

SUMMARY OF DISSERTATION

UNDERSTANDING LOCAL REALITIES OF MICROFINANCE AND WOMEN'S EMPOWERMENT CAPABILITIES IN SRI LANKA: THE PERSPECTIVE OF THE SAMURDHI PROGRAM AND ITS BENEFICIARIES IN TWO ADJOINING RURAL COMMUNITIES

By

Poornima Gayangani Wasana Jayawardana

Supervisor

Prof. Miyoshi Koichi

A Dissertation Submitted to the Ritsumeikan Asia Pacific University for the Degree of
Doctor of Philosophy in Asia Pacific Studies
Graduate School of Asia Pacific Studies

Year 2013

Microfinance has emerged as an important mechanism for poverty reduction in developing countries around the world. There are currently an estimated 10,000 microfinance institutions worldwide serving around 150 million people with different approaches such as solidarity group lending, village banking, linkage model, and individual lending indicating an impressive growth in the field of microfinance. Sri Lanka is one of the countries that has given microfinance a leading role in government poverty reduction programs. The evolution of formal microfinance in Sri Lanka dates back to the early years of the 20th century with the formation of first Thrift and Credit Cooperative Societies in 1906. Microfinance in its strict sense however began to be widely recognized in the country as a central tool for reducing poverty and empowering poor with the enactment of Government's Janasaviya program in 1989. The Janasaviya program was later replaced by the *Samurdhi* Development Program introduced in 1995. This *Samurdhi* Development Program remains as the largest microfinance initiative in Sri Lanka.

By definition microfinance refers to the provision of financial services on a sustainable basis to the poor who are generally outside the reach of formal financial markets. In addition to the financial intermediation, microfinance often consists of social intermediation components. Most formal financial institutions do not particularly emphasize either on poverty or any social mission. Hence, the aim to serve these

excluded poor makes microfinance distinguished from the conventional financial system. The access to financial services protects and empowers the poor by enabling them to exercise their choices. Therefore microfinance represents a viable combination of equity as well as efficiency (Ledgerwood, 2001; Churchill & Frankiewicz, 2006).

Microfinance has particularly been focusing on empowering women and thereby integrating them into the overall socioeconomic development process in many developing countries. The effectiveness of microfinance in empowering women has however been a subject of significant scholarly debate between optimistic and pessimistic views. From the optimistic perspective, microfinance is particularly considered to be empowering women through the provision of access to material resources and thereby enhancing their participation in the household decision making process (Buvinic 1983; Amin et al. 1998). From the pessimistic point of view, the participation of microfinance programs is considered to be rather disempowering women than empowering them particularly through supporting their submissiveness and thereby reinforcing the existing patriarchy in the society (Goetz & Sen Gupta, 1996; Montgomery et al., 1996; Rahman, 1999).

The current research attempts to provide some insight into this debate in the context of Sri Lanka by examining the *Samurdhi* program and its impact on empowering rural women. The *Samurdhi* program particularly has an extensive coverage in rural areas and the majority of the program participants are women representing 60 percent of members in the *Samurdhi* banks and 65 percent of chairpersons of village societies (Gant et al., 2002; Duflos et al., 2006). Most importantly, in comparison to the other microfinance providers in the country, the *Samurdhi* program is considered to be serving the highest number of women clients, respectively representing over 66 percent and 60 percent in terms of total credit and savings facilities provided (Fernando & Modoran, 2008). As *Samurdhi* program being the largest microfinance provider facilitating financial and social intermediation for the vast majority of poor community women in the country, this reality alone makes it an important case study to investigate in understanding the local realities of microfinance and its effectiveness in empowering rural women in Sri Lanka.

This case study utilized qualitative research approach aiming to understand the underlying factors contributing to the dominant position of the *Samurdhi* program in serving the rural areas, the program approach at the grassroots level, and its

effectiveness in empowering poor women in the communities from the perspective of beneficiaries. In understanding the grassroots level operations of the *Samurdhi* program and its women's empowerment capabilities, the study focused on two adjoining rural village communities located in *Kurunegala* district of Sri Lanka. The assessment of the capabilities of the *Samurdhi* program in empowering rural women in the selected village communities was guided by a conceptual framework consisted of three dimensions of economic empowerment, household wellbeing, and sociopolitical empowerment.

THE DOMINANT POSITION OF THE SAMURDHI PROGRAM IN SERVING THE RURAL AREAS IN THE CONTEXT OF MICROFINANCE IN SRI LANKA

In terms of the underlying factors contributing to the dominance of the *Samurdhi* program, the study findings highlight that the program has been in a favorable position in the entire microfinance industry to serve the rural areas in Sri Lanka largely due to its welfare grant provision component operating nationwide covering grassroots level communities along with the regulatory relaxations with respect to the funding it has gained being a government intervention as opposed to the regulatory constraints faced by the other players serving the similar market in the country.

Being the largest government poverty alleviation intervention in the country, the *Samurdhi* program itself has a nationwide presence. The *Samurdhi* development field officers are deployed at the grassroots level of rural communities throughout the country. This approach has provided greater convenience and access to the microfinancial services provided through the program by the rural households that were previously underserved to a greater extent. In this context, the *Samurdhi* program is mainly targeted at the low income households in Sri Lanka who are predominantly from rural areas of the country. In addition to the *Samurdhi* program, the other major players in the microfinance sector serving the rural areas are considered to be the Regional Development Banks, *Sanasa* Societies, and *Sarvodaya* Economic Enterprise Development Services. Both the Regional Development Banks and *Sanasa* Societies have historical ties with the government. The Regional Development Banks are however considered to be catering more towards the clients with slightly higher income levels. The *Sanasa* Societies and *Sarvodaya* Economic Enterprise Development Services are more focused on true microfinance similar to the *Samurdhi* program.

However, despite the extensive network of *Sanasa* societies in communities throughout the country, only a fraction is considered to remain active. The *Samurdhi* program on the other hand has been able to actively maintain its banking societies and retain the clients through the welfare grant provision component attached to the program in serving the poor beneficiary households islandwide. The *Sarvodaya* Economic Enterprise Development Services as the other major microfinance provider catering to the low income groups in rural areas is however specifically use village banking approach lending only to the community groups and not to the individuals. Furthermore, as a nonregulated microfinance provider, the *Sarvodaya* Economic Enterprise Development Services faces various regulatory constraints though it is currently in the process of transforming to a regulated finance company as the first under this institutional category in the country. In this context *Samurdhi* program has been emerged as the dominant provider in facilitating microfinancial services to the rural areas of the country.

Lack of product diversification is considered as one of the considerations in the microfinance sector in Sri Lanka. In catering to the life cycle needs of the poor, the *Samurdhi* program offers various types of credits such as enterprise, housing, and consumption along with savings and insurance facilities that is considered to be lack in the market. Though it cannot be considered as a complete range of financial services required by the low income groups, this has provided greater convenience for the program beneficiaries prefer to fulfill their financial needs under one institution, particularly with the presence of the *Samurdhi* development officers at the community level. Moreover, given that the capacity to provide various services through the other program components as integral support activities to the microfinance facilities has significantly contributed towards becoming the largest institution with the ‘credit plus’ approach in the sector.

In terms of regulatory environment in the sector, the *Samurdhi* program has been in a favorable position in comparison to the other microfinance providers reaching the rural areas. The regulatory constraints in the sector have posed considerable challenges for the other similar providers more focused on true microfinance in rural areas of the country. Due to the regulatory restrictions, these microfinance providers have encountered significant funding constraints both from the international and domestic markets. The absence of a national microfinance policy as well as a single regulatory and supervisory authority has resulted in major providers in the microfinance sector

being largely unregulated. Therefore, the microfinance providers in the country are considered to be having relatively small and weak operations. Due to this nature of the sector as well as the regulatory restrictions imposed on foreign funding, there are limited commercial international investors in the sector. In this context, regulatory restrictions make it difficult to access offshore equity capital even for the large and better performing unregulated microfinance institutions. In the domestic market, the unregulated microfinance providers are restricted from mobilizing savings and further to that the limited local sources creates considerable challenges in funding their operations. The regulatory restrictions imposed on mobilizing savings and accessing offshore capital has contributed towards hindering the capacity of these microfinance institutions to expand their operations and outreach in rural areas.

However, the *Samurdhi* program has been able to avoid these regulatory restrictions and mobilize savings as a huge source of funding being a government intervention. These regulatory relaxations for the *Samurdhi* program have not provided an effective level playing field for the other institutions providing microfinance services in rural areas to compete. Rather than emerging out of the competition, the *Samurdhi* program has been eventually positioned as the dominant provider of microfinance services among the other players serving the rural areas in the sector. Given the regulatory support and thereby the availability of funding opportunities along with the government support, the *Samurdhi* program has been therefore able to sustain its position as the largest microfinance provider serving the rural areas in the country in a more socially oriented manner even with lack of commercial orientation. Furthermore, sustaining the *Samurdhi* program and reaching it out to more beneficiaries can also be viewed advantageous from a political point of view as the beneficiaries favour their votes towards political parties and politicians who have more authority over this process.

THE SAMURDHI PROGRAM AT THE GRASSROOTS LEVEL

The study findings highlight that even though the *Samurdhi* program has a nationwide approach consisting of welfare, savings and credit, and community development, and these three major components remain consistent across the country, there can be some differences in the way it operates at village level. Although the microfinance services are defined under the savings and credit component of the program, in practice they are intermingled in to all the three components in a collaborative approach.

The two communities under the study highlight the characteristics of some typical villages served by the *Samurdhi* program in Sri Lanka. These communities are comprised of a significant number of households receiving the *Samurdhi* welfare benefit highlighting their poverty situation and the importance of the *Samurdhi* program in these contexts. The *Samurdhi* welfare benefit in these communities has been mainly channeled to the males as the household heads. The *Samurdhi* loans have been however mainly provided for their female partners. Despite of this distinction, the women in these communities have often been the participants of the program activities either being related to the welfare or the credit components. In this context, *Samurdhi* has become necessarily a program of women.

The enterprise loans provided for women towards self employment can be considered as the most important credit disbursement activity as well as the microfinance service provided under the *Samurdhi* program in these communities. The *Samurdhi* development officers in these communities have put considerable efforts to ensure the effective utilization of loans through assessing project feasibility, monitoring the progress, and providing continues support and guidance to the recipients. The loan facilities have also been complemented with credit plus services such as skills training. The outcomes of entrepreneurial credit facilitation however have been yet to be up to the expected level. The importance has often being on the repayments and not on the performance of the income generating projects undertaken by the beneficiaries through the provided loans.

Under the community development component of the *Samurdhi* program in these communities, there have been various initiatives such as training, awareness campaigns, children's societies, scholarships, elderly programs, weekly market, housing, infrastructure, irrigation and agriculture development activities. These activities have been important for these communities being underserved by many of the development initiatives throughout the country. Though the infrastructure remains critical given the challenges faced by these rural villagers in enhancing their livelihoods, this study highlights the importance of rethinking about developing them at the expense of poor beneficiaries.

In implementing the *Samurdhi* program at these grassroots level communities, the role of the *Samurdhi* development officers remains considerably important. However, just

like the beneficiaries who live in these communities, even the *Samurdhi* development officers serving them equally experience various challenges and hardships on a regular basis. Therefore, the coherency and cooperation between the *Samurdhi* beneficiaries and the *Samurdhi* development officers remains as one of the important aspects in program effectiveness and thereby the livelihood improvement of these rural communities.

WOMEN' S EMPOWERMENT CAPABILITIES OF THE SAMURDHI PROGRAM IN RURAL SETTINGS

The impact of the *Samurdhi* program on women's empowerment was found to be more indirect than immediate. In terms of economic empowerment, the evidence shows limited direct impact of the credit component in empowering women in the two communities. The circumstances of these women beneficiaries have often prompted them to utilize the enterprise credit towards household utility maximization and hence the program has considerably contributed to the area of household wellbeing. Even though the evidence suggests that the direct impact of loans is limited, the organization of women into small groups for the facilitation of credit provision and their engagement in other related program activities has been effective particularly for sociopolitical empowerment.

The *Samurdhi* program design aims for promoting entrepreneurial activities among poor women by ensuring their participation in the production process through increased access to resources for self employment. The women beneficiaries in the two communities have applied for the loans through the *Samurdhi* program by indicating on their applications that they would be invested in income generating activities which is consistent with the main objective of the program. However, the study finds in reality the provided enterprise credit are often not used for the stated purposes or invested productively. The need for women to resolve certain immediate necessities have influenced their decision to use enterprise credit for maximizing household utility rather than investing in more productive economic endeavors.

The loans have often been used for the purposes of enhancing housing conditions, hooking up electricity, acquiring necessary assets for the households, meeting emergency consumption needs, children's health and education, and repayment of other loans. Even though this is not the intended credit usage and it deviates from the program

objective, the beneficiaries have utilized them flexibly and effectively under their own circumstances. The beneficiaries often revealed that this was their intention even at the time of the loan application. The loan recipients often had resources for making repayments through their existing routine economic activities and hence they were not afraid of taking enterprise loans and utilizing them for other purposes. This mishandling of loans has largely limited the effectiveness in promoting self employment among beneficiary women in these communities and thereby meeting the main program objective of economic empowerment. The other hindering factors such as inadequate loan amount, poor infrastructure, and limited market access have further contributed to women's decision to rather fulfill household needs than undertaking economic activities. This suggests that adhering to productive credit and income generating activities would not have much impact on women in these communities.

In this context the *Samurdhi* program has enabled women in these communities to gain access to finance and contribute to the household wellbeing without entirely depending on their partners. Most of the women's husbands were involved in seasonal jobs such as agriculture, construction and day laborer work, where the income depends on the weather conditions. Therefore the loans acquired through the *Samurdhi* program have further assisted these women in bridging the gap in their household income during the absence of their husbands' earnings. The women feel great sense of fulfillment through these contributions which were earlier unable for them in the absence of access to finance. Knowing that they have the access to finance, and the ability to contribute to family welfare as well as cover the expenses during emergencies, have reduced women's vulnerability and boosted their confidence in managing household finances. The women in these communities believe that access to finance through the *Samurdhi* program and thereby contribution to the household enables them to improve participation in decision making processes and enhance their power within the family. This is consistent with the assumption that simple access to finance without direct involvement in income earning activities improves women's relative position in the household.

The access to finance through *Samurdhi* program has not only contributed to the immediate household wellbeing of the beneficiary women in the two communities. Some women have been successfully able to strengthen the family bondage extending the obtained loans to their own partners as well as supporting their married children's families by providing finance. In such circumstances they have been able to earn respect

from their families to greater extent making women satisfied with their contribution even they really do not earn any money from their own loans. Her importance in providing financial resources to the family has been recognized in this context not through the enhanced income from economic activities yet facilitating the financial needs of male members in the family such as husband and son. Although it is reinforcing the gender subordination as women are being used as a conduit for loans, the women in the study communities did not perceive it as negative. Therefore, despite the positive findings on the program's effectiveness in household wellbeing in these two communities, it does not have significant impact on transforming the prevailing system of male dominance.

For the facilitation of credit provision, the *Samurdhi* program encourages women to form small groups of five members with whom they already have some established relationship and mutual understanding. To some extent this merely replicates the women's existing networks in the community. However, the majority of positive impacts of the *Samurdhi* program in empowering women in the two communities can be attributed to this group formation and their engagement in program related activities which have particularly been effective in sociopolitical empowerment. In certain instances, the formation of these groups has significantly strengthened the relationships between the members, making mutual support available during times of difficulties. The small groups of five members are required to meet weekly and to attend regular divisional *Samurdhi* society meetings monthly with the other groups to discuss program related matters. The program beneficiaries are also required to participate collectively in the *Samurdhi* community infrastructure development activities. These provide important space for women to voice the matters affecting their lives and to accumulate social capital by expanding their networks in different ways.

However, the study further found an inconsistency in achieving sociopolitical empowerment as there is a disparity in getting benefit between better off and disadvantaged women through their participation in the *Samurdhi* program. Women who have more social exposure and already engaged actively in the community works are the ones who also have leadership positions in the *Samurdhi* meetings and other program related activities. Therefore such women receive greater benefits from program participation than poorer counterparts with less social exposure. Better off women from these communities are very keen on the program related activities and enjoy taking responsibility and making contributions towards community development. However,

poorer women perceive these activities as a burden consuming an enormous amount of their time and labor. They have difficulties in combining them with their existing economic activities, household responsibilities, and other social commitments. How women benefit from these meetings and other program related activities is therefore associated with their personal traits, household environment, and existing status in the community. This undermines the assumption that involvement in microfinance programs leads to leadership development equally among participants.

The two adjoining communities under the study appear to be similar yet fundamentally different particularly in terms of the history. One community is largely composed with settlers from outside whereas the vast majority of residents in the other have been there for generations. More importantly, coming from generations and being a small community the residents in the latter are often relatives. This difference has considerably contributed towards the outlook of the *Samurdhi* approach in particular two villages. The comparison of two communities showed some characteristics affecting the performance of the beneficiary women and thereby the impact on their empowerment through the participation in the *Samurdhi* program which could provide an interesting avenue for further research.

CONCLUSION AND POLICY IMPLICATIONS

The *Samurdhi* program provides a range of microfinance products and services. Except for the enterprise credit and compulsory savings, however they have not been adequately promoted to meet the diverse financial needs of the women. Much of the impact of microfinance through the *Samurdhi* program can largely be attributed to the credit component. Given that the women beneficiaries in the two communities intentionally and effectively utilize enterprise credit for other purposes under their own circumstances, the policy implications of this study highlight the need for the *Samurdhi* program to further consider promoting a more holistic approach by redesigning its products and credit plus services with carefully understanding the beneficiaries' needs. This will respond to the circumstances of the beneficiaries while encouraging adequate investments in productive activities towards economic empowerment.

Introduction and integration of group lending with individual lending may be another possibility for encouraging economic activities among women in rural communities.

Group lending towards collective entrepreneurship among poor rural women appears to be promising under certain circumstances. This approach would capitalize the group capabilities and overcome constraints specific to rural areas as well as women in these contexts enabling their individual empowerment. Such integrated approach would further enhance the facilitation of collective activities among group members as well as at the community level.

Given that the *Samurdhi* development officers are the key actors at the community level, enhancing their communication and interaction with the beneficiaries is crucial for the success of the program. Therefore it is important to provide more opportunities and facilities for encouraging the *Samurdhi* development officers in this aspect. Provision of adequate incentives such as awards, training, and promotion to the *Samurdhi* development officers can be considered as one way of doing this.

Proactive *Samurdhi* development officers possess a wealth of valuable knowledge and experience with the credit recipients. It is therefore important to share and disseminate knowledge among the policy makers and program organizers on the ground level realities of the intervention including its operations and situation of the recipients at the community level. This will create a common understanding of the existing gap between the objectives and the reality of the program.

From the perspective of the *Samurdhi* program and its beneficiaries, the findings of this study would contribute to understanding the reality on how current microfinance services are functioning and women's perception on these programs informing related policy practices. Although extensive research has been carried out on microfinance in Sri Lanka, there has been little discussion on its impact on women's empowerment. There have been even less studies in this context using a sound multi dimensional conceptual framework. Therefore, the current study contributes academically to this limited literature, especially from the perspective of the *Samurdhi* program and its beneficiaries in two adjoining rural communities by providing new empirical knowledge and findings highlighting the local realities. The study however makes no claims on the generalizability of the findings to the entire *Samurdhi* program operating nationwide and the possibility of replicating them in other contexts based on the two communities investigated.