

CHAPTER VI

MICROFINANCE IN THE POVERTY ALLEVIATION PROGRAM

In recent years, microfinance has been looked upon as an effective instrument for poverty alleviation by many governments, international organizations and donors. The United Nations General Assembly, in recognition of the significance of microfinance in reducing poverty and achieving the Millennium Development Goals (MDGs), has designated the year 2005 as the international year of Micro-credit (Berensmann *et al.*, 2002).

The term microfinance refers to “the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low income households and their micro enterprises.” The recent proliferation of innovative microfinance programs, often based on group-lending methods, has been inspired largely by the belief that such programs reach the poor and have a positive impact on various measures of their welfare, including economic measures, social measures and less tangible measures such as “empowerment” (Coleman, 2006).

The idea of providing credit to the poor as a tool for increasing their income and thereby reducing poverty is not new. What is new in microfinance is the innovative methods of providing credit to the poor, social mobilization of savings from the poor and linking credit provision to savings, as well as a social mobilization process that involves awareness building and the formation of self-help groups and provision of other services such as insurance to cover risks and distress faced by the poor (Coleman, 2006).

However, since 1989, microfinance has been given a central role in government poverty reduction programs and policies, and a wider range of institutional sources of micro credit has developed. Nevertheless, presently, there is a wide range of institutions that are involved in providing microfinance services to low income groups. These include cooperative societies, hundreds of local and

international Non-Government Organizations (NGOs) such as Sarvodaya movement, some regional development banks and also commercial banks as explained in chapter one. Today, they play an important role in the financing sector in rural and urban small-scale enterprises (SSEs). The roles played by SSEs in poverty reduction and employment creation have been widely recognized.

In 1996 the government introduced the largest social mobilization program known as the Samurdhi Saving and Credit Scheme; it is interesting to find that the program operates in all the villages in country. Even with the large number of institutions involved in providing microfinance facilities in country, their impact on reducing poverty or improving household welfare is not very clear. Only a few studies have been undertaken to assess how microfinance has impacted poverty (Colombage, 2004; Shaw, 2004; Gunatilaka and Salih, 1999; Gunatilaka *et al.*, 1997; Hulme and Mosely, 1996), especially in regard to about the Samurdhi Program.

In this chapter, first, I will attempt to analyze how microfinance has impacted on poverty and the living conditions of households, particularly the suburban resettlements of poor in Vallangiriya village Kaduwella Divisional area in Colombo. The poor needed credit for investment capital or resources to start their own enterprises or business. However, both formal and informal traditional and new financial services have failed to reach the poor they have no access to formal bank credit because they lack collateral in the form of property and personal guaranty. The informal financial sector is unable to satisfy the needs of small-scale enterprises due to high interest rates, default risks and lack of enforceability. For the poor, community-based small microfinance financial sectors are important as a means of mutual support and source of credit. Second, I will discuss the issue of microfinance and also investigate the poor's participation and involvement in the microfinance program. In the same time, the situation and institutional structure of the microfinance program also explained.

6.1 The Practice of Microfinance System in the Vallangiriya Village

The saving and credit system was introduced in 1989 under the national poverty alleviation program, called the Janasaviya Program (JP). In a wider perspective, the Janasaviya Program was designed as a people-based bottom-up program. The JP was also introduced in the Vallangiriya village. At that time Kaduwella area was a relatively poor Division in Colombo, especially Vallangiriya and other resettled communities in the area. It was an effect towards view to upgrading the quality of life of the poor in the Vallangiriya village by investing in them to improve their latent skills. According to development officer⁸ in the village, the Janasavi program's survey to identify problems and potential needs in the community, most of the local people are unemployed, lack capital to invest in their own enterprises, have a low education level, social problems, and also low infrastructure.

Those who were selected for the JP were entitled to a monthly income transfer equivalent to Rs. 2500 for a period of two years. This money went towards consumption (Rs. 1458) and bank account saving (Rs. 1042). This saving money relies for beneficiaries were required to contribute labor to community program or establish viable income-generating activities. Social mobilization program encouraged the make a small groups activities. According to one of the political party leader in village (in the past he was the main actor in the JP, in this village), each group was consisted of 5-10 members and identified by a group name. There are number of poor families lived in the village, more than 250 families are joined the group activities (no data available about how many groups are function at that time in the village but nearly 20 groups). Initially, there were few men involved in this program, because, their lack of understand and interest to advance this program. Men gave up their enrolment and delegated the work to their wives. Consequently, JP became an exclusively women's program in the Vallangiriya village. Though, men were participated in other community development activities in the village such as infrastructure development facilities. Women in each group were encouraged

⁸ Samurghi Program co-ordination officer in village level.

to form a group capital to fund their income generation activities and meet emergency requirements.

The program incorporated a social mobilization component, aiming to involve rural bank systems (some people called Self Bank Society), local politicians and community leaders in local support networks as well as promoting participatory community development activities and building the confidence of participants.

The new poverty alleviation program is named the Samurdhi Program were introduced 1994. The Samurdhi Program, which essentially continues the outlook of the Janasaviya program, has an extensive range of activities in its outreach programs. The Samurdhi Program was implemented by under the national poverty alleviation program in all villages of Kaduwella areas and including Vallangiriya village. As in the previous program, Samurdhi Program consists of a cash transfer, a savings component, credit programs and capital development programs in the village.

The main activities at the core of the program were saving and credit, which are implemented with the participation of the low income people in the village, in order to support the socioeconomic livelihood of the local people through a community development approach. The SP is committed to empowering the local people's participation in instilling the values of discipline, a sense of responsibility, a savings habit, skills in balancing the daily budget, self-confidence and a spirit of mutual love among group center members.

The experience from the previous program shows this approach cannot continue, because the poor don't have their own institutions. More questions come up about whether the poor maintain their savings or credit while they face insecurity and inequality in access to education, skilled training, jobs, and income generation. But in the SP they have been their own institutions such the Bank Union, General Union, and then they can train and organize other education programs to solve their problems. The poor are the owners of these banks, while government officers fill the role of official management level work.

The reason for my focus on microfinance is because of not only economic aspects, but also because there are major objectives of helping the poor to practice saving and to provide capital support, as well as social empowerment. Most of the formal and informal sector financial institutions discriminate against this village, because they are poor and people don't have the good habits and practices in regard to saving and credit. Because they have no permanent job, they earn money on limited days. Most of them save money in a formal bank institution but they are unable to get credit in the formal sector. Not only the poor in the village, but the rich (both less poor and rich) dwellers are also unable to get credit, because they don't have any collateral.

Nevertheless, social problems such as drug selling, alcoholism, stealing, gambling, and borrowing at high interest have also contributed to the village poverty. In fact, some poor have income, but their financial management skills are low. On the one hand, the government introduces the same poverty alleviation program activities for the urban and rural. But the urban and suburban poverty situation is not similar to that of rural areas. The government views the poverty in resettlement slums as a social problem, but they do not touch the root cause of social problems.

6.2 Social Mobilization

There has been an increasing involvement by development agencies to encourage grassroots organization in the rural and urban areas from the early 1980s. However, this strategy was introduced as a mechanism to direct benefits to low income and disadvantaged families, in order to achieve objectives of both JP and SP poverty alleviation.

The social Mobilization Program (SMP) reached great popularity among the poor during recent past. It is an essential element for the building of microfinance because, the basic objective of the social mobilization program is to intervene, assist and motivate the low income families to change their disadvantaged socio-economic and cultural conditions (Wicrama, 2002). There are two type of social mobilization of the towards self-reliant development. This includes individual mobilization and

group/collective mobilization. The social mobilization is mainly aimed at preparing the poor psychologically and cognitively for participation in saving and credit-based development tasks through the liberation of their latent energy, and also change of dependent feelings and attitudes and building self-confidence (Wicrama, 2002). However, SMP have been functioning as a community-centered and bottom-up strategy and it was introduced in Vallangiriya village in 1989 by the Janasaviya Program. There were several barriers against its further development, such as lack of a management framework and a monitoring system and the absence of a divisional and district level mother organization to coordinate its activities. Therefore, social mobilization of the activities (group activities, saving and credit, training and skill development program etc.) is found more and more in the village, but it is very difficult to change social problems that were established a long time ago. The Samurdhi Program had been designed to fulfill these weaknesses using experience of previous development programs. Although these social, institutional and infrastructure developments were intended to improve the living condition of the villagers, the basic requirements of the majority of poor families who lacked income or resources were hardly met. In the next section I will pay more attention to explaining how the microfinance mechanism and its activities impact the poor to improve their living conditions.

6.3 Mechanism of Saving and Credit Program of Samurdhi

There are four levels of institutional system in SP at the regional level such as small group, village society, bank union, and Samurdhi general union, which serve to change the social and economic forces that are disadvantageous to poor communities? This effort is based on the experiences of the previous program as well as international experiences. Poor communities, through social animation build their own organizations and institutions such as groups, societies, bank unions, and general unions, and consequently, on one side resource consumption is intensified, while on another side existing and new income sources are initiated. As a result, the way is cleared for the fulfillment of poor communities' primary needs.

6.3.1 Samurdhi Small Groups

The lowest organization at the rural level is the small group of five. Five poor families get together on their own consent to form this group. This group meets weekly and holds discussions and this can also be described as a great adult education system through which the planning process is conveyed to the family.

In the Vallangiriya village the poor people have organized Samurdhi savings group starting 1994. These small groups (*Kuda kandayam*) are lower level organizations that expose the poor to social animation. All of activities are considered in creating groups of 5 within the Samurdhi movement. The poor people in the village, they had experience about group activities, because, they also members in JP.

At the beginning, most of the poor were not very much interested in participating group activities in Samurdhi Program. Their lack of interest in this program may be accounted for several reasons. First, cause was failure of the JP in the village. The Savings and Credit program of the Janasaviya Program did not achieve success and left a distrust of ineffective saving credit programs among the people in the village. Most borrowers did not repay their loans, reason is many corruptions. Powerful actors in the village such as political leaders, businessmen, other society leaders (who are not poor) dominated the program at the village level, and also spent villagers' savings for their personal purposes. This shows that monitoring and evaluations are very weak in the Janasaviya Program in community level. The poor who are living in the village, they thought that Samurdhi program also compare with Janasaviya Program.

Second, the social mobilizers (officially Samurdhi Development Officer) in Samurdhi Program were also very young, inexperienced, unskilled, and are play their role under the political power. They did not make enough attempts to sensitive the villagers before the implementation of the program. Finally, in the beginning there were no direct visible benefits from this program to help them in their extremely difficult living conditions. However, the SP was introduced as a solution for these problems, however, it is gradually increased the membership in the village.

However, to begin with, the membership in small groups was restricted only to beneficiaries in poverty alleviation program, although, presently it allows other low income families to join. In the case of SP, selection of members to a group was totally based on the consent and interests of group members themselves. Other criteria are that neighborliness, engaging in similar production work and friendship are all contributory factors leading to group formation. The main factor is proximity of member's houses so they can communicate and gather easily. The rule did exclude rich people from membership.

The representative of the small group said that members had a group meeting every week and such group discussions was regarded as an essential condition for their mobilization. The time and date for group meetings, convenient to all of them, was decided by members, because, almost all members are women. They spend their helping the family to survive and they practically have no time to spend participating with time official organizations. So, some women were participating in group discussions while feeding their babies. Group meetings were conducted in the members' houses on a rotating basis. It enables each member to have an opportunity to host meeting sessions in her house. Some group meeting sessions were conducted with all members sitting on a mat either indoors or outdoors reflecting the principles of treating one another equally. They took place almost as informal gatherings.

The meetings started with a brief observation of Buddhist or their own rituals. A group leader was responsible for reporting the proceedings handling financial activities in their group. If she was unable to perform such duty, other women would help her. Collection of the group fund then took place. In addition, members who wished to apply for loans from respective Samurdhi Bank Unions forwarded their applications to get the approval from the members. Following the group's approval, loan applications were forwarded to the committee in the bank union.

After financial matters, members discussed specific problems of group members on their self employment activities and on other relevant issues particular to their problem related to poverty and arrived at collective decisions. Group savings fund, savings for children and other members, bulk purchasing of goods, and labor

exchange activities were some of the constructive ideas developed through these group discussions.

Regular meetings and group discussion create a very favorable climate to examine each other's problems and find solutions. Building a group fund, labor exchange, wholesale purchase and sharing of consumer goods, exchange of homemade products, recommending bank union loans and follow up work are very important among small group activities.

However, the group leader played a significant role in Samurdhi small groups. A member who was capable of keeping records on accounts and proceedings of meetings, and capable of mobilizing others, would be selected as the leader by the members themselves, for a period of a year. The basic responsibilities of the group leader are conducting group meetings, monitoring savings and credit and self employment activities of other members. But each member of the groups was supposed to have an equal responsibility in the functioning and the well-being of the group. A social mobilizer was participating with this meeting and showing direction of group members to carry out organizational activities. But most of the time it was limited to the initial stage, because, she had to manage many groups and visit each day. She has to conduct official work, collecting of saving and loan installments, attend weekly progress meetings in the bank and work with other development projects related to the program.

Group categorization is one of the important activities in the Samurdhi Program in the village. The program has set eight targets for each group in the village. Those groups which fulfilled these targets were viewed as 'efficient.' The following criteria were introduced by the Samurdhi Program, according to experience from the Janashakthi Program in Hambantota district and Janasaviya Program.

1. Conducting and participating in weekly meetings
2. Keeping records on group proceedings
3. Developing a group fund and its use
4. Group fund deposited in Samurdhi Bank Union
5. Completing shares

6. Consumption activities on group basis
7. Carrying out labor exchange activities and
8. Repayment of loans of Samurdhi Bank Union

Table 6.1 Group Classification in the Vallangiriya Village

Category of Group	Amount	%
A	38	48
B	12	15
C	15	19
D	13	17
Total	78	100

There was a group classification (A, B, C, D) based on the progress of the above target. For example, those groups which completed all these requirements were categorized as "A" indicating they were efficient. When the group members completed six requirements in their group, the rank was "B". Likewise, other groups according to the completion of these requirements were ranked as either C, or D.

So, this group classification is not always easy, and other factors also affect the poor. Mainly, several socio-economic factors are caused some groups to become less efficient than others in terms of the previously mentioned targets. When I examined a "D" category group, one of the members said that she was single mother of two children as her husband had deserted them. She could not complete the requirements very well. Also she was facing some economic insecurity, mental stress and so on. Some women were initially subjected to the threats by husbands in several families for their involvement in group meetings and neglecting household activities. When I examined "C" and "B," category groups, some members had already completed most of the target, but other members in their group had loans and were unable to pay their loan installments when their family member became ill or had a funeral ceremony or a special occasion. Some groups had been "A" or "B" category for a long time, though, the group meetings were conducted regularly, and

the delay in paying installments caused the demotion of the group to a lower status, for example, from “A” to “B” category and “B” to “C” category.

At the village level, this classification is very useful to for understanding and measuring the poor’s participation in the program and particularly their involvement in the social mobilization process. Also it was very important for self motivation between each group and the members.

6.3.2 Samurdhi Society in the Vallangiriya Village

The Samurdhi society (*samithi*) was launched under the national poverty alleviation program by Kaduwella Divisional area. At the first meeting conducted in middle of 1995, more men and women were present at this meeting. All of them were beneficiaries (nearly 250 low-income families) of the Samurdhi Program. At the beginning of the program, Vallangiriya village (officially called Vallangiriya *Grama Niladari Vasama*), had organized one Samurdhi society for all beneficiaries. As a consequence of expansion of the program for the convenience of management, the number of small societies was increased in the village. The main reason for an increased number of societies was that the Vasama (division) is an administrative unit. The program believes that it has not shown success as a development unit for building community organizations. The Samurdhi Society is found in small villages or unit. A village is not Grama Niladhari Vasama (Village officer’s Division). There are several villages within a Grama Niladhari Vasama (GNV) in rural areas.

In the urban areas GNV is very small geographical area and there is a high population density. The urban and suburban area small society is founded according to limited members for one society, not more than 40-50 members, and then they make several societies within one GNV. These Samurdhi Societies meet every fortnight, as the Vallangiriya village.

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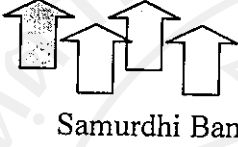
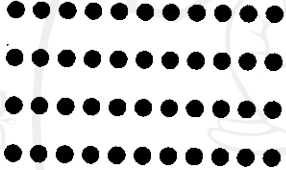


Social	The Poor Participate in the Level Organization		Structure Meeting
Regional Level		Executive Committee 21 Members They are Chairperson from the Samurdhi Society	Monthly
Zone Level		Administration Board 15 Members They are Chairperson from the Samurdhi Society	Fortnightly
Village Level		Samurdhi Society Less than 40 Members In One Village Two Societies or More than Two	Fortnightly
Group Level		Group of Five	Weekly
Family Level		Household	

Figure 6.1 Organization Level of Samurdhi Microfinance System in the Kaduwella Regional Area

There are three Samurdhi societies that operate in the village; namely Singhepura, Samagipura, and Punci Vallangiriya. A development officer was the coordinator at village level to carry out this program. In the Vallangiriya village, the Samurdhi Society annually elects its chairperson, secretary and other office bearers. Punieyawathi was the chairperson in Samagipura Samurdhi society since 2005 in Vallangiriya village. She said

I am 55 years old. I have two children. My husband passed away 15 years ago and my elder son was addicted to drugs for a long time. At that time I was very poor and I earned some money from dressmaking which I still do today. We were discriminated against by many people, because my sons robbed and sold other people's belongings and used drugs. My son was rehabilitated under supervision of the Samurdhi Social

Services Program, and after a few years he had reduced his drug use and was headed a better way. I work hard in the Samurdhi Society and I also took many loans from Samurdhi bank and also bought a sewing-machine. I stay with my daughter and continue dress-making which I know from childhood. However, today I am chairperson in my Samurdhi society, and I am very proud to mention about that.

All small groups in the village are organized in the society. This allows space for fortnight discussions on the progress of work of the small group. Further, loan applications submitted to the bank union have to be openly discussed and approved by the society. Family health workers, village teachers, and other public officers from support service sections can be invited for awareness building among the community.

According to my observation, Samurdhi society is distinctly different from conventional community organizations, in that, it is reserved for poor families. Very often poor families in the village do not participate in conventional community organizations. Even if they seldom do, they do not actively express their views to such organizations and participate in the decision making processes.



Figure 6.2 Vallangiriya Village Women Participating in Their Samurdhi Society

Many conventional organizations do not pay attention to activities such as combating malnutrition, saving and credit processes, introducing technology and literacy classes. The Samurdhi society plays the role of an informal education unit and performs a very vital function in enhancing the poor community's knowledge and talents, and changing their attitudes.

6.3.3 Samurdhi Bank Unions in Kaduwella

The Samurdhi Program was implemented under the national poverty alleviation program for all villages in the Kaduwella area. The program opened its own bank called the Samurdhi Bank Union (*Samurdhi Banku Sangamaya*). In Kaduwella there are four Bank branches (namely Bomiruya, Malabe, Athurugiriya, and Battaramulla) operating under the Samurdhi General Union (*Samurdhi Maha Sangamaya*) supervision. According to SLSA specifications, a membership around 1500-2500 people will be sufficient to maintain a staff of 6 members in each bank union. However, all Samurdhi Bank Unions in Kaduwella completed this target within a few years. Today membership in bank unions is 12377 (male 1209 + female 11,168) families in 2004 (see Table 6.2). The policy to incur all expenses by the bank societies other than the salaries paid to the employees was strictly implemented in 2002. At the end of 2002 the Bank Union had earned profits including salaries of the employees.

Table 6.2 Total Shares and Deposits of Kaduwella Samurdhi Bank Unions

In 31.12.2004

Name of the Bank Union	No. Of Members		Total Amount Of Shares (Rs. Millions)	Total Saving Account	
	Male	Female		Savings (Rs. Millions)	No. of Accounts
Bomiriya	287	2,781	2.907148	14.360503	6,987
Malabe	281	2,995	2.547786	13.465943	7,855
Athurugiriya	449	3,677	3.563710	13.715575	10,997
Baththaram.	192	1,715	1.927601	7.429657	4,973
Total	1,209	11,168	10.946245	48.971678	30,812

According to Table 6.3, the amount of the loans granted at the end of years 2004 by the Samurdhi Bank Unions in Kaduwella Divisional area was over Rs. 27 million for 2917 loans. So, the average loan size was Rs. 9256. Also this shows that loan recovery rate was an average 114 percent (see Table 6.3) and the loan default rate was also very small, compared to loan granted amount. Several categories of loans are issued by the Kaduwella Samurdhi Bank Unions, namely, self employment, agriculture, fishing, and distress loans at the rate of interest 18%. Agriculture related activities are activities such as floriculture, animal husbandry, home gardening, paddy cultivation etc. The other forms of self employment include manufacturing like, painting, art work, bakery, cement bricks, milk products, and repair services such as welding, garage, personal services such as beauty saloon, dress making, and retail wholesale trade activities and others.

At the beginning of implementation, the program at the village level mainly focused on making small groups, and working towards saving. The bank union functions somewhat like a cooperative bank; the system and its initial capital are based on the member's shares and savings. Group members become members of a SBU once they purchase Rs. 500 worth of shares (payable in installments) in the bank union.

Table 6.3 Amount of the Loans Granted at the End of Years 2004 by the Samurdhi Bank Unions in Kaduwella Divisional Area

Name of the Bank Union	No. of Loans Granted in 2004 (Rs. Million)		Accumulated No. of Loans 1997-2004 (Rs. Million)		Recovery Rate
	Loans	Amount	Loans	Amount	%
Bomiriya	937	8.52	4607	31.85	101
Malabe	700	6.84	3006	22.47	99
Athurugiriya	931	8.15	3774	26.47	156
Baththaramulla	349	4.07	1447	17.20	101
Total	2917	27.58	12834	97.99	114

The small credits from the bank union were very helpful for them as initial capital for their economic activities. When their economic activities expanded, it increased demands for bigger loans. Samurdhi Bank Union (SBU) is an economic arm in the Samurdhi program. Building of SBS has produced a network of financial institutions reserved for the poor community.

The Vallangiriya village people saved their money in Athurugiriya Samurdhi Bank Union (ASBU). The Vallangiriya villagers have been one of the significant clients in the ASBU, and their monthly saving is average Rs. 30,000. The poor in the villagers borrowed an average of Rs. 55,000 monthly (average 18 borrowers). According to Table 6.4 the amount of loan size is very small as data shows that 44 percent of households have borrowed less than Rs. 4000. However, only 6 percent of households have borrowed more than Rs. 15000.

The bank union has been implemented with participation of the local people in the village in order to support the livelihoods of the local people. The program is committed to empowering the local people's participation in instilling the values of discipline, a sense of responsibility, a savings habit, skills in balancing the daily budget, self-confidence and a spirit of mutual love among group center members.

Table 6.4 Amount of Loan Borrowed the Poor in the Vallangiriya Village
from January- May, 2006

Loan Size	No of Loan	%	Amount of Loan (Rs.)
2000-4000	40	44	110,000
4001-6000	23	26	118,000
6001-8000	12	13	98,000
8001-10000	3	4	30,000
10001-12000	-	-	
12001-15000	5	7	75,000
Up to 15000	4	6	80,000
Total	90	100	511,000

An office to maintain the ASBU was opened in Hokandara Junction (one of the village near by Vallangiriya village) in a very small room of a local government office, close to the main road. According to the manager, this room was very narrow and then they negotiated with local government and received land from another area which is called Athurugiriya junction. Further, construction of the bank union building was made possible with financial support from the Sri Lanka Samurdhi Authority (SLSA) totaling around Rs. 1 million. Six full time officers for the bank were appointed as manager, assistant manager, one book keeper, two account clerks, and a cashier from amongst development officers in the Divisional Secretary Office in the Kaduwella. They were given special training on banking by the SLSA. The Bank Union is instituted for 13 Grama Niladari Vasam that Kaduwella area.

The Management Board of the ASBU meets every fortnight and approves loan applications to provide the opportunity for the poor to obtain loans promptly. The board of management is elected by the general assembly of officials including chairpersons of societies within the zone. The chairmanship of ASBU was only for one year but not more than two years continuously held by one person.

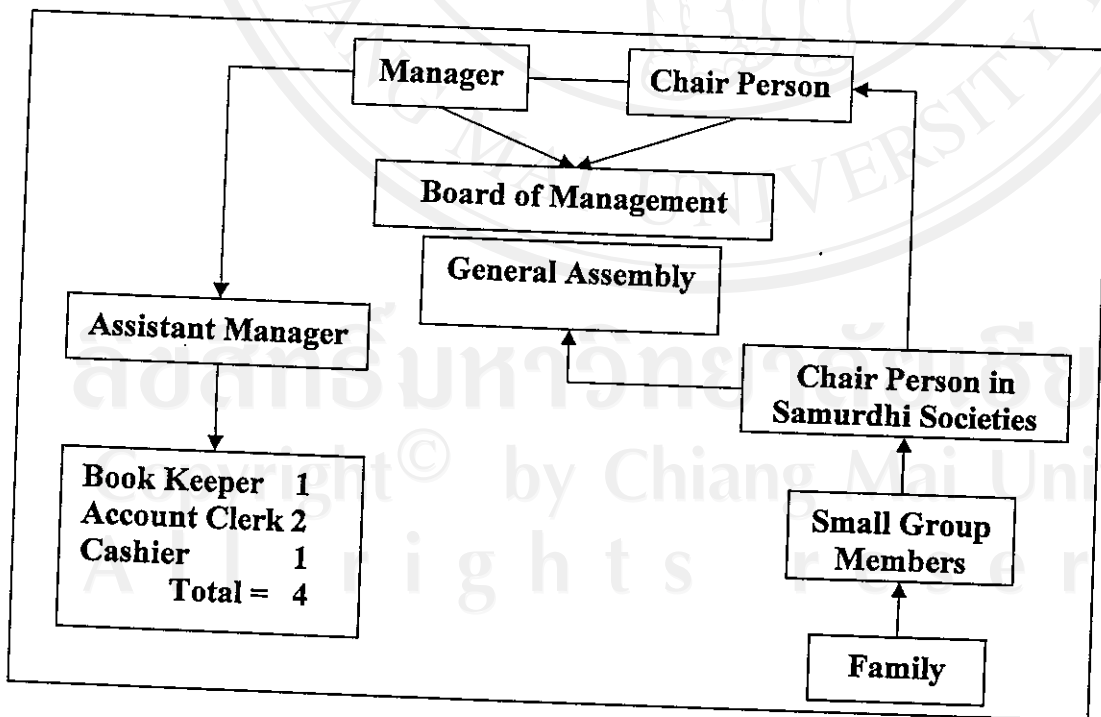


Figure 6.3 Organizational Structure of the Samurdhi Bank Union in Kaduwella

In the early days, the management board meetings were conducted in a village temple or school in the area, but when the bank built their own building, the meeting was organized in the bank. The meetings began with a short religious observance. Initially, the loan applications were forwarded for the approval. Members also got an opportunity to discuss their village problem, and seek the support of the bank, Samurdhi Maha Sangamya or other services institutions, as such as marketing, training, health, drug and alcohol reduced program, and so on. This leaves the decision making power to the community. Samurdhi manager and Samurdhi development officers (Government officers) assist in the program in both in the bank and village.

According to bank circulars in the Samurdhi bank union, the limits of the loans are 10,000 (the period of loan 12 months), 15,000 (for 18 months), 25, 000 (for 24 months), 50, 000 (the loan period is 30 months), 75,000 (for 36 months), and 100,000 (for 52 months). The recovery of loans is going more than 100 due to the fact that the members have fully settled their loans prior to their due date.

However, the standard of savings of the poor people in the village remains at a low level. This has resulted in the decrease of investments and production as well as a reduction of incomes. Samurdhi bank unions have been introduced with a view to relieving the poor people and enhancement of their savings and granting those loans out of their own savings has been envisaged through Samurdhi Bank Unions. The most important feature of the Bank Union is to create opportunities for income enhancement and employment to the village poor. The major functions of the Samurdhi Bank Union are to sanction the loan to the poor for establishment of their own self-employment venture at the subsidized basis and also to manage managing their savings.

However, this program is focused on breaking the vicious circle of poverty through the Samurdhi saving and credit system. According to the program, the poor are caught in a vicious circle and they cannot be economically restored without breaking this circle. However, Central Bank figures shows that SBSs have become the largest banking institution structure to extend island-wide in the microfinance field within a short period of time. Most of the research shows that this system has

created a new savings and credit culture among the poor. Nevertheless, the impact of the program is different in different area and different societies, such as rural, urban, and suburban.

6.3.4 Samurdhi General Union

The Samurdhi Bank Unions in Kaduwella are controlled by the Samurdhi General Union which is called in Sinhalese “Kaduwella Samurdhi Maha Sangam,” and is confined to a Kaduwella Divisional Secretarial Division. The Kaduwella Samurdhi General Union (KSGU) was established in 1997. The membership of the KSGU was 11168 in end of 2004. According to program, about 10,000 beneficiaries would have a favorable effect on the economic strength of the institution. The 21 members include for executive committee of the KSGU is elected at an annual meeting of chairpersons of village level Samurdhi societies in the area of authority. The KSGU, its main activities are aimed to strengthen social and economic empowerment of the poor.

In terms of economic empowerment, the KSGU looks into the financial management in Samurdhi Bank Unions and directs their giving necessary instructions. Audit of bank unions in the area is also a function of the KSGU. In addition, it attends to the external investment of surplus in order to enhance the profitability of bank unions. I observed one important loan conservation system in KSGU. If the poor community fails to settle loans due to natural causes (for example, natural disasters), a fund is built to cover the losses incurred by the bank union. When the bank union releases loans one percent is contributed towards loans conservation. Most of the bank union financing system and coordination, monitoring and control are the responsibility of the KSGU.

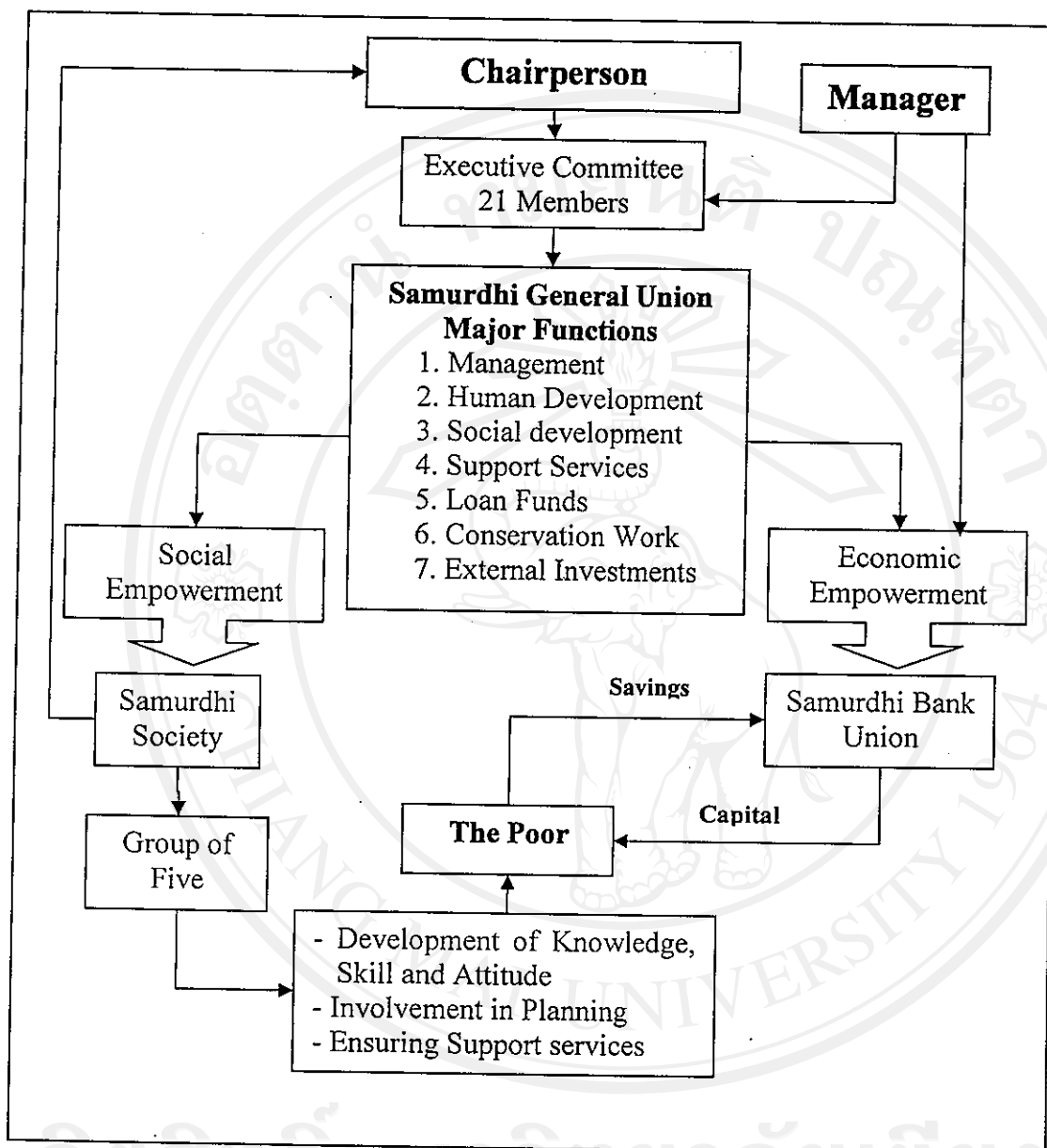


Figure 6.4 Social and Economic Empowerment of the Community Through the System Including the Samurdhi General Union

6.4. Participation of the Poor in the Program

Women's participation in the program is significant. Island-wide figures show that 62 percent of members are female, and 38 percent are male. But participation of the poor in suburban Vallangiriya Village it is 100 percent female. Yet, since joined in the program, they have become more active and have empowered themselves through the activities of the saving groups.

In the former program in the Vallangiriya village, women were not very much interested in participating in group activities, because men dominated. Initially, men and women were there in the same group. But women were separately grouped after some time. Later, men's participation in these groups declined gradually because they lacked interest in meetings with women. According to development officer in the village, the program and especially women was more and more against drugs, cigarettes and alcoholism, and this may be another recent for reduce to male participate. Men who were employed outside the village rarely attended these meetings. Men's involvement in labor exchange programs and contribution to group funds were irregular. Responding to this situation, women were compelled to form a separate women's group. Group activities helped women to overcome their backwardness and improve their cooperation.

Besides, the majority of the saving group elders are women, they are more active and have more self motivation than men. Some of the leaders work efficiently as representatives of the poor to communicate or negotiate with the local authority. In most cases, the strength of the network of small groups is a result of their having strong women leaders. Those local key actors understand thoroughly what is the lack or the need for other poor women. Then, they flexibly support their poorer neighbors in their role as group leaders. Recently, young people's in the village, participation has increased rapidly in the Samurdhi Bank Union, because they are unemployed, and they want to start some self-help projects, but are unable to access other financial institutions.

Some of the poor members withdraw from the program, because of their inability to continue participating. Others do not join because they cannot satisfy the requirements of the program, such as meetings. Most of the poor families suffer from insecurity of income generation, unstable jobs, and unemployment, and usually do not have a certain amount of money to save every day. In fact, the poor have to struggle for their daily survival; they spend all the money earned for basic needs.

Several Samurdhi managers and development officers interviewed for this study, said that it is difficult to sustain a group saving system in urban and suburban areas, because, they found that urban-based poor are more individualistic in their

outlook compared to rural poor who are less trusting and less cooperative in their interactions with others. They had altogether less time to participate in group activities. But there is a fundamental reason why such a system is less effective in reducing poverty among the urban poor, and this shows the limitations of a poverty reduction program that is based on consumption poverty. The nature of poverty in urban and suburban areas is very different to that experienced in rural areas. The poverty in urban areas is not strongly correlated to income deprivation or lack of access to minimum levels of services. Rather, the urban poor are trapped in a culture of poverty that is related more to their marginalization from the mainstream, and to lifestyle factors that reproduce themselves.

Within this situation where there is a relatively high group breakdown rate in the urban areas, it could imply that people cannot afford to keep up with saving group activities because of relatively high consumption poverty. Samurdhi development officers in the village advised for group members to meet with other group members every week, something the suburban poor don't like to spend their time doing. However, with a monthly meeting in the Samurdhi society, the poor can get clearer information about the poverty alleviation program, not only news but also have a chance to share their feelings and exchange their experience.

6.5 Group and other Savings in Vallangiriya Village

The formation of savings for each beneficiary group was one of the essential requirements for the poverty alleviation program. Group savings was a central condition of group formation. It was aim to build up group capital to the extent that a group could itself finance income earning activities through short loans to members. Each member in a group contributed an equal amount to group fund which was decided by the group itself. In cause, most of the women would contribute from their own earnings rather than depending on their husband. Because, since a lot of women in the village did not have economic earning activities at the initial stages of the program. In the group meeting, each member had to save in the group account up to Rs. 10. It was depend on the each group, example, some group save Rs. 50. Usually they are save every month more than Rs.100 or 200. With

progressive contributions of women, each group developed their group savings significantly.

Before start Samurdhi Bank Union, member in Samurdhi groups in village had been frequently using their group fund for group lending which yielded 2-5 percent interest monthly. Most of the profits earned were deposited in the group savings fund. I was founded some group fund information from some group leaders, very few document is available about previous one. The following Table 6.4 indicates group saving funds of the sample group in the Vallangiriya village in before 1997 and 2005. When Athurugiriya Bank Union was opened in 1997, most of the group fund deposited group account in the bank.

Table 6.4 Group Savings of Beneficiaries in Vallangiriya Village

Name of Group	Amount of Saving 1997 (Rs.)	Amount of Saving 2005 (Rs.)
Isuru	2375	6735
Kakulu	850	8200
Vijaya	2160	5395
Nimala	2985	4850

There were several other savings introduced under the program in the bank union (see Table 6.5). Other than the group savings, each program had encouraged beneficiaries to maintain personal savings accounts. Pass books were issued for savings to enable members to carry out their transaction easily. The main objective of maintaining personal savings was to encourage members to save certain amount of money from their own income generation. Members could withdraw money from their account if necessary. Contribution of personal accounts depended on the income and saving capability of each member.

Table 6.5 Total Accounts and Deposits of Athurugiriya Samurdhi Bank Unions
on 31.12.2004

Name of Account	No. of Account	No. of Amount (Rs. Million)
Shares Accounts	4,126	3.563710
Member Savings accounts	4,126	5.103449
Children's Savings Accounts	3,258	1.319698
Diriya Matha Saving Account	1,473	1.057608
Non-Member Saving Account	604	0.740485
Group Savings Account	557	2.030134
Total	14,144	13.81508

Saving for children was encouraged in Samurdhi Program in the village. Women deposited Samurdhi some amount of money in their children's account in bank union. Diriya Matha savings accounts were limited for women, who are living in village rich and poor. Also interest rate is high than other accounts. Non member account was other villagers' in the village. My observation is most of these accounts are popular, because, development officer have been collect all the saving in the village.

However, altogether, 80 percent of the total sample had not saved at all before the program. Now, 90 percent of households are saving in Samurdhi Bank union. Some of the previous data in Kaduwella show that, there is some evidence of multiple memberships of saving programs: 18 percent of respondents who are members of Samurdhi saving groups are at the same time members of the savings groups of other poverty alleviation and credit programs. But in the Vallangiriya village, I do not see these kinds of credit and saving programs. On the other hand, poor people were not used to saving money. Whenever the poor men earn money, some time they spend it on gambling, drinking alcohol or using to drugs. In an emergency such as illness or disease, they borrow money from moneylenders with high interest. This is a common situation in the village, even today. However, in recent experience the poor women especially have a feeling of inferiority due to their poor situation. In the village, poor households save about Rs. 30-50 a week, but

some households could not save more than Rs. 10 a week. But SP appears to have had the greatest impact on saving behavior in the village than before.

6.6 Impact of Credit in the Vallangiriya Village

Microfinance programs, through the provision financial services and social mobilization processes, attempt to help the poor, particularly women, to gain economic and social empowerment. My study aims to understand whether the poor's participation in Micro Finance Institutions (MFIs) has helped them to improve their economic status and social status. The positive aspect is that more than 70 percent of the poor who participate in the program indicated that this program helped them to better integrate with the villagers and social recognition has improved significantly.

The impact of Samurdhi credit program in the village can be identified in several aspects. The direct and immediate impact of credit was the expansion of self employment activities. Each of poor family was using credit for self employment and other activities in the family. Both ways are contributed to an increase in their income, living condition. Further, several families were in the village had improved their economic activities beyond the subsistence level. Main recent is their improvements of entrepreneurial management, availability of family assistance and the ready availability of marketing outlets for their production.

The survey data show that 100 percent of the female members were participating in the Samurdhi Program. Among the women participants, over 80 percent have borrowed and 90 percent have savings with Samurdhi Bank Union. This shows that women borrowers are better at paying back their loans, than the male borrowers. The common belief is that, women don't drink alcohol, gamble or otherwise fritter away their profits. The program also encourages reaching women due to the belief that lending to women would bring about a higher positive impact on households' welfare, particularly on children. Moreover, I also observed the distribution of respondents according to their age group. It is clear that almost all age groups of people are benefited this loan system. The young women group is the majority such as between 25-35 ages.

Several categories of loans are issued by the Samurdhi Bank Union namely, self employment, agriculture, fishing, and distress loans at an interest rate of 18 percent annually (the loans interest rate depends on the financial market situation). These loan categories were introduced for income generation. In the village, most of the people borrowed money from the bank for self-employment and distress, because this village doesn't have agriculture or fishing. Recently introduced housing loan schemes (not more than one year), have also been popular in the village. Nevertheless, participants in the bank union cannot simply be treated as an indicator of female empowerment. It is also important to look at how the loans are being used. According to the bank union, more than 95 percent of loans are utilized for self-employment. But when the poor invest the money for income generation activities only 50-75 percent is used for main purposes. Other uses may be consumption, emergency needs, and sometime for traditional ceremonies or alcohol.

Some borrowers used their money to settle a previous loan debt, because, their previous loan, borrowed from a money lender, had a high interest rate. One case is in the village; Mrs. Mangalika was member of Samgagi group in Singhapura Samurdhi society. As she did not have sufficient money for her son's wedding ceremony, she borrowed money from money lenders at 10 percent interest per month. As the interest rate was very high, their family income was not enough to cover this loan. They can pay only interest rate every month. Her husband is fish seller and some time wage labor. Mangalika was again borrowed Rs.10000 from Samurdhi bank, reason is to develop fish sale project. Actually they were used this loan for covered to their previous loan.

Significant is that the poor households have been in debt a long time. In this cause the poor suffer not only from low income, but also various risks and uncertainties such as natural calamities and employment related sickness, accidents or death of a family member. These factors also affect their empowerment. The poor have used wide ranges of strategy to mitigate the effects of risks and uncertainties they' face. Some of these strategies include selling assets, pawning their jewelry, and withdrawal of savings. A woman in the village (namely Dayaseeli) said that

"Our husbands did not want to send us far away for wage labor. When he fell ill or had no employment, our family was subjected to many inconveniences. Once, in such distress, I borrowed Rs. 2000 from a money lender and mortgaged my gold ring. I could not settle the loan even after six months, then the moneylender sent notice to me it will be appropriate to him. I borrowed Rs. 3000 from Samurdhi bank and settled my own money lender's loan. This ring is worth more for me than its gold value because it is my wedding ring."

This shows that when they borrow some money from the bank, they do not always invest it for production matters. It is one of the main problems in the village and also reduces progress of the poor people in the village. Many poor people were borrowed money from the bank; there has been few successful project or micro enterprises in the village. Mrs. Punyawathi who is the Chair person in one of the Samurdhi Society in the village, she pointed out that

"We cannot see the projects after they borrowed money from the bank. If they could not return the money from their new project or business, they worked outside and returned the money from their daily wage income."

On the other hand, credits available from Samurdhi Bank Union in the social mobilization process had also helped to release poor people (especially women) from the authorities of money lenders as Dayaseeli member of Gamunu group in the village. Money lenders not only exploited them but also created dependency relations among the poor. As another man point out,

"We are work in a money lender's construction site for lower wages. We cannot protest as we have borrowed money from them."

It is clear that money lenders are influential in their village and exercise control over some of the village economic activities. Consequently, loans are payable in kind or return from labor with high interest. It is show that loans entail social obligations and may create personal bondage in future economic dealings. However, when I attended to group discussions, most of the women said that after introduced Samurdhi Program, some money lenders also reduced their power

against poor as example, more flexible than before. Some small level money lenders have lost their wealth and they are going for find to another income strategy.

Formal credit institutions available in surrounding towns and corporative bank available near by village but did not help these poor people. Because, many of them had no land of their own and also both women and men were unemployment or did not have permanent jobs. There were several loan schemes in these formal banks for short term loans for the immediate necessities. But, the poor are less interested use to it because many extra expenses such as transportation, legal and title fees, paper work expenses, and time lost waiting in turn. As Samurdhi bank developed into some formal level but in the case, people no need go to bank, and also the bank staff seemed to be very friendly to them.

Indeed, the female members have utilized 95 percent of loans for self-employment activities, whether or not the females control their money in the household level. The findings show that a significant of loans and savings of female participants is controlled by male members in the household such as husband, father or son. Why do males have some control over the use of credit obtained by female members? The reasons include lack of experience, skills, and limited income generating opportunities available for women. However, in some cases where women are reported to have control over loans, women were found to be actively involved, and working as partners in micro-enterprises for which the loans have been used.

However, the poor's participation in the microfinance institute not only contributes to improving the economic base and living conditions of households, but also helps to improve their social status, especially women in the society as well as household. Social mobilization process in the program, create opportunities for women to interact with the broader society, and build social assets such as social networks and mutual trust, and also self-reliance. It helps to develop their social skills, leadership skills, managerial skills and entrepreneurial skills. It is true that in the sample, 75 percent of the members (women) in the Samurdhi Program believed that their social status got better after joining the program.

This was not only true for women but also men, because, some social mobilization programs mainly focus on men such as drugs and alcohol reduction programs. Some women said that in the past they were in the audience at society meetings, and that powerful people control them. "Today our Samurdhi society is the powerful one in the village; its leadership also belongs to us." This is one kind of positive aspect in the microfinance program. Some families said that there was little or no change in their lives from the program. But most of the female participants believed that their status increased, as they are now a source of an important resource to the household.

6.7 Effectiveness of Credit and Small Enterprises

Promotion of small enterprises in developing country policies has generally had two broad aims: realizing the potential of small enterprises to contribute to national economic growth, and poverty alleviation by providing employment and income generation. This shows that most developing countries consider micro enterprises as essential elements in diversifying household economies, reducing poverty and redressing regional imbalances.

In practice, most of the slums or resettlement slum dwellers are depend on their income from the small enterprises, but their project is usually survival level. The key objectives of the Samurdhi Program are to make credit accessible to the poor so that they can set up and sustain small enterprises for self-employment. In the village surveyed, the loan had been mainly used for dress making and sewing, some itinerant trade such as the door-to-door sale of clothes, sweets, household items, etc, but itinerant trade least popular in Colombo.

The loans have been taken to finance two types of projects; new small enterprises and existing enterprises. The new small enterprises start by using the bank loan as a part or whole of the initial capital and already existing enterprises are further developed by using the loan. The majority of projects over 65 percent are existing enterprises.

According to those surveyed around 55 percent of these project holders claim that their sales or production doubled or more than doubled since they

obtained the loan. On the one hand, both of this new and existing projects workers base on the family members. But the case is they don't know how much the profit in their project increased. On the other hand, some project holders engage in their project work on a part-time basis, probably because their main source of income is some other occupation such as the supply of casual labor. Most of the projects are very small in size, often employing just one person. My understanding is that in the beginning of the loan scheme in villages, most of the project holders were clustered around the 35-44 age groups. But, the new trend is that most of the projects are changing ownership to young people such as from parents to their children. Developed projects under the supervision of the program, have significant increases of monthly income, and production capacity and better changes to new employment.

However, a significant percentage nearly 18 percent of loan recipients interviewed claimed that their projects had failed and had been abandoned. Some projects are successful and others failed. I also focused my survey on finding out why some projects fail and some project are successful. Most owners of the projects that failed claim that a key reason for the failure was that the loan received was too small. But nearly 80 percent of successful small enterprise holders side their first loan size is very small, not more than Rs. 5000 (USA \$ 50 in 2004). 75 percent of the project holders, whose projects failed, obtained loans between Rs. 2000-10000. This shows that loan size does not necessarily affect the performance of a project. Also the level of education and average age of project holders, did not significantly determine a project's success or failure.

The reason for failure of projects lies outside the size of loan. A project holder group's discussions noted that not enough market place, machinery and some social problems were other failure factors. But Samurdhi managers, development officers and other village leaders noted that the most crucial contributors to failure were poor management skills, accounting experience, and poor marketing skills. Further, most beneficiaries were motivated to start small enterprises through the availability of credit. Thus, projects were credit driven. Some of the poor don't want to be self-employed, because, some poor are satisfied with their daily wage income, and also it is very difficult to sustain small enterprises in the market economy. It is

unclear whether this motivation can help sustain a project. In this poses the problem of whether encouraging micro-enterprise development is indeed a suitable way of alleviating poverty.

Another serious problem is market. Poor quality and packing, marketing skills and the lack of effective advertising and the lack of benefits of economies of scale that larger manufactures enjoy, confine these tiny businesses to be very limited for the poor. Some researcher noted that, poor clients often have little understanding of market conditions and business opportunities in nontraditional occupations and lack the extended social networks which are key sources of information, skill and business contacts.

Most of the poor clients in particular appear to face significant barriers to entering to the entrepreneurial occupations. There are three factors that influence the selection of occupation: geographic, financial and socio-cultural. The poor select survival activities because the market environment presents few alternatives, while in suburban areas, where conditions favor the development of higher-value activities, human capital and socio-cultural issues assume greater importance as determinants of project selection. Geographical location is advantage for the suburban poor to develop their project, and there are more alternatives for income-generating opportunities. But most of the village dwellers lack physical capital such as motorbikes, cars, etc. They usually use public transportation to transport their productions. The privatized public transport industry offers less support for the poor, because they don't like to transport baggage. People are waiting for government bus service for a long time near the road.

However, statistical definitions of small enterprises vary from country to country and even within countries there are significant differences in the definition used. But, commonly the belief is that most of the small enterprises offer job opportunities for low-skill and unskilled workers who are poor. The role of small enterprises as a source for employment is highly significant. One estimate indicates that micro enterprises provided work for 20-40 percent of Sri Lanka's total labor force (Berensmann, 2002). However, in recent past and even today, micro enterprises cover a wide range of activities with potential to exert a significant

impact on poverty alleviation, especially in the urban and suburban sectors in Sri Lanka.

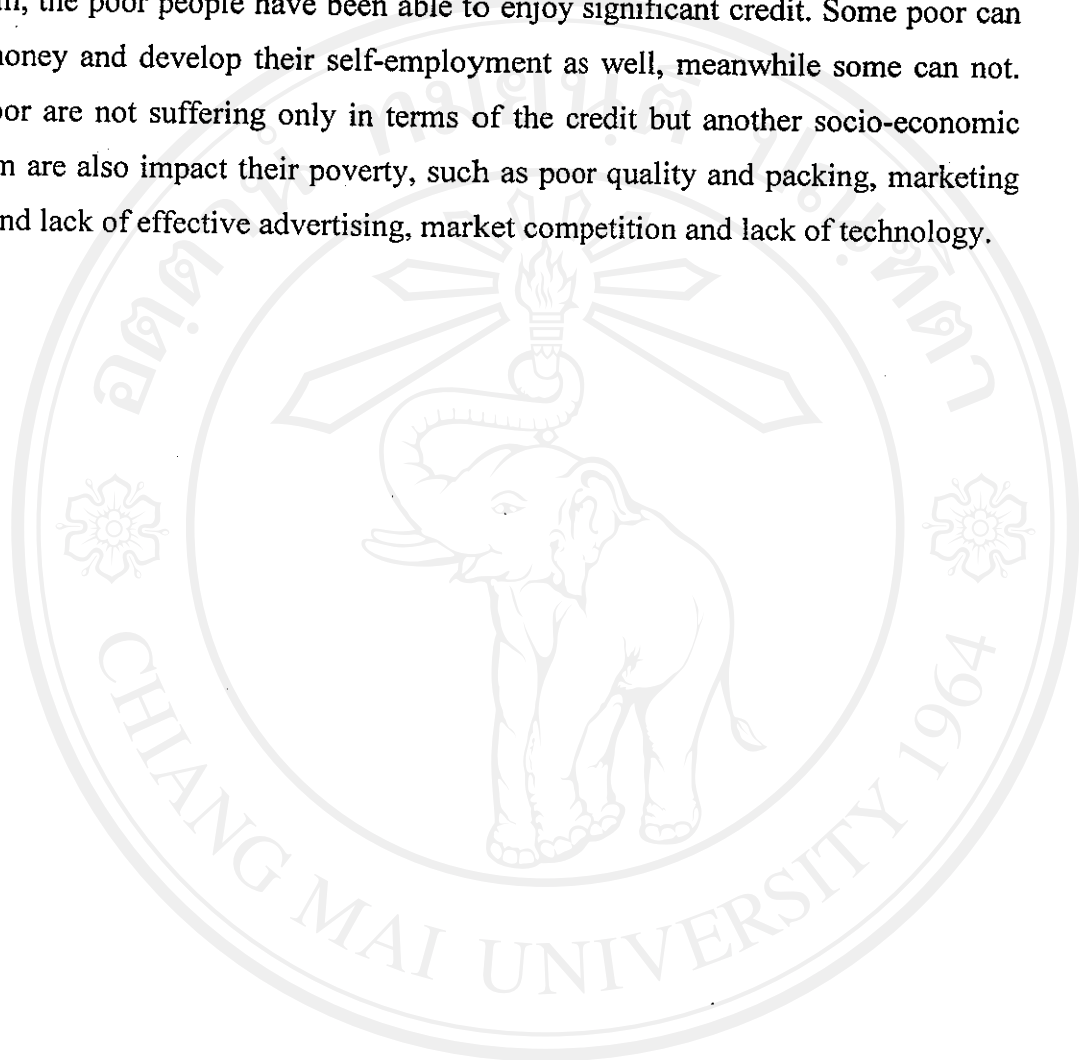
In the poverty alleviation program in urban areas, microfinance activities are mainly focused on developing micro-enterprises, because in urban and suburban areas the poor depend on the non-farm sector. Shaw (2004) also points out that poverty impacts are differentiated by location: poor clients in semi-urban areas have considerably greater opportunities than rural counterparts to exit poverty through small enterprise development services. But support for urban small enterprises helps to alleviate some ill effects of poverty, although it has little impact on incidence of poverty. However, urban, suburban or rural, the poor entrepreneurial occupations operate without excessive pressure from competitors, while the survival occupations are characterized by low barriers to entry, undifferentiated products, saturated markets, and inefficiencies which limit their competitiveness in relation to larger producers.

However, the general consensus is that small enterprises play a significant role in absorbing unemployment in the village, but the vast majority are either self-employment activities or household-level operations which employ unpaid family members, who are not significant contributors to job growth outside the household.

6.8 Summary

Microfinance, which began as an alternative mechanism for providing credit to the poor, and Samurdhi Program, can help to meet the basic needs in the community and increase their social relations, particularly the poor women are socially and economically empowered. I examined some important issues related to microfinance as informal finance service and the impact on poverty and living conditions of poor household. It has also enabled the households to improve their housing conditions, which is particularly true for relatively better off households. Furthermore, my observation is that credit has supported income and employment generating activities, and also it is important to note that microfinance plays a crucial role in including savings habits among poor, especially marginalized groups.

In addition, a number of factors limit the expansion of microfinance in urban areas. With the open microfinance credit system under the poverty alleviation program, the poor people have been able to enjoy significant credit. Some poor can save money and develop their self-employment as well, meanwhile some can not. The poor are not suffering only in terms of the credit but another socio-economic problem are also impact their poverty, such as poor quality and packing, marketing skills and lack of effective advertising, market competition and lack of technology.



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