Sustainability of Community Based Microfinance Programmes in Livelihood Development for War Affected Areas in Sri Lanka – Experience from the Reawakening Project (RAP)

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Introduction

Microfinance can be considered as a concept which has received high recognition in community development programs due to its attempts in involving marginalized groups in the mainstream development process. The establishment of the *Grameen Bank* by Muhammad Yunus was the major milestone that resulted in the identification of microfinance as a community development strategy among development thinkers. In fact, community based microfinance became popular along with the introduction of participatory development or people centred development where the decisions are made at grass-roots level. The term microfinance is often confused with microcredit and therefore, prior to understanding how sustainable community based microfinance programs are, it is important to differentiate between the two terms. Microcredit refers to the provision of small scale loans to poor people and microfinance refers to the process through which financial services are provided, such as initiating savings institutions or insurance schemes (Sengupta and Aubuchon, 2008).

Taking microfinance as one of the main strategies, Community Livelihoods in Conflict Affected Areas Project which is known as the Re-awakening project was initiated in 2005 in the North Eastern Province. The aim of the project was empowering people in the war affected areas of Sri Lanka through capacity building and livelihood development to foster sustainable social and economic reintegration. The project was initiated through two major components namely, village rehabilitation and development, and essential rehabilitation and improvements to major irrigation schemes. The study mainly focuses on how microfinance was used as a mechanism in village rehabilitation and development and the extent to which it was sustainable.

The project implementers selected war affected and poverty stricken villages for the project, based on specific criteria developed by them and covered 1,039 villages in twelve districts. Project officers then publicized the project through posters and leaflets and called a meeting of the villagers in which 80% participation of villagers was deemed necessary. During the meeting, the participants were informed about the project and also about the formation of a Village Development Organization (VDO) through which activities related to microfinance would be implemented. VDO is composed of several small groups, each made of 5 to 7 villagers. The villagers are given the freedom to form such small groups based on residential proximity. Thus small group members are usually neighbours who are well known to each other.

The whole process of forming groups and the VDO takes approximately three months. The VDO also includes 5 subcommittees, namely those on microfinance, social audit, infrastructure, procurement and economic promotion. Based on the number of people in the village, Rs.6000 is allocated per person and a fund is formed. Once the fund is formed, 50% of the fund is allocated for livelihood development, 40% for infrastructure development and 10% for capacity building. When the activities are implemented, a young educated resource person from the village itself is appointed to manage the tasks of the VDO. Once the VDO is established a Village Development Plan (VDP) is prepared using the data gathered from a Participatory Rural Appraisal session. The VDP evaluates the families based on their economic status through which the poorest families are given the first priority in the livelihood development process. The villagers are given loans ranging from Rs. 30,000.00 to Rs. 200,000.00. However the applications by the villagers should be processed through the recommendation of the small group in which he/she is a member. The application is then sent to the microfinance subcommittee for evaluation and the final decision of granting the loan depends on the approval of the *Maha Sabha* (the VDO assembly). The loan amount is then decided by the Livelihood Development Officer who visits the beneficiary for the final evaluation.

Objectives

There are two main objectives of the above mentioned study namely, to examine the level of sustainability resulted by the following of a community driven approach in the respective projects, and to come up with suitable recommendations to improve the community driven microfinance in development projects.

Methodology

The results of the study were mainly gathered through qualitative data collection methods. The villages for the study were selected using the cluster sampling method. First highly war affected DS divisions with low income were identified based on the Reawakening Project criteria in the Trincomalee District and then one village from each such DS division was selected for the study. Thus, data were gathered from twelve villages. In each village, two focus group discussions were conducted for community leaders and beneficiaries, and an interview was conducted with the key informant in each village. In the study, the key informant is the Community Resource Person appointed by the project for each village considering their knowledge.

Results and Discussion

The study findings showed both positive and negative factors affecting the sustainability of community based microfinance programs in terms of livelihood development. The positive factors related to the project mainly arose from the active community participation in the project. The project was designed in a manner through which the real needs of the marginalized and vulnerable communities would come out. Especially through the formation of small groups and the VDO, the community members were trained in improving their decision making abilities. Thus, the project provided them with the opportunity to enhance their logical thinking and risk taking capacities. Since the fellow group members would get disqualified when a group member doesn't recover the loan, the community members of each group kept track whether the group member who received the loan has recovered the loan on time. Another benefit of community based microfinance identified through the study was the easy access of loans for the marginalized populations. For instance, if a person has to obtain a loan from a bank or any other financial institution, the community members have to go through paper work and the loans are mostly provided if the respective person could find a guarantor. But, under the Reawakening project such red tape was eliminated and any person from the low income category who has the ambition to commence a new livelihood could obtain financial assistance from the project.

On the negative side, it was evident that even though the community members applied for loans they have not shown significant improvements in their livelihoods. One reason for this as identified by the study was the weaknesses in monitoring mechanisms. The project implementers lacked mechanisms to monitor the progress of the target groups and as a result there was a tendency of utilizing the money received by loans for different purposes other than livelihood development. Thus, at the end of the project there was no significant improvement in people who were expected to initiate new livelihoods or develop their existing livelihoods through the project funds. Lack of a formal structure for the VDOs was also identified as a factor affecting the sustainability of the microfinance aspect negatively. As a matter of fact, the VDOs were registered only in the Divisional Secretariat office under the social services act. The VDO in villages were not also linked under one network. Due to this factor, the entire setup lacked a formal structure which thoroughly affected the sustainability of both the microfinance programme and the entire project. Especially with the expansion of the funds through loan recovery, the VDOs were unable to manage the procedures related to microfinance properly.

One reason for the failures in building a formal structure within the VDOs was due to lack of knowledge in both Community Resource Persons and the officers of the VDO in financial matters. Even though participation and decision making of the community members is crucial towards the success of any community development programme, the study findings clearly indicate that capacity building and training for community members is fundamental prior to the initiation of any project with the participation of the community. The project was mainly monitored by the project implementers and after the phasing out of the project, there was no separate mechanism to carry out the activities done by the project implementers in terms of monitoring and evaluation. Since the continuation of the projects was a responsibility of the DS offices after the phasing out period, the government officers perceived this as an extra burden and do not pay enough attention to the program. Therefore, after the phase out period of the project, there is no responsible officer in charge of monitoring the loan recovery effectively which ultimately led to the creation of various issues related to both financial and social matters at the end of the project.

Conclusion and Policy Recommendations

The findings of the study have identified both positive and negative factors in community participation in projects related to microfinance. However when the overall subject matter is considered, community participation in microfinance cannot be utilized efficiently for livelihood development, if the community members are not trained accordingly. The study findings also highlight the necessity of adopting proper withdrawal strategies in development projects to eliminate issues that could occur in the post-project period due to failures in sustainability. Thus, it is highly recommended that microfinance projects should be linked with government financial organizations operating with similar goals other than linking with the local government authorities. The officers at the grass-root level also faced difficulties since they are not familiar with technical aspects. Therefore, it is recommended through the study that community based projects should be systematized after providing the community members with adequate technical skills to manage their tasks properly. The findings also paid attention to some of the success cases in which a few villages performed better than other villages. The similarity among the success cases was that such villages contained a strong leadership when compared with other villages. The leaders of such successful villagers ensured that the community members receive loans for a productive task and that they recovered the loans efficiently. Such villages showed better improvement than other villages. In addition, VDO of one village did not have any relation with the VDO of another. If the project is to be improved, maintaining relationships among and between the VDOs was also considered important. Therefore, before attaining a formal structure for each VDO, as a group, these organizations should be networked with each other. Microfinance however, was able to do a great revolution in terms of providing better financial facilities for marginalized groups who were earlier helpless in terms of investing on their livelihoods. If the above aspects are corrected and reformed, microfinance would definitely pave the way towards mobilizing the vulnerable communities effectively.

References

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