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RESEARCH REPORT



IMPACTS AND LESSONS OF MICROFINANCE COMPONENT OF THE
DRY ZONE LIVELIHOOD SUPPORT AND PARTNERSHIP PROGRAMME

J. K. M. D. CHANDRASIRI
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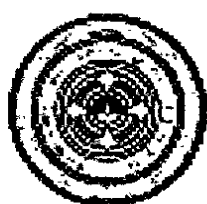


HARTI
Hector Kobbekaduwa
Agrarian Research and
Training Institute

Impacts and Lessons of Microfinance Component of the Dry Zone Livelihood Support and Partnership Programme

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FOREWORD

Microfinance is a recently developed new approach for promoting livelihood/ income opportunities, standards of living and empowering poor people and marginalized groups. This is being done by practising microfinance services such as saving mobilization and credit delivery and other services including insurance payments and income support services.

The IFAD funded Livelihood Support and Partnership Development Programme implemented by the Ministry of Agriculture during 2005–2012 in selected four Dry Zone districts in Sri Lanka has well adopted the microfinance approach as a study component to achieve its objectives; enhance the standards of living of the rural poor by promotion of income generating activities coupled with promotion of microfinance to boost them.

HARTI was commissioned to undertake an evaluation on this microfinance component of the project with purpose of addressing its impact to sustainability of livelihood and life of the beneficiaries and to highlight the lesson learned from the component. This report is a major output of that exercise.

The project at different locations has tried out various innovative practices not only for savings promotion, credit delivery and recovery, but for promoting income earning activities in a more sustainable manner. This report has well documented the experiences and lessons learned from different innovative practices, of which some are very successful and replicable under similar future interventions. Hence, the findings are very important for rural development/microfinance practitioners.

The study was coordinated by Mr. J.K.M.D. Chandrasiri, Additional Director and Mr. R.L.N. Jayatissa, Head/Agricultural Policy and Project Evaluation Division. I am very thankful to them for successfully completing the study.

Haputhantri Dharmasena
Director

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We acknowledge the support of other staff of the national project coordinating unit and also of all district coordinators and their staff especially the Marketing and Credit Officers and Field Facilitators. They all supported by providing available data and information in addition to sharing their observations, experiences and ideas about the credit component of the project.

A special note of appreciation is due to the managers, credit officers and field officers of different branches of the banks involved in providing project credit in the relevant districts.

We wish to pay our gratitude to the beneficiaries of the credit scheme and the team members and the leaders of small groups and the organizations of the beneficiaries for their cooperation extended to the study team by responding well to the questions raised.

Mr. R.N.P.C. Silva and Mr. P.A.S. Wijayadhamma, Casual Investigators were involved in collecting field data and Miss. R.P. Senadeera, Statistical Assistant of HARTI was helpful in tabulation of data. Mrs. Sandhya Senanayake, Statistical Officer of HARTI helped in preparation of some graphs. Mrs. S.D. Lalana Sriyani, Office Secretary/Typist of the Agricultural Policy and Project Evaluation Division of HARTI helped in typesetting. We appreciate their valuable services.

J.K.M.D. Chandrasiri
R.L.N.Jayatissa

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.

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LIST OF ABBREVIATIONS

BoC	Bank of Ceylon
CBO	Community Based Organizations
DPMU	District Project Management Unit
DSD	District Secretariat Division
DZLiSPP	Dry Zone Livelihood Support and Partnership Programme
GN	Grama Niladhari
IFAD	International Fund for Agricultural Development
IGA	Income Generating Activities
MMO	Microfinance and Marketing Officer
PB	People's Bank
PCI	Participatory Credit Institutions
PFI	Participating Financial Institutions
PRA	Participatory Rural Appraisal
RDB	Regional Development Banks

CHAPTER ONE

Introduction

1.1 The DZLiSP Programme

Dry Zone Livelihood Support and Partnership Programme (DZLiSPP), funded by the International Fund for Agricultural Development (IFAD) is being implemented in four districts of the Dry Zone in Sri Lanka namely Anuradhapura, Kurunegala, Moneragala and Badulla. The major goal of the programme is to improve the income and living standards of poor households in the project area. The programme period is seven years from Dec.2005 to Dec.2012. The estimated cost is US \$ 25.82 million.

It is expected to achieve the major goal of the project thorough pursuing some of the immediate objectives which will be realized under five project components. These components that reflect IFAD's objective (purpose) are: (I) Upland farm development with integration of livestock production through participatory extension under the Farm Field Schools; (II) Rehabilitation and operation of micro tanks; (III) Expansion of marketing opportunities through promotion of forward sales contracts to develop micro enterprises; (IV) Expansion of micro finance services to promote undertaking of profitable income generation activities and (V) Development of priority community infrastructure.

The programme was expected to be implemented in 1070 Grama Niladari (GN) Divisions in 44 Divisional Secretariat Areas. The total direct beneficiaries in these GN Divisions were about 80,000 households at the time of the initiation of the project. The target population of the programme was people living in the relevant GN divisions but focusing more on the low income families. Women were given special consideration to develop their living standards via some project activities such as provision of microfinance and support for income generation activities.

1.2 Programme Intervention on Microfinance

The DZLiSPP has implemented the micro-finance component in all four districts through Partner Institutions. These institutions are regional and state banks which are provided with required financial capital to reinforce and expand their capacity to provide loans. The credit line has been coupled with development of Income Generating Activities (IGAs) in areas where the programme has functioned. Therefore, the environment has created conditions for sustainable development of micro-finance services and IGAs in the project areas. To achieve the objectives under this component, in addition to providing loans, training for beneficiaries on enterprise management, technical know-how and knowledge, maintaining business accounts are provided. The programme has also emphasized the maintenance of gender balance in providing loans.

A total amount of LKR 250 million has been allocated to provide loans for 5000 beneficiaries in the four districts while LKR 25 million has been allocated for training. The loans were to be provided to selected beneficiaries in small amounts (group lending up to Rs. 50,000 and individual lending up to Rs.250,000) from lending banks. The Central Bank provides the refinance facilities to the lending banks. The expected outcome was the diversification of sources of income for 5000 families in which 80% of them are mainly women beneficiaries.

1.3 The Impact Evaluation

As the project is at the end phase, the Ministry of Agriculture, the executing agency, commissioned HARTI to conduct an evaluation to assess the impact of the project interventions in dealing with microfinance and income generation activities with a view to ascertain whether those impacts are in line with project objectives and also to learn lessons from the project for planning similar interventions in future. This report is the output of that particular study.

1.4 Main Objective

To enhance knowledge of strategies adopted in implementing micro-finance component of the programme.

1.5 Specific Objectives

1. To explore different strategies adopted by both programme officers and beneficiaries in implementing microfinance component of the programme
2. To evaluate contribution of this component to sustainability of livelihood of beneficiaries
3. To assess the impact of the micro-finance component of the programme on beneficiaries of four districts

1.6 Methodology

In order to identify different strategies adopted, it was expected to review the process adopted for giving credit from the DZLiSPP. For the purpose of evaluating the contribution of microfinance component of the programme to the sustainability of livelihood of the beneficiaries it was intended to obtain information related to the project credit which included procedures applied, amounts released and the special benefits people had in addition to obtaining information in dealing with beneficiaries' investment activities such as level of their investment, type of activities invested on and their sustainability. For assessing the impact of the referenced investment activities of beneficiaries of four districts, it was expected to obtain information such as the type and number of employment and the income generated by the referenced investment activities and the purposes for which people spent

those incomes and the behavioral changes of the beneficiaries regarding the savings habits and making of household decisions.

This assessment is based on primary as well as secondary data. The already generated data related to credit delivery and recovery available at the participating banks and the Central Bank of Sri Lanka was collected. Information related to earlier situation of beneficiary households was obtained from previous impact assessment reports for the comparison purpose.

The primary data collection methods are questionnaire survey of the sample beneficiaries, key informant interviews, focus group discussions, interviewing other stakeholders who had the knowledge about the project activities and the case studies and observations.

The sample survey represents the beneficiaries in all four districts of the project, who had obtained loans for income earning activities. The data related to the loan taken, the present progress and the problems of income earning activities initiated by them and the influence of the income earning activity on their income, employment and other aspects of their life were obtained through a structured questionnaire administered to the sample beneficiaries.

To obtain data related to different strategies adopted under this component, responses of different stakeholder key informants such as the key officials of the DPMUs (District Project Coordinators, Marketing and Microfinance Specialists) , and the service provider Banks (Bank Managers, Credit Officers and Field Officers), key field officers of the project(Managers of the Project Management Units and Field facilitators) and also the leaders of the Community Based Organizations involved in facilitating credit were obtained through interviews.

Small group members who had invested benefiting from credit and other members in their groups who had not benefited were interviewed as focus groups to obtain information related to credit issues and problems encountered when doing investment successfully. In all, 10 focus groups were interviewed to represent all project districts. Eight case studies were developed from among those who did investments for income generating activities to learn lessons and experiences from them (these experiences covered the aspects such as the level of success of the income generating activities, issues faced by them and any change of savings habits of the beneficiaries.

1.7 Size and Selection of the Sample

Considering the total number of beneficiaries that had obtained credit by the time of the initiation of this exercise (3,726) 7% sample (265) was selected for the survey of the beneficiaries. Sample selection consisted of a number of stages. In the first stage the sample was distributed among four districts proportionate to the beneficiaries in each district (Table 1.1). In the second stage the DS divisions were selected

purposively by discussing with the project staff. Under this, attention was paid to select at least one DS division from each PMU considering the availability of loan receivers, diversity of income earning activities and other socio-economic aspects that help learn innovations and experiences. The district sample was proportionately distributed among selected DS divisions based on their beneficiary number. In the next stage GN (*Grama Niladhari*) divisions were selected. Two or more GN divisions were selected from each DS division considering the availability of more beneficiaries (Annex Table 1 for details of the selected sample including the GN divisions) and the years during which the loans were released to the beneficiaries (attention was also paid to select beneficiaries from different years of loan granted / see Table 1.2 for details). The number of GS divisions was increased until there were sufficient numbers of beneficiaries to select the sample randomly. In the final stage a sample of each PMU was drawn randomly from among the total number of beneficiaries in selected GN divisions.

Table 1.1: Distribution of Sample Beneficiaries According to the Project District

District	Total Beneficiaries in each District	No. of Beneficiaries	%
Kurunegala	835	86	32.5
Anuradhapura	1176	59	22.3
Badulla	941	66	24.9
Moneragala	774	54	20.4
Total	3726	265	100.0

Table 1.2: Sample Beneficiaries According to Year of Loan Disbursement

Year	No of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No	%	No	%	No	%	No	%	No	%
2008	8	9.30	2	3.40	0	0.00	0	0.00	10	3.80
2009	22	25.60	11	18.60	6	9.10	32	59.30	71	26.80
2010	22	25.60	24	40.70	13	19.70	10	18.50	69	26.00
2011	31	36.00	21	35.60	47	71.20	11	20.40	110	41.50
2012	3	3.50	1	1.70	0	0.00	1	1.90	5	1.90
Total	86	100.0	59	100.0	66	100.0	54	100.0	265	100.0

No = Number of loan recipients

Source: DZLiSPP Project Office

1.8 Organization of the Report

This report is organized in five chapters. The first one is the introductory chapter that provides a brief explanation about the project, study objectives and the methodology covering the size and the selection of the sample. The second chapter deals with the success and failure of different strategies adopted by the project to

promote microfinance component which consist of a SWOT analysis of the DZLiSPP and also the adopted strategies and their effects. The third chapter covers the impact of microfinance on income generating activities and further covers the contribution of the project to promote income generating activities such as providing credit and training and their use by the beneficiaries, the level of success and sustainability of income earning activities and related issues are explained. The fourth chapter analyses the impact of the project income earning activities on beneficiaries' employment, incomes, savings, household expenditure and the decision making of the households. The last chapter presents findings, lessons, issues and recommendations.

CHAPTER TWO

Success and Failure of Different Strategies Adopted to Promote Microfinance

2.1 General

This chapter explains the strengths, weaknesses, opportunities and challenges faced by the project and other stakeholders such as banks and beneficiaries during implementation of this component and the strategies adopted by each stakeholder to mitigate the unfavorable conditions faced by them in dealing with credit disbursement and their recovery or obtaining of credit. The progress of project credit disbursement as well as recovery, and the views and the benefits of the banks through involvement in this component are also presented in the chapter.

2.2 General Procedures

The project had provided microcredit facilities to the people for expanding available or operating new income earning activities via identified banks through a specifically designed credit scheme for the purpose and operated by the Central Bank of Sri Lanka. The project provides funds to the Central Bank to operate the system. The Central Bank charges 4% from the participating financial institutions (PFIs) and also provides them refinance facilities to operate the system at grassroots level. The PFIs charge 6% and then the total interest for the beneficiaries is 10%. The programme has evolved rules and regulations with time without adhering to fixed procedures. Loans valued up to Rs.200,000/- can be obtained to pay back within one to four years depending on the amount. Loans up to Rs.50,000/- are provided under group guarantee (under the signature of two persons in the borrowers' group). Loans above that value are granted under different rules and regulations of the lending bank. For example, one bank may grant a loan up to Rs.100,000/- under group guarantee while another bank may ask the loan applicant to produce one acceptable guarantor (government employee). To become eligible, the applicants have to form a group of 5-7 and engage in group activities such as savings and exchange of labour. Some acceptable amount of individual as well as group savings also had to be shown but their amount depended on the bank.

2.3 Strategies Adopted

The loan disbursement and commencing of income earning activities had been very slow in the initial years of the project. But the project has been able to improve step by step by following different strategies under different levels of strength, weakness, opportunities and challenges/constraints. Hence it is important to present these parameters (a SWOT analysis) before presenting those strategies and their successes.

2.3.1 SWOT Analysis of the Project

Strengths:

1. Availability of allocated funds to be utilized for micro financing (Rs. 250 million for loans and Rs. 25 million for training).
2. Attractive low interest rates (10%) for the project loans (under Bhagya scheme initiated In 2008)
3. Availability of a qualified staff to handle the component (MMOs and field facilitators since 2010).
4. Possibilities of making prompt decisions.
5. Availability of a number of public and private banks and semi-formal financial institutions with a large network of rural branches in project area.
6. Availability of diverse community organizations and already established small groups.

Weaknesses:

1. Taking more time to operate project activities. Does not allow sufficient time for required activities for group lending such as formation of strong groups which take a minimum period of six months.
2. There was no adequate number of field staff in the project until year 2010.
3. In the initial years there was no established system for providing microfinance.

Opportunities:

1. Possibility of obtaining support of public as well as private banks and semi-formal financial institutions to disburse credit.
2. Obtaining support of the field staff of the banks in the area experienced in banking and operating microfinance schemes.
3. Possibility of utilizing locally available community organizations and small groups to promote micro financing.
4. Possibility of linking microfinance facilities with the beneficiaries of other project components such as livestock development and micro enterprise development
5. High demand for short term investment credit among low income receivers so that the project can benefit from this demand.
6. Some have skills, capabilities and resources required to commence new income activities so that they can be promoted by providing credit.
7. Some have already commenced income activities so that they can be promoted by providing further credit.

Threats / Constraints

1. Wrong attitudes of the people about government project loans adversely affect recoveries.

2. Misunderstanding about project credit facilities by different stakeholders such as service providers of the project (at the beginning), politicians in the area and the people.
3. Hesitation of some banks such as Bank of Ceylon and People's Bank in providing credit for certain areas such as Madulla and Siyambalanduwa in Moneragala District based on their previous bad experiences.
4. Some banks like Bank of Ceylon may not give greater priority for small loans instead of large loans which were their main motive.
5. Taking more time and cost to provide credit to the people under long procedures.
6. Non-availability or shortage of field staff in some banks is an issue for encouraging those banks to disburse credit as scheduled, e.g. People's Bank and Bank of Ceylon (generally these banks have one officer for two branches).
7. Difficulty in obtaining the service of field workers of the banks during weekends and after office hours as funds are not allocated for their overtime payments.
8. Limited availability of handling income opportunities in more isolated areas
9. Marketing and technical issues faced in promoting sustainable income activities.

2.4 Success of the Strategies

The project has followed different strategies, in sequence, based on the success of the previous strategies to mitigate the existing shortcomings so that the disbursement of credit could be done to initiate income earning activities. Those strategies are as follows.

1. Handing over the responsibility and tasks related to credit disbursement to the service providers in all the districts except in Moneragala.
2. Establishing a proper system for providing credit (separate credit scheme) called "Bhagya" by linking the Central Bank of Sri Lanka.
3. The appointment of Marketing and Microfinance Officers (MMOs) selected from among experienced persons in some districts such as Anuradhapura.
4. Developing close cooperation with project and the bank staff.
5. Recruiting Field Facilitators for the project.
6. Giving 5% training fee to participating financial institutions.

As it has taken time to establish an administrative setup and recruiting of staff at the initial years of the project, the microfinance component was handled by the service providers registered to provide various services such as developing marketing and enterprises. At that time there was no properly established system for the project to provide credit and that was one of its weaknesses. Hence, the service providers who had no close links with banks performed their role by themselves to provide microfinance facilities for people to commence income activities; identify people, train them on preparation of project reports and link them to the banks. The wrong

impression given by the service providers about the project (the project credit as a welfare benefit, but not as a loan) has attracted many people to apply for credit. In some districts like Kurunegala over 3000 applications had been received. Applying an unmanageable number of people had become a greater problem for the banks. Even among them there have been many unqualified applicants who were the defaulters of early loans and those who presented unrealistic project reports. The project reports explained the objectives of the applicants in obtaining credit, but those reports were not prepared considering the available skills, capabilities and resources of the applicants. Due to such reasons most of the applications were rejected. The targeted amount of the loans could not be provided.

In Moneragala where the credit delivery process was not in the hands of service providers as in other districts, the loan delivery process has been very slow. One major reason has been the non-availability of a proper loan delivery system. Hence it took time to identify people, register them and deliver credit.

To avoid the problem of non-availability of a properly established credit system at the end of 2008 the project had initiated discussions with the Central Bank of Sri Lanka (CBSL) about implementing of a credit programme with the participation of state banks. Accordingly it signed an agreement with the Central Bank to implement a special credit scheme called "Bhagya". Establishing a credit scheme under supervision of CBSL acceptable to any bank and its low interest rate compared with market rate was strength for the project to move forward. Even under that situation non availability of project staff to coordinate and implement the work at project as well as field level, to expedite the work related with credit giving and commencing income earning activities were some weaknesses that resulted in slow progress on credit delivery and commencing income earning activities.

To avoid the above mentioned situation, project has followed several strategies. The appointment of Marketing and Microfinance Officers (MMOs) and selecting them from among experienced persons in some districts such as Anuradhapura (other than their academic qualifications) and appointing the MMOs to the areas targeting their activities have become important strategies for the progress of implementing microfinance activities. Since successful results were obtained by appointing more experienced persons for the posts in Anuradhapura, the same strategy was adopted in other districts like Moneragala later Establishing close links by the MMOs with the local branches of the banks such as Regional Development Bank (RDB), People's Bank (PB) and Bank of Ceylon (BoC) which were interested in joining the credit scheme, "Bhagya", and working together with them was successful in putting the credit scheme on a new tract. As a result, in 2008 and 2009 about 70 percent of the beneficiaries (905) from the targeted number beneficiaries (1300) were able to obtain credit.

Although the MMOs have gone to the field with Credit Officers of the banks and their field staff, non-availability of field level staff for the project was a major weakness that severely affected further acceleration of the work related with credit

disbursement and initiation of income earning activities. Hence, recruiting Field Facilitators for the project at the beginning of 2010 was an important stage of the micro credit component of the project. Discussions with different stakeholders such as the project, bank and people revealed that the field facilitators have rendered a great service in dealing with micro financing of the project. The activities covered identifying beneficiaries, forming or strengthening small groups, training them, facilitating providing and recovery of credit and supporting the beneficiaries to sustain their income activities. These services have been provided by them by visiting individual beneficiaries or their groups and meeting several times individually or in groups with the bank staff. Hence, the appointing of field facilitators the activities related to credit disbursement and commencing income earning activities were accelerated. This achievement is indicated by 13% increase of targeted number of loan disbursement from 70% in 2008/2009 to 83% in 2010.

However, even by the end of 2010, the project did not satisfy the level of credit delivery concerns of the project targets. The project identified the difficulty of taking the services of bank field officers outside office hours and on weekends as they are reluctant to work during their leisure time. To overcome this constraint and to encourage the bank's involvement in providing microfinance services under the project, at the beginning of 2011 the project arranged to pay a 5% training fee to the PFIs. Under this scheme, for every loan an amount to the value of 5% is paid to the banks from the project funds. This money is to be used for the cost to be borne for transport, training and for paying for working outside office hours. After this arrangement the banks have shown much interest to be involved in this scheme. This also has contributed to very high progress in credit disbursement in the years, 2011 and 2012, which was 91% and 100% respectively (Table 2.1).

For achieving higher progress in credit disbursement, available opportunities had also been greatly utilized. One such opportunity utilized is obtaining support of public banks such as RDB, BoC and PB. Among these banks also, the similarity of RDB objectives and (bringing low income households up by providing financial facilities to increase their production) the project objectives (enhancing standard of living of the poor by encouraging them to initiate income activities through providing microfinance facilities) had been extremely useful to obtain the support of that bank. Accordingly, RDB has participated in the project credit programme in all three districts while RDB was the only bank involved in the scheme in Kurunegala district. Its firm establishment at grassroots level in Kurunegala district has been sufficient to satisfy the project requirements. It had already worked with Human Development Center (an institute belonging to the North Western Provincial Council) under Provincial Council development programmes and had established connections with grassroots level organizations and small groups established for providing microfinance facilities. Hence, to provide credit under Bhagya programme RDB branches had taken steps to connect with small groups and organizations already established by it and some other development programmes earlier in addition to mobilizing people through establishing small groups and organizations from among

people involved in production activities or have some potential to initiate income activities.

In using already existing organizations to provide credit, a special place was held by RDB branches in Kurunegala. In the field survey the research team observed that Galgamuwa RDB branch had granted many loans to members of community organizations; eg. Medagama Visaka Sathkaraka Samithiya (in Galgamuwa DSD) and Paluwewa Asokamala Kantha Samithiya (in Rajangana DSD). Medagama Visaka Sathkaraka Samithiya is a community organization formed by Human Resources Development Center for providing credit under an early project. It has more than 100 members and the Galgamuwa RDB had granted 40 loans to its members. Paluwewa Asokamala Kantha Samithiya has been established in 1994 by Human Resources Development Center to provide credit funds. Later this has been strengthened and loans were granted to its members by Galgamuwa RDB branch. It has provided Bhagya loans to 25 members who were qualified for obtaining credit. Utilizing available societies and groups already organized to give project loans had been one specific reason for providing more loans in Kurunegala district than other project districts.

As observed by the research team in some places, the bank has intervened more than the project to provide credit by using its connections (sometimes known through earlier transactions) so that the project staff could easily track the whereabouts of the person who obtained credit. In their endeavour, the banks have followed their own strategies to make credit delivery a success. In this regard one strategy followed by the RDB especially in Kurunegala in order to ensure a smooth flow of credit to the hands of those people in remote areas was bringing part of the services of the bank to the village. The bank officers go to a prominent place in the village once a week and collect completed applications and monthly installments making repayment easy for the people and reducing their cost and time spent on such activities. This has been expanded with starting of paying a service fee.

As revealed by the discussions with project staff, in Moneragala where credit disbursement was not under service provider model, the project staff followed different strategies. At the beginning when the PRA (Participatory Rural Appraisal) exercises were done to identify priority issues in villages, a separate date was assigned to those who wanted credit to discuss and arrange credit via project funds. Credit was arranged by organizing people via small groups and linking them with the banks. In Moneragala also the RDB was much keen in participating in the programme than other banks. The RDB branches in Wellawaya and Buttala got involved in giving credit for dairy farming and some other activities. When repayment of installments was delayed, the banks hesitated to continue. Then the project staff intervened to systematically establish societies by linking small groups so that stronger assurance could be obtained regarding loan repayment from a responsible body.

Bad repayment (low recovery) was a constraint, due to wrong impression given by local politicians especially in Moneragala during one local government election. The

project staff visited the field as a specific strategy to correct this mistake by explaining matters to the people to change their attitude. In this district it has been very difficult to attract People's Bank and Bank of Ceylon to grant project credit to people in Siyambalanduwa and Madulla areas following their previous unsatisfactory experiences on repayment of loans. These are the divisions where more poverty stricken people live, and more subsidy programmes have been implemented and repayment of loans had been avoided. This was a major threat to implement the micro financing activities. However, the project staff had been able to successfully motivate the bank staff to be involved in implementing the "*Bhagya*" Credit Scheme by strategically establishing personal contacts with them.

The beneficiaries also had followed some strategies to accelerate the credit disbursement process and benefit from project loan scheme. Observations revealed that in some places people have been able to benefit from project credit as a result of their inquiries. According to Bank of Ceylon, in Wellawaya there was a huge demand from people for project loans with publicity given about the availability of funds and their benefits. So they have been coming to banks looking for funds. Observations revealed that Welipitiya Milk Collecting Society in Polpithigama which was a formerly established society for purchasing milk of the area has arranged credit facilities by contacting banks about possible credit facilities for its members. The beneficiaries in different places have supported the banks in different ways such as organizing meetings for bank officers to explain about the credit programme and its benefits, fill the credit applications at the meetings. Bank officers also visit there to collect monthly installments. The earlier mentioned Welipitiya Milk Collecting Society had given their consent to deduct loan installments of its members from their two week milk income and handed it over to the bank officer who visits there regularly.

2.5 Loan Disbursement and Financial Progress

As a result of different strategies adopted with the support of other stakeholders such as banks and beneficiaries, the project has been able to correct the initial mistakes of slow progress by showing satisfactory results in achieving targets of providing loans for commencing income earning activities. According to the data of national project coordinating office, 4693 loans have been granted by the second quarter of 2012 for initiation of income earning activities (Table 2.1). Concerned with the targeted amount of 5000 income earning activities this is a satisfactory achievement as there is more time to provide credit for the registered number of applicants, which is 5305 (discussions with CBSL). The data indicates that the initial slow progress of granting credit in 2008/2009 had been gradually overcome in the following years (Table 2.1)

Table 2.1: Physical Progress - District Level Loan Distribution

District	Annual Loan Distribution (2008-2012)										
	* 2008/2009		2010		2011		2012		Total		%
	Target	Progress	Target	Progress	Target	Progress	Target	Progress	Target	Progress	
A'pura	300	48	300	331	500	408	200	494	1300	1281	99
K'galla	400	375	400	329	500	472	150	200	1450	1376	95
Badulla	300	227	300	163	500	551	150	217	1250	1158	93
M'gala	300	255	300	257	300	262	100	104	1000	878	88
Total	1300	905	1300	1080	1800	1638	600	1015	5000	4693	94
%	70		83		91		100		94		

* This component was initially started in the 4th quarter of the 2008, hence 2008/09 is considered as one
Source: National project Coordinating Unit

From the allocated amount of funds for this component which is Rs. 275 million (the total of the amount allocated for both loans and training), already (by second quarter of 2012) 269 million have been spent on providing loans and training indicating a 95% progress of spending allocated money (Table 2.2).

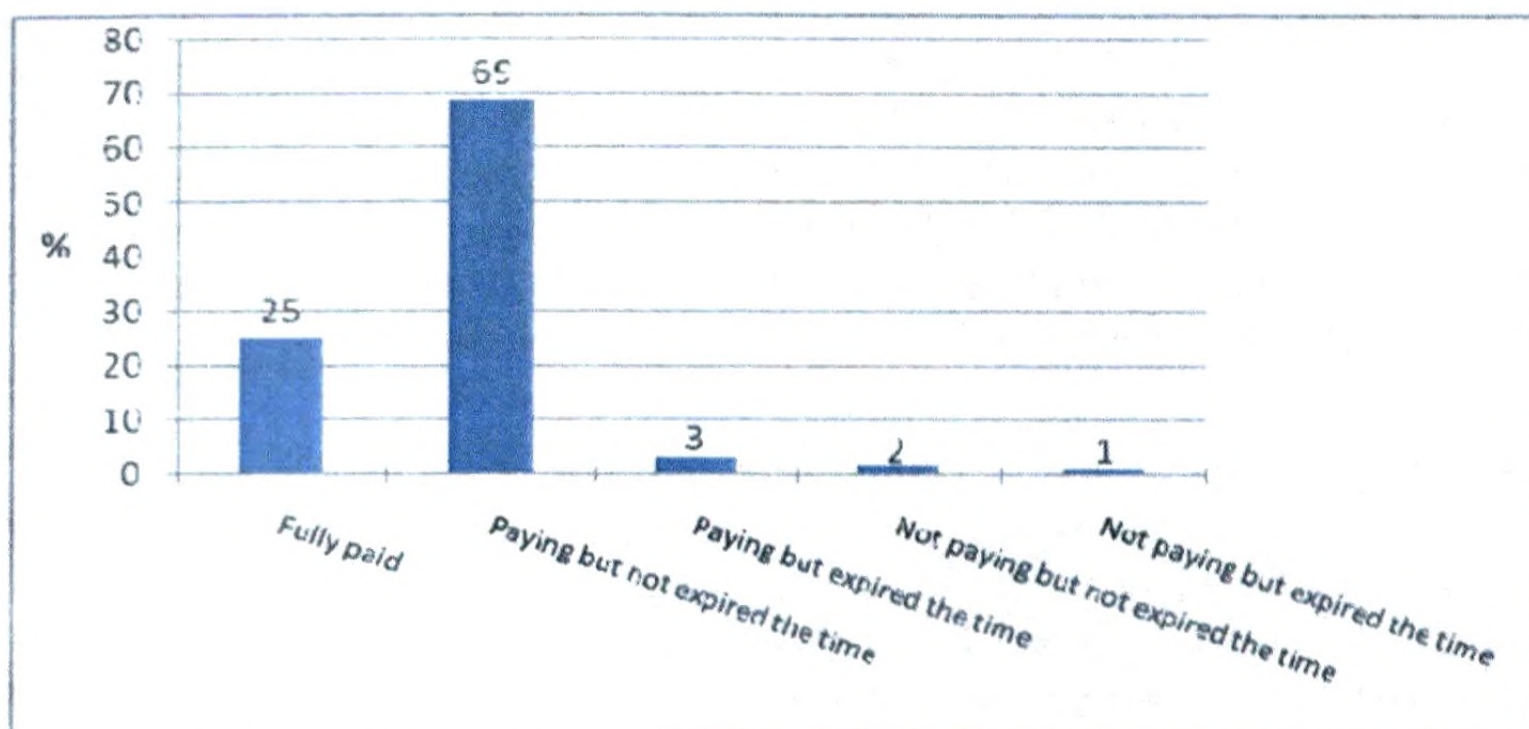
Table 2.2: Allocation and Distribution of Funds under Microfinance Component for the Period 2008-2nd Quarter 2012

District	Financial Progress : Cumulative –up to 2 nd qtr 2012						
	Rs.mn						
	Allocation			Expenditure			
	No. of Loans	Training	Total	No. of Loans	Training	Total	%
Anuradhapura	65	8	73	65	3	68	90
Kegalle	73	6	79	73	4	77	97
Badulla	63	7	70	63	5	68	97
Moneragala	50	5	55	53	3	56	94
Total	249	28	277	254	15	269	95

Source: National project Coordinating Unit

2.6 Progress of Loan Recovery

As revealed by the PFIs, the recovery of loans has been over 90%. This differed according to bank. The RDBs loan recovery rate was 97%. The proper monitoring system of the banks with the joining of the project staff had resulted in this achievement. The other reason was that if the loans were not recovered the banks would have to bear the loss. So the banks tried their best to recover. The survey information revealed that irrespective of the success of the income activity the beneficiaries had to pay the loan since they could not avoid repayment as the bank and the project staff repeatedly visited them. The figure 2.1 indicates the sample survey results about the beneficiaries' loan repayment.



Source: HARTI Field Survey

Figure 2.1: Beneficiaries' Response about Repayment of Loans

2.7 The Views and Benefits of the Banks

Participating financial institutions have been involved in the micro financing component with different level of progress in different districts. However, all of them are satisfied of their contribution to project and the benefits returned. The project and banks have mutually benefited by implementing the microfinance component. From the point of view of the project, it could nearly disburse targeted amount of money to almost all targeted number of people within the given period of time although there are some issues such as slow progress of credit disbursement in the initial years and acceleration of it in later years.

From the point of view of the banks, especially the RDB, it was a great achievement for the involvement in the credit scheme. According to the views of RDB and other bank managers the credit scheme expanded their customer base. It has introduced a large number of rural people who are not accustomed to credit culture and not involved in transactions with banks after training them. They are trained by the project not only for savings, obtaining and returning of credit, but also for developing their entrepreneurial skills. As most of them are already involved in some entrepreneurial activities and trained in necessary aspects, the banks do not need to be involved in training them. According to the banks they are the investors who can be provided further credit even from their funds in future. As indicated they had given a huge amount of credit for some income earning projects out of the bank's money as there were constraints to provide project funds over a certain limit. For example, for one of the loan applicants who applied for Rs.50,000/- to develop his aluminum industry has been financed with Rs. 200,000/- at the initial occasion and with Rs. 1,000,000/- in the second occasion by the People's Bank in Badulla from its own funds(see case study 01 for more details).

As further revealed by the PFIs the banks have been able to benefit economically. By providing credit they could earn 6% interest as their profit. As the project provided support to identify the beneficiaries it was convenient for the banks to increase their profit, as the banks could cut down the cost (transaction cost) that would have incurred in identifying reliable and deserving beneficiaries. The banks further benefit from 5% training fee which was paid since the beginning of 2011.

CHAPTER THREE

Impact of Microfinance on Income Generation Activities

3.1 General

This chapter mainly deals with the contribution of the microfinance component of the DZLiSPP in promoting income generation activities via provision of microfinance and other services like training and advice. In this chapter specific attention is paid to the manner in which microfinance facilities of the project had improved the access to credit for beneficiaries, limiting time and cost incurred by the beneficiaries for obtaining credit in addition to paying attention to the constraints they faced in obtaining project loans, type of investment activities they have started, the level of their sustainability and related issues.

3.2 Facilities Provided by the Project

The project had been facilitated under microfinance and income earning activities component of the selected beneficiaries to initiate income earning activities through provision of credit, necessary training and advice and in some cases marketing facilities as normally done under many micro financing schemes that function in poverty alleviation.

3.3 Credit Facilities

The project has contributed to assure accessibility for less cumbersome, less time consuming, low cost credit for people who are interested in commencing income earning activities by overcoming the issues faced earlier in fulfilling this task. Assuring credit was a prime need to encourage people for initiation of income earning activities. Accordingly the project provided collateral free low interest (10%) credit facilities through participating financial institutions (RDB, BoC and PB) to people who are eager to commence income generating activities under the project¹. The table 3.1 indicates detailed information about the obtainment of credit by the beneficiaries. According to the sample survey of beneficiaries, a great majority of those who obtained project loans received between Rs.10,000/- to Rs.50,000/- (80%). The Loans obtained above the value of Rs.100,000/- appear to be very few (3%). The observations indicated that although some beneficiaries had interest in obtaining higher amounts the banks had not responded well fearing the risk. This shows the importance of further developing the borrowers' assets via promoting

¹The initial loan size was Rs.50,000/- and this amount was increased to Rs.100,000/- and Rs.250,000/- later. At the beginning up to Rs.50,000/ and later up to 75,000 was given under group guarantee and up to Rs.250,000/- under some acceptable guarantees requested by each bank from different persons. Before giving credit selected beneficiaries were mobilized by encouraging them to perform group activities including involvement in savings and exchange of their labor and operating revolving funds.

them to save more so that they would qualify to handle bigger loans to develop their income activity after the first loan. However, it is a rare occurrence except in limited places.

Table 3.1: Beneficiaries According to the Obtained Loan Amount

Loan Amount Rs.	No of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No	%	No	%	No	%	No	%	No	%
Less than 10000	0	0.0	2	3	4	6	2	4	8	3
10000 – 50000	73	85	40	69	50	76	48	89	211	80
50000 - 100000	13	15	16	28	7	11	1	2	37	14
Over 100000	0	0.0	0	0.0	5	7	3	5	8	3
Total	86	100	58	100	66	100	54	100	264	100

Source: HARTI Field Survey

The project has encouraged two types of beneficiaries to invest under the microfinance component. One category was those who liked to invest under already functional income earning activity to expand its production or services. Those who were interested in investing in a new income earning activity (new income earning activities) belonged to the other category. Most loans (72%) had been granted to already functioning income earning activities while the rest were for new income earning activities (3.2). In Badulla and Kurunegala, nearly 80% of the project loans had been given for already functional income earning activities while in Moneragala and Anuradhapura a substantial number of loans have been granted to new income earning activities.

Table 3.2: Type of Investment Activity for which Loans were Obtained

Nature	Usage of Loan									
	Kurunegala		Anura'pura		Badulla		Moneragala		Total	
	No	%	No	%	No	%	No	%	No	%
Functional Activity	67	79	40	68	53	82	30	56	190	72
New Activity	18	21	19	32	12	18	24	44	73	28
Total	85	100	59	100	65	100	54	100	263	100

Sources: HARTI Field Survey

In most cases the project had been able to provide credit within a short period (Table 3.3) from the time the applicants handed over their applications. As much as

61% of loans had been disbursed within a month (4 weeks) and about one fourth within two weeks from the date the loan application was forwarded. This seems to be a greater achievement considering the time taken to obtain formal credit from the banks, which takes more than two months as expressed by the members of focus groups. However, it had taken 3 to 6 months for making the beneficiaries ready for credit as normally done under micro financing schemes. In locations where people were well organized and more enthusiastic to obtain loans and had performed their role (formation of active groups, opening of group as well as personal accounts and saving the required amount of money in group as well as individual accounts) well to the satisfaction of the banks, the beneficiaries had been able to obtain loans within a shorter period. But in places where organization was poor, granting credit had been delayed.

However during the first few years of the project had not been a well-established system for granting credit and consequently granting loans had taken more time. There were beneficiaries who had waited for about two years to receive the loan due to transfer or resignation of the facilitator or the loan officer at the time loan was ready to be granted. The interest of the bank to grant credit on conditions and the location where the applicant was residing also seemed to have resulted in delays. At the initial period some banks like Bank of Ceylon and People's Bank had not shown much interest to be involved in especially remote areas like Siyambalanduwa where poverty is high. In such circumstances people had to wait until the bank was willing to give credit. In Kurunegala and other districts with more interest of the RDB to be involved in the *Bhagya* Loan Scheme provision of loans was done as early as possible (In Kurunegala 68% of loans have been granted within one month period). The availability of more field staff for the RDB branches and the previous links established by the bank officers with people and the community based organizations had been more helpful for releasing credit within one week since the date of handing over the application in some of the places like Medagama and Ulpothagama in Ggalgamuwa.

The project had also been able to minimize the expenditure incurred by the beneficiaries for obtaining a loan for their income earning activities. According to the sample survey under *Bhagya* Loan Scheme, a majority (63%) of the beneficiaries had spent less than Rs.500/- for obtaining their loan while a great majority (83%) has paid less than Rs.1000/- irrespective of their loan size (Table 3.4) The discussions with focus groups and the key informants in villages revealed that for obtaining a similar loan from a bank they had to spend more than Rs. 3000/-. This includes the cost (bus fare and the expenses for meals for the applicant as well as the guarantors) to visit the bank on five or six occasions and the cost of providing other documents and requirements like producing guarantees.

Table 3.3: Time Taken to Obtain the Loan

No of weeks	No of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No	%	No	%	No	%	No	%	No	%
Less than 2	12	14	9	16	8	12	9	17	38	14
2-4	46	54	21	36	30	46	26	48	123	47
4-8	15	17	14	24	7	11	7	13	43	16
8-12	4	5	6	10	6	9	9	17	25	10
12-16	1	1	2	3	3	5	0	0	6	2
16-20	0	0	2	3	0	0	1	2	3	1
over 24	8	9	4	8	11	17	2	3	25	10
Total	86	100	58	100	65	100	54	100	263	100

Note: Time was calculated from the date the loan application was handed over

Source: HARTI Field Survey

The discussions with same focus groups revealed that normally it needs three visits to obtain a (*Bhagya*) project loan: one visit for handing over the completed application, another for signing by group members as guarantors and the other for obtaining the loan money. Other activities such as bringing an application from the bank and checking whether the loan had been approved were normally done by the project facilitator and the bank's field officer. However the discussions with bank staff and the focus groups revealed that specially in Kurunegala (RDB) and generally in some other places the beneficiaries' visiting the bank had been further limited to one day through the bank staff visiting the people in pre-arranged days and fulfilling the official requirements to issue the loan; filling of application and the signing by the group members as guarantors. So the people had been able to reduce time and cost for visiting the bank for obtaining credit. The bank officers visiting the village has a great advantage for the beneficiaries who live in more interior areas such as Polpithigama in Kurunegala in saving their time and cost (the people in interior areas have to spend more than a half a day to visit the bank and return).

However, some beneficiaries had spent more than Rs.1000/- (11% beneficiaries) or Rs.2000/- (4% beneficiaries) to obtain the loan. The reason had been the delay of giving the loan in some cases especially in initial years. This had resulted in the beneficiaries visiting the bank several times alone or with the guarantors. On these occasions, in interior areas in Mahiyangana in Badulla District the beneficiaries had to hire three wheelers for visiting the bank due to lack of transport facilities. Some informants in the sample mentioned another reason for the increase of their transaction cost for obtaining the loan at the initial years of the project. That was less enthusiasm of the banks to grant credit so that the applicants had to involve themselves to complete some of the pre-requirements of the banks (getting the signature of other bank managers in the area to show they had not taken loans from

those or not defaulted their loans) that should have been done before granting credit.

Table 3.4: Expenditure for Obtaining Loans

Extra Amount (Rs.)	No. of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Less than 500	61	74.4	17	29.8	45	71.4	38	73.1	161	63
500 - 1000	16	19.5	22	38.6	7	11.1	5	9.6	50	20
1000 - 2000	4	4.9	14	24.6	7	11.1	2	3.8	27	11
2000 - 3000	1	1.2	3	5.3	1	1.6	6	11.5	11	4
Over 3000	0	0.0	1	1.8	3	4.8	1	1.9	5	2
Total	82	100	57	100	63	100	52	100	254	100

Source: HARTI Field Survey

Asked about the problems faced by sample beneficiaries when obtaining loans, about one third of borrowers said they had no problems (Table 3.5). Requesting of guarantors and documents by some banks was a problem for some 12% of the beneficiaries. This had happened in cases where the banks could not ensure the sustainability of the income earning activities of the beneficiaries. Especially for the loans above Rs. 50,000/- the banks used to ask for strong guarantees.

Table 3.5: Problems Faced when Obtaining Loan

Type of problem	No	%
1. No problems	84	31.7
2. Not receiving the loan by all in the group together	114	43.0
3. Request of some banks to produce guarantors and documents	32	12.1
4. Problems due to group guarantee system	8	3.0
5. Non availability of a clear idea about the loan scheme	9	3.4
6. Impossibility of obtaining the loan from a bank on individual requirement	12	4.5
7. Indifference of the banks towards small loans	1	0.4
8. Lack of interest of the officers	1	0.4

Source: HARTI Field Survey

3.4 Investment Behavior of the Loan Receivers

Except few borrowers (0.8%) others had utilized the loan money on an investment related income earning activity. As much as 90% of them had used the total amount of the loan for investment while the rest have used part of it (Table 3.6). About 90% of those who spent a portion of the credit amount for the proposed activity had utilized the rest of the money on another income earning activity.

Table 3.6: Amount Spent for Income Activity from the Loan

Amount of usage	Usage of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Total amount	73	86.9	56	94.9	57	86.4	50	94.3	236	90.1
Part of the loan	11	13.1	3	5.1	9	13.6	3	5.7	26	9.9
Total	84	100.0	59	100.0	66	100.0	53	100.0	262	100

Source: HARTI Field Survey

Most of the loan receivers had invested an additional amount for their income activity from their own money. A calculation was done to indicate the proportion of their loan investment from their total investment under the income activity (3.7). Accordingly, about 66% of both new and already functional income project beneficiaries had depended on project funds (from 80%- 100%) for their investments. More than 75% of both categories depended on the project for at least 60% of their project investment. The loan investment has been less than 20% of the total investment of the 4% of beneficiaries belonging to both categories.

Table 3.7: Loan Contribution to the Income Generating Activity

Proportions	Functional income earning activities		New income earning activities	
	Count	%	Count	%
Less than 10%	2	1.1	2	2.7
10% - 20%	2	1.1	1	1.4
20% - 40%	11	5.8	2	2.7
40% - 60%	12	6.3	6	8.2
60% - 80%	37	19.5	13	17.8
80% - 100%	126	66.3	49	67.1
Total	190	100.0	73	100.0

Source: HARTI Field Survey

3.5 Promotion of Income Generating/Livelihood Activities

Provision of credit and other services such as training had promoted poor and low income people in the project area to commence and expand more than 4200 new and earlier existed income earning activities. Lack of credit due to problems of access to financial institutions was a constraint for people to engage in investment activities in rural areas. This is established by the findings of the Kurunegala District baseline survey of DZLiSPP that indicates 34% as the level of people's access to agricultural credit from banks (Teams, 2009). Arranging for poor and low income households' better access to institutional credit had provided credit to invest under different home based livelihood activities. These activities can be categorized into five groups as indicated in Table 3.8. Under category "agriculture" beneficiaries had invested in cultivation of different crops including fruits and vegetables. Under "livestock" they had invested mainly for dairy farming and rearing of some other animals such as goats and poultry. They had invested under different agro based value added products including production of curd, yoghurt, grinding and packaging of dried chilly, *kurakkan*, pepper etc. Under "trade and businesses" investments borrowers had invested in grocery stores, bakeries, vegetable and fruit selling huts etc. They had also invested in fishery related activities such as fishing and fish vending. A large number of people had also invested on various types of other activities such as brick making, compost production, welding, carpentry works and sewing. Utilizing the project loans the people have been able to expand the available livelihood opportunities or commence new livelihood opportunities by using their unutilized or under- utilized skills, capabilities and resources.

Table 3.8: Income Earning Activities of the Loan Recipients of the Sample

Loan	No. of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No	%	No	%	No	%	No	%	No	%
Agriculture	20	23.3	8	13.6	20	30.3	4	7.4	52	20.0
Livestock	11	12.8	2	3.4	6	9.1	1	1.9	20	7.5
Agro-based enterprises	3	3.5	2	3.4	1	1.5	2	3.7	8	3.0
Trade/Business	30	34.9	24	40.7	27	40.9	15	27.8	96	36.2
Fisheries and other	22	25.6	23	39.0	12	18.2	32	59.3	89	33.6
Total	86	100	59	100	66	100	54	100	265	100

Source: HARTI Field Survey

The project had not been able to assure hundred percent for selection of more poor and low income people to encourage them for income earning activities. In the initial years the project had very slow progress in terms of granting credit. Hence, in the rest of the years it had emphasized in achieving the targets. At the end of the period

of the project (2010, 2011 and 2012) more credit had to be disbursed to attain targets and therefore the project had selected people without considering their income or status. As revealed by the observations of the research team this had resulted in selecting some of high income earners who did not deserve financial support. According to the sample survey of beneficiaries (Table 3.9) only 26% of them were Samurdhi recipients, which means the very poor among the beneficiaries were not a substantial percentage. However, their percentage is higher in Moneragala (37%), while it is low in Anuradhapura (16%).

Table 3.9: Samurdhi Recipients in the Sample

Samurdhi Beneficiary	No. of Families									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No.	%	No.	%	No.	%	No	%	No	%
Yes	25	29.1	10	16.0	14	21.2	20	37.0	69	26.0
No	61	70.9	49	83.1	52	78.8	34	63.0	196	74.0
Total	86	100.0	59	100.0	66	100.0	54	100.0	265	100

Source: HARTI Field Survey

3.6 Success of Income Generation Activities

Most of those who successfully invested, appreciated the contribution of the project for establishing their livelihood activities. As far as the ongoing livelihood activities are concerned, the beneficiaries had been able to get the benefit of loan money to expand those ventures. For example, many people who had been involved in rearing one cow have utilized the loan money to purchase more to expand the milk production and income of the household. People who were involved in some industrial production activities at household level had utilized the loan money to obtain necessary equipment or raw materials for expanding the volume of production. One such outstanding example is Mr. D.L. Indika who had used project credit to expand his home-based industry of production of aluminum utensils (Case study 01).

With credit money he had purchased the required implements which were hired earlier and also had purchased more raw materials such as empty beer cans for his industry. As a result, his production had increased by three-fold and the number of various production items also had increased from 5 to 60.

Case Study 01: Aluminum Production Center of Mr. D.L. Indika

Mr. D.L. Indika is a (38 years old) father of two living in Andeniya, Badulla. After completing O/L he started to work in a number of places making aluminium products with much interest to start his own production centre.

In 2003 he started his own industrial unit at his home to make kitchen utensils from melted aluminium from beer cans and tins. At the beginning, machines were fixed on his compound. A small hut was constructed by utilizing savings from rotating funds (*seettu*). At the initial stage he worked with the help of his wife. The required implements were hired. Later his brother and father also helped him. Two other persons were hired with further development.

When small groups were formed by DZLiSPP, Mr. Indika's wife had joined in a group and fulfilled the essential requirements (like savings) to qualify for a loan to develop the home-based industry. She applied for a loan worth Rs.50,000/- to construct machinery for the family industry. As her husband had more potential to develop the industry the bank agreed to grant an amount beyond the applied amount (Rs.200,000/-). With this loan he could purchase and stock 1,000 kg of materials such as beer cans instead of 600kg of materials which he stocked earlier sufficed only for two weeks. So his production increased by three-fold. Instead of working half a day, now they work until evening and two workers have also been hired. Each is paid Rs.800/- per day with meals. Instead of 4 items now he makes about 60 items and there is a better market for his products in the town.

Mr. Indika's day's income after deducting the cost is Rs.3,500/-. Monthly income is over Rs.100,000/-. The bank has granted another loan worth of one million (at the rate of 9% interest) to purchase a land (32 perches) to expand his industry. A part of the house has also been renovated with that money. He has saved about Rs.150, 000/- and half of the loan has been paid back.

However, almost all livelihood activities of the beneficiaries done through project loan facilities had not been successful though they were already functional or new activities. Some activities had not been successful due to marketing and technical problems. As revealed by key informants and field facilitators' interviews and focus group discussions, rearing of cows had been one of the activities out of which many people have been successful. But even this activity had failed in some cases due to purchasing of genetically low quality cows without being able to obtain right technical advice (case study 02). Some investments for diversifying production of paddy mills in Handapanagala area had also been unsuccessful due to marketing issues. Nine millers in the area who produced steamed rice by obtaining project loans up to Rs.200,000/- for stocking paddy had failed due to these problems.

Case Study 02: Dairy Production of Mrs. W.M. Mallika

Mrs. W.M. Mallika is a 50-year old mother of three in Ruwalwella, Madulla, Moneragala District. She was a member of small group (consisting of ten beneficiaries) under the dairy development component. Rs.10, 000/- was given to each member of the group under this component to construct a cattle shed. She has obtained a loan worth of Rs.40,000/- from credit component to purchase cows to expand the dairy business of her husband. Already there were 5 local cows at her house. With the loan money two cows were purchased. Even after performing artificial insemination four times, one cow did not conceive and found to be infertile. So that cow was sold. Another cow gave birth twice. But she gives out only about 3 1/2 to 4 liters of milk. As Mrs. Mallika mentions, although she has sought advice from livestock officers in the area about the quality of animals they failed her. Hence, their recommendation in terms of the breed of the cows did not prove to be right. So she could not realize what she expected from her investment, increase the productivity of the domestic dairy industry.

As already established market channels were available for established steamed rice producers in other areas of the country such as Ampara, Polonnaruwa and Anuradhapura new comers had not been able to find a good demand for their products (case study 03). Environmental issues such as severe drought also impinged on the success of livelihood activities such as dairy farming especially in Moneragala District.

Case Study 03: Steamed Rice Production by Mr. A.A. Hemapala

Mr. A.A. Hemapala in Handapanagala, Wellawaya is a rice miller for a long time. He and 15 other rice producers in the area were given training at Rice Research and Processing Centre in Anuradhapura about steamed rice production by DZLiSPP. Five of them including Mr. Hemapala were given a Rs.200,000/- loan each by the project to initiate steamed rice production. They have utilized this money for stocking of rice. At the time they were interested in investing for producing steamed rice it appeared that there was a better price, Rs.55/- per kilo instead of Rs.48/- per kilo of raw rice. But, after their investment, due to low demand for steamed rice they could not find a better market for the products and had to bear a loss. However, the loan installments are being paid regularly from other incomes derived from producing other rice varieties.

3.7 Sustainability of Income Generating Activities

According to the sample survey of beneficiaries, only 84% (223) of the income earning activities are still functioning (Table 3.10). About 16% (42) out of 265 income earning activities had been discontinued after being in operation for some time. Their failure was caused by management problems and other issues mentioned earlier. Among this discontinued category there were 5% (12) income earning

activities which operated successfully for some period and failed later. When already operating and new income earning activities are considered separately, already functional income earning activities seem to be more sustainable than the new income earning activities indicating that a higher number of them are still operating than the new ones. Experience and entrepreneurial capability of their operators than the experience and entrepreneurial capability of new enterprise operators had mainly contributed for this success.

Table 3.10: Present Condition of Income Earning Projects

Present Condition	Time Period					
	Old Activity		New Activity		Total	
	No	%	No	%	No	%
Still functioning	167	87.4	56	75.7	223	84.2
Successfully functioned and ceased	9	4.7	3	4.1	12	4.5
Not successful	15	7.9	13	17.6	28	10.6
Not started	0	0.0	2	2.7	2	0.8
Total	191	100.0	74	100.0	265	100.0

Source: HARTI Field Survey

Researchers examined the level of sustainability of the operating income earning projects (223) based on the level of their income, possibility of operating continuously without any disruption. Accordingly, 30% of the income earning activities have been very successful as they have had a good market for their products or services and they earn a satisfactory level of profit. The majority of income earning activities is in the category of, "success". They also maintain profitably. Next category, "little successful" represents 11% income earning activities and they were maintained with a small profit. Next category (normal) earns a very marginal income.

Table 3.11: The Level of Sustainability of the Income Earning Projects

Present Condition	Time Period					
	Old Activity		New Activity		Total	
	No	%	No	%	No	%
Very successful	53	31.9	14	25.0	67	30.2
Successful	93	56.0	28	50.0	121	54.5
Little successful	14	7.8	11	19.6	25	10.8
Average	7	4.2	3	5.4	10	4.5
Total	167	100.0	56	100.0	223	100.0

Source: HARTI Field Survey

Obtaining a second loan to invest on the concerned income earning activity seems to be a good indicator to show that some income earning activities are firmly established and sustainable so that investing further is useful. According to the sample survey, as much as 11% of the investors said that investing further is useful. As much as 11% of the sample beneficiaries had obtained a second loan (3.12). According to further examination, about 42% of such loans are higher amounts worth over Rs.50,000/- and their percentage is higher in Kurunegala (12%). However, all of these second loans are not based on project funds and the PFIs have provided such loans from their funds also, after getting to know the beneficiaries. This seems to be a great achievement of the project because many of the beneficiaries were not previous customers of the banks so that they had not received banking experience. But, after working with banks under the project they had showed that they are qualified bank customers to obtain further investment loans (Case study 04). Because of their high exposure to banks, they had also been able to take their second loan sooner. For example, according to the sample survey data 50% of those who obtained a second loan for their income activity have been able to obtain it within two weeks, but those who could obtain their first loan within such a shorter period was only 14%. As much as 80% could obtain the second loan within one month while only 61% could obtain their first loan within the same duration.

Table 3.12: Taking a Second Loan for Investment

Response	No. of Beneficiaries									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	No	%	No	%	No	%	No	%	No	%
Obtained	11	13	7	12	4	6	6	11	28	11
Not obtained	75	87	52	88	62	94	48	89	237	89
Total	86	100	59	100	66	100	54	100	265	100

Source: HARTI Field Survey

3.8 The Problems of Income Earning Activities

The responses of the beneficiaries when asked about the problems they were facing regarding the income activity are indicated in Table 3.13. According to the responses many have mentioned (74%) about basic issues they were facing such as non-availability of electricity and quality seed and animals etc. Then lack of adequate marketing facilities was also an issue for a reasonable percentage of the beneficiaries (23%). Looking at other issues such as lack of training, non-availability of government registration and lack of funds it is clear that they have no understanding as to how to receive the benefits of services of various institutions.

Table 3.13: The Problems Faced by Income Earning Activities

No	Count	%
1. Lack of basic requirements such as electricity, water, quality seed and animals	196	74
2. Lack of adequate marketing facilities	62	23
3. Lack of training	13	5
4. Damages to crops and other business	8	3
5. Non- availability of government registration	2	0.7
6. Lack of funds	11	4
7. Difficulties in producing documents for obtaining further loans	2	0.7
8. No issues	15	6

Source: HARTI Field Survey

When examined about the suggestions of the beneficiaries for developing their income activity the following (Table 3.14) responses regarding the project credit programme were received. Responses reveal that a great majority had expected further credit for developing the income activity. At the same time they had expected some more flexible conditions for obtaining of credit such as removal of group credit system without proper understanding about the operational procedures of microfinance.

Table 3.14: The Beneficiaries' Suggestions about Credit System

Suggestion	No.	%
1. Granting credit again after examining the progress of repayment	217	82
2. Granting loans after establishing societies at village level	22	8
3. The conditions of the loans should be simple	4	1.5
4. It is necessary to recover the loan in a systematic way	26	9.8
5. Granting individual loans rather than group loans	12	4.5
6. Granting loans also for other family affairs	6	2.3
7. Granting loans in material like cows, seed etc.	3	1.1
8. Granting loans after providing proper training in conducting business	3	1.1
9. Bank should develop a closer relationship with people	9	3.4

Source: HARTI Field Survey

The beneficiaries' other suggestions for the development of their income earning activities. Table 3.15 indicates giving further training in credit and marketing are

their priority suggestions. These are the things covered under the project facilitation process. Request to repeat the granting of loans indicates the significance of provision of those services from time to time for further development and assurance of sustainability of the income earning activities.

Table 3.15: The Beneficiaries' Suggestions for Developing Their Income Earning Activities

Suggestion	No	%
1. Granting a loan of a higher amount after evaluating the income source	79	30
2. Granting materials such as higher quality animals instead of money	23	9
3. Assurance of market and transport facilities	48	18
4. Systematic training and awareness creation	83	31
5. Appointing of officers to work enthusiastically	1	0.3
6. Providing water and protection for crops from wild animals	18	7
7. Supplying electricity for their development	3	1

Source: HARTI Field Survey

CHAPTER FOUR

Impact of Microfinance on Beneficiaries

4.1 Introduction

This chapter pays attention to the impact of income generation activities of the project on the beneficiaries and other communities in the area. Specific attention will be paid to examine how livelihood activities have increased employment and income of the beneficiaries and other communities, and the manner in which income has been utilized for improvement of family conditions. Attention will also be paid to examine how group mobilization has affected the savings of the beneficiaries and how the promotion of livelihood activities and their income have affected household decision making process and gender parity.

4.2 Effects on Employment

Initiation of new livelihood/income earning activities or expansion of existing livelihood/income earning ventures by project loan investment and other assistance such as training and advice has generated employment. The employments are for males, females and children within and outside the beneficiaries' households.

Seventy four loans have been granted to new income generation ventures and of that, 72 have been used for investing on income earning ventures. People are involved in those activities on full-time, part-time and seasonal/occasional basis. For some ventures, services of non-family members also have been obtained on payment. As indicated in Table 4.1 there are 93 employment opportunities generated from them. Of these 35 are full-time opportunities and 31 are for the beneficiary families' household members. The majority of full-time employment generated (21) are for female members, a proof that more benefits had gone to them from new employment opportunities. Fifty two part-time jobs have been generated from new income earning activities and 46 of them are for family members and 22 are for female family members. Few seasonal/occasional opportunities (6) have also been generated and three of them are for family members and three for male including non family members. Of all types of employment generated (93) from new income activities nearly half (47%) are for females. All new income earning activities have generated 1.2 new opportunities (including full-time, part-time and seasonal/occasional jobs) per income activity.

Table 4.1: Employment Generated from New Income Earning Activities

Nature	District	In family			Out of family			Total
		Adults		Child	Adults		Child	
		Male	Female		Male	Female		
Full time	Kurunegala	5	4	0	1	0	0	10
	Anurapura	1	6	0	0	1	0	8
	Badulla	1	5	0	0	0	0	6
	Moneragala	4	5	0	2	0	0	11
Sub Total		11	20	0	3	1	0	35
Part time	Kurunegala	6	5	0	1	0	0	12
	Anurapura	4	4	0	2	1	0	11
	Badulla	4	7	1	0	0	0	12
	Moneragala	9	6	0	1	0	1	17
Sub Total		23	22	1	4	1	1	52
Seasonal/ Occasional	Kurunegala	0	1	1	0	0	1	3
	Anurapura	1	0	0	2	0	0	3
	Badulla	0	0	0	0	0	0	0
	Moneragala	0	0	0	0	0	0	0
Sub Total		1	1	1	2	0	1	6
Total		35	43	2	9	2	2	93

Source: HARTI Field Survey

The already functional income earning projects have generated 326 employment opportunities (Table 4.2) in full-time, part-time and seasonal categories. Some of the employment had prevailed earlier under an already functional income earning venture. But reinvestment of money obtained from project credit has increased the number of their employment opportunities. Sometimes the part-time opportunities have turned into full-time ones or seasonal ones have become part-time ones. For some activities the service of the persons outside the households has also been obtained with the expansion of activities. There are 114 new employment opportunities (including full-time, part-time and seasonal/occasional employment) generated from 190 already functional income earning activities. Of those 94 employment opportunities have been generated for the household members while 20 have been generated for those outside the household. Out of total new employment opportunities generated 86 (including child employments) are for males and the balance 28 are for female members indicating that the male members have benefited more. However, the major reason for this increase of male employed is getting support of the husband for developing the economic venture in which the wife was part of before the project. This is indicated by the higher level increase of male household employment opportunities from 95 to 181 than the increase of female household opportunities from 117 to 145 during the pre and post project periods. From all earlier income earning activities 0.6 new employment opportunities (including full-time, part-time and seasonal/occasional work opportunities) per income earning venture have been generated.

Table 4.2: Employment Generated from Already Functional Income Earning Activities Before and After the Project

Nature	District	In family								Outside family						Total	
		Adults				Child				Adults			Child			Before	After
		Male		Female		Before	After	Before	After	Before	After	Before	After				
		Before	After	Before	After									Before	After	Before	After
Full time	Kurunegaia	15	35	20	20	0	1	3	3	0	0	0	0	0	0	38	59
	Anuradhapura	4	12	14	14	0	0	4	4	0	1	0	0	0	22	31	
	Badulla	5	14	27	27	2	2	2	2	0	2	0	0	0	36	47	
	Moneragala	2	10	14	14	0	0	6	6	0	0	0	0	0	22	30	
Sub Total		26	71	75	75	2	3	15	15	0	3	0	0	0	118	167	
Part time	Kurunegaia	10	10	10	19	0	0	4	4	0	0	0	0	0	24	33	
	Anuradhapura	3	4	12	10	4	3	5	5	0	2	0	0	0	24	24	
	Badulla	6	13	7	15	0	0	2	2	1	2	0	0	0	16	32	
	Moneragala	4	13	3	6	0	0	2	2	0	0	0	0	0	9	21	
Sub Total		23	40	32	50	4	3	13	13	1	4	0	0	73	110		
Seasonal/ Occasional	Kurunegaia	0	5	1	4	0	1	2	14	4	2	0	0	2	7	28	
	Anuradhapura	1	2	1	2	0	1	3	3	1	2	0	0	1	6	11	
	Badulla	0	1	1	2	1	0	4	5	1	0	0	0	7	8		
	Moneragala	0	0	0	1	0	0	1	1	0	0	0	0	1	2		
Sub Total		1	8	3	9	1	2	10	23	6	4	0	3	21	49		
Total		50	119	110	134	7	8	38	51	7	11	0	3	212	326		

Note: All child employees were considered as male

Source: HARTI Field Survey

4.3 Effects on Income

The new as well as already existing income earning activities in which the credit money of the project was invested, beneficiaries have generated some income to increase their household income than before investment (Table 4.3). Of the new income earning activities 15% of the beneficiaries who have invested have been able to derive Rs.14, 000/- or above as their monthly income. This means that they have been able to be above the poverty line through the income generated from new income activity alone. The percentage of beneficiaries falling into this category is higher in Kurunegala district (21%) where there is more potential in developing income earning activities.

The others deriving a varying monthly income up to Rs.14, 000/- have been able to use it as a supplementary household income to be above the poverty line or to cushion their poverty. For example, three beneficiaries who derive an income between Rs.6,000/- to Rs.10,000/- from the new income activity have been able to go above the poverty line by utilizing their other incomes which are between Rs.10,000/- to Rs.14,000/-(Table 4.4). There are 16% of sample beneficiaries who have not been able to derive any single amount of money as their projects were failures or were not mature enough to generate incomes.

Table 4.5 indicates the distribution of beneficiaries who invested on already existed income earning activities, according to their incremental income and the other incomes of the household.

Table 4.3: Beneficiaries According to Income of Their New Income Earning Activity

Income of new income activity (Rs.)	District											
	Kurunegala			Anuradhapura			Badulla		Moneragala		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
No Income	3	15.8	0	0.0	3	25.0	6	25.0	12	16.2		
Less than 3000	1	5.3	5	26.3	1	8.3	2	8.3	9	12.2		
3000 - 6000	3	15.8	3	15.8	2	16.7	6	25.0	14	18.9		
6000 - 10000	5	26.3	8	42.1	4	33.3	6	25.0	23	31.1		
10000 - 14000	3	15.8	1	5.3	0	0.0	1	4.2	5	6.8		
14000 - 20000	1	5.3	1	5.3	2	16.7	3	12.5	7	9.5		
20000 - 40000	2	10.5	1	5.3	0	0.0	0	0.0	3	4.1		
Over 40000	1	5.3	0	0.0	0	0.0	0	0.0	1	1.4		
Total	19	100.0	19	100.0	12	100.0	24	100.0	74	100.0		

Source: HARTI Field Survey

Table 4.4: Distribution of Beneficiaries who Commenced New Income Earning Activities: Their Incomes from New Income Activity and Other Household Income Activities

Income of new income activity (Rs.)	No. of beneficiaries	Percentage	Beneficiary Distribution on Rest of the Household Income (Rs)									
			Less than 3000	3000 - 6000		6000 - 10000		10000 - 14000		20000 - 40000		
				No.	%	No.	%	No.	%	No.	%	No.
No Income	12	16.2%	0	0	3	3	0	0	6	3	0	0
Less than 3000	9	12.2%	0	0	1	1	0	0	2	5	1	1
3000 - 6000	14	18.9%	1	1	0	0	3	3	3	6	0	0
6000 - 10000	23	31.1%	2	2	2	2	3	3	7	6	1	1
10000 - 14000	5	6.8%	0	0	1	1	1	1	2	1	0	0
14000 - 20000	7	9.5%	1	0	2	2	1	1	0	3	0	0
Over 40000	1	1.4%	0	0	1	1	0	0	0	0	0	0
Total	74	100.0%	4	3	10	9	20	26	2			

Source: HARTI Field Survey

The beneficiaries who invested on already existed income earning activities also have been able to increase the income derived out of them. That incremental income alone was sufficient for 15% of the beneficiaries who invested under already existed income earning activities (Table 4.5) to be above the poverty line (case study 04 indicates how one of the beneficiary, Malkanthi could increase the income of her already existed business by expanding and diversifying it) There is very little percentage (4.7%) of those beneficiaries who have not been able to derive any single incremental income from their investment on an existed income activity. Those who derive an income of less than Rs.3000/- per month are considerably very high, 37% among existed income category and 12% among new income category. The failure or less progress of some income earning activities due to technical and marketing problems and insufficiency of time to develop the income activity to the level that can derive an attractive income have contributed for this situation. Observations revealed that some beneficiaries who had invested further on their dairy business have not been able to derive an attractive income due to purchasing of less productive animals. Simultaneously, the income has not increased due to marketing constraints faced by the products. This has happened for the steam rice producers in Handapanagala and Wellawaya. In certain cases the income has increased without increasing of the volume of production due to obtaining of less interest credit under project (Case Study 05).

Case Study 04: Poultry Farming by Mrs. M. Malkanthi

Mrs. M. Malkanthi is a 34 years old married woman who lives in Neethiyagama, Mihintale. She has taken a loan of Rs.100,000/- from DZLiSPP in 2009 to expand her poultry farm which was initiated in 2004. Because of the expansion of her business with new investment, the number of chick birds of her farm had increased to 500 chick birds from 200 chick birds. The per month profit of her business increased from Rs.5,000/- to Rs.15,000/-. This profit and the money of another bank loan has been used for purchasing a three wheeler to transport poultry feed in order to reduce production cost of eggs. Another Rs.100,000/- loan and the profit money of her poultry business have been utilized to buy 5 cows. Two cows give milk at present. The total per month income of all two businesses of her is above Rs.30,000/-, a 500% increase compared with her income at pre- project period. The most interesting thing is that her poultry business has been followed by 6 neighbors.

Table 4.5: Beneficiaries According to Increased Income from Their Already Functioning Income Activity

Increased income from investment (Rs.)	District											
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total			
	No	%	No	%	No	%	No	%	No	%		
No Increase	2	3.0	0	0.0	5	9.3	2	6.7	9	4.7		
Less than 3000	22	32.8	24	60.0	17	31.5	8	26.7	71	37.2		
3000 - 6000	16	23.9	9	22.5	13	24.1	5	16.7	43	22.5		
6000 - 10000	10	14.9	3	7.5	9	16.7	10	33.3	32	16.8		
10000 - 14000	5	7.5	1	2.5	2	3.7	0	0.0	8	4.2		
14000 - 20000	6	9.0	1	2.5	4	7.4	4	13.3	15	7.9		
20000 - 40000	4	6.0	1	2.5	3	5.6	1	3.3	9	5		
Over 40000	2	3	1	2.5	1	1.9	0	0	4	2.1		
Total	67	100	40	100	54	100	30	100	191	100		

Source: HARTI Field Survey

Table 4.6: Distribution of Beneficiaries Invested in Already Functional Income Earning Activities: Their Incremental Income from the Investment and Other Household Income Activities

Increased income from investment (Rs.)	No of families	Percent age	Distribution of Beneficiaries According to Their Other Incomes (Rs.)									
			No income	Less 3000	3000 - 6000	6000 - 10000	10000 - 14000	14000 - 20000	20000 - 40000	Over 40000		
No Increase	9	4.7%	1	0	0	3	0	4	1	0	0	
Less than 3000/-	71	37.2%	3	3	8	15	9	15	14	4	4	
3000/- - 6000/-	43	22.5%	1	2	4	7	3	11	12	3	3	
6000/- - 10000/-	32	16.8%	1	1	5	4	2	7	9	3	3	
10000/- - 14000/-	8	4.2%	0	0	2	0	1	4	1	0	0	
14000/- - 20000/-	15	7.9%	4	0	1	1	1	3	5	0	0	
20000/- - 40000/-	9	5%	1	1	1	0	1	1	4	0	0	
Over 40000/-	4	2.1	1	0	0	2	0	0	1	0	0	
Total	191	100	12	7	21	32	17	45	47	10	10	

Source: HARTI Field Survey

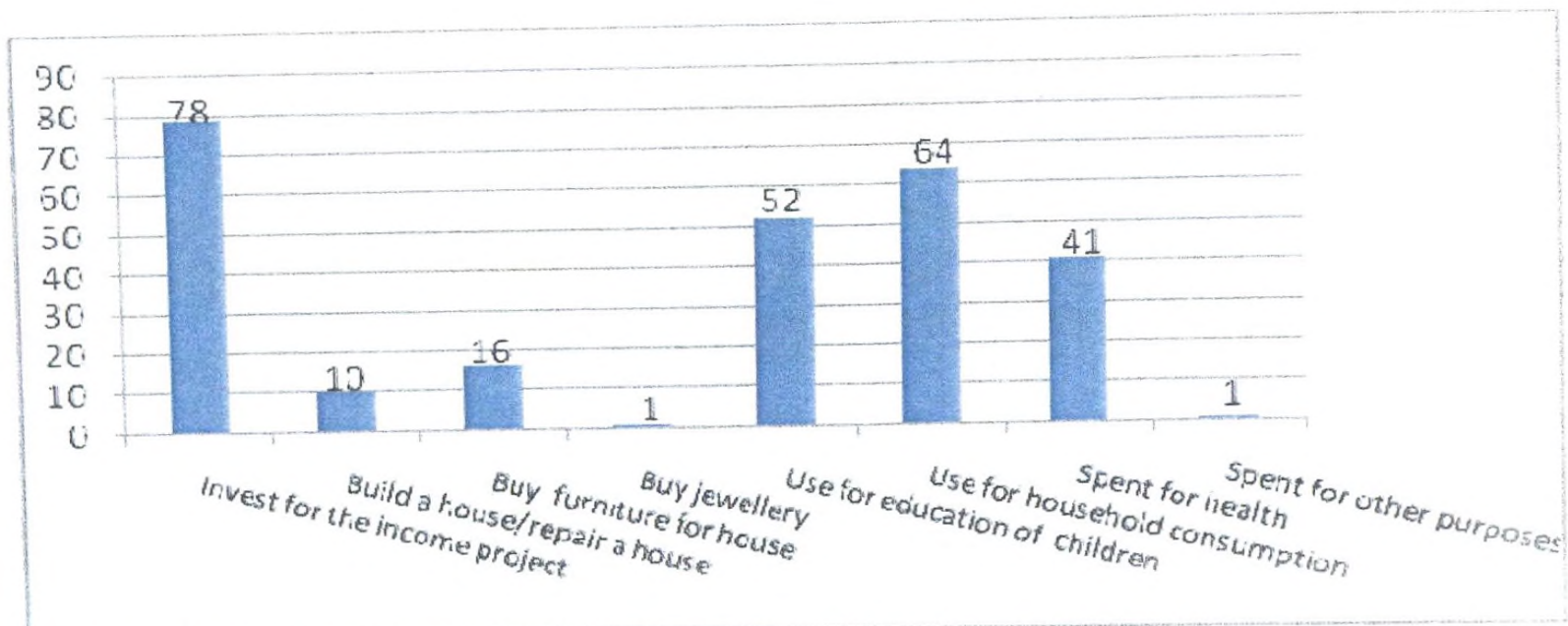
Case Study 05: Curd Production by Mrs. S. Wannigama

Mrs. S. Wannigama in Kiulara, Thanamalwila is a 44 year old mother of three. She has obtained Rs.50,000/- from Bhagya Loan Scheme and invested on curd production which was managed by her with the support of her husband.

They collect milk in the area and produce curd. The loan money was used to purchase more curd pots. About 100 curd pots are produced per day and sold at home in retail and wholesale. About Rs.2,000/- is earned per day. Earlier, they had to invest money borrowed from different sources. Because of the low interest loan granted by the project they have been able to save about Rs.200/- per day which was paid as interest earlier.

4.4 Effects on Well-being

The incremental income derived from income earning activities has been spent on expanding their resources and assets in addition to spending for household consumption, education of children and to maintaining better health conditions of the family members. Figure 4.1 indicates how the beneficiaries have spent their incremental family income for different purposes. According to the data a larger percentage of beneficiaries (78%) have spent their incremental income for further development of the same income activity. The researcher's observation also revealed that most of them have purchased lorries and other transport modes such as three-wheelers and motor bikes to expand the service or production activity or to maximize their profit by utilizing their own transport. Some beneficiaries have spent on renovating or construction of a house and also on buying furniture for the house indicating that they have improved their living conditions. Spending of incremental income by more than 50% of the beneficiaries on education of their children means they have invested in the future of their children. Discussions with some beneficiaries revealed that they spend a sizable income on tuition of their children who are in higher education level.



Note: The total of the percentages is not equal to 100 due to multiple responses

Source: HARTI Field Survey

Figure 4.1: Expenditure of Incremental Income

4.5 Effects on Savings

The beneficiaries' habit of saving is another benefit of the micro financing component of the project. Saving was compulsory to obtain project loans which were arranged under the microfinance concept. Accordingly group as well as individual savings is compulsory to be eligible for project loans. As a result, the beneficiaries' savings habit has improved tremendously from 68% before the project to 98% after the project (Table 4.7) (this means there were 32% of beneficiaries were not in the habit of saving before the project and they have been reduced to 2% after the project). People have saved at different levels. In all the districts more than one third of the beneficiaries have saved over Rs.20,000/-. More than one fourth have saved between 5000/- to 20,000/-. One major reason for this improvement in savings by the beneficiaries is the encouragement by the project to engage in group savings. So group savings have increased more than the personal savings. According to survey data, involvement under group savings has increased from 30.6% of the beneficiaries' before the project to 85.7% of the beneficiaries after the project while involvement under personal savings has increased from 62.6 to 88.3 between the two periods. The case study 6 indicates how the personal savings as well as group savings had increased the savings of Mrs. Pathmawathie, one of the beneficiaries of the project.

Table 4.7: Savings of the Beneficiaries Before and After the Project

Amount (Rs.)	District									
	Kurunegala		Anuradhapura		Badulla		Moneragala		Total	
	Before %	After %	Before %	After %	Before %	After %	Before %	After %	Before %	After %
No Savings	51.2	2.3	22.0	5.1	22.7	0.0	24.1	1.9	32.1	2.3
Less than 1000/-	0.0	1.2	13.6	8.5	4.5	1.5	9.3	0.0	6.0	2.6
1000/- - 5000/-	4.7	8.1	35.6	23.7	19.7	16.7	16.7	20.4	17.7	16.2
5000/- - 10000/-	11.6	18.6	11.9	15.3	12.1	9.1	9.3	9.3	11.3	13.6
10000/- - 20000/-	10.5	15.1	6.8	13.6	15.2	30.3	16.7	20.4	12.1	19.6
Over 20000/-	22.1	54.7	10.2	33.9	25.8	42.4	24.1	48.1	20.8	45.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: HARTI Field Survey

Case Study 06: EkalBroom Production by Mrs. K. Pathmawathie

Mrs. K. Pathmawathie is a 45 years old married woman living in Seeppu Kulama, Mihintale. She obtained a Rs.50,000/- loan from the project in 2009 for maize cultivation. In 2009 she could profitably cultivate it, but in 2010 the crop was damaged. So she decided to involve in another activity. The DZLiSPP directed her to be trained on ekal broom at FORUT, an NGO. She started ekal broom production by investing Rs.70, 000/- which was earned as profit from maize cultivation. She produces 35 brooms per day and the profit from one is Rs.40/-. There is a good market for her products. She has already paid back the loan. Every month Rs.100/- is saved in her personal account. The group savings is also done continuously. The value of group savings is Rs.87,000/-.

4.6 Effect on Gender and Household Decision Making

One of the objectives of the project is to achieve gender parity in development through provision of credit and encouraging women to invest on income earning or livelihood activities. According to the data of sample survey of beneficiaries, 80% of loans have been given to women and this is 94% in Badulla district. In dealing with 29% of loans, women upon receiving the loan start an income generating activity and in dealing with 35% of loans husband and wife (in case of unmarried cases a male member of the household and the borrower) jointly start the income activity

irrespective of who receives the loan (Table 4.8). In some cases although a female member receives the loan she gives it to the husband to start an income activity or to develop the existing activity (19%), but she is also involved as a partner through her contribution of labour on full or part-time basis. However, it appears that most women are in a position not only to claim the ownership of an income earning activity but also to manage and make decisions regarding the venture. They perceive this as an achievement of their life that brings social recognition and power within the household and society.

Table 4.8: Ownership of the Income Earning Projects

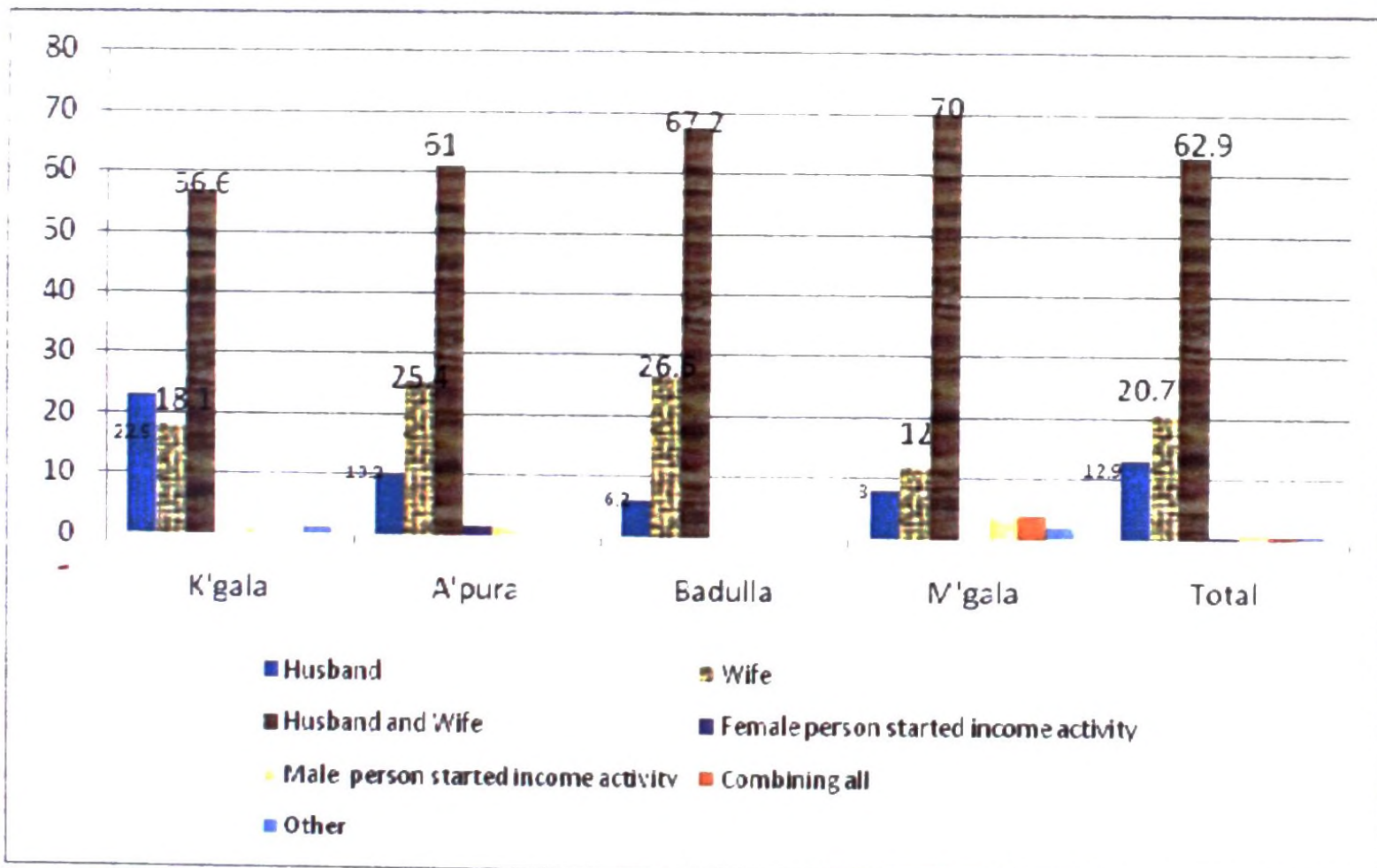
Ownership of the project	Percentage of the beneficiaries				
	Kurunegala	Anura'pura	Badulla	Moneragala	Total
Male person borrows and starts the income earning activity	26	12	3	21	16
Male person borrows and female person starts the income earning activity	1	2	3	2	2
Female person borrows and starts the income earning activity	22	44	36	13	29
Female person borrows and male person starts the income earning activity	26	19	11	17	19
Male person borrows & jointly start the income earning activity with wife	7	3	6	15	8
Female person borrows and jointly starts the income earning activity with husband	18	20	41	31	27
Total	100	100	100	100	100

Source: HARTI Field Survey

With the boost of confidence and freedom some women individually or jointly invest on livelihood ventures. They have been able to influence the household decisions regarding the income earned from the particular livelihood activity and their living conditions, education of children and health related activities etc. Majority of income earning activities lead to both husband and wife making decisions on expenditure of their new income (Figure 4.2). However, in a considerable number of cases (21%) only wife makes decisions (Case Study 07).

Case Study 07: Mushroom Cultivation of Mrs. H. Piyaseeli

Mrs. H. Piyaseeli is a 62 years old woman married to a person retired from the Department of Road Development. She has obtained a Rs.30,000/- loan from DZliSPP in 2008 for betel cultivation. Because of the water scarcity, after profitably cultivation of betel she has invested the profit earned from it in mushroom cultivation which is a popular income earning venture in the area. She had already prior experience in that. She has invested additional amount of Rs.50,000/- in mushroom cultivation. Her monthly income from mushroom cultivation has increased from Rs.15,000/- to Rs.25,000/- as a result of new investment. In addition to this income, she can earn some additional income by selling mushroom seed packets. During last new year period (March-April) she earned an additional income of Rs.125,000/- by selling mushroom seed packets. Piyaseeli developed the mushroom cultivation business in which she was involved earlier, to the level that she derives a sufficient income to meet her family needs. Although, she received the support of her retired husband and other family members such as sons and daughters of the family to develop the business, all the decisions including financial management were made by her.



Source: HARTI Field Survey

Figure 4.2: Persons Making Decisions about Expenditure of New Income

4.7 Social Effects

Encouraging small groups and organizations, microfinance component has linked village people who had similar interest in investing as well as those involved in similar livelihood activities. Group and organizational activities have been helpful to

develop their capabilities and skills in managing organizations and leadership. During the period of field data collection under this study, the research team could observe the capability of some women in handling groups and organizations-making speeches in a gathering, making excellent presentations about their past experiences. Some of these societies are newly formed by the project while some were existing ones. In addition to the involvement in economic activities such as raising funds and operating revolving funds some of these societies are also involved in welfare activities.

4.8 Effects on Secondary Beneficiaries

Promotion of income earning activities under the project has positively effects on generating some employment opportunities for the people other than those selected to provide credit for commencing or expanding the income earning activities. Observations reveal that the income generating activities of the microfinance component such as brick making, making bakery products, catering services have generated some permanent employment for those like to hire out their skilled as well as unskilled labour (case study 08). Income earning activities such as crop cultivation have generated seasonal employment for the labourers. Some income earning activities have generated employment outside the production/ service unit to be involved as suppliers or traders of those production units. Mushroom growing and fishing have generated employment for traders. Small scale catering services and eateries selling food have generated opportunities to people in surrounding areas to produce various foods that would be possible to sell in the earlier mentioned places. The employment generated for outsiders from income earning activities of the sample beneficiaries are indicated in Table 4.1 and Table 4.2. They present a picture about employment generation directly from these activities for non- beneficiary families.

Case Study 08: Bakery and a Tea Stall Operated by Mrs. D.M.Kusumalatha

Mrs. D.M.Kusumalatha is a woman in Daliva, Ruwalwela in Moneragala District, involved in managing a bakery and a small tea stall. She has obtained a Rs. 50,000/- loan from DZLiSPP in 2010 to construct a small bakery for her tea stall. The whole amount of the loan was invested for the purpose. Products such as bread and buns produced at the bakery are sold in the tea stall as well as in the village. For selling the products in the village she has hired a person paying Rs. 700 per day. Because of new products her tea stall has developed. The income from the entire business which is managed by her has increased from Rs. 500/- to Rs.15, 000/-after obtaining the loan. Two full-time employment opportunities have generated for outsiders, one for working at the bakery and the other for selling the bakery products in the village. There is a possibility to provide one more job opportunity for a person to sell products in the adjoining villages as the business is expanded gradually. Kusumalatha's husband, a retired school teacher, is also helping her.

CHAPTER FIVE

Findings, Conclusions and Recommendations

5.1 Findings

1. Although the project period was from Dec.2005 to Dec. 2012 there had been a slow progress in disbursement of credit to promote income earning activities until year 2009 as there was no properly established system for the project to deliver credit.
2. The service provider's involvement to deliver credit was unsuccessful due to certain weaknesses such as poor links with banks, misunderstandings about project credit facilities, insufficient knowledge about handling a subject of credit. This led them to select even defaulters of early loans and providing wrong guidance to select applicants to prepare project reports which were unrealistic.
3. Certain strategies adopted by the project have been able to mitigate the constraints faced in quick delivery of project credit and also in achieving the delivery targets. Those strategies are; operation of credit component by the project staff itself and appointment of Marketing and Microfinance Officers (in certain districts from among more experienced people) with given targets to complete the task, development of more cooperation with banks, appointment of field facilitators to organize the work at ground level such as group formation, provision and recovery of credit, and paying a 5% training fee from the value of all loans to banks to encourage the bank staff.
4. The strategies adopted by banks for sustaining the project credit scheme were using of their early links with individuals, groups and organizations to select applicants to provide credit and bringing the service of banks to remote villages to fill the applications, to get the signatures of group guarantors and to collect monthly installments that assured the poor's access to credit under easy terms with minimum cost and time.
5. The strategies adopted by the beneficiaries to benefit from the project credit scheme and its smooth functioning include inquiring about the credit scheme from banks, arranging their organization's meetings for the bank officers to explain the benefits of the credit scheme and to perform procedural works such as filling applications, getting approval of guarantors and collecting monthly installments.

6. A majority of the loans (72%) have been obtained for investments under existing income earning activities while the rest for investment under new income earning ventures.
7. As a result of applying group guarantee system and the arrangements of the banks to provide their services to the village via sending their field officers, the project credit scheme had been able to make the poor in remote areas to access institutional credit within a very short period (61% beneficiaries could obtain within one month since the date on which the application was handed over) and at low expenses (63% beneficiaries have spent less than Rs.500/- for their loan). According to the baseline survey the level of their access to bank loans was 34%.
8. Some of the problems confronted by the beneficiaries at the beginning when they were looking to obtain loans from the banks such as lack of care of the beneficiaries by banks have been reduced later. However, the problems which still prevail like "all members in the group cannot obtain the loan together" have to be solved by way of developing mutual cooperation between banks and beneficiaries.
9. Accelerated implementation of the credit scheme after year 2008, had not provided the opportunity for the implementers of the scheme to select more poor who were really in need of financial support for promotion of their livelihood. This is indicated by the limited Samurdhi recipients (26%) among the beneficiaries who obtained loans.
10. Ninety nine percent of those who obtained loans had utilized them for promotion of their livelihood activities while 66% of those who invested on already functional as well as new income earning activities had utilized more than 80% of their loan money for that purpose.
11. As much as 84% of the income earning activities still function while the rest (16%) had been discontinued after being in operation for sometime due to their failure resulted from managerial, technical and marketing issues.
12. Already functional income earning activities seem to be more sustainable than the new income earning activities because of the greater experience and entrepreneurial capability of the operators of prevailing income earning activities than the operators of new income earning activities.
13. Of the currently operating income earning activities 30% are "very successful" as they have good marketing opportunities for their products and services in addition to deriving a substantial level of profit, while 54% are "successful" as their products also have a market in addition to deriving a satisfactory level of income and 11% are "little successful" as they have a limited market for their products and return a small income.

14. Obtaining a second loan by 11% of the project beneficiaries to re-invest on their income earning activities indicates that those income earning activities are firmly established and sustainable and their beneficiaries are familiar with banking transactions which were very poor before the project period (only 29% did transactions with banks before the project).
15. In addition to further strengthening employment (212) which prevailed under already existed income earning activities of the beneficiaries before the project period, both new (74) and existing (190) income activities have generated (104) three types of new employment namely full-time (84), part-time (89) and seasonal (34) for both household members (174) and others (33) while the majority being for household members. On average a new income activity has generated 1.2 new employment opportunities (covering all types of employment) while an already existed income activity has generated 0.6 new employment opportunities.
16. Female household members have more benefited from new income generation activities with more generation of full-time jobs for them while male members have more benefited from already existed income earning activities with expansion of more full-time jobs. Major reason for this has been the encouragement of men by women to expand the income activity in which women were involved prior to obtaining credit.
17. The investment of project credit by beneficiaries on new as well as already existing income earning activities has generated some satisfactory level of incomes for them. Fifteen percent of beneficiaries who invested on new income opportunities derive an income sufficient to be above the poverty line (about Rs.14, 000/- per month) with that income alone while 15% of those invested in already existing income earning activities also derive an incremental income (the increased income after the investment) sufficient to be above the poverty line.
18. The beneficiaries have utilized new and incremental income derived from their investment activities for the well-being of their families; 78% of beneficiaries spent on further development of the income activity while some spent on other purposes; 64% for household consumption, 52% for education of their children, 10% for repair/construction of household which are vital for further enhancing of the standard of living.
19. Compulsory savings under microfinance component have tremendously increased the savings habit of the beneficiaries from 68% to 98% after the project was implemented. The level of savings also has increased during the two periods.

20. Almost 80% of the loans have been given to women and they had commenced income earning activities alone or jointly with their husbands or other household members and in most of the cases they appear as the owner or manager of the income activity having power for influencing the household decisions by gaining social recognition.
21. There is a very satisfactory level of recovery rate of the project loans (97% recovery rate for RDB loans and about 90% recovery rate for loans of other banks) and the high rate of progress in recovery is not always related to the success of the income earning activities. Banks have taken every effort to recover credit without considering the success of income earning activities as if recovery was not done banks would have to incur the loss.

5.2 Lessons Learned

1. The success of providing micro finance depends on the level of linking all relevant parties namely project, bank and beneficiaries together and cooperate action
2. To maximize the benefit from micro financing interventions, sufficient time is needed for mobilizing groups, providing and recovery of credit and promoting beneficiaries for income earning activities. Hence, it is essential to commence micro financing interventions in the primary stage of a project.

5.3 Issues

1. Acceleration of credit disbursement in the last years of the project has threatened the sustainability of the project due to wrong selection of beneficiaries, missing the chance of selecting better and potential investors and giving less opportunity to select poorer persons.
2. Group mobilization process is not fully satisfactory because after obtaining credit no groups function in many areas other than the places where there were community based organizations well established before the project.
3. Core element of microfinance is taking joint liability of beneficiaries' cohesive groups for the security of loans and their repayment. One observation was that in many places groups have been nominally formed just to meet a procedural requirement. Therefore once the procedure is complete and the loan is granted the group ceases to exist. So there is no operational joint liability to be seen.
4. Although the project has an idea about operating a revolving fund to continue the services of microfinance even after the end of the project, no organizational setup has been established to implement that from the early stage of the project.

5.4 Conclusions

The attempt of DZLiSPP to enhance the standard of living of the poor by encouraging them to commence income earning activities through provision of microfinance facilities has been satisfactory to an extent. However, the achievements of the project impacts such as promotion of sustainable livelihoods, increasing employment opportunities and incomes should have been more than the present level, had the project taken action to implement the credit component from the very beginning of the project as it had sufficient time to select deserving beneficiaries for potential development of some income earning activities. However, with immense experience by implementing the microfinance component the project staff has developed their knowledge and capabilities on maximizing the benefit from similar type of interventions in future.

Providing credit for some traditional livelihood activities in remote areas has increased employment opportunities for household members and others. This experience of the project indicates that there is a possibility to expand employment and incomes in rural areas on large scale by organizing production and services linking with outside/new markets other than providing credit for production activities that are going to cater to naturally developed markets in the same environment, which are very limited.

5.5 Recommendations

1. At this stage one of the priority attempts of the project should be for establishing an organizational set up to operate the revolving fund in future. In this endeavor the project can study similar types of revolving funds like "ISURA" and adopt their organizational structure and important elements.
2. Reforming and strengthening small groups, properly mobilizing them via training and promoting group activities among them such as savings and operating exchange of labour, and combining small groups to become organizations are important for their continuity.
3. The project should take further action to solve the issues, mainly technical and marketing issues faced by some of the income earning activities promoted by project credit.
4. Future initiatives to develop income earning activities within a similar framework should encompass measures such as monitoring them from time to time and giving assurance for their sustainability by giving further assistance to solve their problems and satisfying their further requirements like providing of further training.

5. Providing microfinance for promoting income earning activities should be a package of combined approach including identifying profitable investment activities and supporting promotion of those via provision of credit and training facilities for potential investors. This includes identifying beneficiaries and performing other activities for their mobilization including training and group formation, supporting to grant credit and their recovery etc. Therefore, the staff and the capabilities of the project should be strengthened to meet these requirements.
6. There should be a mechanism to filter the deserving applicants to improve their livelihood activities in order to achieve the overall objectives of the project-reducing poverty by enhancing standard of living of the poor and low income groups.

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Annexure

Table 1.2: Distribution of Sample Beneficiaries according to DS and GS Division

District	DS Division	GN Division	No. of Family
Kurunegala	Kotawehera	Monnekulama	2
		IhalaWeeradhadana	13
		Thanuketiya	1
		Kaluachchiyagama	1
	Melsiripura	Henawa	3
	Polpithigama	Welipitiya	6
		Kosgahaela	8
		Doraweruwa	7
		Rambe	1
		Dekaduwela	1
		Maeliya North	7
		Makulpotha	1
		Ponnilawa	1
		Nikawehera	1
		Dagama	1
		Thalwahara	3
	Galgamuwa	Medagama East	5
		Medagama west	1
		Ulpathagama	12
Medagama		10	
Anuradhapura	Galenbidunuwewa	Palugollagama	3
		Padhikaramaduwa	1
		Dutuwewa	6
	Nuwara gam palatha - Central	Parasangaswewa	12
	Nuwara gam palatha - East	Pubudupura	5
	Mihinthale	Kasamaduwa	12
		Nithiyagama	3
		Giranegama	4
	Palagala	Meewewa	2
		Bogahawewa	1
		Kundukkuwa	7
Kebithigollewa	Thiththagonewa	4	

District	DS Division	GN Division	No. of Family
Badulla	Haldummulla	Gampaha	10
		Diwulgaswewa	8
	Uwaparanagama	Mudanawa	8
	Haliela	Gawarawala	4
		Dikwella	2
		Kirinda	12
		Ella	1
		Hapuwalakubura	2
		Bogahamadiththa	1
		Badulla	Damanwara
	Randeniya		1
	Ahndeniya		1
	Mahiyanganaya	Mapakadawewa	5
		Kowilyaya	1
		Elawala	4
Moneragala	Thanamalwila	Nikawewa	6
		Kiwulara	4
		Boodagama	3
	Madulla	Ruwalwala	10
		Deliwa	5
	Wellawaya	Sudupanawela	21
	Moneragala	Obbegoda	6
Total			265

IMPACTS AND LESSONS OF MICROFINANCE COMPONENT OF THE
DRY ZONE LIVELIHOOD SUPPORT AND PARTNERSHIP PROGRAMME

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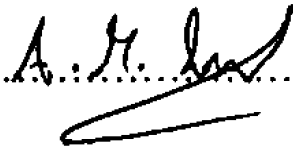
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