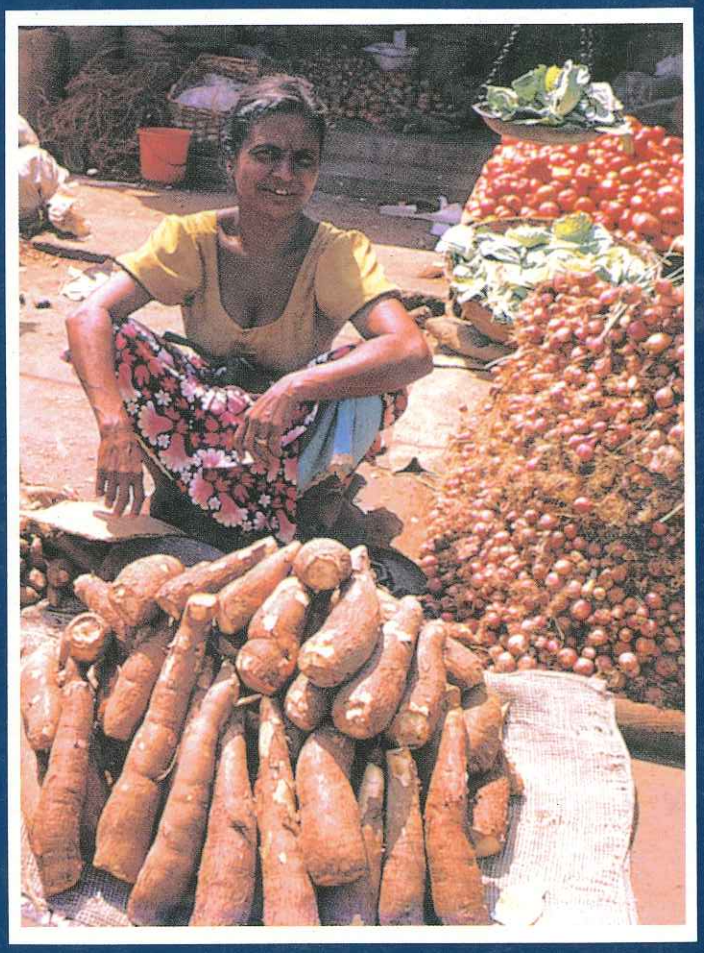
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How Successful is Samurdhi's Savings and Credit Programme in Reaching the Poor in Sri Lanka?



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Abstract

The study evaluates key components of the Samurdhi Programme's savings and credit intervention. They are the group savings and intra-group credit component, the Samurdhi Bank Programme, and the credit for microenterprise development programme. The analysis addresses the following issues: the extent to which the programme has engendered a savings and credit culture among participants; the dynamism and sustainability of Samurdhi's savings groups and Banks; and, the extent to which they have reduced the vulnerability of the poor. The study also looks at the socio-economic impact and sustainability of Samurdhi's microenterprise development credit component (SASANA). Key findings to emerge from the analysis are that Samurdhi's group savings and intra-group credit component and the Samurdhi Bank Programme are functioning as vital sources of emergency credit for Samurdhi beneficiaries. The programme also works better in relatively favourable rural areas rather than in urban areas or rural locations where infrastructure facilities are very poor. However, programme sustainability appears to be heavily reliant on the income transfer component. In contrast, the microenterprise development credit component has failed in its objective of promoting the poor to higher income growth paths. The reasons for this are deficiencies in the programme itself as well as constraints such as infrastructure bottlenecks and imperfections in the market for technology. Moreover, the high rate of default makes the microenterprise development credit programme completely unsustainable in the long run.

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1. Introduction

1.1 Background

While Sri Lanka's extensive welfare state has survived the re-orientation of the economy to a market-oriented, growth-centred approach, there have been a few substantive changes in the welfare policy framework itself. The most significant of these has been the declining emphasis on subsidies, and the greater importance given to measures that both protect and promote the poor. Thus, income transfer programmes that provide a safety net for the poor, as well as targeted development interventions that aim to help the poor to move on to higher income growth paths, have characterised the new approach to reducing poverty. Yet another feature of the new approach has been the emphasis on participatory methodologies to help the poor help themselves. Its aim is to help the poor to identify their problems themselves, and work towards a solution, with assistance from the State. The new methodology also aimes to wean the poor from the dependency that earlier redistributive policies had encouraged.

The Samurdhi Programme typifies the new approach to poverty alleviation. In 1995 it replaced the Janasaviya Programme (1989-1995), the first government programme to adopt the new methodologies. At present, it is the largest item on the government's welfare budget, if expenditure on social infrastructure items such as education and health are excluded. Together, education and health accounts for more that 50 per cent of the total social welfare budget, while Samurdhi accounts for 15 per cent.

The programme consists of three prongs to protect and promote the poor. First, the income transfer programme provides consumption support to beneficiaries. The second prong consists of savings and credit programmes that aim to both reduce the vulnerability of the poor and to provide them with the capital necessary to participate in the economic growth process. The third component aims to develop rural infrastructure through work-fare programmes.

This paper aims to evaluate Samurdhi's second prong, and assess the extent to which its savings and credit programmes are protecting and promoting the poor. Its main focus is on the socio-economic changes that the programme has given rise to among beneficiary families. The key components of the savings and credit scheme evaluated here are the group savings and intra-

group credit scheme, the Samurdhi Bank Programme, and the credit for microenterprise development (SASANA) programme. The analysis addresses the following issues:

a) To what extent has the programme engendered a savings and credit culture among participants?

b) How dynamic and sustainable are Samurdhi savings groups?

c) Has participation in the programme reduced the vulnerability of the poor, by providing easily accessible sources of credit in emergencies, and by reducing dependence on money lenders?

d) How sustainable are the Samurdhi Banks?

e) Has the Samurdhi Enterprise Development Credit Programme (SASANA) helped recipients to set up sustainable self-employment projects?

f) What is its socio-economic impact?

g) How sustainable is the SASANA programme?

The rest of the paper is organised as follows. Section 1.2 sets out the research methodology of the paper and outlines its limitations. Section 1.3 briefly introduces the Samurdhi Programme. The next section looks at the group savings and credit component, including the Samurdhi Bank Programme. Section 3 analyses the Samurdhi Microenterprise Development Credit (SASANA) component. Section 4 concludes.

1.2 Research Methodology and Limitations

An earlier evaluation of the Samurdhi Programme (Gunatilaka *et al* 1997) as well as other research on microenterprise development have highlighted the importance of the physical environment and access to infrastructure facilities as determinants of success in this type of intervention. For example, Gunatilaka *et al.* (1997) found that in the poorest agricultural divisions of Anuradhapura, Badulla and Moneragala, the majority of beneficiaries were too poor to save, while drought, depressed demand conditions, poor infrastructure and lack of access to markets, were insurmountable obstacles in the way of starting viable income-generating projects. The present study aims to test this hypothesis. Hence, the sample consists of 200 beneficiary families from four locations: the metropolitan suburb of Colombo (Dehiwela-Mt. Lavinia Division), the provincial urban area of Ratnapura Division, the favourable rural location of Nivitigala Division,

and three unfavourable rural Grama Niladhari Divisions in the west of Eheliyagoda Division, in the Ratnapura District. The choice of Ratnapura District was governed by several considerations. First, it is a relatively poor district, ranking eighth and below the national average in human development[1] among 17 districts outside the North and the East. At the same time, it ranks thirteen according to the Human Poverty Index (UNDP 1998).[2] But Ratnapura also has a relatively diversified agricultural economy, with smallholdings in tea, rubber, coconut and paddy as well as estates. In addition, gem mining provides livelihoods for many people. Ratnapura has a fairly extensive road network, and the metropolitan market of Colombo is more easily accessible from Ratnapura than from Anuradhapura, Badulla or Moneragala. Fifty Samurdhi beneficiary households receiving Rs. 500 or Rs. 1000 a month as income support from the programme were picked from a list of Samurdhi beneficiaries in each Division. Of this number, 15 households were recipients of SASANA loans. Thus, total sample size was 200 households, of which 60 were SASANA recipients.[3]

Note, however, that since this is an evaluation of Samurdhi's savings and credit programme, it was restricted to a survey of Samurdhi beneficiaries who are eligible to participate in the programme. As a result, the study takes as given the definition of poverty, based on consumption, that is used by the programme to target its income transfer component. There are several problems with this definition which have been highlighted earlier (see for example, Gunatilaka *et al* 1997). In the first place, the Rs. 1500 monthly household income used to determine eligibility for the income transfer is totally unrealistic. In 1998, the ultra-poverty line based on meeting minimum calorie requirements, was Rs. 717.09 per person per month, which translates into Rs. 3227 for a 4.5 member household. The higher poverty line was Rs. 860.51 per person per month or Rs. 3872.30 per household per month (Aturupane and Gunewardene 1998). On the other hand, not all poor or ultra poor people receive the income transfer, nor are all Samurdhi beneficiaries poor.[4] Thus, there is little to show that all the households surveyed are really the poorest as far as consumption-based poverty is concerned.

---

[1] The components of human development as measured by the index are life expectancy, education and per capita GDP.

[2] The components of human poverty as measured by the index are access to electricity, safe drinking water and adequate sanitation, immunisation of children, and the proportion of child deliveries that take place outside medical institutions.

[3] The sample size and survey locations were determined after consulting Mr. Dixon Nilaweera, Secretary, Ministry of Finance and Planning.

[4] For example, using a consumption-based reference poverty line, Aturupane *et al.* (1997) found that *Samurdhi* reached only 56 per cent of poor female-headed households and 46 per cent of poor male-headed households. In contrast, 28 per cent of non-poor female-headed households and 17 per cent of non-poor male headed households received *Samurdhi* benefits (1997:59-60).

At the same time, these definitions of poverty are consumption-based, whereas there is a vast literature on the other dimensions of poverty, such as access to infrastructure services. This distinction is particularly relevant when discussing the issue of urban poverty as against rural poverty, as in urban areas, people are considered poor for different reasons than in rural areas. For example, while the rural poor may be characterised by the lack of cultivable land, landlessness is not a correlate of poverty for the urban poor, but poor housing may well be. Nor are the poor a homogeneous group. There are various gradations of poverty, and the policies that may address the problems of one group, in one area, may not resolve the problems faced by another in a different area. The present analysis highlights these differences. Nevertheless, for ease of reference, poverty in this study will be defined by the narrower concept of consumption poverty for the main part.

Naturally, an evaluation of a programme of the magnitude of Samurdhi (which reaches nearly 2 million households in 18 districts) based on a sample of 200 households, does not permit one to make generalisations about the entire programme. Therefore, in this evaluation too, it must be emphasised that the majority of findings are necessarily location-specific, and may not be applicable to other areas that do not have similar physical conditions. A few problems were encountered with data collection by questionnaire. For example, a few questions that asked the respondents to state their preferences were misunderstood by both enumerators and respondents. And predictably, it proved impossible to obtain any reliable information on the incomes or changes in incomes of beneficiaries. Even so, the present study yields some useful insights about the impact of Samurdhi's savings and credit programme at least four years into the life of the programme.

1.3 The Samurdhi Programme

Samurdhi's poverty alleviation strategy consists of a short-term component to protect the poor by reducing their vulnerability, and a long-term programme to assist them to graduate out of poverty. The conceptual framework of Samurdhi clearly recognises the complexity of the problem of poverty, and the need to adopt a broad-based, holistic approach to tackle the problem. The poverty cushioning components of the short-term strategy involves elements such as an income transfer scheme, a social insurance scheme and social development programmes aimed at marginalised groups. The long-term strategies focus on poverty alleviation through social mobilisation, empowerment and microenterprise development. The methodology involves the creation of a savings culture (especially through the Samurdhi Banks), facilitating access to credit, micro-

enterprise development, the development of infrastructure (particularly through community-based projects), and providing support services such as organising marketing activities and training.

The programme has its own administrative structure, extending from a few key institutions in the Central Government to Samurdhi Offices and Units at District and Division level. As shown in Box 1.1, the Samurdhi Programme has close links with the District and Divisional Secretaries. Samurdhi Managers (1500 degree holders), are responsible for programme implementation at the level of each Zone (a DS Division consists of two or more Zones which denote areas comprising several *Grama Niladhari* Divisions). Village level development work is catalysed by the Samurdhi *Niyamakas* (32,000 G.C.E. O'Level qualified youth), who act as animators. The key difference between the Samurdhi Programme and the Janasaviya Programme that was implemented by the previous government is that the Samurdhi Programme employs Niyamakas (or animators) at the grass-roots level.

Roughly 15 per cent of the government's total welfare and social infrastructure budget is spent on the Samurdhi Programme. Total estimated expenditure for 1998 amounted to a little over Rs. 10 billion (see Table 1.1). Of this total, the income transfer component took up 80 per cent, but the credit and community projects components accounted for 8 per cent and 7 per cent respectively. Administration costs remain quite high at about 7 per cent of total expenditure, although it has declined from the previous year's estimate of 10 per cent. These costs do not include that of administering the income transfer scheme, which is absorbed by the Department of Poor Relief, which is in charge of implementing the Samurdhi relief programme in addition to other projects such as the infant milk subsidy.

Unlike the preliminary evaluation which assessed all three components of the programme, the present study deals only with the three main elements of the savings and credit programme: group savings and intra-group credit, the Samurdhi Bank Programme, and the Samurdhi Development Credit Scheme (SANASA) for small enterprise development. The first two components represent the two stages of the same Grameen-type process but are analysed separately for ease of presentation. In contrast, the SANASA programme's method of operation lies outside the five member group structure and depends entirely on monitoring by Samurdhi Animators for repayment.

Box 1.1: Samurdhi's Organisation and Administration Structure

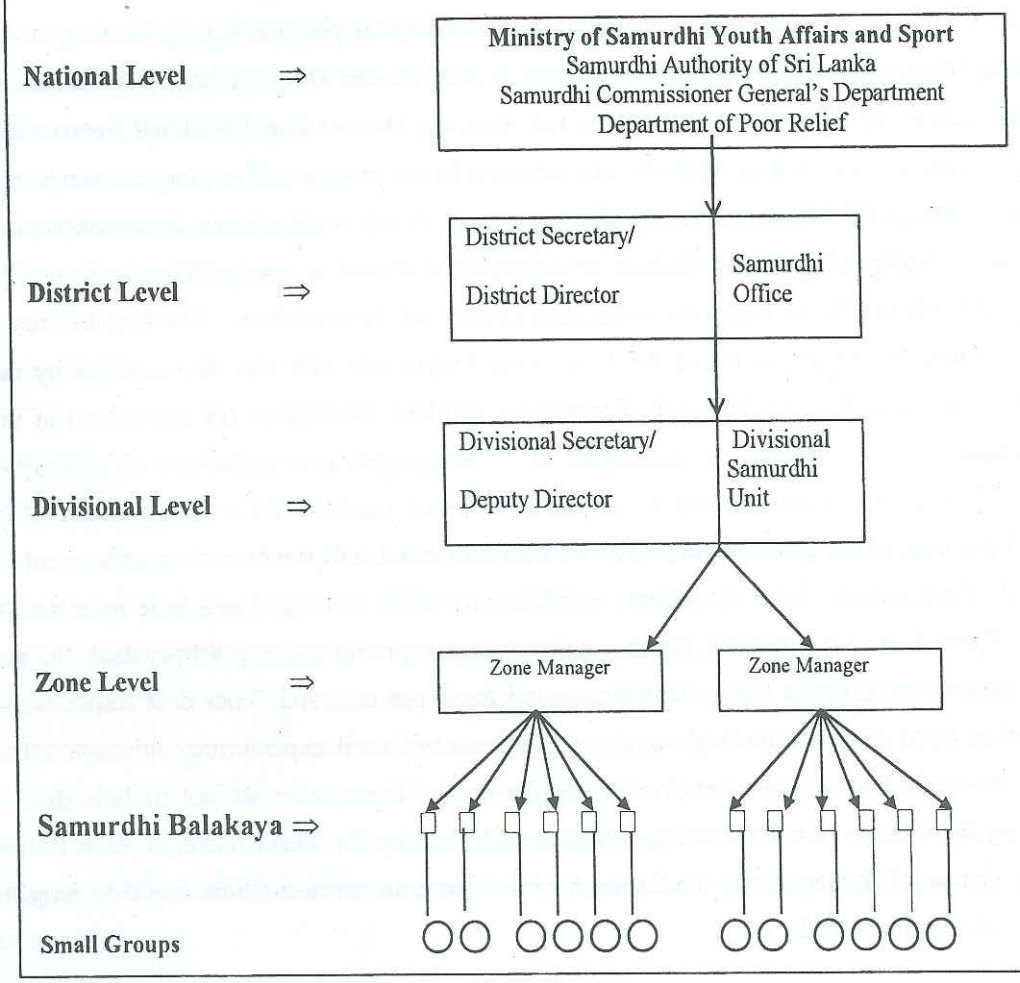


Table 1.1: Estimated Expenditure under the Samurdhi Programme 1996-1998

Item	1996 Rs. Million	1997 E Rs. Million	1998 E Rs. Million
a) Income Transfer	6740	7796	8003
b) Credit Programmes	596	650	800
c) Community Projects	254	200	600
d) Programme Administration	689	988	660
Total	8279	9634	10063

Notes: E= estimates; programme administration figures do not include administration of the Department of Poor Relief.
Sources: Items (a) and (d) from the Revenue and Expenditure Estimates of the Government of Sri Lanka; items (b) and (c) from the Samurdhi Authority of Sri Lanka.

2 Group Savings, Intra-Group Credit and Samurdhi Banks

2.1 Introduction

Group-based savings and credit programmes, as popularised by the Grameen Bank model, aim to help the poor to help themselves in several ways. First, they aim to promote the savings habit among poor households and improve their financial management skills, so that they maintain even consumption levels. Second, they serve as an entry point for social mobilisation and a focus for collective action. Third, group savings and intra-group credit schemes reduce the vulnerability of the poor in two ways: first, group savings act as 'stores of cash' that can be accessed speedily in times of crisis; and second, intra-group credit reduces dependence on high-interest bearing loans of money lenders to meet unexpected expenditure. And lastly, savings provide the collateral with which pro-poor financial institutions can reduce the considerable risks of lending to the poor.

The Samurdhi Programme's savings and credit component, too, has been designed with these objectives in mind. Apart from credit programmes to promote microenterprises (which will be discussed in the next section), Samurdhi operates a mandatory savings programme, a voluntary, group-based savings and credit scheme, as well as a Samurdhi Bank programme that aims to meet the credit needs of the poor. These mechanisms are explained further later on.

To what extent does the programme meet its objectives? This chapter assesses how effective Samurdhi's savings and credit programme is, in achieving its objectives by examining the following issues: (a) has the programme succeeded in creating a savings and credit culture among its target group?; (b) how dynamic and sustainable are the groups?; (c) to what extent do Samurdhi Banks reduce the vulnerability of the poor?; and (d) how sustainable are they? The final section concludes.

2.2 Samurdhi's Group Savings and Credit Schemes

Samurdhi's savings and credit programme consists of three key elements other than for the enterprise credit schemes such as SASANA, which is analysed in the next chapter. The key elements are as follows:

a) the mandatory savings component;

b) the voluntary group savings and credit scheme; and

c) the Samurdhi Banks.

The programme's savings component consists of both compulsory and voluntary components. The compulsory component is made up of deductions made at source from the consumption grant components of Rs. 1000 or Rs. 500 that households receive. While the compulsory savings component reduces the government's immediate outlay on the programme, its main function is to provide households with assets against which they can borrow in the future. However, since this is a mandatory scheme it is likely to have little bearing on the issue of creating a savings and credit culture, and will be excluded from the analysis.

The voluntary component closely resembles the Grameen Bank model, founded on the collective savings of five-member groups of people receiving the Samurdhi income transfer. While group members save regularly, they can access small loans from the accumulated group savings at reasonable rates of interest. As the savings and credit culture is established and the process reaches a further stage of maturation, successful small groups come together to form a Samurdhi Banking Society.

The Samurdhi Bank functions somewhat like a co-operative bank. The greater part of group savings are deposited in the Bank. (These are in turn deposited in the state-owned banks and, invested in Treasury Bills in the better-established banks.) The Samurdhi Bank also encourages deposits by individuals, whether members of the banking societies or not, and mobilises further savings from women (*Diriyamatha* Deposits) and children (*Kakulu* Deposits). However, the bulk of the bank's assets are made up of share capital: Samurdhi group members become members of a Samurdhi Banking Society once they purchase Rs. 500 worth of shares in the bank.

Membership of a Banking Society makes the Samurdhi beneficiary eligible to borrow from the bank. The only security that need be provided is the inter-se guarantee of the members of the group to which the applicant belongs. Interest is charged at the market rate and repayment begins immediately, with instalments due each month other than for short-term cultivation loans.

Samurdhi Banking Societies on which the Banks are based, have been established rapidly. By October 1998, 517 banks had been opened in 18 Districts. Of the original estimate, 395 banks

have yet to be set up. A little more than half a million households had purchased membership of the banking societies, and nearly three fifths of them were women (Samurdhi Authority of Sri Lanka 1998a). At the same time, the Samurdhi Banks held deposits totalling roughly Rs. 350 million. Of this figure, membership deposits (Rs. 500 worth of shares per member) accounted for 60 per cent, small group deposits amounted to 19 per cent, and members' deposits made up a share of 14 per cent (*ibid.*).

To what extent is the programme meeting its objectives? The following sections assess the impact of the programme.

2.3 To What Extent has Samurdhi Generated a Savings Culture?

Island-wide, nearly half the number of households receiving the income transfer are involved in group savings programmes. For example, while nearly 2 million households received the income transfer by the middle of 1998, by October that year, there were 168,212 small groups with a total membership of nearly a million Samurdhi beneficiaries. These groups had a total of roughly Rs. 222 million of savings as cash in hand (Samurdhi Authority of Sri Lanka 1998). Savings group activities also appear limited to households receiving transfers of Rs. 1000 and Rs. 500 per month - the poorest, according to the programme's selection criteria.

Although district-wise accumulated savings data are available, they provide little room for comparison even on a per capita basis. For one thing, the programme began at different times in different places; for another, where Samurdhi Banks are well-established, group savings are accounted for under the Bank's assets rather than under the groups. Thus, the macro-data reveals little that throws light on the extent to which the programme has created a savings and credit culture. However, the household survey carried out for the purpose of this study provides some useful insights.

Altogether, 163 households out of 200 interviewed were members of savings groups. 69 per cent (137 households) of the total sample, had not saved at all before the programme. Of this number, 108 households are now saving in groups. In other words, 54 per cent of beneficiaries who had not saved before Samurdhi are now saving in groups. A minority - 9 per cent - of those saving in Samurdhi groups now, had participated in group savings programmes earlier. There is some evidence of multiple membership of savings programmes: 18 per cent of respondents who

are members of Samurdhi savings groups are at the same time members of the savings groups of other poverty and credit programmes, notably SANASA or the Thrift and Credit Society.[5] Thus, the impact of the Samurdhi Programme on savings behaviour has been significant.

Table 2.1: Saving Activities of Samurdhi Beneficiaries

	Colombo	Ratnapura	Nivitigala	Eheliyagoda
% of beneficiaries who had not saved before Samurdhi	82	78	55	60
% of beneficiaries currently saving in Samurdhi Groups	66	96	100	64

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

Disaggregated data shows significant regional variation. It appears that the introduction of Samurdhi's savings programme has the greatest potential to have an impact on savings habits in suburban Colombo where 82 per cent of the sample did not save before Samurdhi. Following the introduction of Samurdhi, however, 66 per cent of households now save in groups. But this figure is low compared with the proportion of Samurdhi savers in the Nivitigala and Ratnapura Divisions. The data indicates that the group savings programme is less effective in an urban metropolitan environment. This is confirmed by our interviews with Samurdhi officials in Colombo who said that beneficiaries began to show interest in group savings programmes only when they realised that they could then get Samurdhi Bank credit. Before that, beneficiaries could be induced to save only as individuals, and that too as something they had to do in return for the income transfer. But the relatively low rate of participation (66 per cent) suggests that even the threat of withdrawing the income transfer is not as effective in inducing savings as in other areas where there are fewer income earning opportunities.

Samurdhi households in Colombo save about Rs. 40 a week, suggesting that urban metropolitan beneficiaries can 'afford' to save unlike households in the drought-stricken areas of Anuradhapura District, who could save only Rs. 5 or 10 each week (Gunatilaka *et al.* 1997). Low participation rates in the poorer rural areas of Eheliyagoda too, may be attributed to greater

[5] Altogether 15 of the 17 households who are members of both Samurdhi and non-Samurdhi savings groups are members of SANASA.

consumption poverty rather than the kind of factors that make Grameen-type savings models relatively ineffective in urban metropolitan areas.

Samurdhi appears to have had the greatest impact on savings behaviour in the Ratnapura Division where 78 per cent of respondents said that they did not save prior to Samurdhi, but 96 per cent claim to do so now. This suggests that the Grameen-model has greater chances of success in provincial urban centres where the population is relatively less mobile and income earning opportunities fewer than in metropolitan areas. In contrast, 45 per cent of the sample had been saving prior to Samurdhi in Nivitigala Division, and unsurprisingly, all the households interviewed were active members of Samurdhi savings groups.

As has been the experience with similar programmes, female participation in savings group activities is greater than male participation: 78 per cent of those who save in groups are female. The majority of group participants save regularly; nearly 50 per cent of group members save every week, 47 per cent every month, and only 4 per cent do so occasionally. Of 34 per cent of the sample who do not save in groups, only half save at least on their own.

Thus, it appears that the Samurdhi Programme is having a substantial impact on beneficiaries' savings habits in the areas surveyed. The impact is less in urban metropolitan areas where people can afford to save but tend not to do so, and in poor areas where people cannot afford to save. Nevertheless, the amounts saved are not substantial, and whether they are of any significance in the fight against poverty is not clear. Moreover, it could well be that households appear to save because of the urging of the Samurdhi animator rather than because they believe that saving will help them out of poverty. On the other hand, as eligibility for Samurdhi Bank loans are contingent on saving, it may be an additional incentive to keep households within the programme.

2.4 How Dynamic and Sustainable are Samurdhi Savings Groups?

While there is clear evidence that members of Samurdhi savings groups, the majority of whom had never saved before, are saving regularly as a result of it, how sustainable is this savings behaviour? Is it likely to continue if and when the programme ends, or if and when the beneficiaries no longer receive the income transfer?

One indicator of sustainability is the survival rate of groups. As is evident in Table 2.2 the survival rates of Samurdhi groups are fairly impressive: a little less than half the number of beneficiaries saving in groups belong to groups that have survived at least two years. Only a fifth belong to groups that have lasted 6 months or less.

However, when disaggregated according to location, the data reveals varied performances. Savings groups in rural areas appear far more resilient than those in urban areas. In Nivitigala, in particular, 94 per cent of households belonged to savings groups that had survived more than two years. Of course, this could also be due to the fact that Nivitigala already had a fairly well established savings culture: note that 45 per cent of households had been saving before Samurdhi. In contrast and as expected, the majority of households in Colombo belong to groups that have been in existence for less than a year.

This confirms the views of several Samurdhi officials interviewed for this study, who stated that it is difficult to sustain group savings systems in urban areas. They found that urban-based Samurdhi beneficiaries are more individualistic in their outlook, less trusting and less co-operative in their interactions with others, and they had altogether less time to participate in group activities as almost all were employed.

Table 2.2: Survival Rates of Samurdhi Savings Groups

Period of Existence	Colombo %	Ratnapura %	Nivitigala %	Eheliyagoda %	Total %
6 months or less	41	21	0	30	20
More than 6 months, less than 1 year	38	69	0	6	29
1 year or more but less than 2 years	6	10	2	3	6
2 or more years	16	0	94	64	45

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

The manner in which the group comes together is often a determinant of sustainability. The experience with most NGO savings and credit programmes has been that, if group formation is spontaneous rather than carried out by an external agent, then the groups have greater chances of survival (Gunatilaka 1997). The Samurdhi experience, however, appears in marked contrast: 92

per cent of households claimed that the Samurdhi *Niyamaka* or animator formed the group (see Table 2.3). None of the groups had existed before Samurdhi, and none of them were formed spontaneously.

Eight per cent of beneficiaries came to be in their present groups because those they belonged to earlier had broken up. This process is most evident in Eheliyagoda. The relatively high group breakdown rate could imply that people cannot afford to keep up with savings group activities because of relatively high consumption poverty. This was certainly found to be the case in the drought-stricken areas of the dry zone (Gunatilaka *et al* 1997). It could also mean that groups with only very poor people are not sustainable: groups need a few not-so-poor people to keep them ticking over.

Yet, the process of groups breaking up and new ones forming could also indicate a dynamism that would contribute towards the long-term sustainability of the process. This is not apparent in the majority of Samurdhi savings groups. These have been formed by an external agent and members are bound together by the glue of the income transfer. It could be argued that the animator forming the group may kick start the process so that with sufficient mobilisation, they may be able to sustain themselves in the future. But this would serve to downplay the role played by the income transfer in keeping groups together and in keeping members within the process.

The other cause for concern is that Samurdhi's approach to forming groups is likely to inhibit the dynamism of individuals. After all, savings groups are a means to an end rather than an end in itself, and if they are to function effectively, groups should break up as some members advance and others fall back, so leading to a new configuration of groups and members.[6] However, there is little evidence of any such dynamic process taking place within Samurdhi's savings groups.

[6] In fact, Montgomery (1998) argues that peer group homogeneity appears realistic only if state of poverty is assumed to be stable and static: '..poor people experiencing fluctuations in economic well-being, and variations in vulnerability to contingencies and economic stress, are likely to regard group homogeneity over time as unrealistic' (1998:291).

Table 2.3: Formation of Samurdhi Groups

Process	Colombo %	Ratnapura %	Nivitigala %	Eheliyagoda %	Total %
Present group formed after the break-up of an earlier group	0	4	0	30	8
Group formed by the Samurdhi Niyamaka	100	96	100	70	92
Spontaneous formation by friends, relatives and neighbours getting together	0	0	0	0	0
Group existed before Samurdhi	0	0	0	0	0

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

The experience of other poverty programmes has been that group dynamism and participation is greater if members take it in turns to act as treasurer (Gunatilaka 1997). This could be because no natural leader emerges in very homogeneous groups, with the result that they are more likely to survive. The evidence in the present study appears to support this conclusion (see Table 2.4). In the present sample of 159 households that responded to this question, 42 per cent of respondents claimed that members took it in turns to act as treasurer. 88 per cent of such groups had survived for more than a year, and 66 per cent for more than 2 years. In contrast, 52 per cent of respondents belonged to groups that had the same member functioning as treasurer throughout. Of these groups, 57 per cent had survived at least a year, and 20 per cent for more than 2 years. A minority - 10 respondents - claimed that the Samurdhi *Niyamaka* acted as treasurer. Of those groups 50 per cent had survived at least a year, and 40 per cent had survived 2 years at least.

Table 2.4: Sustainability of the Group According to Who Acts as Treasurer

Period of Existence	Same treasurer throughout (% of respondents who save in groups)	Members take it in turns (% of respondents who save in groups)	Samurdhi Niyamaka is treasurer (% of respondents who save in groups)
At least a year	57	88	50
More than two years	20	66	40
% Share of total sample	52	42	6

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

As in similar savings programmes, females are far more active in savings group activities. Of 164 households who save in groups, 41 per cent of households were involved in all-female savings groups, while 58 per cent belonged to mixed member groups. Only one member belonged to an all-male group. 43 per cent of mixed groups had survived for more than two years, but not a single all-female group had been in existence for more than two years.

The data also suggests that the majority of beneficiaries (62 per cent) belong to groups that do a lot more besides saving together, indicating a certain cohesiveness. Some of these activities are as follows: participating in activities organised by the programme, helping each other, pooling labour, and discussing their problems and finding solutions to them. But relatively few households that save in groups buy goods in bulk at wholesale prices to reduce consumption expenditure (4 per cent of entire sample).

Thus, the available evidence shows that the majority of Samurdhi savings groups in the areas surveyed, though formed by the Samurdhi *Niyamaka*, are associated with relatively high survival rates, particularly in rural areas. Moreover, going by the experience of other programmes, the sharing of responsibilities among group members is conducive to greater sustainability. Qualitative evidence also suggests that the fact that a household is able to buy shares in and get loans from Samurdhi Banks only if it belongs to a group that is stable and saves regularly, may be an added incentive that contributes to the sustainability of the savings groups.

Even so, the way in which members have come together to form groups and the common factor among members being not just the fact that they are poor, but that they also receive the income transfer cast doubts about their dynamism and long-term sustainability. The available evidence does not indicate whether the Samurdhi savings group activities will survive the income transfer component of the programme. The focus group discussions with beneficiaries conducted for this study, as well as earlier work in this area (Gunatilaka *et al.* 1997), suggest that households feel obliged to participate in Samurdhi's savings activities because they receive the Samurdhi consumption grant. This implies that discontinuing the income transfer programme may jeopardise the sustainability of the group savings programme. However, if the Samurdhi Banks remain as highly accessible sources of credit for the poor, then there is a greater likelihood that the savings group activities may continue. But how sustainable are the banks? This question is discussed in Section 2.6 below.

2.5 Have Intra-Group Credit Schemes and Samurdhi Banks Reduced the Vulnerability of the Poor?

Samurdhi group savings appear to be a useful source of small credit and security for beneficiaries. The majority of beneficiaries - 81 per cent - were confident that they could access small credit from either their own savings group or from another savings group in times of extreme emergency.[7] Besides, interest rates on group loans, at 5 per cent, are lower than other sources of credit. However, actual recourse to this source has not been as widespread as might have been expected, given the high participation rates in group savings. Survey data show that only 22 per cent of the entire sample, or only 27 per cent of those active in savings groups, had borrowed at some time or the other from group funds. Even so, the intra-group credit programme could have a positive, psychological effect on beneficiaries and could be providing them with some sense of security.

To what extent do the Samurdhi Banks provide shareholders with an easily accessible source of credit? In the first place, only 42 per cent of respondents were shareholders, and so eligible for loans from the banks (see Table 2.5). This could be due to two factors. Either the Samurdhi Banks had yet to be established in the area or, at least half the number of beneficiaries who participated in savings groups had yet to purchase shares of Rs. 500 each. For example, as a Samurdhi Bank had yet to be set up in Ratnapura Division, none of the beneficiaries there had been able to purchase shares and get loans. In contrast, nearly all respondents (98 per cent) in Nivitigala were shareholders of a Samurdhi Bank. In Colombo, too, membership rates in banks were relatively high at 58 per cent. In contrast, despite the Samurdhi Bank Programme being well-established in Eheliyagoda, relatively few respondents were members. This is probably due to the fact that the survey was conducted in very poor *Grama Niladhari* Divisions, where people had not yet been able to save the Rs. 500 necessary to purchase shares. This indicates that while Samurdhi Banks reach the not-so-poor, the ultra poor may not be able to avail themselves of the credit line offered.

[7] The situation of extreme emergency given as an example in the questionnaire was the need to borrow Rs. 300 when a child falls dangerously ill on a Saturday evening (when the Samurdhi Bank is closed).

Table 2.5: Proportion of Respondents Who are Shareholders of Samurdhi Banks

Colombo	Ratnapura	Nivitigala	Eheliyagoda	Total Sample
58	0	98	12	42

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

For those who have purchased shares, the banks appear to be a fairly useful source of emergency credit: 33 per cent of bank shareholders stated that the Samurdhi Bank would be the principal source of emergency credit for small loans.[8] This is relative to 40 per cent of shareholders who still relied on friends and relatives as the main source of emergency credit. Only 7 per cent of Samurdhi Bank members continued to rely on shopkeepers and moneylenders for emergency credit.

Samurdhi Banks appear to be a far more useful source of credit for larger loans of Rs. 1000-3000 that are not required immediately but in ten days' time. For example, a third of those who have purchased shares in Samurdhi Banks regard them as the principal source for such loans, whereas only a fifth continue to depend on friends and relatives. However, shopkeepers and moneylenders have a large share of this credit market: 41 per cent of Samurdhi Bank shareholders regard this is their principal credit source. Even so, thus far only 17 per cent of shareholders have obtained Samurdhi Bank loans.

2.6. The Sustainability of Samurdhi Banks

How sustainable are the Samurdhi Banks' operations?

There are two key cost variables that need to be considered here: administrative costs and loan default rates. As far as administrative costs go, the high unit costs of providing credit (due to the small size of loans, low income of projects financed, etc.) are currently borne by the Samurdhi administrative structure. For example, each Samurdhi Bank Branch is manned by one manager and two animators, at a cost of at least Rs. 10,000 each month in salaries and wages alone.[9] It is

[8] 'Emergency' here was defined as needing Rs. 300 for a sick child at 11.00 a.m. on a Thursday (when the Samurdhi Bank would be open).

[9] Samurdhi Managers are currently paid Rs. 5000 each month, and Samurdhi Niyamakas are paid Rs. 2500 each. These costs are set to increase in the near future. This follows a pledge by the Minister of Samurdhi, Youth Affairs and Sports to absorb all temporary Niyamakas into the permanent cadre and place them on a monthly salary of Rs. 6000 each before the end of 1999 (*Daily News* 09 March 1999: 20).

extremely unlikely that the Bank's loan portfolio will both deepen and widen to the extent required to bear these costs. Therefore, while Samurdhi Banks are not self sustainable, few of them will even be able to meet administrative costs through their loan operations. This is a common problem with pro-poor credit institutions. Even SANASA, the Thrift and Credit Co-operative Society (TCCS), is yet not fully self-sustainable: at the moment, the primary societies of SANASA break even only because the Federation is absorbing all training and institutional development costs (Hulme *et al* 1996). The financial viability of the *Janashakthi Banku Sangamaya* too, is in doubt (Jayaweera and Dias 1995).

However, as far as default rates go, the Samurdhi Bank System as a whole boasts extremely high repayment rates. For example, as at 30 September 1998, the average repayment rate nation-wide was 101 per cent (Samurdhi Authority of Sri Lanka 1998). This is reflected in the performance of the three Eheliyagoda Samurdhi Bank Branches, where average loan repayment rates have been consistently high. At times the quarterly repayment has exceeded 100 per cent when customers have paid up past arrears.

There are several reasons why the Samurdhi Banks' loan repayment rates are high. In the first place, the guarantees provided by group members exert considerable peer pressure on Samurdhi beneficiaries to repay their loans. Also, the system is such that if one member of the group defaults, no other member can obtain a loan. Since loans are granted against the shares deposits and savings deposits of its shareholders, peer pressure extends beyond the group to other depositors and share holders of the bank. This also makes for greater sense of 'ownership' of the bank by its shareholders and transparency in operations. These factors help ensure that bank funds are not lent to questionable and unviable projects that are likely to fail.

However, focus group discussions and interviews with Samurdhi Bank officials indicate that techniques such as inter-se guarantees and peer pressure may not be effective in urban areas. Ties among group members are tenuous and people are relatively mobile and transient. They would thus be able to default and abscond more easily. Thus, banks founded on Grameen-like savings groups are more likely to be successful in rural areas where communities are relatively immobile and people are subject to powerful social sanctions if they fail to play by the rules.

However, even in rural areas where the programme is more successful, whether the banks will be able to meet the credit requirements of Samurdhi beneficiaries would depend greatly on the amount of deposits a bank branch will be able to mobilise. Banks located in economically better-off rural areas are likely to benefit from a higher rate of savings and thus greater security against default.

Nevertheless, the fact that the credit programme is tied with the transfer programme gives the Samurdhi bank manager a further instrument to ensure repayment. For instance, officials interviewed for this study admitted that in cases where peer pressure is insufficient to elicit repayment, officials are forced to threaten defaulters with the withdrawal of the income transfer in order to make sure that the loans are repaid.

Sustainability of Samurdhi Banks would also partly depend on how sustainable the savings culture nurtured by the programme would be. Will the rate of savings generation be affected by a withdrawal of the income transfer? It is unlikely that the present savings rate, as well as the current number of small groups can be sustained without the added inducement of the income transfer. Thus, withdrawing the transfer may well see a rationalisation of the number of banks. Only those banks where the savings culture is established independently of the income transfer programme may be able to continue operations.

2.7 Conclusions

The Samurdhi Programme has clearly had a significant impact on the savings behaviour of beneficiary households. The vast majority of them had not participated in any group savings programme before; nor had most of them even saved on their own. Moreover, unlike in very poor areas such as those surveyed by Gunatilaka *et al* (1997), the majority of Samurdhi beneficiaries in the areas surveyed for this study could afford to save. Therefore, the group survival rate was favourable. In that sense, the programme has had a useful demonstrative impact on its target population.

But there are regional variations. The Grameen-type model on which the programme is based, works much better in rural areas where people are more community-oriented than in urban metropolitan areas where people are more individualistic. This indicates that the programme may need to be changed or adapted to suit the different problems faced by the urban poor.

However, the available evidence does not allow us to draw any conclusions about the extent to which the programme has created a savings and credit 'culture'. This is because it is impossible to gauge what effect the income transfer programme has on the savings behaviour of beneficiaries. Qualitative evidence indicates that the grant acts as an incentive for beneficiaries to participate in savings groups. Therefore, withdrawing the income transfer is likely to be followed by a higher break-down rate of Samurdhi groups.

The study also found that the intra-group credit system as well as the Samurdhi Bank System offers a differentiated credit service for members. They are useful sources for small emergency and consumption loans although the maximum loan size of Samurdhi Banks rarely exceed Rs. 3000. Nevertheless, the Banks are not internally financially viable and are unlikely to be able to lend larger amounts in the future other than in the few areas where incomes and savings rates keep rising.

As the financial sustainability of the banks' loan operations rests on the savings and credit culture sustained by the small group system, they remain vulnerable to the same challenges faced by small groups. Thus, although in the short term the bank programme is fulfilling a protective function and reducing the vulnerability of its members, it may not be tackling the problem of hard core poverty. Besides, the long-term prognosis of the banks in the absence of the income transfer programmes is not favourable, particularly in urban areas. Only those banking societies that have established a resilient savings and credit culture are likely to survive the income transfer programme. Going by the experience of the *Janasaviya* Programme and the *Janashakthi Banku Sangamaya* it spawned, there are reasons to be hopeful that a few of the Samurdhi Banks too, will survive a withdrawal of the transfer scheme. Even so, it is extremely unlikely that all the banks would survive. Bank branches located in favourable rural locations such as Nivitigala may have better chances of making the transition even though they would continue to need external assistance with their administrative costs.

3 Credit and Microenterprise Development

3.1 Introduction

Samurdhi has initiated several types of credit programmes for the poor. These include the Samurdhi Development Credit Programme (SASANA) that commenced in 1995, the Accelerated

Loan Animator Scheme that commenced in 1996, and the Enterprise Development Credit Scheme (SAVANA) and the Samurdhi Leasing Scheme that were introduced more recently in 1998.

Of these programmes, SASANA uses the largest amount of financial resources annually. In 1998, SASANA loans to the value of Rs. 500 million had been granted to around 75,000 recipients. The size of loans varied from Rs. 2,500 to Rs. 10,000 at a less than market interest rate of 10 percent. The loans have been granted to develop small enterprises.[10] This section discusses only the SASANA loan scheme given the considerable financial resources it uses and because the programme has been running for over three years, enabling an assessment of its effectiveness.

The key objectives of the SASANA programme are to make credit accessible to the poor so that they can set up and sustain microenterprises for self employment. In the areas surveyed, the loan had been used mainly to fund itinerant trade such as the door-to-door sale of clothes, sweets, household items, etc. This was most popular in Ratnapura (40 percent of all projects) and least popular in Colombo. Another popular type of project, albeit to a lesser extent than itinerant trade, was dress making and sewing. This was found to be most common in Colombo probably because of greater demand and access to markets than in the rural or non-metropolitan areas. As mandated by the Samurdhi Authority, no loans had been given to conventional agriculture-oriented projects such as paddy cultivation, plantation, etc.

The loans have been taken to finance two types of projects: 1) new microenterprises that start by using the loan as a part or whole of the initial capital; 2) already existing enterprises that are further developed by using the SASANA loan. Nearly 35 percent of the loans have been taken to start up new projects whilst the majority of loans (65 percent) have been taken to develop existing enterprises. This distinction is important in assessing the performance of the projects.

[10] Unlike the SASANA scheme the Accelerated Loan Animator Scheme is mainly meant to cover emergency credit needs. In 1998 Rs. 45.8 million had been awarded under the Scheme. The two other initiatives, the SAVANA and the Samurdhi Leasing Schemes were budgeted Rs. 200 million each in 1998. The SAVANA loans are meant for developing enterprises of a larger scale than the type of projects the SASANA targets and this reflects in the size of the SAVANA loans that range from Rs. 10, 000 to Rs. 50, 000. Successful SASANA loan recipients are encouraged to apply for SAVANA loans and thus graduate on to receiving larger loans that will enable them to further develop their business ventures. The SAVANA loan is granted without collateral at a 10 percent interest rate payable within a period of four years. Roughly 5000 loans were expected to be granted in 1998. The Samurdhi Leasing Scheme aims to provide capital assets (e.g., two-wheel tractors, welding machines, etc.) to selected beneficiaries. The cost of such assets is expected to vary from Rs. 50,000 to about Rs. 200,000 and around 200 loans were to be granted in 1998.

In order to gauge the effectiveness of the SASANA scheme, the following issues are examined: a) What is the impact of SASANA on economic and social welfare?; b) Has the SASANA loan encouraged the setting up of new enterprises that are sustainable? Has it helped develop existing enterprises?; c) Is SASANA sustainable?

3.2 Has the SASANA Scheme had a Positive Impact on Economic and Social Welfare?

The most obvious economic impact the scheme can make is by contributing to the monthly income of the recipient. Asking recipients direct questions about income increase or decrease (in numbers) is often futile. Such data is notorious for being erroneous and misleading. Proxy indicators for income increases are production/sales growth figures. The recipients were asked about changes in production/sales after taking the SASANA loan. The highest impact is seen on projects that used the loan to further develop an existing project. Around 51 percent of these project holders claim that their sales/production doubled or more than doubled since they obtained the loan.

There is a clear difference in the economic performance of new and existing projects that have obtained SASANA loans. These differences are summarised in Table 3.1 below. On the contrary, the social impact of the loans (in terms of creating new employment) is minimal and is not significantly different across new and existing firms. Only one previously unemployed person has found employment due to the scheme in the entire sample of 60 microenterprises. Roughly, therefore, the job creation ratio is 0.017 new employees per project. Further, 15 percent of the project holders engage in their project work on a part-time basis, probably because their main source of income is some other occupation such as the supply of casual labour. An interesting point to note is that most of the project holders are clustered around the 35-44 age group. This indicates that a key aim of the Samurdhi programme in wanting to encourage youth involvement in avenues of self employment has failed.

Table 3.1: Performance of New/Existing Projects that Obtained SASANA

Characteristic	Existing	New
Impact on income		
• Proportion of total income earned	• Covers over 50 percent monthly earnings of 56 percent of project holders	• Covers over 50 percent monthly earnings of 23 percent of project holders.
• Increase in sales/production	• Doubled/more than doubled for 52 percent of the projects	• Doubled/more than doubled for 17 percent of the projects
Employment increases (i.e., previously unemployed persons have obtained jobs)	One	None

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

The SASANA scheme has also indirectly helped some recipients to temporarily improve their consumption levels or living conditions. Such indirect improvements were obtained through diverting a part or all of the loan received to non-project related expenses such as home improvement, consumption, etc. In our sample, approximately 13 percent of loan recipients have used only a part of the loan towards a project. Around 8 percent of all loan recipients have used a part of the SASANA loan to pay-back previous debt, 3 percent have utilized a part of the loan for renovating their houses and 3 percent have used a part of the loan to meet unexpected consumption needs. When used for such purposes, the SASANA loan becomes akin to an income transfer by the Government. Assuming that the behaviour of our sample represented the behaviour of the entire population of loan recipients in 1998, Rs. 59 million worth SASANA loans would have been used (at least partially) as a direct income transfer.[11]

Overall, the scheme has financed or further developed firms that are very small in size, often employing just one person full-time. Most of the project holders, however, have not relied solely on SASANA funding for their projects. Nearly 80 percent claim that they have resorted to other methods of funding the projects. The key observation, however, is that the SASANA has helped people sustain

[11] Calculated as follows: Total loan disbursement as at October 31, 1998 was Rs. 458,607,059 of which 13 percent equals Rs. 59,618,917.

their current survival strategies rather than promote avenues for further income generation and upward mobilisation. In other words, the scheme has been useful in playing a supportive, protectional role, rather than a promotional role that boosts people out of poverty. The protectionist role is still more clear, if one observes *who* takes loans and *what sort of enterprise* survives. This is discussed in the following section.

3.3 How Sustainable are the Enterprises Supported by SASANA?

Around 25 percent of the loan recipients interviewed claimed that their projects had failed and had been abandoned. In Colombo district, no new projects have sustained for over a year. This may be because people in the urban metropolitan areas have other income earning opportunities and are hence lackadaisical about the performance of the project. It is also possible that it is difficult for a micro-enterprise to survive the fierce competition prevalent in urban metropolitan areas.

The survival rates of the enterprises (i.e., the ability to last for over a year since the loan is taken) are quite high. Around 68 percent claimed that their projects had lasted for over an year since the loan was taken. A break-down of the data shows that existing projects that are further developed enjoy a higher survival rate at 72 percent, while new projects enjoy a slightly lower rate of survival at 65 percent. The further developed projects also enjoy higher monthly income, production/sales and have a better chance of creating new employment, as discussed in the previous section.

Table 3.2 below, gives a district-wise breakdown of the number of projects that have lasted for over a year.

Table 3.2 Proportion of Projects that have Sustained for Over a Year after the SASANA Loan was Taken

District	Existing Projects that were further developed percent	New Projects Percent	Total Percent
Colombo	10	0	10
Ratnapura	11	5	16
Eheliyagoda	11	3	14
Nivitigala	9	5	14
	41	13	54

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

Why did some projects fail while some others did not? With respect to characteristics such as source of skill and average age of project holder, the differences between holders of failed projects and successful projects are not very significant. Loan recipients have received the required skills and training to run the projects through traditional, family-based knowledge, self-learning and to a lesser extent through the training programmes offered by Samurdhi. The average age of both successful and failed project holders is 40. Over 61 percent of the successful project holders were females. Nearly 56 percent of the holders of failed projects were male.

Table 3.3: Characteristics of Projects that Lasted over a Year and Those that Failed Within a Year

Characteristic	Projects that lasted over a year from the time the loan was taken	Projects that failed within one year
Source of skill	Traditional/family based knowledge	Information not available
Average age of project holder	39	40
Gender of project holder	61 percent female	44 percent female
Level of education	80 percent O/L or A/L qualified	70 percent O/L or A/L qualified
Average loan size	Rs. 2500-5000 - 43 percent loans Rs. 5000-7500 - 29 percent loans Rs. 7500-10000 -28 percent loans	Rs. 2500-5000 - 63 percent loans Rs. 5000-7500 - 12 percent loans Rs. 7500-10000 -25 percent loans

Source: Samurdhi Savings and Credit Survey, Nov/Dec 1998.

As Table 3.3 indicates, the only *apparent* difference (of the variables considered) between failed projects and those that survived a year above *seems to lie in loan size.* Nearly 60 percent of the successful projects had obtained loans over Rs. 5000 while over 60 percent of the project holders whose projects failed obtained loans between Rs. 2500 - Rs. 5000. Is there then, a strong correlation between the success of the project and the size of the loan? Most owners of projects that failed claim that a key reason for the failure was that the loan received was too small. However, a t-test comparing the size of the loan of successful projects with those that failed, indicates that there is no significant difference in the size of the loan. *This implies that loan size does not affect the performance of a project.* Confirming this conclusion is the fact that 50 percent of project-holders of failed projects believe that the loan they received covered about 75 - 100 percent of their capital needs. On the contrary, 40 percent of the holders of successful projects (i.e., those that lasted over a year) feel

that SASANA covered only about 25 percent - 50 percent of the financial capital requirement. This points to a key finding: increasing loan size will not necessarily make projects more sustainable.

The reason for failure of projects lies outside the size of loan, as commonly claimed by owners of unsuccessful enterprises. The qualitative evidence based on focus group discussions suggested that most crucial contributors to failure were poor management skills, accounting experience, poor projection and estimation of demand, and poor marketing skills. Further, most beneficiaries (65 percent) were motivated to start a microenterprise by the availability of credit, rather than from income generating or profit making motives. Thus, projects were credit-supply driven. It is doubtful whether this motivation can help sustain a project.

In any case, self-employment is not perceived as an appealing job to hold by project holders. The aspirations of beneficiaries in terms of jobs soared above the type of employment offered by the SASANA scheme. Only 18 percent of unsuccessful project holders would want their children to be self employed - even if successfully. Over 50 percent of the entire sample prefer their children to be employed in the public sector. Around 20 percent prefer private sector employment. This "aspirations mismatch" between what Samurdhi offers and what the poor really want poses a real threat to the longer-term sustainability of the microenterprises.

Another serious problem is whether the type of markets that the projects cater to can sustain the projects in the medium and longer-term. Almost all the enterprises cater to a poor, limited, segmented market where demand is rather inelastic. For example, a soap-maker in Eheliyagoda could market his tissue-wrapped, home-made cakes of soap mainly amongst plantation workers who appreciated the 0.25 cent reduction in the price of the cake of soap compared to more advertised and popular brands of soap. Moreover, most of the buyers of the home-made soap had been persuaded to purchase it because it was a way of "helping" a fellow Samurdhi recipient. It is doubtful, therefore, whether this industry could expand beyond this segmented market, even to the less-rural areas of Eheliyagoda. This is true for most of the other microenterprises supported by SASANA. Poor quality and packaging, poor marketing skills and the lack of effective advertising (apart from attempts at moral suasion) and the lack of benefits of economies of scale that larger manufacturers enjoy, confine these tiny businesses to very limited, segmented markets catering to the poor. A possible implication of the nature of the markets is that the projects may not profit and expand enough to propel its holders out of poverty. Indeed, the projects may well cause social exclusion and increase the incidence of relative poverty.

3.4 How Sustainable is the SASANA Scheme?

Loan default rates of the SASANA scheme have been very high with default highest in the Galle district and lowest in Kurunegala. The average default rate, as Table 3.4 shows is 53.3 percent across the island. One reason for this may be the faulty targeting of loan recipients, which was sometimes a reward for political support. This encouraged recipients to default on loan repayment and expect loan forgiveness. This expectation is fuelled by the fact that there are no penalties for defaulting payment in the SASANA scheme. In any case, loan forgiveness has been a common feature in previous government-funded credit-schemes and this has probably encouraged SASANA loan recipients to default on repayment as well.

Table 3.4: Loan Default Rates as at 31/10/1998

District	Percent of total default of outstanding amount
Colombo	55.85
Gampaha	56.55
Kalutara	57.6
Galle	70.4
Matara	56.85
Hambantota*	59.9
Ratnapura*	53.1
Kegalle*	43.9
Kandy	41.5
Matale*	51.45
Nuwara-Eliya*	50.9
Kurunegala*	41.45
Puttlam	50.7
Badulla*	59.8
Moneragala	65.5
Anuradhapura	67.35
Polonnaruwa	59.25
Ampara	70
Average	**53.3**

* Reported as at 30/9/1998.
Source: Samurdhi Authority (1998a).

In our sample, the most common reason cited for loan default was project failure. Apart from this, low profits (and over-estimated demand/revenue projections) have been a key cause for default. In any case, loans have been given for ventures that cannot yield enough of an income to repay the loan. Most of the recipients depend on other sources of income to meet repayment. This means that most

recipients embark on projects without any proper analysis or even idea about the economic viability of a particular project.

As far as a credit programme goes, the SASANA is not sustainable. This is especially so given low repayment rates. Further rounds of loans can be given only if more capital was injected into the scheme. Taken together, the minute size of the projects and the high default rate indicates that the SASANA has been more of an income transfer to the poor than a programme of credit support that would help establish microenterprises and in the future, provide a seed-bed for industrialisation.

3.5 Conclusions

SASANA serves more a protectional role than a promotional one: the scheme seems to assist people in sustaining their current survival strategies, rather than lifting them out of poverty by encouraging avenues of sustainable income generation. Overall, existing projects fare better than do new ones after obtaining the loan.

In the areas surveyed, very few additional employment opportunities have been created by the SASANA initiative. Further, few youth have been attracted to the scheme, so failing to achieve one of the main objectives of the Samurdhi programme.

Some loan recipients have tended to divert a part or whole of the SASANA loans towards non-project related expenses such as home-improvement or (emergency) consumption. When used for such purposes, the loan is akin to income transfer that simply cushions poverty rather than alleviating it, as the scheme intends.

Characteristics such as age, source of skill, education level and size of loan obtained are not significantly different between failed project holders and successful ones. It is particularly interesting that loan size does not show-up as a significant variable that causes projects to fail, even though most holders of failed projects complain that the small size of the loan is the key reason for project failure. Poor management skills, demand projecting, marketing skills and choice of target market are more credible reasons for project failure. Another key reason for failure (and limited success) is the lack of motivation amongst the recipients. This is derived through a mismatch in aspirations between the poor and what Samurdhi offers (in terms of opportunities for income generation). Few of the poor actually *want* to be self-employed. They prefer the security of wage employment to the option of profiting

from micro-enterprises. This mismatch in aspirations poses a serious threat to the medium and long term sustainability of the microenterprises.

Thus, in spite of high survival rates, the sustainability of the small enterprises is questionable. Another factor that jades the sustainability of the enterprises quite apart from mismatch in aspirations is the nature of the markets the projects cater to. The markets are segmented, limited, "poors' markets" with few opportunities for expansion. The immediate question that this poses is whether encouraging micro-enterprise development is indeed a suitable way of alleviating poverty in Sri Lanka? Could it actually encourage the increased incidence of relative poverty? These issues are discussed further in the concluding section.

Finally, the sustainability of the SASANA programme itself is suspect, given the high loan default rate and the low profit margins of most projects. The expectation of some recipients of loan-forgiveness in a government-sponsored programme only exacerbates the problem.

4 Conclusions and Policy Implications

4.1 Introduction

As set out in the introduction, the primary objective of this study is to assess the socio-economic changes in beneficiary households catalysed by Samurdhi's savings and credit programme. In the final count, the overarching goals of the programme are to protect and to promote the poor. How effective has it been in achieving these goals?

This chapter draws together the main threads of the preceding analysis by addressing the following issues: (a) how successful has Samurdhi's savings and credit programme been in protecting the poor?; (b) has it succeeded in promoting them?; and, finally, (c) how sustainable have these efforts been? However, given the small sample size of this survey, it must be emphasised that these conclusions apply only to the areas surveyed, and cannot be extended to areas that do not share the same physical characteristics.

4.2 Protecting the Poor

A strong conclusion that emerges from this evaluation is that Samurdhi's intra-group credit scheme and the Bank programme have thus far played a key role in reducing the vulnerability of the poor. Intra-group credit and Samurdhi Banks have already become vital sources of emergency credit for Samurdhi beneficiaries who are members of groups and banking societies. The differentiated credit service that they offer provides a cheaper alternative to borrowing from moneylenders and shopkeepers and is easily accessible. And since the majority of Samurdhi beneficiaries participate in group savings programmes the outreach of the intra-group credit safety net is fairly wide. The Samurdhi Banks too, provide a speedily accessible source of emergency credit for its members.

However, these positive impacts have been felt in relatively favourable non-metropolitan areas rather than in urban metropolitan areas and very poor rural locations. The immediate reasons why the Grameen-based system is less effective among metropolitan urban populations are that ties among households are tenuous and that people are far more individualistic and independent of each other. This means that there are fewer social sanctions to force beneficiaries to conform to the system.

But there is a more fundamental reason why such systems are not effective in reducing poverty among the urban poor, and this shows up the limitations of a poverty reducing programme that is based on consumption poverty. The nature of poverty in urban metropolitan areas is very different to that experienced in rural areas. The rural poor are poor because of reasons such as their not earning enough to meet their minimum consumption requirements, their access to services and resources being relatively limited, and their being tied to unequal or exploitative social relations with the better-off. But poverty in urban metropolitan areas is not strongly correlated to income deprivation or to the lack of access to minimum levels of services. Rather, the urban poor are trapped in a culture of poverty that is related more to their marginalisation from the mainstream, and to lifestyle factors that reproduce themselves (Silva 1998). Protecting such poor would call for a vastly different approach that would lead to their cultural mainstreaming through programmes to upgrade urban slums, shanties, and the education and health services that they have access to. Programmes to rehabilitate alcoholics and drug abusers, and policies aimed at de-criminalising such areas are also needed.

On the other hand, group savings and credit schemes are not successful in very poor rural areas either. But here, the reasons are that people are too poor to save and that their survival strategies are far more precarious. This makes it very difficult to sustain such programmes even with the inducement of the income transfer. In such areas, it may be better to encourage households to save at least intermittently when they sell some produce or earn some income rather than routinely as in other areas (also see Gunatilaka *et al* 1997). Moreover, it may be too ambitious to introduce the Samurdhi Bank scheme at this stage because savings rates are low and variable.

However, even in favourable rural areas where participation rates are high and savings rates stable, the system's effectiveness as a credit safety net appears to owe more to a high rate of savings group participation secured by the income transfer programme, than to the establishment of a dynamic savings and credit culture. The fact that the entire edifice of the Samurdhi Bank structure is balanced precariously on the income transfer raises serious concerns about its sustainability.

4.3 Promoting the Poor

If there is strong evidence to show that Samurdhi's group savings and credit programme is effective in protecting the large majority of poor in more favourable rural areas, there is equally strong evidence to show that the SASANA Programme has failed to promote them to higher income growth paths.

There are several reasons for this. First, the available evidence shows that the loans seem to be assisting very small self-employment projects, two thirds of which provide full time employment for only the project holder. While a key finding to emerge from this study is that loan recipients find the loan adequate for their projects, what this really implies is that SASANA loans can only finance the low level of investment needed for what amounts to little more than survival strategies. However, they are too small to start-up anything approaching an enterprise that employs more than one, or at the most two, people full time, or help existing enterprises move on to a higher income growth path by introducing new technology.

The projects have relatively high survival rates. This is not surprising. SASANA is helping people to do what they are doing a little better, or in other words, helping them to consolidate survival strategies. Thus, SASANA too is playing a protectional role rather than promoting the poor as was originally intended. Coupled with a high loan default rate, the SASANA

programme has been more an income transfer to the poor than a programme of credit support that has helped establish microenterprises with the capacity to expand in the future.

The study also finds that the majority of loan recipients prefer that their children get government jobs rather than run their own successful businesses. Few have long term ambitions to transform their tiny activities into small businesses. A related point is that though SASANA was intended to provide credit for unemployed youth to start microenterprises and so provide their own employment, relatively few youth have made use of this opportunity. This evidence reinforces the qualitative findings of Gunatilaka *et al.* (1997), that suggest a fundamental flaw in Samurdhi's approach to reduce poverty.

This becomes clearer when one considers that unemployment is not a key correlate of poverty in Sri Lanka (World Bank 1995). The highest unemployment levels are recorded among the better educated who have correspondingly high job aspirations that keep them from moving down in the labour market to take what jobs that are available. In contrast, there is practically no unemployment among those with less than eight years of schooling. It is this group that is in poverty, because poverty in Sri Lanka is a phenomenon of the working poor - those who put in long hours at jobs whose marginal returns are lower than what is needed to meet their minimum calorie requirements. And this appears to be the catchment from which SASANA is trying to promote microentrepreneurs.

This is a flaw common to all microenterprise credit programmes that regard access to credit as the biggest constraint that keeps people from developing their tiny businesses into small and medium enterprises. There are several other important reasons why very few survival strategies or even microenterprises graduate.

First, the survival strategies of the poor cater to niche markets such as the limited, segmented markets that cater to poor consumers. But while diseconomies of scale may make production profitable at a micro scale, expanding production will only drive down prices as demand is fairly inelastic. If the 'entrepreneur' is to obtain credit to upgrade his or her product even a little, then he or she may outprice the product from its traditional, 'poor' market and will have to look for a larger, not-so-poor market. But such markets may be simultaneously catered to by large, branded firms that employ the latest technology and reduce their costs through scale economies. So to move on to a higher income growth path, the aspiring entrepreneur would also need to

adopt the latest technology. But even if the credit needed for this were to be made available, it may be too costly on the one hand, and on the other, the entrepreneur may lack the capacity to absorb it.

This raises questions about how effective a microenterprise development strategy targeted at the poorest can ever be. As has been noted in many previous studies (Lakshman 1994; Gunatilaka 1997), the poorest are the least able in terms of skills, attitudes towards risk, access to additional sources of financing to start viable small businesses that are anything more than survival strategies, and that would provide employment for more than one person, full-time. Such poor are looking for the security of wage employment rather than the risks of starting up businesses. The international experience with microenterprise development programmes as well as the Sri Lankan experience suggest that microenterprise credit programmes that aspire to both reduce poverty and create a 'seedbed of industrialisation' are doomed to failure (Lakshman 1994; Grosh and Somolekae 1996). Policy makers need to clarify their objectives. If they want to reduce poverty among the poorest, then policies to generate wage employment are crucial, and one such policy may be to support already existing businesses that are larger to begin with, and so better equipped to survive and expand.

But this takes one into another difficult segment of the business continuum that is, strictly speaking, outside the scope of the present study. Even so, suffice it to say that small enterprises face other constraints, not least among them the cost of financing rather than accessibility to finance. In addition, analysts point to infrastructure bottlenecks, imperfections in the market for technology, and legal, institutional and tax environments that inhibit firms from expanding to become medium or large firms (for example, see Levy 1993). The role played by the macroeconomic environment in creating the necessary growth conditions to enable small businesses to expand has also been well-documented (Mead and Liedholm 1998). Thus, a strategy to reduce poverty by supporting small businesses may need to look into these constraining factors and include policies to equalise business opportunities and create a conducive macroeconomic environment.

Policies to provide credit to the small industrial sector may be based on credit systems that rely on the self-selection and self-motivation of borrowers, beginning with basic business training and providing a graduated system of loans automatically once the previous loan is repaid. Development should be through business success and financial discipline. Such systems have

been found to work in other developing countries (see Reinke 1998). The *Gami Pubudu* scheme operated by the Hatton National Bank, too, operates a similar, loan graduating system.

Samurdhi, too, has a graduating loan scheme. For example, graduates of SASANA are eligible for the larger SAVANA loan. But for the system to work, the graduated loan scheme should be in place at the very beginning so that the prospect of receiving a series of loans in the future would skew incentives in favour of repayment and developing viable businesses. But it should not be administered as a government-run credit programme as the incentive to default in the hope that the loan would be forgiven, is very high. Besides, the conclusions reached above in not targeting the poorest should also apply.

4.4 Sustainability

The study finds strong evidence to suggest that both the group savings and credit programme and the Samurdhi Bank system it is based on, as well as the SASANA programme, are unsustainable in the long run. As stated earlier, the Grameen Bank is sustained by a well-developed savings and credit culture. As Samurdhi's equivalent owes the high rate of programme participation to the income transfer, there is very little evidence to show that it can boast as resilient a savings and credit culture.

Discontinuing the transfer will certainly jeopardise the survival of the majority of Samurdhi Bank Societies as the savings groups on which they rest will be destabilised. There is likely to be considerable regional variation in the eventual outcomes. The Banks' best chances of survival would be in favourable rural and provincial locations, but even here, they are unlikely to become fully financially sustainable.

However, it could be argued that it is misleading to measure programme performance on financial criteria alone because such programmes are motivated by social and developmental considerations, and, as we have shown earlier, the Samurdhi savings groups and banks are fulfilling an important protectional role for poor people. They may also have a demonstrative effect on people who have not been exposed to such savings group systems before. But since the cost of this exercise includes the cost of the grant as well, and given that the programme reaches more people than who are really poor, can a cost-benefit calculation of the programme justify the expenditure incurred? Are there other, more effective ways of reducing poverty, using the same amount of resources? These questions merit serious consideration.

As for the Samurdhi development loans, the high average rate of default alone makes the programme completely unsustainable. The SASANA scheme can never function as a revolving fund that can give further loans to help the poor, even in their survival strategies, without additional injections of capital. This has been the history of similar schemes in the past. With the fundamentals remaining unchanged, implementing similar schemes in the future would be like throwing good money after bad. Here, too, policy makers need to consider whether there are other, more effective ways of protecting the poor.

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