

Impact of Micro-finance on Micro-enterprises: A Comparative Analysis of Samurdhi and SEEDS Micro-entrepreneurs in Sri Lanka

M.M.M. Aheeyar

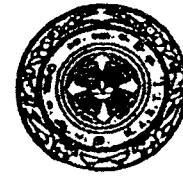


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114, Wijerama Mawatha
Colombo 07
Sri Lanka**

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**IMPACT OF MICRO-FINANCE ON MICRO-ENTERPRISES:
A COMPARATIVE ANALYSIS OF SAMURDHI AND SEEDS
MICRO-ENTREPRENEURS IN SRI LANKA**

M.M.M. Aheeyar



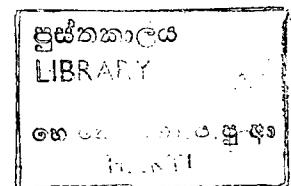
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Foreword

Alleviation of poverty is one of the prime objectives of the Government of Sri Lanka. However, the government is facing a great challenge in poverty alleviation especially in creating appropriate employment opportunities for the growing labour force in rural Sri Lanka. It has been accepted universally that micro-finance is an effective tool in creating employment, especially among women and landless. Experiences from many developing countries show that micro-finance has significantly contributed towards alleviating poverty. Therefore, popularizing micro-finance and development of micro-enterprises have been one of the key strategies of the government in the past. There are a large number of government and non government organizations, private sector, co-operatives and village level groups involved in providing micro-finance in Sri Lanka.

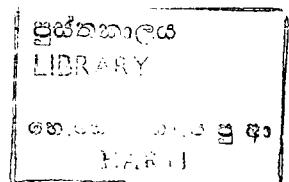
Micro-finance institutions offer a promising alternative for expanding the reach of financial services to the non-bankable poor. Access to financial services to very poor may have an empowering effect on households, helping avoid aid dependency and helping to gender equalization through the participation of women in productive activities. The sector has developed a variety of innovative techniques to overcome the hindrances in the provision of financial services to the poor. The approach of providing micro-finance with 'Credit Plus' service is one of the key aspects of this development tool which delivered better results.

The research report is timely since we have passed the international year of micro-finance just two years back (2005). The report clearly highlights that, micro-credit is necessary but not a sufficient condition for micro-enterprise promotion. In other words, micro-finance is not a 'magic bullet' in poverty alleviation. The credit plus services such as identification of sustainable livelihood opportunities, appropriate selection and motivation of the micro entrepreneurs, provision of business and relevant technical training and establishment of forward and backward linkages are essential for the success. Therefore, mere provision of credit cannot automatically translate into successful micro-enterprises. Another important message the author wishes to convey is that all the poorest do not wish to be self employed and cannot be helped by micro-finance. It is evident in the field that the majority of the poor people, particularly the poorest want steady wage employment on or off farm.

The report is well structured and the researcher has gathered a considerable amount of information and data, which will be useful for academics, policy makers and practitioners and also the personnel interested to learn about the field of micro-finance.



V.K. Nanayakkara
Director
20 February 2007



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I am thankful to the Samurdhi Authority of Sri Lanka for funding the research and extending support to conduct the field data collection by the Authority staff at zonal and district levels. Appreciations are also due to the officials of SEEDS (Guarantee) Ltd for their support provided in conducting the study. I am also very much indebted to the micro-finance clients of the study areas for sharing their valuable time in conducting this study.

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Executive Summary

Samurdhi Micro-Finance (SMF) programme is the largest government sponsored micro-finance programme in Sri Lanka. SMF has disbursed loans to the value of Rs. 2,186 million in the year 2003 and the total amount of loan disbursed up to December 2003 was Rs. 11,393 million. SMF programme was seen as one of the important strategies of poverty alleviation and community empowerment. Sarvodaya Economic Enterprise Development Services (SEEDS) is a leading NGO in the micro-finance sector implemented in Sri Lanka since 1987 with a different approach. SEEDS has disbursed loan worth Rs. 1,064 in the year 2002/03 covering 45,457 clients.

The primary objective of this study is to identify the incentives, and the constraints that impede the micro-enterprise development with special reference to the SMF programme in order to provide policy guidelines that would help to refocus the current poverty reduction strategies in a more equitable manner. The lessons of experience of SEEDS also would help to strengthen and reformulate the poverty reduction strategies implemented by the government of Sri Lanka. The important questions raised are the nature of micro-enterprises, the constraints, and impediments and the prevalent incentives in the respective areas for the micro-enterprises, level of support services provided, effectiveness of the approach, and factors affecting the long term sustainability of micro-enterprises.

The sample comprises 270 randomly selected respondents with 60 Samurdhi micro-finance clients and 30 SEEDS clients each from the three districts, Ratnapura, Kurunegala and Galle. The total sample size is 270. In addition, key informant interviews and focus group discussions were also employed to elicit necessary information.

Socio-economic and Demographic Features

Gender distribution is almost equal in the sample population in both micro-finance programmes. About 13 percent of the sample households are headed by females. Majority of the households have 4-5 members and only 20-25 percent of households consisted of over 6 members. About 94 percent of the population is literate, but level of education varies between areas and micro-finance programmes. In general, majority of beneficiaries have received education only upto grade 10. SEEDS beneficiaries are better literate than Samurdhi clients.

60 percent of beneficiaries basically depend on self-employment as a means of livelihood, while for about 20 percent of the clients it is a secondary source of income. Over 50 percent of the beneficiaries have no opportunities for secondary employment. About 27 percent and 15 percent of Samurdhi and SEEDS clients respectively earn less than Rs. 2,500 per month. Level of the household income of SEEDS clients is higher than that of the Samurdhi clients, indicating the SEEDS approach of addressing not only the poor and vulnerable but all the segments of the society.

Overview of Micro-enterprises

Small industries are the most prominent types of enterprises in both programmes including small boutiques/sales outlets and other popular small businesses easily operated at household level while engaging in other day-to-day activities. About 60-70 percent of these are operated on a small-scale, having only one full time employee (micro-finance clients alone). About 50 percent of enterprises do not have any special physical structures or specific separate place for the purpose. Main criteria adopted by about 45 percent clients in selecting their micro-enterprise are based on conventional experience, knowledge and skills. Only about 19 percent and 24 percent

of Samurdhi and SEEDS clients respectively have given thought to the market opportunities and demand of the product in launching micro-enterprises.

Micro-credit provided was utilized by the clients for three broad types of activities, namely investment on new enterprises (20-30 percent of clients), investment on an existing enterprise (60-70 percent of clients) and utilizing the loan for household consumption needs (10 percent of clients). Improper targeting, inadequacy of the loan provided to start a micro-enterprise and the non availability of a loan scheme under Samurdhi programme to meet the emergency needs of the beneficiaries are the main reasons for the misuse of the micro-enterprise loan. The misuse of the micro-finance under SEEDS is less than 2 percent. SEEDS implement separate loan schemes to meet the consumption needs of the beneficiaries and also their micro-enterprise loan is comparatively higher.

Samurdhi clients have received an average of Rs. 6,000 – 8,000 as their first loan, while under SEEDS programme over 80 percent of the clients have received over Rs. 10,000. The Samurdhi loan is not sufficient to start a sizeable enterprise other than a cottage industry at household level. The data on the degree of utilization of micro-finance for the given purpose reflect that the investment made on the enterprise with funds from the first loan is less than 50 percent with the balance consumed for other purposes.

The study found that, out of the total sample clients who have invested micro-credit on micro-enterprises, only 67 percent of Samurdhi micro-enterprises and 86 percent of SEEDS micro-enterprises respectively are functioning.

Approaches of Intervention

The common features of the micro-finance programmes implemented are easy access to the poor at village level, group based saving, and lending, group collateral and credit plus services. SMF targets only the poor, but SEEDS targets the potential groups of poor, the poor with entrepreneurial skills, and small entrepreneurs who have passed the self-employment stage. Small groups consisting of 5-7 members are the fundamental units of the intervention.

Role of Small Groups

Loan disbursement and recovery are determined by the activeness of small groups and the level of savings mobilization. However, removal of Samurdhi subsidies of the empowered clients who then refused to cooperate with the group members have posed the biggest threat to group activeness, leading to malfunction of small groups and consequently to loan default. Inactiveness of groups also hampered the future loan disbursement to the progressive members in a particular group. About 50-60 percent of the clients declared that their small groups were functioning effectively. About 35 percent of the Samurdhi officials believed that, the current procedures of small group formation and activities are not fully satisfactory. Majority of the Samurdhi officials stressed the importance of awareness creation among the beneficiaries on the small group concept and the enforcement of necessary legal provisions to punish the loan defaulters.

Role of Animators

SDOs have to play a vital role in the mobilizing of people and formation of small groups, promoting micro-enterprises, providing credit plus services and loan recovery. However, it was found that, their capacity in the relevant field is at very low level and recognition given to them

by the beneficiaries is also not impressive. Only 17 percent of the clients perceived that they received some guidance from the SDOs. Post monitoring or follow up activities of the SDOs were mainly limited to visiting the enterprise locations in order to recover the loan. Lack of a common format, an established procedure for evaluation, and a reporting mechanism for post monitoring are major drawbacks, which need immediate attention.

Credit plus Services

It was expected to provide other support services along with credit support in order to build capacities of poor people, enabling the small entrepreneurs to be competent to face challenges created by the competitive open market. However, it was found that only 15 percent of the clients have received some kind of training, useful to improve their micro-enterprise activities. Experiences show that, treating the entire community as a homogenous group and providing common training is not a worthwhile exercise. It is necessary to identify the specific training requirements and provide relevant skills at accessible distance. About 88 percent and 60 percent of Samurdhi and SEEDS clients respectively revealed that, they received no services other than mere provision of credit support. The successes they achieve (if any) are largely due to their hard work and commitment. Therefore, micro-finance programmes need a better focus in training, skills development and establishment of forward and backward linkages.

Impacts on Intervention

The impacts of intervention in the fields of establishing linkages with new credit sources, cheaper access for raw materials, new marketing linkages, and expansion of production are higher for SEEDS clients than for those of Samurdhi. About 28 percent and 37 percent of Samurdhi enterprises have achieved progress in increased revenue and profit respectively. Samurdhi funded agricultural enterprises have achieved a lesser progress in comparison with those of SEEDS. Adoption of traditional crops and cropping practices are the causes for the low level of success in agricultural enterprises.

Despite the attempt to impart skills on book keeping and other business management skills for the clients, the absence of proper financial control and business accounts, not distinguishing the venture finances from household expenditure and the non-registration of the ventures were some common problems that plagued these enterprises. Only 12 percent of Samurdhi clients are maintaining business accounts and 85 percent of them have no separate accounts for business and household expenses.

The findings however, reveal a marked increase of those in high income groups following the intervention. 12 percent of the Samurdhi clients, who earned a monthly income of over Rs. 10,000 at the initial stages of micro-enterprises has risen 12 to 21 percent at the time of the survey.

The assets value of the micro-enterprises also shows a tremendous growth after intervention. Accordingly, 22 percent of Samurdhi micro-enterprises, which had an asset value of over Rs. 10,000 at initial stages, have grown to 54 percent of the total sample at present, indicating the growth of enterprise resource base with the micro-finance support.

Factors Affecting the Success of Micro-enterprises

According to the results of the logistic regression analysis on factors affecting the success of micro-enterprises, increased level of clients' education, larger size of the first micro loan,

investing the micro-finance on the existing enterprises, are increasing the likelihood of an enterprise operating successfully. Further, management factors such as not allowing household expenditures to make a dent into the business finances and formal registration of enterprises lead to the success of these ventures. Among the type of enterprises, small industries related micro-enterprises and livestock enterprises have registered a significant success.

The descriptive analysis also clearly shows that the provision of small loan was one of the major constraints experienced by the clients. Loans less than Rs. 10,000 had a success rate of less than 50 percent and bigger the amount of the loan better the success achieved. The findings show that the level of income earned by male entrepreneurs is significantly higher. Socio-cultural and role barriers of women prevent them from engaging in higher income earning opportunities and the handicraft activities, sewing cloths and preparation of foodstuffs are their domain.

Major Challenges

Problems related to marketing and obtaining a reasonable price for the products badly constrain the majority of the clients. Difficulties in obtaining raw materials at required time in required quantity and lack of opportunities to receive further loans were also some of the drawbacks. About 65 percent of SEEDS clients have a positive approach to the unfavourable and unexpected problems, whereas only 40 percent of Samurdhi clients do so. 40-50 percent of the enterprises have failed due to problems related to marketing. Insufficient income, problems related to raw material and labour shortages also have contributed to enterprise failures.

Pros and Cons of Micro-finance Programme

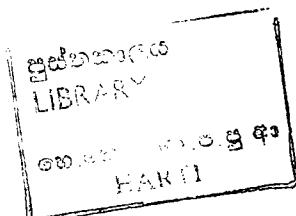
About 45 percent of the clients had no complaints about the micro-finance programmes. The features like lack of collateral, less rigorous procedures, bank facilities at village level and familiar lending officials have attracted them towards these programs. However, about 20 percent of the clients expressed their dissatisfaction over the higher interest rates. The Samurdhi officials too cited this issue as causing serious consequences for the poor entrepreneurs operating on a small scale, but in a competitive environment.

Policy Implications

Targeting of the poor for micro-enterprises needs consideration of the potentials of the intended beneficiaries to become successful entrepreneurs. Credit-plus approach must be strengthened with an appropriate institutional mechanism and a competent staff. An increased loan, possibly with reduced interest rates and vesting the Bank Managers with authority to determine the amount of the loans considering the capabilities and the commitment of the entrepreneurs may yield better results. Small group concept needs to be restructured and possibility of considering the clients' assets as collateral for larger loans can be explored.

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List of Abbreviations

BOC	Bank of Ceylon
CRB	Cooperative Rural Bank
GN	Grama Niladhari
GOSL	Government of Sri Lanka
JTF	Janasaviya Trust Fund
MPCS	Multi Purpose Co-operative Societies
NDTF	National Development Trust Fund
NGOs	Non-government Organizations
PB	People's Bank
RRDB	Regional Rural Development Banks
SASL	Samurdhi Authority of Sri Lanka
SBS	Samurdhi Banking Societies
SDO	Samurdhi Development Officer
SEEDS	Sarvodaya Economic Enterprise Development Services
SET	Self-employment Training
Rs.	Sri Lanka Rupees
SMF	Samurdhi Micro-finance
TCCS	Thrift and Credit Cooperative Society

CHAPTER ONE

INTRODUCTION

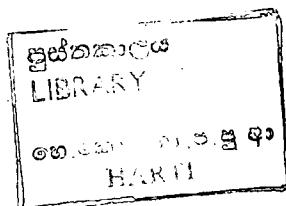
1.1 Background

Increasing employment opportunities is one of the major challenges and focus of the recent government economic reform programmes. Land fragmentation, falling income from the staple crop-paddy cultivation, lack of incentives for crop diversification and poor rural infrastructure have created a crisis situation in the rural economy of Sri Lanka. The agricultural sector, the major employment provider for 53 percent of the total labour force of Sri Lanka in the 1960s had catered for only 38 percent by the year 2003 (Central Bank of Sri Lanka, 2003). "...the challenge of providing sufficient, productive, desirable employment opportunities is greater than might be expected. A minimum of two million new jobs must be created during the next several years, if this challenge is to be fully met" (Government of Sri Lanka, 2003).

It is evident from the experiences gained during the last two decades that, the formal industrial sector and the state bureaucracies have failed to create sufficient jobs. As a result, the poor have to increasingly rely on informal activities such as self-employment and micro and small scale enterprises (Dignard and Havet, 1995). In the process of ensuring sufficient markets for employment, it is imperative to pay attention not only to direct employment, but also to micro enterprise. The International Labour Organization (2002) rationalizes the need for the development of micro-enterprises for poverty alleviation and the economic and social empowerment of the poor.

There is no universal definition for micro-enterprise, but there is some agreement on the general characteristics of the micro-enterprises practiced in the developing countries; very small scale, low level of technology, low access to credit, lack of managerial capacity, low level of productivity and income, tendency to operate in the informal sector, few linkages with modern economy and non-compliance with government registration procedures are some such features (International Labour Organization, 2002). European Commission classifies the small and medium enterprises (SME) sector into three groups: micro-enterprises (between 0 and 9 employees), small enterprises (between 10 and 99 employees) and medium enterprises (between 100 and 499 employees) (quoted from Premaratne, 2002). The Government of Sri Lanka (GOSL) has defined the micro-enterprise as an enterprise which employs upto five people (Lucok *et-al*, 1995).

Both the GOSL and the Non-governmental Organizations (NGOs) have adopted several programmes and various approaches for the development of micro-enterprises aiming at economic and social empowerment of the poor segments of the population in the country. Samurdhi Authority of Sri Lanka (SASL), Sarvodaya Economic Enterprises Development Services (SEEDS), Thrift and Credit Co-operative Society (TCCS), Co-operative Rural Bank (CRB) and National Development Trust Fund (NDTF) are some of the organizations that provide micro-finances for the development of these enterprises. According to one estimate, micro-enterprises provide at least 30 percent of total employment in Sri Lanka and the estimated number of people, self-employed or working in a micro-enterprise is about 2,048,400 (Charitonenko and de Silva, 2002).



1.1.1 Evolution of Micro-finance Institutions

The term 'micro-finance' refers to small scale financial services, primarily credit and savings to the economically active low income clients to produce goods and provide services. In addition to credit and savings, some micro-finance institutions (MFI) provide other financial services such as micro money transfer and micro insurance and also provide social intermediation such as development of social capital (through groups formation, training in financial and enterprise management and development of management capabilities) and external support services. The general features of micro-finance are, small size of the loan not based on collateral or legally enforceable contracts, group guarantee, compulsory and voluntary savings, informal appraisal of borrowers and investments and access to repeat and bigger loans based on repayment performances.

Government sponsored micro-finance programmes date back to 1911 with the passing of legislation to establish credit co-operatives. The activities of these credit co-operatives were mainly dominated by the rural elites. Credit Co-operatives had to lose their place after establishment of Multi Purpose Co-operative Societies (MPCS) following the end of the Second World War in 1945. However, by 1963, primary emphasis of the MPCS was on trading activities leading to a reduction in credit disbursement and an increase in credit default rate. Therefore, the then government established the CRB in 1964.

A new credit scheme was implemented in 1967 and the responsibility of farmer credit was given to the Peoples' Bank. By 1973, the major players in the rural credit market were the PB and the Bank of Ceylon (BOC), which provided much of the government sponsored credit facilities.

Attanayake (1997) classifies micro-finance institutions into three groups:

- i. Formal credit institutions – This category includes Commercial Banks (state and private) and Regional Rural Development Banks (RRDB).
- ii. Co-operatives – The TCCS introduced in 1900s and CRBs attached to the MPCS are the main co-operatives that deal with rural credit.
- iii. Semi formal financial institutions - This group includes a large number of financial institutions run by NGOs. Sarvodaya Economic Enterprise Development Services (SEEDS), Janashakthi Bengu Sangam and Women Development Federation (Hambantota) are some of the major semi formal financial institutions functioning in Sri Lanka.

Hospes et-al (2002) provide a broader classification on the types of micro-finance agencies working in Sri Lanka:

- i. Informal lending arrangements (individual and group based)- Merchants, pawn brokers, Cheetus (ROSCAS), Village Death Donation Societies, women's groups etc.
- ii. Local/National NGOs (including co-operatives)- SANASA, SEEDS, Agromart, Janashankthi Banking Societies, SewaLanka, Arthacharya Foundation, Social Mobilization Foundation, Wellassa Foundation, Nethra, Milk Producers Co-operatives etc.
- iii. International NGOs – CARE, Oxfam, Canadian WUS, Plan International, Practical Action, World Vision, FORUT etc
- iv. Multilateral Agencies – UNDP, UNHCR
- v. Central Bank of Sri Lanka – Credit schemes operated by Rural Credit Department of the Central Bank
- vi. Private/state banks - Hatton National Bank, SME Bank, Seylan Bank, National Development Bank, Regional Development Banks, SANASA Development Bank, Co-operative Rural Banks, DFCC

According to one estimate (Steinward, 2005), there are 1,200 branches of CRBs, 8,500 TCCSs, 1,036 Samurdhi Banks, 6 RRDBs and thousands of NGOs and limited companies involved in the micro-finance market in Sri Lanka.

Although micro-finance market is characterized by its diversity, informal micro-finance plays a major role in the sector. According to the estimate of the National Development Bank, over 65 percent of rural credit still comes from informal sources (Hospes et-al, 2002). As in most other countries, Sri Lanka also has money lenders, who provide credit services at higher interest rates (15-20 percent per month). Pawning is also a very popular method of accessing financial service in all parts of Sri Lanka. All these formal and informal institutions and groups had delivered commendable service particularly to the non bankable poor.

In addition to the above financial service providers, there are three main wholesale financial facilities in Sri Lanka, governed by the GOSL and funded by the donors. They are the NDTF, Susahana, and the 'Isuru' Fund. The NDTF was created by the World Bank in 1992 and its main funding agency at the moment is the ADB. The NDTF provides wholesale financial services to more than 300 micro financial institutions (MFI) including CRBs, TCCSs, RRDBs, other banks and local NGOs'. Activities of the NDTF assured prominence in providing emergency micro-credit in the Tsunami affected areas at lower interest rates (Duflos *et-al*, 2006). Susahana scheme was initiated after the Tsunami disaster with the financial assistance provided by the JBIC, the UNDP and the GOSL. Under the Susahana credit programme, financial services are provided at a subsidized interest rate of 6 percent per annum and under relaxed collateral conditions. 'Isuru' poverty alleviation micro-finance project is another initiative of the JBIC implemented through the CBSL (*ibid*).

Liberal economic policies implemented in Sri Lanka after 1977, boosted the economic activities not only in the urban sector, but also in the rural sector especially with the implementation of the Mahaweli Development Project, the Integrated Rural Development Projects (IRDP), the Self Employment Programme, the Export Promotion and Export Agricultural Development, which correspondingly expanded the credit demand (North Western Province Dry Zone Participatory Development Project, u.d.). The expansion of the rural financial network has been taking place since 1970s. The supply of rural credit has registered an increase with the involvement of the increased number of private banks, financial companies and some leading NGOs in the rural financial market (*ibid*). Credit programmes turned out to be a popular mode to solve the problems of rural poor, because it was much convenient for the donors, the policy makers and the governments to create funds for credit programmes and implement them despite the serious problems to be addressed to in the process of uplifting and empowering the status of the rural poor.

The de-regulation of the financial sector in Sri Lanka commenced after 1977 and the role of the government in the commercial banking sector deflated unlike in the past. Colombage (2004) argues that, micro-finance in its strict sense commenced only after 1986 with the establishment of the Regional Rural Development Banks (RRDBs). The government launched the Janasaviya programme and the Janasaviya Trust Fund (JTF) in 1990 as a main strategy to alleviate poverty. JTF was an apex lending institution for micro-finance to the poor. The change of political leadership led to the renaming of the government poverty alleviation programme as Samurdhi. The Micro-finance scheme implemented by the Samurdhi programme promotes income generating micro-enterprises among Samurdhi beneficiaries.

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 (Charitoneko and de Silva, 2002; Duflos *et-al*, 2006). 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.

Data on the supply of micro-finance by the government, donor funded projects, private sector institutions and grassroots organizations especially for the poor to commercialize agriculture and establish or develop small-scale businesses are summarized in Table 1.1. The table highlights that, Samurdhi Bank Societies are the primary government micro-finance institution and SEEDS is the dominant NGO in the micro-finance field in Sri Lanka. The present study mainly concentrates on the performance of micro-enterprises supported by the Samurdhi micro-finance programme and presents a comparison with the approach and experiences of SEEDS.

Table 1.1: Micro-enterprise Development Programme: Supply of Micro-credit as of end – 2000

Large NGOs	No. of Active Micro-loans	Proportion of Total No. of Micro-loans (%)	Outstanding Micro-loans (Rs. million)	Average Outstanding Micro-loan (Rs.)	Outstanding Micro-loans (\$ Million)	Average Outstanding Micro-loan (\$)
Co-operatives						
CRBs	577,622	35.0	4,950	8,570	55.0	95
TCCSs	252,682	15.3	2,845	11,258	31.6	125
Government						
SBSS	326,236	19.8	2,070	6,345	23.0	71
Bank of Ceylon	100,241	6.0	1,831	18,266	20.3	203
People's Bank	194,200	11.8	1,940	10,000	21.6	111
Quasi-government						
RDBs	80,860	4.9	3,234	40,000	35.9	444
NGOs						
SEEDS	81,464	4.9	651	7,988	7.2	89
Janashakthi	17,654	1.1	86	4,854	1.0	54
Private Sector						
Hatton Nat'l. Bank	9,237	0.6	379	41,031	4.2	456
SANASA Dev. Bank	6,270	0.4	128	20,415	1.4	227
Seylan Bank	4,500	0.3	99	22,000	1.1	244
Total	1,650,966	100.0	18,213	17,339	202.3	193

CRBs = Co-operative Rural Banks;
 NGOs = Non-Government Organizations;
 RDBs = Regional Development Banks;
 SBSS = Samurdhi Banking Societies;
 SEEDS = Sarvodaya Economic Enterprise Development Services;
 TCCSs = Thrift and Credit Co-operative Societies

Source: Charitoneko and de Silva, 2002

1.1.2 Samurdhi Micro-finance and Micro-enterprise Development Programme

One of the long-term strategies adopted by the Samurdhi programme to alleviate poverty is the promotion of micro-enterprises through facilitating access to micro-finance. The micro-enterprise development programme also includes components of training and other support services. The programme initiated several types of micro-finance programmes for the empowerment of the poor and the marginalized beneficiaries, which included the Samurdhi Development Credit Scheme (SASANA), the Samurdhi Enterprise Credit Scheme (SAVANA) and the Samurdhi Leasing Scheme. These programmes were more or less similar to the conventional government credit programmes and operated by the state owned banks. The major weaknesses of these programmes were the subsidized interest rates and the very high default rates mainly due to high degree of political influence in the decision making process (Charitonenko and de Silva, 2002). The loan recovery rates at the end of 2000 from SAVANA, SASANA and Samurdhi Leasing Scheme were 79 percent, 70 percent and 51 percent respectively.

The SAVANA programme was operated through the BOC and the PB with the objective of improving income and living standard of Samurdhi beneficiaries through the development of micro-enterprises. The amount of the loan ranged from Rs. 2,500 to Rs. 10,000 at the interest rate of 10 percent. The operation of SAVANA by the state banks was suspended by the end of 2000. The performance of the programme during 1996-2000 is given in Table 1.2.

SASANA credit programme was initiated to finance income generating projects or expand/develop the already established enterprises by the Samurdhi beneficiaries. This programme was also operated by the state banks (the BOC and the PB) from 1996-2000 and then suspended. Under this programme, a maximum of Rs. 50,000 was granted as a loan at 10 percent interest rate. Table 1.2 shows the performance of the credit progress during its operation. Samurdhi Leasing Scheme provided credit facilities ranging from Rs. 150,000 to Rs. 300,000 at 10 percent interest via People's Leasing Company Limited to purchase capital assets (eg. two wheel tractors and other machinery). Presently the loan programme has been suspended.

Table No. 1.2: Loans Granted under Samurdhi Credit Programmes (1997-2000)

Loan Programme	1997		1998		1999		2000 (up to June)	
	Value of loan granted	No. of loans granted	Value of loan granted	No. of loans granted	Value of loan granted	No. of loans granted	Value of loan granted	No. of loans granted
	(Rs. Million)		(Rs. Million)		(Rs. Million)		(Rs. Million)	
SASANA	425.23	72,740	456.83	77,357	491.82	80,152	481.49	801.73
SAVANA	-	-	132.14	5,368	238.284	9,238	300.09	10,601
Samurdhi Leasing Credit	-	-	121.87	508	156.54	672	164.91	715

Source: Samurdhi Authority of Sri Lanka, 2000

Samurdhi programme initiated another micro-finance programme in 1997 through village level SBSs. This programme has achieved enormous success in the areas of mobilizing the savings at village level and disbursement of micro-credit with good repayment records. At the end of 2003, the SBS network had 1,034 branches and 176 divisional societies called Samurdhi Maha Sangam. The network had a membership of around 2.1 million with 62.6 percent of female members.

The performance of micro-finance disbursement for micro-enterprises development by SBS is given in Table 1.3. By June 2004, the SBS has distributed over one million loans among Samurdhi beneficiaries.

Table 1.3: Micro-finance disbursement by Samurdhi Bank Societies for micro-enterprises

Year	Total Amount (Rs. Million)
2001/2002	2,524
2002/2003	2,302
2003/2004	1,316

Source: Annual Reports, Samurdhi Authority of Sri Lanka (various years)

1.1.3 SEEDS Micro-finance and Micro-enterprise Development Programme

Sarvodaya Economic Enterprise Development Services (SEEDS) is the economic enterprise arm of the Sarvodaya movement, the largest national NGO in Sri Lanka. Sarvodaya movement originated in 1950s with its own development philosophy centred around the traditional values of non-violence, self denial, equity, sharing and mutual support. The SEEDS concept came into being as a more active strategy in 1987 for the economic development of its members.

SEEDS has adopted a 'credit plus' approach which includes building financial disciplines through the development of a saving culture, improving livelihoods with credit and capacity development, increasing opportunities through private sector linkages and introduction of new technologies, and creating a village owned and managed services delivery system. Whilst the Sarvodaya Shramadana Society in the village seeks to get into its foot various segments of the society not solely the poor and the vulnerable, the beneficiaries of SEEDS micro-finance programme are the poor, entrepreneurially poor, the near poor and the small entrepreneurs graduated from self-employment stage via three types of loans. Rich and upper middle class segments of the society are not beneficiaries of the SEEDS micro-finance programme.

I. Type 'A' Loan:

Targeted to account 8 percent of the total number of loans disbursed by the SEEDS. The major loan provided under this type is to initiate or develop income-generating projects by the Sarvodaya members. The loan limit is Rs. 30,000.

II. Type 'B' Loan:

Provided to improve the living standards of the members. Under this scheme, loans are provided for house improvement, purchasing of household durables, tractors, bicycles and to obtain water and electricity connections and for the purchase of alternative source of energy (solar home systems).

III. Type 'C' Loan:

Those equipped with entrepreneurial knowledge and skills are eligible to obtain this loan ranging from Rs. 100,000 to 500,000 to start their own enterprises or to expand the existing ones. This type of loan accounted for about 14 percent of the total number of SEEDS loans.

The performances of the SEEDS loans programme are given in Table 1.4, which indicates a 41 percent increase in the value of the loans disbursed in 2002/03, over and above that of the previous year. Of the 3,060 Sarvodaya societies to date, 3,047 societies currently operate savings and credit units. One of the important features of SEEDS loan disbursement based on past statistics is that, fifty-five per cent of total loan clients are women.

Table 1.4: Performance of SEED's Credit Disbursement

Type of Loan	Total Amount of Loan (Rs. Mn)		No. of Clients	
	2001/02	2002/03	2001/02	2002/03
A	423	507.6	28,981	30,962
B	319	485.4	12,664	14,036
C	11	71.3	137	459
TOTAL	753	1064.3	41,782	45,457

Source: SEEDS Annual Report, 2002-2003

1.2 Statement of the Research Problem

The Samurdhi development programme is the major government sponsored poverty alleviation programme in Sri Lanka. Samurdhi microfinance scheme is a major component of this programme, which aims at promoting income generating micro-enterprise activities for the empowerment of the Samurdhi beneficiaries. The amount of loan disbursed under the Samurdhi Credit Scheme in the year 2003 alone was Rs. 2,186 million. There were 1,036 Samurdhi banks across the country with more than 5 million depositors and almost 500,000 borrowers in 2002. The total disbursement of loan up to 2003 December was Rs. 11,393 million. Nevertheless, Samurdhi micro-finance programme for micro-enterprise development has been in operation with no further imperative changes and ways and means to strengthen it for the “well-being” of the poor.

In addition to the Samurdhi micro-finance programme, there are numerous micro-finance programmes operated by various projects and NGOs' in Sri Lanka to promote such enterprises among the poor and the marginalized people to make them self-reliant. The total micro-finance budget of bilateral and multilateral agencies and international NGOs commitments for 2005 and beyond exceed US\$ 85 million (Duflos, 2006).

However, there are no comprehensive studies undertaken focusing on incentives, constraints and impediments for micro-finance projects in micro-enterprise development. An in depth study to identify these snags and take remedial measure is a pre-requisite to ensure that these money and resources are used for the purpose for which they are available.

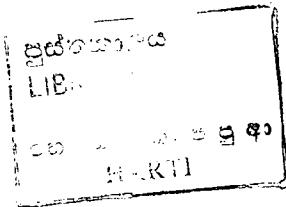
The present study aimed at adopting a wider approach is critically analyzing the performance of micro-finance in development of micro-enterprises and the relationship between different socio economic variables, loan sizes and the performance of various types of micro-enterprises. The study is also a comparative analysis of the experiences of government sponsored (Samurdhi) and NGO sponsored (SEEDS) micro-enterprises development programme.

1.3 Study Objectives

The main objective of this study is to identify the incentives, constraints and impediments for micro-enterprise development in Sri Lanka with special reference to the Samurdhi programme in comparison with SEEDS in order to provide policy guidelines that would help to refocus the current poverty reduction strategies in a more equitable basis.

Specific Objectives:

1. To ascertain the identity of rural micro-entrepreneurs benefited by micro-finance programmes and to analyze the nature of such enterprises in terms of access to and control over the resources of such enterprises.
2. To recognize incentives, constraints and impediments for the development of micro-enterprises in specific study locations.
3. To identify any relationships of microfinance interventions with the success/failure of the enterprises with special focus on socio-economic and gender-related features of micro-entrepreneurs and government and non-government organizational interventions for micro-enterprise development.
4. To explore the destiny of unsuccessful micro-entrepreneurs, namely, future survival strategies, eagerness to alternative micro-enterprising, loan repayment, alternative sources of finance, response towards the civil society and the family, and the feed back they receive from such institutions.
5. To identify non-monetary and catalytic role provided by selected micro-finance programmes (animator, manager and other higher level officials) and assess the other non-monetary support further expected from these programmes by micro-entrepreneurs.
6. To assess what factors threaten the long-term sustainability of micro-enterprises and to identify the means of refocusing the current poverty reduction strategies in a more equitable basis.



CHAPTER TWO

METHODOLOGY

2.1 Data Collection Methods

Data for this research was collected from three districts, namely Galle, Ratnapura and Kurunegala. Three interrelated data collection mechanisms were used to elicit necessary information for the study. Firstly, a review of existing literature on micro-finance and micro-enterprises implemented by various agencies and projects was undertaken to understand the existing situation, their performances and experiences. Secondly, focus group interviews and key informant discussions were conducted among the officers attached to the Samurdhi District Commissioner's Office, Samurdhi Bank Managers, Samurdhi Animators, SEEDS' officials and prominent micro-enterprise operators to understand the views of various stakeholders on implementation of micro-finance programmes and the approaches of development of micro-enterprises. The research team visited the selected study sites, the Samurdhi District Offices, the Samurdhi divisional offices, the Samurdhi Zonal Offices and the Samurdhi Banks, the SEEDS' District Offices, the Sarvodaya Banks, the SEEDS headquarter and the Samurdhi Authority of Sri Lanka.

Thirdly, a structured questionnaire survey was conducted at the sample sites. A well-trained field staff was stationed in the study sites for the data collection purpose and the research team monitored the activities. Information collected from first two steps of the methodology was distilled into specific research questions for empirical testing. The questionnaire was pre-tested by the research team before administering to the randomly selected sample.

2.2 Study Sites and Sampling Procedure

Three districts were selected considering the loan default rate of SASANA loan implemented by the Samurdhi Authority. Ratnapura, Kurunegala and Galle district had the lowest, medium and highest default rates respectively.

Three Samurdhi Zones from each selected district were purposively chosen considering the geographical location of the zone within the district and the main economic activity of the zonal area. One 'Samurdhi Banku Sangam' area was selected from each zone for the study. In each selected 'Banku Sangam' area, 15 percent of Grama Niladhari (GN) divisions were randomly selected to administer the questionnaire survey.

Sample sites for the SEEDS were also selected from the neighbouring area of the selected Samurdhi Banku Sangam in order to compare the performance in a similar physical and environmental condition. The details of the sample sites are given in Tables 2.1 and 2.2.

2.3 Sample Size

A three stage stratified random sampling design was used to select sample beneficiaries from the Samurdhi micro-enterprises. At the first stage, districts were selected followed by Samurdhi zones at the second stage and then the Samurdhi Banks. Thereafter, 15 percent of the GN divisions in the selected Samurdhi bank areas were randomly chosen. The sample frame of micro-finance beneficiaries were then prepared from the database available at the Samurdhi Banks. The beneficiaries who had obtained micro-finance loans above Rs. 5,000 during 1998-2001 were chosen for the sample frame.

In addition, 10 beneficiaries of SEEDS who had obtained loans of above Rs. 5,000 before 2001 were randomly selected from the neighbouring area of Samurdhi study sites as given in Table 2.1. The sample frame for SEEDS beneficiaries was prepared from the database available in the Sarvodaya Society or Sarvodaya Bank. Therefore, the total sample size from each district is 90 (60 Samurdhi entrepreneurs and 30 SEEDS entrepreneurs) making the total sample size of 270.

Table 2.1: Study Sites – Samurdhi Micro-enterprises

District	Samurdhi Zone	Samurdhi Bank	Features of the area	Selected GN divisions	Sample Size
Ratnapura	Balangoda	Balangoda	Urban area, Small industries	Balangoda Kumaragma Dehigastalawa Kirindigala Gangeyaya Sankapala Udawalawe Maduwanwela	20
	Embilipitiya	Walawe	Rural area, Agriculture	Walavita Thoranagoda Ganegoda Kattimahne Kanu bichchiya Ihalagama west Paranagama	20
	Ehaliyagoda	Getahettha	Rural area, Estate		20
Kurunegala	Udubaddawa	Udubaddawa	Rural area, Poultry farming	Bandaranayake pura - West Iluppu gedara Wehara - East Malkaduwawa Diwulgane Medinnoruwa Mahawelithanne Bougamuwa	20
	Kurunegala town	Kurunegala Town	Urban area, Small industries	Kathaluwa - North Koggala - 1 Alawathukisgoda Middharamulla Wellaboda Kadiragolla Pathegama Jayabima Unagaswela	20
	Ehatuwewa	Kannoruwa	Rural area Agriculture	Pahalakiripedda Egodawela	20
Galle	Habaraduwa	Koggala	Rural area, Fishery and coir industry		20
	Balapitiya	Ahungalla	Rural area, Coir industry		20
	Karandeniya	Karandeniya	Rural area, Cinnamon industry		20

Table 2.2: Study Sites - SEEDS Micro-enterprise

District	DS Division	Sarvodaya Bank	Sample Size
Ratnapura	Balangoda	Thanjantenna	10
	Embiliptiya	Malabotu ara	10
	Eheliyagoda	Kendangamuwa	10
Kurunegala	Udubaddawa	Udubaddawa	10
	Kurunegala Town	Galpoththawatta	10
	Ehatuwewa	Tekkawatta	10
Galle	Habaraduwa	Imaduwa	10
	Balapitiya	Heenatiya	10
	Karandeniya	Madakumbura	10

Source: Survey Data, 2004

2.4 Data Analysis

The data elicited from various sources as described in the previous section was subjected to a descriptive analysis. Demographic and socio economic features of beneficiaries, physical structure of micro-enterprises, impact of micro-finance on micro-enterprise development, drawbacks of the present micro-finance programme, and its positive aspects were mainly analysed using the data gathered.

Factors influencing enterprise success was assessed using a logistic model. Logistic regression allows one to predict the relationship and strength of the set of variables that may be continuous, discrete, dichotomous or a mix of any of these (Agrersti, 1996). The advantage of this model is that the probabilities are bounded between 0 and 1.

According to Pindyck and Rubinfeld (1981), the logistic model is written as;

$$P_i = \frac{1}{1 + e^{-z_i}} \rightarrow (1)$$

Where P_i is a probability of having a successful enterprise for the i^{th} entrepreneur (client) and ranges from 0 to 1 regardless of the values of Z . Z_i is the linear combination of m explanatory variables (X) and is expressed as;

$$Z = \alpha_0 + \sum_i^m \beta_i X_i \rightarrow (2)$$

Where α is the intercept, β_i are the coefficient of the predictor variable. The parameters in the logistic models are interpreted in terms of odds and log-odds. The odds of successful enterprises are defined as the ratio of the probability of successful enterprises (P_i) to the probability of non-success enterprises ($1-P_i$) as follows;

$$\frac{P_i}{1-P_i} = \left[\frac{1}{1+e^{-z}} \right] \left[1 - \frac{1}{1+e^{-z}} \right]$$

$$= \frac{1}{l^{-z}}$$

$$= l^{(\alpha_0 + \beta_1 X_1 + \beta_2 \alpha_0 + \dots + \beta_m X_m)}$$

$$\ln \left[\frac{P_i}{1-P_i} \right] = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_m X_m$$

According Premaratne (2001), factors influencing the enterprise performance are grouped into several categories, namely demographic (gender, marital status etc.), human capital (whether entrepreneur has had training, level of education etc.), family ties (whether the enterprise is a family business/traditional, whether family members work in the business etc), and enterprise related factors (size of first loan, size of labour force, method of investment, receive of a grant, type of enterprise, source of microfinance).

In addition to the above factors, it was hypothesized from our own informal assessment that, management related factors such as maintenance of business accounts, separate management of business money from household expenses, and registration of business also influence the success/failure of an enterprise.

$$\begin{aligned} \text{Enterprise success} = & \alpha_0 + \beta_1 (\text{Gen}) + \beta_2 (\text{Stat}) + \beta_3 (\text{Train}) + \beta_4 (\text{Edu}) + \beta_5 (\text{FamWork}) + \beta_6 \\ & (\text{FamBus}) + \beta_7 (\text{LoanSi}) + \beta_8 (\text{Lab}) + \beta_9 (\text{Inves}) + \beta_{10} (\text{Grant}) + \beta_{11} \\ & (\text{FundSou}) + \beta_{12} (\text{AgEnt}) + \beta_{13} (\text{IndEnt}) + \beta_{14} (\text{TradeEnt}) + \beta_{15} (\text{AnimEnt}) \\ & + \beta_{16} (\text{BusAc}) + \beta_{17} (\text{SepMon}) + \beta_{18} (\text{RegBus}) \end{aligned}$$

Dependent variable

Enterprise success - Success = 1, Non function/Un success = 0

Independent variables

Gender (Gen) - Male = 1, Female = 0

Marital status (Stat) - Married = 1, Single = 0

Owner has had relevant training (Train) - Yes = 1, No = 0

Education (Edu) - No. of years

Family Member work for business (FamWork) - Yes+=1, No=0

Enterprise is a family business/tradition - (Fambus) - Yes = 1, No = 0

Size of first loan (loanSi) - Rs.

Received a grant (Grant) - Yes = 1, No = 0

Source of micro-finance (FundSou) - Samurdhi = 1, SEEDS = 0

Size of labour force (Lab) - Number

Method of investment (Inves) - Investment into existing enterprise = 1, Otherwise = 0

Type of enterprise 1 (AgEnt) - Agricultural enterprise = 1, Otherwise = 0

Type of enterprise 2 (IndEnt) - Small industries = 1, Otherwise = 0

Type of enterprise 3 (TradeEnt) - Small business/Trade = 1, Otherwise = 0

Type of enterprise 4 (AnimEnt) - Animal husbandry = 1, Otherwise = 0

Maintenance of business accounts (BusAc) - Yes = 1, No = 0

Separation of business money (SepMon) - Yes=1, No=0

Business/firm is registered (RegBus) - Yes = 1, No = 0

CHAPTER THREE

DEMOGRAPHIC AND SOCIO-ECONOMIC CHARACTERISTICS

3.1 Gender Distribution

Majority of the clients of the Samurdhi micro-finance are females, while it is the opposite for SEEDS clients. The gender distributions of sample beneficiaries are given in Table 3.1. About 93 percent of the Samurdhi and SEEDS clients are married and in the sample households of a total of 270 families, 36 families are headed by females.

Table 3.1: Gender Distribution

District	Samurdhi M/F Clients				SEEDS M/F Clients			
	Male		Female		Male		Female	
	No.	%	No.	%	No.	%	No.	%
Ratnapura	27	45	33	55	17	56	13	43
Kurunegala	29	48	31	52	17	56	13	44
Galle	25	41	35	59	16	53	14	47

Source: Survey Data, 2004

3.2 Characteristics of Household

Household size of the sample population is shown in Table 3.2. Majority of the households have 4-5 members and about 20-25 percent of sample households in most locations consisted of over 6 members.

Table 3.2: Household Size

Household Size (No.)	Samurdhi M/F Clients			SEEDS M/F Clients		
	Ratnapura N=60	Kurunegala N=60	Galle N=60	Ratnapura N=30	Kurunegala N=30	Galle N=30
	%	%	%	%	%	%
1 - 3	13	13	20	23	23	27
4 - 5	62	71	47	67	54	53
6 - 7	22	13	25	10	20	20
> 7	3	3	8	-	3	-

Source: Survey Data, 2004

3.3 Education and Literacy

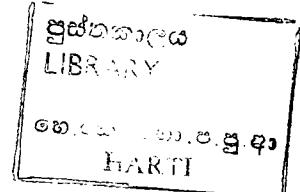
The literacy rate of the sample population is around 98 percent. Illiterates have never attended schools to receive formal education. The literacy rate for males and SEEDS clients is 100 percent.

Table 3.3: Literacy Rate by Sex

	% of Male	% of Female	% of Total
Literate	100	96	98
Illiterate	0	4	2

Source: Survey Data, 2004

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Majority of the micro-finance beneficiaries in all selected districts irrespective of the type of micro-finance programme have an education of below grade 10 except at Ratnapura. At Ratnapura, most of the beneficiaries under both micro-finance programmes have an education below grade 10. The detailed description on education of sample beneficiaries is given in Table 3.4. The table also highlights that, the beneficiaries of SEEDS are better educated than those of Samurdhi and the level of illiterate beneficiaries under the SEEDS programme is also much lesser.

Table 3.4 : Level of Education (% of clients)

Level	Samurdhi			SEEDS		
	Ratnapura N = 60	Kurunegala N = 60	Galle N = 60	Ratnapura N = 31	Kurunegala N = 31	Galle N = 30
Year 1-5	16	23	40	17	7	7
Year 6-10	30	35	45	30	52	53
G.C.E.(O/L)	35	33	8	40	23	30
G.C.E. (A/L)	8	7	5	13	17	7
Higher studies	2	0	0	0	0	3
No education	8	2	2	0	0	0

Source: Survey Data, 2004

3.4 Economic Features of Sample Population

Most of the micro-finance beneficiaries are engaged in micro-enterprises as a primary employment (Table 3.5). However, employment profile of the micro-finance clients indicates that over quarter of the micro entrepreneurs' livelihoods primarily depend on other employments rather than micro-enterprises. Over 50 percent of the clients have no opportunities for secondary employment. About 27 percent and 33 percent of Samurdhi and SEEDS clients respectively undertake micro-enterprises as a secondary employment (Table 3.6).

Table 3.5: Profile of the Primary Employment (% of clients)

Type of Primary Employment	Samurdhi			SEEDS		
	Ratnapura	Kurunegala	Galle	Ratnapura	Kurunegala	Galle
Small Industries	65	45	68	63	54	73
Agriculture/Livestock/	5	18	5	10	10	7
Fishery based micro-enterprises						
White color jobs	3	2	-	3	3	7
Business	2	17	3	7	14	-
Skilled labour	7	-	5	10	3	3
Unskilled labour	10	5	2	7	3	7
Unemployed	8	13	14	-	13	3
Not responded	-	-	3	-	-	-

Source: Survey Data, 2004

Table 3.6: Profile of Secondary Employment (% of clients)

Type of Secondary Employment	Samurdhi		SEEDS	
	No.	%	No.	%
No secondary employment	87	54	50	57
Small industries	28	17	19	21
Agriculture/Livestock/Fishery based micro-enterprises	16	10	11	12
White color jobs	2	1	-	-
Business	2	1	1	1
Skilled labour	5	3	1	1
Unskilled labour	10	6	4	5
Not responded	12	7		

Source: Survey Data, 2004

Monthly income of 20-30 percent of Samurdhi micro-finance clients from primary employment is less than Rs. 2,500, but less than 17 percent of SEEDS beneficiaries belong to this category (Table 3.7). Number of persons earning a monthly income of over Rs. 10,000 is comparatively more in SEEDS than in Samurdhi programme, which indicates that the criterion for targeting of beneficiaries under SEEDS programme is not only poverty, but also entrepreneurship. SEEDS works with the community as a whole and focus their efforts on inclusion of all segments of the society (SEEDS, 1999).

Table 3.8 indicates the level of dependency of micro entrepreneurs on the government 'Samurdhi' poverty alleviation subsidy programme. Although, all Samurdhi micro-finance clients were initially benefited from Samurdhi subsidies, a considerable proportion of them (18-37 percent) have been removed from the subsidy programme over time with the improvement of their income level. It should be noted that, over 70 percent of SEEDS micro-finance clients are not the beneficiaries of the Samurdhi poverty alleviation programme in view of their higher income level. The findings again highlight that, the out reach of Samurdhi micro-finance programme is primarily the poor people, but SEEDS targets the various segments of the community.

Table 3.7: Monthly Income of Microfinance Clients from Primary Employment (% of clients)

Income Level (Rs.)	Samurdhi			SEEDS		
	Ratnapura	Kurunegala	Galle	Ratnapura	Kurunegala	Galle
> 1,000	8	7	9	3	3	-
1,000 – 2,500	22	18	17	14	14	10
2,501 – 5,000	30	18	16	20	17	17
5,001 – 10,000	20	17	16	33	20	20
> 10,000	7	17	18	13	33	23
Not responded	13	23	24	17	13	30

Source: Survey Data, 2004

Table 3.8: Value of Poverty Relief Provided to Micro-entrepreneurs by Samurdhi Programme

Value of Samurdhi (Rs.)	Samurdhi (% of clients)			SEEDS (% of clients)		
	Ratnapura N = 60	Kurunegala N = 60	Galle N = 60	Ratnapura N = 30	Kurunegala N = 30	Galle N = 30
< 250	17	22	15	13	7	7
250 – 500	25	20	45	10	10	10
> 500	32	18	18	10	10	3
0	18	37	20	67	70	77
Not responded	8	3	2	-	3	3

Source: Survey Data, 2004

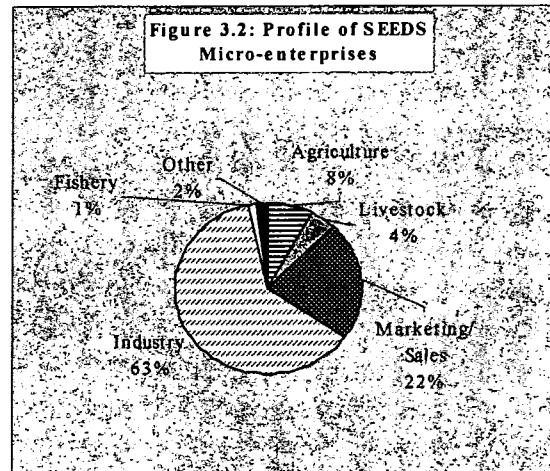
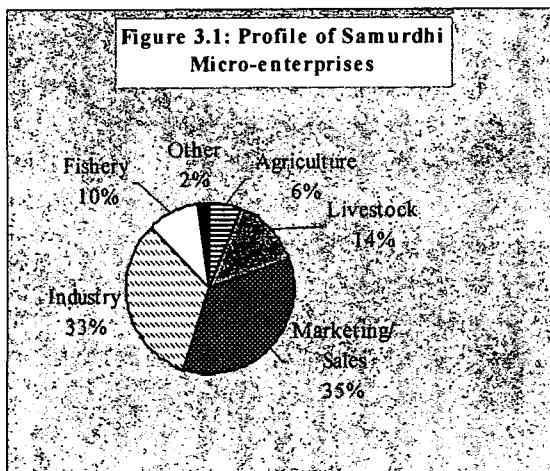
3.5 Overview of Micro-enterprises

Micro-finances provided for micro-enterprise development had been utilized to start various enterprises, which can be classified into 6 broad categories.

1. Agricultural enterprises
2. Livestock enterprises
3. Marketing/sales related enterprises
4. Small industries
5. Fishery
6. Other (services etc.)

Overall profile of the micro-enterprises in the sample areas is given in figures 3.1 and 3.2. Majority of entrepreneurs are engaged in small industries in both programmes. Marketing or sales related micro-enterprise is a prominent component for Samurdhi micro-finance clients. The detailed breakdown of the enterprises undertaken by the clients reveals the diverse nature of such ventures.

1. Retail trading/boutiques
2. Fisheries
3. Agro based industries (coir/palm leaves products)
4. Cash crop cultivation/cinnamon industry/plant nursery
5. Garment manufacturing and sales
6. Sweets and other food products
7. Carpentry
8. Bicycles, radio and motor repair
9. Packing and selling of chillie and other condiment powder
10. Brick industry
11. Metal works/welding
12. Flower pot industry
13. Manufacturing of educational tools
14. Making twine thread
15. Beauty culture
16. Making cloth sacks, pillows and wicks
17. Bakery industry
18. Hiring three-wheeler (Tuk tuk)



Micro-finance provided for the development of micro-enterprises had been utilized for three types of activities.

- Investment in new enterprises
- Investment to improve/expand the existing enterprises
- For household consumption requirements (Not invested on micro-enterprises)

Available data shows that about 60-70 percent of the Samurdhi micro-finance clients have utilized the micro-credit to improve the existing enterprises (Table 3.9). About 10 percent of the Samurdhi clients have misused the micro-finances provided, by not investing the total amount for the purpose for which it was granted. In case of SEEDS clients, it was only 3 percent. 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 (Table 3.10). However a considerable proportion of micro-finance clients under both 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. While 24 percent of the SEEDS clients have started micro-enterprises based on market demand of the product, only 19 percent of the Samurdhi clients have done so. More importantly, only 3 percent of the Samurdhi clients were able to start enterprises in line with the skills they acquired through formal trainings.

Table 3.9: Method of Investment of Micro-finance provided on Micro-enterprises (% of clients)

Method	Ratnapura N = 60	Samurdhi Kurunegala N = 60	Galle N = 60	Ratnapura N = 30	SEEDS Kurunegala N = 30	Galle N = 30
Start a new enterprise	25	33	20	23	27	7
Improve the existing enterprise	65	59	68	77	70	90
Not invested on micro-enterprise (consumption)	10	8	12	-	3	3

Source: Survey Data, 2004

Table 3.10: Reasons for the Choice of Micro-enterprises Selected

Reasons	Samurdhi % of clients	SEEDS % of clients
1. Based on family experience/knowledge	46	42
2. Loss of regular job/non-availability of alternative income	23	13
3. Based on market demand	19	24
4. Make use of own/family labour	5	7
5. Traditional industry in the area	10	8
6. Formal training obtained in the enterprise	3	9
7. Local availability of raw material	4	4
8. Easy job (convenience)	14	9

Source: Survey Data, 2004

Average amount of loan received by the beneficiaries for micro-enterprise development in both programmes is illustrated in figure 3.3. The amount of the first loan received by the Samurdhi clients normally varies from Rs. 5,000-8,000. About 50 percent of the entrepreneurs have obtained the second loan after the pay back of the first loan in the specified time period. The SEEDS clients have been offered twice the amount for their second loan compared that offered to Samurdhi entrepreneurs. Number of people who benefited from subsequent loans shows a drastic reduction in both micro-finance programmes. Of the total Samurdhi microfinance clients, only 52 percent, 22 percent and 7 percent have received the subsequent 2nd, 3rd and 4th loans respectively, while 56 percent, 35 percent and 9 percent of SEEDS microfinance clients have received the subsequent loans.

The detailed description of the amount of money obtained from the first loan under Samurdhi and SEEDS programmes are illustrated in figures 3.4 and 3.5. The figure 3.4 indicates the inadequacy of the amount of loan provided for Samurdhi clients to start or improve micro-enterprises. About 60 percent of the Samurdhi clients have received less than Rs. 10,000 which is hardly enough to start a viable and sizeable micro-enterprise other than a household level cottage industry. This was one of the reasons for the failure of enterprises and also the diversion of the loan for the many consumption purposes. Gunathilaka and Salih (1999) also have found similar results in SMF programme. However, the situation is completely different in the SEEDS programme, where about 80 percent of the clients have received over Rs. 10,000 as their first loan.

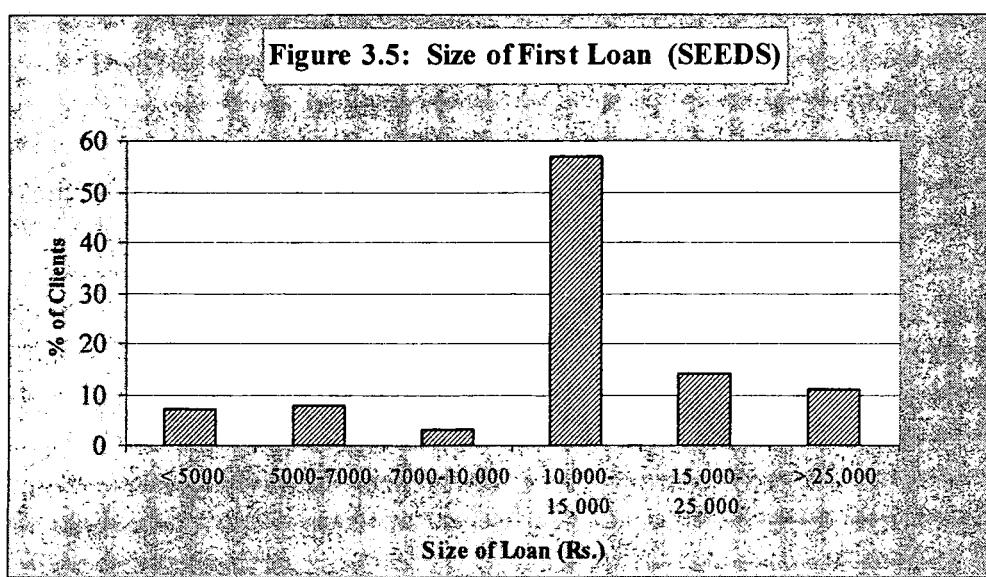
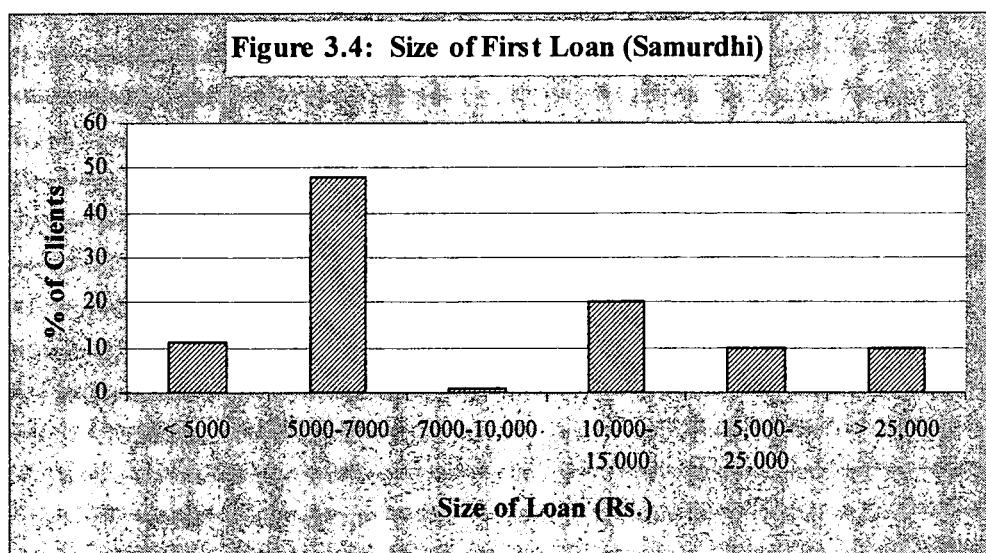
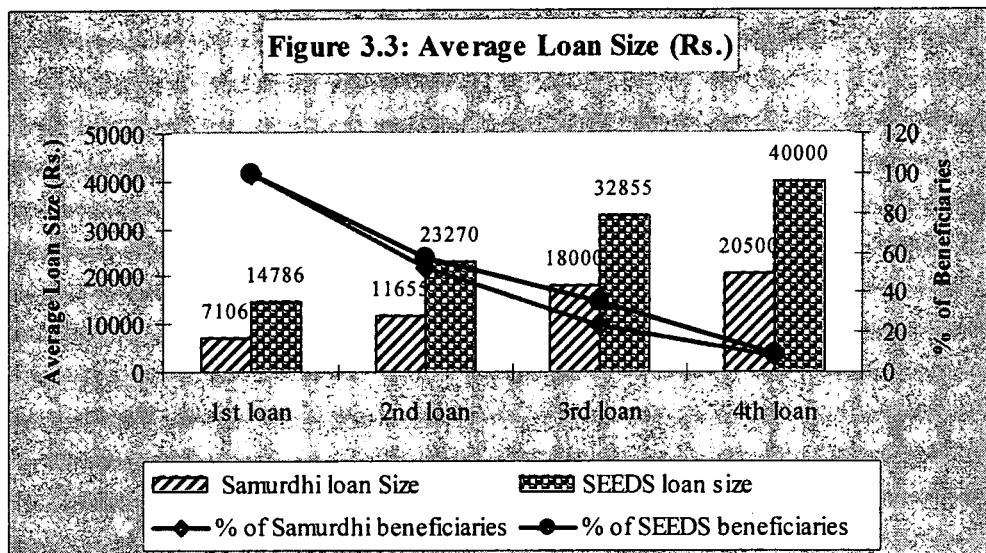


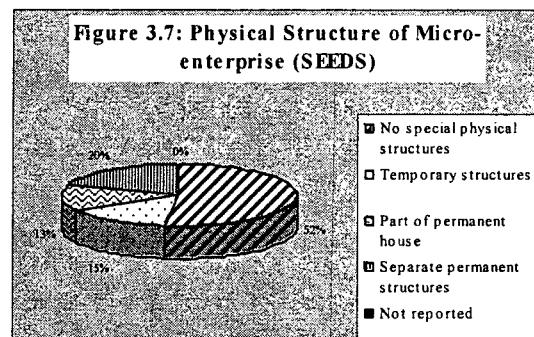
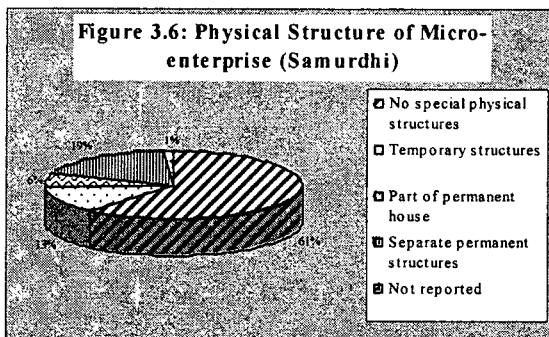
Table 3.11 highlights the degree of utilization of micro-credit provided for the development of these enterprises. The table clearly shows that on an average less than 50 percent of total value of first micro loan have been invested on the enterprise and the balance utilized for the clients other requirements. The situation has further worsened with subsequent loans. Household consumption, using micro-finance as an agricultural loan and repayment of previous loans from formal or informal sources were the main causes for which the balance of the money was spent. They claim that they resorted to the practice since the Samurdhi programme does not offer them a sizeable loan which also can cover these personal needs.

Table 3.11: Percentage of Micro-finance Loan Invested on Micro-enterprise (Average)

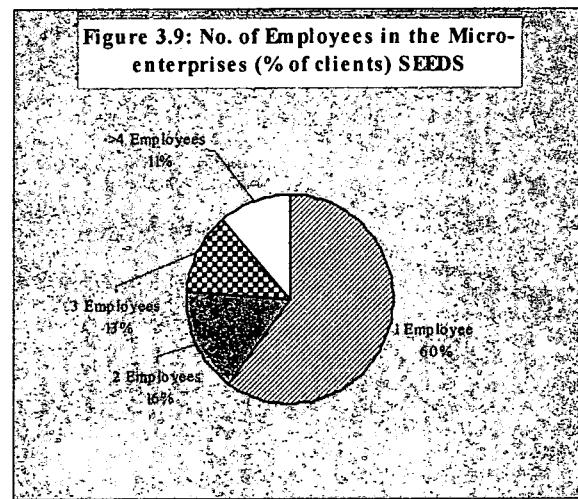
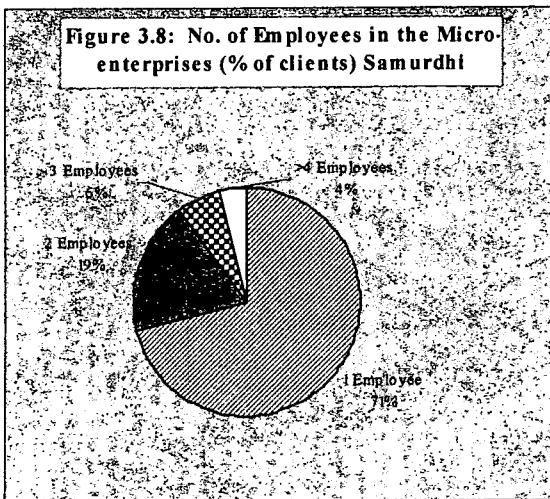
No. of loans	Samurdhi			SEEDS		
	Micro-enterprise (N=162)			Micro-enterprise (N=88)		
	Ratnapura	Kurunegala	Galle	Ratnapura	Kurunegala	Galle
1 st Loan	42	34	66	41	55	58
2 nd Loan	25	63	29	33	28	19
3 rd Loan	14	26	6	21	13	12
4 th Loan	9	10	-	5	4	6

Source: Survey Data, 2004

More than 50 percent of enterprises are operated with no specific place or structures and mainly within the houses except in Kurunegala Samurdhi funded enterprises where only 36 percent of the enterprises are operated in this manner. However, the mobile types of marketing are an exception. At the same time, about 40 percent of Samurdhi micro-enterprises in Kurunegala have separate permanent structures (Figures 3.6 and 3.7). Most of them are poultry farms, which essentially needs separate physical structures (poultry house).



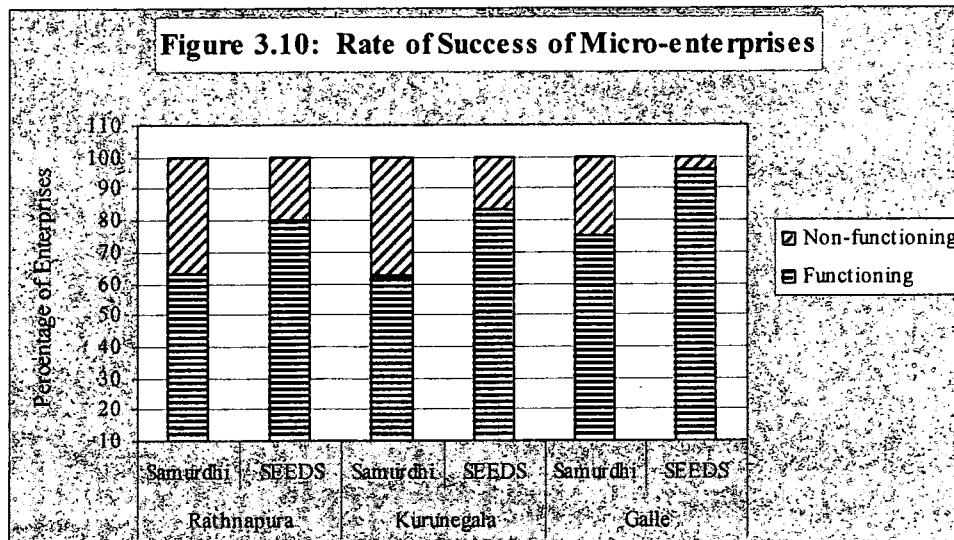
Lack of capital for micro-enterprises apart, they are operated on a very small scale. The study has found that, about 70 percent and 60 percent of the Samurdhi and the SEEDS funded enterprises respectively have only one full time employee (Figures 3.8 and 3.9) and only 7 percent of the Samurdhi enterprises have 3-4 employees including the owner. The scale of operation has grown with over 5 employees for about 3 percent of Samurdhi enterprises. The same is true for 8 percent of the SEEDS enterprises.



The micro-enterprises also can be categorized into two groups.

1. Functioning enterprises
2. Non-functioning or failed enterprises.

The results of the above categorization are given in Figure 3.10. The findings show that, 33 percent of the Samurdhi, and 14 percent of the SEEDS micro-enterprises are not functioning and have completely failed. The functioning micro-enterprises are operating at different levels of success, and are discussed in chapter 5.



CHAPTER FOUR

APPROACHES AND IMPACTS OF MICRO-FINANCE INTERVENTION PROGRAMMES

4.1 Approach of Interventions

The main features of the micro-finance interventions were easy access to poor people, group based savings, group based lending and group collateral and credit plus services, aiming at social and economic empowerment of people through promoting income earning opportunities and capacity development.

The Samurdhi and the SEEDS development approaches have a number of similarities in the mobilization of the community in developing rural economic infrastructures. The fundamental aspect of the approach is the establishment of beneficiary small groups at grassroots level. Small groups in a village under the Samurdhi programme lead to the Samurdhi village society and under the SEEDS, the village level societies are called Sarvodaya Shramadana Society. These are small groups comprising 5-7 members, in the village within approachable distance to each other (Figures 4.1 and 4.2). Economic standings of the members are preferred to be similar in income level and profession. The SEEDS involvements with the Sarvodaya village society commence only when the society becomes a legally registered organization.

The SEEDS activities are conducted by the Sarvodaya village societies and administered by the SEEDS District Office. The Samurdhi village level societies in a GN division are federated to form a Samurdhi Maha Sangam. A cluster of Samurdhi Maha Sangams in a DS division is administered by the Samurdhi zonal office in each DS division.

Group members of the Samurdhi are required to have compulsory monthly savings over a period to qualify for the micro-finance loan. Selection of clients for the Samurdhi micro-credit is finalized after a series of approvals, firstly by the group leader, then by the President of the respective village society, thereafter by the President of the Samurdhi Maha Sangam and finally by the Board of Directors of the Zonal Office. According to the Samurdhi officials, approvals by the leaders of the small groups are taken as the main criterion to release the micro-enterprise loan. About 44 percent of the sample officers mentioned that the ability of the client to undertake micro-enterprises is a major selection criterion for the loan disbursement (Table 4.1). However, there are no specific indicators or a methodology to assess the ability and entrepreneurial skills of the clients. About 12 percent of the officers claimed that, they offer priority for beneficiaries who are already involved in micro-enterprises. The SEEDS loan requests also have to bypass similar organizational bureaucratic procedures mentioned above. In addition, the SEEDS will investigate the suitability of the proposed micro-enterprise through an 'Enterprise Promotion Officer' in the field and the ability of the SEEDS society to bear the risk of loan default by the assessment of the level of savings in the society, the audit report of the society, the past performance of loan recovery and the loan risk level.

Figure 4.1: Organizational Structure of Samurdhi

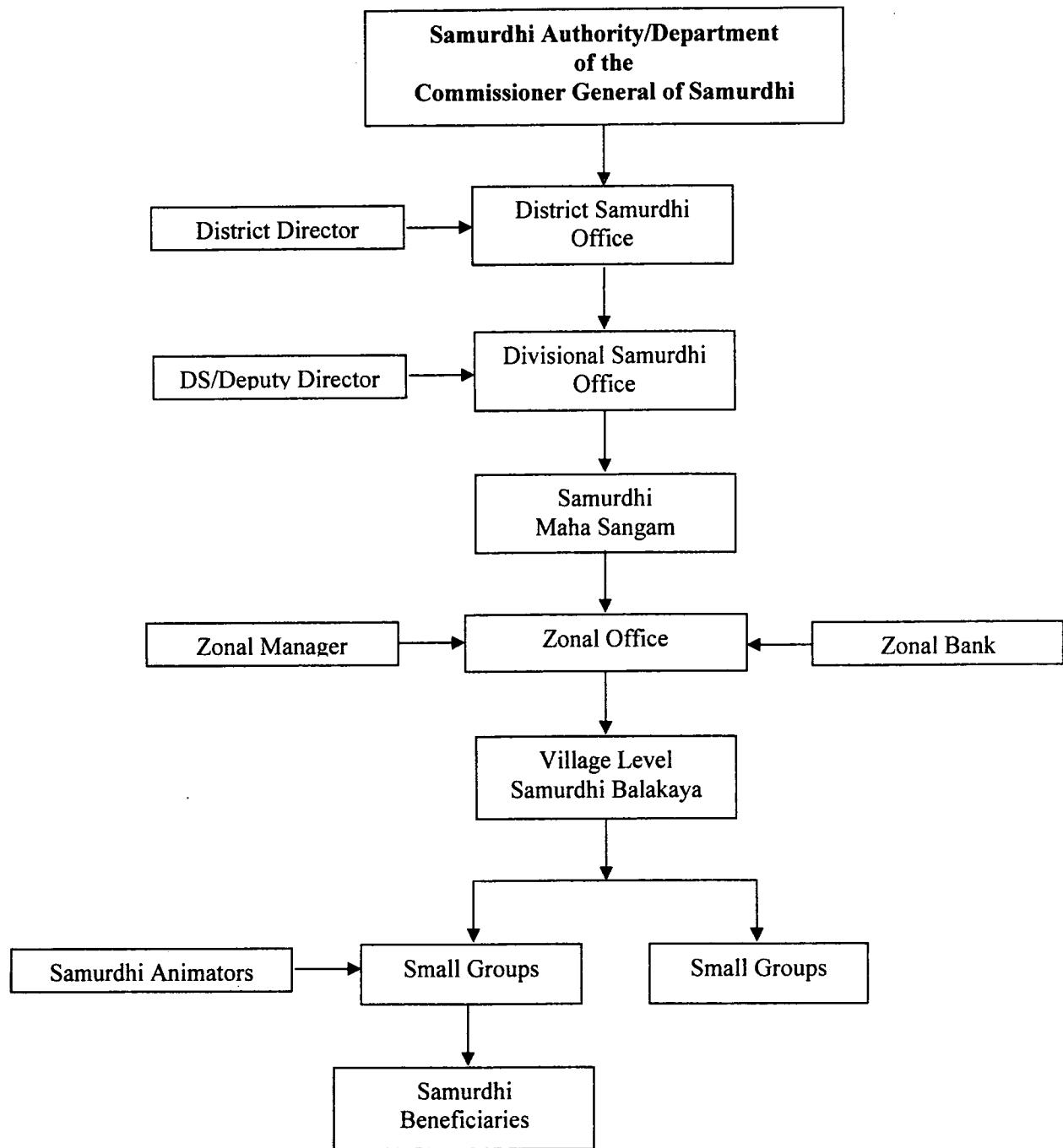


Figure 4.2: Organizational Structure of SEEDS

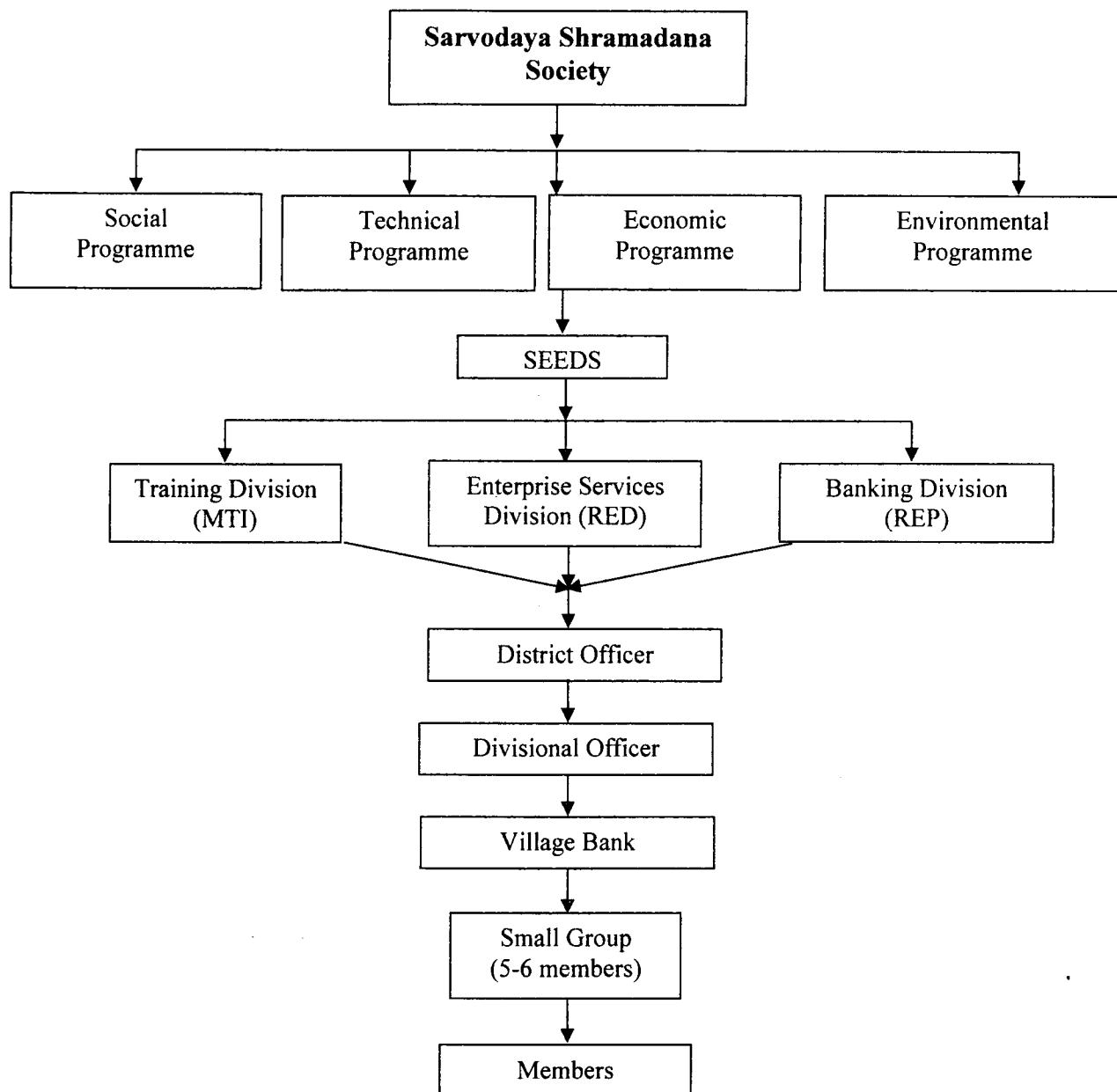


Table 4.1: Criteria Adopted by Samurdhi Development Officers in Selecting Micro-enterprises (As perceived by Samurdhi Development Officers)

Criteria	% of Samurdhi Officers N=43
1. Recommendation given by the small group	53
2. Consideration of the clients ability to undertake micro-enterprise	44
3. Performance of small group	14
4. Transactions performance with Samurdhi Bank	21
5. Past with previous loan repayment records	21
6. Inspection report of Samurdhi manager	12
7. Involvement in existing micro-enterprise	12

* Due to multiple answers given by respondents, percentage sums to be more than 100

Source: Survey Data, 2004

Necessary training and skill development for the micro-enterprises were conducted broadly through three types of training (Gunatilaka, 1997):

1. General skills development courses (accounting skills etc.)
2. Development of existing skills
3. Imparting new product skills

The SEEDS has special institutional arrangements and curricula for the skills development courses. An institution maintained by the Sarvodaya, the Management Training Institute (MTI) deals with the training requirements in the enterprise development and micro-finance management. The Rural Enterprise Development Services (REDS) of the SEEDS provide advisory services in various fields including agricultural extension, business counseling, products development research and product marketing and private sector linkages.

The SEEDS implements a number of tailor made training programmes for their clients charging a small course fee, which include Self-employment Training (SET), Small Business Development Training, and Start Your Business (course fee Rs. 1,750, duration 5 days) and Improve Your Business (course fee Rs. 1,750, duration 5 days).

4.1.1 Role of Animators

The Samurdhi micro-finance programme has two levels of animators at field level, namely, the Samurdhi Bank officials (the Manager and the other officers at zonal level) and the Samurdhi Development Officers (SDO) (at GN division level). The SEEDS has a well trained field staff for enterprise promotion and development. At district level, the SEEDS staff consisted of a District Manager, Assistant Managers, Training Officer, Enterprise Promoting Officer and Loan Recovery Officer. At field level, they have appointed one field manager for each division. For example, Ratnapura district has been divided into 10 divisions for 10 Field Managers.

The SDOs are grassroots level officers working as a catalyst for social mobilizations and enterprise promotion under the Samurdhi programme. They are responsible for group formation, promotion of group savings, arrangement for loan disbursements, loan recovery and guiding micro entrepreneurs and monitoring of micro-enterprises. The Samurdhi Manager makes only occasional field visits since the area allocated for the Bank Managers for Samurdhi Bank activities is extensive and the time is limited. Therefore, the SDOs play a key role as catalysts at field level.

The capacity and skills of the SDOs in the field of community development, enterprise promotion, and social mobilization are not up to the desired levels rendering their role at the field level limited to making arrangements to provide loans (Table 4.2). Only 17 percent of the clients have received their guidance and advice. Post monitoring or follow up activities also were mainly limited to visiting the enterprise locations for loan recovery. The animators seldom addressed the problems and constraints faced by the entrepreneurs.

Table 4.2: Services Provided by Animators for the Development of Micro-enterprise (% of clients)

Service	Samurdhi Programme			SEEDS Programme			Total	
	Ratnapura	Kurunegala	Galle	Total	Ratnapura	Kurunegala	Galle	
1. Arrangements to provide micro-credit	55	71	66	64	60	59	51	57
2. Loans and conducting small groups meetings	9	5	9	8	7	3	11	5
3. Loans and guidance	24	11	17	17	7	3	3	5
4. Loans and follow up activities	31	22	24	26	37	17	14	23
5. Loans and organizing trainings	6	2	2	3	10	10	10	10
6. Loans and organizing Shramadana works	4	3	4	4	3	3	-	2
7. No services	5	4	4	4	13	7	24	15

* Due to multiple answers given by respondents, percentage sum to more than 100

Source: Survey Data, 2004

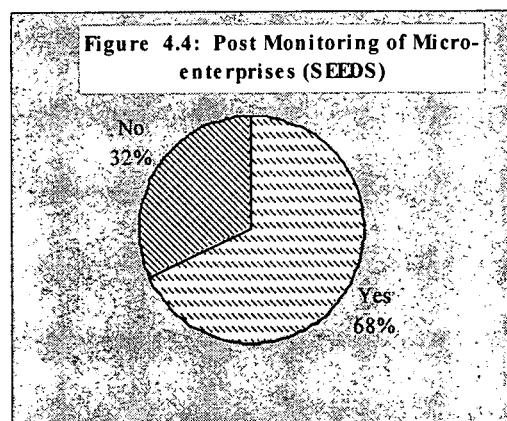
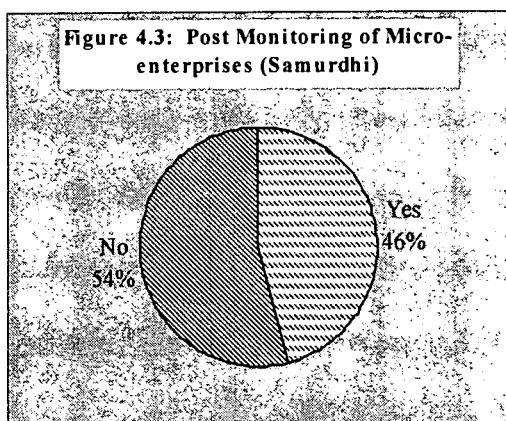
About 46 percent and 67 percent of the Samurdhi and the SEEDS micro entrepreneurs respectively accepted that the activities of micro-enterprises were monitored by officials (Figures 4.3 and 4.4). However, it was found that absence of a systematic format and a routine mechanism and an established procedure for monitoring and reporting back has resulted in the post monitoring of these enterprises becoming by and large an *ad hoc* activity, varying on the skills and the commitment of the field level officials. Table 4.3 highlights the nature of this variation. The major activity under the post monitoring process is to observe the proper utilization of the micro-credit provided as claimed by about 40 percent of the clients. Other important aspect is the assessment of the turn over of micro-enterprises and collection of the repayments of loan installments. Only about 8 percent of the Samurdhi clients and 7 percent of the SEEDS clients make use of the advice and guidance provided by field level officials for the enhancement of micro-enterprises.

Table 4.3: Activities conducted under follow up (% of clients)

Activities	Samurdhi		SEEDS	
	N = 75	%	N = 59	%
1. Method of micro-credit utilization	47	36		
2. Estimating the income of micro-enterprise	8	5		
3. Encouraging the repayment of loan installment	15	20		
4. Advice and guidance	9	7		
5. Visiting the place of self employment	11	8		
6. Pre-inspection and follow up	29	27		

* Due to multiple answers given by respondents, percentage sums to more than 100

Source: Survey Data, 2004



4.1.2 Role of Small Groups

The basic units of both micro-finance programmes are small groups. Small groups normally consisted of 5 members, but could range from 4-8. Beneficiaries in the village, living close to each other and more or less equal in economic status and having similar professions are expected to form a small group. Members are encouraged to save money in the group and loans are disbursed based on the total amount of group savings. Group members act as collateral for each other, making all the members in a group responsible to each other for financial transactions with the Samurdhi Bank.

There are eight indicators developed by SASL to measure the level of success of Samurdhi small groups:

1. Members' participation for the weekly small group meeting.
2. Maintaining minutes of the weekly meeting.
3. Level of growth of fund at group level through members' compulsory savings.
4. Operating savings accounts at the Samurdhi Bank.
5. Sharing of voluntary labour (*attam*) among group members.
6. Sharing of goods at reduced prices among group members.
(Bulk purchase at group level and enjoy the benefit of price reduction).
7. Regular repayment of loan installments.
8. Operation of credit activities among group members.

However, 42 percent and 17 percent of the Samurdhi and the SEEDS small groups respectively have failed to function efficiently due to the dropout of members at regular intervals. Removal of the Samurdhi poverty alleviation subsidy of the empowered beneficiaries is the main reason for members to leave small groups. Group size also changes due to internal migration of people because of new employment opportunities or occupying new settlements. The findings show that 42 percentage of small groups are malfunctioning due to various reasons listed in Table 4.4.

**Table 4.4: Reasons for the Changes in Number of Members in the Small Groups
(% of clients)**

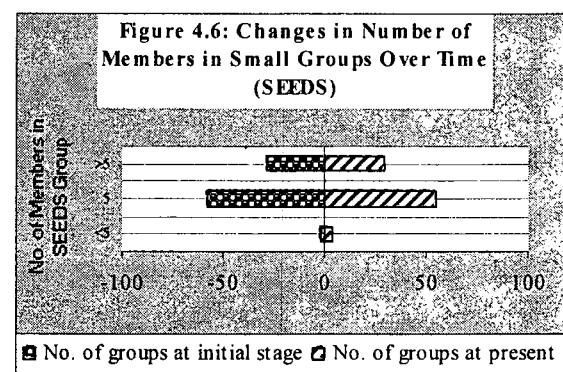
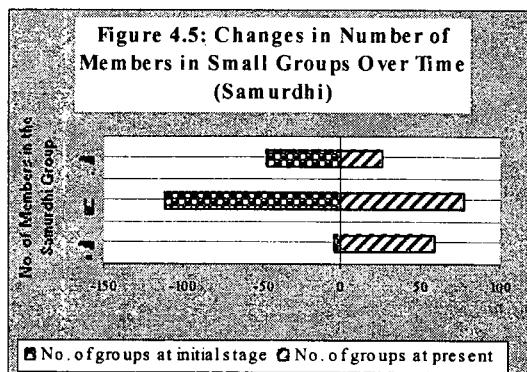
Reason	Samurdhi (N = 68)	SEEDS (N = 15)
1. Removal of Samurdhi subsidies	59	-
2. Migration of a member from the village	26	-
3. Non-payment of loan	3	40
4. Death/illness of members or elderly members	12	33
5. Restructuring of group membership	-	27

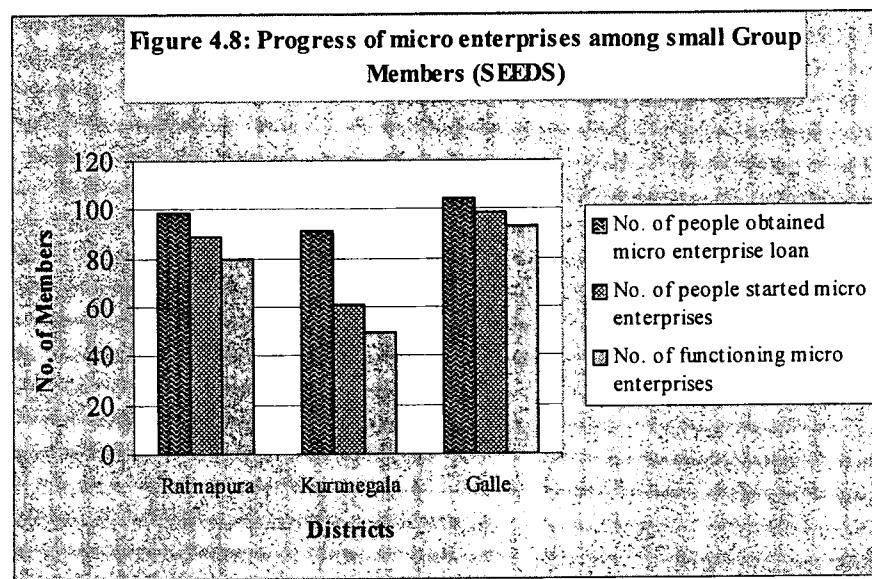
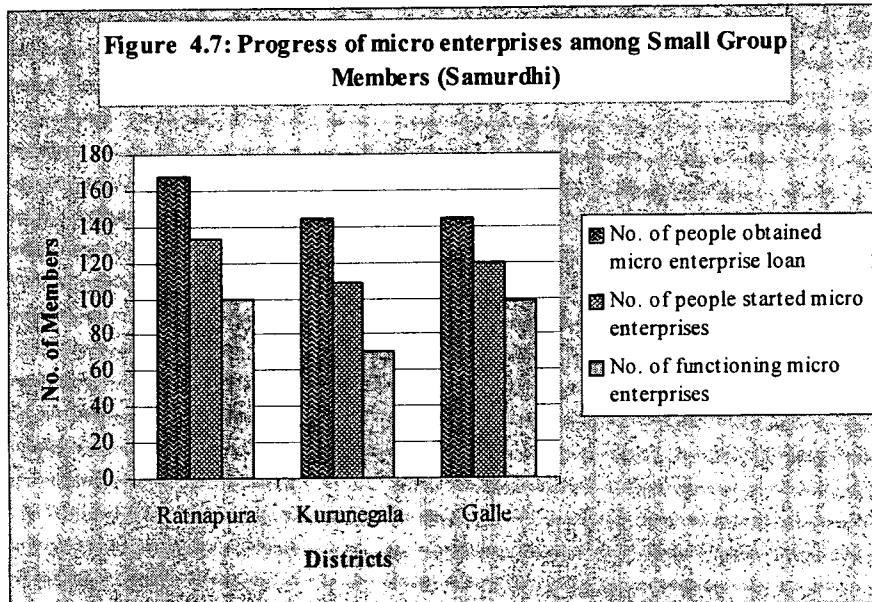
* N denotes the number of failed small groups among sample clients

Source: Survey Data, 2004

The degree of change in the membership in small groups is shown in figures 4.5 and 4.6. The membership in small groups has dropped significantly in the Samurdhi programme, but changes in the SEEDS small groups are negligible. This situation in small groups has posed problems in dealing with group collateral for the loan disbursed. Under the current practice of the Samurdhi Bank, failure on the part of one member to pay back the loan or to get involved in group activities, leads to rest of the members being restrained from providing loans.

This system ultimately results in the dis-functioning of small groups and the complete collapse of micro-finance programmes. Figures 4.7 and 4.8 illustrate the level of performance of micro-finance disbursement and utilization for the enterprise development among the group members. The data on loan disbursement among small group members show that about 23 percent of the clients never started a micro-enterprise and about 30 percent who started micro-enterprises had abandoned them at the time of evaluation.





The sample beneficiaries were asked about their assessment about the effectiveness of respective small groups. Accordingly, only about 50-60 percent of the clients perceived that their small groups were actively functioning. Ineffectiveness of small groups has become the biggest problem for the development of less empowered but potential people in small groups. The successful members in inactive small groups are no more given further loans. Another important reason for this adverse situation is the formation of small groups with members from different economic standings. The findings on economic status of the members in a small group as perceived by sample beneficiaries show that, about 73 percent and 62 percent of the members of the Samurdhi and the SEEDS' small group members respectively were of more or less in equal economic status. Rest of the members belonged to either a higher or lower economic standards.

The perception of the Samurdhi Bank Managers and the SDOs about the performance of the small group concept implemented by the Samurdhi programme is given in Table 4.5. About 35 percent of the sample officers aired the view that the programme was not a complete success.

According to them, the main reason for failure is abolition of the Samurdhi poverty alleviation subsidy of one or more empowered members in a particular group, which demoralized them from participating in group activities (Table 4.6). Although 65 percent of the Samurdhi field level officials believed that the small group programme was doing well, assessment of the activities of small groups shows that about 42 percent of small groups are either dormant or not functioning at all. About 56 percent of the sample Samurdhi officers recommended awareness creation among beneficiaries on the importance of small group concept to ensure the viability of the programme. The officers also recommended to enforce necessary laws to penalize loan defaulters and formation of new groups excluding the dropouts, which is not allowed under the current arrangement.

Table No. 4.5: Assessment of Samurdhi Small Group Programme (As perceived by Samurdhi Bank Managers and SDO's)

Level of Success	No.	% of Samurdhi Bank Managers
Successful	28	65
Moderately success	7	16
Low level of success	6	14
Unsuccessful	2	5

Source: Survey Data, 2004

Table 4.6: Causes for Failure of Samurdhi Small Groups (As perceived by Samurdhi Bank Managers and SDOs)

Reasons	No.	% of Samurdhi Development Officers
Removal of Samurdhi subsidy	31	72
In appropriate combination of group members	15	35
Default of loans	11	26
Malpractices and inefficiency of officers	5	12
Political influences	4	9
Non-participation for group activities	3	7
Old/ill/death of members	2	5

* Due to multiple answers given by respondents, percentage sums to more than 100

Source: Survey Data, 2004

4.1.3 Credit plus Services

Micro-finance programme basically deals with the poor and the marginalized people living in rural areas, towards when the development approach needs to be broader than mere provision of credit support. The credit plus services provided by different micro-finance programmes vary. Credit plus micro-finance packages consist of the components of capacity development, community mobilization, establishment of backward and forward linkages, and monitoring and guiding the enterprise activities.

Skills and knowledge development programmes are inherent component of micro-enterprises development for the following reasons:

1. About 30-40 percent of sample micro-enterprises have been established new entrepreneurs.
2. Expansion of micro-enterprises needs new technological and managerial know-how.
3. Micro-enterprises need to incorporate innovative ideas and engage in new product development and product diversification strategies in order to face the competition created by the open market and large and medium scale enterprises.

Table 4.7 shows the types of skills development training provided by micro-finance programmes. The table also shows that about 80 percent of the clients have not received any relevant training for the development of micro-enterprises. It is noteworthy to mention that only 15 percent of the clients have received training to enhance their knowledge, which can improve the skills of their micro-enterprises. Most of the trainings conducted by the Samurdhi programme in the past were focused on some aspects of book keeping and managerial skills and relevant technical training was given without considering the specific needs of the micro-entrepreneurs. The most of the training given is irrelevant for the enterprises conducted by the beneficiaries under both micro-finance programmes. Trainings generally dealt with such contents as health, nutrition, leadership skills, community participation and other personal development aspects. Technical and managerial skills, which specifically required for particular enterprises, were seldom identified and training provided.

Table 4.7: Capacity Development of Samurdhi and SEEDS Beneficiaries (% of clients)

Type of Training	Samurdhi				SEEDS			
	R'pura N = 54	K'gala N = 55	Galle N = 53	Total N = 162	R'pura N = 30	K'gala N = 29	Galle N = 29	Total N = 88
1. Technical skill development training	20	18	6	15	17	21	10	16
2. Entrepreneur/management training	4	2	-	2	20	7	7	11
3. No relevant training	76	80	94	83	63	72	83	73

Source: Survey Data, 2004

About 65 percent of the trainees who took part in the relevant training programmes perceived the training they received as useful (Table 4.8).

Table 4.8: Usefulness of the Training Given for Enterprise Engaged (% of trainees)

Value of Samurdhi	Samurdhi			SEEDS		
	Ratnapura	Kurunegala	Galle	Ratnapura	Kurunegala	Galle
Useful	40	78	65	69	84	40
Not useful	60	22	35	31	16	60

Source: Survey Data, 2004

Micro-finance institutions provide various credit plus services in the sample areas, although the activities are irregular and have less coverage. The level of coverage of various credit plus services provided by micro-finance institutions is given in Table 4.8. About 88 percent and 60 percent of the Samurdhi and the SEEDS clients respectively express that, they received no services other than micro-credit (Table 4.9). The coverage of the SEEDS in training is about 33 percent of the clients, but this orientation is not specific to the technical skills development of the relevant micro-enterprises. Establishment of forward and backward linkages is poor in both programmes although the SEEDS has done comparatively better.

Table 4.9: Credit plus Activities Provided by Micro-finance Institutions (% of clients)

Activities	Samurdhi			SEEDS			Galle	Total
	Ratnapura	Kurunegala	Galle	Total	Ratnapura	Kurunegala		
1. Training	11	7	4	10	63	17	20	33
2. Motivation through follow-up activities	6	-	2	2	20	10	-	8
3. Establishment of market links	2	3	-	1	-	3	3	2
4. Supply of raw material	-	-	-	-	-	3	-	1
5. None	81	90	94	88	30	75	79	61

Source: Survey Data, 2004

* Due to multiple answers given by respondents, percentage sums to more than 100

4.2 Impacts of Interventions

4.2.1 Changes in Enterprise Activities and Progress

The study examined the changes that followed in the business practices after micro-finance intervention in the fields of establishing linkages with new credit sources, access to cheap raw materials, access to new locations for product marketing and progress in product expansion and diversifications. About 36 percent of the Samurdhi clients and over 50 percent of the SEEDS clients have benefited from new credit sources. New business practices adopted by the SEEDS' clients in terms of linking with new raw material suppliers are three fold higher than those of the Samurdhi clients (Table 4.10). About 28 percent and 37 percent of the Samurdhi and the SEEDS funded enterprises respectively have achieved progress in their business in terms of increase in revenue and profit.

Selected activities for the enterprises and their performance sector-wise under the Samurdhi micro-finance programme indicate that, agricultural enterprises show the least progress and innovations (Table 4.11). Agricultural enterprises undertaken are generally the traditional income generating activities conducted at subsistence level in the sample areas. These enterprises have failed to impart new technologies and crop diversification for income generation. Therefore, agricultural enterprises under the Samurdhi programme have failed to generate sufficient turnover and profit for the survival of households, preventing the clients from re-investment of capital for further expansion of enterprises. In contrast, the agricultural enterprises undertaken by the SEEDS' clients have come up with a higher level of progress and innovations. Unlike in the case of the Samurdhi, a large number of clients attached to the SEEDS agro-projects have received a higher revenue and profit. The clients under the SEEDS agricultural enterprises have chosen high value crops for their micro-enterprises such as small-scale tea plantations, cultivation of ornamental flowers, vegetable and fruit crops. Access to new and cheaper sources of raw material leaves much to be desired by all sectors of micro-enterprises under the Samurdhi programme implying the dependency on available raw material within and out side the village. The guidance given to the Samurdhi clients for the access to new and cheaper sources of raw materials is far from satisfactory compared with the SEEDS' clients, leading to a situation of poor product diversification and the enterprises remaining stagnant over the years.

Table 4.10: Changes in Business Practices and Progress (% of clients)

Improvements	Samurdhi			SEEDS			Total	
	Ratnapura % (N=54)	Kurunegala % (N=55)	Galle % (N=53)	Total % (N=162)	Ratnapura % (N=30)	Kurunegala % (N=29)	Galle % (N=29)	
Change in credit source	22	38	45	36	37	52	66	51
New locations for raw materials	11	13	5	10	37	38	21	32
Expansion of production	37	16	24	26	17	28	21	22
Increase revenue	28	27	27	28	30	31	17	26
New locations for product marketing	11	18	14	15	20	21	10	17
Increase in profit	46	33	31	37	34	28	21	27

* Due to multiple answers given by respondents, percentage sums to more than 100

Source: Survey Data, 2004

Table 4.11: Sector-wise Performances of Micro-enterprises (% of clients)

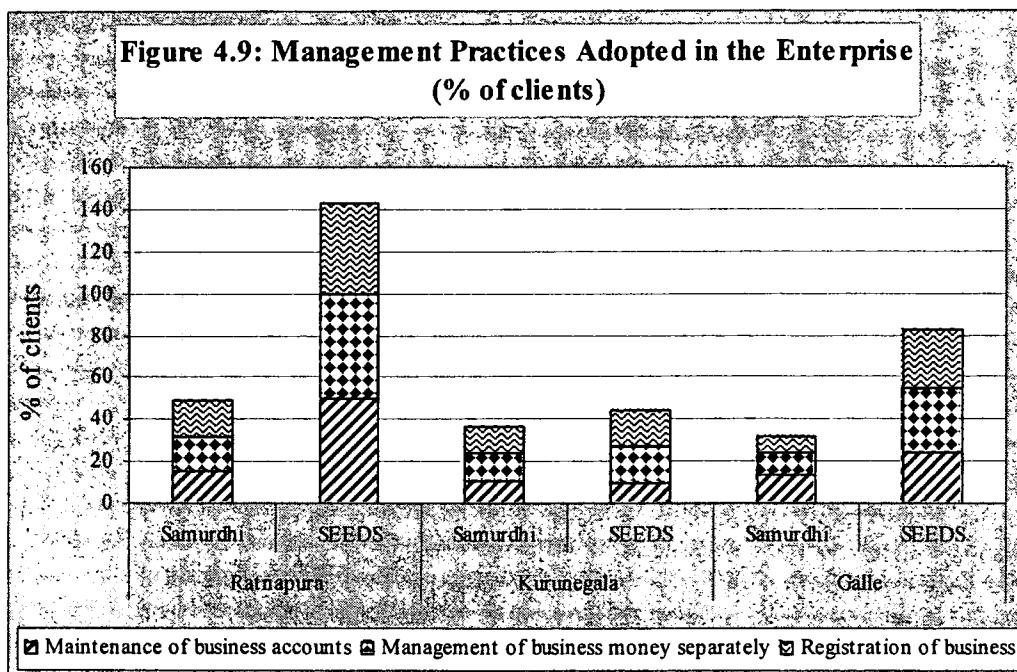
Improvements	Samurdhi				SEEDS				Small Industries (N = 49) %
	Agriculture (N = 10) %	Livestock & Fishery (N = 38) %	Marketing (N = 57) %k	Small Industries (N = 50) %	Agriculture (N = 7) %	Livestock & Fishery (N = 5) %	Marketing (N = 20) %		
Change in credit source	10	44	30	36	43	60	60	51	
New locations for raw materials	0	3	17	8	57	40	45	24	
Expansion of production	20	21	19	38	29	40	10	27	
Increase revenue	10	24	30	34	14	0	30	31	
New locations for product marketing	30	21	12	10	43	20	5	20	
Increase in profit	10	37	33	44	29	0	40	27	

Source: Survey Data, 2004

The study data also indicates that, the largest number of clients undertaking small industries and trade/sales related enterprises have upped their income as well as profit over the years under both micro-finance programmes. Livestock related micro-enterprises mainly include poultry farming and majority of them are benefited by out-grower schemes. An assured market, a steady supply of raw materials and the availability of the buyers (companies) have greatly contributed to the success of the livestock enterprises.

4.2.2 Adoption of Management Practices

Since the micro-finance interventions were considered as beyond the provision of credit support, the clients' performances on some selected basic enterprise management techniques were assessed. The findings are given in Figure 4.9. According to the findings, only about 12 percent of the Samurdhi clients are maintaining proper business accounts. The performance of the SEEDS' clients on the same aspect is much improved except in Kurunegala district. These findings highlight the importance of further intervention in providing more knowledge and skills on business accounting practices. In the meantime, about 85 percent of the Samurdhi micro entrepreneurs are unable or not used to make a distinction between the business finances and their money for household expenditure. The findings highlight weak financial control in all locations, although tailor made training programmes were implemented on business management and basic accounting skills. About 90 percent of the Samurdhi micro-enterprises are not formally registered in any government business registration authority. Adoption of management practices by the SEEDS clients shows a comparatively better situation, especially in Ratnapura district.

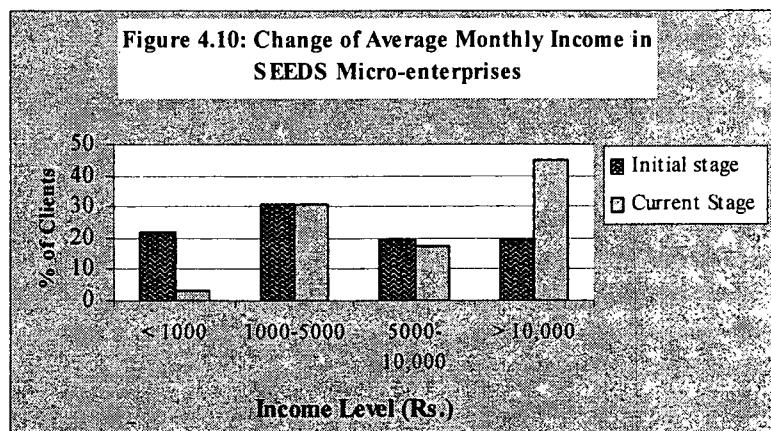


4.2.3 Growth in Enterprise Income

Average monthly income earned from micro-enterprises during the initial stages of business and the current situation were analyzed separately for the Samurdhi and the SEEDS funded enterprises (Figures 4.9 and 4.10). The findings clearly illustrate that, the number of people belonging to the higher income levels have increased enormously. The income growth is more prominent under the SEEDS funded micro-enterprises than under the Samurdhi enterprises. The clients who earn an average monthly income of Rs. 10,000 under the Samurdhi and the SEEDS enterprises form 42 percent and 58 percent respectively. About 48 percent of the Samurdhi entrepreneurs and the 62 percent of the SEEDS entrepreneurs earned an average monthly income of over Rs. 5,000. The findings illustrate that the majority of the sample enterprises were successful in generating a substantial household income with the intervention of micro-finance programmes. It was perceived that improved household income in turn has raised the living standards (Box No. 1) of the beneficiaries. Otero and Rhyne (1994) also elaborate similar results that, micro-finance services have significantly contributed towards alleviating poverty in many developing countries to a previously unthinkable scale.

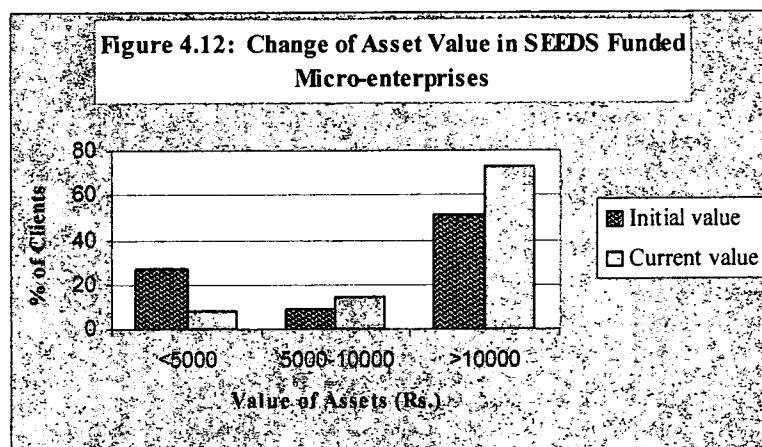
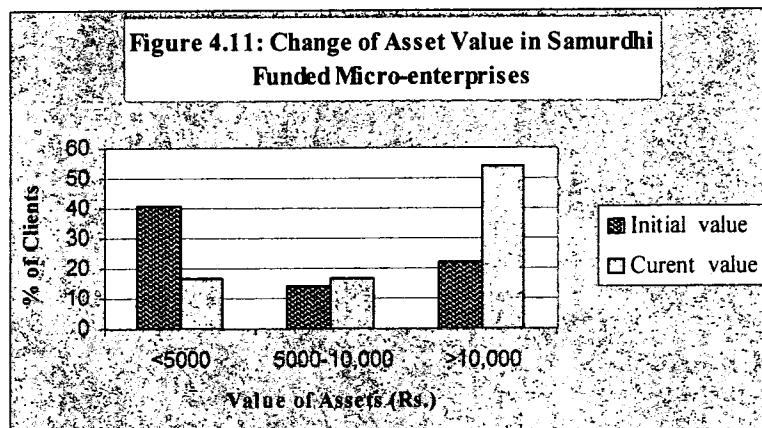
Box 1: Impacts of Micro-enterprise on Livelihood

Kamala is a 42 year old woman living in Ratnapura district. She has received a formal training in anthurium flower cultivation. She has been involved in anthurium cultivation and marketing during the last one year. She earned about Rs. 5,000 per month from the marketing of anthurium plants and about Rs. 2,500 from anthurium cut flowers. She has the potential and skills of expanding the enterprise, if there is no marketing problem. She urged micro-finance organization to establish some forward linkages to capture the huge market demand for anthurium cut flowers in the cities.



4.2.4 Improvements of Enterprise Resource Base

Total values of assets in the micro-enterprises at the initial development stage and at the time of study were compared. The findings illustrates that (Figures. 4.11 and 4.12), only about 22 percent of the Samurdhi micro-enterprises had an asset value of over Rs. 10,000 at the initial stages of development, but it has increased up to 54 percent of the total sample at present. The corresponding figure has grown from 51 percent to 73 percent in the SEEDS micro-enterprises. This is a clear indication of a substantial growth of the enterprise resource base such as machinery, implements, furniture and other assets. The growth has been achieved mainly by utilizing the micro-finances provided.



Three other indicators namely the increase in the labour profile of the enterprise, improvement in physical structure, and the enhancement in enterprise ownership (land or building) were used to assess the changes in the enterprise resource base. The findings are given in Table 4.12. In both micro-finance interventions, only 10-15 percent of the clients have achieved an improvement in the resource base in the given area. Since micro-finance loans are relatively small in amount and the above improvements need substantial investment as well as growth in scale of operation, the achievement level is rather low.

Table 4.12: Changes in Selected Enterprise Resources

Resources	Samurdhi		SEEDS	
	No.	% of clients	No.	% of clients
Growth in labour profile	16	10	12	14
Improvement in enterprise physical structures	14	9	5	6
Improvement in enterprise ownership	11	7	6	7

Source: Survey Data, 2004

CHAPTER FIVE

PROSPECTS AND CONSTRAINTS OF MICRO-ENTERPRISE DEVELOPMENT PROGRAMMES

5.1 Factors Affecting the Success of Micro-enterprises

There are two broad categories of unsuccessful micro-enterprises. Firstly, the enterprises which have failed or not functioning at all at the time of evaluation. Secondly, the enterprises still in operation but claimed by the entrepreneurs to be unsuccessful. These enterprises are not generating a sufficient income to meet the household expenses or to repay the loan. The present study considered these two categories under one group as unsuccessful enterprises. The enterprises, which are functioning and beneficiaries are considered them as successful business ventures are considered as successful enterprises for the purpose of analysis.

The results of the logistic regression analysis on factors affecting the success of micro-enterprises are presented in Table 5.1. Increased levels of clients' education, larger size of the first micro loan, investing the micro-finance on the existing enterprises are increasing the likelihood of an enterprise operating successfully. Further the management factors such as not allowing household expenditures to make a dent into the business finances and formal registration of enterprises lead to the success of these ventures. Among the type of enterprises, small industries related micro-enterprises and livestock enterprises have registered a significant success.

Table 5.1 Factors Affecting the Enterprise Success: Results of Logistic Regression Analysis

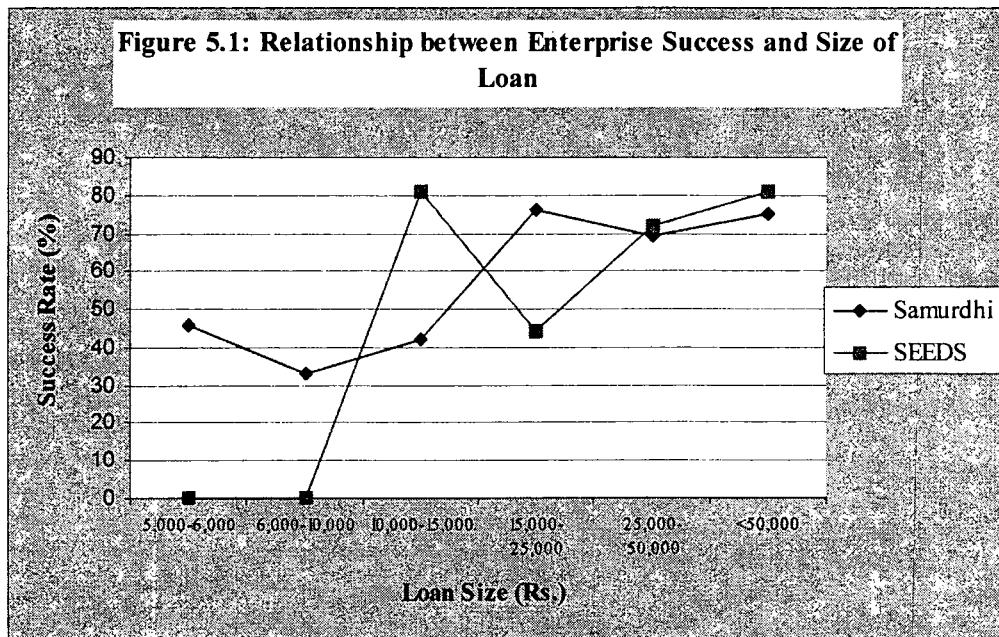
	β	SE	Exp(β)
Constant	-0.302	1.060	-
Gender	-0.395	0.342	0.674
Marital status	-0.393	0.656	0.675
Training received	-0.395	0.434	0.674
Education	0.095*	0.053	1.100
Family business	-0.107	0.361	0.899
Family workers	-0.091	0.348	0.913
Loan size	0.044**	0.023	1.045
Size of labour force	-0.069	0.077	0.933
Method of investment	0.909***	0.362	2.481
Provision of grant	-0.152	0.572	0.859
Agricultural enterprise	0.187	0.770	1.206
Industrial enterprises	0.939*	0.570	0.391
Trade related enterprise	-0.266	0.557	0.767
Animal husbandry enterprise	1.339**	0.719	0.262
Source of fund	-0.403	0.388	0.668
Maintenance of business accounts	0.578	0.942	1.782
Separation of business money	2.445***	1.042	11.532
Registered business	1.315**	0.627	3.723

Notes: *significant at 10 percent probability level, **significant at 5 percent probability level, ***significant at 1 percent probability level; -2 log likelihood = 254.13; Cox and Snell $R^2 = 0.274$; Nagelkerke $R^2 = 0.371$; Hosmer and Lemeshow test Chi square = 8.986

One of the important drawbacks perceived by the clients on current micro-finance programme is the inadequacy of the amount of the loan hardly sufficient either to start an enterprise or to

expand the existing enterprise. There are disagreements among the researchers on appropriate size of loan suited for the marginalized and the poor communities. Adams and Piske (1992) elaborate that, larger loans create a tendency among the entrepreneurs to adopt large changes in technology and production scale exceeding the managerial capacities and exposing them to more risks. However, they are not clear about the upper limit.

The present study found that, loans less than Rs. 10,000 have a success rate of less than 50 percent and more the amount of the loan more the tendency to achieve success (Figure 5.1).



As found in logistic analysis, the descriptive analysis also shows that, the clients who have invested the micro-finance on the existing enterprises rather than on new projects show a more success rate. The descriptive results are given in Table 5.2. It has been found that, the new enterprises are mostly launched by the jobless clients, but lack of experience and know how have adversely affected those enterprises in many instances. This again highlights the weakness in the credit plus approach adopted by the micro-finance programmes and indicates that the mere provision of micro-credit to the marginalized communities generally does not yield better results.

Table 5.2: Relationship between Enterprise Success and Method of Micro-finance Investment (% of responses)

	Samurdhi Success	Samurdhi Non-functioning/ un-success	SEEDS Success	SEEDS Non-functioning/ un-success
Investment on new enterprise	38	62	58	42
Investment on existing enterprise	57	43	69	31

Source: Survey Data, 2004

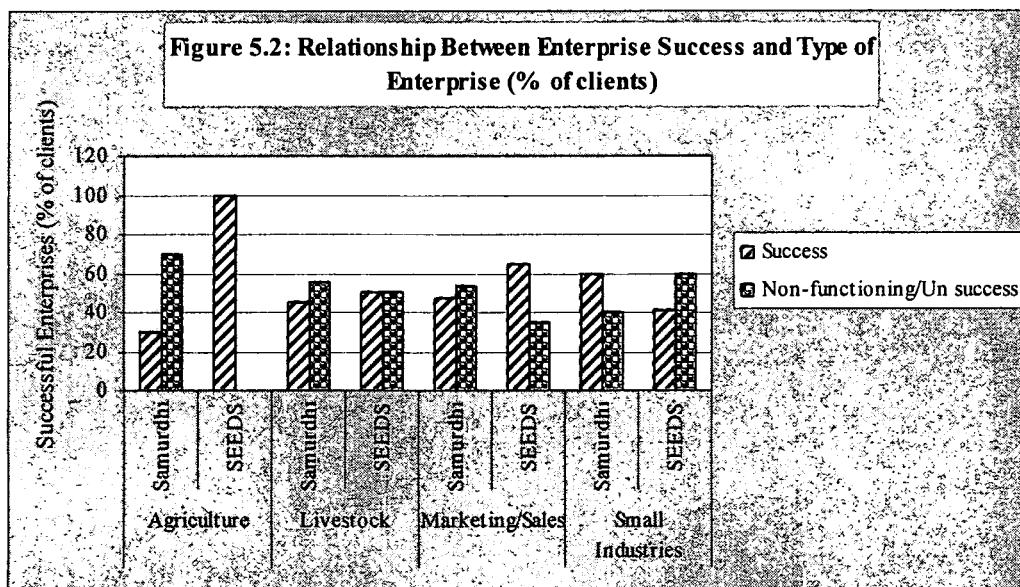
Another reason stressed by the new entrepreneurs about the failure of the enterprises is that, the loan was not quite enough to establish a viable micro-enterprise on a sustainable scale of operation. This situation is clearly proved by the level of income earned by the clients investing on new enterprises and on existing enterprises. Monthly income earned from the investment in existing enterprises is significantly higher than the new investments as shown in Table 5.3. About 75 percent of the Samurdhi micro-enterprise clients have been receiving an average monthly income of over Rs. 10,000 from the investment in existing enterprises, while only 45 percent of the clients had a similar income from new investments.

**Table 5.3: Level of Enterprise Income and Method of Micro-finance Investment
(% of clients)**

Enterprise Monthly Income (Rs.)	Samurdhi New Investment	Samurdhi Investment on Existing Enterprise	SEEDS New Investment	SEEDS Investment on Existing Enterprise
1,000 – 5,000	32	15	29	2
5,000 – 10,000	23	10	0	11
10,000 – 15,000	0	8	14	6
> 15,000	45	67	57	81

Source: Survey Data, 2004

Among the different types of micro-enterprises undertaken by the clients, small industries had over 50 percent of success rate among the Samurdhi beneficiaries as shown in Table 5.2. Agricultural micro-enterprises implemented by the SEEDS programme show a 100 percent success whereas in case of the Samurdhi projects, they were the least successful. Selection of high value cash crops with the correct agronomic practices and the establishment of proper marketing links are the main reasons for the SEEDS' success. Most of the livestock enterprises (poultry) are functioning under out grower schemes with assured forward and backward linkages, which is the major reason for the success.



Although the regression findings do not indicate a significant relationship with gender and enterprise success rate women entrepreneurs have gender specific constraints other than those experienced by all the entrepreneurs irrespective of gender. These are mainly behavioural barriers (low level of self-confidence and negative self-image), socio-cultural barriers (lack of family support, lack of mobility), occupational barriers (fewer opportunities to make linkages with the formal sector) and the role barrier (conflicting role demands and time constraints) (ILO, 2002). This also shows that the enterprise success rate is more or less equal between different sexes (Table 5.4). However, the success rate for male entrepreneurs is higher in the SEEDS programme (Please see Box 2).

Table 5.4: Relationship between Gender and Enterprise Success (% of clients)

Gender	Samurdhi		SEEDS	
	Success	Non-functioning/ un-success	Success	Non-functioning/ un-success
Male	52	48	82	18
Female	51	49	68	32

Source: Survey Data, 2004

Level of income earned from micro-enterprises by different gender groups is given in Table 5.5. The finding shows that, a higher percentage of male entrepreneurs under the Samurdhi programmes reached higher levels of income compared with those of their female entrepreneurs. Despite the fact that an equal number of female and male entrepreneurs perceived their enterprise as a success, comparatively low level of income earned by the female entrepreneurs is mainly due to socio-cultural barriers, which led them to restricted activities, such as handicraft, enterprises related to cooking and preparing food and sewing cloths. Nevertheless, women entrepreneurs often felt that they are empowered with the owning of an enterprise. With their role change in the society and their capacity to generate an additional income for household, expenses women command more recognition at the household and in the village.

Table 5.5: Level of Enterprise Income and Gender (% of clients)

Enterprise Monthly Income (Rs.)	Samurdhi		SEEDS	
	Male	Female	Male	Female
1,000 – 5,000	17	28	0	9
5,000 – 10,000	9	18	11	9
10,000 – 15,000	7	4	3	9
> 15,000	74	50	65	67

Source: Survey Data, 2004

Box 2: Gender Related Constraints

Aslin Nona is a 65 year old widow who lives in Galle district. She has two teenage daughters and no male members in the family. The family is involved in a cottage industry as a family tradition and their livelihood solely depends on income earned from the enterprise. They produced a variety of reasonably good quality products and have a good market potential among the local people and the tourists. However, they do not like to expand the industry to cater to the increased market demand and also to earn an additional income.

Gender related constraints such as role barriers and socio-cultural barriers have restricted them from expanding and improving the enterprise. The raw material for the industry has to be collected from jungle, which is a difficult task for Aslin at the age of 65 years, and she

The reason behind the success of a micro-enterprise varies, depending on the entrepreneurs. The main reasons for the success adduced both by male and female entrepreneurs are almost same as explained in Table 5.6 - commitment, dedication and hard work. Business tactics adopted in conducting the enterprises and entrepreneur skills are the second most reason for the success irrespective of gender. Therefore, credit is not to be considered as a panacea to cure all the illnesses of micro entrepreneurs. Such development programmes need to focus more on targeting the suitable clients to obtain better results.

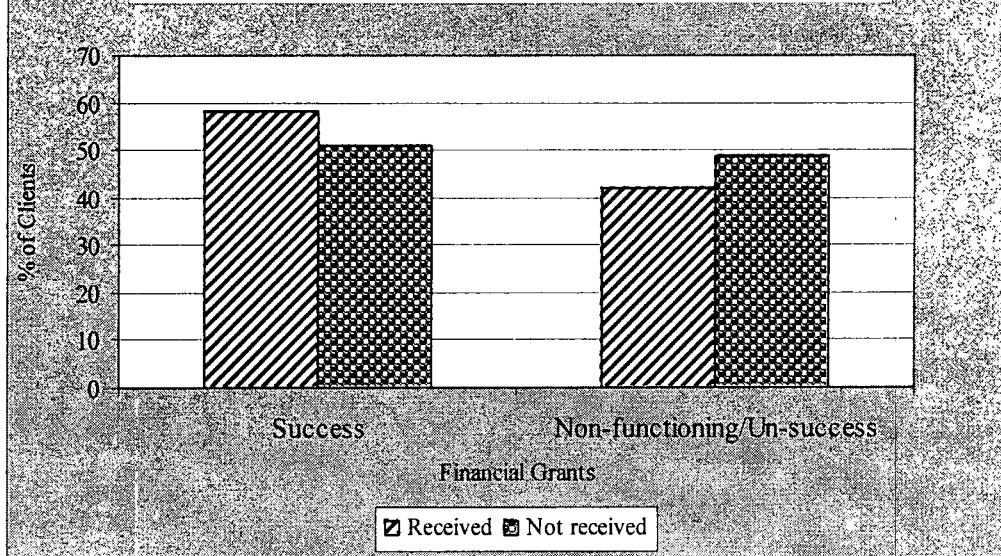
Table 5.6: Factors behind the Enterprise Success Vs Gender (% of successful entrepreneurs)

Reason	Samurdhi		SEEDS	
	Male	Female	Male	Female
1. Commitment and hard work	36	27	50	57
2. Business skills/tactics	16	12	26	15
3. Availability of family labour	14	7	12	20
4. Availability of micro-finance	7	4	6	18
5. Market demand for the product	2	3	8	5
6. Use of new technology	2	1	4	2
7. Profitable business/low cost of production	7	6	14	7

Source: Survey Data, 2004

The Sri Lanka Samurdhi Authority provided a financial grant to selected beneficiaries to purchase implements/equipments necessary for undertaking or improving the micro-enterprise activities. The present study attempts to see whether there is any relationship of enterprise success/failure with provision of financial grants. According to figure 5.3, the enterprise success rate does not differ with financial grant receivers and non-receivers for the Samurdhi micro-enterprises.

Figure 5.3: Relation Between Financial Grants and Enterprise Success



The grant receivers claimed that, they did not receive direct cash delivery in order to purchase appropriate equipment suited for the enterprise rather they were provided equipment through the officials of the Samurdhi Bank or the Samurdhi Development Officers. The equipments provided by some of the officers were reported as sub-standard and mismatch with their specific requirements. For example, a beauty saloon owner states that, the hair trimmer (machinery) provided through the Samurdhi grants was not suitable to be used at industrial level but only at domestic level. A poultry farmer complained that, only a portion of poultry feeding equipments allocated for his enterprise was handed over to him by the Samurdhi Development Officer. Both the clients and the officials claim that, targeting of grantees was not done properly and proper procedures and accountability should be established in providing grants. The direct cash grant on a reimbursement basis instead of providing commodities is more suited to incorporate beneficiary preference and priority attributing them a sense of respect and dignity.

5.2 Major Challenges Experienced in the Progress of Micro-enterprises

The poor and the marginalized rural people operate most of the micro-enterprises, which are generally small-scale in nature and vulnerable to external shocks and unexpected expenditures. The beneficiaries were asked to list the major negative effects experienced during the last 12 months, which largely hindered the performance of the micro-enterprises. The results are given in Table 5.7.

Table 5.7: Major Negative Effects took place for Micro-enterprise during last 12 Months

Effects	Samurdhi (% of clients)	SEEDS
Marketing problems	35	20
Difficulties in obtaining further loan	17	17
Medical/family expenses	16	7
Difficulties in obtaining raw materials	14	26
Unfavourable weather condition	12	8
Price increase of raw materials	10	17
Labour problems	8	9
Unsuitable business location	8	6
Bad debt	7	15
Production loses	7	7
Infrastructure problems	4	7
Decrease of producer price	4	1
Burden of loan repayments	4	0

Source: Survey Data, 2004

The major challenge mentioned by the majority of the clients is the problem related to marketing and receiving a reasonable price for the products. Difficulties in obtaining raw materials in required quantity, in time, at a reasonable price are also some serious snags experienced during the last one-year period. Therefore, micro-finance programmes have to take more initiatives in the establishment of forward and backward linkages. Lack of opportunities to obtain a further loan as required is the next hardship which negatively affected the growth of micro-enterprises.

Default of loan repayment by one of the group members and the larger repayment period specified to qualify for the next loan were the main reasons that hindered obtaining a further loan. The study focused on the specific marketing problem faced by the clients, as it was one of the foremost difficulties. The findings are given in Table 5.8. Lack of a stable price for the product is a main marketing problem for the clients under both micro-finance programmes. The enterprises have no capacity and technology to face the competition created by the open market, hindering their product marketing. However, the findings suggest that over 50 percent of enterprise operators of the SEEDS programme had no difficulties in product marketing, indicating their success in establishing forward linkages.

The ability of enterprises under different sectors to market all of their current level of production is displayed in Table 5.9. Only about 20 percent of the agricultural and the marketing/sales entrepreneurs had difficulties in marketing all of their products. Therefore, the problem of marketing perceived by the beneficiaries goes beyond the mere selling of their product. They are concerned about the volatile nature of price determination, market fluctuation, low level of marketing margin and irregular market links. Beneficiaries were inquired about the prospects of market expansion of the current production. Over 50 percent of the clients believe the possibility of expanding production except in case of the enterprises related to marketing/sales sector under the Samurdhi programme. Most of such enterprises are based on boutiques or movable sales units, which do not depend on their own production (Table 5.10).

Table 5.8: Difficulties in Product Marketing (% of clients)

Difficulties	Ratnapura (N = 54)	Samurdhi (N = 55)	Galle (N = 53)	Ratnapura (N = 30)	SEEDS Kurunegala (N = 29)	Galle (N = 29)
Not applicable	11	11	17	7	7	14
No difficulties	33	22	41	43	58	41
No stable price	31	38	31	20	17	27
Problems due to monopoly and branded products	13	18	4	17	10	14
No established market links	13	7	5	3	7	3
Sale on credit	9	9	11	7	3	7
Transport difficulties	6	5	2	17	3	-

Source: Survey Data, 2004

Table 5.9: Market Opportunities for Expanded Production (% of clients)

Type of Enterprise	Samurdhi			SEEDS		
	Yes	No	Not Relevant	Yes	No	Not Relevant
Agriculture (N = 10 and 7)	50	30	20	100	-	-
Livestock (N = 22 and 4)	77	18	5	50	50	-
Marketing (N = 57 and 20)	33	32	35	50	30	20
Small industries (N = 50 and 49)	58	24	18	69	20	11
Fishery (N = 16 and 0)	69	19	12	-	-	-

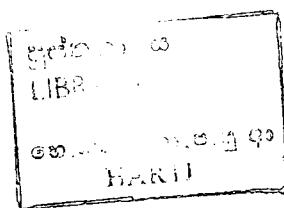
Source: Survey Data, 2004

Table 5.10: Ability to Market Current Production (% of clients)

Type of Enterprise	Samurdhi			SEEDS		
	Yes	No	Not Relevant	Yes	No	Not Relevant
Agriculture (N = 10 and 7)	60	20	20	100	-	-
Livestock (N = 22 and 4)	90	-	10	50	25	25
Business/Marketing (N = 57 and 20)	51	23	26	70	5	25
Small industries (N = 50 and 49)	68	10	22	84	6	10
Fishery (N = 16 and 0)	88	6	6	-	-	-

Source: Survey Data, 2004

The clients who have entrepreneur skills and capacity to face the unfavourable negative consequences have addressed the problem with a positive approach. The study analyses this approach adopted by the clients in the consequences of unfavourable condition experienced in the process of micro-enterprise development. The findings show that about 65 percent of the SEEDS clients have taken the positive approach in the face of bad experiences they admitted. Corresponding figure for the Samurdhi clients is 40 percent (Table 5.11). Rest of the people have either not reacted or taken a negative approach, underscoring the need for substantial development of entrepreneur skills and change of attitudes. The level of poverty and lack of knowledge and skills lead the clients to adopt a risk-aversion attitude. About 95 percent of the clients operating micro-enterprises successfully are not willing to obtain loan from banks other than the Samurdhi Bank or the Sarvodaya Bank. As correctly pointed out by Gunathilaka (1997),



the people who do not have a business aptitude and are of a risk aversion nature, are likely to adhere to their traditional occupations. She also describes that the majority of poor would fall into this category.

Table 5.11: Approach Adopted to Overcome Unfavourable Condition

Approach	Samurdhi			SEEDS		
	Ratnapura	Kurunegala	Galle	Ratnapura	Kurunegala	Galle
1. Positive	43	40	37	63	53	70
2. Negative	27	27	28	23	20	3
3. Nothing done	18	33	35	4	27	17
4. Not applicable	12	-	-	10	-	10

Source: Survey Data, 2004

The micro entrepreneurs who have completely failed were asked for the main causative factor for their failure. As elaborated in Table 5.12, the major reason for the failure of the 42 percent and 50 percent of the Samurdhi and the SEEDS enterprises respectively was related with marketing of their product. Insufficient income earned to meet the household expenses is the cause for the failure of a quarter of enterprises. Problem related to obtaining raw materials in time at a reasonable price has also contributed to the failures of 42 percent of the SEEDS un-successful enterprises.

Owners of the failed micro-enterprises were inquired about the support required to re-start their enterprises. About 50 percent of them declared that, they have no idea of re-starting of their enterprise. The other 50 percent stressed the need for a further loan. Some of the respondents wanted the development of rural infrastructures to have an easy access to market and other linkages. Knowledge and skill development, assured supply of raw materials, establishment of market links and systematic post monitoring were also mentioned by clients as necessary measures to facilitate the resumption of micro-enterprises.

Table 5.12: Reasons behind the Failures of Micro-enterprises (% of failed enterprise)

Reasons	Samurdhi	SEEDS
	N = 38	N = 12
(%)	(%)	
1. Marketing difficulties/unstable price	42	50
2. Unfavorable weather conditions	34	-
3. Household expenses	26	17
4. Delays/high price/difficulties in obtaining raw materials	24	42
5. Shortage of labour	26	25
6. Illness of the entrepreneur	16	-
7. Lack of interest in micro-enterprise	8	-
8. Bad debt and lack of capital	34	17

* N denotes the number of failed micro-enterprises

Source: Survey Data, 2004

5.3 Drawbacks of Micro-finance Programme

As discussed earlier, the majority of the clients are not willing to obtain loan from other financial institutions, because the micro-finance programme has features like lack of collateral requirements, easy procedure in obtaining loan, availability of banks at accessible distance, and the familiarity of the officials with the clients. About 45 percent of the clients declared that, they

have nothing to complain about the micro-finance programmes (Table 5.13).

However, some clients have expressed their dissatisfaction over the high interest rate compared with that of the market lending rates, imposition of fines even for a single day delay in the repayment of loan installment, and poor attitudes of loan officers. The beneficiaries are charged an annual interest rate of 20-24 percent, while the market interest rate is 10-12 percent. The clients under the SEEDS micro-finance programme mentioned that, the clients in the village have to go to the district office with three office bearers of the Sarvodaya Shramadana Society to obtain the approval for the loan, which incurred high transaction costs for them.

Table 5.13: Drawbacks of Micro-finance Programmes (% of clients)

Drawbacks	Samurdhi	SEEDS
1. None	46	43
2. High interest	19	21
3. Imposed of a fine for the delay	12	6
4. Required to go through a number of officers	10	11
5. Default by group members	10	9
6. Deduction of distress loan from granted micro-enterprise loan	10	6
7. Small size of loan	4	7
8. Loan size based on amount of group saving	3	6
9. Lack of post monitoring system	2	4
10. Lack of proper system to recover loan	2	1
11. High premium for large loans	1	3

* Due to multiple answers given by respondents, percentage sums to more than 100

Source: Survey Data, 2004

The Samurdhi Bank Managers and the SDOs perceived similar drawbacks in Samurdhi micro-finance programmes (Table 5.14). About 58 percent of the Samurdhi officials mentioned that, charging a 22 percent annual interest rate from the poor people is far from satisfactory. Small size of the loan is another major obstacle of micro-enterprise development as realized by the Samurdhi officers.

Table 5.14: Weaknesses of Samurdhi Micro-finance Programme (As Perceived by Samurdhi Officials)

Weakness	No.	%
N = 43		
High interest rate	25	58
Small size of loan	16	37
Lack of sufficient size of consumption loans	10	23
Weaker pre and post project monitoring	6	14
Determination of loan size based on amount of group saving	6	14
Un availability of proper skills development for entrepreneurs	4	10
Lack of supervision from higher levels	2	5
Procedural delays in loan disbursements	3	7

* Due to multiple answers given by respondents, percentage sums to more than 100

Source: Survey Data, 2004

CHAPTER SIX

CONCLUDING REMARKS

6.1 Major Findings and Lessons Learned

The majority of sample households consisted of 4-5 members. About 94 percent of the clients are literate, with most of them having an education less than Grade 10. Beneficiaries of the SEEDS are better in this respect. Gender distribution of the sample beneficiaries is almost equal. Livelihood of about 60 percent of the families is self-employment activities. Over 50 percent of the clients have no secondary source of income, while 20 percent undertake self-employment as a secondary employment.

Monthly income of about a quarter of the Samurdhi micro entrepreneurs is less than Rs. 2,500. Level of the income of SEEDS clients is comparatively higher. About 75 percent of the Samurdhi clients still depend on government poverty alleviation programme. The corresponding figure for the SEEDS clients is 30 percent.

Sales or maintenance of small boutiques or mobile type of marketing is the major enterprise engaged by the clients. Most of the micro-enterprises undertaken can be categorized as small industries. Over 50 percent of these are operated without any permanent physical structures, within the premises of houses of the entrepreneurs or in temporary structures.

The size of first loan under the Samurdhi programme ranges from Rs. 6,000 – 8,000 whereas it is double that amount for the SEEDS clients. Over 80 percent of them have received over Rs. 10,000 as their first loan. Generally, the finances provided as the first loan is not sufficient to develop sizeable micro-enterprise other than a household level cottage industry. This has been one of the reasons for the failure of micro-enterprises, especially for newly started enterprises. Data on the utilization of micro-finance provided for the development of micro-enterprise shows that less than 50 percent of first micro-finance loan has been invested on the purpose for which it was given. About 10 percent and 3 percent of the Samurdhi and the SEEDS clients respectively have not invested the money at all on micro-enterprises. Non-availability of credit over Rs. 2,000 under the Samurdhi programme to meet the consumption/emergency household requirements and the poor targeting are the major reasons for the mis-use or under utilization of micro-enterprise credit.

About 60-70 percent of the Samurdhi clients are already involved in micro-enterprises and 25-30 percent of the clients have utilized the micro-finance to start new enterprises. About 45 percent of the clients have selected the micro-enterprise on the basis of their own experience and knowledge gained from tradition or family involvement in the respective business. Adoption of enterprise, depending on skills acquired through formal training is true for only 3 percent of the Samurdhi clients, while it was three times higher under the SEEDS programme.

About 65 percent and 85 percent of the Samurdhi and the SEEDS enterprises respectively were functioning at the time of evaluation. The Samurdhi programme target only the poor segment of the community, but SEEDS adopts a different approach to include various segments of the society not solely the poor and the vulnerable. The approach of development under both programmes is based on the concepts of community participation, formation of small groups, group based savings, lending, and sharing of other resources and formation of village societies. The SEEDS has established a system for the skills and knowledge development of beneficiaries, but the Samurdhi has a lot to learn in this area. Well-trained field staff under the SEEDS programme conducts the community mobilization and enterprise promotion, but the Samurdhi

programme conducts the community mobilization and enterprise promotion, but the Samurdhi lacks of qualified animators in most places.

About 60-70 percent of the clients reported that, the activities of the animators are limited to making arrangements to disburse the loan from respective banks. The provision of necessary guidance and establishment of external linkages are seldom attended to by the animators. Post monitoring of enterprises also has been mainly limited to the recovery of the loan. The animators also lack an awareness of the methodology of post monitoring and the absence of a systematic established procedure is a main drawback hindering the routine post monitoring of enterprises.

Active functioning of small groups is a key factor for the micro-finance loan disbursements. However, changes in the composition of the group members and malfunctioning of small groups are prominently observed in the Samurdhi programme. Removal of the Samurdhi subsidy and formation of small groups from heterogeneous social and economic standings are identified as major reasons for the group failures. The animators have to play a more active role in mobilization of people and group strengthening.

The micro-finance programmes which mostly deal with the poor and the marginalized communities also are characterized by the lack of skills and training from external support services. Therefore, these programmes need to be structured to provide credit plus services including training, motivation, establishment of foreword linkages and backward linkages. However, only 20 percent and 33 percent of the Samurdhi and the SEEDS clients respectively have received relevant training, which according to about 35 percent of the trainees, the training provided was not useful for the enterprise they are engaged in. Both programmes are far from satisfactory in the establishment of forward and backward linkages. The services of the SEEDS in this area are comparatively better.

After the intervention of the micro-finance programmes, 42 percent, 45 percent and 60 percent of the Samurdhi clients have expanded production, received increased revenue and realized increased profit respectively. Improvements in agricultural enterprises by the Samurdhi clients have been achieved by only 10-20 percent of clients in terms of increase of income and profit. However, agricultural enterprises conducted by the SEEDS clients show a higher progress in generating income and expansion of production. The selection of high value crops (fruits, vegetable and floriculture) by the SEEDS clients is the reason for their better success. The Samurdhi clients have resorted to the selection of traditional crops with poor results.

Adoption of business management practices such as maintenance of proper business accounts, separation of business money from household expenditures and legal registration of business have been practiced to by 10-15 percent of the Samurdhi clients and 25-30 percent of the SEEDS clients.

About 22 percent of enterprises had a total asset value of over Rs. 10,000 at the initial stage of development, but the number has increased up to 54 percent at present, as a result of micro-finance investment on machinery, implements, furniture and other movable property. Growth in labour profile and improvement in physical structure of enterprise has been achieved by about only 10 percent of the clients.

The study claims that, enterprise success and gender has no significant relationship under the Samurdhi funded micro-enterprises. However, the level of success for male owned enterprises is higher in the SEEDS. Nevertheless, a higher percentage of male owned enterprises generate more income than in the case of female owners. Socio- cultural and role barriers of female have

restricted them to undertake limited types of enterprises to a limited extent. The entrepreneurs who have put in commitment and hard work and adopted business skills/tactics have gained more successful results irrespective of gender. Therefore, micro-enterprise development programmes need to focus more on targeting the suitable clients to obtain better results.

Small size of the loan provided by micro-finance programmes is a major limitation for successful implementation of micro-enterprises. The study finds that, the entrepreneurs who have received less than Rs. 10,000 as a loan have a success rate of less than 50 percent but instances of increased loans have registered a better success.

The study found that, the financial grant provided for the selected Samurdhi clients is not properly implemented and equipments supplied under the grant are reported as substandard and unsuitable. Enterprise success rate between grant receivers and non-receivers shows no significant differences.

Among the different sectors of enterprises, small industries under the Samurdhi programme show higher success rate, while agricultural sector is the most successful for the SEEDS clients. The study results also show that, 57 percent and 69 percent of the clients of the Samurdhi and the SEEDS respectively who have invested on existing enterprises achieved success. However, success from new investments of the Samurdhi is only 38 percent, while it is 58 percent for the SEEDS. Lack of knowledge and skills, insufficient loan size to run the enterprise and weaknesses in the credit plus services have resulted in the failure of newly started enterprises.

Marketing problems experienced were mentioned as the major aspect negatively affecting the development of micro-enterprises during the last 12 months as perceived by 35 percent and 20 percent of the Samurdhi and the SEEDS clients respectively. Barriers in obtaining further loans, unexpected family expenses, difficulties in obtaining raw materials have also adversely affected the performance of enterprises.

About 45 percent of the clients had no complaints about the current micro-finance programmes. The major concern of the rest of the clients about the micro-finance programmes is the high interest rate, which is almost double the current open market interest rate. Although the cost of lending is much higher for the small scale loan programmes, this is a problem when the programme is not adequately providing credit plus services, and the clients are operating at subsistence level but in a highly competitive market environment.

6.2 Policy Implications

1. Focus of micro-finance programme for micro-enterprise development should not be the poor, but the 'entrepreneurial poor'. Different strategies are needed to address the problems of the poorest of the poor.
2. Attempts made by the programmes to develop all micro-finance clients into entrepreneurs without considering their skills, knowledge, experience and risk taking behaviour have been detrimental in achieving the expected goal of empowering poor people.
3. Although the main target group is the poor and the marginalized communities, they are not a homogeneous group. The differences in the different segments of the community have to be properly identified and programmes targeted in such a way.
4. Knowledge and skill development programme cannot be undertaken as common programmes for all. These have to be implemented considering the clients' requirements, educational background, previous training received and the proposed enterprise.

5. Establishment of an appropriate institutional setup and capacity development of the field staff for the skills and knowledge development of the community is essential. The SEEDS findings implied that, provision of micro-finance to the targeted poor has been effective due to the availability of systematic institutional and management set up.
6. Effectiveness and coverage of credit plus services needed to be increased for better results, especially in the field of training and establishment of forward and backward linkages. Devereux *et-al* (1987) also argues that, micro-finance is effective only if used in conjunction with credit plus services.
7. Interest rate of the micro loans should be kept at a reasonable rate considering the vulnerability and subsistence nature of enterprises operated by the marginalized communities. It is unreasonable to recover the cost of maintaining politically appointed low potential staff, who are unable to deliver the expected services to the beneficiaries.
8. Interventions can be made by micro-finance institutions to form an enterprise network similar to the enterprises in a region or district in order to reduce risk, increase bargaining power, reduce cost of production through bulk purchases and to assure a reliable market. For example, coir products manufacturers in Galle district can form a network of enterprises to receive above benefits and a number of other related advantages.
9. Small size of loan for micro-enterprise development is one of the major constraints affecting the level of success. Authority should be given to the Samurdhi Bank Managers to determine the subsequent loan requests of potential and progressive entrepreneurs rather than adopting a uniform formula to the entire community.
10. Micro-finance institutions should be able to consider the comparatively larger loan requests of potential entrepreneurs with the collateral of their own assets. Alternatively the institutions can develop the linkages with commercial banks, if they are lacking capacities to handle the larger loan requests.
11. Strategies should be drawn to restructure the failed small groups without penalizing the prospective candidates in the failed groups.
12. It is recommended to establish linkages between the village level organizations (Samurdhi/SEEDS) and institutions like Industrial Technology Institute (ITI), Industrial Development Board (IDB), Export Development Board (EDB), Practical Action, and vocational training institutes in order to gain access to information on new technologies, new product development, new production process and possible product diversification. The linkage helps to reduce the cost of production, improve the product quality and increase the profit margin.

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