa (N=36)	0.0	100.0
Anuradhapura (N=61)	1.6	98.4
Monaragala (N=37)	2.7	97.7
Kurunegala (N=152)	1.3	98.7
Ratnapura (N=54)	1.9	98.1
Vavuniya (N=280)	3.6	96.4
Jaffna (N=50)	0.0	100.0
Total (N=478)	2.1	91.9

Source: Field Survey, 2013

Final objective of the Samurdhi subsidy scheme is to improve the income of the poor segment of the society, which lies below the poverty line, up to a level which they can lead a decent life. However, out of the total number of interviewed respondents, only 2 percent have been able to come out of the Samurdhi beneficiaries' group due to increased income. As Table 3.10 indicates, out of the total sample of Samurdhi recipients (383), only 19 percent (72 respondents) have earned less than LKR 5000.00 per month. In other words, out of the total sample of 383 respondents, 81 percent said that they were earning more than LKR 5000.00 per month and at the same time continued to receive financial assistance from the government for their income being less than LKR 1500.00 per month. As it was observed, people are reluctant to return their Samurdhi stamp due to other benefits they receive (insurance, low interest rates for loans ect.) as a member of the low income category in the country. Therefore, monthly income can be applied as a better indicator to evaluate success of the Samurdhi subsidy programme than the number returning stamp rates.

4.5 Conclusion

Even though, majority of the respondents have evaluated the performance of both small groups and Samurdhi societies as either good or very good, further improvements need to be done in some identified areas to ensure the sustainability of the Samurdhi saving/credit scheme. Respondents have suggested paying more attention to motivation of inactive members, assisting in enhancing marketing opportunities for local products and providing opportunities for self employment related training. Obtained loans and savings have contributed to increase income of the household economy, increase in assets and increase the purchasing power of the poor segment of the society. Out of the surveyed sample of 478 respondents, 191 new jobs have been created or improved he existed jobs, with a mean income ranging from LKR 1,000 per month to LKR 17,400 per month. As it was revealed, identified non-economic impacts (such as development or retardation in education, health, spiritual, religious and cultural, social relationships and life status) due to loans were more prominent than non economic impacts of savings, among both Samurdhi recipients and non-Samurdhi recipients. Due to loans made available through Samurdhi Banks, around 60 percent of both Samurdhi recipients and non-Samurdhi recipients have experienced considerable upliftment of the life status.

CHAPTER FIVE

Issues Related to Service Delivery

5.1 Introduction

The Samurdhi programme, specially Samurdhi Banks provide remarkable services for the poor in terms of improving livelihood and bank habits as well as development of the country. Basically, the bank have to be involved with promotion of savings and providing loan facilities to the beneficiaries. These powers are granted under Article 5 (d) of the Sri Lanka Samurdhi Authority Act No.30 of 1995¹⁰. Some weaknesses and issues related to service delivery can be observed. This chapter discusses such issues related to service delivery which were identified at the field survey.

5.2 Issues Identified by the Respondents

The most important thing is that half of the total customers do not have specific problems with banks and they are getting service smoothly (Table 5.1). This consisted of 51.4 percent of Samurdhi beneficiaries (197 persons) and 44.7 percent of non-beneficiaries (42 persons). As shows in the Table 5.1 and 5.2, in general, most of the problems or weaknesses given by both the customers and officers are the same.

¹⁰ 5. For the purpose of implementing the programme, the Authority shall have the power, (d) to establish, manage and operate savings and credit schemes for the beneficiaries under the programme

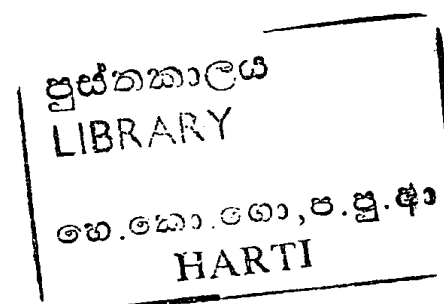


Table 5.1: Weaknesses of Samurdhi Banks Identified by the Customers

Weakness	Beneficiaries		Non-Beneficiaries		Total (N=478)	
	Number of Respondents (N=383)	Percentage	Number of Respondents (N=95)	Percentage	Number	Percentage
No weakness	197	51.4	42	44.7	239	50.0
Inefficiency of field level SDOs' to deposit installment given by customers	08	2.1	02	2.1	10	2.1
Field Officers are unable to provide their services effectively and efficiently	46	12.0	13	13.8	59	12.3
Samurdhi subsidy allowance is very low compared with present cost of living	83	21.7	11	11.7	94	19.7
No opportunity for educational loans	09	2.3	02	2.1	11	2.3
Lack of information/media publicity for programmes launched by banks	53	13.8	21	22.3	73	15.3
The proportions which have to be maintained in group and member accounts for obtaining loan are high	19	5.0	8	8.5	27	5.6
Strict conditions to release the loan	06	1.6	03	3.2	09	1.9
Deducting the loan installment from group/member accounts without informing the customer	04	1.0	02	2.1	06	1.2
Loan amount is not enough	02	0.5	12	12.6	14	2.9
Banks do not have enough space	10	2.6	0	0.0	10	2.1
Delay in the issuing of loans	03	0.8	01	1.1	04	0.8
Problems related to small groups when trying to get loans	02	0.5	0	0.0	02	0.4
Do not provide scholarships for the accounts holders' children	0	0.0	01	1.1	01	0.2
Banking system was not computerized	05	1.8	04	4.2	09	1.9
Do not provide Samurdhi subsidy on time	01	0.3	01	1.1	02	0.4
Internal/external environment is not attractive	06	2.1	10	10.5	16	3.3

Source: Field survey, 2013

Table 5.2: Issues/Weaknesses of Samurdhi Banks Identified by Officers

Weaknesses	Number of Respondents (N=69)	Percentage of Officers
Problems related to small groups	25	36
Difficulty to get the loan installment	04	6
Activities of other micro-finance institutions	04	6
Low interest rate for savings	18	26
Do not implement proper and systematic evaluation system for officers	32	46
Problems related to facilities of the staff	46	67
Problems related to receiving circulars	14	20
Physical environment of the bank	15	22
Dependency mentality of the people	4	6
Problems related to subsidy	23	33
Problems related to rules and regulations	8	12
Do not use modern technology	16	23
Lack of inter-banks transfers for officers	2	3
Marketing problems of beneficiaries	7	10
Problems related to political interest	5	7
Management weakness	5	7
Lack of media publicity	5	7
Non-availability of pawn system	2	3
Security problems	4	6
Maximum amount of loan is not enough	28	41

Source: Field survey, 2013

The weaknesses and problems presented by the respondents can be divided into five broader categories viz, problems/weaknesses related to service delivery, problems with policy formulation and implementation, problems with infrastructure facilities, personal and management weaknesses. Though these problems and weaknesses are divided into broader categories, these are inter related and consequently result in inefficiencies and ineffectiveness of service delivery.

5.3 Problems Related to Policy Formulation and Implementation

Under the problems of policy formulation and implementation, customers mentioned number of issues such as not giving educational loans (2.3 percent), need to maintain high proportion in group and share accounts¹¹ (5.7 percent), insufficient loan amount for their needs (2.9 percent), low Samurdhi subsidy allowance compared with present cost of living (19.7 percent), non provisions of scholarships for the children of account holders (0.2 percent), deduction of the loan installment from group/member accounts without informing the customers (1.2 percent) and strict conditions to release the loans (2.0 percent).

¹¹ bank balance of 25 percent or more of the applied loan amount at group account and 1/10th the loan value need to maintain in share account.

As mentioned by the officers, problems or weaknesses related to policy formulation and implementation consisted of low interest rates for savings (26 percent), problems related to rules and regulations such as account balance of 25 percent or more of the applied loan amount in group account and need to maintain 10 percent of the loan value in member account (share capital), insufficiency of the maximum loan amount (41 percent), non-implementation of pawn loan system (3 percent), security problems of the bank and bank staff (6 percent), problems related to staff (67 percent) such as both bank staff and field staff getting same salary and benefits, not having facility to get bank loans from the Samurdhi Banks for the officers, non-provision of office allowance for field staff and non provision of acting allowance.

5.3.1 Problems with Account Balance

The proportion of the account balance to be maintained to obtain loan is high. For example, if, somebody applies for LKR 500,000 amount of loan s/he must have shares worth in LKR 50,000 in her/his member account and LKR 125,000 of amount in a group account. According to respondents' view maintaining a such balance in an account is impracticable. Though, it is a difficult task to fulfill, based on the personal needs and amount of deposit is comparatively less, borrower can invest on shares. Since amount of money to maintain in group account is comparatively high, most of the groups do not have enough balance. Most probably single person a borrower has to be deposited required amount of money (gap between availability and requirement of balance) in group account. Therefore, most of the respondents mentioned this as an issue. Specially when loan amount is high, customers face such a problem.

5.3.2 Problems with Maximum Loan Amount

In most occasions, maximum loan amount is not enough to fulfill customers' need. Though the Samurdhi Authority of Sri Lanka has given instructions to *Samurdhi Maha Sangam* to issue LKR 500,000 as the maximum loan amount and banks to issue LKR 250,000 as the maximum loan amount. However, great majority of the banks did not implement it. However, except a few banks in the sample, customers are not aware of such a decision. As mentioned by some of the Managers, though there is high demand for loans of LKR 250,000 or onward they do not issue such amounts aiming to minimize the bank risk and to invest the money as a strategy to increase bank profit and to reduce the risk. Furthermore, though the Samurdhi Authority has given instructions to issue loans upto LKR 500,000, borrower has to give a deed as collateral. According to officers, as the cost for the deed transfer is high, borrowers are not willing to borrow such amount of money. Furthermore, if borrowers do not have deeds, even if they use land under permit from the government they can not apply for such amount because, land permit is not considered as a valid legal document for collateral.

In addition, as explained in chapter two, the maximum loan amount and interest rate differ by loan scheme. For example, maximum loan amount of *Viduli Athwela* credit

scheme is LKR. 30,000/= with 12 percent of annual interest rate and need to be recovered in 60 months. The maximum loan amount of *Mihi Jaya* credit scheme is LKR 100,00/= and for cultivation and fisheries maximum loan amount range from LKR 25,000/= to LKR 75,000/= with the 8 percent annual interest rate for the Samurdhi Beneficiaries and 10 percent for low income earners (Samurdhi Authority of Sri Lanka, 2011). As revealed by the respondents, it is not proper to use blanket approach for decisions regarding loan scheme such as maximum amount as well as interest rate islandwide. Because, necessity differs by region to region. For example, the customers in agricultural areas need more money for cultivation purposes rather than other self employment activities. Since these type of policy decisions had been taken using blanket approaches, customers are unable to fulfill their requirements, though the Samurdhi Bank has been established for the poor.

Furthermore, the issuing of the maximum loan amount depends upon number of factors such as financial stability of the bank, personal characteristics of the manager, loan history of the customer as well as group and availability of assets. With the influence of those factors, the maximum loan amount as well as the amount of loan issued without collateral varied from bank to bank. As given in the Table 5.3, maximum loan amount issued without collateral was LKR 250,000 in the Batticaloa district while the amount released without collateral was LKR 100,000 for sampled banks. The maximum loan amount issued without collateral varied from LKR 25,000-LKR 75,000 in the Kalutara district, it was LKR 95,000-LKR 250,000 in the Batticaloa district, LKR 20,000-LKR 50,000 in the Anuradhapura district, LKR 25,000-LKR 80,000 in the Monaragala district, LKR 25,000-LKR 100,000 in the Kurunegala district, LKR 29,000-LKR 100,000 in the Ratnapura district and LKR 49,000-LKR 50,000 in the Vavuniya district. The important thing is that all over the Jaffna district loans are issued upto LKR 100,000 without collateral while loans of around LKR 50,000 are issued in Vavuniya district without collateral.

Table 5.3: Loan Amounts Issued Without Collateral

District	Loan Amount Issued Without Collateral				
	Mean	Maximum	Minimum	Median	Mode
Kalutara	51,667	75,000	25,000	50,000	50,000
Batticaloa	136,250	250,000	95,000	100,000	100,000
Anuradhapura	33,889	50,000	20,000	25,000	25,000
Monaragala	38,500	80,000	24,000	25,000	25,000
Kurunegala	71,650	100,000	25,000	100,000	100,000
Ratnapura	53,500	100,000	29,000	50,000	50,000
Vavuniya	49,750	50,000	49,000	50,000	50,000
Jaffna	100,000	100,000	100,000	100,000	100,000
Total	65,062	250,000	20,000	50,000	100,000

Source: Field survey, 2013

Further, different types of assets are kept as collateral and mostly it depends upon type of loan, personal will of the Manager and sometimes on Head Quarter Manager

rather than common law of the authority. Eighty nine percent of the sampled banks obtained deeds as collateral while 46 percent of the banks accepted vehicle licenses as collateral (Table 5.4). Officers in a bank in the Anuradhapura district mentioned that they kept gold item as collateral for the loan.

Though bank took some kind of assets/document as collateral, as revealed by bank staff of the sampled survey, those do not have legal validity. Because, the ownership of the property/assets were not transferred to the bank but bank Manager just takes it as collateral and kept it in a secure place.

Table 5.4: Type of Collateral by Districts

District	Type of Assets (Percentage)			
	Deed	Vehicle License	Gold Items	Account Balance
Kalutara	80	40	0	10
Batticaloa	100	100	0	0
Anuradhapura	90	80	10	0
Monaragala	100	75	0	0
Kurunegala	93	27	0	0
Rathnapura	78	44	0	11
Vavuniya	100	0	0	0
Jaffna	100	50	0	0
Total	89	46	2	4

Note: Since same bank used alternative assets as collateral, the percentages are not equal to 100 percent.

Source: Field survey, 2013

5.3.3 Pawning System

Non-availability of pawn loan system is one of the weaknesses of the banks specially in agricultural and fisheries areas. Since, most of the customers do not have other assets such as land deed or vehicle license they borrow loans from other banks or from informal credit suppliers by pawning their gold items with high interest rates. This situation can be specially observed in agricultural areas and among fishing communities. Though implementation of the pawning system is difficult, it is worthwhile to introduce it in possible areas such as agricultural areas.

5.3.4 Samurdhi Subsidiary Allowance

According to customers' point of view, Samurdhi allowance is not enough to fulfill basic needs of the family when compared with the current cost of living. There were 1,513,613 families getting Samurdhi subsidy as at end of December 2012

(www.samudhi.gov.lk)¹². Table 5.5 presents the total number of Samurdhi recipients in surveyed districts. However, the Government of Sri Lanka has spent LKR 10,553 million on the income supplementary programme in 2012 (Central Bank of Sri Lanka, 2012). The increase of Samurdhi subsidiary allowance may not be possible for all recipients.

Table 5.5: Total Number of Samurdhi Recipients by Districts (As at December 2012)

District	Total Number of Beneficiaries
Kalutara	66,441
Batticaloa	84,924
Anuradhapura	66,461
Monaragala	49,148
Kurunegala	151,013
Rathnapura	114,556
Vavuniya	12,377
Jaffna	54,091

Source: www.samurdhi.gov.lk

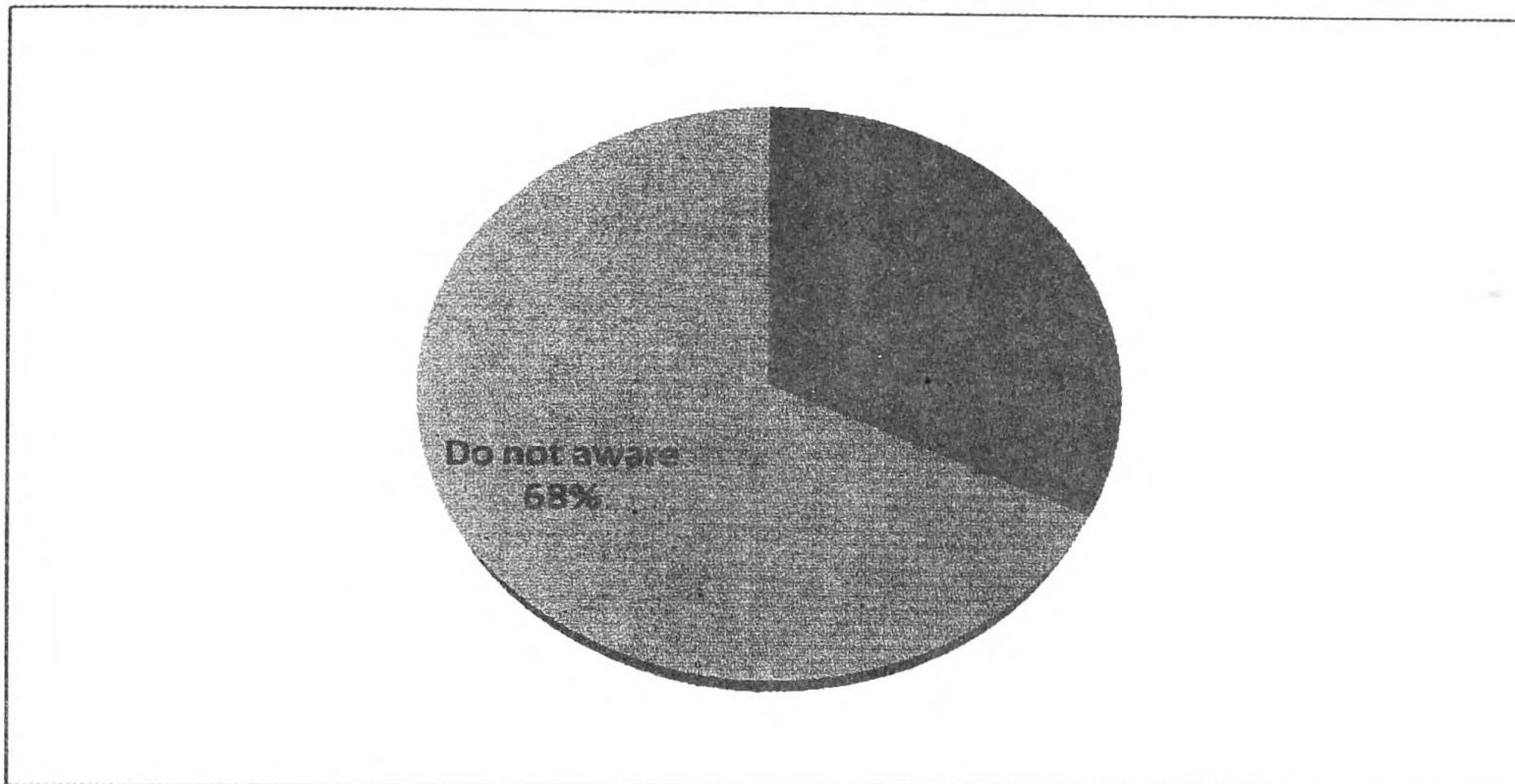
Delays of releasing subsidy allowances and not receiving correct guidance for some concessionary loan schemes are another weakness of the banks. Officers also mentioned problems related to the subsidy (33 percent) such as delay of receiving subsidy allowances, insufficiency when compared with the present cost of living and not receiving correct guidance for some concessionary loan schemes. The research team observed that, Samurdhi beneficiaries visited banks to withdraw their monthly subsidy but going back empty handed, because, Samurdhi Banks did not receive the subsidy allowances for several months. Especially, most of the banks in the Anuradhapura district faced these difficulties. According to beneficiaries, some of them did not receive the allowances for six months. Kebithigollewa area in the Anuradhapura district is an example.

5.3.5 Educational Needs of Customers' Children

The Samurdhi Authority of Sri Lanka provides scholarships for children of the beneficiary families who achieve higher performance at the G.C.E.O/L examination at Divisional Secretariat Divisions. However, it does not cover all customers' children and all children who passed G.C.E.O/L examination. Therefore, some of the customers mentioned non-availability of scholarships for children as a weakness of the banks. According to officials in the sample, the number of scholarships is not enough and it is needed to increase the number for the DSDs.

¹² The figures are presented in some different way in Central Bank Annual Report, 2012. Accordingly the total number of families covered by income supplementary programme of the Samurdhi Authority was 1,549, 107

Figure 5.1: Customers' Awareness of Interest Rate for Savings



Source: Field survey, 2013

Though some of the respondents mentioned that the low interest rate is one of the weaknesses of the bank unions, the interest rate is satisfactory when compared with the current situation and interest rate of the other banks. Specially interest rate for the Children's accounts (*Sisuraka* and *Kekulu*) are at a satisfactory level. On the other hand, though interest rate for compulsory accounts has gradually declined over the years (from 17.75 in 2001 to 7.1 in 2011) it has slightly increased in 2012 and is at a satisfactory level giving 8.5 percent of the interest.

5.3.8 Gifts for Promotions

The customers were not satisfied with promotion gift given by the Samurdhi Banks. Poor value of gifts provided for savings promotion programmes compared with other banks was one of the revealed weaknesses at the focus group discussions. Each and every year, the Samurdhi Authority of Sri Lanka prepares savings promotion programme for the year such as World Womens' Day, Sinhala and Hindu New Year Day, World Children's Day, Christmas Day and *Thaiponagal* Day with or without gifts. Though Sinhala/Hindu New Year savings promotions and World Women's Day promotion are implemented with gifts, customers were not satisfied with those gifts. Furthermore, officers were also not satisfied with the gift system, because they have to limit gifts for the small budget. Therefore, according to them, they are unable to compete with other banks.

5.3.9 Poor Targeting

One of the major weaknesses of the programme is poor targeting. This weakness has been raised by many researchers over the years. Since all benefits of the programme as well as banks also depend on targeting, this is a crucial factor for the bank performance as well as social justice. As the Samurdhi Authority of Sri Lanka did not

do a survey regarding beneficiaries recently, they can not include even very poor people for the programme or exclude wealthier people from the programme due to practical problems. This was proved by survey results. As given in the Table 5.6, only 7 percent of sample families (including both beneficiaries and non-beneficiaries) get less than LKR 1,500 which was considered as income level for Samurdhi beneficiaries. If, less than LKR 1,500 per month is considered as family income for selection criteria of beneficiaries. Only eight percent of the present Samurdhi beneficiaries are eligible for the subsidy (Table 5.6).

Table 5.6: Sample by Monthly Family Income (LKR)

Level of Income (LKR)	Percentage		
	Samurdhi Beneficiaries (N=383)	Non-Beneficiaries (N=95)	Total (N=478)
Less than 1,500	7.8	3.2	6.9
1,500-5,000	11.1	7.4	10.3
5000-10,000	17.8	10.5	16.3
10,000-15,000	22.2	15.8	20.9
15,000-25,000	21.1	24.2	21.8
More than 25,000	20.1	38.9	23.8
Total	100.0	100.0	100.0

Source: Field survey, 2013

5.3.10 Targets Given to Officers

As many of the officials mentioned, some of the programmes or given targets were difficult to be achieved or implemented at ground level. For example, though, the Samurdhi Authority of Sri Lanka has introduced a savings scheme for students namely *Sisuraka*, it is very difficult to implement it at ground level. Commercial and state banks have been implementing number of such type of savings programmes by offering more benefits to the customers. Furthermore, most of these banks appointed a teacher as their agent and give some benefits to him/her. As mentioned by the SDOs, sometimes school authority did not allow them to enter the school for such type of promotion. On the other hand, since students come from different areas, it is difficult to collect money from them for accounts.

5.4 Problems Related to Service Delivery

As the research team observed, many of the officers were closely related with beneficiaries and this caused efficient and effective service delivery as well as achieving the authority's objectives smoothly. However, some of the customers faced difficulties getting services from the bank or field staff. These difficulties included inability of the field staff to provide services efficiently and effectively (12 percent), not depositing loan installment given by customers by some field officers

(2.1 percent), delay in the issuing of loans (0.8 percent) and provision of Samurdhi subsidy on time (0.4 percent).

5.4.1 Circulars

Not receiving or delay in receiving some circulars is another weakness related to Samurdhi Banks. The officials mentioned problems related to circulars (20 percent) such as not receiving some of the circulars and difficulty in implementation of some circulars at ground level. The later problem is mostly related to divisional or district level management weaknesses. As the research team identified, some times these circulars were not sent to the Samurdhi Bank from the divisional head quarters, even though, two buildings were separated from a wall. Therefore, bank staff faced difficulties to provide systematic and efficient service to the customers.

5.4.2 Delays in Releasing the Loan

It was noted that releasing of loan was delayed in some areas. Around 17 percent of the customers (70 persons) mentioned that releasing of loan was delayed. The period of delay varied from one week to eight weeks. Number of reasons has influenced this situation. Among them, the highest percentage (45.7 percent) of the customers mentioned delay of the Control Board Meeting (*Palaka mandala*) as a reason. The other reasons are, members of the small groups not signing on time (28.6 percent), submission of incomplete applications (15.7 percent), unable to fulfill the conditions (4.3 percent), do not have collateral (4.3 percent) and not meeting SDO on time (1.4 percent).

Officers also mentioned number of reasons for the delay. First, though the Samurdhi Bank Control Board (*Paalaka Mandalaya*) should hold two meetings per month, with the aim of reducing the expenditure of the bank as well as considering availability of the number of loan applications the meetings were limited to once a month. Fifty eight percent (40) of the officers mentioned that the meetings were held twice a month while 39 percent (27) mentioned that meeting were held once a month. Three percent of the officers mentioned that it depended upon the availability of the number of loan applications. Second, issuing of loans were delayed due to problems related to customers such as members of the small group not willing to sign as guarantors for the loan even after getting approval from the Samurdhi Bank Control Board, group account having not sufficient amount of money to get approval, group members with bad debt, temporary holding of the loan due to bad debt in Samurdhi village society or division and group consisting of inactive members. Though, some of the applied loans were delayed in releasing due to above mentioned problems, great majority of the loans were released somehow as shown in the Table 5.7.

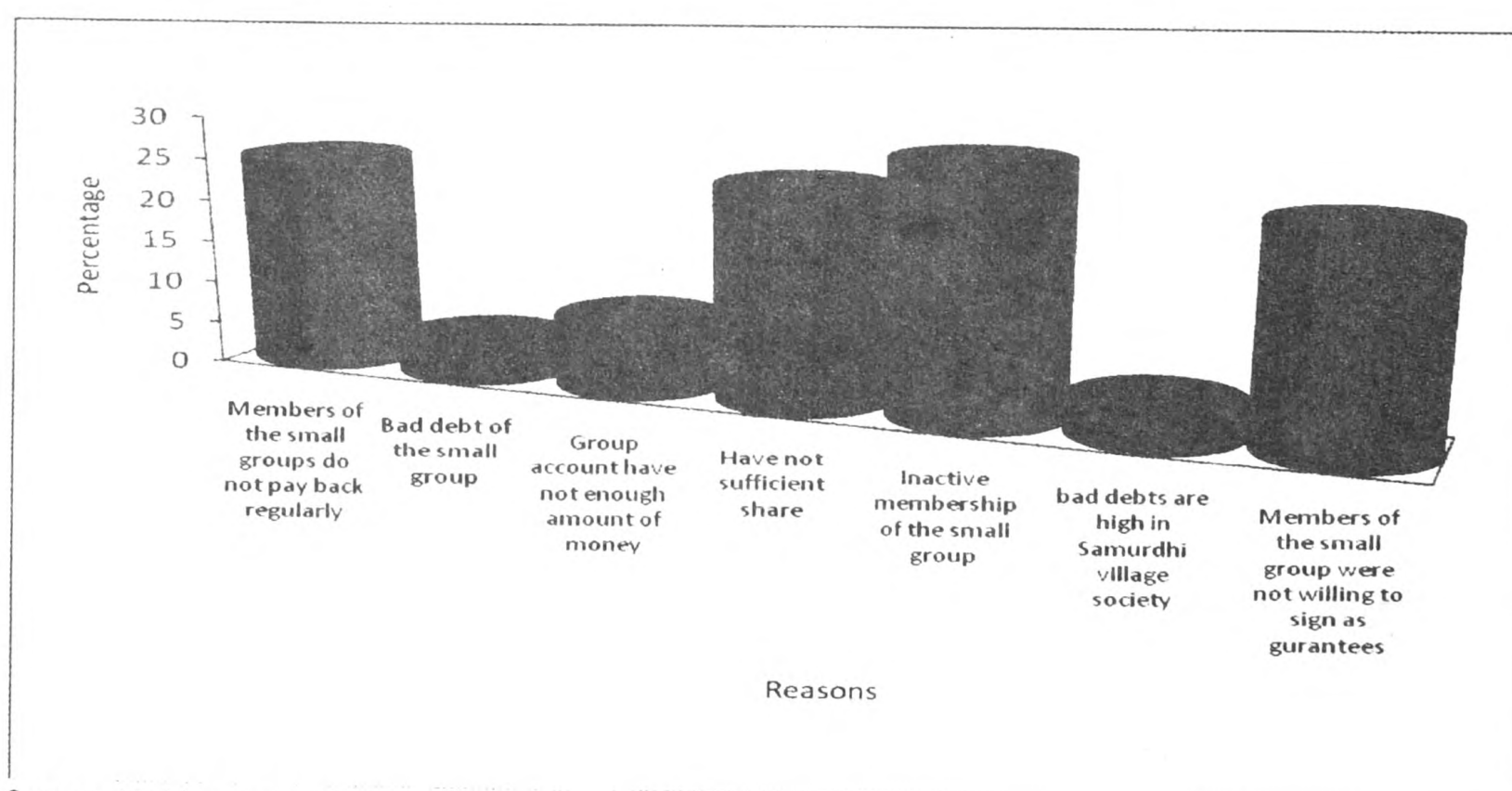
Table 5.7: Average Number of Loans Applied and Released by Districts per Month

District	Maximum Number of Loans		Minimum Number of Loans	
	Applied	Issued	Applied	Issued
Kalutara	54	50	14	12
Batticaloa	41	41	16	16
Anuradhapura	92	86	21	21
Monaragala	27	27	15	14
Kurunegala	80	78	12	11
Rathnapura	45	36	20	20
Vavuniya	22	22	8	8
Jaffna	42	40	14	12
Total average	61	59	15	14

Source: Field survey, 2013

An average of the maximum loans applied per month was 61 in the total sample while maximum number of loans differed from 22 in the Monaragala district to 92 in the Anuradhapura district per month (Table 5.7). There were differences between the number of applied and released loans in Kalutara, Anuradhapura, Kurunegala, Rathnapura, and Jaffna. The officers mentioned a number of reasons for differences and they are given in Figure 5.2. The highest percentage indicated inactive membership as a reason for not releasing the loans.

Figure 5.2: Reasons for Delayed Release of the Loans (Given by Officers)

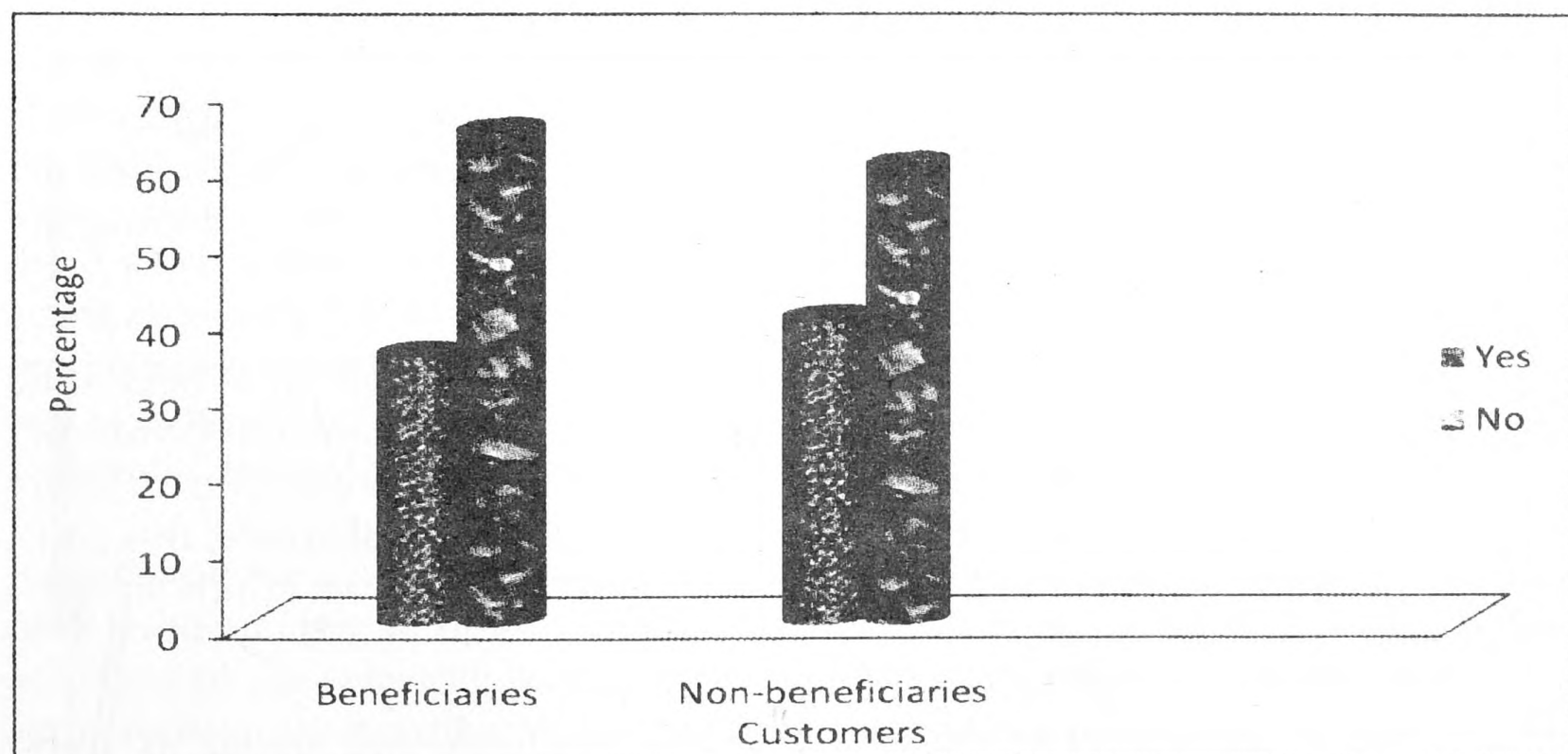


Source: Field survey, 2013

5.5 Problems Related to Infrastructure Facilities of the Banks

Lack of information on bank programmes, insufficiency of enough spaces and storage facilities, reluctance to apply modern technology are the weaknesses related to infrastructure facilities. Four different problems were given by the customers related to infrastructure viz, bank does not have enough space (2.1 percent), banking system was not computerized yet (0.8 percent) and it causes delays in the services, internal and external environment is not attractive (3.3 percent) and lack of information on programmes launched by the banks, its benefits and conditions (15.5 percent). As indicated in Table 5.1, of this category the highest percentage of the customers mentioned the lack of information as one of the problems which they faced. It consisted of 13.8 percent (53) of the beneficiaries and 22.3 percent (21) of non-beneficiaries. This was confirmed by answers to the question on awareness of annual interest rate for customers' savings. Of the total sample, 63.2 percent (302) answered that they were not aware of annual interest rate for their savings exactly. As depicted by Figure 5.3, around 1/3 of customers were aware of interest rate for the savings. But, great majority of them were not aware of profit share which they received.

Figure 5.3: Awareness of Interest Rate for Savings



Source: Field survey, 2013

At focus group discussions with SDOs, most of them stated problems related to infrastructure such as insufficiency of inner spaces and not having enough steel cupboards or almirahs to protect their documents. As described by Samurdhi Bank Manager and SDOs in Kathnoruwa Samurdhi Bank in Ehatuwewa DSD in the Kurunegala district, their bank was flooded when heavy rains occurred in the area, because bank building was built at low level land when compared to the main road. Furthermore, some of the banks faced threat of termites (*veya*). Thus, bank staff needs to do a struggle to protect their documents. Though, these are minor matters

which can be solved at bank level, in the divisional or district level such problems remain unresolved. On the other hand, some of the customers as well as SDOs mentioned that bank can provide more customer friendly service by providing some facilities for customers such as maintaining a water filter for their use. But, banks do not provide such facilities even if they can do so.

At the focus group discussions, some of the officers mentioned that they did not follow modern technology such as computerized data base and ATM card system. Introducing the ATM card system is not a cost effective way at this stage for all banks, but it will be suitable for banks with profit. On the other hand, in the field survey, research team observed that some of the banks provided their services using computerized data base and that some of the banks were engaged in computerizing their data base at that moment. The Udawalawa Bank in the Ratnapura district is a good example.

5.6 Management Weaknesses

Lack of co-ordination among tiers below the district, non-implementation of suitable, proper and closer monitoring and evaluation system for officers, blanket approach for decision making, lack of inter-bank transfers, delay in filling vacancies, non availability of acting allowances and office room/office allowances for field level officers are some of weaknesses related to management. The customers raised only few issues related to management weaknesses. First, some of the customers, mentioned that since SDOs are not supervised and evaluated properly it is difficult to get expected services from some of the officers. As mentioned by the villagers of Track 5, in Ulukkulama, Vavuniya district, even they couldn't get any information from their former SDO, because that officer visited field rarely.

At the divisional level the Divisional Secretary is the person who held the responsibilities of the Assistant Samurdhi Commissioner. Therefore, the Divisional Secretary has many responsibilities including co-ordination between district level and grass root level. But, due to their heavy workload and busy schedule, this part seems to have been neglected. As a result, many issues have arisen in the programme.

Though the Samurdhi programme expected SDOs perform their duties as own community members rather than officers, some SDOs act in a totally different way showing bureaucratic characteristics rather than being community members. Such types need to be closely supervised and remedied case by case with the understanding of real situation of both parties; client and officer. Therefore, all island blanket approach should not be matched for such type of problems. Further, some of the customers complained that though they give loan installment to the SDO at field level, he/she did not deposit it on time. Therefore, they had to pay additional amount of money at the next installment. In addition, customers as well as bank staff reported that officers misuse the bank funds or got loans from the bank by misusing information of the customers on few occasions. Though, this type of

incident is reported rarely, customers as well as other staff of the bank suffer from such incidents even after many years.

As presented in Table 5.2, officers in the sample mentioned number of issues related to management weaknesses. Accordingly, non-availability of proper and systematic evaluation system for the officers is one of the issues related to the management weaknesses (26 percent). At the focus group discussions, they revealed that though most of them achieve their given targets, they get only certificates from the Divisional Secretariat. On the other hand, most of them mentioned that no body take action against officers who couldn't achieve the targets even if they failed again and again to achieve their targets. When considering their grievances on evaluation system, it can be concluded that officers are not satisfied with the present evaluation and reward system. Therefore, they expect new performance evaluation system.

In addition to the above, they stated few other issues related to management. These issues were lack of modern technology including computer based banking system (23 percent), not providing security system for the bank as well as officers (6 percent), lack of inter-bank transfers for officers (3 percent), unattractive physical environment of the bank (22 percent) and problems related to facilities of the staff (67 percent).

The problems related to facilities of the staff consisted issues such as not providing training recently (18.8 percent), heavy work load of field staff (23.2 percent), not providing loans for the staff-both for bank and field staff by the bank (27.5 percent), same salary scale for field officers and bank staff (7.2 percent), equal portion of profit share distribution among bank staff and field staff (2.9 percent), not providing acting allowance for the field staff (7.2 percent), the recruitment process of the SDOs not being systematic (7.2 percent), not taking action to fill vacancies (7.2 percent) and both bank Managers and Head Quarter Managers are placed in the same salary scale and same position with same qualifications (14.5 percent).

Highest number of officers mentioned that they do not get loan facilities from the bank even though all other banks have such facilities for their staff. However, according to the Samurdhi Authority Act No 30 of 1995, there is no any provision for such facilities. On the other hand they have three loan schemes viz consumer credit programme, housing loan scheme and motor cycle loan scheme. Under the consumer credit programme, maximum LKR 100,000/= is issued at 9 percent annual interest rate within 60 months recovery period. The Housing loan scheme was implemented from 2004 for the permanent staff of the Authority. Under this scheme, officers can borrow up to LKR 500,000/= with 10 percent interest rate. LKR 762 million for 1,838 staff members were released under this programme as at 31st December 2011 (Samurdhi Authority of Sri Lanka, 2011). The motor cycle loan scheme was introduced in 2004, with the maximum amount as LKR 100,000/= at 10 percent annual interest rate. However, great majority of the officers mentioned that

getting such loans in time is very difficult for them. Therefore, they request another loan programme from banks.

5.7 Personal Weaknesses

Under this category, the offices mentioned issues such dependency mentality of the people (6 percent), difficulty of recovering loan installments (6 percent) and issues emerging due to political interest of the beneficiaries (7 percent).

5.7.1 Recovery Rates and Delays in Paying Back

As given by data in the Annual Report of the Samurdhi Authority of Sri Lanka (2011), recovery rate was 111.9 percent and bad debt rate was 5.51 percent. According to customers, 77.9 percent (324) of them paid back installments without any difficulty. This ratio differ from 22.2 (8) percent in the Batticaloa district to 96.1 percent (49) in the Ratnapura district.

As revealed by the survey, mode of recovery rate for the total sample was 95 percent while maximum recovery rate was 150 percent. The recovery rates for the sample differ from 60 percent to 150 percent. Both minimum and maximum recovery rates recorded in the Anuradhapura district. The Survey results for recovery rates by districts are presented in Table 5.8.

Table 5.8: Recovery Rates by District

District	Recovery Rates			
	Mean	Maximum	Minimum	Mode
Kalutara	97	117	85	100
Batticaloa	104	140	70	70
Anuradhapura	97	150	60	90
Monaragala	94	113	80	80
Kurunegala	96	112	70	97
Ratnapura	92	100	75	95
Vavuniya	98	103	95	95
Jaffna	91	99	75	98
Total	96	150	60	95

Source: Field survey, 2013

According to the sample survey, mean value of the number of delayed paying back was 32.1 while it differed from 4.7 in the Kalutara district to 77 in the Monaragala district. The data on delayed paying back installments by districts is presented in Table 5.9.

Table 5.9: Number of Borrowers who Delayed Paying Back

District	Number of Loans Delayed to Pay Back				
	Mean	Maximum	Minimum	Median	Mode
Kalutara	4.7	5.0	4.0	5.0	5.0
Batticaloa	41.0	109.0	8.0	23.5	8.0
Anuradhapura	42.0	55.0	23.0	50.0	55.0
Monaragala	77.0	151.0	6.0	74.0	6.0
Kurunegala	32.7	81.0	3.0	25.0	20.0
Ratnapura	3.5	6.0	1.0	3.5	1.0
Vavuniya	31.5	114.0	2.0	5.0	5.0
Jaffna	15.0	49.0	2.0	10.0	2.0
Total	32.1	151.0	1.0	20.0	5.0

Source: Field survey, 2013

Data in the Table 5.10 presents approximate value of delayed paying back of installments. Accordingly, the value differed from LKR 0.20 million in the Jaffna and Ratnapura districts to LKR 24 million in the Batticaloa district.

Table 5.10: Approximate Value of Delayed Pay Back of Installments (LKR Million)

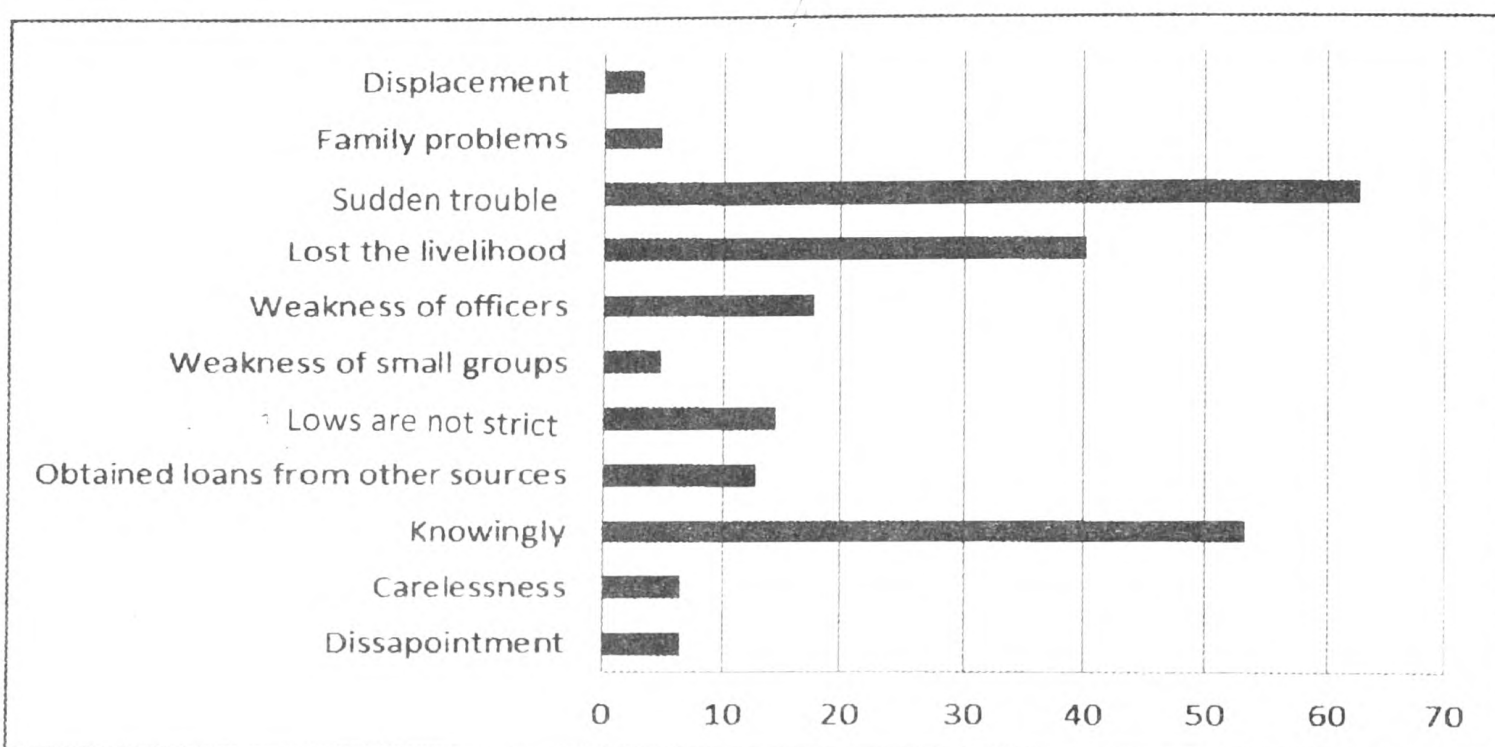
District	Approximately Value (LKR million)				
	Mean	Maximum	Minimum	Median	Mode
Kalutara	2.2	4.2	0.4	2.0	0.4
Batticaloa	8.0	24.0	1.0	3.6	1.0
Anuradhapura	9.5	20.0	3.0	9.8	3.0
Monaragala	6.7	12.0	1.8	6.2	1.8
Kurunegala	3.6	10.0	1.0	2.5	2.0
Ratnapura	0.7	1.3	0.2	0.7	0.2
Vavuniya	2.9	9.0	0.5	1.0	1.0
Jaffna	3.7	9.3	0.2	2.2	0.2
Total	5.1	24.0	0.2	3.0	1.0

Source: Field survey, 2013

The unforeseen problems, loss of livelihood, failure of managing family budget, increase of loan from other sources and family disputes are the most influencing factors for delayed paying. The officers mentioned number of reasons for delayed paying and they are depicted in Figure 5.4. Among them, the highest percentage (62.9 percent) mentioned that customers do not pay back due to sudden difficulties while 53.2 percent mentioned that they do not pay purposely. Around 40 percent of the officers mentioned that customers were unable to pay back due to loss of their livelihood. This is so specially in agricultural areas and fishing areas. On the other hand, family disputes had caused high percentage delayed payments backed in the Kurunegala, Monaragala and Anuradhapura districts.

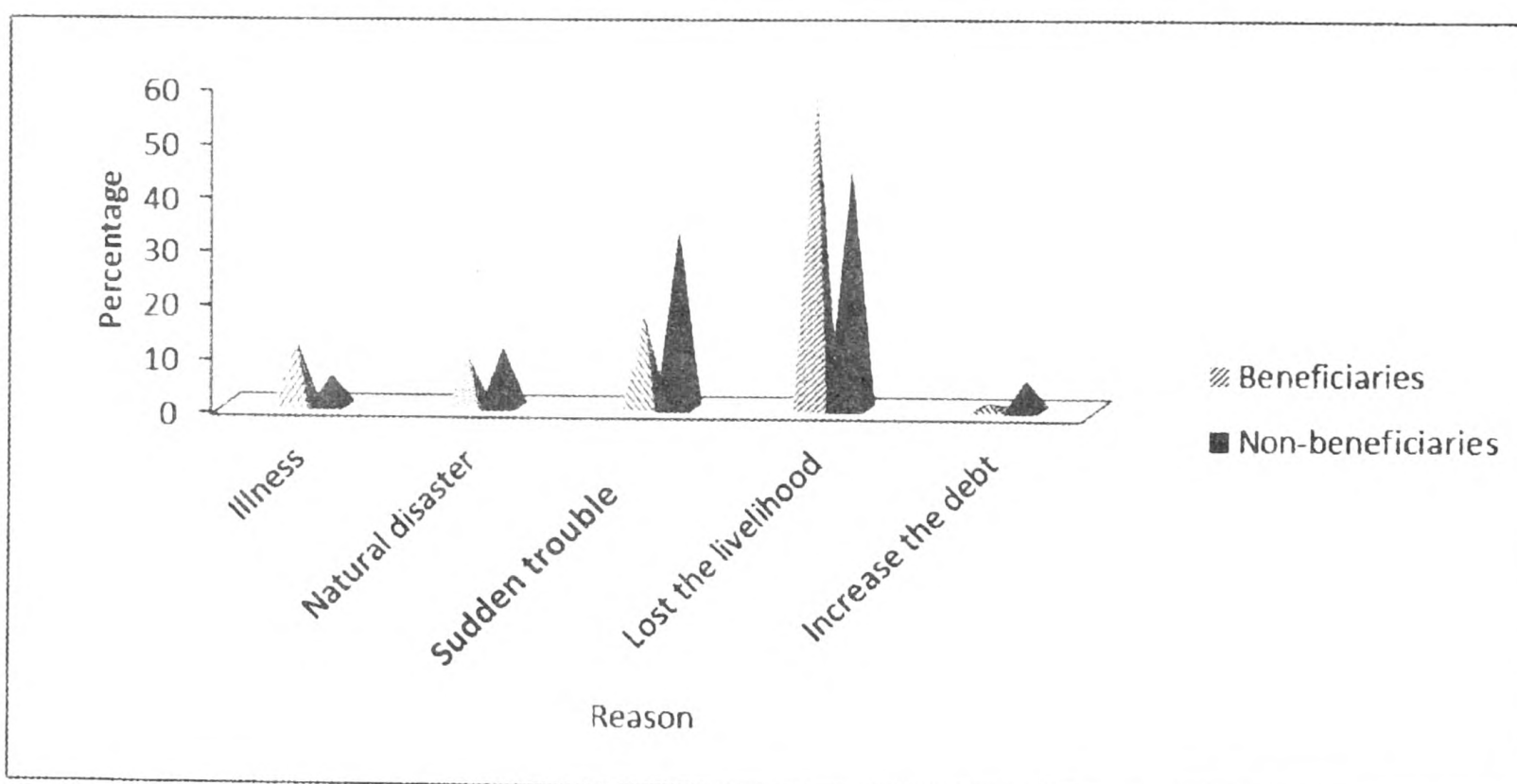
Of the total sample, 69 percent had borrowed money from the Samurdhi Bank and of them 28.4 percent (92) did not pay back on time. This included 28.9 percent (74) of the Samurdhi beneficiaries and 26.5 percent (18) of non-beneficiaries who borrowed money from the bank. Of them, majority mentioned unforeseen problems as reasons for the delayed pay back (Figure 5.4).

Figure 5.4: Reasons for Delayed Pay Back (Given by Officers)



Source: Field survey, 2013

Figure 5.5: Reasons for Delayed Pay Back (Given by Customers)



Source: Field survey, 2013

Both officers and customers mentioned that increase of loan from other sources as one of the reasons for delayed pay back or bad debts. Of the total customers, 65.7 percent (314) borrowed money from other sources. The figure varied from 5.6 percent (2) in the Batticaloa district to 93.4 percent (57) in the Anuradhapura

district. Of the customers who borrowed money from other sources, 82.2 percent (259) borrowed from death donation societies. The rest of the sources are elders' societies (3.8 percent), village development societies (2.5 percent), welfare societies (1.6 percent) retail shops (9.2 percent), village money lenders (9.5 percent), relations (7 percent) and Housing Development Authority (0.3 percent).

Regarding formal micro-finance sources; of the total sample 12 percent (57) mentioned that they dealt with other micro-finance institutions. This includes 10.4 percent (40) of beneficiaries and 17.9 percent (17) of non-beneficiaries. According to field observations and key informant discussions with village leaders of the Samurdhi programme and officers, the actual figure is higher than that. However, as revealed by the questionnaire survey, highest percentage of customers who dealt with other micro-finance institutes were reported from the Monaragala district (24.3 percent) and next in the Kurunegala district (14.5 percent).

5.7.2 Dependency Mentality

Though beneficiaries get rid of poverty, most of them do not like to give up the Samurdhi subsidy allowance. This is not only for money, but also for other benefits such as social insurance scheme, subsidiary price for new electricity and water supply connection, scholarships for grade five scholarship examinations and *Mahapola* scholarship for undergraduate etc. This factor is proved by many officers at the focus group discussions.

Table 5.11: Reasons for Returning the Samurdhi Allowance

Reason	Number of Persons	Percentage of Returned the Beneficiaries (N=61)
Family members gained permanent jobs in public/private sector	30	49.2
Started business/industry	27	44.2
Improvement of income	10	16.3
Due to getting married	2	3.3
Not attending meetings	8	13.1
Couldn't pay back loan	1	1.6
Attached to another programme implemented for elders	1	1.6
Mistreatment of SDO	2	3.3

Note: the percentage is not equal to 100 because same respondents giving multiple answers

Source: Field survey, 2013

Of the total customers, 12.8 percent (61) were former beneficiaries of the Samurdhi programme. Of them, 60.6 percent (37) mentioned that they had handed over their

Samurdhi allowance back due to improvement of their income level. Others had moved away from benefits due to different reasons.

5.7.3 Political Interest

As mentioned by the officers, political affiliation of beneficiaries created many difficulties for officers. For example, recovery rate of the loans were low in studied banks in the Monaragala district. This is because, banks had to issue the loan moving away from their normal procedures, but according to political patronage or interest of the politicians and beneficiaries.

5.8 Conclusion

Of the total customers, 50 percent mentioned that they do not have specific problems related to service delivery by the Samurdhi Banks. Others mentioned number of issues such as not receiving the Samurdhi subsidy allowance on time after issuing from bank, inefficient and ineffective service of field level SDOs, lack of information and publicity for programmes launched by the Banks and insufficient maximum loan amount. Officers mainly raised problems related to their facilities such as non-availability of loan scheme through the Samurdhi Banks for Samurdhi Officers and Managers, non-provision of acting allowances and office allowances for SDOs and not giving same profit share for bank and field staff. Further, they mentioned that insufficiency of maximum loan amount, problems related to subsidy such as not receiving allowance on time, not enough allowance compared with the present cost of living and incorrect targeting, banks not using modern technology, not implementing proper evaluation system for officers and problems related to small groups as their problems related to service delivery.

CHAPTER SIX

Suggestions of Respondents for Better Service Delivery

6.1 Introduction

Both the customers and officers forwarded number of suggestions as remedies for weaknesses of the Samurdhi Banks which they identified through their own experiences. This chapter presents and discusses those suggestions.

6.2 The Customers' Suggestions

Around half the customers had no any idea towards improvement of the service delivery. The customers have forwarded number of suggestions to improve the service delivery system of the Samurdhi banks (Table 6.1). Around 18 percent (89) of the customers suggested increasing Samurdhi subsidy amount while 15 percent (71) suggested giving more publicity on services provided by Samurdhi Banks. The Samurdhi Authority of Sri Lanka has already implemented the suggestion for giving electronic media publicity for its programmes. Nine percent of the customers have suggested to implement performance evaluation for SDOs monthly. According to the Action Plan of Banking and Finance Division of the Samurdhi Authority of Sri Lanka (2013), the responsibilities of preparation, monitoring and evaluation of Bank Unions are decentralized from national level to grass root level. Their schedule is presented in Table 6.2. According to the schedule, bank Manager and Chairperson of the Control Board need to monitor and evaluate performance of Bank societies twice a month. This is mostly related to performance of Samurdhi Banks and it does not pay much attention to efficiency or effectiveness of work done by SDOs or effectiveness of relationship of SDOs with beneficiaries of the programme. In addition, there are some opportunities to supervise works of the SDOs at the weekly meetings as well as monthly meetings by the Samurdhi Manager and Divisional Secretary. However, this is not functioning well due to busy schedules of the relevant officials.

Table 6.1: Suggestions Towards Improvement of the Service Delivery System

Suggestion	Number of Customers	Customers (N=478) (%)
Take legal action against SDOs who do not deposit collected money at field level, in time	08	1.7
Conduct performance evaluation on monthly basis for SDOs.	43	9.0
Increase amount of Samurdhi subsidy	89	18.6
Introduce loan scheme for education/higher education	12	2.5
Give more publicity to Samurdhi Banks' services/programmes	71	14.9
Take legal action against bad debts and non performing loans	23	4.9
Reduce the initial deposit rates for borrowing loans.	29	6.1
Apply easy conditions	06	1.3
No any suggestions	236	49.4
Inform the group members before deducting money from small group account	06	1.3
Increase the maximum loan amount	05	1.0
Modernize the bank building	01	0.2
Provide speed loans	04	0.8
Introduce a scholarship programme for account holders' children	01	0.2
Provide attractive gifts for savings	01	0.2
Computerize the banking system	01	0.2

Note: Since respondents have given multi responses, total percentage is not equal to 100 percent
Source: Field survey, 2013

The customers suggested further actions towards improvement of the Samurdhi Banks and their service delivery such as reduction of the required amount of deposits for loan (6.1 percent), legal action against bad debts (4.9 percent), introduction of loan scheme for educational purposes (2.5 percent) and increase of the maximum loan amount (1 percent). As revealed by the officers, some of the banks have already taken steps towards legal action against bad debts. For example, 48 cases had been forwarded to the Peace Council and 06 letters of demand were sent by Madagalla Bank Union during the period 2008-2012. Hevenpellessa Bank Union forwarded 114 cases to the Peace Council during the period of 2008-2012 and one case was filed in court in 2012.

The suggestion on increasing maximum loan amount depends upon the banks because, maximum loan amount varied by bank unions as explained in chapter five. Further, the maximum amount they expected varied by purpose.

Table 6.2: Post Evaluation and Progress Review (Instruction Given by SASL)

Level	Period	Responsible Officer	Supervising Officer
Bank Union	Once in 2 months	Bank Manager	Managing Director and Chair person of the Control Board
Control Board	Once in 3 months	Managing Director	Divisional Secretary and Chairperson of the Executive Committee
District Level - I	Once in 3 months	District Samurdhi Commissioner/Deputy Samurdhi Director	District Secretary and Supervising Director-District
District Level - II	Once in 12 months	District Samurdhi Commissioner/Deputy Samurdhi Director	Director General, District Secretary and Director- Banking and Financing

Source: Samurdhi Authority of Sri Lanka, 2012

6.3 The Officers' Suggestions

Around 70 percent of the officers suggested providing necessary facilities to them and resolving their problems by introducing new loan system for staff through Samurdhi Banks, providing computer training, reducing the work load, making arrangements for office allowance to field staff, increasing the salary of bank staff and giving more profit share for bank staff. They also suggested making necessary arrangements to resolve the problems of small groups such as reducing the required period from three months to one month to obtain loan for new groups, issuing loans for group projects, resolving failure groups' distributing account balance and re-establishing new small groups in an effective manner. Further, they suggested motivating SDOs providing some incentives for collecting loan installment without delay and achieving other targets at the DSD level. Further, they suggested implementing law properly (Table 6.3) such as taking actions against SDOs who do not achieve targets without any specific reason. At the same time, they suggested implementing proper and systematic evaluation system for officers.

Table 6.3: Suggestions Made by Officers

Suggestion	Number of Officers	Percentage of Officers
Make necessary changes related to small groups	39	56.5
Motivate the SDOs and implement laws properly	29	36.2
Make aware of effects of micro-finance institutions on poor/control the activities of other micro-finance institutions	09	13.0
Increase the interest rate of savings	04	5.8
Increase maximum amount of loan	11	15.9
Implement proper and systematic evaluation system for officers	25	36.2
Make arrangements to provide necessary facilities to officers	48	69.6
Distribute the circulars efficiently and systematically	18	26.1
Fill the vacancies systematically	06	8.7
Issue circulars with the consideration of practicability	13	18.8
Improve the physical environment of banks	09	13.0
Provide solution for security problems	02	2.9
Select beneficiaries correctly and provide subsidy on time	15	21.7
Simplify the loan conditions and decentralize the decision making power on rules and regulations	11	15.9
Introduce personal loan system instead of group system	04	5.8
Use modern technology for banking activities	13	18.8
Introduce a pawn loan system	05	7.2
Provide inter transfers for bank officers	01	1.4
Provide solution for marketing problems of the customers	07	10.1
Use more media publicity for programmes of the banks	07	10.1
Make political influence free environment	02	2.9

Source: Field survey, 2013

Twenty six percent of the officers suggested distributing circulars efficiently for better service delivery while around 19 percent suggested issuing circulars considering ground level situation and practicability. Around 22 percent of the officers suggested selecting suitable beneficiaries after doing in depth survey of the household and adjusting official poverty line as a measurement of the household poverty. Most of them requested doing household survey as soon as possible. Around 19 percent of officers suggested implementing modern technology specially IT facilities for banking activities and reducing time and resource wastage. This includes computerizing the data base and networking banking system. Thirteen percent of the officers suggested improving physical environment of the bank. This includes, providing more space for bank staff and more facilities for service seekers, changing outlook of the banks and constructing new buildings with more facilities.

Sixteen percent of the officers suggested increasing maximum loan amount to customers. Though Samurdhi Authority of Sri Lanka has given instructions to issue LKR 500,000 as maximum loan amount, most of the banks do not implement this instruction yet. On the other hand, as explained in chapter five, maximum loan amounts varied from bank to bank. Therefore, this suggestion needs to be considered by terms of different banks. Another 16 percent suggested simplifying the loan conditions and decentralizing the decision making power. This includes reducing the number of members who had to sign for the loan, increasing loan amount and releasing without collateral and introducing a decentralized decision making power on maximum loan amount by category such as increasing maximum amount of cultivation loan for LKR 100,000 in agricultural areas. Further, they suggested using bottom-up approach to programme/scheme preparation.

Since entrepreneurs/business persons faced difficulties in sustaining their businesses due to lack of market facilities, 10.1 percent of the officers suggested providing proper market facilities to customers who deal with enterprises or businesses through loans from the Samurdhi Bank. Another 10 percent of the officers suggested give media publicity for programmes launched by the bank by attracting middle level income earners. Around 7 percent of the officers suggested implementing pawn credit system due to major credit source in agricultural areas as well as fisheries areas.

6.4 Conclusion

Both customers as well as officers gave number of suggestions towards better service delivery by Samurdhi Banks. Both groups suggested implementing proper evaluation system and supervision for SDOs, increasing maximum loan amount, simplifying the loan conditions, making arrangements to resolve the problems related to small groups and introducing a personal loan system for those having good loan history. Furthermore, officers suggested decentralizing the decision making power such as decision on maximum loan amount by activity.

CHAPTER SEVEN

SWOT Analysis

7.1 Introduction

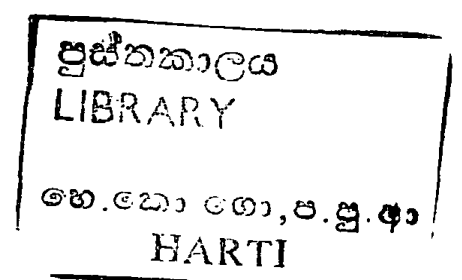
SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is a tool for analyzing the situation of an organization, programme or project. Originally this method was developed for analyzing the situation of businesses and industries. This helps to explore possibilities of new efforts and solution for problems with identification of internal and external positives (strengths and opportunities) and negatives (weaknesses and threats) which influence the organization. This chapter analyzes internal strengths, weaknesses as well as external threats and opportunities of Samurdhi Banks as a micro-finance provider for poor or marginalized groups.

7.2 Strengths

1. Island-wide bank network including in war affected areas and remote rural areas
2. Around 23,000 grass root level field officers work island-wide and most of them have close relationship with people
3. Enough and organized human resources to evaluate the proposals before releasing credit and supervising and monitoring after release of the loan
4. Some of the banks with well established banking network equipped with modern equipment like computers.
5. The Samurdhi Authority has been one of the affiliated institutes of the Ministry of Economic Development
6. The Samurdhi Authority is one of the major stakeholders of the *Divineguma* programme
7. Considerable amount of money has been invested in state banks and already developed assets include savings (LKR 18,907 million) and shareholding capital (LKR 5,370 million).
8. Continuous provision of government funds for compulsory savings
9. Having large number of customers island wide

7.3 Weaknesses

1. Lack of supervision of field staff
2. Failure to utilize full strengths of field staff to achieve Samurdhi movements' goals
3. Lack of adaptation of new technologies



- a. Lack of computer facilities
 - b. Most of the Banks haven't IT facilities
 - c. Automated Teller Machine (ATM) is not introduced for the customers yet
4. Pawn loan service was not implemented even in high demand areas
 5. Lack of knowledge on circulars (bank officers & field officers)
 6. Delay/ did not receive some circulars
 7. Problems related to small groups
 - a. Conflict among members (due to bad debt or other issues)
 - b. Difficulty of reformulation of available small groups
 8. Physical environment of the bank is not much attractive
 9. Do not have adequate storage/recording facilities
 10. Initial and Maximum credit amount is not sufficient
 11. Banking unions (*Maha Sangam*) meetings are not held on time/regularly
 12. Banks are not established even in high potential and necessary areas (eg. Vahalkada area)
 13. Inefficiencies/ weak performance of Samurdhi Development Officers at grass root levels
 14. Lack of feasibility studies on self-employment loans
 15. Lack of concession for cultivation losses
 16. Gifts for the special promotions are not much attractive when compared to other commercial/state banks
 17. No opportunity to obtain instant loans and personal loans without group assurance.
 18. Beneficiaries are not much aware of procedures and profit share
 19. Take more time for transaction in some banks (eg. One month)
 20. The high proportion of savings that should be available in individual as well as group accounts to obtain a loan
 21. Lack of attention for elderly and differently abled people in terms of credit and savings
 22. Not having a proper system to monitor the officers
 23. Not having any security system for the bank and money which is being brought from other banks
 24. Issues of limited amount of money (maximum LKR 150,000) one can withdraw at a time even in case of withdrawing bigger amount

25. Do not follow common law related to collateral, maximum loan amount and to release compulsory savings.
26. Lack of media publicity for programs launched by Samurdhi banks.

7.4 Opportunities

1. Considerable number of customers willing to engage in pawn credit scheme
2. Limited threat from other micro-finance institutions in remote areas due to security of such institutions
3. Low interest of Samurdhi loans compared with the interest rates of the loans in other Micro-credit institutions
4. Considerable number of customers having good loan history, bank habits and build up trust with bank and wish to apply high amount of loans
5. Public policy giving high priority for poverty alleviation and to empower the poor
6. Demand for educational loans
7. Possibility of providing more quick service to customers via ATM as they have already been introduced in the country
8. High level of people's participation for meetings and programmes launched by the Samurdhi authority

7.5 Threats

1. Activities of other micro-finance institutions/private and state banks
 - a. School based savings schemes
 - b. Offer attractive gifts for special occasions
 - c. Personal loans with two guarantors instead of group guarantees
 - d. Simple conditions
 - e. Home based loan delivery and collection
 - f. High loan amount issue by other micro-finance institutions
 - g. Speedy/instant loans
2. Bad debts
3. Political influence for loans
4. Limited supports of other relevant institutions due to their inefficiency

7.6 Possibilities for New Efforts

<p>Opportunity-Strengths (OS) Strategies</p> <ol style="list-style-type: none"> 1. (O2,S2) establish banks in necessary remote rural areas (ex.Vahalkada) 2. (O1,S7) introduce pawn credit system 3. (O3,O8, S1, S9) Make peoples' awareness on bad effects and impacts of high interest rate of micro-finance issued by other institutions 	<p>Opportunity-Weakness (OW) Strategies</p> <ol style="list-style-type: none"> 1. (O1,W4) Introduce pawn credit system specially for agricultural areas and fisheries areas 2. (O7,W3) Introduce computer based banking and ATM systems 3. (O4,W10) Increase initial and maximum loan amount 4. (O8,W7) Reformulate and strengthen the existing small groups after doing situation analysis 5. (O8,W7) Make necessary arrangements to pay back/transfer group savings when small groups dissolve 6. (W8,W9,S5) Make arrangements to modernize physical environment of the bank in a customer friendly way 7. (O4,W17) introduce a loan scheme without group system but with collateral for better customers who have a good loan history
<p>Threats-Strengths (TS) Strategies</p> <ol style="list-style-type: none"> 1. (T 01b, S7) Introduce attractive and unique gift system for Sinhala and Hindu new year savings, children's and Women's day savings 2. (T3, S2) Empower the beneficiaries 	<p>Threats-Weakness (TW) Strategies</p> <ol style="list-style-type: none"> 1. (T2-W2) Introduce and strongly implement recovery target system for field officers 2. (T2,W25) Make sure proper evaluation system for officers

CHAPTER EIGHT

Summary and Recommendations

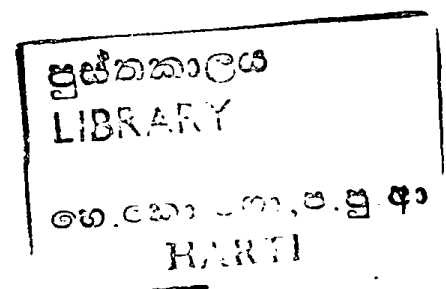
8.1 Summary

This study was carried out in eight districts considering district poverty level with the objective of evaluating the performance of Samurdhi Banks in poverty alleviation as well as for identifying the issues and difficulties faced by beneficiaries and officers. Further, study was aimed at SWOT analysis of Samurdhi Banks. The survey districts were Kalutara, Kurunegala, Batticaloa, Anuradhapura, Monaragala, Ratnapura, Vavuniya and Jaffna. The total sample size was 547 including bank customers (both beneficiaries and non-beneficiaries) and officers. Data was collected through both primary and secondary data. Primary data was collected by using questionnaire survey, key informant discussions and focus group discussions.

Of the total customers, 30.9 percent were office bearers of different committees or societies attached to the Samurdhi programme. Further, majority of non-beneficiaries were earlier Samurdhi beneficiaries who returned their subsidy allowance due to number of reasons such as family members obtaining new occupations (33.3 percent), improvement of income (38.9 percent), poor attendance of meetings (8.9 percent) and non-corporation of SDO (2.2 percent). Around 20 percent of the total sampled bank customers' families were female headed-households. Of the total sampled bank customers, great majority (72.5 percent) belonged to the age group 40-70 years while 2.6 percent belonged to less than 30 years. Rest of the customers were over 70 years.

Approximately 83 percent of bank customers were engaged in some sort of income generating activities and unemployment rate was reported as very low (1.5 percent) among bank customers. However, 11.1 percent of bank customers reported as differently abled, weak or elderly. Around 38 percent of the employed bank customers were farmers while foreign employed were reported as 1.3 percent. Furthermore, the percentage of self-employees was 17.6 percent. Around 7 percent of the families were getting less than LKR 1,500 as their monthly income while around 24 percent were getting more than LKR 25,000 per month as their monthly family income. In the mean time, only 12 percent of the Samurdhi recipient families spent less than LKR 5,000 per month as family expenditure.

The main reason for transactions with Samurdhi Banks was comparatively low interest rate for loans. The second reason was regulatory needs for Samurdhi beneficiaries to deal with Samurdhi Banks. Majority of the total bank customers did not know exact annual interest rate for their deposits. More than 85 percent of the bank customers had borrowed at least one loan from the Samurdhi Banks. Of the total customers, around 59 percent has borrowed loans more than three times.



Around 2 percent of the customers have borrowed 10-14 loans from the Samurdhi Banks during the last five years. The highest percentage have borrowed loans for self-employment. However, the picture differed by districts. Great majority (83.0 percent) of bank customers mentioned that officers made aware of conditions of the loans and 80 percent of the customers were satisfied or highly satisfied with the loan conditions.

Seventy six percent of customers were aware of social insurance programme implemented by the bank. Furthermore, of the total customers, 14 percent got benefits from the social insurance scheme while 19.7 percent and 3.5 percent got benefits from group protection fund and loan protection fund. In addition, 16.5 percent got benefits of housing lottery.

The Samurdhi Bank Unions have number of strengths. The strengths include island-wide bank network, grass-root level field officers working in close relationship with people, low interest rate for credit, enough and organized human resources to evaluate the project proposals before release of the loan, government providing money for compulsory savings, the Samurdhi Authority being a major stakeholder of the *Divineguma* programme and one of the affiliated institutions of the Ministry of Economic Development.

The stakeholders mentioned number of weaknesses of the banks. Lack of supervision of the field staff, lack of adaptation of new technologies, lack of knowledge on circulars and delay or not receiving some circulars, problems related to small groups such as conflicts among members, difficulty of reformulation of available small groups, insufficiency of initial and maximum credit, non-existence of opportunity to take instant loans, lack of feasibility studies on self employment loans, not holding banking union meetings on time/regularly and not using common law related to collateral, not implementing pawn loan system even in high demand areas, insufficient maximum loan amount and attention not paid for credit and savings of elderly and differently abled persons.

The Samurdhi Banks have number of opportunities to achieve their goals. These include considerable number of customers with expectation to engage in pawn credit system, lack of involvement of other micro finance institutions in some remote rural areas, high interest rates of other micro-finance institutions, high priority given to poverty alleviation and empowering the poor by public policy, availability of new technology, demand for educational loans and considerable number of customers having good loan history, bank habits and building up trust with bank and wish to apply high amount of loans.

Few threats have been identified related to bank activities. These include activities of the other micro-finance institutions/commercial and State banks, inefficiency of public sector, bad debts and political influence for loans and other programmes which implemented by the Authority.

Based on identified strengths, weaknesses, opportunities and threats, the research team has identified possibilities for new efforts. Accordingly, research team identified following opportunity-strengths strategies.

1. Establish banks in necessary remote rural areas
2. Introduce pawn credit system
3. Make peoples' awareness on bad effects and impacts of high interest rates of micro-finance of other institutions

Further, research team identified following opportunity-weakness strategies for further development of Samurdhi Banks.

1. Introduce pawn loan system specially for agricultural areas and for fishing communities
2. Introduce computer based banking system and ATM system
3. Increase initial and maximum loan amount
4. Reformulate and strengthen the existing small groups after conducting situation analysis
5. Make necessary arrangements to pay back/transfer group savings when small groups are dissolved
6. Make arrangements to modernize physical environment of the bank in a customer friendly way
7. Introduce a loan scheme without group system but with collateral for better customers who have good loan histories

On the basis of threats and weaknesses, the research team identified three strategies which can be implemented. First, make sure proper evaluation system for officers. Second, introduce and effectively implement recovery target system for field officers. Third, introduce and implement ranking system for small groups, village societies, bank unions as well as officers.

Fifty percent of the total customers mentioned that they did not face any problem related to service delivery by Samurdhi Banks. The others mentioned issues such as insufficiency of Samurdhi subsidy allowance when compared with present cost of living, lack of media publicity/ information on programmes launched by the banks, inability of field officers to provide efficient and effective services, regulated account balance for loan is high, not enough maximum loan amount, delay in issuing of loans, strict conditions to release loans, deduction of the loan installments from group/member accounts without informing, unattractive internal/external environment and non provision of Samurdhi subsidy on time.

Officers mentioned a number of issues related to service delivery. However, most of them were related to their facilities (67 percent). These included non-payment of any office allowance and acting allowance, non provision of loan facilities through Samurdhi Banks, not filling vacancies for a long time, both field and bank SDOs getting same proportion of profit share and salary as well as similarity of

qualifications and salaries for both Head Quarter Managers and Bank Managers. Forty six percent of officers mentioned that there is no proper and systematic evaluation system for officers for efficient and effective service delivery. Other problems were related to small groups, subsidy, maximum loan amount, modern technology, political interest, rules and regulation, delay in getting circulars and low interest rate for savings.

Among the suggestions made by customers increasing the subsidy allowance, launching a new publicity campaign for banks programme, implementing systematic and regular performance evaluation for SDOs were major proposals. Further, they suggested measures such as taking legal action against bad debts and non performing loans, reducing the required proportion of account balance for loan, increasing the maximum amount of loan, providing loans speedily and introducing loan scheme for education/higher education.

The major suggestions of the officers were making arrangements to provide necessary facilities such as field level office facility or allowance for office room, new loan system for them through bank, reduction of the work load, provision of greater profit share for bank staff and filling the vacancies in time. They also suggested making necessary changes related to small groups, motivating SDOs and implement laws properly, implementing proper and systematic evaluation system for the officers, distributing the circulars efficiently and systematically, increasing maximum amount of loan, to selecting beneficiaries correctly and providing subsidy on time, simplifying the loan conditions and decentralizing the decision making power on rules and regulations, using modern technology for banking activities, and introducing a pawn loan system and to change the physical environment of the bank.

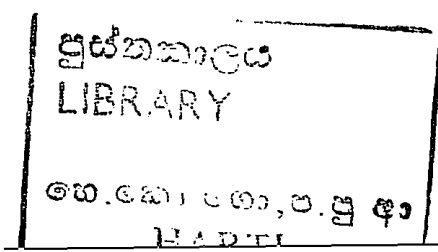
8.2 Policy Implications/Recommendations

1. Decision making power should be decentralized where necessary. Specially, it decision making power should be decentralized on maximum loan amount to district or divisional level instead of blanket approach throughout the island. For example, decision making power on maximum loan amount for agricultural activities in agricultural areas should be given to district/divisional level.
2. Lack of co-ordination and close monitoring/evaluation caused many issues of the programme. Another qualified person should be appointed as Assistant Commissioner instead of Divisional Secretary.
3. The Authority should introduce and implement proper and close monitoring and evaluation system for all categories of officers. The system should avoid blanket approach for the whole island. There is a need to consider differentiation of the geographical, economic and socio-cultural factors of the area when creating new monitoring and evaluation system.

4. The Authority should introduce and implement ranking system for performance evaluation of small groups, village societies, bank unions and officers.
5. A loan scheme for higher amounts with collateral and low percentage of required group account balance for better customers who have good loan history should be introduced. Further, new loan schemes for education, youth and differently abled people but able to earn an income should be introduced.
7. The authority should establish banks in necessary remote rural areas moving away from their accepted criteria.
8. Since there is a high demand for pawn credit system in agricultural areas and fisheries areas, it should be introduced in those areas.
9. People's awareness on bad effects and impacts of high interest rate of micro-finance issued by some institutions at grass root levels should be publicized.
10. Attractive and common gift system for savings promotions or release more fund for gift should be introduced.
11. Arrangements should be made to reformulate and strengthen the existing small groups after doing situation analysis when it necessary. Also, it is needed to make arrangement to pay back/transfer group savings when small groups are dissolved.
12. The Samurdhi Authority of Sri Lanka should do grass root level survey immediately for better targeting. It should introduce new cut off income level considering present poverty line by districts. Further, it is needed to do a survey at least once in every five years. This would help for the success of the programme as well as for reducing the extra burden on national budget.

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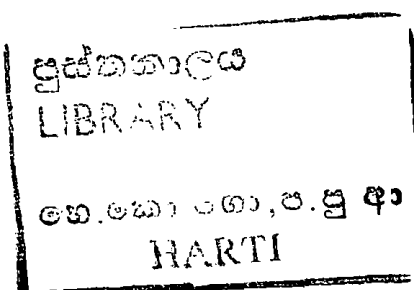
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