Microfinance Institutions in Sri Lanka: Examination of Different Models to Identify Success Factors

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FOREWORD

Today, microfinance is an accepted and a highly recognized approach for providing financial needs of the poor across the world. Poor farmers, micro enterprise operators, artisans and other poor groups face numerous challenges when obtaining credit for their financial requirements from other formal and informal sources and this scenario has led to evolving of this type of approach and operational strategies that fall in line with that.

Different institutional arrangements and operational procedures have been experimented to provide credit under microfinance concept to small farmers and other relevant parties. Government institutions as well as the private sector institutions including NGOs in Sri Lanka have accepted and adopted microfinance approach and financial methodologies coming under that to provide credit for smallholder farmers and other poor groups that are willing to engage in savings and micro enterprises.

Farmer bank is one such financial scheme initiated in 1990s. When considering the duration which it is in operation, the progress it has achieved is minimal. On the contrary, certain microfinance schemes initiated by NGOs as well as Community Based Organizations (CBOs) are well operating, showing remarkable results in terms of savings, delivery of credit to satisfy the members' needs and providing other services such as insurance and welfare.

The aforesaid successfully developed microfinance schemes provide lessons and experiences on local innovations and best practices in terms of organizational arrangements, operational procedures, rules and regulations for microfinance schemes/ institutions. This study has attempted to capture those successful institutional arrangements and operational procedures from selected well operating microfinance institutions belonging to two models—centralized and community banking—for recommending them to adopt for developing the farmer bank. The findings and recommendations are very valuable not only for the benefit of farmer bank, but also to adapt to any microfinance scheme or institution.

I am very thankful to the research team: Mr. J.K.M.D. Chandrasiri, Additional Director of the institute and Mrs. Dilupa Bamunuarachchi, Research Officer for undertaking this study.

Haputhantri Dharmasena
Director / Chief Executive Officer

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J.K.M.D. Chandrasiri
Dilupa Bamunuarachchi

EXECUTIVE SUMMARY

The main objective of this study was to identify more effective organizational arrangements and operational procedures of well performing micro finance institutions (MFIs) belonging to different models to apply them for less performing ones. The study was based on four well performing MFIs under two models namely, community and centralized banking. *Janashakthi* Banking Unit in Pallemalala in Hambantota and Cooperative Women's Bank in Nagaswewa, Dehiattakandiya were selected as community banks while Livelihood Development Credit Scheme of YWCA in Batticaloa and the Farmer Bank in Dambulla were selected as centralized banks. Primary data collection was done by administering a structured questionnaire to the members of the banks and their key informants and through group interviews. The data analysis was carried out using descriptive statistical methods.

The study findings revealed that banks under the community banking model have well performed than banks under the centralized banking model in terms of promoting savings, delivery of credit and recovery and other services like insurance and welfare services to the satisfaction of their members. Among organizational elements contributed to this success, the well functional small group system of the members, which provides the repayment assurance (group collateral) for their members' loans was there at Janashakthi Bank and Women's Cooperative Bank concerned. In Women's Cooperative Bank, Credit Sub Committee (among twelve sub committees for various subjects) which is involved in facilitating credit thorough investigations about suitability to provide credit and monitoring the repayment by reminding about late payments, has become a better element to release credit earlier at low cost and also to recover them easily.

Other factors that led to the success are: taking all members' participation for outlining of rules and regulations of the bank in addition to managing and monitoring of their activities, managing the bank by a paid staff appointed out of well performed members, providing opportunities to every member to reach higher positions of the management by performance and encouraging all staff by setting targets for saving promotions. Further, credit delivery, their recovery and earning profit and motivating them by linking their salary increments and promotions with their performances, measuring and grading members, groups and banking units on their performances and assuring loans and other benefits on that basis (different type and size of loans), attempting to win the trust of the members about the bank by ensuring transparency by discussing all activities in small groups and other forums like monthly meetings of all members and the management committees and having the accounts audited by internal as well as external auditors were also vital steps. Expansion of credit facilities for production as well as consumption activities like emergency situations, household festivals, purchasing household items and lands and settling loans early, which is more beneficial to members and performing of other functions like conducting alcohol and drug prevention

programmes and providing of other social cultural and religious services like repairing and construction of roads by spending money or organizing *shramadana* campaigns, alms givings and *pirith* ceremonies also contributed. Commencing of insurance schemes for the benefit of their members and others in their families also functioned as a mechanism for the members to remain with the bank.

The study recommends taking into consideration the organizational elements and other factors that led to the well performance of the MFIs under community banking model to develop other MFIs which are not performing well.

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LIST OF ABBREVIATIONS

ARPAs	-	Agricultural Research and Production Assistants
ADC	-	Agrarian Development Center
CBO	-	Community Based Organizations
DANIDA	-	Danish International Development Agency
DO	-	Divisional Officer
FB	-	Farmer Bank
JBS	-	*Janashakthi* Banking Scheme
MFI	-	Micro Finance Institutions
PSS	-	*Praja Sahayake Seways*
ROSCAs	-	Rotating Savings and Credit Associations
SEEDs	-	*Sarvodaya* Economic Enterprises Development Scheme
SHG	-	Self Help Group
UNICEF	-	United Nations Children's Emergency Fund
UNCHS	-	United Nations Commission on Human Settlements
WCB	-	Women's Cooperative Bank
WDF	-	Women's Development Federation
YMCA	-	Young Meris Christian Association
YWCA	-	Young Women's Christian Association

CHAPTER ONE

Introduction

1.1 Microfinance Institutions

Microfinance is a new term that came into existence, related to the financial market (especially after mid 1980s) with the wide expansion of financial services that are accessible to poor throughout the world. It is a new approach in providing financial services to the poor who are excluded from services of formal financial institutions. Normally the poor cannot much benefit from formal financial institutions as they cannot fulfill the required needs of them, to obtain their services, such as physical assets with clear deeds to use as collaterals**.** Due to limited access to formal financial services, the poor had developed a wide variety of informal, community-based arrangements to meet their financial needs. In addition, over the last three decades, an increasing number of formal sector organizations (non-governmental, government, and private) had been created for the purpose of meeting the financial needs of the poor. Microfinance is the term that is generally used to refer to such informal and formal arrangements offering financial services to the poor (Brau & Woller, 2004).

According to Ledgerwood (1998) the microfinance generally includes savings and credit but can also include other financial services such as insurance and payment services. The terms microcredit and microfinance are often used interchangeably. Hence it is important to highlight the difference between them. Microcredit refers to small loans, but microfinance supplements the loans with other financial services such as savings, insurance, remittances as well as other services such as advisory and technical services. Microfinance is defined as provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low income households and their income earning enterprises (ADB, 2000).

There are different institutional arrangements evolved in different countries to deliver micro finance. These institutional arrangements have different operational mechanisms for mobilizing people to promote savings and quick delivery of services such as credit supply and their recovery and also for generating security of loans. Among these credit lending models group model which consists of *Grameen* Solidarity Group model (experimented in Bangladesh) and Self Help Group (SHG) model (which is more popular in India), Community Banking/Village Banking Model and cooperative model are more popular.

1.2 Microfinance Institutions in Sri Lanka

In Sri Lanka also numerous micro finance services have expanded especially since 1980s. Some of these have been initiated with the sponsorship of the government institutes and programmes while some have been initiated with the sponsorship of NGOs and INGOs. *Samurdhi* Banking Scheme, *Govijana* Bank Pilot Credit Scheme, Women's Society Based Revolving Fund Credit Scheme, *Bhagya* and *Isura* Credit Schemes are some of the micro financing schemes/institutions initiated with the sponsorship of government institutions, banks and development programmes. Credit schemes such as SEEDS (*Sarvodaya* Economic Enterprises Development Scheme, JBS (*Janashakthi Banku Sangam*), SANASA and *Gami Pubuduwa* have been initiated by local NGOs and private commercial banks while the credit programmes operated by *Seva Lanka* and CARE have been initiated with sponsorship of foreign NGOs.

Observations revealed that these micro credit institutions and programmes belonged to different models. For example, the Farmer Bank Pilot Project Credit Scheme and *Samurdhi* Bank Finance Scheme are based on SHG models and also operating as individual banking units linked with the centralized management system. *Bhagya* and *Isura* credit schemes have been implemented under model "intermediaries' involvement" where commercial banks and development banks being involved as facilitators. SANASA operates under the Village Banking Model.

1.3 Research Problem

Empirical evidence shows that the microfinance schemes belonging to different models with different operational mechanisms indicate different levels of performances in their functioning. For example some are well functioning while some are below the par in terms of achieving their general objectives (like promotion of savings, providing of credit and other services), sustainably handling of the credit system and more expansion of its services into a wider group. In the case of Farmer Bank Agricultural Credit Scheme established with the sole purpose of fulfilling the credit needs of poor farmers in the whole country (with a coverage of over 550 bank branches), this can be observed. For example, under Farmer Bank Agricultural Credit Scheme the SHGs are not functioning well, affecting the assurance of collective responsibility for loan repayment and risk. Under the system some members do not repay the loans in time depriving other members of obtaining loans. The final outcome is many member as well as non-member farmers are dissatisfied over the SHG system of the Farmer Bank, which resulted in a stagnation of its development in terms of growth in membership, accumulation of savings and delivery of credit (Chandrasiri, 2013). However, according to the authors' experience the SHGs of *Janashakthi* Banking scheme in Hambantota and SANASA societies that operate under different rules, regulations and operational mechanisms are functioning well.

The research issues that needed to be investigated under this study were; what institutional and operational mechanisms and procedures have been effective for proper functioning of microfinance institutions belonged to different models? What could be learned from the well functioning MFIs to develop the improperly functioning ones? This study addressed those issues in order to explore the effective organizational elements and operational mechanisms from successful microfinance institutions for utilizing them for strengthening the Farmer Banks and any other microfinance institution to expand the services provided from them to the poor farmers in the country.

1.4 Objectives

The main objective of this exercise was to study MFIs/programmes under different models for identifying more effective organizational arrangements and operational procedures directed them to function well for achieving their objectives. The specific objectives are:

1. To study the organizational structure, institutional arrangements and operational procedures of selected microfinance institutions of different models

2. To examine the effectiveness of their organizational structures, institutional arrangements and operational procedures on their performances

3. To highlight effective institutional arrangements and operational procedures to adopt for the success of available MFIs, in addition to examining the possibility of adopting them with FBs.

1.5 Research Methods

The study was based on both primary as well as secondary data. The primary data collection methods of the study were discussions with the professionals in this field, key informant interviews with the officials of the selected micro finance institutions/ programmes, focus group discussions with the beneficiaries of the referenced MFIs/programmes. A survey of the members of those institutions was also conducted to obtain primary data. Semi-structured question guides were utilized for collecting data from key informants and focus group discussions. For obtaining data from a members' sample of relevant microfinance institutions a structured questionnaire was administered. For the sample, 40 members from each MFI were selected.

Literature on microfinance available in research studies, books, journal articles and other publications was utilized as secondary data. Available information about the operation and progress of the selected MFIs was also obtained from progress and statistical reports and other literature such as annual reports of those MFIs.

1.6 Selected Microfinance Institutions

Successfully operating four microfinance institutions belonged to different models such as community banking (*Udamalala Janashakthi Banku Sangamaya* in Weligatta from *Janashakthi Banku Sangam* credit scheme in Hambanthota and Women's Cooperative Society Limited in Nagaswewa in Dehiattakandiya from Sri Lanka Women's Development Services Cooperative Society Ltd) and Credit Programme associated with Young Women's Christian Association (YWCA) in Batticaloa and Dambulla Farmer Bank from Farmer Bank (FB) Agricultural credit scheme was selected for the study. A sample of 40 member beneficiaries from each selected institution were selected randomly for the sample survey to gather views of those beneficiaries about the rules and regulations and the services offered and obtained from those institutions.

1.7 Analytical Methods

Data and information were analyzed using descriptive statistical methods such as frequencies, averages, percentages, tables and graphs.

1.8 Organization of the Report

The first chapter deals with the background of microfinance, the study problem and the rationale of the study, objectives, study methods and analytical ways. Chapter two is the literature on microfinance elaborating on what microfinance is, different models and the functions of different organizational elements and rules and regulations coming under different models. Chapters Three to Six present a detailed picture on each of the MFI selected for the study. This includes organizational elements and operational procedures and other details of them such as members, credit and saving facilities. Chapter seven is reserved to explain how organizational structures, institutional arrangements and operational procedures have affected their performance. The final chapter, chapter eight presents conclusions and the recommendations of the study.

CHAPTER TWO

Literature Review on Microfinance Institutions

2.1 Introduction

This literature review sets out a brief view on microfinance, specific characteristics and benefits of microfinance credit services, different microfinance models and their specific characteristics and procedural arrangements linked with them. For this purpose, local as well as international literature available in print and electronic media was utilized. As print literature, books, research reports and articles on microfinance were utilized and as electronic media the internet was utilized.

2.2 Microfinance

Microfinance is the provision of a range of financial services including savings, credit, payment services, money transfer, and insurance by the specifically designed financial institutions for the poor and low income earners (CGAP, 2006) who are not benefited from banks and other formal financial institutions. Under conventional banking system the poor are not considered worthy bank customers. The poor are not able to satisfy banking requirements like presenting of physical assets as collaterals. Further providing financial services to poor are expensive and unprofitable due to high transaction cost and small loan volumes (Claessens, 2005). Hence, under the term microfinance various lending methods have been experimented to establish viable financial systems/ organizations that poor can access to satisfy their financial needs without much burden.

As expressed by Simanowitz (2002) in order to improve the outreach of the financial institutions they must design appropriate products based on the needs of the poorest and they must ensure such products are delivered in a cost effective manner. Some features of the microfinance savings and credit schemes are able to meet the needs of the very poor. For example, to tackle the issue of the poor’s inability to provide physical collateral microfinance institutions focus on using social collateral, via group lending. According to Wenner (1995), group lending encompasses a variety of methodologies, but all are based on the principle of joint liability and the group takes over the underwriting, monitoring and enforcement of loan contracts from the lending institution. Under the joint liability system each group member is responsible for the loans of other group members. Ghatak M (1999) says group lending increases repayment rates and welfare via social collateral and peer selection of members of the lending group. Islam (1995) points out other benefits of group lending such as the possibility of charging lower interest rates relative to conventional lenders and increased repayments.

Zohir and et al. (2004) state that the interaction between group members of the MFIs can create co-operation and trust that not only facilitates the microfinance activities, but also contributes benefits beyond the service provided, such as a greater sense of community, trust and reliance on the group in times of crisis. These networks can lay the foundations for other social capital developments in the community. They state that examples of cultural impacts of social intermediation that affect the greater community could be a change in attitude of society towards the acceptable age of women's marriage, domestic violence, dowry, etc. (Zohir and et al., 2004). Hence, according to same authors the impact of microfinance projects should not just focus on the individual and household levels if the true impact is to be assessed.

According to Brau & Woller (2004), MFIs provide similar service to their customers as formal sector institutions but the scale and method of lending vary. As they further emphasize micro finance programmes and policies are characterized by relatively small loans. The repayment period is relatively short. Women are a major beneficiary of their activities. The administrative structure is generally light and the entire process is participatory in nature. The overall interest rates are relatively high.

According to Sanderatne (2002), microfinance is looked upon as a means of strengthening incomes of the poor, enhancing their self-reliance, improving employment opportunities, reducing gender inequality, eliminating the feeling of social exclusion and even means of increasing national income. Thus it has several benefits. Micro-credit policies are based on the premise that the poor have skills that remain unutilized or under-utilized. Poor people remain poor not due to a lack of skills but rather due to the lack of an enabling environment which can create opportunities for the poor to use their skills in order to improve their socio-economic conditions. According to some scholars (Jean-Luc 2006) non- access of poor people to credit to use as working capital as well as investment for their small business also keeps them out of using their skills and capabilities to come out of poverty. In order to end this, many developing countries have been providing credit to the poor through microfinance schemes. The experience of several Asian, African as well as Latin American countries could be a typical example for this (Meyer, 2002).

There are different institutional arrangements evolved in different countries to deliver microfinance. These institutional arrangements have different operational mechanisms for mobilizing people to promote savings and quick delivery of services like credit supply and their recovery and also for generating security of loans. Among these credit lending models group model which consists of *Grameen* Solidarity Group model and Self Help Group (SHG) Model, Community Banking/Village Banking Model and cooperative Model are more popular.

According to Sanderatne (2002), microfinance institutions vary in size, outreach, sources of funding, objectives of lending, clientele, procedures and the degree of formalization. As mentioned by Central Bank of Sri Lanka (2010), operating microfinance institutions can be categorized as savings associations, rotating saving clubs, credit associations, funeral or death donation societies and savings and credit clubs or groups.

There is a lot of information in the literature about different microfinance institutions and lending models, their procedures and characteristics. These literatures are based on experiences obtained from microfinance institutions throughout the world. According to microfinance gateway (www.microfinance gateway) and some other literature there are about 14 microfinance credit lending models of which some popular ones are included here.

i. Associations

An association is formed by the poor in the target community to offer microfinance services such as savings, credit and insurance to themselves. These associations can be composed of youth and women and can be formed around political, religious or cultural issues or can be formed to create support structures for microenterprises and other work-based issues (www.microfinance gateway).

ii. Community Banking / Village Banking Model

Community Banks / Village Banks are formal versions of “associations” and are created by members of a target community, who wish to improve their living standard and to generate employment by offering microfinance services (www.microfinance gateway).

Community Banks are usually formed by extensive help from NGOs, government organizations and programmes that train the community members in various financial activities of the community bank. The sponsoring microfinance institution lends loan capital to the community bank which in turn lends money to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. This model treats the whole community as one unit (www.microfinance gateway).

Village Banks are community based credit and savings associations typically consist of 25 to 50 low income individuals. Initial capital for Village Banks may come from an external source, but the members themselves run the bank. The bank selects their members, elect their own officers, establish their own by-laws, distribute loans to individuals, and collect payments and savings. Their loans are backed by moral collateral (the whole group stands behind each individual (www.microfinance gateway).

iii. Credit Unions

A credit union is a unique member-driven, self-help financing institution that agrees to save their money together and to make loans to each other at a reasonable interest rate.

iv. **Intermediaries**:

Intermediaries are “go-between”, the organizations that are between the lenders and borrowers. They play the critical role of generating credit awareness and education among the borrowers. These activities are geared towards raising the “credit worthiness” of the borrowers to a level sufficient to make them attractive to the lenders. Intermediaries could be individual lenders, NGOs, micro-enterprise/micro-credit programmes, and commercial banks. Lenders could be governmental agencies, commercial banks and international donors.

v. **Cooperatives**:

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations.

vi. **Rotating Savings and Credit Associations:**

Rotating Savings and Credit Associations (ROSCA) are essentially a group of individuals who come together to make regular cyclical contributions to a fund, which is then given as lump sum to one member in each cycle. This way every member will “lend” money to other members through his regular monthly contributions.

In the long term, micro-credit policy instruments are likely to play a major role in sustainable, socio-economic development of the poor and socially-excluded section of society. The impact is being felt in Bangladesh where empowerment of women as a result of effective micro-credit facilities developed by *Grameen* Bank is well studied. In the long term, these policies can result in the replacement of inefficient polluting devices such as wood stoves, kerosene lamps, etc. with renewable energy devices that can reduce local pollution and improve environmental conditions. In Bangladesh, the Grameen Bank lends U.S.$20 million a month to over 2 million borrowers, 95 percent of whom are women. The *Grameen* model is highly successful that it is being replicated in 57 counties worldwide.

The next four chapters pay attention on what types of organizational elements and operational procedures have been practiced, by different type of MFIs selected to study under this exercise, to provide maximum services for their members.

CHAPTER THREE

Janashakthi Bank

3.1 Introduction

Janashakthi Bank (JB) is a very popular microcredit system evolved from among women self-help groups in Hambantota District. JB established in 1990s was the economic arm of the Women's Development Federation (WDF) that was established in 1989. The WDF was initiated as a result of effective mobilization of women by a government led poverty alleviation programme called *'Janasaviya'*. The organization is purely a women's organization where all the board, management, staff and constituencies comprise poor women. The mission of Women's Development Federation is mobilization of poor women to understand the causes of poverty such as economic, social and political forces and to empower them to fight such elements by better resource management and effective utilization of their latent potential through establishment of a network of sustainable grassroots level organizations. On that basis it involved in activities related with better nutritional standards of children and expectant mothers, entrepreneurship development, home gardening, provision of shelter with other basic needs such as drinking water, care for the elderly and disabled persons, prevention of alcohol and anti-drugs. JBs were established to promote poor to save, create assets through that and invest from loans obtainable from their bank to shed poverty.

3.2 Evolving Process of *Janashakthi* Bank

The concept of "Common Fund" was introduced where the recipients of ``needed an alternative programme when it ceases to function. Accordingly, the beneficiaries willingly deposited small sums of money such as Rs.10/=, 20/= and 25/=, weekly to generate the expected common fund. When the accumulated funds reached certain limits the authorities started releasing loans for both consumption as well as investment activities. However, a series of shortcomings was encountered in this initiative where the motivation of borrowers was to repay the loan balances and it was rather disapproving. After some time, the common fund was at a stake, and the members became desperate. Those women who became helpless met the founder and expressed their desire to include banking services too in WDF. As a result, members of the 124 societies functioning at that time at Sooriyawewa DS area took initiatives in establishing the first set of 20 banking units in which members too became shareholders. When establishing *Janashakthi* Banks the initiators have thought of economic status as well as overcoming the poverty of people. Thus, the participation of people in the programme is very much needed. Considering that the banks were established gathering village organizations / committees letting the area of the bank not to be too large as divisional secretariat divisions, the banks were popularized among members as their own organizations and the attachment of the members forwards the bank is very much high.

By the end of 30th May 2013 there were 149 banking units; some of them have been established in Moneragala district too. The number of members were 65,015.

3.3 Management of WDF and JB

The management of the WDF consists of an Advisory Board, Executive Committee, and a Managing Director (Figure 3.1 indicates the organizational structure of the WDF and JB). The Executive Committee of the WDF is vested with all administrative, management and development powers by the constitution. Managing Director is appointed by the Executive Committee which is represented by all the presidents of the women societies. Advisory Board guides the executive committee and the main objective of the executive committee is to achieve the vision and objectives of the organization. Managing Director is there to activate the executive committee decisions.

There were about 150 employees in WDF. Further, several campaigns and programmes such as resolving family conflicts, drug protest campaigns, food and nutrition and health campaigns are organized and other than that, training on self-employment is provided. There is a field staff other than the WDF staff. Five *Janashakthi* banks are clustered into one region. For each region two staff members of WDF head office are attached. The two positions are Regional Secretary and Regional Regulator (*Kalapa Niyamika*) and their duties are to inspect the banks' activities and to inspect the social mobilization program respectively. Monitoring secretaries are appointed for internal auditing and monitoring activities. This field staff and the office staff are bound to execute the decisions taken by the executive committee.

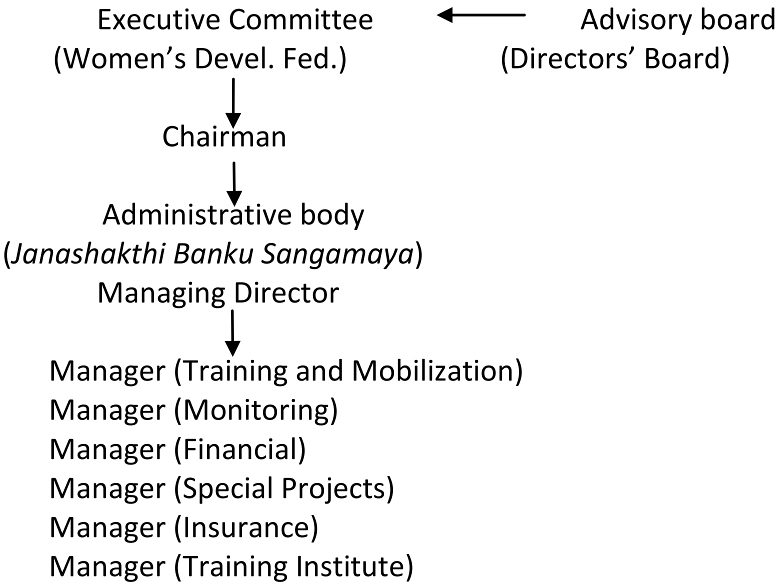


Figure 3.1: Organizational Structure of Women's Development Federation

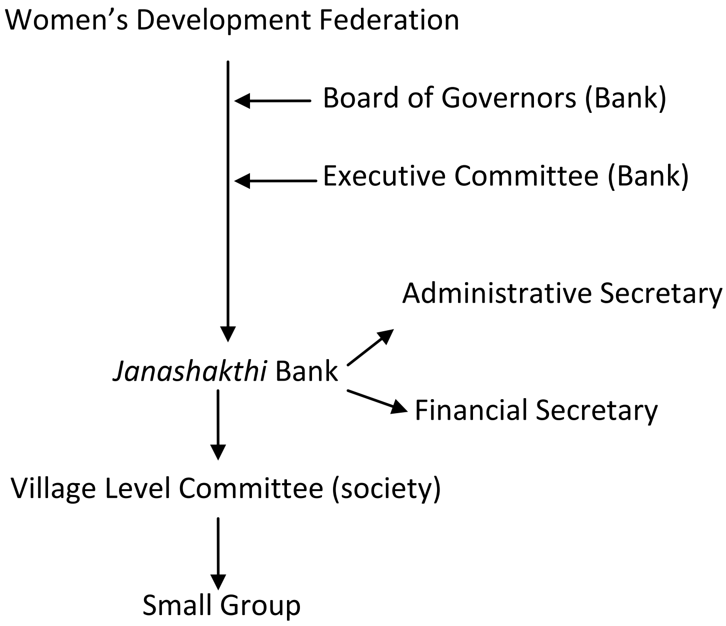


Figure 3.2: Organizational Structure of *Janashakthi* Banking System

3.4 Responsibilities of Stakeholders in *Janashakthi* Bank

The WDF is involved in auditing bank units and issuing credit facilities for bank units. The Board of Governors constitutes of presidents of village societies and each banking unit has a member of the board of governor in order to get the approval for loans. The executive committee (bank) constituting members from the board of governors determine the administration cost of the banking unit. This also fixes the interest rates, sets targets for WDF employees and banking officers separately and determines incentive rates for those who achieve the given targets.

Altogether there were 149 *Janashakthi* Banking Units and each of them has a financial secretary for handling accounts, administrative secretary for handling documents and monitoring of the loans issued. Further, a social mobilization manager and a clerk included in the staff are entitled to a salary. Assistant mobilization officer who does a voluntary job is there in each village and altogether there were about 650 banking officers in the entire system. There were 1176 village committees or organisations and there were president, treasurer and a secretary for each committee. Nearly 65,000 members were in the small groups. All the members were women either from low income families or *Samurdhi* beneficiary families. It is spread in 12 divisional secretariat divisions in Hambantota and four divisional secretariat divisions in Moneragala. There are 495 members of the *Pallemalala Janashakthi* Bank that was selected for this study.

3.5 Features of *Janashakthi* Bank

Five member groups of women and small units of organization with a combination of all the groups in an area is the basic features of the organization at grassroot level. Small groups have their meetings once in a week and the venue is a member residence. These meetings improve the interpersonal relations that enable the village women to express the problems so that they are automatically empowered. In this meeting there are certain functions. Those are: Presenting the progress of the small group; presenting the financial status of the group (and do savings); discussing about their labour exchange programme; discussing about consumer goods purchasing programme; presenting the status of the common fund; discussing about the participation of the members in various meetings.

In weekly meetings the members are advised to fill a grid called *'Kotu del'*. There is a grading system for these small groups. Considering eight components members can directly see the progress of each component and in the committee meetings they can take it up for discussion. Hence this system creates a well-established group and well-disciplined members as every member individually and as a group tries to upgrade themselves to Grade 'A' level. It automatically makes a competition to belong to the prestigious Grade 'A' group and when issuing loans priority is given to Grade 'A' members and in the case of housing loans only the members of Grade 'A' groups are entitled. Details about individuals' categorization are given below.

A - 8 components are fulfilled
B - 6-7 components are fulfilled
C - 5 components are fulfilled

The criteria used for grading small groups**:** All five members should participate in the group meeting; meetings should be held regularly once in a week; there should be no portfolio at risk; all five members should complete the shares; a labour exchange programme should be held once a month; consumer goods purchasing programme should be conducted; should subscribe to "*Divisarana*" Insurance scheme and maintaining of records.

3.6 Services Provided

As a micro financing scheme JBs provide a number of services for their members, some of which are combined. Those services are savings mobilization, credit, insurance, technical advice, training and social mobilization, support for households headed by women, protection for children and eradication of drug menace etc.

3.6.1 Savings

There are different types of savings identified. Among them the major ones are; Member Savings, Open (Non-member Savings), '*Senehasa*' Savings, '*Amma*' Savings, Collective Fund/Common Fund and Joint Savings. The savings done under different schemes are indicated in Table 3.1.

Table 3.1: Savings of *Pallemalala Janashakthi* Bank by End July 2013

Account Type	No of Accounts	Value of Savings (Rs.)
Members' savings	485	5,475,603.00
Kekulu children's saving	450	1,556,539.50
Devi deposits	35	125,040.00
Amma savings	233	1,343,540.00
Group savings	85	2,706,423.60
Members' shareholdings	500	1,405,291.00
Non-members' savings	167	842,440.00
Elders' savings	23	40,829.00
Fixed deposits	9	14,500.00
Amma voluntary savings	82	1,195,106.00
Sisu saviya children's savings	158	840,908.00
Voluntary organizations	24	600,937.00

Source: *Pallemalala Janashakthi* Bank, 2013

3.6.2 Credit

JBs have different types of credit schemes and details of those are as follows.

Table 3.2: Credit Schemes of *Pallemalala Janashakthi* Bank

No	**Loan Types**	**Details about them and rules applied for**	**Interest**
1	**Agricultural loans**	Total loan percentage is 60% loan duration is 6 months 2 personal guarantees needed Minimum and Maximum Amount is Rs.10,000-300,000. 10% of the loan amount should be deposited. 15% of the loan amount should be there in group accounts requirement of shares	28% (decreasing rate)
2	**Housing Loans** (Two types)		
2(i)	**General housing loans**	Total loan percentage is 18% loan duration is 5 years. Maximum Amount is Rs.100,000 The basic requirements for agricultural loans	14%
2(ii)	***Amma* housing loans**	Total loan percentage is 18% loan duration is 5 years. Maximum Amount is Rs.200,000 If Rs.1000 is debited in Investment account for a period of 18 months Rs.100,000 can be obtained and if Rs.2000 is deposited Rs.200,000 can be obtained. 2 personal collaterals are required. Loan is issued in three phases : i. For the foundation ii. To construct walls iii. For the roof	15% (Reducing balance)
	Self employment loans	Total loan percentage is 20%. loan duration is 1 year for Rs.10,000 loan Minimum and Maximum Amount is Rs.10,000-500,000 Should complete all the basic requirements to be entitled for agricultural loans If a vehicle is purchased under the self employment loan the ownership of the vehicle should be under the WDF and after the settlement of loan the ownership is transferred to the payer	28% (Reducing balance)
	Welfare loans (*Supiri*)	Total loan percentage is 8% loan duration is 10,000 per year. Minimum and Maximum Amount is Rs.5,000 – 50,000 Should complete all the basic requirements to be entitled for agricultural loans	28%
	Savings loans	Up to 90% can be obtained from the savings	
	Consumption loans	Maximum Amount is Rs . 3,000 Loans can be obtained on the same day itself Two personal collaterals are needed	

Source: Pallemalala *Janashakthi* Bank, 2013

If above mentioned loans are obtained from a normal bank unit two types of loans can be obtained at a time. Further, if the loans are obtained from a super grade bank unit three types of loans can be obtained at a time.

3.6.2.1 Progress of Credit Delivery

Table 3.3 presents the total amount and number of credit issued from Pallemalala JB during period 2010-2012.

Table 3.3: Credit Delivered by Pallemalala JB during 2010-2012

Year	Amount (Rs.)	No of loans	Average per loan (Rs.)
2010	10,915,730	468	23,324
2011	11,028,573	394	27,991
2012	12,237,646	394	31,060

Source: Pallemalala *Janashakthi* Bank, 2013

3.6.3 Micro Insurance

It is obvious that intermediary institutions such as WDF need to protect its clients against emergencies and on varied disasters. Consequently, WDF through *Janashakthi* has developed its own scheme of Insurance. Presently it covers members against death or disability, effects against drought hazards, flood or other natural disasters and when the income activity is affected by fire or theft. Additionally, under *'Divisarana'* scheme, members are entitled to receive financial grants in the event of either death or hospitalization of self or a family member.

3.6.3.1 Progress of Micro Insurance Services and Other Benefits

The examples for this type of benefits are giving incentive payments for the *Janashakthi* Bank units that have not obtained compensations from loan security scheme. In year 2012 the 55 JBs which had not taken such compensations have been paid Rs. 573,910 as incentive payments (*Yoda Kandiya* and Pallemalala JBs have been paid Rs. 24,863 and Rs. 23,864 respectively).

Savings Support Insurance *(Ithurum Sahana Raksanaya*) is also an example for this type of benefits. Under this the *Janashakthi Sangam* Families who had saved over Rs. 5000/ are paid death donations. For this no special payment is needed. Upto then 283 families have been paid an amount of Rs. 321,000. Under *Divisarana Rakshanaya* benefits indicated in Table 3.4 have been provided.

Table 3.4: Different Payments under *Divisarana* Insurance

Reason for Payment	No of Beneficiaries	Amount Paid (Rs.)
Hospitalization	448	668,200
Funeral compensations	45	220,000
Brain and kidney surgery	25	525,000

Source: Women's Development Federation in Hambantota , 2013

Under *Divisarana* Security Scheme 67 students who passed the Grade Five scholarship examination have been provided money and books to the value of Rs.50,250, in addition to the books (in value of Rs.7000) provided to 7 students who entered university. In addition to the above, gifts are awarded for various things at annual meeting of the general assembly. Some of those are for continuous and high levels of savings to encourage saving. As a result some have saved over Rs. 100,000 and in some of the group savings the amount is over Rs.70,000.

Other social benefits are holding of Women's New Year Festival, organising almsgivings by group members and conducting of almsgivings for pregnant women.

CHAPTER FOUR

Sri Lanka Women's Development Service Cooperative Society Nagaswewa Branch

4.1 Introduction

The Women's Cooperative Bank in Nagaswewa, Dehiattakandiya is a branch of the Sri Lanka Women's Development Service Cooperative Society (Women's Bank) located in Colombo. The Women's Bank is a self-reliant membership organization built, owned and operated by the poor women in Sri Lanka. It is engaging in a mission to pool in the resources, ideas and support of its own members to raise their socio-economic and cultural status on the principle of self-help and mutual help without depending on external support.

It was registered in December 1991 under the Co-operative Societies Law No.5 of Sri Lanka as 'Colombo District Women's Thrift and Credit Co-operative Society Ltd' consolidating 22 women's groups consisting of 250 members who have been promoted by the *Praja Sahayaka Sewaya* (PSS) – (Community Assistance Service) — a community based NGO with financial support that PSS has received from UNICEF, UNCHS / DANIDA, the Royal Netherlands Embassy and NORAD Funds amounting to about US$75,000. This was popularly known as the Women's Bank.

Being a primary level co-operative society initially it had adopted a centralized management structure. All the groups formed had been attached to the center. Accounts and operations had been centralized. In 1993, five or more Women's Groups operating in close proximity had been federated into one autonomous branch of the Women's Bank. The Treasurers of all Women's Groups formed the Management Committee of this Bank Branch. These branches were administratively empowered to accept all forms of savings from members of the attached groups and to disburse such funds at their discretion subject to co-operative law. They formed separate accounting units.

In April 1998 Women's Bank restructured formally re-registering the Women's Bank as 'Sri Lanka Women's Development Service Cooperative Society (Women's Bank) Ltd (http://www.slwb.org). At present there are 165 branches and 90 units functioning as primary banking units. This credit system is spread in 13 districts and 100% of the members are female. Nagaswewa Women's Cooperative Bank that was selected for this study is one branch of this network.

4.2 Organizational Structure

Women’s Bank has established a unique management and organizational structure to ensure transparency and accountability at every point of its operation. Figure 4.1 shows the organizational structure of the Women’s Bank. Accordingly it expands from small groups at the bottom to National Executive Council which is at the top.

4.2.1 Groups

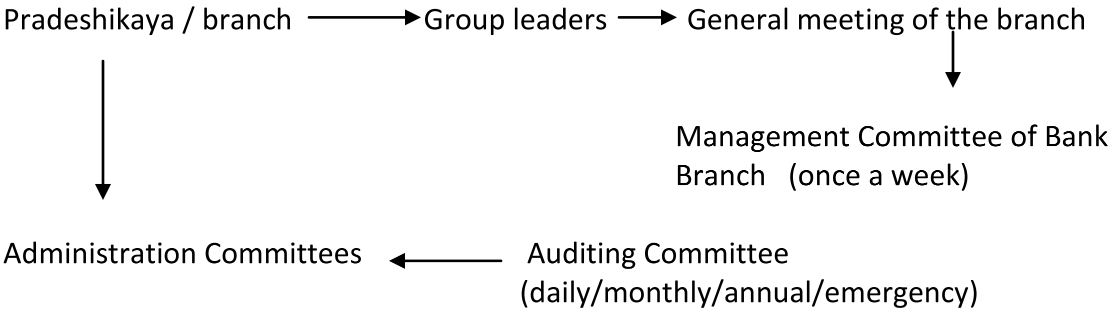
These groups formed the base and heart of the organizational structure. The membership is open only to the members of a women’s group. A women’s group is a group of five to fifteen low income women living in close proximity who have agreed to meet once a week and save Rs 5 per week and make collective decisions. Generally they should select their own chairperson, secretary and the treasurer by consensus. They should meet once a week at one of the member’s house. The Agenda for group meeting contains: collecting weekly savings of Rs 5 per person (compulsory) and in addition voluntary savings; collecting dues to ‘Pradeshikaya’ such as loan installments, deposits, welfare funds etc; reviewing the progress of the past week; deciding on activities for the ensuing week. Thus these groups function as grass-roots level planning and plan implementation units. Groups are entitled to use weekly savings at their discretion. This fund is used to provide emergency loans to group members in agreement of all the members. A new group takes at least eight months to reach the point of becoming a member of the Women’s Bank.

4.2.2 *Pradeshikaya* / Branch

The group will open a group account in the relevant Pradeshikaya. A Pradeshikaya is a federation of ten or more women’s groups which has been in operation for more than eight months. Pradeshikaya is popularly known as Bank Branch. When a group opens an account it becomes eligible to transact with the Bank Branch. All loans to group members will be issued to the group account and will be covered by group liability. Each member should contribute Rs 125 to gain membership which includes Rs 100 for shares, Rs 10 for admission fees, Rs 5 for Compulsory Savings and Rs 10 for Welfare Contribution.

Primary branches have less than eight groups and less than 80 members. When a number of groups (10) get together a primary branch is formed but it is unable to handle accounts or insurance schemes. Only welfare activities can be implemented by them. After completing 14 month grace period and the number of groups increase to more than ten and the membership exceeds 80, then the primary branch can be upgraded to a branch which has vital capacity in dealing with activities that are beyond the primary level. Hence “branch” can be introduced as the place where in a particular village money is collected and administration is done.

Bank branches are independent account units for their resources. Branch is managed by a Committee of Management. A forum of group leaders consisting of a treasurer, chairperson and the secretary of all the groups are federated into one particular bank branch. Management Committee of Bank branches is elected at these group leaders' meetings. These group leaders' meetings are functioning as the general meeting of all the groups in a particular Pradeshikaya area. These group leaders take up the issues of the members of their respective groups that cannot be tackled at the group level. Management Committee is responsible for the financial management of the branch but a problem of financial management does not arise for a bank branch as its finances are always circulated among its own members and group leaders have the right to review its financial positions continuously. Management Committee of the branch meets once a week and the issues they cannot tackle at the branch level are taken to national level.



Administrative subcommittees constitute of

Housing
Health
Training and Education
Child Care
Agricultural
Media and Cultural
Welfare
Disaster Management
Entrepreneurship
Subject Leaders

Relevant administrative subcommittee members' meeting is held once a week

Figure 4.1: Organizational Structure of Women's Bank *Pradeshikaya* / Branch

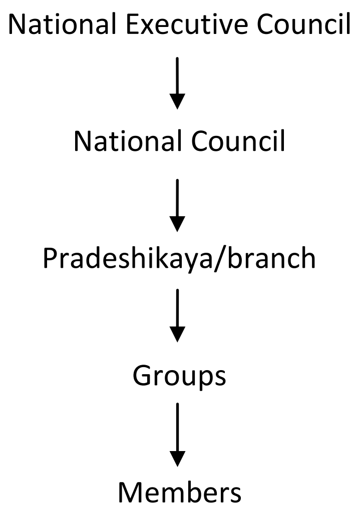


Figure 4.2: Organizational Structure of Sri Lanka Women's Development Service Cooperative Society (Women's Bank)

4.2.3 National Level of Administration

The National Council of the Women's Bank is consisted of all treasurers of all Bank Branches. The National Council is responsible for formulating policy matters and making strategic decisions. It functions as the apex body or operational center of the Women's Bank. Its functions include; Provision of basic training in keeping accounts and financial management; Provision of basic equipment to the bank branches; Mobilizing funds from external sources to supplement loanable resources to bank branches; Undertaking mobilization and sponsoring group formation. There is a National Executive Committee also and it is represented by selected treasurers of the bank branches in a district. The National Executive Committee is responsible for implementing the policies and decisions taken by the National Council through the General Manager. The General Manager is responsible to the Women's Bank to execute all decisions made at National Council level diligently and prudently. General Manager is the only full timer and non-member in the entire Women's Bank Movement. The current General Manager is the initial promoter of the Women's Bank as the Chairman of the PSS.

4.2.4 Nagaswewa Women's Bank

Nagaswewa Women's Cooperative Bank selected for this study was started in 1996 with 144 members and by now its membership has increased to 289. There are 24 groups. It has developed into a well-developed bank by initially providing soft loans for repayment of early loans of its members and expanding them later to provide loans with bigger amounts for immediate financial requirements of the members in the area, such as settlement of mortgages and housing loans.

4.3 Services Provided and their Progress

4.3.1 Loans

The bank has different loan schemes established concerning the needs of the members. Though certain schemes have specific requirements, the common requirements to obtain the loans are**;** having paid the membership fees without fail, having maintaining the compulsory saving of Rs.5/- a week, 10% of the loan should be credited to member and group savings, the requested loan amount should be lesser than the value of total group assets (Total assets constitute of "*Rachita*" Account, compulsory savings, "Subhani", shares, "*Arogya"* and member savings), should have settled the loans on the due date, availability of required amount of shares

Duly completed applications should be forwarded to the subject committee (Administrative subcommittees) and after receiving approval it should be forwarded to the management committee. A member is entitled to obtain loans in two stages. Fines will be imposed on late payment**;** If loan payment is delayed for 7 days ¼ of interest has to be paid as fines; If loan payment is delayed for 7 -14 days ½ of interest has to be paid as fine; if loan is delayed for 14 days the total loan interest has to be paid as fine.

Table 4.1: Types of Loans Given by Nagaswewa Women Cooperative Bank and Interest Rates

	Type	Details	Interest Rate
1	Agricultural loans	Issued to facilitate agricultural practices, to practice agricultural animal husbandry, to purchase agricultural machinery	18% per annum (deducting the balance rate)
2	Commercial loans	For purchasing storages to store food products till the food is sold, for input capital for services and other types of business activities	24% per annum (deducting balance rate)
3	Production loans	Find capital to expand small scale business	24% per annum (deducting balance rate)
4	Housing loans	To repair the existing house, to purchase land or renovate	18% per annum (deducting balance rate)
5	Consumption loans	Personal consumption, family affairs, education, wedding expenses, medicine, funeral expenses.	24% per annum (deducting balance rate)
6	Medical loans	For health expenses	12% deducting balance rate
7	Self-employment loan	To finance self- employment	24% deducting balance rate
8	Educational loans	For educational needs	
9	Loans above Rs.500,000	Specially for business purposes	18% per annum (deducting Balance Rate)

Source: Nagaswewa Women's Cooperative Bank, 2013

4.3.2 Savings

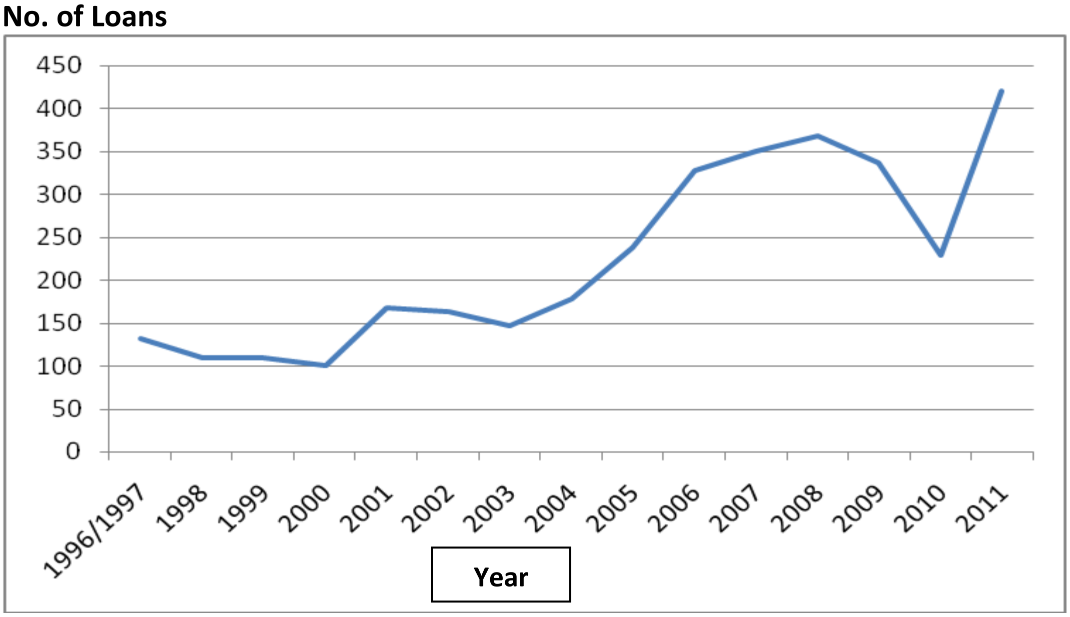
Total number of loans and their value for the period 1996/97-2011 is depicted by figures 4.3 and 4.4 respectively. Accordingly there has been a sharp increase in both, the number of loans issued and their values.

There are different savings schemes of the bank to encourage saving habit of its members, their family members and other non- members as well. The Table 4.2 indicates savings schemes and their details.

Table 4.2: Types of Savings and Interest Rates of Nagaswewa Women's Cooperative Bank

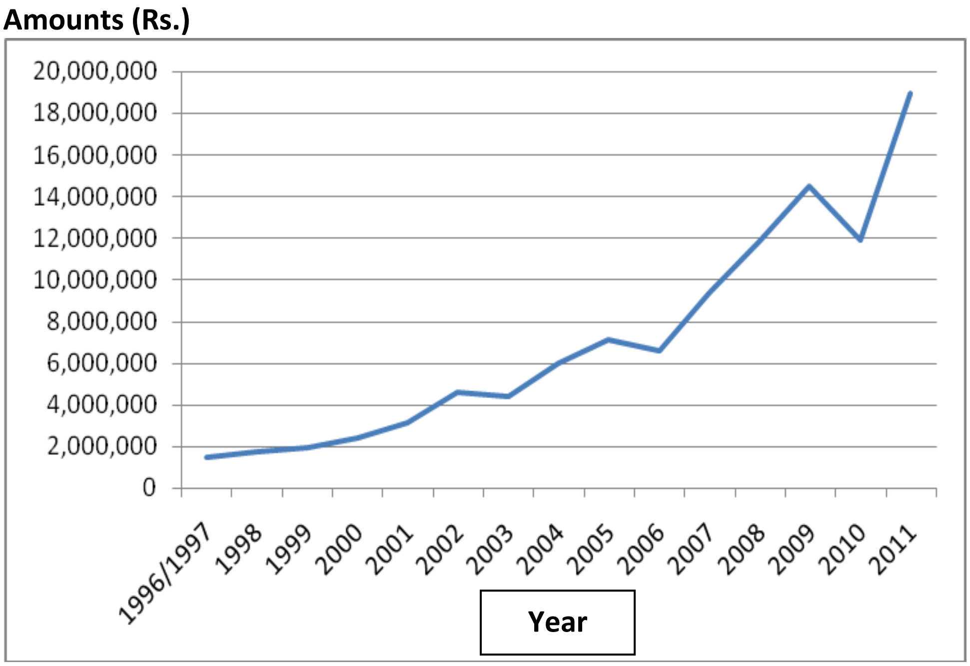
	Type	Details	Interest Rate
1	Member Savings	Each member is motivated to save as much she can in member saving at the group meeting	11% per annum
	Compulsory Savings	Each member should save five rupees per week. 5 % of the total loan should be deposited as compulsory savings.	5% per annum

Source: Nagaswewa Women's Cooperative Bank, 2013



Source : Nagaswewa Women's Cooperative Bank, 2013

Figure 4.3: Total Number of Loans Issued by WCB during 1996/97 - 2011



Source: Nagaswewa Women's Cooperative Bank, 2013

Figure: 4.4: Total Amount of Loans Disbursed by WCB during 1996/97-2011 (Rs.)

4.3.4 Insurance

The number of insurance schemes established by the bank and the details are given below.

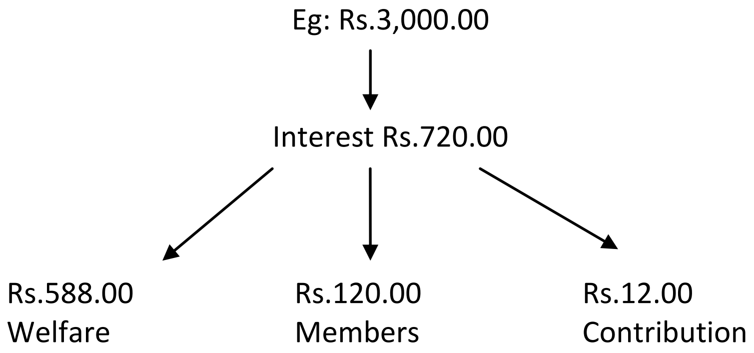
1. *Arogya* Insurance Scheme

This scheme covers spouse and unmarried children. For heart and kidney surgeries up to Rs.400,000 and for cancer Rs.100,000 is released. These insurance holders are entitled to Rs. 2,000 for the first childbirth and respectively Rs.4,000 and Rs.6, 000 for the births that follow. To receive the benefits the members should deposit Rs.5, 000.

2. *Subhani* (I, II, III) Scheme

	I	II	III
Fixed deposits	Rs.3,000	Rs.7,000	Rs.10,000
Incidence of a funeral	Rs.7,500	Rs.15,000	Rs.25,000

Interest is covered from the paid amount.



If further amount of Rs.15,000/- is deposited in "Subahi III" and in case of death Rs.50,000 is given

3. *"Rachita"*Scheme

This insurance scheme covers the spouse. To entitle for the benefits the member should deposit Rs.5, 560/- at once. In case of the death of the spouse Rs.50, 000/- is paid.

CHAPTER FIVE

YWCA Credit Scheme in Batticaloa

5.1 Introduction

This is a microfinance scheme originated in 1988 from a nutritional promotion programme operated for the women and children since 1993. The concerned nutritional promotion programme was funded by the *Janasaviya* Trust Fund and the target was the pregnant and lactating mothers and children. Later this was converted to a credit scheme of poor women. This is operated by the Young Women's Christian Association in Batticaloa in 49 villages belonging to three Divisional Secretariat areas in the district. Those DSAs are Manmunei North, Eravur Paththu and Eravur Town. The main objective of this loan scheme is to facilitate young women in more poverty stricken villages by providing subsidized credit to initiate income activities for economically empowering them for poverty alleviation.

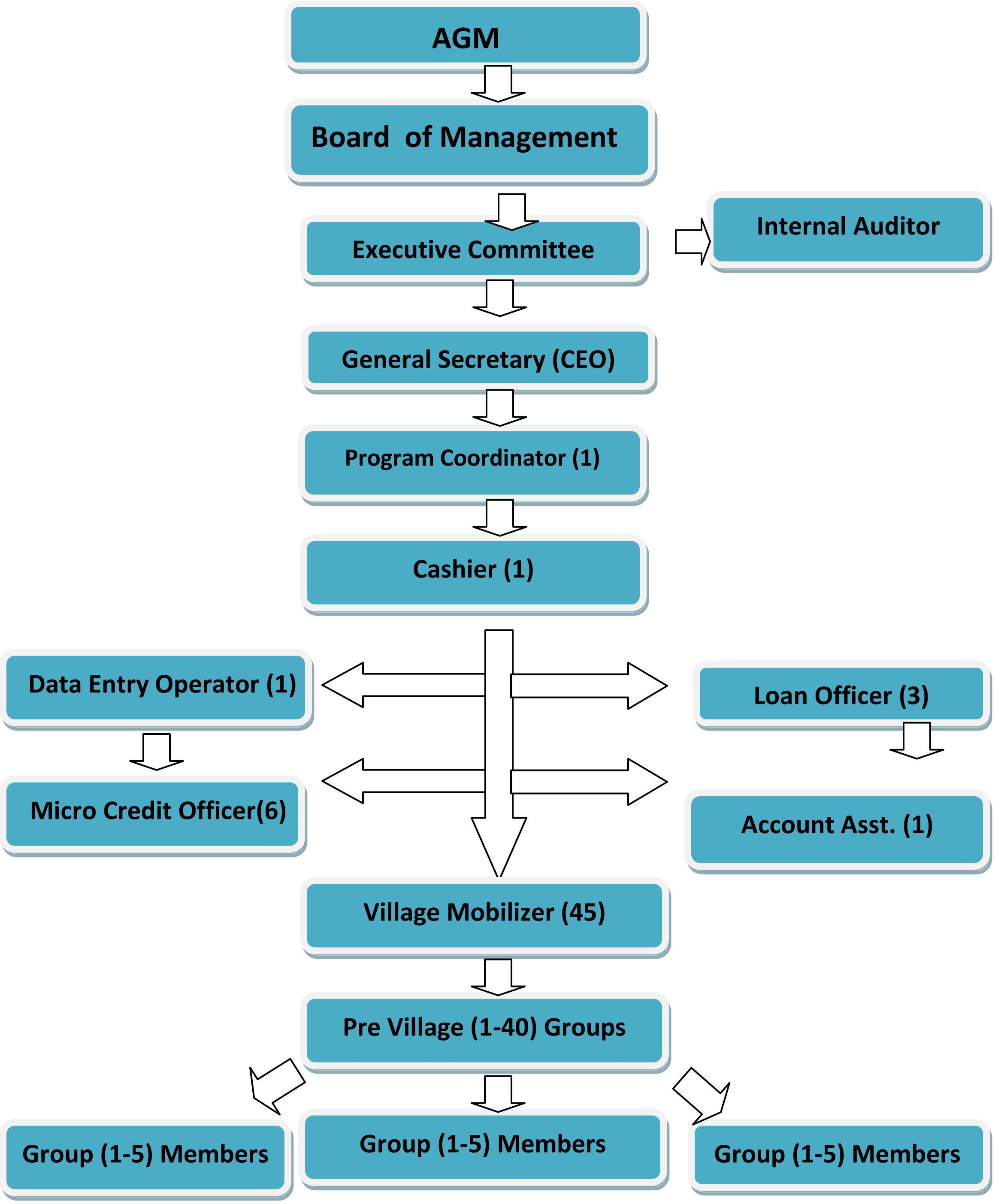
The credit scheme is operated via village societies that were formed by a cluster of five or six small groups of five members each. At the time of the survey the total number of groups were 876 and the number of members were 4,380.

5.2 Organizational Structure

The YWCA credit scheme is managed by a separate body established at the YWCA head office in Batticaloa. The management consists of a board of management as well as an executive committee. The board of management advise and make decisions for its operation and the executive committee implements those decisions.

At the village level social mobilizers promote groups and societies and disburse and recover the loans. At the time of the survey there were 18 mobilizers and they are paid 20% of the interest recovered. These mobilizers are from the same village where they serve.

The village organizations formed with a few groups assemble every week.



Source, YWCA Credit Scheme, Batticaloa, 2013

Figure 5.1: Administrative Structure of YWCA Credit Scheme

5.3 Services

5.3.1 Savings

The origin of this credit scheme is the success of motivating people to save as a group. However, at present individual savings are promoted. Savings of each individual deposited in an account in the bank in the area in his/her name. The mobilizers visit the village every day in two fixed periods and collect savings as well as repayment money, making the members perform their functions in an easy way.

Table 5.1: Members' Savings of YWCA Credit Scheme between Period 2008-2012

Year	2008	2009	2010	2011	2012
Amount of Savings (Rs)	8,146,488	10,178,104	9,911,490	10,472,021	11,180,957

Source :YWCA Credit Scheme, Batticaloa, 2013

5.3.2 Loan Facilities

Major service of this credit scheme is providing loans at concessionary rates. To be eligible at least Rs. 100/- should be in individual savings. In addition, other four members' (guarantors') signatures are required. For the loans up to Rs.50, 000/- 13.2% interest is charged while above Rs.50,000/- 20% interest is charged. Two months' grace period is granted for the loans and there is one year to complete the repayment. The grace period is 18 months for the loans above Rs. 50,000/-. The activities that cover when providing credit include agricultural activities, home garden, trading, fishing activities and weaving.

The amount disbursed to the members as loans during period of 2008 and 2012 is indicated in Table 5.2. During the period it has increased by more than double.

Table 5.2: Loan Disbursement and Recovery during Period 2008-2012

Year	2008	2009	2010	2011	2012
Amount Disbursed (Rs)	31,100,000	49,865,000	60,206,652	64,944,000	74,130,228
Amount Recovered(Rs)	27,907,195	41,883,904	52,900,867	63,872,106	72,076,413

Source :YWCA Credit Scheme, Batticaloa, 2013

The recovery rates of the loans are also indicated by Table 5.2. According to the table, recovery rates seem to be high. There is a penalty of Rs.50 a day for overdue loans. But, the group can offer a relief. The loan amounts and interest rates are discussed at monthly meetings. They discuss about relief work, *Shramadana*, welfare activities, savings and repayment rates etc.

5.3.3 Recoveries

There are 6 field staff members to look into the loan requests. In the case of loans exceeding Rs.100,000 mobilizers receive applications once in two weeks. It takes two to three weeks to grant a loan.

CHAPTER SIX

Farmer Bank

6.1 Introduction

Farmer Bank (FB) is an agricultural credit scheme initiated in 1998 as a pilot project by the Department of Agrarian Development (then Department of Agrarian Services) with the sponsorship of the Ministry of Agriculture for the purpose of satisfying the credit requirements of the smallholder farmers. It is an island wide credit scheme operating through separate independent banks established in Agrarian Development Centers. At present it is operating in 230 Agrarian Development Centers which the total is 559.

The specific objectives of the FB credit scheme are as follows:

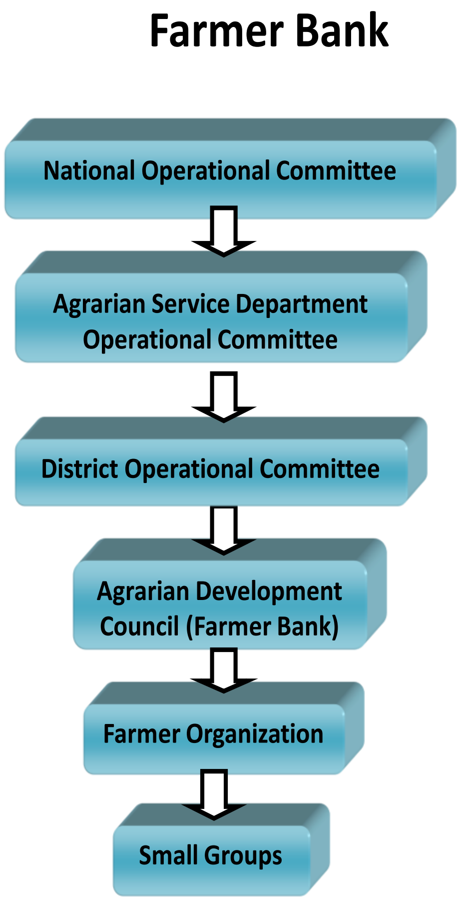
I. Functions as an institution to facilitate investment funds needed to the rural poor farmers to escape poverty.
II. Helps farmers to improve their savings habit and investment capabilities
III. Assists to fulfill financial and economic needs to convert subsistence agriculture to a commercial one
IV. Provides opportunities to the farmers to develop their financial and economic conditions by organizing with their fellow members
V. Establishes the financial environment needed for strengthening the farming community as a powerful group

6.2 Organizational Structure and Management

As a participatory credit scheme arrangements have been made to encourage participation of different stakeholders such as farmers and officers at different levels — local, divisional and national— for the management of the credit scheme. Accordingly, a number of committees have been established with representation of different level officers from national, divisional and local with different levels of powers and responsibilities that are hierarchically expanding. The established committees are National Operational Committee, Agrarian Development Department Operational Committee, District Operational Committee, Divisional Operational Committee (Agrarian Development Center Credit Committee), Farmer Organization and small group.

The farmers in the area of an Agrarian Development Center become the members of the FB in that Agrarian Development Center once they become the shareholders of that. The FB provides credit for its members at concessionary interest rates. The necessary funds are provided from the Farmers' Trust Fund. In addition farmers' savings as well as profit earned by providing credit are utilized to provide more credit.

To become a member of the FB it is compulsory to become a member of a small group of the members. The size of the group was five at the beginning and it has changed now according to the requirements. In obtaining loans all members of the group have to be certified and they will provide a guarantee for the repayment jointly. No other collaterals are required for small loans.



Source: Department of Agrarian Development

Figure 6.1: Organizational Structure of Farmer Bank

6.3 Membership

The total number of the members of the Dambulla FB is 1688 and this equals to 18% of the farmers in the area of Dambulla Agrarian Development Centre.

6.4 Services

The main service of the bank is providing loans for the farmers while providing facilities for savings. The bank provides seven types of loans. Those are cultivation loans, machinery loans, harvesting loans, paddy stocking loans, project loans, emergency loans and loans provided to join the farmers' pension scheme. There are three types of savings; Individual members savings, group savings and savings of farmer organizations. Promoting to purchase shares (Rs.100 per share) is also a method to promote individual saving/capital of the bank.

6.4.1 Loans

The Table 4.1 indicates the preliminary requirements to obtain different types of loans and their interest rates.

Table 6.1: Types of Loan of Dambulla Farmer Bank, Their Interest Rates and Requirements

	Type	Amount Obtainable (Rs.)	Interest Rate	Rules & Regulations
1.	Cultivation loans	40,000	8%	*Savings 25% equal to the loan value (10% individual and 15% group savings) Should be paid back within 6 months
2	Machinery loans	1,000,000	8%	*This is compulsory During the same period either this or a project loan can be obtained
3	Harvesting loans	40,000	8%	*This is compulsory The repayment period is one month
4	Paddy stocking loans	75,000	8%	*This is compulsory The repayment period is three month
5	Project loans	1,000,000	8%	*This is compulsory
6	Emergency loans	3,000	-	-

Source: Dambulla Farmer Bank, 2013

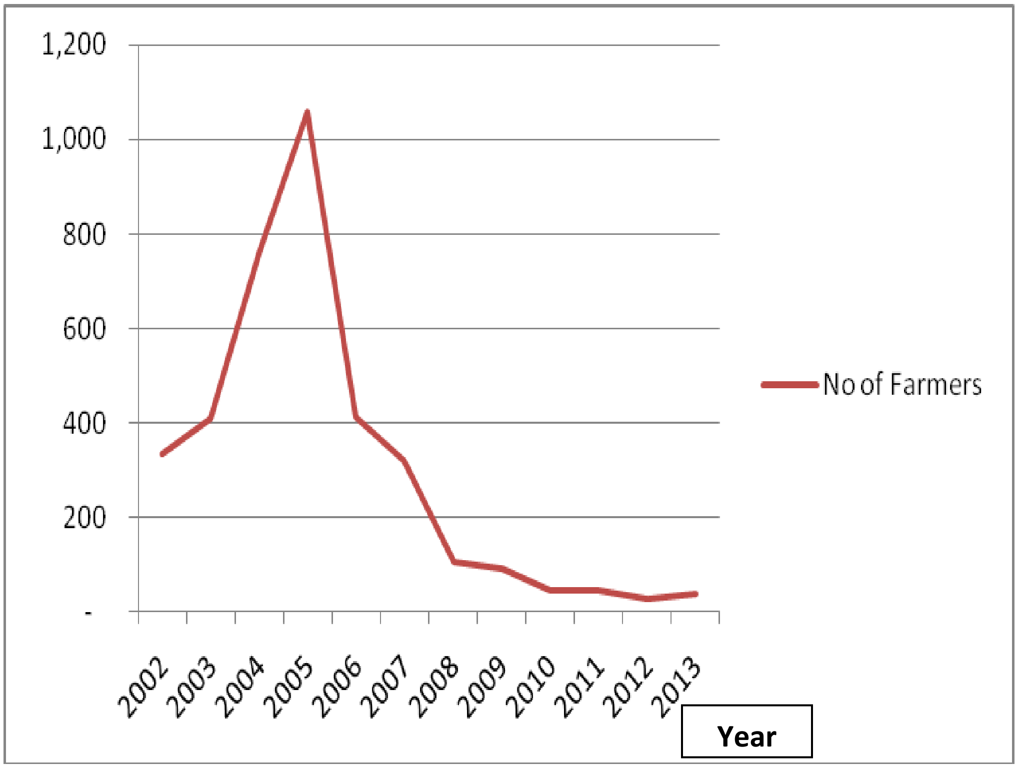
6.4.2 Deposits

Table 6.2: Types of Deposits and Interest Rates of Dambulla Farmer Bank

Type	Description	Rate
Individual savings	Rs. 5,100/-	5%
Group savings	Rs. 6,53,000/-	5%
Savings of farmer organisations	Rs. 2,41,000/-	5%

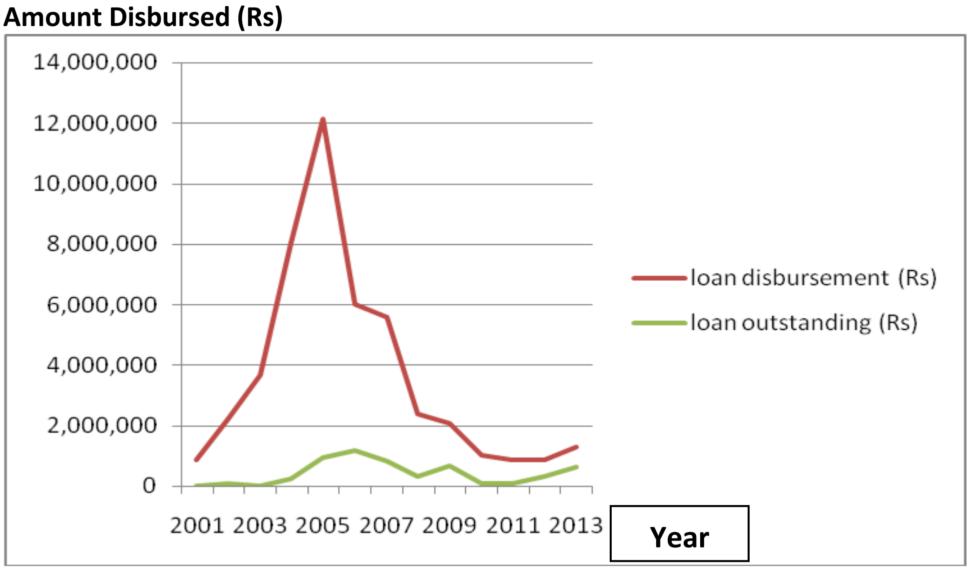
Source: Dambulla Farmer Bank, 2013

The loan disbursement from the FB has increased from 2002 to 2005 and thereafter that it has declined until 2013. This trend can be observed in both the number of members obtained loans and the amount given (Figures 6.2, 6.3 and Table 6.3).



Source : Dambulla Farmer Bank, 2013

Figure 6.2: No of Farmers Obtained Loans from Dambulla FB during 2002-2013



Source : Dambulla Farmer Bank, 2013

Figure 6.3: Loan Disbursement by the Dambulla Farmer Bank during 2001-2013

Table 6.3: Information about Dambulla Farmer Bank

Cultivation Season	Loan Amount (Rs.)	No of Farmers	OD Loans	OD Farmers	Repayment Rate
2000 *Yala*	87,065	-	-	-	100%
2000/2001 *Maha*	180,278	-	-	-	100%
2001 *Yala*	688,952	145	4,965	1	99%
2001/2002 *Maha*, 2002 *Yala*	2,211,278	333	79,440	13	96%
2002/2003 *Maha*, 2003 *Yala*	3,640,096	40	8,509	1	100%
2003/2004 *Maha*, 2004 *Yala*	8,012,260	759	254,186	30	97%
2004/2005 *Maha*, 2005 *Yala*	12,119,012	1,057	941,741	165	92%
2005/2006 *Maha*, 2006 *Yala*	6,000,920	412	1,189,241	76	80%
2006/2007 *Maha*, 2007 *Yala*	5,574,794	320	836,637	62	85%
2007/2008 *Maha*, 2008 *Yala*	2,356,795	107	325,507	10	86%
2008/2009 *Maha*, 2009 *Yala*	2,051,839	91	665,357	28	68%
2009/2010 *Maha*, 2010 *Yala*	1,012,035	45	82,444	4	92%

Source: Dambulla Farmer Bank, 2013

CHAPTER SEVEN

Effect of Organizational Structures, Institutional Arrangements and Operational Procedures on the Performance of Selected Microfinance Institutions

7.1 Introduction

First part of this chapter is concerned with the performances of the selected MFIs that cover the expansion of savings and shareholding capital, progress of lending and recovery and the progress of other services including insurance, health, education, social and cultural services and the members' perception about them. The second part of the chapter paid attention to the relationship between those performances and different institutional arrangements and operational procedures of the relevant MFIs.

7.2 Savings Promotions

One of the major strategies of creating assets of the MFIs is promoting savings of the members. So that the concerned MFIs have followed different methods for that including encouraging the members for individual as well as group savings, and savings of other members such as children's and also encouraging the members to purchase shares. Table 7.1 presents how each of the MFI had generated savings at the time of the survey. According to that the total as well as individual savings of the WCB and JB which belonged to the community banking model are much higher (respectively Rs. 26.8 Mil. and 14.8 Mil.) than the savings of the other two banks which belong to the centralized banking model (in YWCA it was Rs.1.1 Mil. and in Farmer Bank Rs. 1.5 Mil.) at the time of the survey.

Table 7.1: Total of the Savings Generated by Each Bank / Credit Scheme

Institution/ bank	**Weligatta *Janashakthi* Bank**	**Nagaswewa Women's Cooperative Bank**	**YWCA Credit Scheme in Batticaloa**	**Dambulla Farmer Bank**
Amount saved (Rs.Mil.)	14.8	26.8	11.1	1.5
Total per persons savings (Rs.)	35,883	98,416	3,148	1,641

Source: Selected MFIs / Schemes, 2013

Per accountholder's saving rate is much higher in JB and WCB, i.e. Per account holder's saving rate as recorded in 2012 was Rs. 35,883/- in JB while it was much higher in WCB, which is Rs. 98, 416/- (Under YWCA and JB it was respectively Rs. 3,148/- and Rs. 1,641/-).

7.3 Delivery of Loans and Member Satisfaction

Table 7.2: Loans Released from Each Bank during 2010-2012

Institution/ Bank	Year	Amount Released (Rs.)	No. of Loans	Per Loan Size (Rs.)
YWCA Credit Scheme	2010	25,953,680	3462	7,497
	2011	33,089,610	2758	11,998
	2012	34,154,004	2300	14,850
Janashakti (Weligatta Bank)	2010	10,915,730	468	23,324
	2011	11,028,573	394	27,991
	2012	12,237,646	394	31,060
Coop Women (Nagaswewa Bank)	2010	14,485,000	336	43,110
	2011	11,927,750	229	52,086
	2012	18,962,750	420	45,149
Farmer Bank (Dambulla Bank)	2009/2010*Maha*,2010*Yala*	1,012,035	45	22,490
	2010/2011*Maha*,2011*Yala*	852,355	44	19,372
	2011/2012*Maha*,2012*Yala*	862,848	27	31,957

Source: Selected MFIs / Schemes

Loan delivery is one of the major services of the MFIs as the loans are one of the bases of investment of the members that help them become economically empowered. The Table 7.2 indicates the number and amount of loans issued by each MFI from 2010 to 2012 and the average size of a loan.

Even according to the data, community banking model MFIs is leading when compared with centralized model MFIs. For example, concerned about the data in the table, JB and the WCB have released respectively Rs.11 and 15 million per year as loans among 418 and 328 of their members. The average loan size during the three-year period has been Rs.26,315 in JB and Rs.45,731 in WCB. In selected JB there were only 495 members and in WCB 289 members, so the number of loans issued from them is very close to the number of their members. Nearly all the members obtaining a loan mean a satisfactory level of members access to loans. The sample survey of the members of the MFIs also revealed that 73% and 93% of the members of the JB and WCB respectively have obtained a loan during the previous two years. These loans are not only for promotion of livelihood activities, but also for welfare activities and to face emergency situations.

According to sample survey results (Table 7.3), as much as 27% and 68% of the members of the JB have expressed as "very satisfied" and "satisfied" respectively about the loan amount they obtained to complete the work they targeted to do. In comparison the members of the WCBs were more satisfied about the loan amount they received. For example, as much as 89% and 11% of the members of WCB respectively have expressed as "very much satisfied" and "satisfied" about the loan amount they received as opposed to the intention of applying for the loan.

Table 7.3 Level of Satisfaction of the Members about the Loan Strength to Fulfill the Intended Goals

Institution/ Bank	Very much Satisfied (%)	Satisfied (%)	Less Satisfied (%)	Total (%)
Janashakthi	27	68	5	100
Women's Cooperative	69	31	-	100
YWCA credit scheme	13	65	23	100
Farmer Bank	13	65	23	100

Source: Sample survey of the members of the selected MFIs, 2013

The YWCA credit scheme has granted Rs.31 million as loans per year during the period concerned. The value of per loan was Rs. 10,915/-. The number of members (3,326) and the number of loans issued indicate satisfactory progress of the breadth of its loan outreach; 85% of members seem to have benefited from loan delivery. However, the members' sample survey (Table 7.3) reveals that as much as 23% of the loan recipients were less satisfied about the size of the loan while only 13% were very much satisfied and 65% were satisfied considering the loan strength. The progress of the FB is also not much satisfactory in this regard. The selected Dambulla FB has released only Rs. 0.909 million per year during the concerned period (2010-2012) to release 38 loans per year (Table 7.2). Considering the number of its members (1,688), only 2.3% of members seem to have benefited from the bank loan during that period. The size of a loan has been Rs. 23,510/-. However, over one fourth of the members have not been satisfied about the loan size; as revealed by the sample survey, 5% mentioned "not satisfied at all" and 23% said "less satisfied". As much as 68% mentioned as "satisfied" while only 5% claimed to be very much satisfied. As the major purposes of these loans are for the farming activities related with paddy, onion and vegetables they need a fairly big amount of loans for onion and vegetables. As revealed from these analyses the members of community banking FIs seem to have benefited more than the members in the centralized MFIs in terms of credit availability and the amount given.

7.4 Recovery of Loans

According to the information collected from the concerned MFIs except in FB in other MFIs the loan recovery rate was at a very satisfactory level. For example, the recovery rate of the JB and WCB was 100%. It was 97.2 in the YWCA credit scheme and indicates a much declined level in FB from 95% in 2011 to 65% in 2013. This indicates that even in terms of credit recovery community banking model MFIs are far ahead of centralized banking model MFIs.

7.5 Contribution of Different Institutional Arrangements and Operational Procedures

Different institutional arrangements and operational procedures of different MFIs that belonged into two models namely community banking and centralized banking have differently impacted on the success of MFIs of each model. It is discussed in detail in the following section.

7.6 Effects on Expansion of Membership

Expansion of membership is an indicator of the success of MFIs as the members are attracted towards the MFIs due to their satisfaction over their activities. This success means operation of them productively so that their members have adequate access to credit, insurance, welfare and any other service of them. Different institutional arrangements and operational procedures of different MFIs that belonged to two models namely community banking and centralized banking have differently contributed to the success of MFIs of each model. The survey team faced difficulties in calculating the representation of the area members in the selected MFIs. However, observations revealed that the concerned JB and WCB operated in a very narrow area had a satisfactory level of representation of the area members than the area's people representation in the FB and YWCA credit schemes that operated in a bigger area.

7.6.1 Effects on Saving Promotions

Promotion of savings at satisfactory level is the base for successful MFIs. Various strategies and procedures followed by the selected MFIs have contributed to the progress of savings promotions. As explained in section 7.2 the level of savings of community banking model MFIs is much higher than the MFIs coming under centralized model. The strategies and procedures followed in each of them have led to this situation. For example, in WCB the savings rate was much higher like Rs.98,416/- per person as recorded for the year 2012. When granting loans consideration of the availability of accepted amounts of group as well as individual savings and share of capital assets and charging compulsory savings of 5% from all loans and the condition of saving Rs. 5 by every member every week under compulsory savings have positively worked for the increase in the savings of WCB. Further, motivating people towards saving under a number of insurance schemes which are successfully operating with attractive benefits and promotion of other groups such as children and women for saving under the bank were also vital steps. Certain small groups of this bank have saved over Rs. 2 million and some individuals have saved over Rs.400,000/-. The savings are encouraged by paying a handsome interest too (11% for group savings and 5% for compulsory savings).

In JB, the value of group as well as individual assets is taken into account when granting credit. To obtain a loan to the value of it 10% of individual savings, 15% of group savings and 10% of share capital of the applicant should have been there. In addition, savings are encouraged by the interest payments too. Attractive insurance systems also encourage the members to save.

Under credit scheme of YWCA also, the amounts obtained as credit were decided based on the level of savings of the members. Hence, all the members were motivated to engage in group as well as individual savings for which an interest is also paid. However, its level of savings was not equal to saving levels in community banking model MFIs, because the incentives for savings were lower than the former; not even attractive incentive schemes are operated under centralized model MFIs.

Under selected FB also the savings did not function as an incentive for the members. At that time per member savings rate was very low. Discussions with some member farmers of the bank revealed that many farmers are not satisfied over the credit scheme following a number of reasons including providing of insufficient amount of credit (Rs.40, 000/- only for agriculture), the delay in providing of credit and providing them in material form via village retail shops where the desirable seed/ material type or variety is not available, and also being deprived of the discount that the seed/ input supply centers usually grant. For these reasons some farmers mentioned that they have saved at FB an amount adequate only for obtaining a cultivation loan that was Rs. 25,000 its maximum value. So they tend to maintain the saving amount at around Rs.6000. Thus those organizational strategies and procedures of centralized model MFIs have not been able to promote savings as other MFIs coming under community banking model have done.

7.6.2 Effects on Delivery of Loans

There is a number of factors for the success of delivery of loans by community banking model MFIs with much satisfaction of their members. These include; (i) Possibility of obtaining a sufficient amount (ii) Its coverage including most needy things (iii) Timely and easy availability. The possibility of obtaining a sufficient amount depends on the availability of sufficient funds with the bank/ credit institution resulted from increased savings, shareholding capital, profit, other incomes and assets. All of these are determined by efficient management assured by established well organizational arrangements of them. Credit systems such as JB and WCB are established in line with assuring of financially sustainability. Individual members, small groups and banks are encouraged to show much progress in increasing of savings and earning profit by providing credit, and interventions that are rewarded based on the progress. For example, under JB when small groups, individual members and bank units are categorized, their contribution to savings is considered. So each member/party is encouraged to increase savings and the banks to increase savings as well as profit.

But under centralized banking model the MFIs studied under this exercise the increase of savings are not much rewarded. For example, under FB, though the level of savings as individual as well as group is important to determine the size of a loan the members are not much encouraged to do savings as there are no sufficient activities to be covered under their loans (discussions with group of farmers). Especially those loans do not cover consumption loans (except small sizes of emergency loans) which are very important for village people. As a result the Dambulla FB has not been able to generate sufficient savings and funds to satisfy the members' loan requirements. Hence, in recent years it has granted a very small amount of money as loans to a very limited number of farmers (less than 40 farmers) though its membership was 1688.

Timely and easy availability of loans for the needs are the determining factors for people to attract credit schemes/institutions so that those will become more popular. With respect to this, community banking model credit schemes such as JB and WCB are in the forefront. Both, being participatory credit institutions, have initiated different credit components to cover diverse needs of the people by responding to their requests. Their credit components cover agriculture, self-employment and other investment activities and emergency loans as well as consumption loans including a special occasion in a household. In addition, the WCB have credit components to cover purchasing of lands and other household assets and also for settling early loans especially to settle paddy land mortgage transactions, which is very popular in the area. Discussions with bank officials, other key informants and the group of farmers revealed that members have much benefited from these credit schemes. As sufficient funds are available and credit supply covers members' needs majority of members have obtained loans and some of those loan amounts are as high as over Rs.500,000 . As centralized model MFIs like FB are not more participatory as much as JB and WCB, their members have not been able to create such credit systems which fulfill local credit needs.

Quick delivery and easy accessibility of credit has been highly assured by community banking schemes by systematic organizational and operational arrangements. In both banks, JB and WCB loans can be obtained within two weeks without going out of their village bank and also spending a very less cost; expending only the stamp cost. In JB, the loan application process would start from the members' group which met once a week. All group members' signatures are needed for loan approval and also for the guarantee. As this type of small groups assume the responsibility of evaluating the suitability to obtain the requested loan amount based on the household balance sheet the bank need not worry about the credit worthiness of the loan applicant. This reduces the transaction cost of the bank in dealing with loan administration as well. The loan application is presented to the bi-weekly meeting of the bank with its all groups and is administered in front of all members and given approval. In need of inspection the Village *Niyamaka* is voluntarily involved in that and availability of such an officer at village level will facilitate quick inspection at a less cost.

In CWB too the loan application process would start from the member's small group on the consent of all members on the member's eligibility for the requested amount of credit. Then the loan application is forwarded to the relevant subcommittee which comprises members representing all small groups. After monitoring the suitability of loan applicant to obtain the loan it is forwarded to the audit committee. If required the auditors personally check the case to ensure that there is no loan arrears. The management committee which assembles fortnightly grants approval and the money is released on the following day by the bank in the village itself. All loans regardless of the amount are approved by village bank itself.

The Table 7.2 presents a picture on how the credit has been disbursed by each bank/ credit scheme during the three- year period (2010-2012). Accordingly both JB and WCB have given Rs. 11.4 million and Rs. 46.76 million per year respectively among a substantial number of their members, 418 per year by JB and 328 by WCB. The average amount granted per member was Rs. 27,158 by JB and Rs. 46, 781 by WCB. The YWCA credit scheme has also granted a bigger amount (Rs.31 million per year average) than these banks by covering more members of the scheme (2,840 per year on average), but in small amounts (Rs. 11,448 per member per year). The FB has granted a very small amount (Rs. 0.9 Mil. per year on average). The amount granted per member has been higher (Rs. 24,606 on average per year) than YWCA and JB since it has granted loans to a very limited number of farmers (38 on average per year).

7.6.3 Other Factors that Affected their Overall Development

In addition to the organizational elements of each and every MFI there are some other factors that have affected their performance and those factors are further examined under this section.

7.6.3.1 Participatory Approach in Management System

According to the researchers' observations, the community banking model banks which had shown much higher performance than centralized model banks in various aspects such as fund raising, credit delivery and recovery had developed their own management structures and procedures to obtain full participation of all members of the bank for their activities including day-to-day management and reaching important decisions. For example, Janashakthi Bank has a number of administrative elements from central/district to grassroots level that includes Women's Development Federation at district/inter district level and Janashakthi Bank unit at divisional level and village society at village level and small groups at the community/bottom level. These bodies are administratively established within a hierarchical structure and the members of the community / bottom level (small group) can go into the upper level based on their performance which is being assessed continuously. For example, the Managing Director of the *Janashakthi Banku Sangamaya*, the main executive officer of the Women's Development Federation as well as the *Janashakthi Banku Sangamaya* is a well-performed member appointed from among the members of the banking units. The administrative Board of the *Janashakthi Banku Sangamaya* is also represented by the well-performed chairpersons of the village societies of the JBS. Even the other functionaries of the banking system including the JB Managers and other staff members of the banks and the Women's Development Federation are recruited from among the well-performing members of the banking system.

The microfinance institution associated with WCB in Nagaswewa has also been established in the same structure so as to obtain its members' participation for its management. WCB has an executive committee in Colombo, and at other levels district committees and village banking units as well as village societies and small groups hierarchically established. Nagaswewa village bank has an administrative committee and also there are ten subject-wise sub committees and also an audit committee. For all of these committees which are established in association with its management activities, the members are recruited based on their performance. Because of this type of institutional establishments members are working very hard ambitiously to go up the career ladder.

In contrast, under the centralized management system, the banks studied here indicated that the members have no career advancement based on their performance. For example, under FB, the village level farmer organization leader cannot go beyond the position other than becoming a member of the Agrarian Development Committee (*Govijana Sanwardhana Sabha*) established at every Agrarian Development Centre. The other members of the farmer organization have no opportunity to be promoted within the administrative system of the FB. The same feature was identified regarding the credit system associated with YWCA in Batticaloa. It is managed by decisions made by an executive body of the credit system. That is not represented by any member or beneficiary of the credit system. Under FB the village level small groups and societies are guided and managed by officers (Agricultural Research and Production Assistants/ARPAs) appointed by the Department of Agrarian Development. Under YWCA credit scheme the village level societies are guided by social mobilizers. Hence the members feel being excluded from the administration of the bank and bank is operating at the wish of outsiders.

The selected banks of community banking model made decisions with regard to the initiation of different credit schemes, regularizing credit limits of them and their interest rates and recovery procedures by considering people's ideas and aspirations. In *Janashakhi* Banks there were different forums and mechanisms to welcome those ideas and aspirations. At the grassroots level weekly meetings of the small groups were the forum to talk the members' issues and ideas which are also brought up in the monthly meeting of the village level members' organization. The issues and ideas are forwarded from there to the monthly bank meeting and from there to the Women's Development Federation. The representation of the members in different positions of the management system of the bank including representation of bank members at the executive committee of the WDF and administrative board of the JB *sangamaya* and the Managing Director also has become a way to learn members' ideas, aspirations and needs. This has instilled a sense of confidence on the members that the bank makes genuine efforts to address their needs and aspirations especially the financial needs. As a result, the members as well as officers who were only members earlier have developed a sense of ownership towards the bank. The feelings of pride and confidence on development of their own bank propelled the team towards working hard to achieve the ends and work satisfaction.

The FB credit scheme which is a centralized credit system has no properly, hierarchically established mechanisms for obtaining people's ideas and aspirations to make decisions in relation to the credit system. Although under it there are small groups and a village level organization that combined all groups operated and problems are discussed and suggestions representing members' aspirations are also made, there is no system to pass that information to the top and take swift action based on that. This exclusion of the members from the credit management system has further distanced them from the credit system. Further, the members have not been able to get established a more useful and practicable credit system through the concerned bank. Under Farmer Bank a limited number of farmer organization leaders receive the opportunity to represent the ideas and aspiration of their members by becoming a member of the ADC level credit management committee. These farmer leaders cannot represent their members' aspirations and ideas beyond that level.

7.6.3.2 Conducting the Management by a Paid Staff

As revealed by investigations, instead of voluntary work as done under traditional microfinance institutions, paid work by a permanent and salaried staff recruited from among their well-performing members has become instrumental for further development, continuity and sustainability of the community banks studied. In this selection process, members who had sacrificed their time and rendered a great service to develop their village bank through building small groups or any other ways have been paid major attention. As their survival is assured by the bank by paying a salary they utilized much of their time for the development of the bank.

Under *Janashakthi* Bank all the officers at the village level banking units and above are paid officers. Even for the treasurers of the village level societies are paid a small amount (Rs.2000/- per month) to acknowledge her/his service. This is same with regard to Women's Cooperative Bank. In Nagaswewa Women Cooperative Bank there are 10 management committee members as well as 7 audit officers as paid officers/committee members. They are paid monthly about Rs. 4000/- each as their salary, although they had worked on voluntary basis until the bank became financially sustainable. The credit system linked with YWCA in Batticaloa is also managed by a paid staff. Social mobilizers are appointed from the villagers themselves. Their functions are forming small groups and village societies, granting credit and collecting the returning money. These officers are paid 20% of the profit earned from the loans granted by each of them.

Under Farmer Bank, the bank is managed by a paid staff at the Agrarian Development Centre level and below that. At the ADC level the FB is managed by a DO and the bank staff consists of two officers. But, at farmer organization and group level none is paid. Farmer leaders who are supposed to administer credit delivery and recovery work are involved in it on voluntary basis. Further, any other farmer, or small group leader is not remunerated by financial or material benefits on behalf of their services. Even, the *krupanisha*s who are involved in various activities at village level such as awareness creation and forming small groups regarding farmer bank credit scheme are not paid a special allowance or remunerations for their additional work other than their routine work to develop it. There are rules and regulations to pay a portion of profit from the bank to the relevant staff that covers *krupanisa* but not yet implemented. At present all *krupanisha*s working in bank or out of it or working or not working for the development of the bank are paid the same salary for their work.

7.6.3.3 Motivation of Staff and Members through Performance based Benefits/ Remunerations

Investigations revealed that under the community banking model microfinance schemes such as *Janashakthi* Bank staff as well as all members are well motivated to better perform their task associated with the credit scheme through recruiting to the posts of the bank/credit system or granting promotions and salary hikes associated with those posts or providing opportunity to the bank, groups and members to provide/obtain different type and amount of loans and other remunerations based on their performances which are assessed continuously. These assessments are done giving marks or rating done on the progress of the work. The other way of motivating is setting targets to perform activities in relation to the increase of bank membership and shareholding capital and promotion of savings and credit delivery and recovery.

The Janashakthi Banks are graded from supra grade and grades A,B,C,D awarded based on the performance criteria. By upgrading the bank its members as well as the officers can have more benefits. According to Table 7.4 that indicates the criterion of grading of *Janashakthi* Banks and the maximum size of the loans which can be obtained from each grade of bank, a supra grade bank can grant loans amounting to Rs. 15,000/- while a grade D bank can grant only Rs. 10,000/- loans. Further, supra grade bank can release three types of loans per borrower simultaneously. But, other banks can release only two types of loans. The salary of the bank staff also increases with the increase of the grade of the bank. Hence, both members as well as bank staff are much enthusiastic to improve the condition of their bank for the purpose of having a higher grade that will result in providing much remuneration for them. Table 7.4 indicates how the bank is graded and the sizes of loans that are obtainable from them.

Table 7.4: Ranking of Banks and Maximum Loan Amount Released

Rank	Annual Profit Over (Rs)	Obtainable loan size (Rs)
Super Grade	1,000,000	15,000
Grade A	800,000	12,000
Grade B	400,000	12,000
Grade C	150,000	10,000
Grade D	Less than 150,000	10,000

Source : *Janashakthi* Bank, Hambantota, 2013

Small groups are also graded as four categories from A to D. This categorization is also important to have certain benefits; only grade A group members are granted housing loans.

The criterion used to grade the small groups are; 1) All five members of the group should attend the village society meetings held once a month; II) Small group meetings should be held once a week; III) Cleared of overdue loans; IV) All five members should have purchased the relevant number of shares; V) Exercise labour exchange at least once a month; VI) Conduct consumption programmes such as purchasing items as a group; VII) Should have joined "*Divisarana*" insurance scheme by paying Rs. 50 monthly installment; VIII) Tidy Maintaining of record books

The groups that fulfilled all eight criteria above are the A grade groups. Others that fulfilled 6 or 7 criteria belonged to group "B". Those fulfilled 5 are "C" and others that fulfilled below 5 are group "D".

In *Janashakthi* Bank members are also categorized based on their performance in relation to the "criteria" introduced. Under that categorization "A" grade members are those who pay loan installments and loans on the due date. The "B" grade members are those who pay the loan late and "C" grade members pay loan on some day. "D" members are very poor in loan repayment. The "A" grade members are eligible for loans with higher amounts. Therefore the members are motivated to maintain their records at best possible scale in order to claim better benefits.

The managers of the banks are given targets to show profit based on the level of the bank. At the time of the survey, the top level bank units in Hambantota district were informed to show over Rs. 1.5 million profits.

Although there is no grading system in Women's Cooperative Bank considered under the study, continuous monitoring of all activities is systematically carried out by weekly assembled small group meetings, weekly assembled various sub committees and also by permanent audit officers of the bank. This would identify the better-performing members. These outstanding members will qualify to become paid staff members of the bank. Thus, the process has become a motivating factor.

7.6.3.4 Assurance of Other Benefits Other than Credit Facilities

Instead of providing limited services such as savings and credit expansion of services of the bank to other aspects related to the well-being of the member families, their stability and security has become a reason for the popularity and better attraction of people towards the bank and retention of customers.

Among the services insurance systems which are associated with the security of the people in risks and emergencies are significant. Facing risks in production and income due to frequent droughts, floods and pest attacks are common challenges among rural farmers and they face financial crises and hardships during family grievances such as death or illness. Both of the community banks studied, *Janashakthi* Bank and Women's Cooperative Bank have introduced a number of insurance schemes for the benefit of their members.

Under "*Divisarana*" insurance scheme of the *Janashakthi* Bank the members are entitled to receive financial grants in the occurrence of either death or hospitalization of a member or a family member. In the occurrence of a death of a family member Rs.5,000 is paid and in a hospitalization Rs.2000/- is paid in all, subject to the payment of Rs.200/- per day. For a brain, kidney or heart surgery up to Rs.25,000/- is paid. These monetary benefits can be obtained from village *Janashakthi* Bank unit. Any member of the *Janashakthi* Bank can become a member of the above scheme by paying only Rs.50 to the administrative assistant (*Sahaya Niyamaka*) of the village level *Janashakthi* Bank unit. Under the same insurance scheme students of member families, who passed the grade 5 scholarships or got through university entrance were granted financial and material (books) aids/benefits. By the *Janashakthi* Banking scheme the following benefits have been provided to its members in the past; for hospitalization of 448 persons. An amount of Rs.668,200/-, as death compensation of 45 cases: Rs.220,000/-, for brain and kidney surgeries: Rs.525,000/-, as financial and material aids for 67 Grade Five Scholarship holders: Rs.50,250/-and for 7 University entrants: Rs.7,000 was paid. People saving over Rs.5000/- under any savings scheme of the *Janashakthi* are automatically entitled to a death insurance payment of Rs.5000/-, hence are encouraged to save. Under this 285 families have received Rs.321,000 in the past.

Under Women's Cooperative Bank there are many insurance schemes initiated to attract and retain members with it. Those are "*Pathi Raksanaya*", "*Saranee Raksanaya*", "*Rakitha* 2&3", "*Arogya* Scheme", "*Subani* 1,2 & 3". Under "*Pathi (Raksanaya)"* scheme the husband is insured. The insurance premium will be decided based on his age limit; if the husband is over 55 over Rs. 60,000 will be paid. At the death of him Rs. 400,000 will be paid to the family.

Under "*Saranee*" scheme Rs. 1 should be paid a day and Rs. 365 per year. If the member dies Rs.100,000 will be credited to the unmarried children's accounts. If the husband dies Rs.535,000/- will be paid (if other insurance are also available) to the family.

Under "*Arogya*" insurance scheme within 5 years a payment of Rs.5000/- has to be completed and after that a yellow card will be issued and she will be entitled for surgeries worth of Rs. 400,000/-. The member is entitled to obtain medicines from a mobile medical centre or from a Colombo medical centre free of charge.

Under "*Rakitha* 1" insurance scheme the member has to pay a premium of Rs.5560/- if the membership period is less than a year and in the case of husband's demise she will receive an amount of Rs.50,000/-. Under *Rakitha* 2 if the membership period is over 5 years the premium is Rs.10,000/- and the member is entitled to Rs.100,000 at the death of the husband.

Under "*Surakitha*" insurance scheme loan repayments are secured. Within 5 years Rs.17,500/- has to be deposited. If the depositing period exceeds beyond 5 years Rs.25,000/- has to be deposited. If the member dies the loan repayment up to Rs.400,000/- will be settled or depositing same amount of money in the name of the deceased's children will be done.

"*Subanee* 1" scheme comes to the rescue by paying Rs.25, 000/- during an emergency such as death of a family member or close relative. The member should deposit Rs.3000/- to receive the benefits. Under "*Subani* 2" Rs.3000/- and under "*Subani* 3" Rs.4000/- has to be deposited. If additionally Rs.25,000/- is deposited Rs.50,000/- will be paid.

In addition to the above mentioned specific insurance schemes, *Janashakthi* Bank provides an insurance scheme to secure all members from indebtedness by insuring all loans obtained. For that 3% from the value of loans below Rs.50,000/- and 2% from the value of loans between Rs.50,000/- Rs.100,000/- and 1% from the loan over the value of Rs.100,000/ should be deposited in the bank.

Farmer Bank credit scheme and YMCA based credit scheme which are centralized credit schemes do not have their own insurance systems operationalysed. Hence, in a risk or emergency occasion there is no way to provide relief regarding the settlement of the loan balance. Providing of various insurance facilities by community banking model financial schemes not only for day-to-day agricultural production activities but also for other risks/emergency situations of the people has been instrumental in attracting people towards them and retaining them.

With regard to the Women's Development Federation in Hambantota which is the backbone of *Janashakthi*, holistic approach is the accepted principle. It believes that in order to empower women well it is necessary to empower them economically, socially, culturally and spiritually (Mitrarathna, 2009), therefore diverse activities related to education, health, agriculture, industries, religion and culture are being performed by separate arms of the Women's Development Federation, but JB's and their members' participation is obtained to implement them. Among social development activities performed are conducting awareness creation programmes and taking various action to prevent alcohol and drug menace, to prevent sexual abuse of women and children, to enhance nutritional level of pregnant women and children.

Similarly, Women's Cooperative Credit Institution is involved in various community development work and other activities related to economic, social, cultural and spiritual development of the communities of its members. Among these, supplying electricity and water facilities to its members' village by spending respectively Rs.250,000/- and Rs.150,000 from its own money is very important. For water supply Rs.150,000/- was allocated by the political authority. The activities performed by both *Janashakthi* and Cooperative Development Bank for religious and cultural development activities are organising *pirith* ceremonies and *dharma deshana* in their own premises and village temples, perform *kiri dana* cermonies, organize pilgrimages and picnics for their members and their family members. The Women's Development Federation in Hambantota also helps *Janashakthi* Bank members by providing its bus free of charge for pilgrimage or picnics.

Farmer Bank and YMCA credit schemes also performed same religious, cultural activities such as organizing *prith* chanting ceremonies at the Agrarian Development Centre once a year and participating in alms giving ceremonies. However, these were not organized at grassroots level that promotes relationships with village people. These banking schemes did not involve in other such as infrastructure development activities and other social works as performed by community banks mentioned above.

7.6.3.5 Transparency in All Activities

Transparency of all activities including financial transactions of the community banking schemes has resulted in building trust about them among their members. In *Janashakthi* as well as Women's Cooperative Banks all activities and financial transactions are performed with the consent of the members of its management units from bottom to top (small group to Management Board/Executive Committees). The financial transactions are checked by internal as well as external auditors. In *Janashakthi* Bank one regional secretary for every five banks is appointed and they are bound to review all activities of every bank weekly. In addition, internal auditors are appointed by the Women's Development Federation and every bank is audited biannually. Further, every bank gets audited annually by external auditors. Under Women's Cooperative Bank there is a team of auditors (auditors committee) in the bank as well. They audit all the transactions in every member group and bank. All members' loan requests as well as repayments are continuously audited by this team of auditors. These have been effective to develop trust on financial transaction and other activities of the referenced community banks among their members and communities.

CHAPTER EIGHT

Summary of Findings, Conclusion and Recommendations

8.1 Summary of Findings

The study examined the successful organizational arrangements, operational procedures, rules and regulations and strategies that have been adopted for the success of MFIs coming under different models with the purpose of applying them for the development of FB. Under the study credit systems belonging to two models were examined; Community banking and centralised models. As revealed from analysis the credit systems belonging to the community banking model seems to be more successful than the centralized model due to adopting of successful organizational arrangements, operational procedures, rules and regulations and strategies which are mentioned below.

8.2 Conclusion

The organizational arrangements and operational procedures demonstrated as very successful ones under MFIs coming community banking models are the ones experimented for a long time by not only the concerned MFIs of this study, but many others in the country and abroad. However, they are working well within our context. Hence, most of those can be adopted as same for the large scale MFIs like FB which can provide a greater service for a massive number of people covering everywhere in the country. Accordingly the following recommendations are proposed to promote FB by adopting the same lessons and experiences.

i. Under the community banking model, bank is very close to the members and often interacts with them so that they develop a sense of attachment towards it and take collective responsibility to develop it.

ii. Assurance of higher participation of members for outlining of rules and regulations of the credit system, managing it and monitoring its activities has also led to their success.

iii. All activities of the banks are transparent as they are discussed in small groups and in other forums, and accounts are audited by internal as well as external auditors. This has contributed towards winning the trust of its members.

iv. Conducting management activities by a paid staff recruited from among better performed members has allowed them to dedicate their full time for the development of the bank.

v. Encouraging all the staff of the credit system by setting targets for savings promotions, credit delivery, their recovery and earning profit etc and motivating them by linking their salary increments and promotions with their performance also have an impact on greater performance.

vi. Grading of individual members, small groups, village societies and banks based on their performance and providing benefits (different types of loans and their size) based on performance also have led to higher achievements.

vii. Continuous monitoring of the performances of every aspect of individual bank units and their members, small groups by the staff and different points of the management and taking prompt action to rectify mistakes have resulted in smooth functioning and sustainability.

viii. Expansion of services to a broader area covering insurance as well as other social and cultural services providing much benefit for the people has attracted more people to the bank.

8.3 Recommendations

i. The Farmer Bank has to get closer to the people as other successful microfinance schemes do. For the purpose, small group members have to be encouraged to involve in group activities that benefit each member of the group. As it is difficult to encourage all farmers who have a tight schedule with agricultural activities female members can be encouraged and their consent was checked in the survey.

ii. Availability of sufficient capital/assets is a core factor that provides the opportunity to grant lots of credit, insurance and other facilities that need finance. Members should be encouraged to save regularly by taking similar action as in community banking model MFIs; should be graded based on their performances including the rate of their savings, granting special loans such as housing loans to outstanding members. Savings promotions can be successfully encouraged as a group activity that women can do well. Hence, connecting the women's groups with the bank can be appreciated.

iii. Other indicated factors that led to the success of microfinance schemes such as ensuring transparency in all activities and transactions, taking members' participation and providing all benefits and services to members as well as the staff based on their performance etc. should be adopted with regard to Farmer Bank.

iv. Setting targets for farmers as well as officers involved in development of FB and grant incentives based on their achievement of targets as in community banking model FIs, are also important.

v. Taking action to provide attractive benefits to farmers via initiation of new credit schemes to satisfy their needs based on their requirements (loans for housing and festivals and alms giving etc.), initiation of insurance schemes etc.

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