

EXECUTIVE SUMMARY

The purpose of microfinance component of the Dry Zone Livelihood Support and Partnership Programme (DZLiSPP) which was implemented from 2005 to 2012 in four districts of Anuradhapura, Kurunegala, Badulla and Moneragala was to facilitate the poor and low income families to invest in income/livelihood activities through provision of concessionary easy credit and other supports such as training. The credit supply to beneficiaries was done under the specific credit scheme, “*Bhagya*” with the involvement of state and regional banks in the area and with supervision and provision of refinance facilities by the Central Bank of Sri Lanka.

This impact evaluation study was done by HARTI and its major objective was to enhance knowledge on strategies adopted in implementing micro-finance component of the programme. The specific objectives were to evaluate contribution of this component to sustainability of livelihood of beneficiaries and to evaluate impacts on the beneficiaries. The study methodology covered the collection of primary as well as secondary data. The primary data collection methods included sample survey of beneficiaries, key informant interviews, focus group discussions etc.

The study findings revealed that during the first years of the project, there has been much delay (until 2008) in credit delivery of the project as the project had no properly established system to implement its programme. Several weaknesses of the service providers involved in facilitation credit delivery during that period also existed to a great extent. In later years the project has been able to successfully mitigate the constraints faced in delivery of credit to the targeted beneficiaries. This resulted in adopting and implementing of successful strategies by the project and other stakeholders. Among these strategies were appointment of Marketing and Microfinance Officers (in certain districts from among more experienced people) with given targets to facilitate providing credit, developing greater cooperation with banks, appointment of field facilitators to organize the work at ground level and paying a 5% training fee to the banks from the value of all loans issued. Using of earlier contacts with customers and organizations in selecting applicants to provide credit and providing the services of banks by visiting remote villages are some of the strategies adopted by banks.

Accelerated implementation of the credit component during latter years of the project has been able to show a good progress by achieving targets in spending money allocated for credit and training and improving income activities of beneficiaries. However, this acceleration of project implementation within a shorter period of time has affected the selection of intended type of beneficiaries. Thus only 26% of the Samurdhi beneficiaries were among those who obtained credit.

The project credit scheme which is based on group guarantee system assured collateral free easy and low cost credit that enhanced the access of poor and low income people to credit. The visiting of bank staff to provide their services to remote villages has reduced the time and cost to obtain credit from banks. The credit programme has a satisfactory impact on promoting new income activities (26%) and expanding ongoing income activities. As much as 84% of invested income activities are still functioning while the rest have discontinued after being operated for some time due to failure resulted from managerial, technical and marketing issues. Already functional income activities seem to be more sustainable than new income activities. Of the currently operating income activities 30% are very successful, 54% are successful while the rest 11% are successful to a certain extent. Obtaining a second loan by 11% of beneficiaries indicates not only the level of sustainability of some income activities, but also the beneficiaries' inclination to transactions with banks, which was very low before the project.

The relevant livelihood activities had generated a satisfactory number of employment and income for households and other members of the communities. The generated new employment (including full, part-time and seasonal employment) for new income activities are 1.3 while for already functional income activities it is 1.1. The incomes of 15% beneficiaries who invested on new income activities and incremental incomes of 15% beneficiaries who invested on already existed income activities are above Rs. 14,000/- per month. This means they are beyond the poverty line with that income alone.

The incomes derived from investments have affected the enhancement of economic conditions of family as those incomes have been utilized for useful activities such as household consumption (64), education (52%) and construction or repair of the household (10%). The compulsory savings under the project have increased the savings habit of the beneficiaries from 68% before the project to 98% after the project.

As expected from the project, women are much empowered by having access to credit and they had invested on livelihood activities individually or jointly with their husbands or other members of the households. They had more opportunities to participate in making decisions regarding not only the livelihood activities but also on spending of new incomes and other household matters such as giving education to children. The credit component has been successfully implemented by maintaining a high level of recovery rate (over 90%).

One important lesson to be learned from the micro financing component is that success of micro financing depends on the level of relationship between the parties involved in the project namely project officers, banks and beneficiaries. Another lesson is

requirement of adequate time to successfully implement and maximize the benefits from micro financing component.

The study recommends the establishment of an organizational set up to operate the proposed revolving fund in future, group mobilization through reforming and strengthening of the small groups via awareness training and taking action to solve marketing and technical issues resulted by some income activities.