Reviewing the effect of Microfinance programmes for alleviating poverty among microenterprises in Sri Lanka.

Shohani Upeksha Badullahewage

Department of Economics, Faculty of Humanities and Social Sciences,
University of Sri Jayewardenepura, Gangodawila, Nugegoda.

IJMSSSR 2020
VOLUME 2
ISSUE 2 MARCH – APRIL **ISSN: 2582-0265**

Abstract: Microfinance services affect the productivity growth of the SME sector. Especially the provision of non-financial microfinance services aims at an increase in productivity of the SMEs. Many studies revealed that technological related training, advisory services and business counseling received by the SMEs positively affect the sales growth and employment capacity or productivity. The main objective of the study is to assess the impact of Microfinance programmers for alleviating poverty among microenterprises in Sri Lanka. The secondary data sources were used for the research. In the data evaluation process, the thematic technique was applied for the objectives and goals of the research. Micro-finance institutions and programmers have helped the poor and the marginalized in Sri Lanka to gain access to development finance. Further, it has contributed to motivating rural peoples for savings, group formation and social development.

Keywords: Alleviating, Effect, Microenterprises, Microfinance, Poverty

1. Introduction

Microfinance has become an important strategy and element in the development of small and medium enterprises all over the world. Microfinance contributes to uplift the private sector-led growth through the development of SME sector. The microfinance institutions provide platform for the growth of the SMEs and contribute to reduce the poverty. (Nahamya et al. 2013). Some studies argue that microfinance create many positive impacts upon the SME sector (Holcombe, 1995, Otero and Rhyne, 1994).

The accumulation of labour or the ability to participate in the innovation process plays a key role in enhancing the growth of the SMEs. Some studies showed that labour is considered as critical input in the production process and its accumulation leads to capital deepening and growth (Mankiw et al. 1992). Ahmed (2008) argued that SMEs are major contributors to the private sector employment. Thus, SMEs provide significant contribution in transition agricultural-led economies to the more industrialized economies by providing massive opportunities which can generate revenue and enhance employment level. (Nahamya et al. 2013).

In Sri Lanka, SME sector has become a substantial portion in providing jobs to the lab our force. According to the Census and statistics report of "non-agricultural economic activities in Sri Lanka 2013/2014", there are 71 126 small enterprises or establishments and 10 405 medium enterprises all over the Sri Lanka. 529 751 people from the lab our force are employed in small enterprises and 386 756 people are employed in medium enterprises. According to the empirical data SMEs which represent the 8 per cent of the establishments have created employment for around 31 per cent. In Colombo district there are 15 912 small enterprises and 3400 medium enterprises. SMEs in Colombo district significantly contribute to the creation of jobs in small and medium enterprises by 118 407 and 121 210 respectively. Thus, there is a linkage of microfinance service and job creation of SME sector in Sri Lanka.

Microfinance services affect for the productivity growth of the SME sector. Especially the provision of non-financial microfinance services aim at increase in productivity of the SMEs. Many studies revealed that technological related training, advisory services and business counseling received by the SMEs positively affect the sales growth and employment capacity or productivity. (Nahamya et al.2013). Studies provide strong evidence of positive association between the use of technological related training provided by the microfinance institution and productivity and business performance. Hulme and Mosley (1996) found indeed technological innovation and increase in lab our productivity as result of microfinance loans. Therefore, the SMEs are able to effectively manage their business and raise the productivity and employment through the provision of both microfinance financial (loans) and non-financial services (training, advisory and counseling).

2. Theories of Microfinance

According to the Chest on and Kuhn (2002), woman account 74% of the 19.3 million of the world's poorest people. This theory indicates that they are now being served by the microfinance institutions. Most of these women have their own business and have access to credit to invest in their businesses. Even though they face daily hardships they have excellent payment records (Mbithe, 2013). He added up about three paradigms. The first one is financial self-sustainability paradigm. It is the main consideration in program me design is provision of financially self-sustainable microfinance services to large numbers of people particularly micro and small entrepreneurs. The main objective of this program me is to separate microfinance from other interventions, setting of interest rates right to cover costs, to expand programmers so as to capture economies of scale.

The microfinance games theory also supports the idea of group lending among micro finance institutions. Basically, it is based on Grameen lending model of microfinance where loans are made to individual groups based on group peer pressure(Mbithe, 2013). Under above mentioned model, access to subsequent loans is dependent on successful repayment by all group members. This method is effective in deterring defaults as evidenced by loan repayment rates. Since this method is depending on the mutual trust, it enhances the social network and thus, creates social benefit (Ledgewood, 1999). However, these group based mechanisms tend to be vulnerable to free riding and collusion (Gruber, 2005)

MFIs should be long-term survival and sustainable in order to reach its target clientele and cover administrative and other costs. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while external in terms of availability of funds for loan disbursement, grant for community organizing etc… (Mordush ,2000).

Following are given the main methodologies or models of MFIs for the delivery of financial services.

The operations of SHGs are based on the principle of revolving the members' own savings (Robinson, 1998). The resources available to the group-operated revolving fund are enhanced through the help of external financial assistance by MFIs or banks. In many SHG programmes, the volume of member savings or the savings of the group as a whole determine the individual borrowing (Daniel, 1999). Some NGOs operate microfinance programmes by organizing federations of SHGs to act as the Microfinance institutions (Kyale, 2013).

Even though clients are sometimes organized into joint liability groups, credit and savings cooperatives or even SHGs, MFIs provide the microfinance services to the individual clients through IBPs (Robinson, 1998). It has become popular in the field of microfinance, particularly through cooperatives. In the case of cooperatives, all borrowers are members of the organization either directly or indirectly by being members of primary cooperatives or associations (Kiiru, 1991). He further explained that, creditworthiness and loan security act as main determinants of cooperative membership. In fact, member savings and peer pressure are assumed to be a key factor. Thus, members make special effort to mobilize the savings. But, the magnitude and timing of savings and loans are largely unrelated.

The Grameen Bank of Bangladesh initially promoted this model (Robinson, 1998). Basically, this model involve in providing individual lending. It is mandate that, all borrowers are members of 5-member joint liability groups which, in turn, get together with 7-10 other such groups from the same village or neighborhood to form a centre. According to the Kyale (2013), peers in the same group or centre create a pressure on the repayment. Further, the overall creditworthiness of the group determines the each borrower's creditworthiness. Savings are a compulsory component of the loan repayment schedule but do not determine the magnitude or timing of the loan.

Some MFIs provide their services under the equal mix of SHG and Grameen model When some use mixed models, others have chosen to adapt either the Grameen or the SHG model to cater to their markets. Some organizations use a number of delivery channels and methodologies (including lending to SHGs) to provide financial services. They are becoming popular in the world of microfinance with increasing innovation. But, such MFIs are still relatively few (Kyale, 2013).

The non-government organization model is in operation locally in all most all the countries in the world. International non- government organizations are operating globally and they provide services of savings, remittance, credit, insurance, training, education and research to the poor communities (Atapattu, 2015). Further he explained, these community based organization (CBOs) operate at village level; provide services of business facilitator, as well as business correspondence services.

Atapattu(2015) mentioned that some of the NGOs/MFIs work as a correspondent of financial institutions or donors (ADB, UNDP, World Bank) and directly provide small short term loans and recover principle and interest. They are also involved with micro insurance activities. And also, they receive small remittances from clients and reimburse the value with a commission.

3. Empirical Review

The research conducted by Naeem et.al (2015), revealed that the microfinance has overall significant impact on sale revenue and net income of microenterprises. Moreover, they revealed that microfinance program has been helpful in development of microenterprise and has significant impact on microenterprises' working capital and fixed assets.It is also helpful in strengthening creditworthiness of micro-entrepreneurs in generation of funds from other funds providers if required for expansion and development of their business. So, they are now well in position in coping with forthcoming crises which will arise in the future.

According to the Kyale (2013) the provision of MFIs loan products along with favorable interest rates can minimize the challenges facing SMEs and provide an opportunity for them to grow and expand. Poor financial management skills among SMEs are a major obstacle towards their growth and development and majority of them are unable to document their business operations and basic accounting. So, the study revealed that SMEs can manage their finance through the provision of skills by MFIs. However, it revealed that these services provided by the MFIs are not in satisfactory level to help most of the SMEs to grow and develop. In regarding the way to facilitate marketing of SMEs, the MFIs have managed to register SMEs in businesses association and updated their database. It is apparent that most SMEs would need to be facilitated to do business through financing and provision of adequate management skills which enhance the level of resource allocation skills and thus facilitate growth.

Mbithe (2013) found from his survey, that microfinance services provided by MFIs affect to increase the growth in sales of SMEs. It is indicated that microcredit and training provided by MFIs have strong positive impact over the SMEs sales growth. Moreover, training has the greatest positive impact on the growth in sales followed by Microcredit. However the findings in this study indicate that micro insurance has a negative effect on the growth of SMEs. It explains, that most of SMEs do not demand for micro insurance because of the difficulties involved in providing the information required by the Microfinance Institutions to process their claims in the event of an insured risk. The study further explained the factors affecting growth of SMEs, such as; capital market, cost, capital access, collateral requirements, information access, capital management and cost of registration. Capital market, cost and capital access had the highest contribution to constraining SMEs growth into large businesses.
Alarape (2007) conducted a study to examine the impact of owners of micro business participating in entrepreneurship programs conducted by MFIs on operational efficiency and growth of micro businesses in Nigeria. The study was a cross - sectional analysis of the impact of exposure of owner of micro businesses on their performance i.e. operational efficiency and growth rate. The data was collected from primary and secondary sources. Both descriptive and inferential statistics was employed for the analysis. The findings were that micro businesses whose owner had experience of participating in entrepreneurship programs conducted by MFIs exhibited superior managerial practice, had higher gross margin rate of growth than micro businesses whose owner did not have super experimental learning. This had a practical implication that there is need to improve managerial practice of micro businesses through exposure of owner to entrepreneurship programs conducted by MFIs in order to enhance their performance and their transition to medium and large businesses.

According to the study conducted by Babajide (2012) microfinance banks do not enhance growth and expansion capacity of micro and small enterprise. It is also revealed technology related training received by the entrepreneur, business location, and business age and business registration impact significantly on small business growth. Regarding the micro enterprises, owners‟ education, loan interest, duration of asset loan, business location, technology related training received and size of asset loan, all impact significantly on micro firm growth. He discussed the impact of microfinance services on the sales growth of SMEs in different sectors. In the trading and service sub-sectors, repayments of asset loan, loan interest, and duration of asset loan have positive impact over the sales growth. Among artisans, repayments of asset loan, duration of asset loan and size of asset loan have positive impact over the sales growth. But, in the agricultural subsector, technology related training received by MFIs significantly affects sales growth. Thus, he indicated that technology related training considerable impact over the sales growth. Hence, in formulating policy for the MSEs technology related training should be given high priority. Moreover, size of asset loan has negative impact on sales growth in the manufacturing and the agricultural sectors. Repayment of asset loan also has negative impact on sales growth of the trading, artisans and manufacturing sectors but has positive impact on agriculture and service sector. So, impact of microfinance services especially the microfinance loans on the sales growth varies widely across the five sub-sectors and it is difficult to find general conclusions about the impact of microfinance services. Therefore, microfinance banks should increase the duration of their clients' asset loans, or spread the repayment over a longer period of time, or increase the moratorium. This will enable the micro and small enterprises to have greater use of the loan over a longer period for the acquisition of capital assets and technology. In order to encourage technology acquisition for micro and small enterprises expansion, microfinance banks can categorize their loans into low and high interest loans. The conventional loans to micro and small enterprises can be maintained as high interest loans, while loans for capital assets or technology acquisition should be low interest loans, which can be secured by a mortgage over the fixed asset so acquired by the micro-borrower. To achieve this, the Microfinance Banks should be recapitalized to enable the banks to support micro and small enterprises growth expansion adequately. Further, The non- financial services such as, technology related training, entrepreneurial training, pre-loan training, group membership are the main tools which have impact upon the micro and small enterprises performances. Thus, traditional microfinance institutions use them to enhance their sustainability.

Taiwo (1998) found from his survey those both financial and non-financial services provided by microfinance banks and institutions have greatly assisted small businesses in terms of enhancing the distribution of business skills and the sharing of innovative ideas. It implies that, micro-financing significantly promotes businesses by reducing the resource gap for small businesses. In simply, Micro-financing has a huge potential for increasing the performance of small businesses through the frequent contributions in micro-financing and provision of non-financial services. Further, he advocates the recapitalization of microfinance institutions to enhance their capacity to support small enterprises growth and expansion and also to bring to the knowledge of the management of microfinance institutions the impact of the use of collaterals as a condition for granting credit to small enterprises.
Kuzilwa (2005) did a study on the role of micro credit for micro and small business success in Tanzania. The objective of the study was to examine the role of micro credit in generating entrepreneurial activities. The study was a sample survey of businesses that gained access to micro credit from Tanzanian government financial source that had been approved by parliament to provide loans to micro and SMEs. The government loaned out initial capital which was supposed to be loaned out to the initial borrowers and recovered with interest so that new businesses would borrow. All potential borrowers were supposed to go through special training as one of the preconditions for receiving credit. 7610 applications were received with only 20% being funded of the successful applicants 81% are in urban areas whereas 19% being from rural areas. The findings were that 87% of the micro and small businesses were started from funds other than loans from financial institutions, with majority using their savings. However, the large percentage of own funded start-up in the case of NEDF clients could also be as a result of policy fund, which targets ongoing business rather than funding start-ups.

Majority of the enterprises attended the training before receiving the loans while few did not attend but were given loans. All the respondents who attended the training found it to be very useful and said they would have attended it even if it was not a precondition to the loan. And also, the studies found that majority of the operators are small and have not grown horizontally. All micro and small entrepreneurs used the loan for the intended purpose. Majority used the micro credit to fund business start-up and some investments were undertaken by existing firms. However success indicators were increase in demand for products , change in investment level, some entrepreneurs invested part of the credit by expanding business space, creation of employment where the entrepreneur created own employment that paid more than other alternatives and increase in profit.

Mushumiyamana (2008) did a study to analyse the relationship between access to micro finance and business performance. The study sought to identify the constraints faced by women owned small businesses in accessing micro credit. The study was a survey of women who owned business in the Kenya. Semi structured questionnaire was administered to women owned SMEs using a drop and pick method. The study showed that women were able to hire more employees and increase turnover.

Ngwenya & Ndlovu (2004) found that microfinance institutions provide credit to SMEs for day to day operations and expansion purposes rather than as start-up capital. This is because MFIs insist that the project should have been in operation for at least six months before it can be considered for funding. At the early time period, most of the SMEs used either personal or family savings as a start-up capital of their business. In later time, they used other sources of funding that included grants and donations to start their business. It is worth noting that the family interdependency is still dominant in the rural setting where some individual ownership of assets is still rare. The study found some respondents had actually inherited the irrigated plots from parents and as such inputs were jointly sourced. Thus, provision of microfinance loans for the daily operations of micro and small enterprises is worthwhile rather than providing micro loans to start the business.

lnziani (2006) did a study on informal micro finance as a source of funds for small and micro enterprises, a case study from Dandora slums in Nairobi Kenya. The objective of the study was to determine the level of startup capital for SMEs in Dandora, to determine the proportions of funds for start-up and expansion of SMEs that are sourced from informal markets, to determine whether the funds are fully utilized in the business and to identify the challenges faced by SMEs in Dandora slums in sourcing for funds. The findings were that informal financial markets are the main source of funds for SMEs, they represented 40% of sources of fund. The SMEs utilized the loans fully in the business. The study confirmed the results of baseline survey of SMEs in 1999 regarding their activities if businesses and also confirmed that the mortality rate among them were less than three years. Majority of the businesses needed less than 10,000/= as capital with only very few requiring over 100,000/= for start-up. It is clear from these findings that SMEs are small in size and in the nature of operations.

Bran and Woller (2010) carried out a study to establish the effects of microfinance in India. The study concluded that microfinance has brought better psychological and social empowerment than economic empowerment. The study further recommended that the impact of microfinance is commendable in courage, self-confident, self-worthiness, skill development, awareness about environment, peace in the family, reduction of poverty improving rural savings, managerial ability decision making process and group management. In other variables the impact is moderate. As a result of participation in microfinance, there is observed a significant improvement of managerial skills, psychological wellbeing and social empowerment. It is recommended that the SHGs may be granted legal status to enhance the performance.

Nilsson (2010) conducted a study to investigate the impact of micro finance institutions (MFIs) on the development of small and medium size businesses (SMEs) in Cameroon. The study adopted a case study approach that involved CAMCCUL – (Cameroon Cooperative Credit Union League). The study concluded that microfinance is an important asset to developing countries since it is able to cater for financing needs of the very poor enterprises in the society.

Maghanga (2007) did a study on the perception of microfinance loans borrowers on the effects of loans on their business and as a poverty alleviation tool, a case study of borrowers in Nairobi. The objective of the study was to establish the perceived effects of the microfinance loans by the recipient on their business, the perceived effectiveness of microfinance loans by the recipients as a poverty alleviation tool and how microfinance loan recipients perceive the effect of interest charges on their businesses. The study was a survey of all SMEs in Nairobi who had been in any MFI credit scheme for at least four years. The sample size was 100 loan borrowers who had been in any MFI for a minimum of four years. He used primary and secondary data. The primary data was collected through semi-structured questionnaires using the drop and pick method in addition to attending group meetings and requesting those who met the research criteria to fill the questionnaire. Secondary data was used and it was obtained from relevant literature and respective MFls offices. The findings of the study were that though the loans were perceived to have improved the businesses, the state of the business before entry into an MFI credit scheme was not bad. This is because they had the start-up capital and they also felt they were not poor. The interest rate charged by MFI loans was perceived to have very little effect on the performance of those businesses.

According to the study conducted by Wilfred et.al (2013) microfinance services greatly impact on the growth capacity of the SMEs. The growth of stock accumulation is positively associated with amount of the loan borrowed, adequacy of the loan, interest rate paid and the number of times the SME has borrowed. But, there is a negative relationship between the time take to process the loan and the stock accumulations of SMEs. It implies that the longer the time to get a loan; the less is stock accumulation because the borrowers will not have finances to expand on their stock. This suggests that younger, smaller, locally owned firms with poor documentation would not easily have access to bank financing. As a result, SMEs find it difficult to access financing in part due to lack of collateral to secure loans and because of vulnerable to a high risk. High risk is attributable to a number of factors including poor management skills, uncertainty of their businesses and poor record keeping practices.

4. Methodology

4.1. Research Philosophy

The research philosophy is more important to identify the research methodologies those could build up a relationship between the research topic and the data collected during the research study. There are three main philosophies generally applied by the research studies. They are categorized as positivism, interpretive and pragmatism. Hence the creation of hypothesis can be identified under positivism research philosophy. The public partnership for the research study is obtained under the interpretive research philosophy. The pragmatism considers the actual factors to make a conclusion on the research topic. The research study was based on the pragmatism research philosophy. The actual facts and figures were compiled of the existing secondary data through trusted information sources available for the research study.

4.2. Research Design

The use of research design is very important to conduct a research in order and the design is comprised of various components. There are three types of research designs namely descriptive, explanatory and exploratory (Stark, 2004).The descriptive research design provides a detail description for the research questions. The explanatory research design creates a relationship between the facts and figures. The exploratory research design develops the hypothesis. The research study used descriptive research design to answer the research questions and make a justification on the research problem.

4.3. Data Collection

The data collection is important for the research study and it is difficult to collect the data at the primitive stage of the research study. However, collection of data should be done on a successful methodical way. The secondary data collection method were used for a research study (Spatafora, 2005).The research study used secondary data which were collected from books, journals, articles and other sources related to the research topic.

4.4. Data Analysis

The data were collected from various reliable resources. Data analysis was a tricky part of the research study. The data were evaluated and compiled to obtain the expected results. The secondary data sources were used for the research. In the data evaluation process the thematic technique was applied for the objectives and goals of the research.

5. Results and Discussion

5.1. Providers of the microfinance services in Sri Lanka - Supply side of microfinance

As in many other less Developed Countries (LDC), in Sri Lanka too micro finance services (mostly credit and savings facilities) are made available through two main sources including formal and informal sectors.

Formal microfinance sector is served by a diverse range of institutions. These can be segregated into the following broad categories.

- Co-operative Rural Banks and other co-operatives
- Thrift and Credit Co-operative Societies (TCCSs/ Sanasa societies)
- Samurdhi Bank Societies (SBSs)

- NGO-MFIs
- Licensed specialized banks
- Other financial institutions (this category includes commercial banks, registered finance companies, etc, which offer some microfinance services)

The informal sector comprises friends and relations, landlords, traders, produce buyers, input suppliers, pawnbrokers and professional moneylenders. Within the informal sector not only is there a wide variety of a lender but also a variety of lending arrangements. Those include interest free loans mostly from friends and relatives, pawning land, and cheettu [Rotating Savings and Credit Associations (ROSCAs)] mostly land without any legal documents is also common in the rural sector.

5.2. The demand side of microfinance

According to the Senanayake et.al, (1987) the extent of demand for micro fiancé services when defined to include savings, credit, credit insurance and money transfer facilities etc. is a relatively unknown area in the financial system of the country. The existing MFI's have been more effective in mobilising savings than providing credit, which implies that there is a huge demand for savings facilities within this sector.

The demand side of the micro finance sector consists of small farmers, fishermen, landless labourers, self-employed, unemployed and under employed. Most of these categories belong to poor households in all the three sectors, namely rural urban and estate. Since poverty and unemployment is higher in rural areas these services are required more in rural areas although there is a need to strengthen such services to poor in urban and estate sectors as well.

5.3. Microfinance products and tools in Sri Lanka

Microfinance products can be broadly discussed into two sectors; such as financial products and services and non-financial products (Atapatu, 2015). The main financial and non-financial products offered by MFIs are;

1 Credit service product
2 Savings service product
3 Insurance savings product
4 Remittance service product
5 The non-financial service products

Business development service products

MFIs are helping entrepreneurs to improve their capacity by training such as; involving organizing producers, training producers, providing information on government subsidies, help to find market, vocational skill improvement training, technical advices etc.

Social service products

The delivery of financial products is the primary function of Microfinance Institution. The customers of MFs are low income poor people who need small financial services or loans that are capable of saving small amounts. Since, the local banks are not locally available to provide microfinance products, the poor people have to travel long distances. These make additional cost to the poor because they have to forgone days of work or wages. On the other hand, providing large number of small loans is unbearable and cost more to the bank.

Therefore, the systems of formal banks are oriented to disburse loans, typically large amount and minimum Rs. 10,000. The loans are given for recovery between one to five years. The microfinance average loan size is very small, (around Rs. 1,000) and is recoverable short term in in four months or six months (Atapatu, 2015). Further, he added that In Sri Lanka, there is no nationally accepted policy for microfinance loan amount to be granted. In practice, most of the loans are short term; small loans are granted against the group savings. According to the GTZ survey, an average loan is less than Rs 100, 000 (Rs. 84,000) and over 80% of households have borrowings not exceeding Rs. 100,000. In western province, the average loan size is Rs. 162,000. The average loan size is of micro-credit loan is different from one country to the other and generally in developing countries it is less than US $ 100, in SLR 11,400 (Atapatu, 2015).

Table: 5.1; Microfinance loans levels and utilization

Level	Level of Loan (SLR)	Loan Utilisation
1	0 – 3000	Consumption
2	3000 – 7500	Consumption and income subsistence
3	7500 – 30,000	Microenterprises start up
4	30,000 – 100,000	Micro enterprises expansion and housing
5	100,000 – 500,000	Small business formalisation and start up

Source; National Microfinance Study of Sri Lanka, Survey June 2002 ,Co-Sponsored by Aus AID and GTZ

According to the report, The CRBs exhibit a relatively low level of financial intermediation with deposits exceeding loans by around 1.5 times. However, the situation has improved considerably since 2007 although the exact reasons are not clear. Furthermore, end 2009 data for the CRBs shows a threefold increase in the volume of deposits and a similar increase in the volume of loans, between 2008 and 2009. Pawning is offered by the RDB, Sanasa, CRBs and other MFIs such as SEEDS as well as licensed commercial banks. The People's Bank has a particularly large pawning portfolio and in the premerger period the RDBs as a group had a larger number of pawning accounts than loan accounts.

Few microfinance providers (RDB, Sanasa and CRBs) require physical collateral, especially for higher value loans, virtually all rely on collateral substitutes such as guarantors and compulsory savings balances (Attanayake,1997) .Others retain an installment of the loan as security or charge a nominal sum which goes towards a general "loan security fund". Some CRBs and NGOs interviewed in the MFI survey also require the purchase of insurance to cover the loan capital. In general, the institutions calculate interest on declining balances but there a few which adopt the "flat method" of calculating interest, making effective interest rates higher than what is reported. Generally, there is a lack of transparency about the method of calculating interest and clients can be misled by reported rates which appear to be "cheaper". Institutions offering pawning facilities charge a higher rate for this service, ranging from 14% to 24% per annum. However, the transaction costs for this service are typically lower than for other loans.

Licensed specialized banks such as the RDB and Sanasa Development Bank are permitted to mobilize deposits. Institutions registered as cooperative societies are also permitted to accept member deposits. Many NGO-MFIs do also accept deposits on a limited scale. Many microfinance providers impose compulsory savings requirements as a pre-condition to obtaining a loan.

Products such as micro-insurance are offered by very few institutions (Atapatu, 2015). Some retail the products of registered insurance companies while others have developed their own products, although according to the law it is necessary to be registered with the Insurance Board of Sri Lanka in order to carry out insurance business. Likewise, leasing is offered by very few institutions since the law requires a special license to be obtained in order to engage in leasing. The high capital requirements which are a pre-condition for engaging in both insurance and leasing business virtually exclude traditional MFIs from obtaining licenses for these activities.

The operational cost of MFIs is much higher than the banks, and banks are reluctant to provide small financial products and services. This makes it impossible for low income people to obtain formal banking products. If MFIs are not available, low income people have to depend on the informal money market or money lenders. Therefore, MFIs financial services are very important for low income people.

5.4. Microfinance in Colombo district

According to the study conducted by Gant .R and et.al (2002), there were 135,055 loans taken in the Colombo district during the year 2000. The total value of loans disbursed for the same period is SLR 1,106,638,175. This equates to an average sum of SLR 8,193.98 per loan. According to the 2001 Census, the total population of Colombo is 2,234,146. One loan per 16.54 people or SLR 495.33 per person in the district for the year 2000 equivalent in terms of population, the total number and volume of loans. Total savings in 2000 amount to SLR 2,372,786,866. A total number of 467,409 savings accounts were identified. Excluding Samurdhi and TCCSs 467,409 savings accounts totaling SLR 1,661,654,178 give an average of SLR 3,555.03 per individual savings account. In terms of population, the total amount of savings as of the close of the year 2000 is the equivalent of 1,062.06 per person in the district or one savings account per 4.78 people Local NGOs No NGOs were identified in the study.

Moreover, it is mentioned that the Norwegian relief and development agency (FORUT) work with five 'village community banks' in Colombo. The institutions of "Save the Children Norway" (SCN) work with the NGO in Colombo district in implementing microfinance programmes in Gampaha, Chillaw and Puttalam. Ceylinco Grameen Co. Ltd started microfinance operations in April 2000 focusing on the urban slum areas of Colombo. The company has reached 1,774 clients disbursing over SLR 21 million in loans.

Table: 5.2; Colombo District Microfinance Activities

Type of the Organization	No of Units	No Of Savings A/Cs	Total Savings (SLR)	No of Loans	Loans in 2000 (SLR)
CRBs	118	390,202	1,552,526,000	59,040	640, 231,000
FORUT	14	3,786	2,579,668	169	953,000
Samurdhi	42	-	129,733,850	9,848	49,766,000
SAP	-	240	40,320	-	-
SEEDS	145	73,181	106,508,190	45,680	147,692,525
TCCS	106	-	581,398,838	20,318	267,995,650
Total		**467,409**	**2,372,786,866**	**135,055**	**1,106,638,135**

Source: National Microfinance Study of Sri Lanka; Survey of Practices and Policies; June 2002 Colombo

According to the study conducted by Aheeyar (2007), the highest percentage of Samurdhi micro-finance clients have utilized the micro-credit to improve the existing enterprises in Colombo district. Very small percentage of Samurdhi clients have misused the micro-finances provided, by not investing the total amount for the purpose for which it was granted. The major reasons for the misuse of micro-finance by the Samurdhi clients are the improper targeting and the non-availability of credit facilities. The main criteria adopted by the clients in selecting a micro-enterprise are based on experience and knowledge gained from the traditional involvement of their family in respective enterprises. However a considerable proportion of micro-finance clients under Samurdhi and SEEDs programmes have involved in such enterprises due to the loss of their regular jobs and non-availability of an alternative source of income. Most of these clients who embarked as a new enterprise failed due to their lack of knowledge, skills, experience and linkages and insufficient capital. SEEDS clients in Colombo district have started micro-enterprises based on market demand of the product. More importantly, very small percentages of the Samurdhi clients were able to start enterprises in line with the skills they acquired through formal trainings.

5.5. Evolution of the microfinance in Sri Lanka

Microfinance in Sri Lanka dates back to the ancient time period. But, the provision of formal microfinance services was initiated in the beginning of 19th century. It was gradually improved and expanded all over the country with the support given by the government. The following section provides broad information about the evolution of microfinance from the ancient time period to current position.

1.5.1. Microfinance during ancient period in Sri Lanka

According to the Colombage (2004) the beginning of the microfinance date back to the ancient era of Sri Lanka The savings and credit groups that have existed for centuries show that the basic concept of microfinance was practiced from earlier decades. Numerous savings clubs and funeral aid societies were established in Sri Lanka and world over.

As mentioned earlier, during the ancient period in Sri Lanka various kinds of money was used, but hardly any empirical evidence is found to support that there was cheettu system in this period. With the rapid use of currencies during the colonial administration one can believe that a system like cheethu may have started in the society. These societies are informal and hardly any records were kept. But the societies like funeral aid societies existed for centuries in the island. It is an accepted tradition of the Sinhalese society in providing basic informal social security in different forms. When a family got into great difficulties (Funeral) the immediate family and other relative, neighbours, Cheettu groups, and funeral aid societies get together and help the affected family with money and materials.

There are many models of "Cheettus" in this microfinance activity. Usually ten or twelve or more people get together and contribute to a fund in equal amount for a decided period, (Six month/one year) and the organizer gets the first payment. Some Models have a lottery to decide the second payment and onwards. In some models they mutually decide who will get the next payment. There are Cheettu which auction every month and the person who bid the highest get the payment. Similarly there are so many variations of models operate in village and urban areas. Some business communities have Cheettus worth millions in urban areas.

A recent survey by the GTZ (Microfinance industry report, 2009), state that the total contribution of the rotating and credit Associations (Cheettu) to financial system is relatively low as 2.2% in the informal money market.

1.5.2. Microfinance during colonial period in Sri Lanka

According to the Atapattu (2009) in the 15th Century Portugal was a very small and poor, less populated country in Europe. But their naval power was unbeatable by any other European country. In 1505 an accidental visit by the first Portuguese navigator, Lorenzo de Alameda to Colombo occurred and he became the first European invader who stopped into Ceylon.At the time of the arrival of Portuguese, Ceylon was divided into four separate political reigns; namely, Kotte, Sithawaka, Kandy and Jaffna. The Portuguese were able to capture only the 20 miles maritime belt of the western costal area of this island.

The main objective of capturing Ceylon for Portuguese was to get the monopoly of the trade from Muslim traders and to convert local people into Catholicism. For 150 years the Portuguese were in Ceylon and were very aggressive in converting people into their faith and established churches over the maritime area. They started new schools near the churches and introduced a hospital system which was new to Ceylon. In connection with trade activities they purchased, gems, pearl, perfume, spices, cinnamon (Large quantities) gold, cotton cloths, and carpets, which were very expensive in Europe. Their administration did not change much of the island's economy. They used Portuguese money in the island's economy and the first record of the use of Larins (Portuguese Money) occurs under the year 1517 and throughout the Portuguese period, and with gold and silver Fanams was the current coin. They settle their payment for purchases, rents, wages with their money and it was circulated in the island. The use of currencies as payment affected the Rajakariya system that prevailed in the country. The Portuguese did not introduce any banking facilities or microfinance activities during their period, except introducing their currencies to the inland.

By the end of 16th Century, the naval and man power of Portuguese declined in Europe. They lost most of the trade activities and Dutch became more powerful in Europe. Dutch invaded Ceylon and had an agreement with Kandyan king and was able to get the control of maritime belt of Ceylon in 1656.Dutch ruled Ceylon maritime area for 150 years and unlike their predecessors showed more interest in religion and conquest. The Portuguese being predominantly Catholic, and Dutch belonging to Protestant denominations, they converted Catholics and locals to their religion. The Portuguese had their head quarter in Goa, india and Dutch administration was from Batavia in Indonesia. Dutch were more interested in trade of cinnamon, elephants, spices, and other commodities. They built roads, canals and helped in cultivating rice. One important thing they introduced was the Roman Dutch law in Ceylon and was later revised the Tamil laws –"ThesavalamaI" that still exists in the Ceylon legal system. They also established Christian Schools; not only to impart leaning, but also to convert locals to their relition. They also popularized the consumption of alcohol within the maritime region of Ceylon (Ganga &Wikramasinghe , 2005)

The Dutch also introduced their coins and currencies such as, silver larin, Silver and gold fanams. At the same time Portuguese coins (Such as peruse), Reals, Indian Rupees, and Pagodas, were in circulation and used for settlement of various payments. Yet there is hardly any evidence to show that Dutch administration did anything to improve the local financial system (Banking) or microfinance activities.

Glyn (2002) mentioned in his book that the main motive of the British to invade Ceylon was different from that of the Portuguese and Dutch. They identified the great Strategic value of Trincomalee natural harbor, especially for the growing British Empire to control the Indian continent. They had the interest of producing raw material needed for the British industries. At the same time, they wanted to produce cash crops such as coffee, tea, rubber coconut and spices.

Political development in Europe led to the direct intervention to take over Dutch colonies and without much effort in 1796, the Dutch possession of maritime area of Ceylon was taken over by the British. Later in 1815, they were able to take over the entire island (including Kandy) and the final treaty was signed in 1818.

During the first 20 years of their regime the British invested in the Portuguese and Dutch activities such as converting local to Christianity (Church of England) and engaged in the most lucrative trade of Cinnamon and other commodities. They also used the Portuguese currencies of Larins, Fanam and Dutch currencies, in addition to their Rex Dollar, Pounds, Shillings, Pence and Rix-dollars. The decimal subdivision of the rupee was adopted and given legal status in August 1871. The account of Ceylon colony was kept in rupees and cents. The copper coin of 5 cents, 1 cents, ½ cents and ¼ cents were introduced. In 1832 British Government send the Colebrook-Cameron commission to suggest improvement to British administration to reduce the heavy expenses incurred by the British government during this period in Ceylon.

Especially, the British colonial administration established the Thrift and Credit Co-operative Societies (TCCSs) under the Co-operative Societies Ordinance in 1906. These were the first credit co-operatives to be established in Sri Lanka. (Glyn, 2002)

1.5.3. Microfinance during the 1948 – 1977 in Sri Lanka

The establishment of Co-operative Rural Banks (CRBs) in 1964 marked the emergence of micro-finance services to those who were involved in self-employment activities outside agriculture in the country (Senanayake, 1984). The lending by government to self-employed group was done through the Local Loans and Development Fund(LLDF). The provision of small credit was handled first by the Land Commissioner's department and later by the Food Production Department. These departments could not handle the credit schemes effectively, and therefore the government in 1967 decided to Channel small agricultural loans through a state Commercial bank, namely the people Bank. This scheme was known as the New Agricultural Credit scheme (NACS). With the introduction of the NACS the involvement of Central Bank in providing agricultural credit can be seen.During the initial years of the NACS, the quantum of loans granted and recovery of loans improved considerably but in the early 1970's they both dwindled.The NACS was replaced in 1972 by a new scheme known as Comprehensive Rural Credit Scheme (CRCS) due to its small coverage and poor repayment rates (Attanayake, 1998). There were many new features in this scheme, they were:

- To fulfil a who range of credit needs of the farm household and not limited to crop production along
- To relate the farmers' savings to their credit needs.

With the introductions of the CRCS, the bank of Ceylon (a state Commercial Bank), and the Hatton National Bank, (a Private Commercial Bank) also emerged as lending banks.In 1973, the Central Bank of Sri Lanka (CBSL) initiated the comprehensive rural credit scheme to provide refinance facilities to participating banks. As Sri Lanka is predominantly an agricultural state this new credit scheme has helped the poor farmers in the village. The lending rates were determined by the Central Bank.

In 1977 a new government took office and steps were taken to grant loans to previous defaulters as well. Thus, in 1977/78 Maha season the amount of loans granted increased to Rs. 420 million but default rates increased to 81% (Senanayake ,1984). These high delinquency rates signalled the need to apply more stringent criteria in rural landing, and accordingly the 75% credit guarantee provided by the Central Bank was withdrawn and lending banks were instructed to grant loans only to non-defaulting farmers. Also the lending banks and co-operatives were granted permission to prosecute woeful defaulters. However, later in the 1970's National Youth Services Council (NYSCO) Women's Bureau, Central Bank of Sri Lanka, and Sarvodaya Movement and NGO started Channelling micro credit facilities to people who were involved of interested in commencing self-employment activities. The results of this supply driven approaches to micro credit were mixed (Hospes et.al,2002)

1.5.4. Microfinance during the 1978 – 2000 in Sri Lanka

According to the Attanayake (1997), in 1980, the Central Bank of Sri Lanka introduced a new credit scheme referred to as self-employment credit scheme for the development of small enterprises to reduce unemployment in the country. This scheme was implemented through its Regional Offices at Matara, Matale and Anuradapura and Loan of Rs. 50,000/- were available per project with a repayment period of 3-5 years. For these loans, the collateral was personal guarantors and assets of the enterprises. This credit scheme finance more than 120, 000 microfinance projects and some of these Projects are large scale industries and some are small and medium scale (SME) enterprises. Moreover, the Government established 17 Regional Rural Development Banks (RRDBs) through an Act of Parliament in 1985. These institutions were given the task of reaching remote rural areas and smallholders who lacked access to financial services from commercial banks. The RRDBs covered all districts of Sri Lanka with the exception of the North and East.

The government introduced a New Comprehensive Rural Credit Scheme (NCRCS) in 1986 due to the sharp decline in the quantum of loans granted. This scheme too had some new features. Amongst them one was the introductions of a role over refinance facility to the banks against wilful defaults and the other was the facilitation for submitting a single loan application for six successive seasons. This arrangement simplified the application procedure while reducing the borrowers transaction costs (Attanayake, 1998). In the initial years the coverage and the recovery rates improved. However the amount of loans granted and the recovery rates dwindled later.
The Hatton National Bank (HNB) started a new credit scheme named "Gami Pubuduwa" (Village awakening) in 1989 in order to extend bank's assistance to the rural youth that are exploring self-employment activities (sandaratane & Nimal, 1989). This schemes which has been described as a linkage banking method, developed by the HNB is which the bank envisaged in extending micro finance service to a large number of borrowers through community based voluntary organizations through a process of social mobilization . This scheme is funded by the HNB by utilizing its own resources. It has been commended by Local as well as international agencies alike as an innovative Scheme introduced for the benefit of poor unemployed using a more market oriented approach by a private commercial Bank. The CBSL has described the HNB initiative as a "hybrid scheme". This means that, while locally based community organization are utilized for introducing potential borrowers. Monitor loans take follow up action and help the bank to recover the loans on due dates. On the other hand, the scheme has introduced a bare-foot banker cum advisor (Gami Pubudu Upadesaka) who is permanent employee of the bank to work closely with the NGO's and the borrowers.

The CBSL introduced another credit scheme in 1989 which was named as "Isure" Project or the small farmers and Landless Credit Project (senanayaka, 2002) It was receivedassistance from donors including international Fund for Agricultural Development (FAD), the Canadian International Development Agency (CIDA), and from funds mobiliser by GOSL through CBSL. This Project was implemented in four districts in the country and was aimed at improving the economies conditions of rural poor within a frame work of a free market economy. This project was commenced in 1989 and ended at the beginning of 1998. The project envisaged adopting the credit plus approach in order to achieve its objectives, and consisted of the provision of a number of support services to back the provision of micro credit. Several NGOs were engaged in this project as participating agencies to assist in social mobilization and lending. Sanasa, Servodaya, the Women's Bureau and a few other NGO's participated in this project, and RRDB's functioned as the Banker to the project.

Table: 5.3; Isuru project Achievements 1989-97

	Total
No of Villages Surveyed	5312
No of SHGS Formed	5580
No of Beneticiaries Covered	52,993
No of Woman Beneffciaries	35.711
Group Savings (Rs. Mn.)	61.4
Total Amount of loans (Rs. Mn.)	415.76
Average size of a loan (Rs.)	9228
Correlative Recovery Rate	94.0%

Source: CBSL report, 1989

The CBSL actively involved in alleviating the poverty through the microcredit programmes in 1990 (sandaratane & Nimal, 1989). The Canadian international Development Agency (CIDA), International Fund for Agricultural Development (IFAD) and the Sri Lanka government jointly funded this scheme. The aim of this project was to establish a cost effective "credit delivery system' for the alleviation of poverty among the poorest of the poor in four districts, namely, Matara, Galle, Puttalam, and Kandy.

The Janasaviya Trust Fund (JTF) was established in 1991 to manage a credit fund for disbursing credit to Participating Credit Institutions (PCI) who at that time was the Peoples Bank. Bank of Ceylon, Regional Rural Development Banks (RRDBs) and the Co-operative Rural Banks (CRBs) The JTF, which was later renamed as National Development Trust Fund (NDTF) , continued to provide funds to PCIs and various other social service organizations such as Women's Development Federation at Hambantota (Hewavitharana, 1996). The funds provided to them are still in circulation as loans to the poor by these PCls. As an extended credit scheme, the Central Bank issued grantees for the Bus purchase loan scheme in 1992. Later the refinance facility was withdrawn in 1994 and instead introduced an interest subsidy at 7.5% per year.

The Janasaviya program was further improved in 1995 and introduced "Samurdhi Program", which was later extended to cover the entire island (Atapattu, 2009). According to the Samurdhi Act of 1995 the main objectives of the program were:

- Integrate youth, women and disadvantage group into economic and social development.
- To promote social stability and alleviate poverty.

This program comprise of three components. Such as, welfare component, the group savings and credit component and the integrated rural development approach. The beneficiaries were selected among the people whose monthly income is less than Rs.2000 per month. This program is in the operation with the National Development Trust Fund under the Samurdhi authority.

Another credit scheme implemented by the State Commercial Banks and one domestic Private bank, namely Hatton National Bank, is known as self-employment promotion through Micro Enterprise Credit (SURATHRUA Scheme). Under this scheme the three banks give loans to unemployed youth. This programme was introduced with refinance facilities from the government in September 1996 with an allocation of Rs. 350 millions (Atapattu, 2009). The loans are collateral free and the total loan allocation was fully utilized by 1997 and therefore this programme was extended in September 1997.

Further he explained that, Central Bank has implemented the small and Medium Enterprise Assistance Project (SMAP) in 1997. In this context, the CBSL Participated in Credit Institutions (PCI), granted loans and issued the Credit guarantee covers. Most of loans financed under this scheme were for passenger and commercial transport, vehicle servicing, restaurants, service station, electronic related industries. From 1997-1999, one thousand five hundred and nineteen loans were granted to the value at Rs. 2050 million under this programme (Atapattu, 2009). In addition to this credit scheme, Central Bank issued plantation reform project in 1998 and 1999.At the end of 1998, 1516 micro loans amounting to Rs. 21.2 millions had been granted by the SDB under its micro credit schemes. The value of loans given by the TCCS movement was Rs. 1868 million at the end of 1998. A very positive feature of the TCCS movement is that it maintains a very high recovery rate (estimated at 85%) due to effective loan monitoring and follow up action. Also, the TCCSs have very low administration costs. (vidanapathirana, 1987)

Later, the Samurdhi movement has introduces a few other loan schemes namely SASANA (1997) and SAVANA (1998). Moreover, Samurdhi leasing programme was introduced in 1998 by the government in order to provide financial facilities to micro enterprises to be carried out by educated unemployed youth (Atapattu, 2009). The government allocated Rs. 200 million for this programme which is being implemented through the Peoples Leasing Company Pvt, Limited (PLC), a subsidiary of the Peoples Bank. This scheme aimed at providing the animators and the beneficiaries of loans to purchase equipment and vehicles such as three-wheelers, two wheel tractors, water pumps, fax machines, video cameras, printing machines and public address systems etc… under a special leasing facility.

By the end of 1998 the Bank of Ceylon and Peoples Bank had opened 1,905,108 compulsory savings deposits to the value of Rs. 5,052 million. And also, at the end of 1998, about Rs. 876, million have been granted under the GPSS to about 27,500 small borrowers to engage in small and micro projects. The total outstanding loans at the end of 1998 numbered 10,957 to the value of 2763 million (Senanayake, 2002)

Table: 5.4; Deposits and advances – Selected Rural Sector institutions in 1998 (Rs. Millions)

	CRB	ASC Branches	RRDB	TCCS	SEEDS	JES	SBS	Sanasa Bank
Total savings	10,558,445	3161.3	7,82733.1	3,50814.5	293 1.2	430.2	4581.9	578 2.9
Savings	8,093	256	1,881	1,543	227	13		115
Special Savings		29	111	762	86	15	194	1
Fixed Deposits	2,445	32	5,835	443				410
Sheers			1	756		15	253	151
Total Loans	3,90722.1	1701.0	919,451.9	1,888,10.5	1,3527.6	580.3	8274.7	339 1.9
Agriculture	341	16	4,155	232	319	29	1	10
Animal Husbandry	149		155	36	48	13	57	1
Fisheries			20			3		
Small industries	213	3	644	74	89	4	177	99
Housing	2.011	3	179	202		6		32
Project commence	408	70	1.152	409	98			155
Others	2.011	77	2,887	914	798	0	593	43

Source: Central bank annual report, 1989

Since the supply of foreign funds ended in 1997, the CBSL introduce a new schemewith the concurrence of the donorsby recycling the recoveries of past loans.SFLC continued to operate from 1998 with the consent of CBSL. After the takeover, the small SHGS were clustered into 168 isuru Development societies (IDS). These were registered with the Registrar of Companies under the society ordinance, as limited liability corporate bodies.

Hence they are empowered to raise funds by issuing shares, and mobiliser savings of the members. According to the GTZ report (2009) they also function as retail loan disbursement institutions by linking with a formal bank. As at end 1998 the number of IDSs in the four districts where it is implemented was 168 with a total membership of 6'174.

1.5.5. Microfinance from 2000 onwards in Sri Lanka

According to the "Mahinda Chintana", the 10 year development framework which covered the first term of the present government, around 65% of microcredit in Sri Lanka is provided through the government. The Programe has a savings and credit component which is administered through the network of 1,040 member-owned, Samurdhi Bank Societies (SBSs).(Atapattu, 2009).

Following the tsunami which struck Sri Lanka in 2004, there was an influx of foreign aid to the country, of which a substantial amount was channelled to the microfinance sector. While many donors worked through established microfinance institutions, some funded the establishment of multi-sectorial livelihood programmes which included microfinance components. These were largely unsustainable in the long-term and had some detrimental effects on the sector in the short term through their mix of grants and subsidized loans and the resulting damage done to the established credit culture. Regional microfinance institutions such as BRAC of Bangladesh also entered the sector after the tsunami and rapidly scaled up to become a significant player among NGO-MFIs. BRAC's operations in Sri Lanka had an outreach of 100,000 microfinance clients by the end of 2009, less than 5 years after its entry into the sector (Atapattu, 2009)

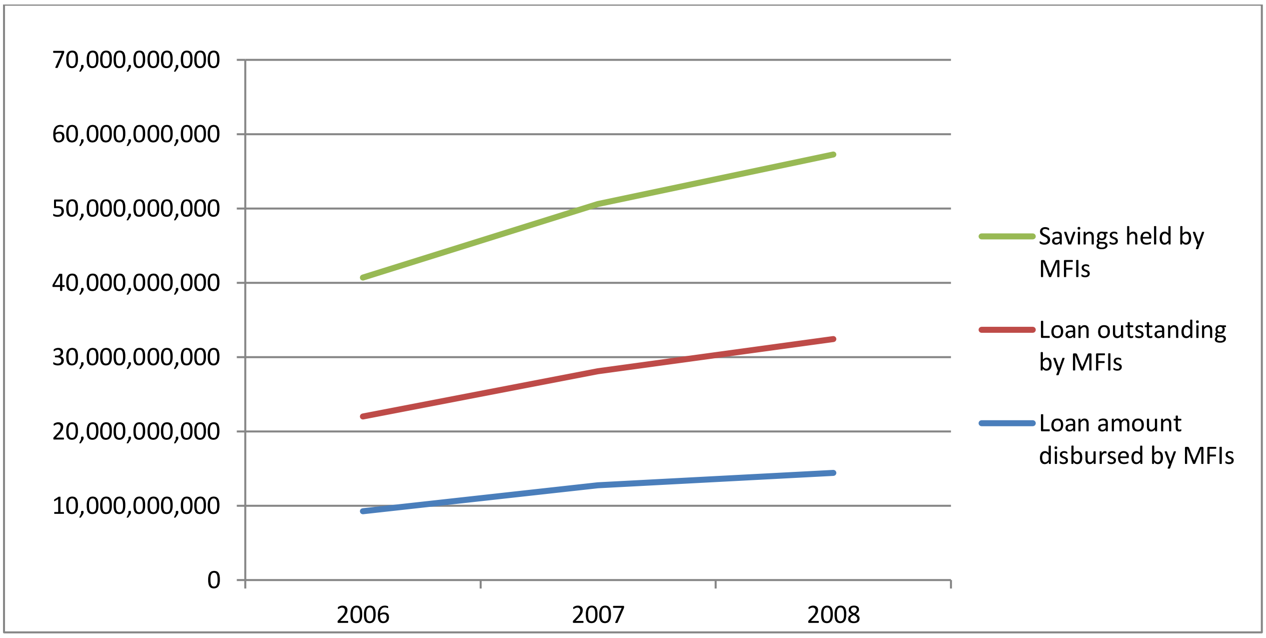
Competition in the banking sector has encouraged financial deepening as formal financial institutions seek to reach lower income clients. Another recent entrant from the formal financial sector is LOLC Micro Credit (LOMC), a partnership between the local LOLC Group and FMO of the Netherlands. Since its entry into the microfinance business in 2003, LOMC has grown to reach a loan portfolio of Rs. 3.2 Bn serving a client base of close to 23,000 through a network of service centres located in post offices and fuel stations. However, for many formal financial institutions, their entry into microfinance is more a Corporate Social Responsibility (CSR) or image building activity (Senanayake,2002).

Table: 5.5; Loans and deposits held by MFIs in Sri Lank during 2006 – 2008 (Rs.million)

Time period	**2006**	**2007**	**2008**
Loan amount disbursed by MFIs	9,257,230,852	12,726,327,759	14,421,129,855
Loan outstanding by MFIs	12,751,218,657	115,372,756,030	18,009,173,016
Saving held by MFIs	18,693,088,039	22,456,915,416	24,834,695,981

Source: MFI survey retrieved fromwww.mixmarket.org

Figure: 5.1; Loans and deposits held by MFIs in Sri Lankaduring 2006 – 2008 (Rs.million)



Source: MFI survey retrieved fromwww.mixmarket.org

This graph is drawn according to the data provided in table 3.5. Loan amount disbursed and savings amount held by the MFIs increased over period of time. Loan outstanding by MFIs also increased and much higher than the amount of the loan disbursed

The absence of a cohesive regulatory and supervisory system for the microfinance sector has in recent years become a barrier to the growth of the sector. This applies especially to the NGO-MFIs which in the past received substantial donor support for their operations. With the withdrawal of many donors from the Sri Lankan microfinance sector, funding became a key issue, especially for NGO and MFIs, which are currently not authorized to accept public deposits and further restricted from obtaining off-shore debt and equity funding under prevailing exchange control restrictions (Attanayake, 1998). Accessing domestic funding is also somewhat of an issue as local banks and other funding agencies are still reluctant to lend to or invest in the microfinance sector due to the perception of high risk. In these circumstances, both the government and the microfinance practitioners have come to recognize the need for an appropriate regulatory and supervisory mechanism for the sector.

Table: 5.6; Loan portfolio and deposit base of large institutional groups of microfinance providers in Sri Lanka in 2010

Institution	**Loans (Rs 000)**	**Savings (Rs 000)**
RDB	38,000,000	39,000,000
SBSs	54,250,000	41,131,000
CRBs	71,602,000	103,877,000
Sanasa/TCCS	4,412,000	4,432,000

Source: Microfinance industry report, 2010, produced by GTZ ProMiS in collaboration with The Banking With The Poor Network

The RDB, SBS, CRB TCCS and Sanasa are the pioneers in the provision of microfinance services in Sri Lanka. According to the data provided in table 3.6, CRB holds highest number of savings and also, CRB has provided the highest amount of loan. SBSs occupy the second place in the provision of loans and savings.

The following on-going credit schemes are currently implemented by the Central Bank, funded by donor agencies, Central Bank and Government of Sri Lanka. (Annual Report- Central Bank, 2011)

1. Viskam Loan Scheme LKR. 1,111 million
2. Abiurdhi Loan scheme. LKR. 5000 million
3. Saubgya Loan Scheme. LKR 2919 million
4. Self Employement Promotion Initiative Loan Scheme LKR 73 million.
5. Small Plantation Enterpreneurship Develpement Load Scheme SDR 1.75 million
6. Second Perennial Crop Develpement Project Revolving Fund LKR 1,000 million
7. EIB Contact B Loan scheme Eur 10 million.
8. Small Farmers and Landless Credit Project 2 Revolving Fund LKR 310.17 million
9. Poverty Alleviation Microfinance Project 1 Revolving fund LKR 600 million
10. Dry zone live hood Support & Partnership Programme LKR 200 million
11. Poverty Alleviation Microfinance Project II-(Probodini) YEN 2575 million
12. National Agribusiness Development Programme LKR 990 million

According to the Atapattu (2009), the role of the Central Bank for development of microfinance is now limited to be a facilitator for donor funded development scheme. The Central Bank operates refinance schemes for these projects with market rate interest to end user. The central Bank also encourages MFI s to introduce micro loan schemes and products and various support service such as training, identifying bowers, linking borrowers to banks credit plus technology. Central bank has also undertaken to implements microfinance loan schemes on behalf of the Government of Sri Lanka.

1.6. Comparison of Microfinance activities in Sri Lanka with South Asian Countries.

The microfinance services are used as a tool of poverty alleviation of micro and small enterprises in many less developed countries. Most of the South Asian countries are categorised under the less developed countries. Bangladesh, Sri Lanka, Pakistan and India play a critical role in the provision of microfinance services. This, it is important to compare the microfinance activities of Sri Lanka with other South Asian counties. The following section will be elaborated about the comparison of microfinance activities in Sri Lanka Bangladesh, Pakistan and India.

Table: 5.7; Trend of microenterprises lending by selected MFBs in Pakistan (000) during 2013 – 2015

Year	2013	2014	2015
Number of loans	136	2185	12,612
Gross loan portfolio	33,902,858	530,587,461	3,061,824,879
Average loan size	249,286	242,832	242,771

Source; Pakistan microfinance review 2015

In Pakistan, the number of the loans granted by MFIs increased during the period of 2013 -2015. The gross loan portfolio in 2015 was increased more than five times of volume in 2014. But, the average loan amount was gradually declined during the period of 2013 – 2015. It is possible to see the improvement in the provision of microfinance services during the period of 2013 – 2015 in Pakistan.

Table: 5.8; Loans and deposits held by MFIs in Bangladesh in 2015 (Tk. million)

Item	Amount (Tk.million)
Loan disbursement	231,408.16
Loan outstanding	147,706.76
Deposits	270,690

Source; Bangladesh Microfinance Statistics, 2015, chapter 02 ,(P.P,15)

The loan disbursement is quite high in 2015. According to the data provided in table 3.8, it was Tk. 231,408 million. The loan outstanding was Tk.million 147,706. Especially, MFIs in Bangladesh held 270,690 no of deposits which is quite large amount. Thus, there is an improvement in the provision of microfinance services 2015 in Pakistan

Table: 5.9; Loan disbursement by MFIs in India during 2012 – 2014 (Quarterly Rs bn)

Year	Loan disbursement amount Quarterly (Rs. bn)
2012	61.9
2013	76.6
2014	115.2

Source; Microfinance in India - Sector Overview, 2014

In comparison the microfinance activities of Sri Lanka with other South Asian countries, the amount of the loan disbursed in Sri Lanka is higher than the amount of the loan disbursed in Bangladesh and Pakistan and it is lower than the India. The loan outstanding in Sri Lanka is also higher than the loan outstanding in Bangladesh.

Conclusion

In Sri Lanka micro finance is understood to be analogous with micro credit. On some occasions savings mobilization is also considered as an essential sub component of micro finance. However, when broadly defined micro finance includes not only credit and savings but also credit insurance and money transfer facilities.

The government sponsored micro-finance programmes implemented in Sri Lanka have entailed heavy subsidies and generated large losses because of high administration costs and in the case of almost all agricultural micro-finance projects, poor repayment has worsened the state of affairs. Micro-finance institutions and programmes have helped the poor and the marginalized in Sri Lanka to gain access to development finance. Further, it has contributed to motivate rural peoples for savings, group formation and social development.

Bibliography

1. Afrane, S. (2004). Impact Assessment of Micro Finance Interventions in Ghana and South Africa, A Synthesis of Major Impacts and Lessons.
2. Aheeyar, M. (2007). Impact of micro-finance on micro-enterprises: a comparative analysis of samurdhi and seeds micro- entrepreneurs in Sri Lanka, (Research Study No.117).
3. Alarape.A. (2007).Entrepreneurship programs.Operational efficiency and growth of small business.*Journal of Enterprising communities : People and places in global economy.* 1. (3)
4. Armyx, C. (2005). Small Business Challenges: sized does not matter. *Washington Business Journal*, 66-68.
5. Atapattu, D. (1998) "The prospects of Credit Agencies in Employment Generation." :Economic Receive People Bnak, Colombo.
6. Atapattu, D. (2009). 'Impact of Colonial Administration", Assignment for Thesis- PHD, Manchester Metropolitan University, UK.
7. Atapattu, D. (2015). *Microfinance for bankers, lecturers, students, investors and professionals of microfinance* (1st ed., pp. 50-75). Colombo: Sunera Publishers.
8. Attanayake M.M. (1998) "An Evaluation of the Rate of Finance in Poverty Alleviation: Sri Lanka experience in Centarl bank" *Staff studies*,Vol,23 No 1 and 2,Colombo
9. Attanayake, M. (1997).The role of financial institutions in poverty allevation. *Paper Presented At The Seminar On Impact Of Macro Economics And Adjustment Policies In Sri Lanka*.

10. Babajide, A. (2002). Effects of Microfinance on micro and small enterprises (MSEs) growth in Nigeria. *Asian Economic And Financial Review*, *3*, 463-477.
11. Brau, C.J. and Woller, M.G. (2010) Impact of Microfinance – an empirical study on the attitude of SHG leaders in Vellore District. Journal of Finance and management, volume 2 pg 59
12. Burket, I. (2003). Microfinance in Australia .Current realities and future possibilities. *School Of Social Work And Social Policy- University Of Queensland.*
13. CBSL annual report, 1989, Central Bank of Sri Lanka, Colombo.
14. CBSL annual report, 2011, Central Bank of Sri Lanka, Colombo.
15. Cheston & Kuhn, L. (2002). *Empowering women through microfinance, UNIFORM*.
16. Christopher, I. (2002). Impact of Microfinance on small and medium sized enterprises in Nigeria. *School Of Management, Wuhan University Of Technology, Wuhan*.
17. Cohen, J.(1998). *Statistical Power Analysis for Behavioral Science.Hillsdale,* NJ:Erlbaum
18. Colombage, S. (2004). Micro Finance as an instrument for small enterprise development: Opportunities and Constraints,. *23 Rd Anniversary Lecture At Centre For Banking Studies, Central Bank Of Sri Lanka- Colombo.*
19. Cooper, N (2012) *The impact of microfinance service on the Growth of small and medium enterprises in Kenya*. Unpublished MBA project, University of Nairobi.
20. Copstake, J. Bhalotra, S. and Johnson S.J. (2000) *Assessing the impact ofmicrocredit on poverty: A Zambian study.*UK : University of Bath.
21. Daniel, L. (2009). The role of small and medium enterprises in household and national economy in Kenya. *Journal Of World Development*, 55-65.
22. David, H., & Mosley, P. (1996). *Finance against Poverty* (2nd ed.). London: Routledge.
23. Ganga, M., & Wickramasinghe, U. (2005). *Microfinance in Sri Lanka- Household level analysis of outreach and impact on poverty* (1st ed.). Colombo: Institute of Policy Studies of Sri Lanka.
24. Gant, R., Silva, D., & Atapattu, A. (2002).National Microfinance study of Sri Lanka, Survey of practice and policies.
25. Glyn, D. (2002). History of Money from ancient time to the present day. *University Of Wales(2002).*
26. Grubes, J. (2005). *Public Finance and Public Policy* (5th ed.). New York: Worth Publishers.
27. Guinnane, G. (1999). The Economics of lending with joint liabilities. *Theory And Practice Journal Of Development Economics*, *60(1)*, 195-228.
28. Hewavitharana B (1996) " Build up a Bank and Grow with it", Janasaviya Trust Fund, Colombo.
29. Holcombe, S. (1995). *Managing to Empower: The Gramean Bank's Expereince of Poverty Alleviation* (1st ed.). London: Zed Press.
30. Hospes et-al, O. (2002). An evaluation of microfinance programmes in Sri Lanka as supported through the Dutch Co- Financing Programme with a focus on SEEDS.(unpublished Report). *Committee For The Evaluation Of The Netherlands' Co Financing Programme.*
31. Inziani V.R. (2006*) Informal finances as a source of funds for small and micro enterprises : Evidence from Dandora slums in Nairobi*. Unpublihed research project, University of Nairobi.
32. Khan, A. (2008). *Islamic microfinance: Theory and practice* (4th ed.). Birmingham: Islamic Relief Worldwide.
33. Kiiru, W. (1991).A review of the institutional lending to the juakli and small enterprises sector in Kenya, Geneva international labour organization.
34. King, K. (2002). Enterprise and Knowledge "Educational Training and Development. *International Review Of Education*, (pp74-76.)
35. Koech, C.B. (2011). *A survey of the financial constraints hindering growth of SMEs in Kenya*: The case of Kamukuji District in Nairobi County. Unpublished MBA project.
36. Kuziliwa, J. (2005) The role of credit from small business success: A study of the national entrepreneurship development fund in Tanzania. Journal of Entrepreneurship, 14, 131.
37. Kyale, M. (2013).Impact of Microfinance institutions on the growth and development of Small and Medium enterprises. *The Research Project Submitted For The Partial Fulfillment Of The Requirement For The Award Of Masters In Project Planning And Management*.
38. Ledgerwood, J. (1999). *Microfinance hand book. sustainable banking with the poor* (2nd ed.). USA- World Bank(IBRD): Institutional and financial perspective.
39. Maghanga, M. (2007).*The perception of Mfls loan borrowers on effects of loans on their business and as a poverty alleviation tool.* Unpublished research project, University of Nairobi.
40. Maina, J. (2012). Microfinance services contribution to entrepreneurial development in Kenya.
41. mbithe, m. (2013). The effects of microfinance services on the growth of small and medium enterprises in machakos county. *Management Research Project Submitted In The Award Of Masters Of Business Administartion.*

University of Nairobi.
42. Memba, S.F. Gakure, W.R,; Karanja, K (2012).*Journal of business and social science*. Vol.3.No.6 [special issue – March]
43. Microfinance industry report produced by GTZ Promis in collaboration with the banking with the poor network. (2009) (pp. 10-15).
44. Mokogi, J. (2003*). Economic Implications of Lending of Microfinance Institutions on micro and small enterprises in kenya*. Unpublished Research Project.
45. Mordush, A. (2000). The Microfinance schism world development.
46. Mushimiyimana, A. (2008) *Analysis of access to microfinance institutions loans byfemale entrepreneurs and Impact on their business in the Nairobi Business District*. Unpublished MBA, University of Nairobi.
47. Mutiso, J. (1999). Physical infrastructure; In Mulei and C Bokea ed. Micro and Small Enterprises in Keny: Agenda for improving the policy environment. Nairobhi. International Centre For Economic Growth-Nairobi.
48. Mwangi, M. (2013).An Evaluation of Financing and Development of Small and Medium Enterprises in Mombasa County Kenya. *International Institute For Science Technology & Education*.
49. Mwindi, G. (2002) *The realationship between interest rates charged by MFIs to SMEs and performance of these SMEs in Kenya*. Unpublished MBA project, University of Nairobi.
50. Naeem, A., khan, S., Sheikh, S., Ali, M., & Hassan, F. (2015). The impact of microfinance on women micro enterprises. *A Case Study Of District Quetta- Pakistan*.
51. Nahamya, k., Wilfred, L., Ajanga, M., & Omega, M. (2013).The Impact of Microfinance Service delivery on growth of SMEs in Uganda. *ICBE- RF Research Report No 69/13*.
52. Nelson, Jerker (2010). "The impact of microfinance institutions (MFIs) on the development of small and medium size business (SMEs) in Cameroon."Swedish University of Agricultural Sciences.
53. Ngehnevu, C. (2010). The impact of Microfinance institutions(MFIs) in the development of SME s in Cameroon. *A Case Study Of Cameroon .Uppasala*.
54. Olu, O. (2009). Impact of microfinance on entrepreneurial development.The case of Nigeria Development of business administration, OSUN STATE University, Nigeria.
55. Prasad, M., & Sunitha, K. (2011). *Emergency and Impact of Micro -Finance on Indian Scenario* (1st ed.). New Dhili: KKIMRC IJRFA(1).
56. Robinson, M. (1998). *Microfinance: the paradigm shift from credit delivery to the sustainable financial intermediation* (1st ed.). Ashgate publishing.
57. Ronge, E. (2002). The Review of government policies for the promotion of micro and small enterprises in Kenya and Nairobi. *KIPPRA*.
58. Ryan. P.R. (1993) *An evaluation of small enterprises lending: Evidence fro malawi*. Development and project planning centre, University of Branford.
59. Sandaratne, Nimal (1989) " The Nature of Rural Informal Credit Market in Sri Lanka", in Marga Vol.10 No.4 Colombo.
60. Senanayake S.M.P. (1984) " Sri Lanka Country Paper" in APO (Ed), Farm Credit Situation in Asia Tokyo.
61. Senanayake, S. (2002).An Overview of the microfinance sector in Sri Lanka, Colombo.
62. Taiwo, J. (1998). The roles of these micro finance banks and institutions on small and medium enterprises, Nigeria.
63. Vidanapathirana, Upali (1987) Organisational Effectiveness of Credit Institutions : A case of TCCS in the Galle district. Unpublished MBA thesis, Sri Jayawardena University, Colombo.
64. Wang, X. (2013). "The impact of microfinance on the development of small and medium enterprises" The case of Taizhou ,China. *The Johns Hopkins University Baltimore, MD,USA*.