

Lessons learned from implementing Microfinance in a post-tsunami environment

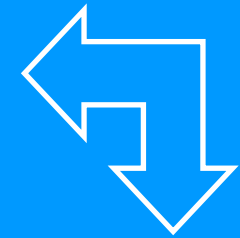
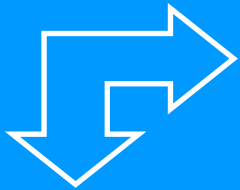
SRI LANKA

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Microfinance in South Asia Today and Tomorrow

December 5-7, 2005, New Dehli

Pre-Tsunami MF landscape



Outreach

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

Services

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

Financial sustainability

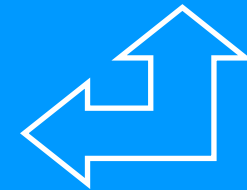
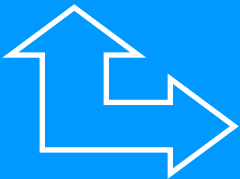
- Spread does not cover the real costs
- Low recovery rates (sometimes as low as 65%)
- Lack of efficiency, transparency and professionalism

Estimations 2004:

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

Regulation and supervision

- No national Microfinance strategy
- No integrated regulatory framework



Tsunami Effects

Tsunami- Effects on livelihood

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

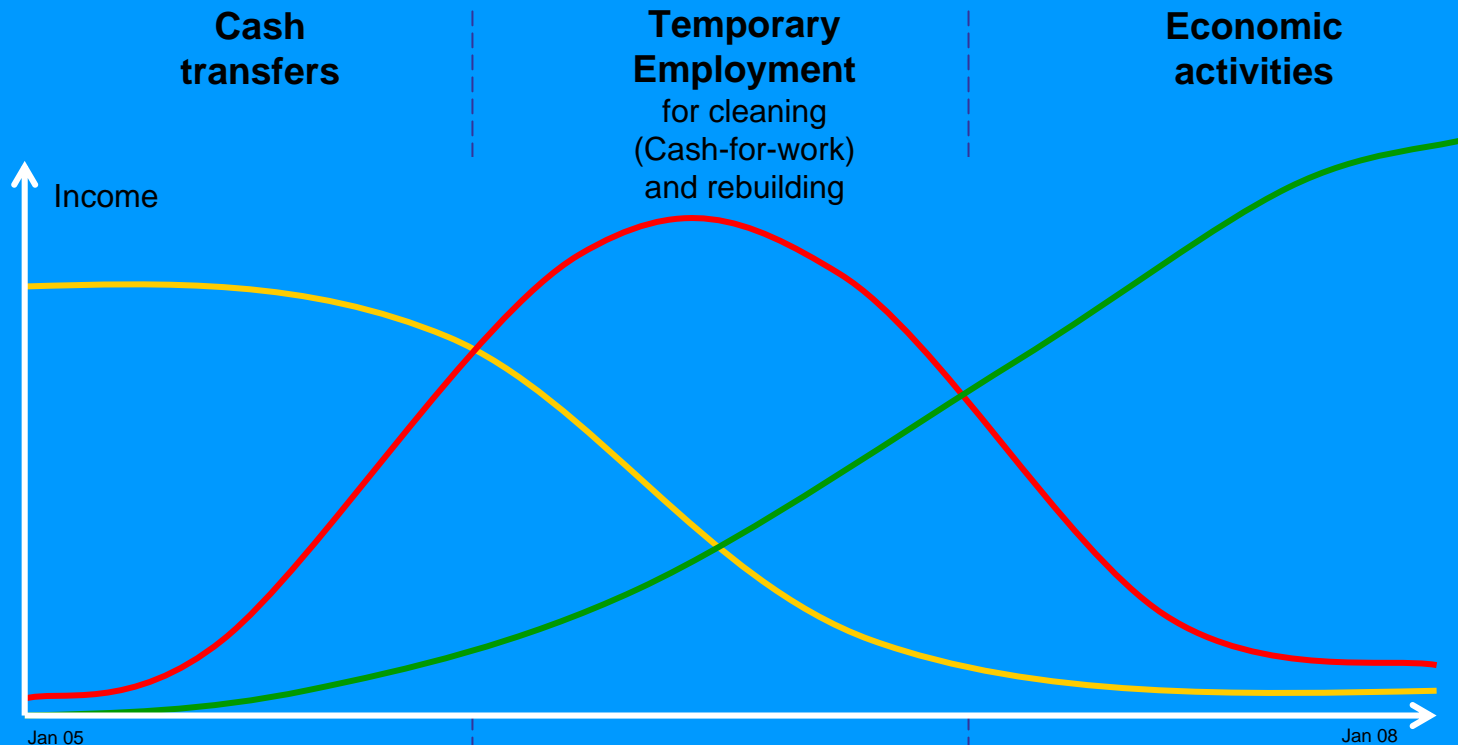
Data taken from TAFREN

Tsunami- Effects on MFI

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

Data taken form SLBDC and GTZ Survey 03.2005

Income Recovery Program (IRP) developed by TAFREN



- Cash grant
- Food relief
- Other relief support

- Cash-for-work (cleaning)
- Temporary Employment (infrastructure)

- Access to capital
- Income generating assets
- Micro-financing !
- Start-up capital (grants)
- Skills development
- Business support (counseling)
- Vocational training
- Other training

Microfinance Assistance programs (status September 2005)

Programmes (planned, on-going or implemented)

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

Not all of them are specifically Tsunami related

Dominance of Financial assistance

Examples:

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

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

Technical assistance

Targeting the lack of

- efficiency
- transparency and
- professionalism

of Microfinance Institution

Status of implementation



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



Institutional weakness of MFIs hinders an increase in lending activities



Subsidized credit lines mainly replace existing loans



Over-liquidity of the market

Traditional high savings rates

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

Funds for post-Tsunami livelihood

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

(April 2005)

Applications (21% of affected (potential) entrepreneurs)

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

Main reason for refusal:

- Collateral

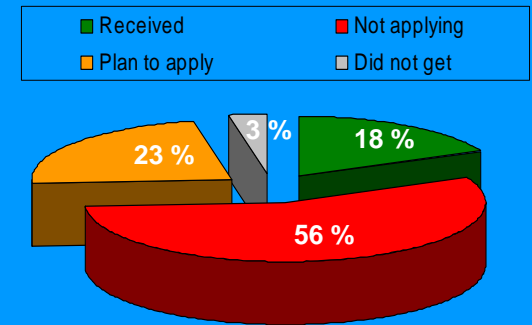
Additional applications (23% of affected (potential) entrepreneurs)

Main reason for hesitation:

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

Main Provider of Business loans:

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

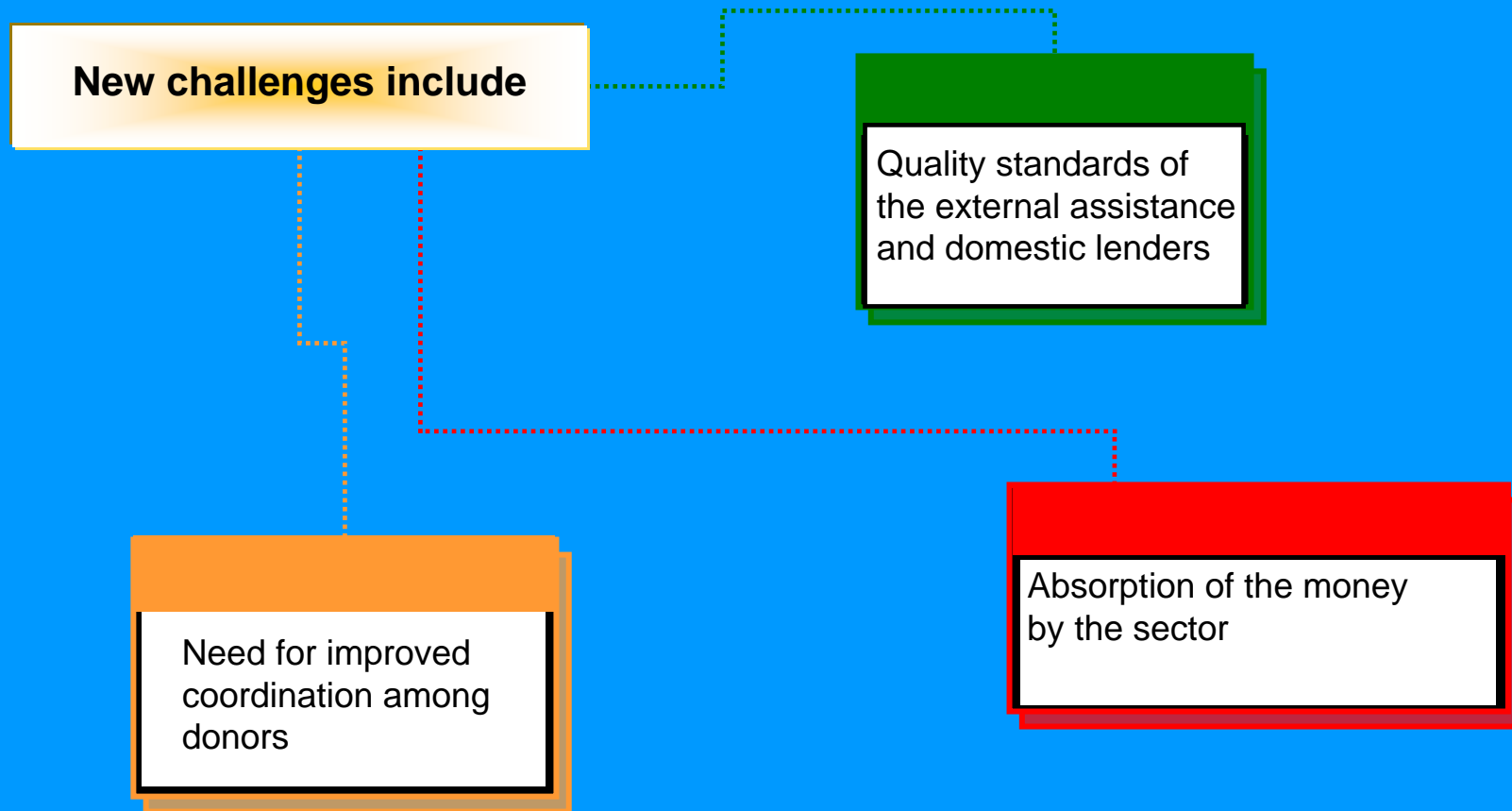


Lessons learned

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

Challenges ahead

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



Thank you!