Access to and Utilization of Microfinance by Rural Poor in Uva Province

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FOREWORD

The key reason behind the fast growth of microfinance service in many developing countries is the fact that it caters to the credit needs of those who have no easy access to formal financial institutions. Initially microfinance is seen as a strategy of poverty reduction and livelihood development, it is one of the important sources for the means for betterment of the social wellbeing of the poor. However, the facts published recently, related to many parts of the country specially in the poorest provinces have shown that many borrowers specially women who have been victimized due to inability to repay thus trapped into a debt cycle. This timely study undertaken by Hector Kobbekaduwa Agrarian Research and Training Institute reveals the ground reality of the structure and conduct of microfinance services among the poorest segment of the people in the country.

This report presents an in-depth analysis with detailed information on diverse aspects of microfinance services operating in a rural agrarian setting in the Uva Province which could be applicable across the border to other provinces. More importantly, the clientele of this study comprised of poorest rural agrarian households. Therefore, the findings and the conclusions are of significance as guidance for agrarian policy formulation as well. I congratulate the team of researchers who completed this study.

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Director/CEO

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EXECUTIVE SUMMARY

Microfinance (MF) is a widely used mechanism for poverty reduction in developing countries whilst in Sri Lanka MF sector has marked a remarkable growth during the last two decades. This study is a design to fill the information gap on outreach and usefulness of MF for the poorest segment of the people in Uva province of Sri Lanka. The sample comprised of 392 poorest households selected from seven Divisional Secretariats from Badulla and Moneragala districts and several data collection methods were used such as a sample survey, focus group discussions, case studies, key informant interviews, and survey of literature. MS-Excel and SPSS software version 20 used for the data analysis.

The analysis reveals, 83 percent of the sample households have access to microfinance institutes (MFIs) for obtaining loans. The rest are non-borrowers for two reasons; some dislike becoming debtors whilst others are being rejected by MFIs. It is evident that it is an inevitable burden rather than an advantage for the rural poor to get a loan from the formal financial sector. Instead, the growing MF sector has relieved this pain despite due burden on the households falling in debt trap. Nevertheless, preferable structural features such as convenient procedures, minimum documentation, group collaterals, service provision at the door step with minimized delays, and credit plus services make the services of MFIs more attractive. Repayment of installments are mostly encouraged through the field officers rather than visiting the branches.

Over 50 MFIs operate in the Uva Province either registered under the Lanka Microfinance Practitioners' Association or Non-registered Microfinance Institutes (NRMFIs). NRMFIs predominate in the provision of both micro-loans and high-value loans. Despite higher Interest rates around 30 percent per annum, Private Non-Banking Financial Institutes (PNBFIs) lead the sector though Government Non-Banking Financial Institutes (GNBFIs) have more service outlets in both districts. State Commercial Banks (SCBs), Private Commercial Banks (PCBs) and Non-Governmental Organizations and Societies (NGOSs) also play a role in the provision of loans.

Group loans with weekly installments are the prominent features of MF sector whereas credit plus services are added elements of the service though seldom found in few MFIs. Credit plus services is a must for the development and improvement of the borrower's capacity to initiate and continue self-employments.

Borrowers obtain loans for several purposes categorized as; agricultural activities, non-agricultural income generating activities, housing and personal matters. The study found that only 25 percent of the total number of loans issued by all the MFIs falls into the micro-credit category by literal definition (not exceeding Rs. 40,000). Major violators of the literal definition of micro-credit were PNBFIs in terms of number of loans issued. PNBFIs issue the hugest number of both high-value loans and micro-loans. Majority of the loans obtained for agricultural activities (68%) and non-agricultural income generating activities (43%) entirely utilize for the purposes that they are obtained. The rest is used for several purposes termed as “mixed purposes”. Around 2.6 percent loans are used for consumption purposes reporting one way of misusing loans. Both crop failures and collapse of income generating activities make the borrowers put in deep trouble. Contrastingly, 16 percent of loans are in arrears in repayment of one or more installments whilst 22 percent of the borrowers obtained loans to settle the previous debts. This portrays the picture how adversely the MF service has bounced back to the poorest households. Mostly the defaulted are the high-value loans and the PNBFIs predominate in the issue of high-value loans in this regard.

There is no sufficient evidence to prove that the households of borrowers differ from non-borrowers’ in socio-economic characteristics. It is also same with regard to households of investors’ and non-investors’. Thus MF service has failed to make a significant difference in the lives of poor rural agrarian people and in poverty reduction. However, significant relationships exist between socio-economic status of investor families and certain business characteristics such as invested loan amount, generated income and number of employments generated. No greater improvements are seen in housing facilities, children’s education, family health and transportation facilities. The only remarkable improvement is seen in terms of food consumption owing to use of income generated through various means. The only significant reason behind the investment decision is the involvement in an income generating activity at the time of obtaining the loans. Therefore, hands on experience on income generating activities is a critical criterion for the selection of rural poor if and when financial assistance is offered for investment opportunities.

The study concludes that a wider range of MFIs assure a greater choice and access to credit needs of the poorest in the Uva Province. Nevertheless, certain unattractive loan features from high interest rates computed at a flat rate and shorter repayment period to weekly installments make the poorest more vulnerable. Some households take a number of loans. The higher the number of loans obtained the greater the amount to be repaid so as the financial burden borne by the household. Borrowers admit that they are well-conversant with the effects and outcomes arising due to loans they obtained but it appears they cannot run the households without such loans. In other words, they are addicted to obtain more and more loans being helpless.

Therefore, it is recommended that it requires formulating a stated mechanism for regulating the MF sector in the country in order to avoid unfavorable socio-economic circumstances. It includes compulsory registration by MFIs, maintain a data base for the use by diverse stakeholders, re-define the term “micro-credit”, categorization of MFIs, disbursement of loans based on proper assessment of credit worthiness of the borrowers, strong monitoring mechanism to follow up credit investment, compulsory credit plus services offered by MFIs, convenient loan features, monitoring mechanism to follow up on the Code of Conduct, compulsory approval by the government for MFIs to intervene at village level and improve repayment ability of rural agrarian poor through entrepreneurship development and financial literacy programmes. It is essential that the repayment ability of rural agrarian poor need to increase *via* introducing and linking them with promising agro-based income generating activities including value addition to agricultural produce and by integrating agricultural insurance options for such agro-based investments by the Ministry of Agriculture.

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LIST OF ABBREVIATIONS

ADB	-	Asian Development Bank
ATM	-	Automated Teller Machine
BOC	-	Bank of Ceylon
CBSL	-	Central Bank of Sri Lanka
CRCS	-	Comprehensive Rural Credit Scheme
CRIB	-	Sri Lanka Credit Information Bureau
DS	-	Divisional Secretariat
DZLiSPP	-	Dry Zone Livelihood Partnership Support and Partnership Programme
FGD	-	Focus Group Discussion
GDP	-	Gross Domestic Product
GN	-	Grama Niladhari
GNBFI	-	Government Non-Banking Financial Institute
GND	-	Grama Niladhari Division
HARTI	-	Hector Kobbekaduwa Agrarian Research and Training Institute
HIES	-	Household Income and Expenditure Survey
IFAD	-	International Fund for Agricultural Development
KII	-	Key Informant Interview
LMFC	-	Licensed Microfinance Company
LMFPA	-	Lanka Microfinance Practitioners’ Association
MF	-	Microfinance
MFI	-	Microfinance Institute
MNGO `	-	Microfinance Non-Governmental Organization
NACS	-	New Agricultural Credit Scheme
NBFI	-	Non-Banking Financial Institute
NCRCS	-	New Comprehensive Rural Credit Scheme
NGO	-	Non-Governmental Organization
NGOS	-	Non-Governmental Organizations and Society
OFCs	-	Other Field Crops

PCB	-	Private Commercial Bank
PNBFI	-	Private Non-Banking Financial Institute
PPAF	-	Pakistan Poverty Alleviation Fund
RBM	-	Reducing Balance Method
RFBCS	-	Revolving Fund Based Credit Scheme
RRDB	-	Regional Rural Development Bank
SCB	-	State Commercial Bank
SEEDS	-	Sarvodaya Economic Enterprise Development Services (Gte) Ltd
TCCM	-	Thrift and Credit Cooperative Movement
TCCS	-	Thrift and Credit Cooperative Societies
VSCO	-	Village Savings and Credit Organization

CHAPTER ONE

Introduction

1.1 Background

Microfinance (MF) refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low income households and their micro-enterprises (Asian Development Bank - ADB, 2000). The above ADB definition emphasizes two important aspects; MF is exclusively for the poor segment of the society and for poverty reduction. Due to its significance on poverty alleviation, United Nations declared the year 2005 as the "International Year of Microfinance" aiming at building inclusive financial sectors to achieve Millennium Development Goals.

During the last two decades, the sector has marked a notable growth, both locally and globally. Globally, there is a remarkable growth in the number of borrowers, rising from approximately 13 million in 1997 to 211 million by 2013. The eight million poor borrowers had increased up to 114 million during the same period. As cited in Cull and Morduch (2017), Asia and Pacific region reported the highest number of borrowers (166.9 million) while Sub Saharan, Latin America and Caribbean regions recorded the lowest (15.9 million and 17.4 million).

Similar interventions of countries in the South Asian region has influenced microfinancing for rural development and poverty reduction in Sri Lanka. It is functioning through an ever expanding institutional network at the grass root level. A survey undertaken by the Lanka Microfinance Practitioners' Association (LMFPA) in 2006 revealed that there has been over 14,000 MF providers in Sri Lanka (LMFPA, 2011b). The sector which was initially operated in the Southern part of the country was later expanded to Northern and Eastern parts with the ending of the ethnic conflict. Whilst a variety of institutions are involved in MF sector, Non-Banking Financial Institutes (NBFIs[1]) play a major role with a marked growth from the 31 percent share from total number of loans issued in 2015 and 39 percent in 2016 (LMFPA, 2016b).

Microfinancing is a strategy widely used for poverty reduction in many developing countries with low per capita income and low rates of savings, consequently leading to low investments and ultimately to low productivity, generating a low income. Thus, people remain in the vicious circle of poverty. MF comes into the scene in between the low investment and the low income points breaking the vicious circle of poverty at that point. Given this context MF is seen as a promising alternative for

[1] NBFI is a financial institution that does not have full banking license and cannot accept deposits from the public (World Bank, 2018).

poverty reduction, livelihood development, coping vulnerabilities and improving social wellbeing of the poor. By focusing on the area with the highest percentage of the poorest population in the country, the present study attempted to assess how this service is rendered to the most vulnerable segments of the society with their response on the service they enjoyed.

1.2 Problem Statement

The foregoing discussion on MF related aspects, both local and international exemplify that MF service is a fast growing movement worldwide. As it is well known, MF services are launched aiming at upgrading the living standards of the poorest households and the socially marginalized people. Then the questions arise how far these services have fulfilled the MF needs of the poorest segment of the society? To what extent they have been utilized and what outputs generated?

Studies undertaken to date in the related discipline, have certain limitations. Most studies focused on the supply aspects of MF giants in the country, *viz.* Samurdhi Programme, SANASA and Sarvodaya Economic Enterprise Development Services (Gte) Ltd (SEEDS) (Aheeyar, 2007; Jayasuriya, 2007 and Thibbotuwawa *et al.,* 2012). Chandrakumara (2012) recently undertook a study based on secondary information. The study by Tilakaratna, Wickramasinghe and Kumara (2005) was a comprehensive study which elaborated the status prior to ethnic conflict in the country. Demands by the poor, utilization, associated benefits and feedback towards the MF service are unapparent, though such demand side response is a prerequisite for a successful policy intervention in the MF sector of the country. The researchable questions that stem from the needs and shortcomings of aforementioned are; needs and desires of the poor related to MF, share of the poor who already had or had not access to MF, coverage of the poor by these MF service providers, their procedures of MF service providing, reasons behind the inaccessibility of MF by certain poor, invested areas of MF by poor, how the MF affect the poor in terms of poverty reduction and problems faced by the poor when obtaining, utilizing and repaying loans.

In the above context, it is worthwhile to assess how much debt owes to creditors by the poor, the struggle they make to repay loans and related legal and institutional aspects in order to develop more appropriate policy interventions. In essence, the problem statement is finding whether MF sector has properly targeted and approached the neediest (poorest) category of the population and contributed to uplift their living standards. This undertaking will serve the purpose of filling the said information gap through conducting a comprehensive survey covering the areas with the poorest population living in the Uva province while paying equal attention to both supply and demand aspects of micro financing in the area.

1.3 Main Objective

The prime objective of the study is to ascertain the outreach of MF among the rural poor in the Uva Province, Sri Lanka and its usefulness.

1.3.1 Specific Objectives

- Ascertain structure and conduct of MF service among rural poor in the Uva Province, Sri Lanka
- Assess to which extent the poor utilize loans for income generating activities with outcomes
- Propose implications for policy that help to improve the contribution of microfinancing for the wellbeing of the rural poor

1.4 Study Methods

1.4.1 Study Location and Sample

The Department of Census and Statistics (2015a) reports that the poorest population in Sri Lanka is 1,339,000 in 2012 with the highest percentage in the Uva Province amounting to 14.2 percent. This led to select Uva Province as the most appropriate location for the current study. Major livelihoods of the population in the Uva province are associated with the cultivation of paddy, other field crops (OFCs[2]) and vegetables. They are also involved in livestock farming including cattle, goat and poultry. Honey and kithul treacle production, inland fishing and fruit cultivation (mango, papaya and orange) are also income generating activities of the people but to a lesser extent. The province has two administrative districts; Moneragala with 11 Divisional Secretariats (DSs) and Badulla with 15 DSs. The sample selection consisted of three stages and the relevant details are presented in Table 1.1 and Table 1.2. Number of the poorest households in DSs stated in Table 1.1 was used to calculate three percent of sample for each DSs as mentioned in Table 1.2.

Stage 1: Based on the data available at the planning divisions of the respective District Secretariats of two districts, DSs were selected (Figure 1.1) to represent prominent agricultural activities in the districts namely; paddy cultivation, production of OFCs, vegetable cultivation and livestock rearing. Accordingly, four DSs from Moneragala were chosen to represent those four activities whereas three DSs from Badulla district were chosen to represent the crop variations as Rideemaliyadda DS is prominent for the cultivation of both OFCs and paddy.

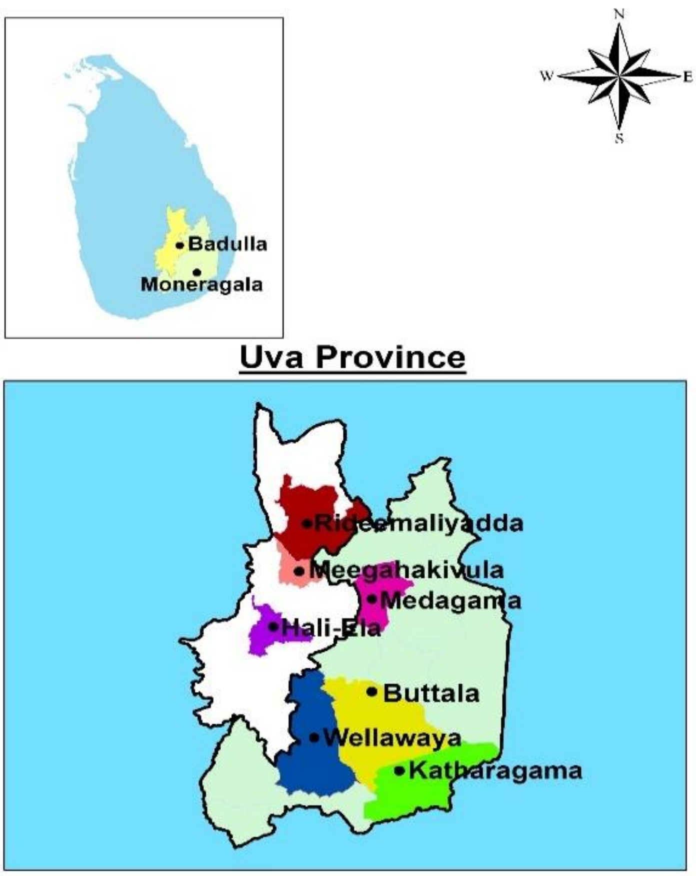
Stage 2: The poorest Grama Niladhari Divisions (GNDs) were selected using Poverty Index constructed based on the selected indicators[3] such as income levels, housing conditions, educational status and employment of the people in each GNDs. The data gathered on the above indicators were normalized using min max method.

[2] Maize, mung bean, finger millet, sesame, groundnut, red onion and big onion.

[3] Data were extracted from resource maps of Hali-Ela, Meegahakivula, Rideemaliyadda, Wellawaya, Medagama, Kataragama and Buttala DSs.

Weighted averages were calculated by assigning weights to the indicator values and overall weighted average was calculated as the Poverty Index. At the end, eight GNDs from Badulla district and fourteen GNDs (Appendix 1.1) from Moneragala district were selected to the sample to capture the diversity within the districts.

Stage 3: The target population of the study was the poorest segment of the people in the rural setting. Therefore, selecting the poorest households for the sample was a must although was a challenge because at an expertise meeting held at HARTI revealed that the Samurdhi recipient list does not ideally represent the real poorest as all Samurdhi beneficiaries are not poorest and *vice versa*. Therefore, it was decided to select the real poorest based on the electoral list in consultation with respective Grama Niladhari (GN) in each GND because he/she is more knowledgeable of the socio-economic status of the families in his/her division. The sampling process completed by selecting 392 poorest households, comprising three percent poorest households proportionately distributed among the selected DSs and the GNDs (Table 1.2). Even though the sample included a number of households who were employed in the public sector and having vehicles (motor cycles, small lorries and small vans) in most instances they were recipients of MF services and the poorest according to GN's assessment.



Source: Author's Illustration based on Survey Department of Sri Lanka

Figure 1.1: Map of Study Locations in the Uva Province

Table 1.1: Distribution of Poorest Population in Selected DSs in the Uva Province

District	Divisional Secretariat	No. of Poorest People in DSs	% Out of Total Poorest Population in Sri Lanka	No. of Poorest Households in DSs*
Badulla	Meegahakivula	2,826	0.21	673
	Rideemaliyadda	7,361	0.54	1753
	Hali-Ela	7,915	0.59	1884
Moneragala	Kataragama	3,219	0.24	766
	Medagama	8,245	0.61	1963
	Buttala	9,597	0.71	2285
	Wellawaya	10,584	0.79	2520

*Estimated based on total poorest population and district average family size (4.2)
Source: Spatial Distribution of Poverty in Sri Lanka - Department of Census and Statistics (2015b)

Table 1.2: Details of the Sample Assessed in the Study

District	Divisional Secretariat	Selection Criterion	No. of Selected Poorest Families in DSs	District Total
Badulla	Meegahakivula	Livestock Rearing	21	141
	Rideemaliyadda	Paddy and OFC Production	57	
	Hali Ela	Vegetable Cultivation	63	
Moneragala	Kataragama	Vegetable Cultivation	25	251
	Medagama	Livestock Rearing	64	
	Buttala	Paddy Cultivation	74	
	Wellawaya	OFC Production	88	
		Total	**392**	**392**

Source: Author's Estimation based on Table 1.1

1.4.3 Data Collection Methods

The sample included both borrowers and non-borrowers. Data were collected from the entire sample irrespective of whether they are borrowers with respect to years, 2016 and 2017. The analyses were based on data collected from both primary and secondary sources. Field survey, focus group discussions (FGDs), case studies and key informant interviews (KIIs) were among the data collection methods. Field survey was conducted by administering semi-structured questionnaires to collect data from both the borrowers and the non-borrowers through personal interviews conducted by the research team with the assistance of statistical staff and trained graduates at the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI).

The number of KIIs conducted to collect data from lending personnel was 14 (Appendix 1.2)[4] and the interviews covered aspects relating to the structure and conduct of each microfinance institute (MFI) functioning in the study villages. FGDs were conducted with borrowers regarding how loans affected their livelihoods, employment generation, consumption pattern, coping vulnerabilities and family wellbeing. Information related to problems encountered in obtaining, utilizing and repaying loans, advantages and disadvantages of dealing with MFIs were also gathered during FGDs. One FGD was carried out in each DS covering selected seven DSs. In addition, case studies were conducted to gather qualitative data on success and failures referring to MF and poverty impact.

Secondary data were collected from published reports, online sources and publications of government organizations including Department of Census and Statistics, Central Bank of Sri Lanka (CBSL), DSs, LMFPA and MFIs in study villages.

1.4.3 Data Analysis and Analytical Techniques

Data were analyzed using both descriptive and inferential statistical tools using MS-Excel and SPSS software version 20. The data collected to achieve specific objectives and analytical methods employed were specified under each section below.

Specific Objective 1: Ascertain structure and conduct of MF service in the Uva Province of Sri Lanka

The following aspects were assessed based on the data collected from the field survey (Appendix 1.3).

- The portion of the poor already had/had not access to MF
- To what extent the diverse MF service providers cover the poor?
- How do they carry out services among the poor?
- Why certain poor have/have not access to MF?

[4] Appendix 1.2 presents the list of lending personnel interviewed in this survey.

Specific Objective 2: Assess to which extent the poor utilize loans for income generating activities with outcomes

Under this specific objective the following aspects were studied.

- What are the MF related needs and aspirations of the poor?
- What are the reasons for obtaining loans by the poor?
- The portion of the poor already had invested loans in income generating activities?
- What are those enterprises?
- Are they new or already existing enterprises?
- Have they invested the entire loan on the enterprise?
- If not what portion and why?
- What are the effects of such micro enterprises in terms of income increase, employment generation and expansion of enterprises?
- Why if the poor have not invested loans in income generating activities?
- What are the problems the borrowers face in obtaining, utilizing and repaying loans?

In addition to above, a scoring matrix was constructed for each household based on ten indicators that reflect the socio-economic status of the households. Appendix 1.4 lists out those indicators[5]. Among the selected socio-economic variables education is represented by the score constructed based on level of education of both husband and wife. Similarly, transportation facilities by the score constructed using the satisfaction towards the mode of transportation the family members used, safety of mode, and the cost of transportation and health by the score constructed using the satisfaction towards the health service they obtained from private and government hospitals and/or dispensaries. All the indicators except family income were measured based on a three-point Likert scale of 1,2,3 and were summed up to obtain an overall score with a potential for earning maximum of 30 points and minimum of 10 points. The socio-economic status of the household was determined based on the total score earned by them as shown in Table 1.3. As per the directives by several literature sources (Department of Census and Statistics, 2002; Romeshun and Mayadunne, 2011 and Mapping of Living Conditions in Lebanon, n.d.) the analysis was finally focused to test possible associations between the socio-economic status of families and certain MF related aspects such as investment on income generating activities, obtaining loans and business characteristics.

[5] Appendix 1.4 presents the socio-economic variables in detail such as construction material for walls, material for floor, material for roof, source of drinking water, energy source of cooking, educational status of husband and wife, satisfaction of the services obtained from private and government hospitals/dispensaries, satisfaction of transportation facilities obtained by family members, monthly income of the family and ownership of home garden.

Table 1.3: Improvement of Socio-economic Status of the Households

Observed Score	Socio-economic Status of Family
10 – 16	Poor
17 – 23	Average
24 – 30	Well-off

Source: Author's Estimation based on Scoring Matrix Values

The scoring matrix was correlated with the business characteristics of the family to determine whether the relationship between those variables exist or not through the test of correlation and the chi square test where applicable. Comparisons of scoring matrix using T-test were made to compare the socio-economic status of families between the credit borrowers' and non-borrowers' and investors' who have invested on income generating activities and non-investors'.

1.5 Organization of the Research Report

The introductory chapter follows the second chapter which is an overview of microfinancing sector in Sri Lanka and worldwide. Third chapter presents outreach of MF sector in Uva Province and the fourth chapter discusses utilization and effectiveness of loans in light of the results of the current study. The final chapter concludes the report by providing final policy recommendations.

CHAPTER TWO

An Overview of Microfinancing

2.1 Introduction

This chapter presents an overview of microfinancing which also became an input for designing of this research and achieving anticipated outputs. Initially, the chapter explores the nature of expansion of the industry over time during 20th century through a review of sectoral history from institutional, legal and financial viewpoints both locally and globally. The main focus of the second section is on methodological aspects of academic involvements in the sector that led to identify information gaps and researchable issues.

2.2 Current Status of Microfinance Industry in Sri Lanka

The MF sector in Sri Lanka recorded a rapid growth during the last 20 years. According to a study carried out by LMFPA in 2006, there were over 14,000 MF providers in Sri Lanka but the active institutes were less than that of (LMFPA, 2011b). As mentioned in the German Technical Cooperation Agency - Promotion of the Microfinance Sector (2009) which provides information on the geographical outreach of MF outlets shows that nearly 24 percent of the outlets are located in the Southern Province whereas the least amount (5%) is in the Northern Province. The end of civil war made way for expansion of the MFIs in Northern and Eastern Provinces in the country.

The total number of clients served by is still a question because of overlapping and multiple account ownership. Nevertheless, 90 percent of MF clients are from rural areas. More than half of private MFI's loans were issued to poor people who earn less than Rs. 3,000 per month (German Technical Cooperation Agency - Promotion of the Microfinance Sector, 2010). Loan portfolio of all MFIs was Rs. 60 billion excluding SANASA Federation and Cooperatives in 2010. Over Rs. 3 billion was reported as the highest outstanding loan amount by the SEEDS. In Sri Lanka, 60 percent of the total borrowers are females. MFIs mainly focus on women being the most vulnerable group in the society (LMFPA, 2011b).

As cited in the LMFPA (2016b), the highest number and the proportion of clients (55% in 2015 and 45% in 2016) were those received loans from cooperatives of which SANASA was the predominant MFI providing loans for over one million clients. Number of clients of NBFIs has increased from 31 percent in 2015 to 39 percent by 2016 suppressing the client base of other MFIs. There is a rapid increase in female borrowers within one-year period (from 73% in 2015 to 84% by 2016). At the same time as stated in Department of Development Finance (2017), Rs. 263 billion stood as outstanding loan portfolio of major government MFIs by end of 2017. The total amount was distributed among Regional Development Banks (49% -Rs. 128 billion), Cooperative Rural Banks (28% - Rs. 75 billion) and Divineguma Community based Banks (20% - Rs. 54 billion). Yet, the industry is growing with new technologies to provide the service better and quicker.

2.3 Government Credit Schemes and Micro-credit Schemes in Sri Lanka: The History

Microfinancing is vastly used as a tool of poverty reduction in many developing countries. The MF sector in Sri Lanka dates back to the establishment of Cooperative Societies under the Cooperative Credit Societies Ordinance introduced by the British colonial administration in 1911 (Chandrasiri, 2005). By 1926, there were 315 Cooperative Societies of which 290 were Cooperative Credit Societies. These societies granted Rs.0.4 million in the year 1926. SANASA, which started in 1906 with the name of "Thrift and Credit Cooperative Movement" (TCCM) was successful as the prominent financial provider in the rural sector. With the establishment of the Peoples' Bank in 1961, the government involved in providing credit to small holder farming community. The establishment of the People's Bank in 1961 marks an important milestone in the state sector involvement in microfinancing services which ensured provision of credit to the small holder sector of the country. With the objective of serving the rural sector, The People's Bank established number of branches to grant cultivation loans to rural farmers through the credit departments of the Multi-Purpose Cooperative Societies called "Rural Banks".

Due to malpractices observed in the prevailing agricultural credit scheme, in 1967 a new scheme came into operation in the name of ''New Agricultural Credit Scheme'' (NACS). Under this scheme agricultural credit functions were assigned to the People's Bank ending 30 years credit management functions by the government. People's Bank failed to recover cultivation loans issued under NACS and as a result of that "Comprehensive Rural Credit Scheme" (CRCS)[6] was introduced. CRCS covered a number of areas including paddy and several other crops fulfilling credit needs of the farmers such as consumption, housing facilities and credit payment. Despite the wider coverage and the large amount of loans disbursed by the CRCS, there was not any improvement in the recovery rate. In 1986, it was replaced by the "New Comprehensive Rural Credit Scheme" (NCRCS) with the inclusion of several innovative features such as line of credit, area approach, roll-over facility and dispense with inter-se guarantee requirement. Under the NCRCS, Thrift and Credit Cooperative Societies (TCCS)[7] were recognized as the junior partners for banks to implement cultivation loan schemes (LMFPA, 2016a). Then, Regional Rural Development Banks (RRDBs) were established in 1985 to facilitate credit to rural areas. These banks played both roles; development and commercial, confined to a district; involved diverse objectives including the promotion of agricultural, fisheries, commercial, industrial and other development activities. "Janasaviya" programme

[6] Implementation of CRCS was intended through Cooperative Rural Banks and Bank of Ceylon sub offices located in Agrarian Services Centres (LMFPA, 2016a).

[7] TCCSs issue loans only to their members but they accept deposits from non-members as well and their financial services are covered under the Cooperative Law (LMFPA, 2011b).

was launched in late 1980's as a poverty alleviation programme where the aim was to develop human resources of the poor segment in the society. Due to various challenges faced by this programme, it eventually provided a background for the emergence of a more sustainable rural development strategy, which could facilitate the poor with more efficient use of their resources and capabilities (Sharmini and Weerakkody, 1995). "Revolving Fund Based Credit Scheme" (RFBCS) was introduced in 1993 by the Ministry of Agriculture Development and Research in order to facilitate easy access to credit by small farmers and to expand such credit under easy loan conditions.

"Samurdhi" scheme launched in 1994 became the predominant national poverty alleviation programme in the country. By targeting 1.2 million poor families, Samurdhi programme safeguards the contribution of the poor in production process in the country (Ismail *et al.,* 2003). It is also one among the largest microcredit and social mobilization programmes functioning in over 32,000 village level societies and over 1,000 bank branches operating all over Sri Lanka (Jayasuriya, 2007). As cited by Edirisinghe (2018), Samurdhi[8] programme facilitated the majority of Samurdhi beneficiaries to meet their credit needs. It was the only solution available for them to escape from trapping in private money lenders to a certain extent. In 1995, "Govijana Bank" was established under the Agrarian Services Act to provide financial assistance to the farming community under reasonable interest rates through Agrarian Services Centres. Department of Agrarian Services became responsible for the implementation of this credit scheme (Chandrasiri, 2005).

"Gemidiriya" is another recent project that mobilizes Village Savings and Credit Organization (VSCO), the functional body of peoples' company. Sources also reveal that recently concluded Dry Zone Livelihood Partnership Support and Partnership Programme (DZLiSPP – 2006-2012) funded by International Fund for Agricultural Development (IFAD) had launched a MF programme called ISURU (Small Farmers and Landless Credit Project) to start and sustainably maintain income generating purposes through effective credit delivery systems. In this context, village level banks are directly linked with Regional Development Banks as they ensure the continuity of the services (Perera, 2016). As cited in Chandrasiri and Jayatissa (2016), credit supply was under "Bhagya" credit scheme with the supervision of the CBSL. State and regional banks had involved in this process and the CBSL had provided refinance facilities.

Grama Shakthi Peoples' Movement is the government's recent intervention on poverty alleviation which was launched in 2017 and its objective is to free the country from poverty. The main theme is that, all requirements of the people living in 15,000 villages will be fulfilled by 2020. His Excellency The President of Sri Lanka Maithripala Sirisena emphasized that every citizen should join this Peoples' Movement as a national responsibility to get rid-off the poor from poverty. The

[8] Under Samurdhi Banks Law, Samurdhi banking societies operate and there were 1,042 banks with more than 2.5 million members by 2011 (LMFPA, 2011b).

ultimate objective is to establish 5,000 people governed GNDs by 2020. Some benefits that would be obtained by the beneficiaries are uplifting of livelihoods, state funding, provision of financial support to develop businesses among the community and getting the assistance from the private sector to develop rural entrepreneurship. Other benefits include, providing development and research facilities to eradicate poverty in collaboration with the state and private sector, development of the rural agricultural entrepreneurship based on the new technology and innovation ideologies (Presidential Secretariat, 2017).

2.4 Non-state Sector Involvement in Microfinancing in Sri Lanka

A plethora of non-state sector initiatives on microfinancing can be traced in the literature. The Janashakthi banking system[9] was a Non-Governmental Organization (NGO) which was functioning in Hambantota district. It provides financial services and employment opportunities to their member women who were poor (Sharmini and Weerakkody, 1995). Young Women's Christian Association (YWCA) credit scheme was originated from a nutritional promotion programme in 1988 for women and children. The target group was pregnant and lactating mothers and children. Later it was converted to a credit scheme of poor women. Main objective of this credit scheme was to encourage young women to initiate income generating activities in poverty stricken areas with credit. This credit scheme was operated in the Batticaloa district (Chandrasiri and Bamunuarachchi, 2016).

1990 demarcates the decade of NGOs involvement in MF sector in Sri Lanka. It became necessary that NGOs are registered under the Social Services Act to contribute to social activities in MF sector (LMFPA, 2016a). The NGO Secretariat of Sri Lanka is authorized to supervise and evaluate International NGOs as well as NGOs in Sri Lanka functioning as MFIs. The NGO Secretariat undertakes this procedure at national, district and divisional levels as per media sources.

One among the predominant non-government organizations in this sector is Sarvodaya Shramadana Movement founded by Dr. A.T. Ariyarathna and later renamed as Sarvodaya Development Finance Limited. The major principle of this organization is needs based credit supply against demand driven supply to avoid over indebtedness of rural sector (Sarvodaya, 2016). Sarvodaya mobilizes the community members for self-help work and sharing of labour (Perera, 2016).

Since mid-1990s, there was substantial growth in MF sector all over the country but almost all the MFIs operated in isolation. Need of coordinating body for MFIs was emerged during that period as in other countries. This need was met through establishing LMFPA (LMFPA, 2011b).

[9] Economic arm of Janashakthi banks was the Women's Development Federation that established in 1989 (Chandrasiri and Bamunuarachchi, 2016).

LMFPA[10] was established in March 2006 to enhance the ability of the members to provide quality financial services to grass root communities. It was also recognized and accepted by the CBSL as the coordinating body for MFIs in Sri Lanka. Currently LMFPA comprises of 19 ordinary members, 13 associate members and 30 fellow members. Few key objectives of this legal entity among many are to promote membership among MFIs, to promote adoption and installation of internationally accepted performance standards in MFIs, to promote expansion of the formal financial markets as MF services and to develop systems for the collection of information, analysis and dissemination through electronic and print media (LMFPA, 2011b).

2.5 The Legal Facets of Microfinancing

Regulation and supervision of all the entities involved in finance sector is a prerequisite for good governance. Microfinance Act and the code of ethics for Microfinance are two key instruments in the country. After several attempts made over a decade, the Parliament of Sri Lanka enacted Microfinance Act No.06 of 2016 to provide license, regulate and supervise the MF entities in Sri Lanka. Once these companies are legalized, called Licensed Microfinance Companies (LMFCs) and are regulated and supervised directly by the Monetary Board of the CBSL. NGOs registered under the Voluntary Social Services Organizations Act can also be registered as Microfinance Non-Governmental Organizations (MNGOs)[11] (LMFPA, 2016a).

According to the definition stated in the Microfinance Act No. 06, a MF business is a business which accepts deposits and provides financial accommodation in any form, provides other financial services or provides both mainly to low income people and micro enterprises (Government of Sri Lanka, 2016). By implementation of the Microfinance Act, the delivery of financial services was ensured to low income people and to MFIs through an efficient, stable and secured financial system.

2.6 Code of Conduct for Microfinance Practitioners in Sri Lanka

The prime objective of MFIs is to provide financial assistance to low income people in the country while providing social benefits for them. LMFPA has recognized the importance of core values and fair practices when dealing with the clients as the regulating body of MFIs to safeguard the sustainability of this industry. Hence, LMFPA introduced A Code of Conduct (Appendix 2.1) for its member MFIs on 24th July 2018 with ensuring the highest level of professionalism, ethical conduct and good governance. The Code of Conduct thoroughly states that it is acting as a

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[10] LMFPA is registered as a Guarantee Limited Company under the Companies Act No. 07 of 2007 (LMFPA, 2011b).

[11] MNGO refers to a non-governmental organization registered under the Voluntary Social Services Organizations (Registration and Supervision) Act, No. 31 of 1980 and issued with a certificate of registration by the Registrar of Voluntary Social Service Organizations under this Act to accept limited savings deposits (Government of Sri Lanka, 2016).

powerful document to shape the functions of MFIs which includes avoiding over indebtedness, maintenance of transparency and healthy competition, loan disbursement and recovery practices, development of a feedback mechanism, information sharing and maintenance of quality of the staff of the MFIs and breaching of Code of Conduct. Seventeen member MFIs of LMFPA consented to the Code of Conduct (LMFPA, 2018).

2.7 Current Trends and Status of Microfinancing: Global Context

Media sources reveal that two billion in the world's population including rural population, women and poor do not have access to formal finance. Over 50 percent of poor adults do not have bank accounts and 64 percent of women and children in world are excluded financially.

Widely spread, these micro financial systems have been identified by the poor worldwide as promising means of finance than major financial institutions. South Asia, Sub Saharan region and Latin America have vast demand for MF services. In South Asian region, demand for the service and the number of functioning MFIs are varied from country to country. Extent of coverage of MFIs in South Asian countries is determined by various factors such as modes of delivery mechanism by which credit is disbursed, historical context of the country, institutional framework and extent of competition (Alamgir, 2010). In India, there are four Credit Bureaus and they have the largest micro-savings programme in the world. Of the total, 95 percent of customers in India have been linked with this programme.

Microfinancing has been used since many decades by many developing countries as a tool for poverty reduction (Tilakaratna, Wickramasinghe and Kumara, 2005). In Sri Lanka, CBSL has enacted the Microfinance Act in 2016 to safeguard both clients and the MFIs. Still no licenses were issued by CBSL. NGOs were not absorbed by this act. Sri Lanka Credit Information Bureau (CRIB)[12] is the authorized entity to issue credit reports to MFIs in Sri Lanka. CRIB is using web based technology to provide faster service. Credit Score was prepared by the CRIB as a tool for MFIs and small and medium sector to take credit decisions. In Sri Lanka, HNB Grameen Finance Ltd. has introduced ATM machines recently to provide faster service to rural customers and to save their time. Cost for that service also should be borne by the client to a certain extent. All the MFIs have to incur the cost of financial security.

A well-developed and matured MF sector is found in Bangladesh due to pioneering involvement by Prof. Mohammed Yunus, the founder of "Grameen model". Of the total sectoral share of the finance sector in Bangladesh, one third (1/3) is covered by MF where the key strength is strong digitalization in finance sector. There was a constructive argument towards the digitalization of MF sector as to how it is possible

[12] CRIB helps to reduce credit risk and client indebtedness. CBSL, commercial banks, six licensed specialized banks, registered finance companies, regional development banks, some leasing companies and merchant banks are its share borrowers who are serving at present by the CRIB (Gant *et al.,* 2002).

to reduce the paper cost be borne by the client. Of the borrowers, 90 percent are women and their literacy rate is nearly 50 percent. This has made the digitalization is relatively problematic in Bangladesh. In Bangladesh, multiple borrowing is popular and at the same time repayment rate is also high. Grameen model invented by Prof. Mohammed Yunus in Bangladesh in 1976 laid the foundation for microfinancing sector worldwide. Wide-spread among many developing countries, this model functions based on groups of five persons. Prior to granting a loan, the group requires attending a training programme where they are taught about the rules and regulations of the bank for one week. If the bank is satisfied with the group, then loans are sanctioned. With the guidance of group members each member identifies the purpose of his/her loan. The Grameen Bank[13] has set up a system to overcome problems of loan defaults. Also, groups may encourage and support a member who cannot repay in terms of reasonable difficulty (Chandra Shil, 2009).

Nepal is a country with a strong lending mechanism. The Rastra Bank in Nepal has conducted financial literacy programmes for rural poor to encourage mobile savings among the clients. Client Protection Policy was enacted to safeguard the poor clients. Among the developing countries, this system is most popular in Nepal due to several reasons. Targeting the poor, lack of collaterals, door to door service, repetition and increase in the volume of loans, good repayment, focus on women, fast growing, managed by banking professionals and impact on marginalized groups are characteristics of Nepal system. As mentioned in Alamgir (2010), Pakistan Poverty Alleviation Fund (PPAF) has taken efforts to alleviate poverty through a significant driver to increase the MF.

Non-regulated MFIs functioning in Latin American countries focus on lending in less urbanized areas. NGOs are recognized as the most significant non-regulated MFIs within this region (Navajas and Tejerina, 2006). As stated in Westley (2006), commercial banks provide MF services and it has now become a common trend in Latin American countries. Some banks in Peru and Ecuador are providing MF for business purposes whereas some banks in Honduras, Ecuador and Chile are adopting MF as a new product.

The situation in Sub-Saharan Africa is totally different in point of access to deposit and credit facilities from formal sector. Poor in these countries have restricted access to formal financial institutions. MFIs are emerged in Sub-Saharan Africa to fulfil the financial needs of the poor and some have focused on provisioning of credit only, some are involved in deposit collection only while others are aimed at providing both deposit and credit facilities. In these countries, growing demand for both savings and credit facilities are reflected by growth and existence of cooperative banking and combined savings and credit institutions in MF sector. Unlike in other developing countries where MF exist, governments play a major role in promoting

[13] Grameen banking system is a mutual accountability system based on peer group lending structure (Chandra Shil, 2009).

and enhancing MF sector by formulating laws, regulations and rules with effective supervision of this sector for the sake of poor population (Basu, Balvy and Yulek, 2004). Despite commercial banks which provide formal financial facilities to the people world over, microfinancing is the most popular and emerging informal financing for poor in the world as a measure of poverty eradication.

2.8 Methodological Review of Microfinance Related Research done in Sri Lanka

With the emergence of MF sector in Sri Lanka many studies have been undertaken in this field during the last decade. Most of the studies viewed MF as a tool for poverty reduction and have attempted to assess the impact and the effectiveness of the MF sector. The objective of this methodological review will be to differentiate the present study from those studies undertaken with special reference to area specificities and sample selection. Tilakaratna, Wickramasinghe and Kumara (2005) have conducted a household level analysis in 17 districts which covered 1,500 households in 50 GNDs prior to ethnic conflict in the country excluding Northern and Eastern provinces. This study reveals a significant association between income groups and loan amounts obtained and confirms a significant correlation between loan amounts and household expenditure.

There are some studies too that excluded Northern and Eastern part of the country and limited to few districts in Sri Lanka (Jayasooriya, 2007; Herath, Guneratne and Sanderatne, 2015; Kaluarachchi and Jahfer, 2014; Colombage, Ahmad and Chandrabose, 2008 and Aheeyar, 2007). Among them, most of the studies were undertaken to analyze the impact or effectiveness of microfinancing for poverty alleviation.

Herath, Guneratne and Sanderatne (2015) undertook an impact assessment of microfinancing with special reference to empowerment of women who are benefitted by SANASA and Sarvodaya in Kandy district based on two selected MFIs estimated through Women's Empowerment Index and binary logistic single equation model. The study reveals that age of household head, household income level before taking micro-loans and availability of market for crops are significantly associated with women's empowerment. This binary logistic single equation model is statistically significant and market availability for products is the only significant amongst the explanatory variables that affects women's empowerment. Rural women did not have opportunities to initiate businesses as they are not allowed in formal financial system. SANASA and Sarvodaya allow such women to overcome these barriers.

Colombage, Ahmad and Chandrabose (2008) covered five districts in their study including clients and non-clients of Community based Organizations; Sarvodaya Economic Enterprise Development Services, Women's Development Federation, Social Mobilization Foundation in Hambantota district, Rural Women's Organization in Nuwara Eliya district and Up Country Development Council in Badulla district, Government's Welfare Scheme; Samurdhi scheme/banks and Commercial and

Licensed Specialized Banks; Ruhuna Development Bank, Uva Development Bank, Sanasa Development Bank and Seylan Bank. This study shows evidence on the efforts taken to assess the impact of MF on household consumption, expenditure, empowerment of women and ultimately on their enterprises. Profitability, changes in businesses, business criteria and practices were used to evaluate impact of MF on small enterprises. Pearson's Correlation test suggests that there are significant relationships between income, savings and household expenditure with micro credit.

Meanwhile, Kaluarachchi and Jahfer (2014) derived a hypothesis that MF does not impact on poverty alleviation in Sri Lanka by choosing independent variables such as loan amount, repayment ability, accessibility for getting the loan and savings. However, the study is confined to one specific area (Polonnaruwa district). In this study, around 97 percent beneficiaries have agreed that their living standard were improved after obtaining MF. A positive and significant relationship between loan amount and monthly income is encountered whereas no significant relationship between loan amount and monthly savings is evident.

A correlation matrix was derived in analysis done by Tilakaratna, Wickramasinghe and Kumara (2005). The impact of MF on micro-enterprises has been thoroughly studied by Aheeyar (2007) from a holistic view point differing what others viewed the MF as a tool for poverty reduction. Altogether 270 entrepreneurs had been interviewed during the survey including 60 Samurdhi and 30 Sarvodaya entrepreneurs from Galle, Kegalle and Rathnapura districts. Among the diverse aspects analyzed, physical structure of micro-enterprises, impact of MF on micro-enterprise development, drawbacks of the present MF programme and its positive aspects are noteworthy. The study reveals that loan size, method of investment and provision of grants are among the factors influencing the success of micro-enterprise. An average monthly income of over Rs. 10,000 is received by the Samurdhi enterprise clients from the investment on existing enterprises. Over 50 percent success rate has been reported from Samurdhi beneficiaries who are engaging in small industries. A 100 percent success rate has been reported among agricultural micro-enterprises implemented by Sarvodaya.

Thibbotuwawa *et al*. (2012) in their study interviewed Samurdhi recipients as well as non-recipients in 19 districts to evaluate the impact of Samurdhi programme on household welfare. The analysis carried out before and after comparison of the sample with regard to receiving Samurdhi subsidies. The probit regression had been run choosing the status of household with regard to Samurdhi (Samurdhi recipient or not) as the dependent variable and demographic characteristics, ownership of durable goods and housing characteristics as independent variables. This study reveals significant impact of Samurdhi on household welfare such as education, consumption and income. No improvement is found in health facilities and non-food expenditure among Samurdhi recipients. Nevertheless, there is an increasing trend in agricultural income in Samurdhi recipient's families.

Two related studies have been carried out by Jayasuriya (2007) and Jayasuriya (2016). The former[14] was conducted in Kegalle district with 20 Samurdhi recipients of five Samurdhi banks and focused on aspects such as uplifting living condition, production and welfare. The majority of recipients in this study is women. This scheme was attracted by some youth as well. Samurdhi banks have inculcated saving habits among the beneficiaries and there is a significant outreach of Samurdhi banks in rural areas than in sub urban areas. The latter study[15], was also conducted in the same district choosing a single non-governmental MF programme, SEEDS. Both studies are more or less similar in methodology but the MF programme is the only component which varies. This study reveals that new job opportunities and small scale entrepreneurships were impacted by the SEEDS programme. SEEDS MF programme has empowered the poor people economically with advices on financial management and skill development trainings and has provided various financial and non-financial services to them. Among the SEEDS beneficiaries, level of consumption and types of consumption goods and services have changed due to enhancement of household income level.

Above discussed studies basically depended on primary data and to a certain extent on secondary data. The key focus of the study undertaken by Chandrakumara (2012) is entirely based on secondary data from CBSL, Department of Census and Statistics, reports of international institutions and studies of individual researchers. The key focus was on credit for rural development with special reference to formal and informal credit sources in Sri Lanka. Despite much empirical evidence available on the thrust area of this research, an information gap exists on the structure and conduct of microfinance service amongst the poorest categories of the people and how such evidences are applicable to such disadvantageous groups of the population with particular reference to demand aspects of the MF in the country.

2.9 Summary

When referring to the worldwide situation, South Asian region is fast growing with a number of strategies to help rural poor by ensuring their MF needs. Formation of Thrift and Credit Cooperative Societies in 1906 is the historically important event in the initiation of MF sector in Sri Lanka. Over several decades, the sector was gradually expanded under the directives of CBSL to protect both the clients and the MFIs by introducing Microfinance Act and the Code of Conduct. The sector gradually derived the benefits of modern technologies too. LMFPA, is the umbrella organization formed for being responsible for its member MFIs currently addressing sectoral issues as the regulating body authorized by the CBSL. Studies undertaken to date reveals many related aspects of MF and impacts on recipients. However, further studies are needed to identify how exactly the MF services performs amongst the poor.

[14] Impact of microfinancing for poverty alleviation (Jayasuriya, 2007).

[15] Impact of non-governmental MF programmes on poverty alleviation in Sri Lanka (Jayasuriya, 2016).

CHAPTER THREE

Outreach of Microfinance Service in Uva Province

3.1 Introduction

This chapter is allocated to discuss the length and the limits of extending MF services to the rural poor in the study location. Key aspects contained are socio-demographic characteristics of the sample, structural features of MF services including diverse institutional arrangements, personnel involved in microfinancing and how they assist the needy categories of people by employing distinct arrangements of collaterals, interest rates and pay-back systems to satisfy diverse demands of those who seek loans.

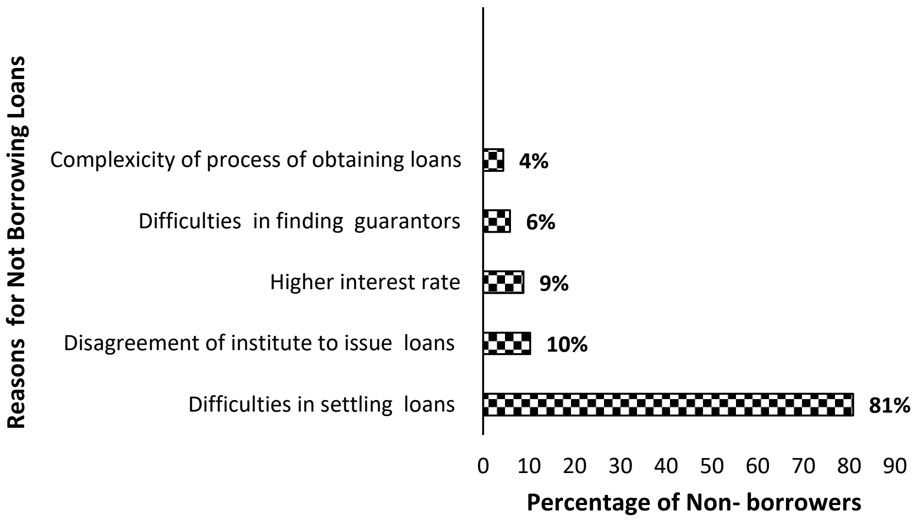
3.2 Socio-demographic Characteristics of the Sample

This study was conducted in the Uva Province where, Badulla and Moneragala districts are located. Total of 392 respondents representing the poorest households selected from two districts were interviewed from 22 GN divisions in seven DSs. Of them, the majority of respondents (82%) were females. The study reveals the extent to which the poorest people are vulnerable even at a time when MF services commonly available at the village level. Referring to housing characteristics of the respondents, the majority (73%) lives in houses without plastered and painted walls, 16 percent in floors made up of clay or cow dung, 15 percent in houses covered with metal sheets or cadjan, 21 percent utilizing water from unprotected sources and almost all households use firewood as the main source of energy for cooking. Appendix 3.1 indicates overview of housing characteristics of the respondents.

The data presented in Appendix 3.2 provides evidence on the vulnerable situation of the households of the sample respondents in terms of certain economic and social parameters. Around three fourth (73%) of the households belong to the monthly family income category less than Rs.50,000 including 44 percent with less than Rs. 30,000. Adults (both husband and wife) in the families had received secondary education up to G.C.E (O/L) and were depending on low paid jobs such as labourers, agricultural opportunities, or self-employment. Skilled employee category (employment category of husbands) included carpentry, masonry, painting and welding works which accounts for 11 percent. One noteworthy observation in relation to wives' employment is that around 36 percent are self-employed. The mean monthly income and expenditure of the sample were Rs.34,120 and Rs.15,925 respectively and the comparison of those values with the provincial level data of the Household Income and Expenditure Survey (HIES-2016) of the Department of Census and Statistics (2018) (Rs.51,635 and Rs.30,140 respectively) shows that both figures are significantly lower (Income t_{304} = -17.669; $P<0.05$, Expenditure t_{307} = -36.25; $P<0.05$). In the sample, 55 percent households earn less than the value of mean monthly income of the sample and 80 percent households earn less than the provincial mean monthly income. Accordingly, the sample selected for this study represents the poorest segment of the people in the Uva Province in complying with the design requirement.

Overall, the above results show the poor well-being and living standards of the majority of respondents due to low income of households with less educated adults both husbands and wives, both employed in low paid jobs or low income generating ventures. All these facts emphasize the need for helping them to improve their living standards.

The study further reveals that only 83 percent had borrowed loans with the rest being non-borrowers. The majority of the non-borrowers (81%) had not applied for loans knowing the difficulties they have to face in repayment. Many of them were not willing to be indebted as they had no proper income (Figure 3.1). The rest had refrained from obtaining loans for various other reasons such as high interest rates, complex procedures, being unable to fulfill the MFI's requirements and finding guarantors. Besides those difficulties, a considerable portion of the sample (83%) had sought the financial assistance from variety of MFIs operating in the study location.



Note: The sum of the percentages of non-borrowers exceeds 100 due to multiple reasons for not borrowing loans by respondents
Source: HARTI Survey Data, 2018

Figure 3.1: Percentage Distribution of Non-borrowers and Reasons for not Borrowing Microfinance Services

3.3 Structural Features of Microfinance Institutes in Uva Province

3.3.1 Microfinance Institutes

A number of MFIs with island wide coverage are functioning in the Uva Province. HNB Grameen Finance Ltd, Commercial Credit and Finance PLC, LOLC Microcredit

Ltd, Sarvodaya Development Finance Ltd, SANASA Federation and Samurdhi Banks are the most prominent ones. As cited in LMFPA (2011a), there are 62 member MFIs (19 Ordinary members, 13 Associate members and 30 Fellow members). This survey approached the borrowers of 42 MFIs. Of those, only 17 (40%) MFIs had obtained the membership of LMFPA. Thus, there is a growing possibility for the people to freely access any type of MFIs whether they are registered or not under the LMFPA.

Table 3.1: Details of Loans Issued by Registered and Non-registered Microfinance Institutes

Category of MFIs by Registration[16] Loan Categories		Total Loan Value (Rs. mn.)	No. of Loans	No. of Borrowers	Average Loan Value (Rs.)	Average Loan Value per Head (Rs.)
Micro Loans	RMFIs	1.83	58	45	31552	40667
	NRMFIs	2.455	98	81	25051	30309
High-value Loans	RMFIs	23.356	243	153	96115	152654
	NRMFIs	27.115	226	177	119978	153192
Overall	RMFIs	25.186	301	175	83674	143920
	NRMFIs	29.57	324	240	91265	123208
Grand Total		**54.756**	**625**	**415**	**87610**	**131942**

RMFIs –Registered MFIs NRMFIs- Non-registered MFIs
Source: HARTI Survey Data, 2018

Details of the micro-loans[17] and high-value loans[18] issued by MFIs both registered microfinance institutes (RMFIs) and non-registered microfinance institutes (NRMFIs) are given in the Table 3.1. The overall analysis of loan data pertaining to by RMFIs and NRMFIs shows slight differences in the number of loans, number of borrowers and loan values offered to the clients, however, it fails to secure statistical evidence to prove any significant variation between the value of loans issued by two types of MFIs (t_{623} = -1.096; P (0.274)>0.05). However, a further breakdown of loans into micro and high-value loans show that NRMFIs predominate in the provision of both micro-loans and high-value loans in many parameters such as number of borrowers and total value of loans. Despite the fact the NRMFIs have not obtained the registration at the LMFPA, the role played by them cannot be undermined as they have managed to offer the service to a larger clientele within the rural setting. However, owing to higher number of loans issued and the wider clientele base, the value of micro-loans offered by NRMFIs is significantly lower than that of RMFIs (t_{154}

16 Registration obtained at the LMFPA as a member.
17 Micro-credit refers to loans up to Rs.40,000 in the Sri Lankan context (Charitoneko and De Silva,2002).
18 According to the definition of micro-loans, loans exceeding Rs.40, 000 are defined as high-value loans for the purpose of this study.

= 4.249; $P<0.05$). It is *vice versa* in regard to high-value loans (t_{467} = -2.848; $P<0.05$). Furthermore, no significant variation is observed between the overall value of loans offered by PNBFIs (Private Non-Banking Financial Institutes) and GNBFIs (Government Non-Banking Financial Institutes) (t_{549} = 1.192; P (0.234)>0.05), however there exist such differences between high-value loans offered by PNBFIs and GNBFIs (t_{407} = 2.881; P<0,05) and micro-loans of PNBFIs and GNBFIs (t_{140} = -2.564; $P<0.05$).

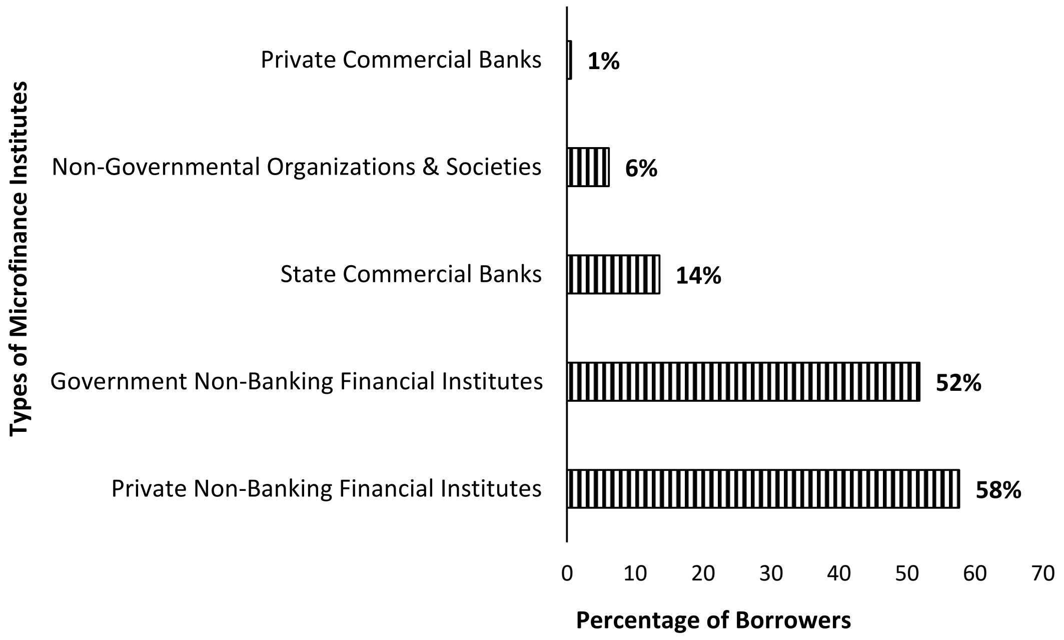
As it is evident from the survey, microfinancing has become an essential economic function in the rural economy where over 50 MFIs are currently involved in the provision of services. Hence, both the MF service renders and the credit seekers are over abundant in the rural setting. As cited in Atapattu (2009), four different types of MFIs[19] are providing MF services in Sri Lanka. Gant *et al.* (2002) proposes a different classification[20] and states that MF services are provided through three sources. Tilakaratna, Wickramasinghe and Kumara (2005) also followed more or less similar classification. Nevertheless, following categorization was used for the purpose of this study: (i) Private Non-Banking Financial Institutes (PNBFIs), (ii) Government Non-Banking Financial Institutes (GNBFIs), (iii) Private Commercial Banks (PCBs), (iv) State Commercial Banks (SCBs) and (v) Non-Governmental Organizations and Societies (NGOSs) (Figure 3.2).

In the Uva Province, PNBFIs consisting of licensed finance companies and specialized leasing companies lead the sector as in other areas of the country (Figure 3.2). They issue around 58 percent of the total number of loans owe a number of progressive features in the service that the borrowers enjoy while obtaining the service are summarized below.

- Wider coverage and frequent contacts with the clients through the service rendered at the clients' door step.
- Shorter time span from one to two weeks to obtain loans.
- No burdens associated with filling lengthy and complete application forms.
- No need to provide legal collaterals such as deeds of the lands and government servants as guarantors.

[19] (i) Local, regional and national level MFIs, (ii) Village banks, cooperative rural banks and development banks, (iii) Commercial banks and (iv) Finance companies.

[20] (i) Formal institutions (banks, rural banks, government projects and cooperatives), (ii) Semi- formal institutions (NGOs) and (iii) Informal sources (money lenders and shop keepers).



Note: The sum of the percentages of loan borrowers exceeds 100 due to borrowers had accessed several MFIs
Source: HARTI Survey Data, 2018

Figure 3.2: Percentage Distribution of Poorest Accessed by Types of Microfinance Institutes

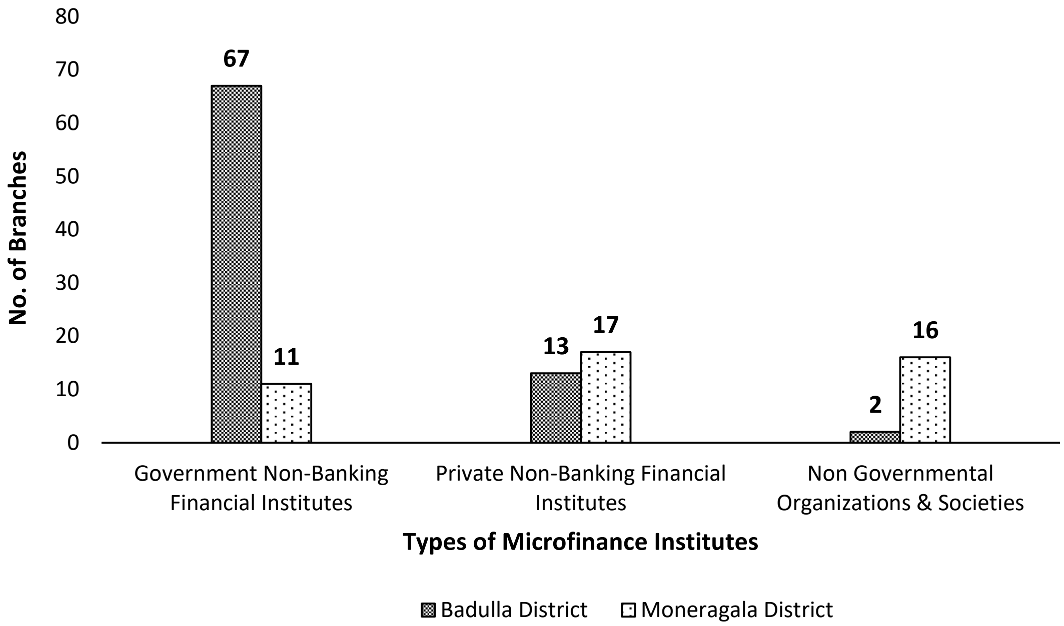
Leading GNBFIs such as Samurdhi bank and Govijana bank have also opened up wider opportunities to borrowers (52% of the sample). The low tendency towards obtaining loans from the state or private commercial banks is due to the necessity of legal documents and collaterals which are neither available to poor credit seekers nor they can easily find them. As a result, PNBFIs predominate the MF sector in rural areas.

3.3.2 Number of Service Outlets of Microfinance Institutes

GNBFIs own the highest number of service outlets in the study location (Figure 3.3). Besides, they demonstrate poor performances in terms of the number and the value of loans issued mainly due to poor marketing strategies adopted and burdens placed on the clients as listed below.

- Long time taken to processing and approval of loans.
- Documentation needs.
- Lack of delivering the service at the clients' door step.
- Need to visit the bank several times for obtaining and repayment of loans.
- Poor intention towards competitive marketing.
- Being unable to approach the grass root level through appropriate mechanisms.

Hence, the poor people who cannot allocate time, resources and lack of facilities in search for loans prefer enjoy every positive feature accompanied with the service provided by PNBFIs despite low interest rates of the GNBFIs. In spite of the fewer number of outlets (Figure 3.3), the PNBFIs have become successful in terms of both approaching the clientele and issuing loans through field officers and the marketing strategies adopted by PNBFIs for business promotion. According to key informants, diversity of products plus enthusiasm of field officers are added advantages to accomplish the loan disbursement targets set by the PNBFIs.



Source: HARTI Survey Data, 2018

Figure 3.3: Number of Service Outlets of Microfinance Institutes

3.3.3 Service Rendered by the Microfinance Institutes

Except PNBFIs, many other MFIs require the client to visit the respective service outlet as they do not have field officers to render the service. The common characteristics of the service rendered by the PNBFIs are illustrated below.

- PNBFIs mostly follow group loan schemes in addition to individual loans.
- Field officers visit the villages to introduce their products through societies formed by several groups consisting of 3-5 members formed for the same purpose.
- Request from the loan seeker to submit a project proposal as it appears a fulfillment of procedures.
- Require certificate of residence confirmation from the respective GN and documents to prove monthly family income such as bank account details, transaction details of ongoing businesses and utility bills to verify the

residence such as water bill, light bill and photocopies of husband's and wife's national identity cards.

- Clarifications with the CRIB to verify whether the loan seeker is not a defaulter. This depends on the MFI and only by those who have access to CRIB. Whilst certain MFIs search CRIB reports for all the loans, others search only when they issue high value loans.
- Recurrent visits by the field officers to get confirmed the repayment ability of the loan seeker.
- Issuing loans within a period of one to two weeks followed by the approval from higher management of the MFI.
- Forty percent of the monthly income of the loan seeker is assessed prior to grant a loan. It assumes that helps to minimize default rates. At the next step they observe the progress of the business or project and issue a higher amount.
- The client should visit the MFI at least once either to sign the agreement or to collect the loan.
- The borrower is generally bounded by an agreement[21] that he/she has to sign.
- Loan installments are computed based on the capital loan amount and the interest rate.
- After loan disbursement, the field officers visit the societies in villages at least once a week to collect installments at a time fixed previously for the convenience of both parties.

Apart from this, Samurdhi banks, Govijana banks and societies at village level have their own mechanisms to provide loans whilst having certain above mentioned elements as well. All the time, MFI attempts to facilitate the client to apply loans from their institutes with eased conditions compared to government banks. In general, clients can obtain several loans after repaying the previous loans at different interest rates and increased amounts.

3.3.4 Credit Plus Services

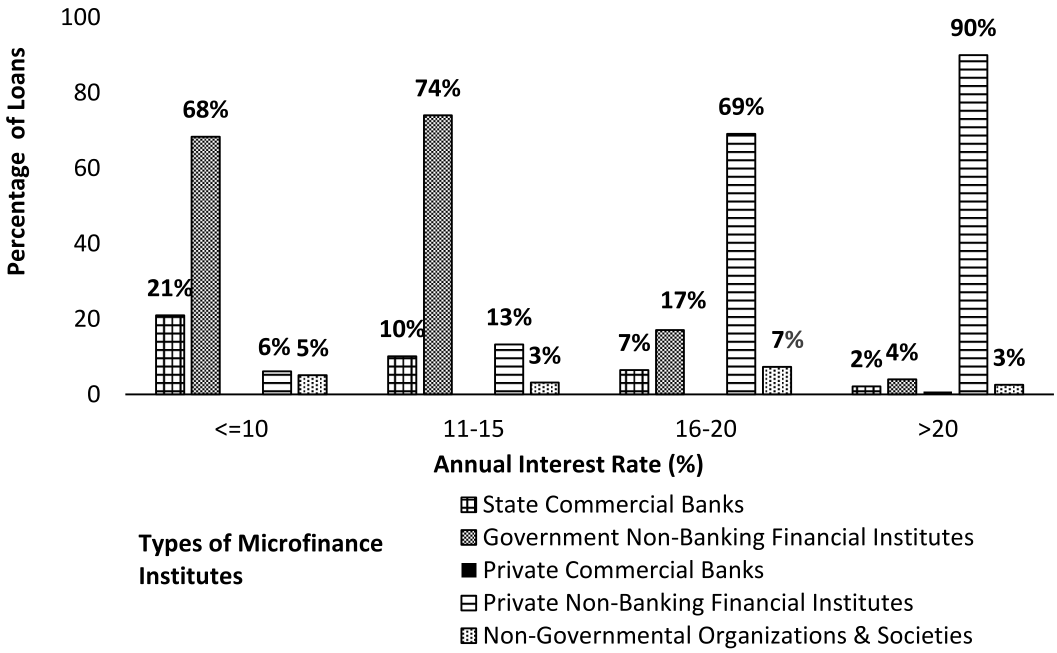
In addition to the provision of loans, the PNBFIs also render credit plus services to the clients, aiming at promoting diverse products amongst the clients. They offer such services as a measure for helping the poorest to come out of the poverty where they are trapped in. Included are identification of sustainable livelihood opportunities, appropriate selection and motivation of the micro entrepreneurs, provision of business and relevant technical training and establishment of forward and backward linkages (Aheeyar, 2007). The most popular credit plus services are conducting training programmes (65% of total responses) towards effective utilization of loans, convenient loans and donations (28% of total responses) and insurance services (7% of total responses), according to this survey.

[21] Agreement written in both Sinhala and English languages ensures that the conditions are well understood by the clients.

The study reveals that the borrowers had undergone on training and participated for awareness creation programmes on production of confectionaries, fiber products and mushroom cultivation in addition to in-depth knowledge on business initiation and financial literacy targeting financial management. Some PNBFIs are capable of dealing through technological modifications in MF sector using automated teller machines (ATMs). Amongst the donations are for the children in client families who passed through grade five scholarship examination. But it is dubious whether donations are subtracted as micro loans installment basis. Poor borrowers are not satisfied with the unethical practice thus PNBFIs failed to earn due reputation as good providers of credit plus services.

3.4 Conduct of Microfinance Institutes in Uva Province

3.4.1 Interest Rates



Source: HARTI Survey Data, 2018

Figure 3.4: Percentage Distribution of Loans by Interest Rates Charged and Types of Microfinance Institutes

As per Figure 3.4, the highest number of loans issued by the PNBFIs were in the range between 21 percent and 30 percent of annual interest rates. The high interest rates remind whether is it a service giving hands to the poorest? PNBFIs determine the profit based on the flat interest rate[22]method whereas the GNBFIs issue micro

[22] Flat rate refers to a rate of interest on a loan that is charged on the original amount that was borrowed, not on the amount of debt that is still to be paid back (Cambridge Dictionary, 2018).

loans at lower interest rates following the Reducing Balance Method[23](RBM) aiming at welfare of the people and as a mean of reducing over burden of repayment. What it is apparent from the aforementioned popularity of the PNBFIs is that they sustain despite high interest rates of loans (Figure 3.4). Group approach is a common practice employed by both GNBFIs and PNBFIs and therefore it led to presume that key success factor of PNBFIs is the uniqueness of the service.

3.4.2 Types of Collaterals

Majority of the borrowers in the study sample have obtained loans by guaranteeing the reliance of the group members, termed as group collateral. Group collateral is the most popular type among the poor people. A field officer from the MFI visits the village to introduce the types of loans issued by the respective institution under the group system. The way of functioning of the group called "society" is also unique. Generally, one group consists of three to five members and predominantly women with their close colleagues form such groups gather seeking for loans. Subject to a guarantee to repay the loan by all the members, loan is issued to group members whose obligation is to repay the loan while enjoying the benefits. For instance, non-payment by one member make others victims as they need to settle it by their own otherwise they are unable to obtain loans. This ultimately lead to a conflict within the group, threatening the sustainability of group functioning.

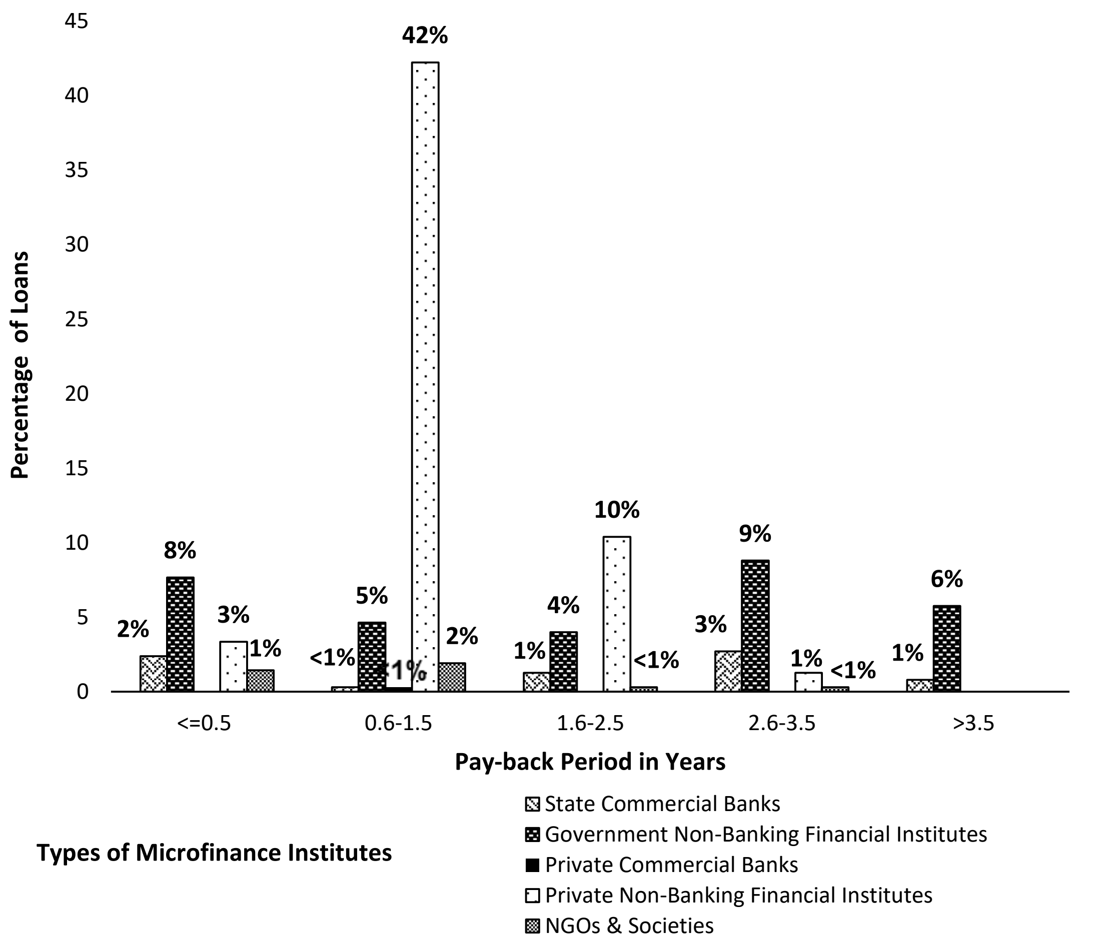
The vulnerable groups in the rural society have limited chances for finding government employees as guarantors, which is also the underlying cause of vast popularity of group collaterals. Almost all the respondents stressed the important role the group collaterals play in fulfilling their financial needs, at needy times. Borrowers intermittently depend on other types of collaterals such as land deeds, personnel and vehicle licenses. More importantly, the MF sector is gaining grounds by minimizing the difficulties encountered in the conventional MF services prevailed in the rural society.

3.4.3 Pay-back Period

The study reveals that MFIs employ various pay-back periods and issue loans of different values. It could either be six months or one year or few years (Figure 3.5). Six months being the commonly employed pay-back period exclusively for cultivation loans under seasonal installment method. Major livelihood of the people in the Uva Province is agriculture (paddy, vegetables and OFCs) so that the cultivation loans are issued for a period of one cultivation season. In general, all the MFIs issue cultivation loans and encourage farmers to repay the loan at the time of harvesting. PNBFIs issue loans under one year pay–back period on weekly or monthly installment method. The most prominent micro loan system in the study location is the weekly

[23] In Reducing Balance Method interest rate is computed on the principal balance (and not on the original loan amount) that reduces with repayment of each loan installment (Web Finance Inc, 2018).

installment scheme with a pay-back period of 6–18 months operated by PNBFIs, which accounts for about 42 percent of the total loans issued. The analysis confirms the positive and moderate correlation between the pay-back period and the loan value ($r = 0.465$; $P<0.05$), thus higher the loan-value the higher the pay-back period.

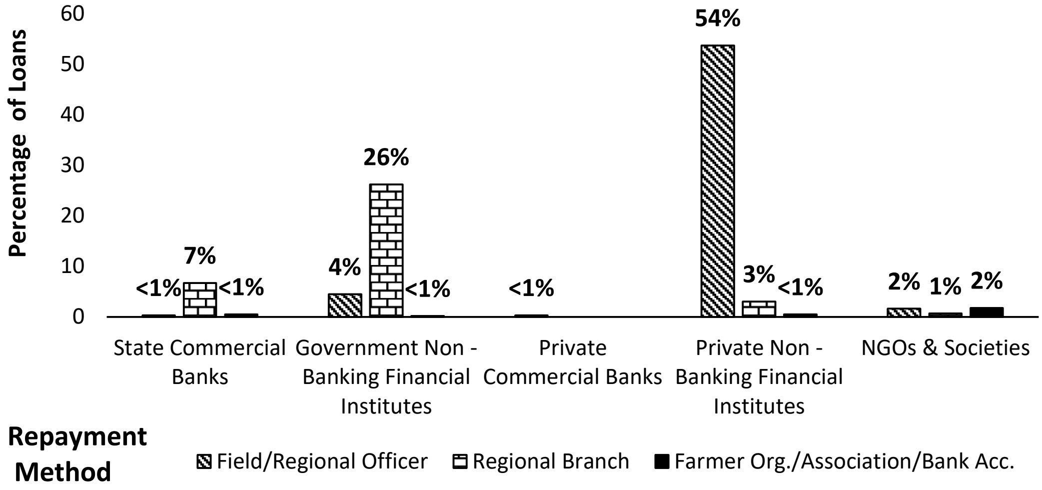


Source: HARTI Survey Data, 2018

Figure 3.5: Percentage Distribution of Loans by Pay-back Periods Provided and Types of Microfinance Institutes

3.4.4 Repayment Methods

The field survey revealed that there are three major repayment methods in operation. The easiest method is borrowers pay installments to the field officers employed by PNBFIs who visit them. Regional branches and organizations also facilitate the payment of installments (Figure 3.6). Once a week, field officers of the PNBFIs visit established societies in the village to collect weekly loan installments and cover their weekly targets. They try to maximize recovery rates irrespective of the capacity of borrower to pay the loan. It is worth mentioning that certain borrowers face hardships due to aggressive and abusive behavior of field officers against non-payment of installments. Sometimes, it ends up with the committing suicide by clients as reported during the survey in some locations.



Source: HARTI Survey Data, 2018

Figure 3.6: Percentage Distribution of Loans by Repayment Methods and Types of Microfinance Institutes

Payment of installments at the regional branches certainly differs from the service of field officers. Distance from the clients' residence to the regional branch is a matter of concern. However, it is a must for the clients of GNBFIs such as Samurdhi Banks amounting to 26 percent of the borrowers. Recovery of loans through farmer organizations is minimal (around 2%).

3.5 Summary

- A total of 392 respondents were interviewed from selected DSs in Badulla and Moneragala of which 324 are borrowers (83%).
- The rest, non-borrowers disliked being debtors due to difficulties in settling loans, finding guarantors, complex procedures involved in and high interest rates or the MFIs had rejected their applications for various reasons.
- The disadvantageous situation of the living condition of many respondents is reflected through the socio-demographic characteristics such as housing conditions and housing facilities.
- A large number of MFIs are operating in the area even under such an unfavourable situation.
- Those MFIs can be categorized as (i) Private Non-Banking Financial Institutes (PNBFIs), (ii) Government Non-Banking Financial Institutes (GNBFIs), (iii) Private Commercial Banks (PCBs), (iv) State Commercial Banks (SCBs) and (v) Non-Governmental Organizations and Societies (NGOSs).
- Micro-credit is generally referred to as loans up to Rs.40,000 in the Sri Lankan context and this definition is used for this study.
- The rest is termed as high-value loans for the purpose of the analysis.

- The majority of the MFIs are not registered under the LMFPA.
- NRMFIs predominate in the provision of both micro-loans and high-value loans in many aspects such as number of borrowers and total value of loans.
- The majority of the micro-loans had been issued by the NRMFIs but there is growing tendency among the respondents to shift away from such MFIs.
- PNBFIs lead the micro finance sector in the study location and they issue loans at a higher interest rate around 30 percent per annum computed at a flat rate.
    - PNBFIs facilitate repayment of installments through the field officers and discourage the borrowers visiting service outlets or branches which are far away from rural areas.
    - An important feature of MF service is that higher the loan-value the higher the pay-back period.
    - Group loans with weekly installments are the mostly popular scheme.
    - Few MFIs provide credit plus services aiming at developing and improving borrower's capacity to initiate and continue self-employment.
- In essence, a wide variety of MFIs provide a better choice for a greater portion of the poorest people in the Uva Province to enjoy MF services.

CHAPTER FOUR

Utilization and Effectiveness of Loans

4.1 Introduction

The preceding chapters reveal that provision of loan is the key constituent of the service offered by the MFIs operating in Moneragala and Badulla Districts. This chapter presents the utilization pattern of loans by the borrowers with particular reference to reveal the extent to which the loans are utilized for the obtained purposes. Apart from that, the chapter analyses the loan structure as well as the areas of investment. The particular emphasis is given to explore linkages between business characteristics, socio-economic and demographic characteristics of the borrowing households.

4.2 Access to Loans by the Poorest in Uva Province

The sample exclusively represents the poorest households in the Uva Province. It comprised of 392 respondents, however as previously mentioned, only 324 (83%) had obtained altogether 625 loans from various MFIs during the two consecutive years, 2016 and 2017. They are referred to 'borrowers' hereafter. The total value of the 625 loans was Rs. 54.756 mn. The survey reveals that approximately 83 percent of the poorest households have accessed the service offered by MFIs operating in the area. Appendix 4.1 illustrates the distribution of sample respondents by the number of loans obtained. Accordingly, many borrowers (46%) had obtained only one loan, another considerable portion (45%) two or three loans and a small percentage (9%) as many as four to nine loans during the said period.

4.3 Purpose of Obtaining Loans

People in general seek assistance from MFIs for various purposes. According to survey data these purposes can be broadly categorized into four groups (Table 4.1). The number of agricultural loans is approximately equal to that of (around 35%) non-agricultural loans. The total value of the loans disbursed between the two categories are also the same in percentage terms (around 31%). The rest include housing loans (26%) and personal loans (3%). Housing loans record the highest total loan value (36%) though the number of loans is relatively lesser in compared to agricultural and non-agricultural loans.

Table 4.1: Number and the Value of the Loans Obtained for Different Purposes

Purpose of Obtaining Loans	Number and % of Loans		Total Loan Value and %	
	No.	%	Value (Rs. mn.)	Value (%)
Agricultural Activities	228	36	16.810	31
Non-agricultural Income Generating Activities	217	35	16.825	31
Housing	163	26	19.792	36
Personal Requisites	17	3	1.329	2
Total	**625**	**100**	**54.756**	**100**

Source: HARTI Survey Data, 2018

4.3.1 Agricultural Loans

Uva, predominantly an agricultural province is well known for cultivation of paddy, other field crops (OFCs) and vegetables. Livestock farming is also an integral part of the farming system in addition to plantation crops such as tea, rubber and sugarcane. In this background, most of the loans (36%) had been requested for agricultural activities that can be reclassified into three sub divisions based on the purpose of obtaining.

- Ninety three percent (93%) of cultivation loans for the cultivation of paddy, maize, sesame, mung bean, cowpea, groundnut and red onions.
- Four percent (4%) of loans for raising cattle and poultry.
- Three percent (3%) for the investment on farm implements.

Often, the poorest people in the province have sufficient access to cultivation loans since MFIs do not impose restrictions. However, the assistance is largely in cash instead of in kind assistance. The cultivation loans carry more potential for the utilization for the same purposes. Only few MFIs, for instance, CIC Holdings PLC and Bank of Ceylon (BOC) in Medagama DS in the Moneragala district vested with the interest in providing loans in kind; seeds, fertilizer, chemicals and equipment. Samurdhi Banks, in addition to providing financial assistance, had also granted in kind assistance up to Rs. 10,000/= for purchasing of inputs, material and farm equipment (water tanks, horses) and dairy cattle, the KII reveals. Whilst most of the loans obtained are for seasonal crops, recovery is also on seasonal basis.

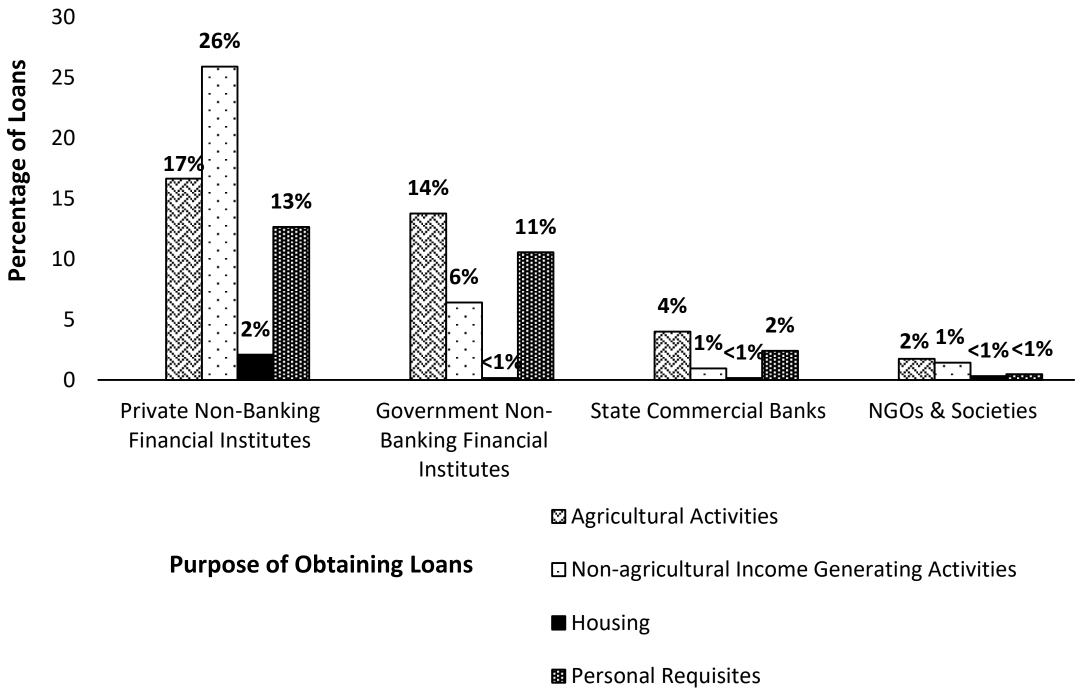
4.3.2 Loans for Non-agricultural Income Generating Activities

The current survey reveals that loans obtained for non-agricultural income generating activities are approximately equal to that of agricultural activities both in numbers and loan value. Loans had been issued to initiate or upgrade self-employment and small businesses, such as making confectionaries, ornaments and jewellery, sewing garments, carpentry, brick making and for small fruits and vegetable ventures.

4.3.3 Housing and Personal Loans

Approximately one fourth (26%) of the loans obtained by the sample respondents were for various housing development activities such as renovation, expansion, construction of wells and toilets and purchase of furniture. Loans disbursement for personal requisites is negligible (3%) compared to other purposes such as motivation being children's education, fulfillment of family consumption, health needs and repayment of other debts.

4.4 Types of Loans Disbursed by Microfinance Institutes



Source: HARTI Survey Data, 2018

Figure 4.1: Percentage Distribution of Loans by Purpose of Obtaining and Types of Microfinance Institutes

Besides agricultural predominance in the area, the highest number of loans had been issued for non-agricultural income generating activities amounting to altogether 34 percent loans disbursed by different Institutes as per 26 percent by PNBFIs, six percent by GNBFIs, one percent by SCBs and one percent by NGOSs (Figure 4.1). GNBFIs' first priority is agricultural loans, however, PNBFIs predominate the provision of agricultural loans (17%). The key purpose of issuing loans by the SCBs and the NGOSs is also agricultural activities. The figure clearly indicates the diverse priorities and interests in issuing loans by distinct MFIs operating in the study location.

4.5 Value of Loans Disbursed by Microfinance Institutes

When it refers to the value of loans, it requires recollecting the literal definition that micro-credit refers to loans up to Rs. 40,000 in the Sri Lankan context (Charitoneko and De Silva, 2002). As evident from Table 4.2, certain loan features are summarized below.

- The average loan values of all the types of loans (loan categories) exceed the limit of the literal definition above.
- The minimum loan value is between Rs. 10,000 to Rs. 15,000 in all the categories.
- Agricultural loan category records the maximum loan value of Rs. 700,000.
- Except the category "housing", the average loan value of other three categories are more or less equal and on average of Rs. 75,680.
- Housing loan category records the highest average loan value of Rs. 121,143.

Therefore, the value of housing loans is significantly higher than that of other loan categories (t_{623} = 5.960; $P<0.05$). Despite agricultural predominance in the Uva province, the total value of loans obtained for agricultural purposes (228 loans with 31% share) is lesser than that of housing (163 loans with 36% share).

Table 4.2: Descriptive Statistics of Loans Disbursed by Microfinance Institutes

Purpose of Obtaining Loans	Loan Value (Rs.)		
	Average	**Minimum**	**Maximum**
Agricultural Activities	73728	10000	700000
Non-agricultural Income Generating Activities	77535	10000	500000
Personal Requisites	78176	15000	300000
Total	**75680**	**10000**	**700000**
Housing	121423	15000	500000
Grand Total	**87610**	**10000**	**700000**

Source: HARTI Survey Data, 2018

Table 4.3 illustrates the distribution of loans issued by defined value category whilst highlighting the structure of disbursed loans. Accordingly, only one fourth (1/4) of the total number of loans falls into the category of micro-loans as per the literal definition. The total value of micro-loans only amounts to eight percent. According to the survey, the prominent characteristics of these micro-loans are mentioned below.

- The distribution of micro-loans by prominence for obtaining are in the order of agricultural, non-agricultural, housing and personal loans (Table 4.4) whereas the same order follows with regard to loan values as well (Table 4.5). Accordingly, the agricultural loans predominate.

- A further breakdown by purpose of loans and the respective micro-loan values are presented in Appendices 4.2 to 4.5 which describe the details of agricultural loans, non-agricultural loans, housing loans and personal loans which come under the category of micro-loans.
- Data also depict that prominent micro-loan amount is Rs. 40,000 which amounts to 24 percent of the total number of micro-loans and 35 percent of the total value of the same.

Meanwhile, the majority of loans exceeding Rs. 40,000 can be termed as “high-value loans” and the prominent features of this loan category amounts to 75 percent of the total number of loans and 92 percent of the value of the total number of loans. The specific features of the high-value loan category are mentioned below.

- The distribution of high-value loans by prominence for obtaining are in the order of non-agricultural, agricultural, housing and personal (Table 4.4). Accordingly, the non-agricultural loans predominate in the category of high-value loans in number terms.
- In regard to loan values the order changes from non-agricultural to housing and then the non-agricultural loans, agricultural and personal loans (Table 4.5).
- A further breakdown by purpose of obtaining loans and the respective high-value loans are presented in Appendices 4.2 to 4.5 which describe the details of agricultural loans, non-agricultural loans, housing loans and personal loans which come under the category of high-value loans.
- Data also depict that prominent high-value loan amount is Rs.50,000 which amounts to 29 percent of the total number of high-value loans and 13 percent of the total value of high-value loans.
- In addition, the loan amounts often disbursed as single values were; Rs.50,000 amounting to 22 percent of the total number of loans and Rs.100,000 amounting to 12 percent of the total number of loans.

Table 4.3: Percentage Distribution of Loans by Value Category

Loan Value Category (Rs.)	Number of Loans and Percentage		Value of Loans and Percentage	
	No.	%	Value (Rs. mn.)	%
<=40000	156	25	4.285	8
>40000	469	75	50.471	92
Total	**625**	**100**	**54.756**	**100**

Source: HARTI Survey Data, 2018

Table 4.4: Distribution of Loans by Number and Purpose of Obtaining

Purpose of Obtaining Loans	Micro-loans		High-value Loans	
	No. of Loans	Percentage	No. of Loans	Percentage
Agricultural Loans	74	48	154	33
Non-agricultural Income Generating Activities	56	36	161	34
Housing	21	13	142	30
Personal Requisites	5	3	12	3
Total	**156**	**100**	**469**	**100**

Source: HARTI Survey Data, 2018

Table 4.5: Distribution of Loans by Value Category and Purpose of Obtaining

Purpose of Obtaining Loans	Micro-loans		High-value Loans	
	Loan Value (Rs.mn.)	Value (%)	Loan Value (Rs.mn.)	Value (%)
Agricultural Loans	2.065	48	14.745	29
Non-agricultural Income Generating Activities	1.505	35	15.32	30
Housing	0.61	14	19.182	38
Personal Requisites	0.105	2	1.224	3
Total	**4.285**	**100**	**50.471**	**100**

Source: HARTI Survey Data, 2018

The survey reveals that certain PNBFIs issue loans without much consideration of the purpose which they are obtained. The sole aim is appearing to be achieving the targets given to the field officers. As previously mentioned, project plans are submitted despite the fact that the actual intention is not in par with the norms of microfinancing. Despite they assess 40 percent of the credit borrower's monthly income, the field officers determine the credit worthiness while visiting their clients, observe the status of income generating capabilities such as transactions of ongoing businesses, details of bank accounts and income generation of family members.

Data in Table 4.6 show that PNBFIs lead the sector by issuing the highest number of loans. Overall, the number of loans issued by GNBFIs is lesser than that of PNBFIs. The data prove the clear motive of PNBFIs to grow their share in the financial market within the rural setting.

Table 4.6: Loan Details by Number and Types of Microfinance Institutes

Type of MF Institute	Micro-loans		High-value loans		Overall	
	No.	%	No.	%	No.	%
PNBFIs	80	51	278	59	358	57
GNBFIs	62	40	131	28	193	31
NGOSs	10	6	15	3	25	4
SCBs	3	2	44	9	47	8
PCBs	1	1	1	<1	2	<1
Total	**156**	**100**	**469**	**100**	**625**	**100**

Source: HARTI Survey Data, 2018

Data in Appendix 4.6 further illustrates the significance of above situation on the total value of loans issued by different MFIs. Overall, 82 percent of the loan value issued by the MFIs exceeds the Rs. 40,000 limit. As leading MFIs in the sector, both PNBFIs and GNBFIs had the above limit while issuing over 80 percent of the loans.

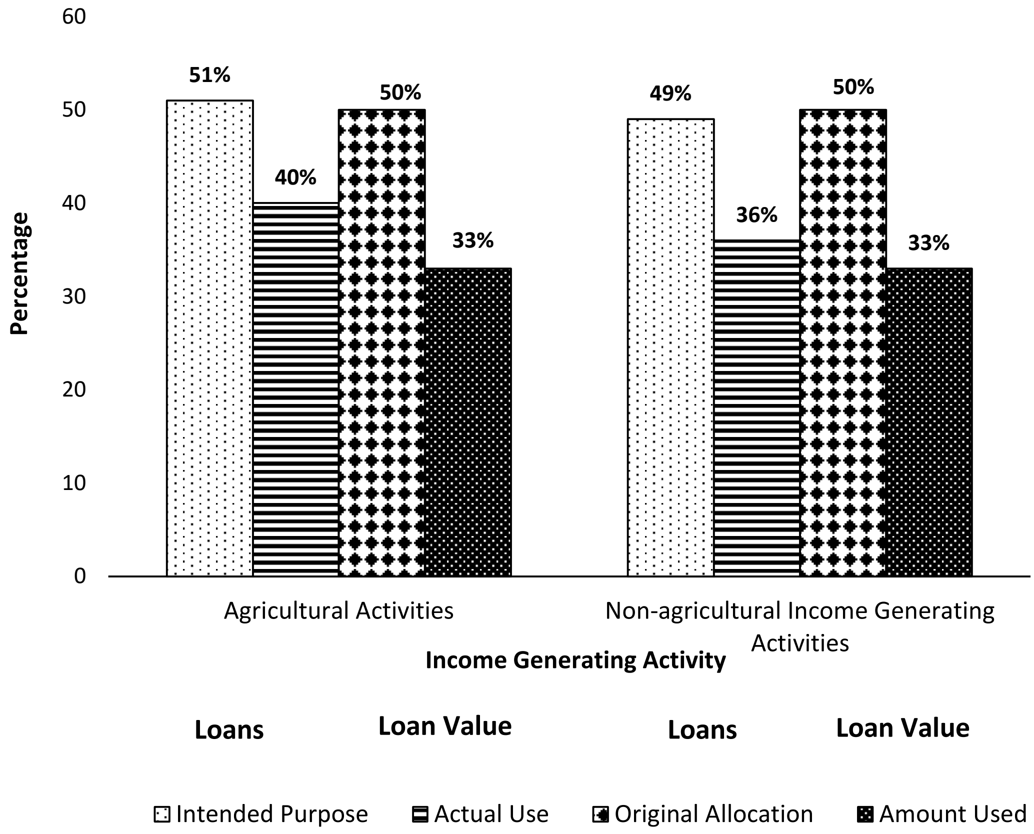
4.6 Areas of Investment

Even though the loans are obtained by mentioning various purposes there is a considerable mismatch between the original purposes and the actual use. Always there is a reduction in the utilization of loans for the stated purposes (Table 4.7 and Figure 4.2).

Table 4.7: Issuance and Investment of Loans by Types of Loans

Areas of Loans Issued/Invested	Issuance of Loans		Investment of Loans	
	No.	Value (Rs.mn.)	No.	Value (Rs. mn.)
Agricultural Activities	228	16.81	178	11.0515
Non-agricultural Income Generating Activities	217	16.825	162	11.1527
Total	**445**	**33.635**	**340**	**22.2042**

Source: HARTI Survey Data, 2018

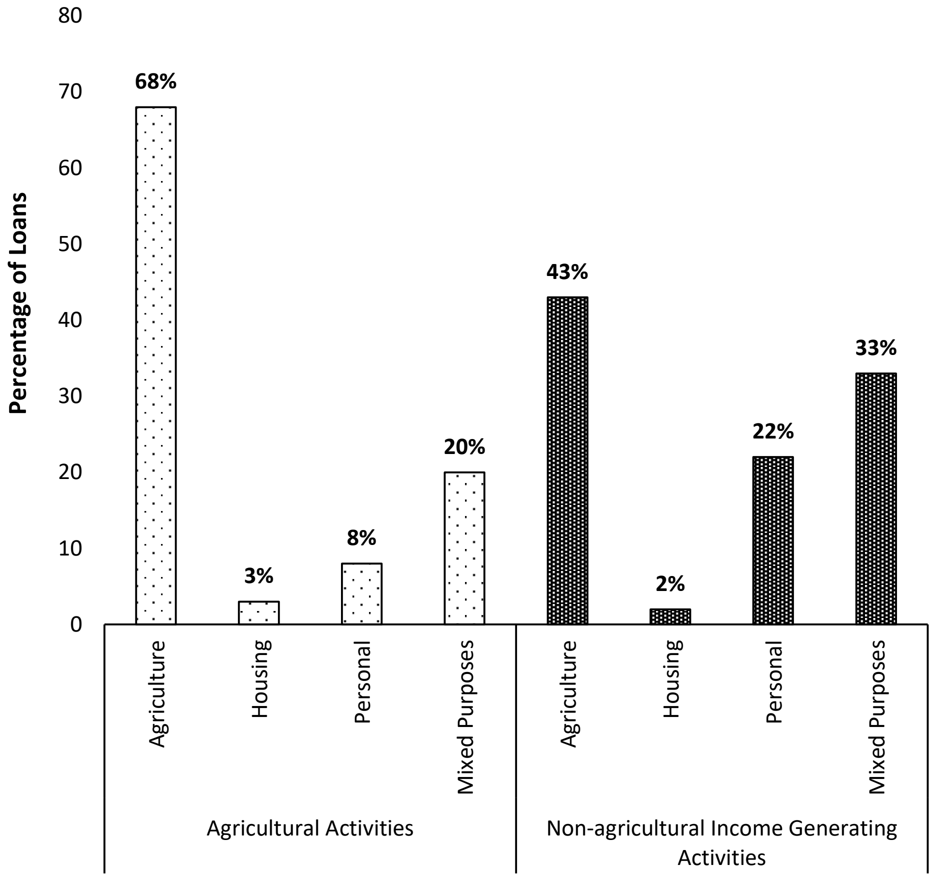


Source: HARTI Survey Data, 2018

Figure 4.2: Percentage Distribution of Purpose of Loans Issued and Actual Utilization

As shown in Figure 4.3 and Appendix 4.7, many discrepancies are evident in the utilization of loans. Few key discrepancies are mentioned below.

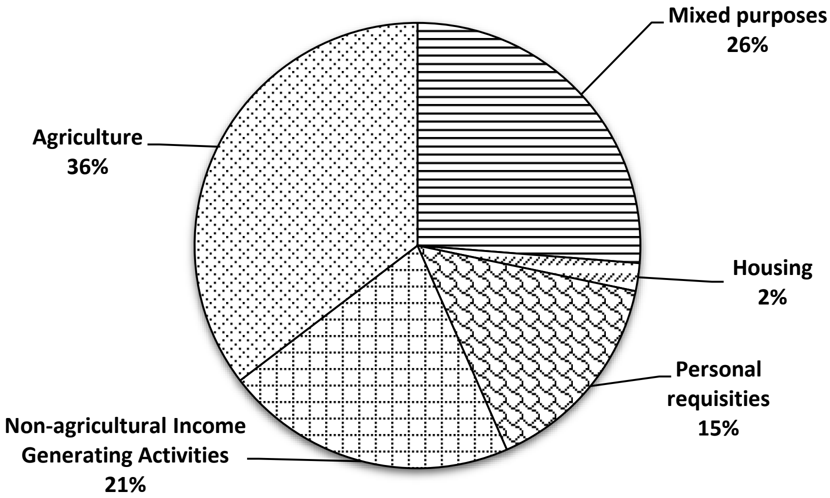
- Most of the agricultural loans (68%) are used for the stated purpose however only 43 percent of the non-agricultural loans are used for the stated purpose.
- Around 20 percent agricultural loans are used for more than one purpose which can be termed as "mixed" purposes whereas 33 percent non-agricultural loans are used for such mixed purposes. This means loan utilization is carried out in a highly unplanned manner.
- Eight percent (8%) agricultural loans and 22 percent non-agricultural loans are used to fulfill personal needs such as consumption, health expenses, children's education and settling debts. It is common that personal requisites become key priorities when cash is in hand of any person from any layer of the society with no exception with regard to loans issued by MFIs.
- Few loans both agricultural (3%) and non-agricultural loans (2%) are used for housing purposes.



Source: HARTI Survey Data, 2018

Figure 4.3: Percentage Distribution of Loans by Purpose of Disbursement and Actual Utilization

Overall utilization of agricultural and non-agricultural loans obtained for diverse purposes are illustrated in Figure 4.4. Accordingly, a considerable portion of loans (26%) are utilized for mixed purposes other than the stated purpose only. This proves misuse of loans for various purposes and this situation led the borrowers to be trapped in a vicious cycle of debt. They face difficulties in repayment of loan installments on time due to misuse of obtained loans and they have to repay with other expenses.



Source: HARTI Survey Data, 2018

Figure 4.4: Percentage Distribution of Agricultural and Non-agricultural Loans Utilized for Diverse Purposes

Discrepancies in the utilization of loans stems from two main reasons;

1. Failing to invest either fully or partially in income generating activities
2. Poor financial viability of certain non-agricultural income generating activities

- **Failing to invest either fully or partially in income generating activities**

The study location is predominantly a food producing area that cultivates maize, paddy, cowpea, sesame, green gram, red onion, finger millet and vegetables. Therefore, the loans had been spent on the purchase of seeds, fertilizer, pesticides, machinery and hiring of labour. The study reveals, the majority of borrowers fail to earn a satisfactory income with those investments due to adverse weather conditions prevailed during two consecutive years, 2016 and 2017. They had experienced heavy crop losses and thus earned lesser incomes which eventually led them failing to allocate money for the repayment of loans. Thus, the investment of loans in agriculture appeared ineffective.

- **Poor financial viability of certain non-agricultural income generating activities**

As revealed in the survey, some borrowers have undergone training under the credit plus services extended by certain MFIs though the majority has hardly any access to similar opportunities and necessary information on market linkages and raw material. Given that they make investments in small ventures such as confectionaries and brick making commenced at a smaller scale with a limited amount of initial capital. The obvious unviability of such investments supplemented through loans issued by MFIs fails to generate a sufficient income to repay the loans.

Even though MF is a well-known development tool, it also causes many adverse socio-economic consequences. The investment category of small industries include brick making, robes making and small business ventures such as fruits and vegetable shops. Borrowers have utilized the loan amount not only for the intended purpose but also to fulfill other requirements.

The utilization of loans as consumption expenses amounts to Rs. 1.4165 mn. (2.6%) of the total loan value. Tilakaratna, Wickramasinghe and Kumara (2005) found that seven percent of total loan amount the borrowers obtained from MFIs utilizes for consumption. This empirical finding also says that a certain amount of loans is utilized for consumption other than the obtained purposes. This study found that such consumption uses are not only due to poor financial literacy amongst the borrowers but largely due to poor income levels. These have made the borrowers trapped in a vicious debt cycle.

Therefore, unless drastic interventions are urgently made, the rural poor trapped in debt cycle push them further into a more disadvantageous situation. Microfinancing is an area which needs to be carefully intervened into the rural society characterized by poor financial literacy and less credit worthy. Hence, it is very important to ease the poor from the debt trap by creating awareness on financial literacy towards proper management of loans and to improve the potential income sources that could contribute to overcome such bottlenecks. It has inadvertently let the borrowers to utilize them in their own ways due to lack of attention paid to monitor loan utilization pattern. Hence, the foregoing discussion led to conclude that many borrowers are neither capable nor have vested interest in investing the entire amount of loans in income generating purposes. This is where the government and the relevant authorities need to be responsible in making appropriate interventions. It is also noteworthy to mention that the field officers do not attempt to prevent their clients to understand that they are not serious about investing loans in income generating activities. Only requirement is to repay by any means, according to borrowers. Those field officers who are much capable of debt collection to minimize the risk of non-repayment either politely or forcefully. It was also evident in certain cases where the debt collectors visit the client regularly and in failing to meet the borrower for any reason they repeatedly visit the client until the debt is recovered. The helpless borrowers have no escape thus they make the payment at any expense even from the basic family needs such as food, medicine and children's education. Credit plus services (51 borrowers have obtained) offered by the MFIs is found to be weaker so that the borrowers become greatly helpless. One noteworthy point to mention is that almost all the loans obtained for housing purposes are used for the stated purpose. The desire or the dream of the poorest people to own a well-built house with essential facilities is thus obvious.

4.7 Details of Non or Poor Repayment of Loans

Non or poor repayment of loans is characteristic to any financial service. Findings regarding non/poor repayment are mentioned below.

- Of the total number of 625 loans 16 percent of loans (101) were found to be in arrears in repayment of one or more installments.
- The arrears amount valued Rs. 2.14392mn. amounting to four percent of the total value of loans and 22 percent of the total no. of borrowers.
- By reasons for obtaining loans, the mostly defaulted category was non-agricultural loans (43%) followed by agricultural (29%), housing (25%) and personal loans (3%).
- By loan category, mostly defaulted loans are the high-value loans (81%) than micro-loans (19%).
- In terms of value category, it accounts for six percent of total micro-loan value and 94 percent of total high-value loan.
- Details of loan utilization, non repayment records in order of personal loans (100%), agricultural loans (62%), housing loans (48%) and non-agricultural loans (28%).
- Of the defaulted loans, 34 percent of non-agricultural loans, 32 percent of housing loans and 21 percent of agricultural loans have been utilized for several purposes (termed as mixed purposes).
- PNBFIs issue more number of high-value loans compared to micro-loans which are defaulted followed by GNBFIs (Appendix 4.8).
- Overall, GNBFIs issue a lesser number of loans than that of PNBFIs which have been defaulted.
- By loan value, it is same as the number of loans which have been defaulted (Appendix 4.9).

Defaulters are poor in repayment of high-value loans and it shows that the MFIs do not consider the repayment ability of borrowers when issuing such high-value loans. Since borrowers utilize the obtained loan amount for several purposes or except the stated purpose, they are not in a position to repay the installments by investing in income generating activities. Table 4.8, also confirms that main reason for poor or non repayment of 53 percent of defaulters is due to insufficient family income and this is a common reason for all the respondents who are from low income households. The analysis does not secure evidence to prove significant differences between defaulters and non-defaulters in terms of monthly income (t_{322} = - 0.116; P (0.908) > 0.05), between defaulted and non-defaulted loan values (t_{623} = - 0.636; P (0.525) > 0.05) and between obtained loan values of defaulted loans which have been invested and have not been invested (t_{99} = 0.548; P (0.585) > 0.05). Further it disproves that monthly income is significantly correlated with the number of installments defaulted (r = - 0.177; P (0.137) > 0.05) and with the value of installments which are in arrears (r = - 0.045; P (0.709) > 0.05). However, the monthly income of defaulters and the total loan value they obtained show positive and significant correlation (r = 0.287; P<0.05) leading to conclude that higher income earners are mostly defaulters.

Even though loans are obtained with the intention to invest in income generating activities, they have mismanaged the loans so that the repayment has to be borne by the earnings from other sources which are insufficient even for the essential family expenses in certain cases. Consequently, some installments are defaulted.

A considerable segment of defaulters (Table 4.8) utilize loans for emergencies such as accidents and health needs in the households. During the last two years, farming was a challenge for severe droughts. Harsh weather conditions adversely impacted not only agricultural activities but also timely repayment of loans. Data establish that there are nearly 28 percent of defaulters including farmers in 2016 and 2017.

Table 4.8: Reasons for Non or Poor Repayment of Loans by the Defaulters

Reasons for Defaults	Percentage of Defaulters
Insufficient Family Income	53
Accidents and Health Problems	36
Investment Failures	28
Obtaining Many Loans from Different MFIs	22
Inconvenient Weekly Payment Scheme	13
Higher Interest Rate	6

Note: The sum of the percentages of defaulters exceeds 100 due to multiple reasons for defaults stated by respondents.

Source: HARTI Survey Data, 2018

Some defaulters (22%) trap in the viscous circle for being unable to repay loans, and seek financial assistance from the same or other MFIs or the village money lenders at any interest rate to settle the dues. In such circumstances some of the MFIs also lend money without paying much attention to the loan history of the clients by searching the CRIB. The CRIB search relies on the MFI whether they issue higher or lower amounts and whether they have access to CRIB. Approximately 13 percent of respondents are defaulters due to inconvenience in the mostly practiced weekly repayment scheme as in many instances they fail to earn an adequate income in every week to repay the loan installment. Though, weekly installment scheme is a weak point from the respondent view point, it is favourable for MFIs as it acts as a tool for early recognition of potential defaulters in the monitoring process.

4.8 Household Socio-economic Status between Borrowers' and Non-borrowers' and Investors' and Non-investors'

The socio-economic status of the households of both borrowers and non-borrowers in the sample was measured through a scoring matrix. The matrix captured socio-economic variables such as material for wall, floor, roof, source of drinking water, energy source of cooking, educational status of both husband and wife[24], satisfaction of the services obtained from private and government hospitals and dispensaries[25], satisfaction of transportation facilities obtained by family members[26], monthly family income and ownership of home garden. As described under methods of the study in Chapter One, the minimum and the maximum possible matrix values were 10 and 30 respectively. Table 4.9 shows the distribution of the respondents by the socio-economic status of the family based on the matrix value categories. Those matrix value categories were derived in a manner in which each category value range worthy of seven scores. Accordingly, the majority of the borrowers as well as non-borrowers can be categorized as families enjoying an average socio-economic status. Further, there is no significant evidences to confirm any difference between borrowers' and non-borrowers' in terms of socio-economic status of households (t_{390} = 1.517; P (0.801)> 0.05).

Table 4.9: Percentage Distribution of Borrowers and Non-borrowers by Socio-economic Status of Households

Scoring Matrix Value	Socio-economic Status of Family	Number and Percentage of Borrowers	Number and Percentage of Non-borrowers
Score 10-16	Poor	6 (2%)	2 (3%)
Score 17-23	Average	271 (84%)	59 (87%)
Score 24-30	Well-off	47 (14%)	7 (10%)
Total		**324 (100%)**	**68 (100%)**

Source: Author's Estimation based on HARTI Survey Data, 2018

The analysis was further extended to differentiate investors from non-investors amongst the borrowers based on the values of the scoring matrix for socio-economic status of the households. Based on the values of scoring matrix, the analysis disproves any significant difference in the socio-economic status between investors' and non-investors' (t_{322} = 1.615; P (0.107) >0.05).

4.9 Socio-economic Factors Driving Investment of Loans in Income Generating Activities

The review of literature provides evidence on the underlying socio-economic factors that drive the investment decision by the borrowers. The results show that neither age (χ^2 (3, N=324) =2.373, P (0.499)>0.05) nor educational status of the borrower (χ^2 (2, N=324) =0.575, P (0.750)>0.05) has any significant association with the investment decision in income generating activities indicating that irrespective of the age and the educational status, the borrowers had invested in income generating activities though the success is diverse.

[24] Educational score – Appendix 1.4.

[25] Health score – Appendix 1.4.

[26] Transportation score – Appendix 1.4.

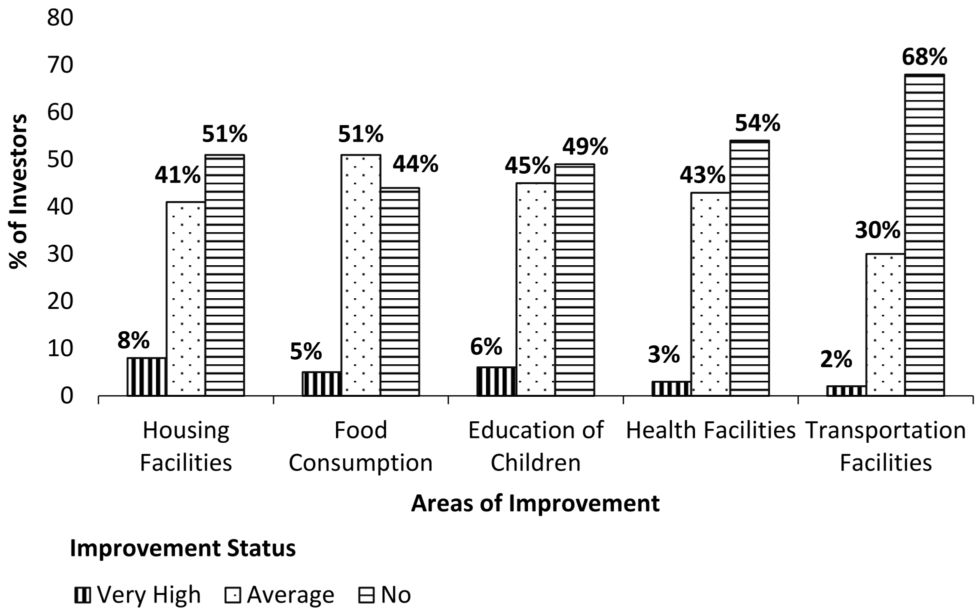
Nevertheless, the significant association χ^2 (3, N=324) = 48.434, $P<0.05$) between the investment decision by the borrowers and the current involvement in an income generating activity by them establishes what motivation the borrowers had to invest loans when they are involved in such activities. The involvement of MFIs through various loan schemes and credit plus services such as trainings and exposure to business linkages at this point appears as the significant cofactor in motivating rural development via entrepreneurship development.

4.10 Socio-economic Status of Households and Business Characteristics

Further analysis was undertaken to understand any possible relationships between business characteristics of borrowers who invested on newly initiated income generating activities and socio-economic status of their families which was measured through the scoring matrix. Pearson's Correlation coefficients were estimated for the business characteristics considering invested amount of loan, income generated and the number of employments. Cultivation of vegetables and OFCs has been considered as a newly initiated income generating activity being seasonal agricultural activities. Number of employments is computed using both family labour and hired labour that gives a measure as man days for one year. As indicated in Appendix 4.10, there are significant relationships between the socio-economic status of the households and the business related variables selected.

4.11 Effects of Loan Investment

The study reveals that only 195 borrowers (60%) invested in newly begun income generating activities and the income from those investments have helped them to improve the socio-economic status directly or indirectly in the areas of housing facilities, food consumption, education of children, health facilities and transportation facilities (Figure 4.5). Whilst the majority had less or no improvement in every aspect, a slight improvement is observed with respect to food consumption than other areas of improvement. This stresses the fact that the borrowers had not been able to achieve a higher level in socio-economic status through investing the loan money.



Source: HARTI Survey Data, 2018

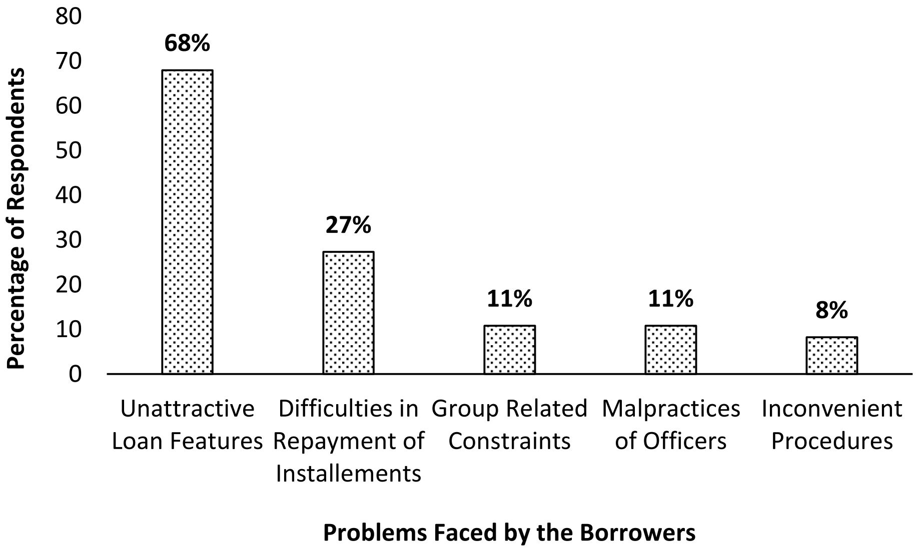
Figure 4.5: Percentage Distribution of Investors by Area and Degree of Improvement in Socio-economic Status

4.12 Problems Faced by Credit Borrowers

As revealed in the survey and the foregoing discussion, MF service in the Uva province is well established though the poorest category of people experiences many problems when they are dealing with MFIs. Poor accountability of MFIs, lack of codes of ethics and less welfare orientation appear to have made the poorest groups more vulnerable.

Nearly 68 percent of borrowers in the Uva province dislike some structural features of the loan schemes offered by the MFIs. Unaffordable interest rates which range from 15 percent to 35 percent is one of the greatest inconveniences. In addition, loan arrangements with shorter repayment durations and weekly installment schemes are among other main concerns (Figure 4.6). In certain instances, the entire loan amount is not offered to the clients owing to various deductions for documentation and insurance charges which are unattractive to the clients. Though, such deposits are maintained as insurance charges the reality being to recover the defaulted installments instead of insuring the borrowers who expect claiming the benefits of the insurance scheme.

The second most serious difficulty faced by borrowers is repayment of installments and the unattractive loan features above mentioned are also highly related to this aspect. The borrowers in many cases do not have a permanent source of income however they need to pay installments at the cost of the needs of the family members such as food and education. Thus, the poor income does not permit the payment of installments at the right time. This has resulted in defaulted installments. In such events the borrowers have to bear the added burden of interest too. In the presence of family problems, the situation aggravates thus they compel to mismanage the loans by utilizing them for various other purposes.



Note: The sum of the percentages of respondents exceeds 100 due to multiple problems faced by respondents

Source: HARTI Survey Data, 2018

Figure 4.6: Problems Faced by Borrowers when Dealing with Microfinance Institutes

Apart from the said issues, some borrowers (11%) experience group related constraints too. When a group member has default installments other members too become ineligible for applying loans until the borrower or any other group member/s pay the arrears. On the other hand, the groups formed for the sole purpose of obtaining loans meet occasionally so that the loan repayment progress is unknown to one another. All these have ultimately made the poorest even more vulnerable.

In certain instances, the field officers do not allow the borrowers to leave the outlets until the rest of the group members pay respective installments. The dealings between field officers and the borrowers are not welcoming. Such abusive treatments place extra burden on the borrowers. In addition, malpractices by MFIs' officials involved in debt collection create unnecessary social, economic and cultural burdens to the clients. The borrowers were doubtful whether the installments are correctly accounted to MFI's account as the present card system accompanies certain difficulties. In addition, majority of the MFIs request the credit holder to submit various documents such as certificate to confirm the residence from GN, water bills, electricity bills, marriage certificates and photocopies of national identity cards of both husband and wife to ensure their residence. To confirm their repayment ability, they require information such as details of bank account and monthly family income and transactions of ongoing businesses. For some (8%) such requirements seem difficult. When applying for a micro loan from government banks, credit holder had to have two government servants as guarantors. This is a heavy burden on the borrowers as it is difficult for them to find such collaterals as the poor does not have proper income sources. Given the circumstances, the helpless poor are unable to bear all these burdens and at the end some commit suicide, the misfortune the microfinancing carries revealed in the survey cannot be quantified due to privacy and status issues of the respondents. No issues regarding obtaining, utilizing and repayment of loans are revealed from 130 borrowers out of the total sample.

The boxes one and two exemplify the dreadful effects accompanied by microfinancing in the rural setting of Sri Lanka.

Box 1: The Lost Businessmen Trapped in Debt Cycle

This relates the story of a 47-year old person living in Wellawaya, Moneragala whose ambition from the childhood was to become a businessman, which he realized by joining his father's business immediately after completing G.C.E. (O/L). He was also strong enough to stand by himself, while working in the plastic and glassware business owned by his farther. This business grew within a period of 11 years and he became a successful businessman owning five vehicles and some lands. As time passed by, this business was collapsed because it was relying too much on the village level informal credit system called "seettu" operated by his farther to expand this business. His father was played out by some of the "seettu" clients who had to settle the unpaid installments of other members of the "seettu" with his own money. Ultimately they had to sell his vehicles and other deeds to settle the dues.

Currently, he runs a small tea shop selling short eats and beverages. During the bad period, he also had to borrow several loans from MFIs and private banks to ease him from the financial burden. Those credits were invested not only for his business improvement but to meet his day to day needs and for his children's education thus putting him on an ending cycle of debts relying on more and more loans from different institutions. Now he has to pay nearly Rs. 50,000 per month as loan installments from the meager income he gets from the tea shop and Rs. 9,000 he receives as a monthly rental from an apartment he owns. He had also borrowed money from daily collectors which has overburdened the situation. According to him, the private MFIs do not disclose the details of interest rates and amounts deducted as savings which actually meant for recover defaults rather than savings or insurance. The lost businessman appeals for any form of state assistance to relieve him from this misery.

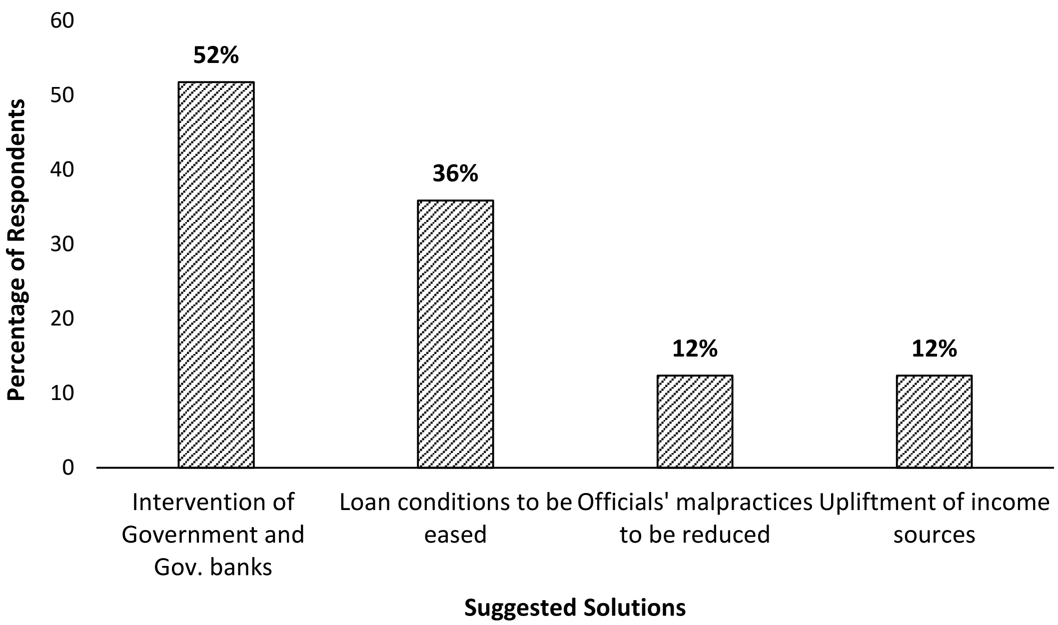
Box 2: Women Borrower in Desperate Need of Rebuilding Life

This is the story of a 26-year old young woman who received good education in Colombo being a member of a well-educated family. She began an informal marriage life with a man who is unemployed. They lived in a small house in central hilly area of the country. She also gave birth to a son while living in a partially broken house without proper income to fulfill even basic needs for living and providing education for the child. Her husband was arrested for an act of crime which further worsened her life. She has obtained loans from Samurdhi bank and village money lenders to get her husband released on bail pretending that the loans were applied for purchasing items for sewing business.

Regrettably, two known villagers had obtained loans in the name of her from MFIs and the burden of paying unsettled installments of those also fell on her shoulder. The respective MFIs forced her to pay the installments. She was helpless as she was not allowed to engage in an employment by her husband and also did not receive any support from mother in law's party. She was desperate and in order to escape from the agony, applied to obtain another loan from Samurdhi bank to settle debts. However, she knows that this request will not realize as other members in the group have defaulted installments. She is also having family problems because of continuous forceful unscrupulous acts of the field officer. Her parents living in Colombo financially help her but she is reluctant to speak to them about the real hardships undergoing at the moment. She has not received Samurdhi subsidy or any relief to date. She is saddened and desperate because she lost all her hopes to live a better life and for not getting any form of assistance from those who trapped her in this vicious debt cycle to rebuild the life she lost.

4.13 Suggestions to Overcome the Problems Faced by Borrowers

The borrowers suggest several solutions to overcome the problems faced by them despite to which extent they could be realized. As depicted in Figure 4.7, the majority (52%) sought government and government banks in micro finance sector for easing the present difficulties they are facing. Clients seek higher loan amounts at lower interest rates for investing in productive income generating purposes. SCBs require two state sector employees as guarantors. It is suggested that state employees as collaterals be eased when issuing loans by SCBs. Further intervention by CBSL is sought to control indiscriminate intervention by MFIs at the village level.



Note: The sum of the percentages of respondents exceeds 100 due to multiple solutions suggested by respondents.
Source: HARTI Survey Data, 2018

Figure 4.7: Suggested Solutions to Overcome the Problems Faced by Credit Borrowers in Uva Province

Nearly 36 percent of credit borrowers in the sample highly emphasize on easing loan conditions of MFIs. Their main considerations are to reduce annual interest rate up to a reasonable rate which can be regulated by the CBSL through the Department of Non-Bank Financial Institution Supervision. They also suggest rather than weekly installments, repay by monthly installments due to inconvenience of paying at weekly intervals. They also think it would be much convenient if MFIs apply RBM when estimating annual interest rate. Borrowers also specifically highlight ethical behaviour of officials when they obtain and repay micro loans and meanwhile utilization of the loan should be monitored whether it is utilizing for the intended purpose as to ensure productive utilization. Credit borrowers have intention to empower themselves with financial literacy as a mean of obtaining knowledge on proper financial management and they have a suggestion to promote new career opportunities in villages in terms of development in rural economy. Proposed solutions would be helpful to avoid problems faced by the poor with ultimate objective as livelihood development and uplifting living standard of the poor.

4.14 Summary

- Uva province is predominantly an agricultural area and the agricultural loans predominate too. It is also mainly for the cultivation of seasonal crops, thus offered on seasonal recovery basis.

- Loans for non-agricultural income generating activities are the second in order though they are subsistence level self-employments.
- The value of loans ranges from Rs. 10,000 to Rs. 700,000. Housing loan values are significantly higher than that of other loan categories.
- Agricultural loans predominate the micro-loan category whereas non-agricultural loans in high-value loan category.
- PNBFIs dominate in issuing loans for non-agricultural income generating activities such as self-employments and small businesses.
- Even though micro-credit is generally referred to as loans up to Rs. 40,000 in the Sri Lankan context, the study found that only 25 percent of the total number of loans falls into this category amounting to eight percent of the total loan value.
- PNBFIs are the major violators of the literal definition of micro-credit in terms of number of loans issued and loan value.
- The prominent micro-loan value is Rs. 40,000 and the prominent high-loan value is RS. 50,000.
- Many borrowers (46%) had obtained only one loan with a more less same portion (45%) two or three loans and a small percentage (9%) as many as four to nine loans.
- The borrowers utilized loans for several purposes namely; agricultural purposes, non-agricultural income generating activities, housing and personal matters.
- Out of the loans obtained for agricultural and non-agricultural income generating purposes the amounts invested entirely for the stated purpose were 68 percent and 43 percent respectively, which altogether accounts for 56 percent.
- Thus, a considerable portion of loans utilize for various purposes other than the purposes stated in the loan application.
- They can be termed as mixed purposes, meaning agricultural, non-agricultural, housing and personal needs.
- Such discrepancies stem from non-investment of loans as per the stated purpose and poor viability of business ventures.
- Sixteen percent of loans out of the total number of loans are in arrears in repayment of one or more installments.
- High value loans are the mostly defaulted and PNBFIs issue more high-value loans which have been defaulted.
- There are no significant differences in socio-economic status of households between borrowers' and non-borrowers' or between investors' and non-investors'.
- Involvement in an income generating activity appears to be a motivating factor for the borrowers to invest loan money for the same purpose.
- The amount invested, income and the employment opportunities are significantly correlated with the socio-economic status of the investors' households.
- Most borrowers fail to achieve better levels in socio-economic conditions.

- They also dislike certain structural features of MF services for instance, high interest rates, longer pay back periods, weekly installments and experienced hardships due to absence of ethical conduct by debt collectors.
- The suggestions made by the respondents to overcome such consequences in borrowing loans appear unrealistic.

CHAPTER FIVE

Conclusions and Recommendations

5.1 Introduction

Microfinance (MF) with broad range of services is a widely acknowledged finance mechanism for poverty reduction all over the developing world not limiting Sri Lanka. Studies undertaken on Sri Lankan MF sector has shown that it has achieved a fast growth during the last two decades. This attempt exclusively focused on to find out how beneficial is MF service to the rural agrarian poor in Sri Lanka with particular reference to demand aspects of MF, an important area which has not been thoroughly addressed in previous studies. The following conclusions were arrived at the completion of the study conducted by choosing a sample of 392 poorest households living in Moneragala and Badulla districts of the Uva Province. It has been a prerequisite for this assessment to select the poorest segment of the population representing rural agrarian poor in the country. Comparison of sample socio-economic characteristics with provincial level published data confirmed that the majority of the sample comprised vulnerable households in the agrarian society.

5.2 Conclusions

1. The credit history in Sri Lanka which dates back to 1906 has evolved over time with diverse institutional and programme interventions. The search of literature into problems and constraints of the services rendered through such interventions disclose the extent to which the rural agrarian poor is inaccessible to MF services though not quantified. This study discloses that the majority of the sample (83%) had access to MF as an indication of how they have overcome such constraints since MF sector came into operation. Even among the rest (17%), many have not accessed MF mainly for the fear of indebtedness. Yet there is a small portion of poorest households who fail to access MF service due to conventional constraints such as difficulties in finding guarantors, collaterals and documentation procedures. The study however, give evidences to an overall improvement in access to MF among rural agrarian poor with the fast growth of MF sector.

2. The survey reveals that there are over 50 microfinance institutes (MFIs) both registered and unregistered (under the LMFPA) operate in the Uva Province. These include Private Non-Banking Financial Institutes (PNBFIs), Government Non-Banking Financial Institutes (GNBFIs), Private Commercial Banks (PCBs), State Commercial Banks (SCBs) and Non-Governmental Organizations and Societies (NGOSs). NBFIs both private and government lead the sector. GNBFIs possess the highest number of service outlets though PNBFIs has the largest client base. Other MFIs are characterized by limited outreach with respect to objectives of the study.

3. Non-registered MFIs (NRMFIs) predominate in both aspects, client base and loan disbursement which are the areas worthy of paying attention in regulating MF sector. NRMFIs predominate in the provision of both micro-loans and high-value loans in many aspects such as number of loans issued, number of borrowers and total value of loans.

4. Preferable structural features of MF service offered by the MFIs, particularly the NBFIs, comprises of convenient procedures, minimum documentation, group collaterals, minimum delays, service provision at the door step and credit plus services at a lesser scale.

5. MF refers to provision of credit, insurance and credit plus services but the reality differs particularly in regard to PNBFIs. The key focus has been the credit disbursement, the borrowers have lost access to other important elements of MF service. Only few MFIs provide credit plus services to build the capacity of borrowers in areas of mushroom cultivation, production of confectionary and coir production.

6. Important loan features include interest rates, collaterals, pay-back period and repayment method. The annual interest rates of loans vary between two to sixty percent and differs by MFIs as well. NGOSs disburse a very limited number of loans at an interest rate as low as two percent. Interest rates of the majority of loans issued by PNBFIs falls into the category between 20 to 30 percent against that of by GNBFIs which ranged from 11 to 15 percent. The rates aforementioned are good examples to differentiate the burden placed by PNBFIs on borrowers compared to GNBFIs.

7. In addition to flat interest rates employed by PNBFIs, without any hesitation they add interest on default installments. Poor welfare orientation of PNBFIs is a major disadvantage for the poorest groups who are unable to earn a sufficient income to fulfill at least the basic needs for survival.

8. Weekly installment is another difficult loan feature for the poorest people who primarily depend on agricultural livelihoods. In addition, the system of group collaterals mostly popular among village societies is also not that comfortable to the borrowers when the group members fail to repay the loans taken by other group members. Yet, some government banks require two government servants as guarantors, the most difficult challenge the poorest people face in the need of loans. Pay-back period differs from six months to many years with the loan type, loan amount and the value of the installment. Pay-back period is higher when the loan value is higher.

9. Nearly 50 percent of borrowers have obtained at least one loan whilst the rest more than one with the highest reported as nine loans. The data over and over reminds the greater accessibility of the poor to MF service, but the other side of the coin is more undesirable. The higher the number of loans obtained the

greater the amount to be repaid so as the financial burden the family has to hold. This shows that the poor has addicted to obtain more and more loans despite they are well-conversant with the adverse effects and outcomes.

10. The roots for the said situation stem from the point of loan application. The most number of loans amounting to a greater value are applied for income generating purposes; both agricultural and non-agricultural. However, only 56 percent of them use for the purpose mentioned in the loan application. Of the rest, a considerable portion of loans is utilized for various other purposes. The significant discrepancy between the obtained purposes and actual utilization shows the greater flexibility the borrowers enjoy in the utilization of loans. This undesirable situation occurs owing to plenty of independence enjoyed by the borrowers in utilizing the loans obtained. This is an area that needs greater regulation. It is also worth mentioning that the majority of MFIs operating in the Uva province are unregistered even under the LMFPA, a matter of concern in a regulatory mechanism for the reorganization of MF sector in the country.

11. Only 2.6 percent of the total loan value utilizes for consumption purposes recording a drastic reduction with compared to previous research findings (7%) revealed through an island wide survey. Hence, the need for financial assistance for consumption purposes for the people in agrarian societies is much lower.

12. Loan utilization reports in four major areas; agricultural income generating activities, non-agricultural income generating activities, housing and personal requisites. The number of loans obtained for housing is lesser but greater in terms of value. This means high value loans are offered for housing, the never realizing dream of the poor. Thus, MFIs currently perform out of the scope of defined value of MF that is up to Rs. 40,000 as per factual sources.

13. Only 25 percent loans fall within the above defined category but the large majority (75%) exceeds the above limit. This has made the average loan value of each category significantly higher than the defined value. The maximum loan value issued for agricultural activities amounts to Rs. 700,000. The borrowers had access to such high value loans even for the personal matters. PNBFIs predominate in the issue of both high-value loans and micro-loans with respect to both number of loans and loan value as well.

14. The above discussion emphasizes the need for redefining MF and assigning limitations by re-categorizing MFIs to address the problems associated with the unorganized nature prevailing in the MF sector of the country.

15. In complying with the results of the statistical tests performed, MF has failed to improve socio-economic status of borrowing households or investing households in compared with non-borrowers and non-investors respectively. However, the invested loan amount, income generated and number of employments have significant relationships with the socio-economic status of investor families.

Besides, no greater improvements are achieved in housing facilities, education level of children, family health and transportation facilities except in consumption of food. All these points show that greater access to MF services and their investment in income generating activities fail to create a significant impact on rural agrarian poor instead of putting them in a debt trap.

16. Statistical evidence disproves that socio-economic factors like age and educational status are key stimulants of borrowers making investment decision except for their involvement in an income generating activity at the time they obtain the loan. However, credit plus services such as training and exposure to business linkages appear influential with regard to borrower's investment decision in income generating activities though the attention paid to such areas by the MFIs seems very poor. Hence, greater consideration on the purpose of issuing loans and ensure enabling environment for making investment on promising options are all important aspects that need regulation towards redirecting the MF sector operations towards a venture that ensure welfare of the borrowers.

17. Yet, a certain segment of the rural poor face difficulties in obtaining, utilization and repayment of loans. Unattractive loan features like high interest, shorter repayment period and weekly installments are all burdens to them. The poor fail to comply with the conditions imposed by MFIs when their family income is insufficient, investment fails and eventually they get trapped in vicious circle of indebtedness. However, it is noteworthy that the percentage of loans which are in arrears in repayment of one or more installments (16%) is not much higher but 22 percent borrowers obtain another loans from different sources to settle their previous debts. Mostly, the defaulted are high-value loans and most of them are issued by PNBFIs. The areas invested are also day to day family events instead of promising income sources. The borrowers experience both advantages and disadvantages of group collateral system. Some borrowers are still the victims of malpractices of the field officers and their unethical behaviours.

Therefore, the current manner of operations by MFIs carry the potential for further degradation of the socio-economic status of the rural agrarian poor in the country. There are no orders to the way the MFIs need to scatter over a region and their operation. The lenders indiscriminately enjoy the freedom making life exceedingly difficult of the rural agrarian poor, the largest client base of the MF sector. Any collapse in the client base becomes a threat to the MF sector itself. Given the undesirable circumstances, the country needs a stated control mechanism to reorganize the haphazard growth of MF sector in the country in order to convert this essential financial mechanism to a one that caters to the needy groups of the people in the literal sense of microfinance.

5.3 Recommendations

1. A policy decision should be taken to develop a stated mechanism for regulating the MF sector which is essential and urgent. Such a regulatory mechanism for MF sector needs to formulate under the provisions of Central Bank of Sri Lanka to restructure and regulate all MF sector operations. The key areas that need particular attention under the stated regulatory mechanism are specified below.

    - Compulsory registration of MFIs under the Microfinance Act No.06 of 2016.
    - Maintain and update a data base of MFIs and their client base.
    - Re-define the term "micro-credit" in a manner that suits the local context.
    - Define distinct categories of MFIs based on the scope of operations in terms of loan values and interest rates limits by distinct types of loans.
    - Disbursement of loans based on proper assessment of credit worthiness of the borrowers (CRIB reports, reports of previous loan repayment and default rates).
    - Employ a strong monitoring mechanism as to whether the loans disbursed are utilized for the income generating purposes (by the field officers of MFIs).
    - Encourage and make compulsory for the MFIs to provide credit plus services such as training and financial literacy programmes as corporate social responsibility initiatives accompanied by awards and incentives for the respective MFIs involved in.
    - Encourage MFIs to offer convenient loan features i.e. preferably monthly installments instead of weekly installments, medium term pay-back periods, lesser interest rates and ease on group collaterals.
    - Monitoring mechanism to follow up on the Code of Conduct by LMFPA.
    - Make it compulsory to obtain the approval by the government representatives (Divisional Secretariat-DS) prior to their involvement within DS divisions and MFIs to conduct awareness programmes with knowledge of GN at the village level.

2. Increase repayment ability of rural agrarian poor via introducing and linking them to promising agro-based income generating activities including value addition to agricultural produce and by integrating agricultural insurance options for such agro-based investments by the Ministry of Agriculture.

3. CBSL needs to design and implement financial literacy programmes through competent authorities at district level.

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Appendices

Appendix 1.1: Sample Selection Areas

District	Divisional Secretariat	Grama Niladhari Division
Moneragala	Medagama	Thambana Elhena Kotabowa
	Kataragama	Detagamuwa Kandasuridugama Kataragama
	Buttala	Mahagodayaya Minipuragama Horabokka Rahathangama
	Wellawaya	Warunagama Siripuragama Thelulla Colony Weherayayagama
Badulla	Meegahakivula	Thaldena Aggalaulpatha
	Rideemaliyadda	Ikiriyagoda Kandubedda Kudalunuka
	Hali-Ela	Welikemulla Anthuduwawela Uduwara

Appendix 1.2: List of Key Informant Interviews

MFIs in Badulla and Moneragala Districts
Sri Parakum Sanasa Samithiya
Uva Development Bank
Commercial Credit Finance
Arthavida Intermediary Limited
LOLC Micro Credit Ltd
HNB Grameen Finance Limited
Uva Govijana Kendraya
Sarvodaya Development Finance Limited
Samurdhi Bank
Alliance Finance Company PLC
Sewa Community Credit Limited
Walli Mathagama Sanasa Samithiya
People's Microfinance Ltd
Hambantota Women's Development Federation

GNs of following GNDs
Uduwara
Thaldena
Anththuduwawela
Kandasurindugama
Detagamuwa
Elhena
Mahagodayaya
Horabokka
Siripuragama
Thellulla Colony
Warunagama
Ethiliwewa

Appendix 1.3: Variables and Measurements on Structure and Conduct of Microfinance Service

Variable	Type of Measurement
Sources of microfinance services accessed by the poorest during the years 2016 and 2017	Names
Distribution of households in the sample who obtained loans by sources of microfinance	Percentage
Value of loans by which categories	Rupees by category
Interest rates by sources of microfinance	Percentage of total loans by sources
Repayment method by sources of microfinance	Percentage of total loans by sources
Collaterals	Types
Loans issued by sources of microfinance	Percentage of borrowers
Service outlets	Number
Pay-back period	Months or days
Types of credit plus services	Types

Appendix 1.4: Scoring Matrix as a Measure of Improvement in Socio-economic Status of Family

Study Parameter	Measuring Variable	Measurement	Points
Housing Conditions	Construction materials for walls	Temporary materials	1
		Permanent material but partially completed	2
		Fully completed	3
	Material for floor	Clay	1
		Cement	2
		Tile	3
	Material for roof	Cadjan / Palmyra / Straw	1
		Metal sheets	2
		Asbestos sheets/Tile	3
Drinking Water	Source of drinking water	River/Lake	1
		Tube well/Unprotected well/filters/tanks	2
		Tap line/ Protected well	3
Energy Used	Energy source of cooking	Firewood/Kerosene oil	1
		Firewood more than gas	2
		LP gas/Electricity/LP gas more than firewood	3
Educational Level	Educational status of husband and wife	Primary education	1
		Up to G.C.E. O/L	2
		Passed G.C.E. O/L or G.C.E. A/L / Degree	3
Health Condition	Satisfaction of the service obtained from private and government hospitals/dispensaries	Not satisfied	1
		Satisfied	2
		Highly satisfied	3
Transportation Facilities	Satisfaction of transportation facilities obtained by family members	Not satisfied	1
		Satisfied	2
		Highly satisfied	3
Economic Capacity of Family	Monthly income of the family	< Rs. 25000	1
		Rs. 25000 – Rs. 75000	2
		> Rs. 75000	3
	Ownership of home garden	Illegal/State lands	1
		Permits/Grants/Rent/Leased	2
		Traditional deeds	3

Lanka Microfinance Practitioners' Association

Appendix 2.1: Code of Conduct for LMFPA Members

Introduction

Microfinance Institutions seek to create social benefits and promote financial inclusion by providing financial services to low income households. As these institutions build partnerships with their clients, it is increasingly important to define core values and fair practices, so as to ensure that microfinance services are provided in a manner that benefits and respects clients. In addition to all regulatory guidelines introduced by the government of Sri Lanka for the microfinance sector, this code of conduct adopted by Lanka Microfinance Practitioners' Association is to ensure that the highest level of professionalism, ethical conduct and good governance are observed by all Microfinance practitioners and their employees; and binds its member MFIs and their employees to total compliance as a condition of its membership.

1. **<u>Avoid Over Indebtedness</u>**

1.1 The MFI will obtain a disclosure from the household on the number and value of loans that were obtained previously and are currently outstanding.

1.2 The MFI will ensure that the household has at least 40 percent of disposable income after accounting for loan repayment obligations.

1.3 If household is having more than 03 outstanding loans whether with the MFI and other MFIs collectively, then the MFI may take steps to obtain the clients' CRIB report should the loan facility exceeds Rs. 200,000/- and client has obtained previous loans from a CRIB member.

1.4 If a higher loan value (Rs. 200,000 and above) is being awarded to household, the MFI will ensure that 2/3 or acceptable terms of previous loans taken by household is completed before disbursing the additional loan.

1.5 The MFI will ensure that all its mainstream loan products are 6 months and above in tenure.

1.6 The MFI will conduct an internal audit to verify a sample of households with multiple loans for additional verification.

2. **<u>Maintain Transparency</u>**

2.1 The MFI will ensure that it communicates clearly to its clients on the effective interest rates of its loan products considering all costs prior to signing the loan agreement. This information shall also be disclosed in all promotional materials for its loan products.

3. **<u>Loan Disbursement & Recovery Practices</u>**

3.1 The MFI and its agents provide their services to their clients fairly and respectfully and without any discrimination such as race, religion, physical disability or level of poverty.

3.2 The MFI will place safeguards to detect and avoid corruption as well as aggressive and/or abusive treatment by their employees and agents to their clients during loan disbursements and recoveries. Specified sanctions should be in writing in the employment contract.

3.3 House visits and telephone calls should be conducted in a manner that does not create inconvenience to the client.

3.4 The MFI will provide official identification tags to all its loan officers and recovery officers.

4. Maintaining Healthy Competition

4.1 Develop regular interaction with other MFIs operating within the same area or in new areas where expansion is planned.

4.2 Follow fair and ethical practices when recruiting employees of other MFIs.

4.3 In case of such recruitment a clearance letter should be obtained from the former MFI at the time of recruitment.

4.4 Share information with LMFPA on employees terminated for fraudulent activities or disciplinary grounds.

4.5 The MFI may obtain clearance from LMFPA at the time of staff recruitment.

5. Develop a Feedback Mechanism

5.1 The MFI will set up efficient and effective feedback mechanisms for complaints and problem resolution for their clients.

5.2 The MFI will inform the clients about the existence and purpose of these mechanisms and how to access them.

6. Information Sharing

6.1 The MFI will provide timely statistical information to LMFPA for publication as requested from time to time.

7. Quality of Staff

7.1 The MFI will ensure that its staff is periodically trained to update their knowledge on principles of microfinance and related subjects.

7.2 The MFI will ensure that its entire staff is aware of the contents of the Code of Conduct.

8. Breach of Code of Conduct

8.1 A breach in the Code of Conduct by any member can be communicated in writing to the LMFPA.

8.2 LMFPA will inquire into and where necessary refer the complaint to an independent body/person to inquire the complaint.

8.3 The MFI in breach of the Code of Conduct will be first issued a letter of warning.

8.4 Thereafter for repeated breach, such MFI’s membership status with LMFPA will be terminated.

8.5 Terminated members will be published on print media.

9. The terms and conditions of this Code of Conduct are subject to periodical review and will be a binding condition for renewal of membership.

DECLARATION

We ………
member of Lanka Microfinance Practitioners' Association, unanimously and whole-heartedly agree to abide by the Code of Conduct stated above.

…………………………………… ………………………………………….
Company Rubber Stamp

Signature
Name:
Designation:
Date

Appendix 3.1: Housing Characteristics of the Respondents

Housing Parameter	Measuring Criteria	Distribution of Respondents	
		No.	%
Wall Material of Houses	Bricks(clay/cement) and unplastered	145	37
	Plastered and painted	107	27
	Bricks(clay/cement) and plastered	90	23
	Wattle and daub/cadjans	50	13
Floor Material of Houses	Cement/concrete	313	80
	Clay/cow dung	63	16
	Tiled/terrazzo	16	4
Roof Material of Houses	Asbestos/tile	334	85
	Metal sheet	55	14
	Cadjans/straw	3	1
Source of Drinking Water	Protected well/main supply	311	79
	Well (unprotected/tube)	69	18
	River/canal	12	3
Source of Fuel for Cooking	Kerosene/firewood	310	79
	Mostly firewood less LP gas	61	16
	Mostly LP gas less firewood/electricity	21	5

Source: HARTI Survey Data, 2018

Appendix 3.2: Selected Economic and Social Parameters of Households

Parameter	Measuring Criteria	Distribution of Respondents	
		No.	%
Monthly Family Income (Rs.)	10,000-30,000	172	44
	30,001-50,000	117	29
	50,001-70,001	49	13
	< Rs. 10000	20	5
	70,001-90,000	20	5
	> 90,000	14	4
Education Status of Wives	Grade 6 to G.C.E. O/L	221	58
	Grade 1- Grade 5	104	27
	Passed G.C.E. O/L or above	56	15
Education status of Husbands	Grade 6 to G.C.E. O/L	209	58
	Grade 1- Grade 5	116	32
	Passed G.C.E. O/L or above	34	10
Employment of Wives	Farming	119	50
	Self-employed	85	36
	Labourer	17	7
	Private sector employee	12	6
	State sector employee	3	1
Employment of Husbands	Farming	140	41
	Labourer	53	15
	Self-employed	51	15
	Skilled employee	39	11
	Private sector employee	31	9
	State sector employee	30	9
Savings Habits with Formal Banks	Have accounts in formal banks	331	84
	No accounts in formal banks	61	16

Source: HARTI Survey Data, 2018

Appendix 4.1: Percentage Distribution of Borrowers by Number of Loans

Number of Loans Obtained in 2016 & 2017	Number and Percentage of Respondents		Percentage of Borrowers by the Number of Loans Obtained
	No.	%	
0	68	17	
1	149	38	46
2	95	24	29
3	53	13	16
4	15	4	5
5	10	3	3
8	1	<1	<1
9	1	<1	<1
Total	**392**	**100**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.2: Loans Obtained for Agricultural Activities

Loan Value Category (Rs.)	Loans Obtained for Agricultural Activities			
	No.	%	Loan Value (Rs.mn.)	Value (%)
<=40000	74	32	2.065	12
>40000 <50000	1	<1	0.045	<1
50000	70	31	3.5	21
>50000<75000	14	6	0.875	5
>=75000<100000	18	8	1.445	9
100000	26	11	2.6	15
>100000<=200000	17	7	2.53	15
>200000	8	4	3.75	22
Total	**228**	**100**	**16.81**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.3: Loans Obtained for Non-agricultural Income Generating Activities

Loan Value Category (Rs)	Loans Obtained for Non-agricultural Income Generating Activities			
	No.	%	Loan Value (Rs.mn.)	Value (%)
<=40000	55	25	1.47	9
>40000 <50000	3	1	0.125	1
50000	37	17	1.85	11
>50000<75000	37	17	2.35	14
>=75000<100000	30	14	2.46	15
100000	22	10	2.2	13
>100000<=200000	25	12	3.595	21
>200000	8	4	2.775	16
Total	**217**	**100**	**16.825**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.4: Loans Obtained for Housing Purposes

Loan Value Category (Rs)	Loans Obtained for Housing Purposes			
	No.	%	Loan Value (Rs. mn.)	Value (%)
<=40000	21	13	0.61	3
>40000 <50000	2	1	0.09	<1
50000	25	15	1.25	6
>50000<75000	11	7	0.72	4
>=75000<100000	17	11	1.327	6
100000	28	17	2.8	14
>100000<=200000	41	25	6.915	35
>200000	18	11	6.08	31
Total	**163**	**100**	**19.792**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.5: Loans Obtained for Personal Requisites

Loan Value Category (Rs)	Loans Obtained for Personal Requisites			
	No.	%	Loan Value (Rs. mn.)	Value (%)
<=40000	5	29	0.105	8
50000	4	24	0.2	15
>50000<75000	3	18	0.19	14
>100000<=200000	4	23	0.534	40
>200000	1	6	0.3	23
Total	**17**	**100**	**1.329**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.6: Loan Details by Value and Types of Microfinance Institutes

Types of MFIs	Micro-loans		High-value Loans		Overall Loan Details	
	Value (Rs.mn.)	%	Value (Rs.mn.)	%	Value (Rs.mn.)	Value (%)
PNBFIs	2.370	55	25.856	51	28.226	52
GNBFIs	1.575	37	15.100	30	16.675	30
NGOSs	0.225	5	0.920	2	1.145	2
SCBs	0.085	2	8.545	17	8.63	16
PCBs	0.030	1	0.050	<1	0.08	<1
Total	**4.285**	**100**	**50.471**	**100**	**54.756**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.7: Numbers and Values of Loans by Purpose of Disbursement and Actual Utilization

Purpose of Obtained Loan	Uses of Obtained Loan	Loan Details			
		No.	% of loans	Value (Rs.mn.)	Value (%)
Agricultural Activities	Agriculture	156	68	10.985	66
	Non-gricultural Income Generating Activities	1	<1	0.040	<1
	Housing	7	3	0.315	2
	Personal Requisites	18	8	1.195	7
	Mixed Purposes	46	20	4.275	25
	Sub Total 1	**228**	**100**	**16.81**	**100**
Non-agricultural Income Generating Activities	Agriculture	-	-	-	-
	Non-agricultural Income Generating Activities	94	43	7.76	46
	Housing	4	2	0.235	1
	Personal Requisites	48	22	2.64	16
	Mixed Purposes	71	33	6.19	37
	Sub Total 2	**217**	**100**	**16.825**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.8: Loan Details of Default Loans by Number and Types of Microfinance Institutes

Types of MFIs	Micro-loans		High-value Loans		Overall	
	No.	%	No.	%	No.	%
PNBFIs	13	68	52	64	65	64
GNBFIs	2	11	25	30	27	27
NGOSs	3	16	1	1	4	4
SCBs	1	5	4	5	5	5
Total	**19**	**100**	**82**	**100**	**101**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.9: Loan Details of Default Loans by Value and Types of Microfinance Institutes

Types of MFIs	Micro-loans		High-value Loans		Overall	
	Value (Rs.mn.)	%	Value (Rs.mn.)	%	Value (Rs.mn.)	%
PNBFIs	0.38	71	5.525	63	5.905	63
GNBFIs	0.06	11	2.345	27	2.405	26
NGOSs	0.07	13	0.05	<1	0.12	1
SCBs	0.025	5	0.9	10	0.925	10
Total	**0.535**	**100**	**8.82**	**100**	**9.355**	**100**

Source: HARTI Survey Data, 2018

Appendix 4.10: Correlation Matrix on Socio-economic Status of Households and Business Characteristics

	Scoring Matrix Value	Invested Total Loan Amount (Rs.)	Income Generated (Rs./month)	No. of Employments Generated (man days/year)
Scoring Matrix Value	1	0.289* (0.001)	0.255* (0.007)	0.318* (0.000)
Invested Total Loan Amount (Rs.)	0.289* (0.001)	1	0.720* (0.000)	0.371* (0.000)
Income Generated (Rs./month)	0.255* (0.007)	0.720* (0.000)	1	0.397* (0.000)
No. of Employments Generated (man days/year)	0.318* (0.000)	0.371* (0.000)	0.397* (0.000)	1

* Correlation is significant at α = 0.01 level (2-tailed).

Source: HARTI Survey Data, 2018