

**EX-POST EVALUATION REPORT OF  
JAPANESE ODA LOAN PROJECT 2008  
SRI LANKA (III)**

**JANUARY 2010**

**JAPAN INTERNATIONAL COOPERATION AGENCY**

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**KAIHATSU MANAGEMENT CONSULTING INC.**

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## Preface

Ex-post evaluation of ODA projects has been in place since 1975 and since then the coverage of evaluation has expanded. Japan's ODA charter revised in 2003 shows Japan's commitment to ODA evaluation, clearly stating under the section "Enhancement of Evaluation" that in order to measure, analyze and objectively evaluate the outcome of ODA, external evaluations conducted by experts shall be enhanced.

This volume shows the results of the ex-post evaluation of Japanese ODA loan projects that were mainly completed in fiscal year 2007. The ex-post evaluation was entrusted to external evaluators to ensure objective analysis of the projects' effects and to draw lessons and recommendations to be utilized in similar projects.

The lessons and recommendations drawn from these evaluations will be shared with JICA's stakeholders in order to improve the quality of ODA projects.

Lastly, deep appreciation is given to those who have cooperated and supported the creation of this volume of evaluations.

January 2010

Atsuo KURODA

Vice President

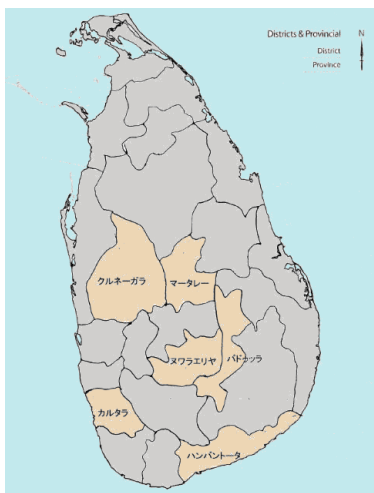
Japan International Cooperation Agency (JICA)

## Disclaimer

This volume of evaluations shows the result of objective ex-post evaluations made by external evaluators. The views and recommendations herein do not necessarily reflect the official views and opinions of JICA.

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1. Project Profile and Japan's ODA Loan



Map of project area



An income generation activity supported by the project (production of clay pots)

1.1 Background

Sri Lanka is an island country located 30km southeast of India. The total area of the country is approximately 0.8 times the size of Hokkaido, Japan. The six districts, which were selected as the target area of the project, are located in the Western, Central, Wayamba, Uva and Southern provinces of the country.

A serious problem for Sri Lanka has been that the poverty ratio of the population is high although other social indicators, such as health and education, have been comparatively better than for other low-income countries. To solve this problem, the “Small Farmers and Landless Credit Project (SFLCP)” was implemented in the 1990s with the assistance of the International Fund for Agriculture Development and the Canadian International Development Agency aiming at poverty alleviation by means of providing small amounts of financial services (micro-finance) to the poor. The project proved to be very effective as more than 80% of the beneficiaries were able to climb out of poverty and the repayment rate for the micro-loans was very high.

Along with the conventional ODA loan scheme of JICA for poverty alleviation, such as development of rural infrastructure, plantation reform projects and assistance for SMEs by provision of development finance, the project was implemented to directly impact poverty alleviation by expanding the effects of SFLCP.

## 1.2 Objective

The objective of this project is to assist the poor, who do not have access to credit schemes of formal financial institutions, and to improve their income status through self-help efforts by providing micro-financing to the poor and training to the stakeholders, including the eligible beneficiaries, thereby contributing to regional development and poverty alleviation.

## 1.3 Borrower/Executing agency

Democratic Socialist Republic of Sri Lanka/Central Bank of Sri Lanka (CBSL)

## 1.4 Outline of Loan Agreement

Approved amount/ Disbursement amount	1,368 million yen/ 1,368 million yen
Exchange of Notes/ Loan Agreement	July 1999/ August 1999
Terms and Conditions -Interest rate, Repayment Period, (Grace period) - Procurement type	1.8%, 30 years (10 years) -General untied
Final Disbursement Date	December 2006
Main Contractor	n/a
Main Consultant	n/a
Feasibility Study (F/S), etc.	1998 : Special Assistance for Project Formulation

## 2. Evaluation Results (Rating : B)

### 2.1 Relevance (Rating: a)

This project has been highly relevant to Sri Lanka's national policies and development needs at the times of both the appraisal and ex-post evaluation.

#### 2.1.1. Relevance to national policies

At the time of both the project appraisal and the ex-post evaluation, poverty alleviation was given priority in Sri Lankan national policies; therefore the relevance of the project to national policies is high.

At the time of the project appraisal, poverty alleviation was an important issue in the national policy of Sri Lanka, as the poverty ratio was as high as 22%, although other social indicators were comparatively higher than for other low-income countries. The "Janasaviya Programme"<sup>1</sup> implemented in early 1990s and its successor programme, "Samurdhi Project"<sup>2</sup>,

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<sup>1</sup> The Janasaviya Programme provided Rs. 2,500 to households with monthly incomes less than Rs. 700, and to those receiving food stamps. The programme also supported small-scale self-employment and provided assistance to village-level cooperative works. Around 500,000 households benefitted from the programme.

were the main programmes for poverty alleviation at that time. Both of them mainly aimed at income transfer to the poor households.

The Government of Sri Lanka was actively involved in poverty alleviation at the time of the ex-post evaluation, too. Poverty alleviation is a prioritized issue in the national development policy, “Mahinda Chintanaya (2006–2016)”, of the present government. The main programmes for poverty alleviation are the “Samurdhi Project”, which has been continued from the former government, and “Gama Neguma”, which mainly aims at development of infrastructure of rural areas where the poverty ratio is very high

#### 2.1.2. Relevance to sectoral policies

At the time of both the project appraisal and the ex-post evaluation, micro-finance was identified as an effective measure for poverty alleviation; therefore the relevance of the project to sectoral policies is high.

At the time of appraisal, government expenditures for poverty alleviation, mainly by means of the income transfer mentioned above, occupied 1.0% of the GDP. The high expenditures for poverty alleviation were one of the causes of the financial difficulty of the government. The government realized the need to minimize the role of income transfer in poverty alleviation programmes and to promote employment creation and poverty alleviation by supporting the economic development of the poor. Micro-finance was identified as an effective measure for such economic development aiming at poverty alleviation, and various micro-finance programmes were implemented at that time. NGOs and cooperative societies were actively involved in the programmes as implementing and participating agencies. There were micro-finance programmes by the government, such as the above-mentioned SFLCP, and a programme provided by the National Development Trust Fund, which was implemented with financial assistance from the World Bank.

At the time of the ex-post evaluation, too, the government of Sri Lanka stressed the importance of poverty alleviation in economic development. The above-mentioned “Mahinda Chintanaya” identified micro-finance as an important measure for economic development. The government aims at increasing the investment amount of micro-finance to 35,699 million rupees by the end of 2009 and 137,974 million rupees by the end of 2016, and as a result, expects to reduce the unemployment rate and the poverty ratio by 2%. The government instructed all the licensed banks to increase their lending to the agriculture sector and micro finance schemes so that such lending will account for at least 10% of their total lending portfolio by the end of 2009.

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<sup>2</sup> At the time of project appraisal, the Samurdhi Project provided Rs. 140 – 1,000 to households with monthly incomes less than Rs. 1,500. The amount of assistance varied according to the number of family members and income levels. The most common amount was Rs. 600. Around one million households benefitted from the programme at the time of appraisal. The programme also assisted the self-help efforts of the beneficiaries through provision of training and loans.

### 2.1.3. Relevance to needs

At the time of both the project appraisal and the ex-post evaluation, the need for micro finance among the poor was high; therefore the relevance of the project to people's needs is high.

The project was also implemented to fulfill the need for micro-finance in the districts other than those covered by SFLCP. The need for micro-finance among the poor, who did not have access to the credit of formal financial institutions, was considered high from the fact the SFLCP was implemented successfully.

A study by GTZ (German Technical Cooperation Agency) on micro-finance conducted in April 2008 says that the fund demand of micro-finance was still high and the supply did not meet the demand. The study also said that most of the households who had borrowed micro-finance stated that they need to borrow such loans again. This statement also indicates that there is still a high demand for micro-finance<sup>3</sup>.

## 2.2 Efficiency (Rating: b)

The project cost was within the planned value, although the project period was slightly longer than planned (116% vs. the plan); therefore, the evaluation for efficiency is moderate.

### 2.2.1 Outputs

As illustrated in Figure 2 on page 7 of this report, the project was designed to follow four steps for loan disbursement: firstly, JICA disburses an ODA loan to CBSL (Central Bank of Sri Lanka); then CBSL disburses loans to the Participating Finance Institutions (PFIs), such as Rural Development Banks (RDBs); and then the PFIs disburse loans to the micro-finance Participating Agencies (PAs); then finally the PAs disburse loans to the end users, i.e. the beneficiaries in rural communities. The PFIs were also able to disburse loans directly to the beneficiaries without the involvement of the PAs. In the project, it was planned that various forms of assistance for the beneficiaries - such as assistance for group formation, capacity building of the groups, and technical training for income generation projects which were to be implemented by obtaining the loans - were provided in addition to the disbursement of the loans, so that they would be to effectively increase their income levels.

As shown in Table 1, all the planned outputs of the project were produced in general, although there were several outputs, which did not have the target figures at the time of the project appraisal.

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<sup>3</sup> "Outreach of financial services in Sri Lanka", GTZ, 2008.

Table 1 : Comparison of Planned and Actual Outputs

	Planned outputs at the time of appraisal	Actual outputs at the end of the project (as of the end of December 2006)
Group formation	n/a	<ul style="list-style-type: none"> <li>• No. of groups formed : 19,516*</li> <li>• No. of groups registered : 13,131*</li> <li>• No. of villages studied : 7,289*</li> <li>• No. of development societies formed : 123*</li> </ul>
Credit	<ul style="list-style-type: none"> <li>• No. of beneficiaries obtaining loans : 35,000</li> <li>• No. of loans disbursed : .n/a</li> <li>• Amount of loans disbursed : 655 million yen</li> <li>• Average unit amount of a loan : Rs.9,900</li> <li>• Amount of refinance<sup>4</sup> : n/a</li> <li>• Amount of loans disbursed to development societies<sup>5</sup> : n/a</li> </ul>	<ul style="list-style-type: none"> <li>• No. of beneficiaries obtaining loans : 51,992</li> <li>• No. of loans disbursed : 53,027</li> <li>• Amount of loans disbursed : 1,159 million yen (Rs. 1,145million)</li> <li>• Average unit amount of a loan : Rs,21,601</li> <li>• Amount of refinance : Rs. 1,032 million</li> <li>• Amount of loans disbursed to development societies : not implemented</li> </ul>
Training	<ul style="list-style-type: none"> <li>• Training for beneficiaries : e.g. group formation, entrepreneurship development, accounting, technical training.</li> <li>• Training for staff : e.g. leadership development, capacity development for loan approval and administration.</li> </ul>	<ul style="list-style-type: none"> <li>• Training for beneficiaries : total 1,737 courses</li> <li>• Training for staff : total 13 courses</li> </ul>
Procurement of equipment	Vehicles and equipment	7 pick-up trucks, 1 van, 1 mini-bus, 48 motorbikes and office equipment (as planned)
Assistance for project management	Employment of project management staff for Project Central Office (PCO) and the six Project District Offices (PDOs)	<ul style="list-style-type: none"> <li>• International consultants : 0MM</li> <li>• Local consultants : 2,688MM</li> </ul> (total of “assistance for project management” and “consulting services”)
Consulting services	<ul style="list-style-type: none"> <li>• International consultants : 22MM</li> <li>• Local consultants: 1,128MM                             <ul style="list-style-type: none"> <li>- Financial management (4 posts)</li> <li>- Assistance for PDOs (2 posts) :</li> <li>- Income generation project (5 posts)</li> </ul> </li> </ul>	<PCO> 28MM for each of the following posts: Training/ capacity building (1), training coordination (1), project administration (1), clerk (1) and drivers (2) <PDOs> 168MM for each of the following posts: Monitoring specialists (6), training specialists (6), project administration (6), computer operators (6), field officers (48), typists (6) drivers (6) and clerks (6)

\*Note: these figures are the total of the results in the target six districts, as formation of beneficiary groups and development societies was not conducted in the programme for the North and East.

(Source: SAPROF report, Project Completion Report, appraisal documents and documents submitted by CBSL)

The following differences between the planned and the actual outputs occurred mainly due to the delay in the commencement of disbursement of the loans, which will be explained later:

<sup>4</sup> Refinance is a loan from the CBSL to the PFIs disbursed once CBSL approves the results of lending by the PFIs to the beneficiaries.

<sup>5</sup> Development societies are associations of several neighboring beneficiary groups. They are incorporated by being registered to the Company of Registration. They are entitled to issue shares, have their own systems for lending and savings. It was planned for the formation of the societies to be encouraged by the project to enhance the sustainability of the effects of the project.



- The actual “amount of loans disbursed” exceeded the planned output as the “average unit amount of a loan” was larger than expected. The main reason for the increase of the “average unit amount of a loan” was due to the significant impact of inflation caused by around a two-year shift in the period of loan disbursement as a result of the delay in the commencement of the disbursement<sup>6</sup>.
- The lending to the development societies was not realized by the end of the project period as the capacity of the societies was not adequate enough.

Staff of PCO and PDOs was employed by utilizing the budget allocation for “Assistance for project management” and “Consulting services”. TOR for the consulting services was mainly financial management of the loan schemes, planning of training programmes and income generating services. In addition to the TOR, the PCO and the PDOs conducted monitoring of the project and various field-works such as survey of the target villages, awareness creation among the beneficiaries and group formation under the consulting services. No international consultant was employed as required human resources were available locally.

### 2.2.2 Project Period

The implementation period of the project was planned as 77 months, i.e. from August 1999 to December 2005. The actual implementation period of the project was 89 months, i.e. from August 1999 to December 2006, which is 116% that of the original plan and slightly longer than planned.

As Figure 1 shows, “staff recruitment of PDOs”, “appointment of consultants” and “training for staff and beneficiaries” were delayed around four years, and “group formation” and “lending to beneficiary groups” were delayed around one to one and half years.

As a result of the interviews with the stakeholders, it was found that the main reasons for the delay were as follows:

- Commitment of the senior officials of CBSL was not adequate at the early stage of the project period.
- Although a “Project Central Committee” was established, meetings were not held frequently, and the committee did not contribute to the progress of the project activities.
- The appointment of the staff of the PCO and the PDOs took longer than expected because the terms under which they should be employed and appointed were not discussed adequately at the time of the project appraisal.

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<sup>6</sup> The period of loan disbursement was planned to be from 2000 to 2004 at the time of the appraisal; however it was actually from 2002 to 2006. The reasons for the delay are explained in section 2.2.2 of this report.

Activity	1999	2000	2001	2002	2003	2004	2005	2006
Establishment of CPO/PDO	□		■					
Staff recruitment of PDOs		■						
Appointment of consultants		■						
Training for staff and beneficiaries		■					■	
Group formation		■						
Beneficiary assessment		■						
Lending to beneficiary groups		■						
Lending to Development Societies			■					
							Not in practice	

□ Plan      ■ Actual

Figure 1 : Planned and Actual Implementation Schedule

(Source: Appraisal documents, Project Completion Report and documents submitted by CBSL)

### 2.2.3 Project Cost (Rating: a)

The planned project cost was 1,610 million yen, and the actual project cost was 1,487 million yen, which was thus 92% of the planned cost and lower than planned. The project cost was lower than planned as the actual expenditure of the Government of Sri Lanka was lower than planned although the ODA loan portion was disbursed as planned. The expenses of the Government of Sri Lanka were classified as “taxes and project administration expenses” at the time of the project appraisal. Although the actual expenses of the taxes exceeded the planned amount due to the increase of the taxes for the vehicles<sup>7</sup>; the actual expenses of the project administration was much lower than planned. As a result, the total expenses of the Government of Sri Lanka were lower than planned, as mentioned earlier.

Re-allocation and increments for the “credit” portion were made several times in the later stage of the project to meet the needs of the larger unit amount of a loan. The re-allocation was made by utilizing the loan portions for training, assistance for project management, consulting services and contingencies. All the allocations for credit were disbursed by the end of the project period.

In 2005, the project area was expanded to the North and East Province of the country, and a total amount of 101 million rupees in loans were disbursed to the people in the area.

<sup>7</sup> The external evaluator could not analyze the reasons for the decrease of the administration expenses as there was no detailed plan for the same at the time of the appraisal.

#### 2.2.4. Efficiency in implementation structure and finance scheme

The project was implemented according to the implementation structure and finance scheme planned at the time of project appraisal as shown in Figure 2. There were no major changes made in the implementation structure and scheme during the project period.

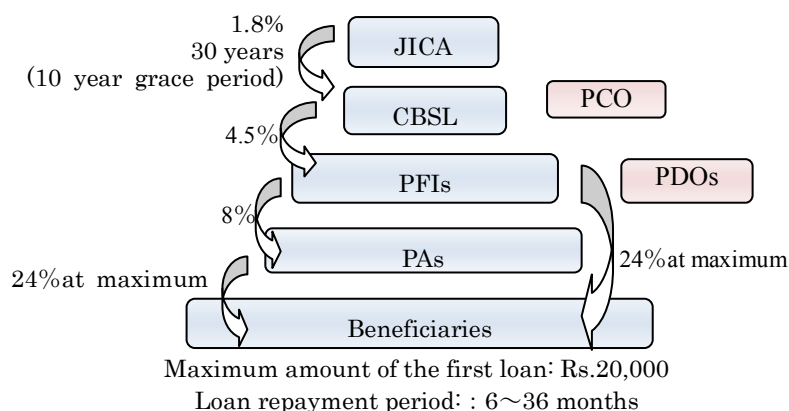


Figure 2 : Implementation Structure and Finance Scheme  
(The plan at the time of the project appraisal)

(Source: Diagram by the external evaluator based on the information in the project appraisal documents)

The interest rate for the loans to the beneficiaries was planned as 24% at maximum; however the rate was fixed at 20% in actuality, in order to keep consistency in the project. A service charge of 6% of the loan amount was planned to be paid to the PDOs by the PFIs in cases when the PDO assisted the PFI successfully in group formation and loan disbursement. However, the service charge system was not executed in actuality. The reason for this seems to have been because there was no need for the PDOs to be provided with the service charges, as all the expenses of the PDOs were covered by the project.

The PFIs, the PAs and the beneficiaries stated that the project's conditions and finance scheme were efficient as explained below. No particular issue was raised by them.

Taking the above factors into considerations, the implementation structure and finance scheme of the project seem to have been appropriate in general.

##### (1) PFIs

The PFIs recognized the following conditions and effects of the project as beneficial, even taking into account the fact that there were extra costs involved for field-work, such as group formation and support of beneficiaries, and risks for the lending without collateral.

- The interest margin of 15.5% in case of the direct lending to the beneficiaries and the 100% refinancing from CBSL to the PFIs are beneficial conditions compared with other funding schemes.
- The project gives the PFIs a good opportunity to expand their pools of customers in rural and remote areas.

- The beneficiaries of the project have developed loyalty to the PFIs. They can be expected to remain as long-term and major customers in the future.
- The PFIs obtain opportunities to manage the funds deposited by the beneficiaries through the group saving scheme and loan security<sup>8</sup>.

## (2) PAs

The three PAs, which participated in the project until the end of the project period, evaluated the various conditions of the project as functioning efficiently. They especially recognized that the finance scheme of the project was profitable because of the preferred interest margin of 12%, and the project provided them with a good opportunity for expanding their members/customers.

CBSL called for applications by advertising in newspapers from eligible NGOs to work as PAs. In accordance with the selection criteria defined in advance, ten organizations were approved as PAs by CBSL. Among them, six organizations actually participated in the project. Among the six, three dropped out at an early stage of the project,<sup>9</sup> and only the other three organizations continuously participated in the project. Since the external evaluator could not have an opportunity to have interviews with the organizations which dropped out, their opinions about the finance schemes of the project could not be analyzed.

## (3) Beneficiaries

As a result of the interviews of the stakeholders, including the beneficiaries, it was found that the beneficiaries recognized the following schemes and conditions of the project as being useful:

- Advice and instructions from staff of the PFIs and the PAs, especially the field officers, were helpful.
- Loans can be obtained without fulfilling conditions that are required by other finance schemes, such as a guarantee from government officers, a certain amount of bank deposit, business registrations and so on.
- Encouragement and advice from other members of the beneficiary groups were important.
- No need to visit banks for depositing savings and repayment of loans.
- Interest rate was comparatively lower than for other loan schemes.

However, not a few beneficiaries expressed their concerns about the repayment method, some saying: “I made repayments punctually, but they were not completed at the end of the repayment period. I did not know why. The repayment method was not clear to me”. Possible reasons for the concerns of the beneficiaries should be as follows:

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<sup>8</sup> The “loan security” is the non-refundable and mandatory deposit made by the beneficiary. At the time of borrowing, 5% of the total loan amount was deposited in the account of the beneficiaries in the PFIs.

<sup>9</sup> One of the PAs among the three that dropped out, was actually disqualified as it was misusing the funds of the project by spending it for other purposes. The reason the other two organizations dropped out seems to have been because of their insufficient capacity to work as PAs, although detailed information regarding this was not available.

- The beneficiaries do not recognize the responsibility for repayment of interest to be added for the delayed payments of installments, as the PFIs did not give adequate explanation about it to the beneficiaries.
- The method of “principal equal repayment (referred to as “declining balance method” in Sri Lanka)<sup>10</sup>” was adapted for the repayment of the loans disbursed to the beneficiaries in the project. There was confusion among the beneficiaries about the repayment schedules, as the staff of the PFIs sometimes explained the repayment schedule using the “equal repayment method (referred to as “flat method” in Sri Lanka)<sup>11</sup>”, thinking that the beneficiaries could not understand the logic of the declining balance.

#### 2.2.5. Efficiency of the institutions involved in the project

It was considered whether the institutions involved in the project played their expected roles, fulfilled their responsibilities and contributed to the efficiency of the project. PDOs, PFIs and PAs fulfilled most of their expected roles and responsibilities and contributed to the efficiency of the project; however, the Project Central Committee and the PCO failed to do so in a sufficient manner.

##### (1) Project Central Committee and PCO

As shown in Figure 1, several of the main activities of the project were delayed around four years. The Project Central Committee and PCO were responsible for the management of the project; therefore they should have enhanced the progress monitoring or made necessary arrangements to deal with the causes of the delays, so that the delays could be prevented or minimized. The Committee and the PCO failed to fulfill their responsibility in this regard as they did not seem to have taken such actions.

##### (2) PDOs

The PDOs were actively engaged in group formation and the promotion of income generation projects, and they contributed to efficient implementation of the project. Even though it was planned that the PDOs would provide “assistance” for group formation when so requested by PFIs, in actuality, the PDOs actively engaged in group formation whether the PFIs requested it or not. Such proactive contributions should be highly appreciated as they accelerated the progress of group formation and disbursement of loans.

However, the groups formed by the PDOs had communication only with the PDOs, which conducted the field-work. The PFIs did not have communication with the groups at all.

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<sup>10</sup> In the declining method, the principal is evenly repaid according to the number of scheduled payments. The interest should be calculated by multiplying the balance amount of the principal with the interest rate. The total of these two amounts is the amount of monthly payment. The amount to be paid for the interest will be gradually decreased as the balance amount of the loan is decreased.

<sup>11</sup> In the flat method, the repayment is arranged so that the amount of monthly installments will be the same throughout the period of repayment. The amount to be paid for the principal will be gradually increased according to the decrease of the amount to be paid for the interest.

Therefore, after the closure of the PDOs at the end of the project period, it was very difficult for the PFIs even to identify the locations of the groups and to understand the details of their activities. As a result, not a few groups formed by the PDOs lost opportunities to be monitored and receive follow-up support for a period of around several months after the end of the project, and thereafter they became inactive. In this sense, the proactive forming of groups by the PDOs had some negative influence on the sustainability of the project.

### (3) PFIs

The Rural Development Banks (RDBs) in each target districts, namely Sabaragamuwa Development Bank in Kalutara district, Wayamba Development Bank in Kurunegala district, Kandurata Development Bank in Matale and Nuwara Eliya districts, Uva Development Bank in Badulla district and Ruhuna Development Bank in Hambantota district functioned as the PFIs in the project. At the time CBSL selected the PFIs, any other banks other than the RDBs were invited to work as the PFIs since CBSL intended to strengthen the capacity of the RDBs as implementing agencies of the micro-finance by appointing them as the PFIs of the project.

The levels of achievement of the PFIs were different in each district (see Table 2). However, in general, most of the PFIs are considered to have played the expected roles in disbursement of the loans to the beneficiaries and contributed to the efficiency of the project implementation, based on the fact that the entire amount allocated for the credit had been disbursed. Several staff of the PFIs had experience working for the SFLCP. Their experience and skills in micro-finance were effectively utilized in the project. However, among the management-level staff of the PFIs, there were some who were not actively involved in the project, as they had concerns over the lending without collateral, risks in the capacity of the poor for repayment and the cost of field-work.

Table 2: Achievements by district at the end of the project period

District	No. of groups formed	No. of groups registered	Total amount of group savings (Rs.)	No. of loans approved	Total amount of loans approved
Badulla	2,064	1,801	23,351,449	4,951	83,557,100
Hambantota	2,737	1,770	29,233,203	8,755	176,549,500
Kalutara	3,313	2,668	40,529,786	11,054	233,538,850
Kurunegala	4,356	3,157	28,988,942	12,466	282,408,845
Matale	3,746	2,184	39,296,517	8,450	161,303,830
Nuwara Eliya	3,300	1,551	16,501,528	6,316	121,094,802
Total	19,516	13,131	177,901,425	51,992	1,058,452,927*

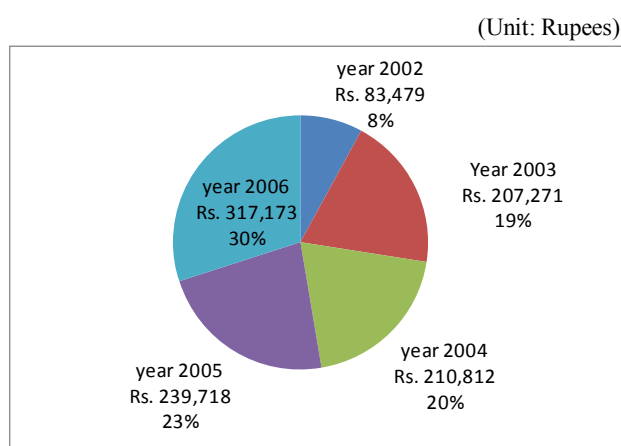
\*Note : The amount in Table 2 (1,058 million rupees) is the total amount approved in the six districts. The amount of 1,145 million rupees in Table 1 shows the total amount disbursed including the six target districts and in the North and East of the country.

(Source: Progress reports of the project)

The roles of PFIs were planned to be mainly disbursement of loans and follow-ups for repayment. In actual fact, PFIs were actively engaged in fieldwork as well, such as group

formation, promotion of savings and support for income generation projects, especially in the later stage of the project period.

As Figure 3 shows, more than 50% of the total amount of the loans to the beneficiaries was disbursed during the last two years, i.e. in 2005 and in 2006. Some of the stakeholders of the project mentioned that the selection of eligible beneficiaries and formation of income generation projects were conducted in a hurry during the above-mentioned period, in order to achieve the quantitative targets, such as the number of loan disbursements and amount of loans and as a result; the qualitative input, they say, such as awareness creation and support for the beneficiaries were not conducted adequately. However, the level of reduction of the qualitative input and the extent to which this impacted the efficiency of the project could not be confirmed in the ex-post evaluation, as there were no quantitative data to verify this.



**Figure 3: Annual Amount of Loans  
Disbursed to the Beneficiaries in the Six Target Districts**

(Source: Progress reports of the project)

#### (4) PAs

As mentioned in 2.2.4.(2), only three PAs were involved in the project throughout the entire project period. The number of such PAs was less than expected at the time of the project appraisal. As mentioned earlier, CBSL called for applications by advertising in newspapers from eligible NGOs to work as PAs. The PAs were selected by the evaluation committee established in CBSL in accordance with the previously defined criteria. Therefore, there seems to have been no particular problem in the selection method and the process. However, considering the fact that although several organizations were approved as PAs but did not participate in the project and several organizations did participate but dropped out from the project, it should be concluded that CBSL should have examined the capacity and commitment of the eligible organizations more carefully at the time of the selection.

The names and area of work of the three organizations which worked in the project during the project period are given below. All the organizations were actively engaged in the group formation, completed repayment of the bulk-loans<sup>12</sup> borrowed from the PFIs and contributed to

<sup>12</sup> PAs borrowed bulk-loans from the PFIs and then provided loans to the beneficiaries. A bulk-loan is a larger loan

the efficiency of the project. The PFIs also appreciate their contribution to the project. The organizations are:

- SEEDS (Sarvodaya Economic Enterprises Development Services) in all the six target districts
- Arthachariya Foundation in Kurunegala district
- Samastha Lanka Community Development Forum in Kalutara district and in Warasmulla division in Hambantota district

The amount of bulk-loans lent by the PFIs to the PAs was limited in the later stage of the project period. The above-mentioned three PAs stated that they could not meet the needs of the beneficiaries as they could not obtain a sufficient amount of bulk-loans from the PFIs. The PFIs limited the amount of bulk-loans to the PAs mainly due to the following reasons.

- As mentioned earlier, it was planned that the roles of the PFIs were mainly the disbursement of loans and follow-ups of repayment. However, in the later stage of the project period, the PFIs were actively involved in the field work, such as assistance for the group formation and saving activities. Thus there was less necessity for the PFIs to work with the PAs. The PFIs considered that the direct disbursement would be more profitable than the disbursement through the PAs, even counting the cost and risks involved<sup>13</sup>.
- The RDBs, which worked as the PFIs, made a regulation that the maximum amount of loans for a single borrower should be less than 33% of their capital amount. Due to the regulation, the RDBs could not fulfill the needs of the PAs in case the requested amount was more than the above-mentioned limit.

If the groups formed by the PAs were more successful or sustainable than those formed by PFIs, one could conclude that the limit of bulk-loans to the PAs had a negative impact on the efficiency or effectiveness of the project. However, the external evaluator could not reach such a conclusion as there was no data to show the differences between the two groups.

### 2.3 Effectiveness (Rating: a)

The project has largely achieved its objectives, and its effectiveness is high.

Appropriate effect and operation indicators and their target figures were planned to be identified in the early stage of the project, as the method for evaluating effectiveness of micro-finance projects in ex-ante evaluations was not established adequately in JICA at the time of the project appraisal. However, the indicators and the target figures were not introduced during the project period. Therefore, in the ex-post evaluation, the external evaluator identified the possible effects of the project by reviewing the relevant documents at the time of the project appraisal and conducting a series of beneficiary surveys,<sup>14</sup> and then examined the

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an intermediary organization borrows from the superior finance institution in order to provide sub-loans to several beneficiaries.

<sup>13</sup> The interest margin of PFIs in case of a loan disbursement directly to the beneficiaries was 15.5% and in case of a loan disbursement through Pas, it was 3.5%.

<sup>14</sup> Three different kinds of surveys of beneficiaries were conducted, namely, (a) a questionnaire survey targeting a total of 300 beneficiaries, 50 beneficiaries being selected from each district; (b) two kinds of focus group



effectiveness of the project using the criteria listed below.

- (1) Improvement of economic situation/income/housing condition
- (2) Effects of the loan
- (3) Effects of the training
- (4) Effects of the group savings

According to the results of a series of surveys of beneficiaries, it was concluded that the project showed a high probability of having contributed significantly to the improvement of the socio-economic situation of the beneficiaries and that the group saving scheme produced positive social and psychological effects for the beneficiaries. However, the degree to which the loans and training courses contributed to the socio-economic improvement of the beneficiaries could not be measured objectively. The criteria for the selection of the target areas and eligible beneficiaries and the results of the selection itself were appropriate in general.

### 2.3.1. Operation and effect indicators

#### (1) Improvement of economic situation/ housing condition

It is assumed that the project helped a large number of beneficiaries to improve their economic situation. In response to the question in the questionnaire survey “Do you think your economic situation was improved due to the project?” 90% of the respondents answered “Yes”, while only 8% and 2% answered “No” and “Do not know” respectively; however, around 28% of the respondents in the questionnaire survey were the beneficiaries who failed to implement the income generation project successfully. Considering the above mentioned matters, it is presumed that not only the income generation project, but also other activities, such as savings, efforts of cutting down unnecessary expenses<sup>15</sup>, the loan scheme of the development societies and so on, likely contributed to the improvement of the economic situation of the beneficiaries.

However, there was no appropriate data to examine objectively the level of contribution of the project to the improvement of the economic situation of the beneficiaries. For example, when the base-line data<sup>16</sup> of the beneficiaries is compared with the data in the questionnaire survey of the ex-post evaluation, it was found that the monthly income of the beneficiaries had increased ten-fold. However, the extent of the effects of the project cannot be measured by such a comparison, as there were also influences of inflation, growth of family members and results of other socio-economic programmes in addition to the effects of the project<sup>17</sup>. When

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discussions for beneficiary groups that conducted income generation projects both successfully and unsuccessfully; and (c) case studies of the beneficiaries who conducted their income generation projects successfully.

<sup>15</sup> Activities for cutting down unnecessary expenses, such as the introduction of home gardening, group purchasing, and introduction of CFLs (compact fluorescent lamps) and so on, were facilitated as one of the group activities of the project.

<sup>16</sup> Data on income, land ownership, household properties, etc. of the beneficiaries were collected at the time their groups were registered to CBSL prior to the lending of the loans.

<sup>17</sup> In addition to the study of the socio-economic situation of the beneficiaries, if the socio-economic situation of a “control group”, which did not benefit from the project but is in a socio-economic situation similar to that of the beneficiaries, had been compared with groups that benefited from the project and those that did not both at the time

the baseline data is compared with the results of the questionnaire survey, it is clear there were improvements in the status of land and house ownership and the condition of floors, walls and roofs of the houses of the beneficiaries. However, because of the same reason as mentioned above, it is difficult to examine objectively whether the improvement is due to the effect of the project or other factors.

## (2) Effects of the loan

According to the project completion report and the results of the surveys of the beneficiaries, the most common purpose of the loans was agriculture, then manufacturing and trading, both at the end of the project period as well as at the time of the ex-post evaluation (See Figures 4 and 5).

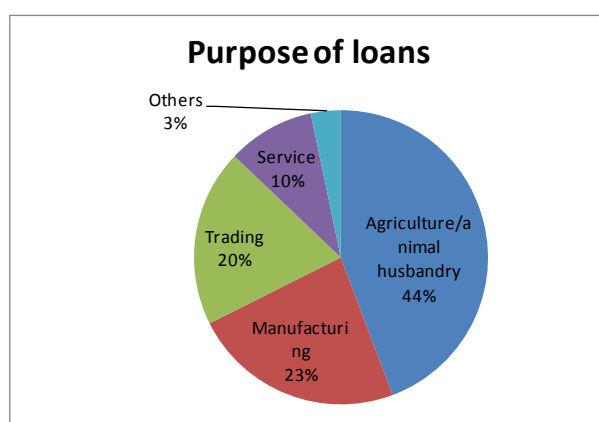


Figure 4 : Purpose of loan at the End of The Project Period

(Source: Project Completion Report)

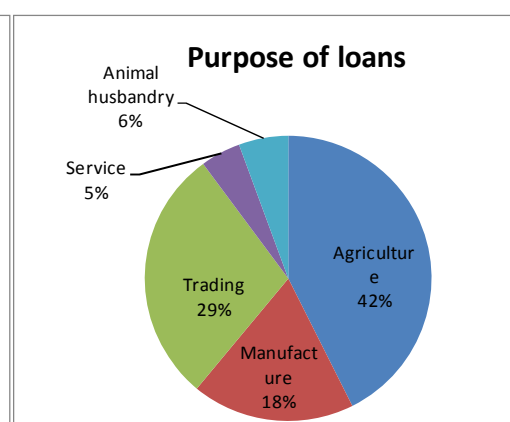


Figure 5: Purpose of Loan at the Time of Ex-post Evaluation

(Source: Questionnaire survey)

It was not possible for the external evaluator during the ex-post evaluation to obtain adequate information to examine objectively the percentage of the beneficiaries who were and were not successful in implementing their income generation projects with the loans provided by the project. The status of repayment of the beneficiaries at the end of the project period could have been a useful reference for examining the percentage of such beneficiaries. However, it was also difficult to use repayment as a reference as the repayment rates varied from 71% to 99% among the PFIs and the status of repayment deteriorated after the end of the project as mentioned in the section on “sustainability” in this report.

The focus group discussions were held with both successful and unsuccessful groups in each district to identify common opinions about and experiences in income generation projects and to obtain lessons to be referenced by similar projects in the future. As a result, it was found that

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of the commencement of the project and at the time of the ex-post evaluation, one could have measured the extent of the effect of the project objectively.

in cases when the “credit plus<sup>18</sup>” approach was properly adopted, and the beneficiaries received advice and support from the field officers and when the group lending scheme functioned effectively, the income generation project developed successfully in general. The beneficiaries mentioned the following as examples of useful advice and support from the field officers:

- The encouraging support from the field officers gave them the motivation to commence an income generation project.
- They were assisted when developing business plans and analyzing profits-expenditures of the generating activities.
- They were helped to fill in application forms for the loans.
- They were supported and provided with advice when they faced problems in their income generation project with regards to profit margins, quality of the products, marketing and others.
- They were provided with opportunities to participate in various training programmes and field visits.

The beneficiaries who mentioned that the “group lending scheme was encouraging” stated they found that “the members of the group helped each other when they faced problems”, “The members mutually shared problems and experiences in implementing their income generation project” and “I was able to continue the savings and the income generation project because I did it as a group. I could not do them alone”.

As a result of the focus group discussions, it was found that most of the income generation projects that ended up in failure did so because the beneficiaries could not obtain adequate “credit plus” support. For example, the following experiences were common among the groups that failed in their activities:

- The planning of the income generation activity was poor. The loans were disbursed even if the beneficiaries did not have adequate discussions about the plan of the activities with the field officers or staff of the PFIs.
- The beneficiaries could not obtain advice or support from the field officers when they faced problems in implementing their income generation project, such as problems with marketing, quality of the products, cost of materials and crop failures, in case of agriculture loans, due to adverse weather condition or pests.
- The beneficiaries did not obtain necessary technical training for the income generation projects.
- The beneficiaries lost their motivation to continue the income generation projects, as the activities of the beneficiary groups they belonged to became stagnated.
- The beneficiaries lost their motivation to continue the income generation projects, as they were disappointed by the unkind attitude and words of the field officers or staff of the PRIs.

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<sup>18</sup> The “credit plus” approach is an approach that not only provides loans to the beneficiaries but also provides technical training and awareness-creation programmes and develops the capacity of the beneficiaries. The project adopted this “credit plus” approach.

- The influence of unexpected incidents, such as injuries, sickness, death and separation of the beneficiaries or their family members.

### (3) Effects of the training

A detailed study on the effects of the training could not be conducted in the ex-post evaluation due to the time constraints. However, according to the results of the interviews with the stakeholders of the project, the social mobilization training, such as the awareness creation programme and the leadership and entrepreneurship development training, increased to a certain degree the motivation and self-reliance of the beneficiaries and encouraged them to commence income generation projects. However, the technical training to meet the needs of the beneficiaries for their income generation projects was not conducted adequately. The reason was because the selection of the training institutions was delayed for around four years and there were only 27 months available for the training. Therefore, the basic training courses, such as on social mobilization, which were necessary for group formation and commencement of the income generation projects, were conducted as a priority. As a result, there was not adequate time for the project to implement technical training, which should have been conducted as the next step<sup>19</sup>.

### (4) Effects of the group savings

The total amount mobilized by the group saving scheme as of the end of the project period was 178 million rupees. This is a result of the efforts of the beneficiaries who saved 10 to 35 rupees per week per person. It should be appreciated that such effort of the beneficiaries was continued and mobilized a large amount as a result.

According to the results of the beneficiary surveys, most of the beneficiaries appreciated the group saving scheme. 95% of the respondents answered, “I learnt the importance of saving by the group saving scheme,” and 65% answered, “The group saving scheme encouraged me to start a individual saving in addition to the scheme”. In the focus group discussions, most of the beneficiaries mentioned that they feel safer and more confident as they have savings. Some mentioned that they were expecting to use the savings when they get old. Several respondents commented, “It was a positive compelling force that the saving was done as a group and the amount could not be withdrawn easily”. There were no negative comments among the beneficiaries on the group saving scheme. Based on the above mentioned comments and opinions of the beneficiaries, it should be evaluated that the group saving scheme provided the beneficiaries with several positive effects in terms of social and psychological aspects.

There was an agreement that the beneficiaries could not withdraw the savings in case any members in their group are borrowing loans from the PFI. They can withdraw the savings only

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<sup>19</sup> Among the training for the beneficiaries, 1,539 courses (89%) were the basic courses such as on social mobilization, entrepreneurship and leadership development. There were only 198 courses (11%) on technical training.

if all the members of their group completed repayment and they do not have intention to obtain loans anymore. Since such an example could not be found during the ex-post evaluation survey of beneficiaries, the external evaluator could not study any case of a beneficiary withdrawing her savings and utilizing it effectively.

Most of the time, the beneficiaries deposited their savings for more than three years, as the repayment period of the loans was three years in general. However, the interest rate applied for the group savings was not the one for the fixed deposits but the one for the normal savings account, which was around five to six percent annually.

Considering the fact that the savings were not withdrawn and utilized effectively and that the interest rate was low, it is a questionable whether the group saving scheme was as economically profitable for the beneficiaries as it could have been.

### 2.3.2. Selection of the target areas

The six target districts were selected as they were far from Colombo, which is the center of Sri Lanka's economic activities, poverty was prevalent, demand for micro-finance was high and NGOs were actively working. The report of the Special Assistance for Project Formation (SAPROF) of the project noted that the average monthly incomes in the districts were lower than the national average according to the "Labor force & Socio Economic Survey, 1985/6"<sup>20</sup>. It is understood that the statistics from this survey were utilized for the selection criteria of these districts. However, since the report did not mention the average monthly income of other districts, it is not clear that the average monthly incomes of the selected districts were the lowest of all districts. Sometimes, the average monthly income was not appropriate for measuring the level of poverty in cases where there was a significant gap between the poor and the rich in the district. However, it can be concluded that the selection of the target districts was appropriate in general<sup>21</sup> considering that it was made by utilizing to the maximum extent possible the available information at the time of the project appraisal<sup>22</sup>.

### 2.3.3. Selection of the eligible beneficiaries

The criteria for the selection of the eligible beneficiaries at the time of the project appraisal are given below. The criteria were planned to be reviewed according to the changes of the situation of the poor. The main criteria were:

- Monthly income of the household is less than 3,000 rupees
- The household does not own a four-wheel vehicle
- The person does not have any loans from other micro finance institutions and does not have any unpaid debts.

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<sup>20</sup> "Labor force & Socio Economic Survey, 1985/6", Department of Census & Statistics, Sri Lanka

<sup>21</sup> Kalutara district, which is next to Colombo, was selected although the selected districts were supposed to be far from Colombo and there was no general perception that NGOs were especially active in the selected districts since NGOs are generally actively working nationwide in Sri Lanka. Therefore, it is not clear whether these two criteria were strictly followed in the process of the selection.

<sup>22</sup> The concepts of poverty ratio and poverty line were officially adopted in Sri Lanka in 2002.

In addition to the above, other criteria, such as “the household does not have regular income” and “none of the family members are government employees”, were applied in the actual selection. The loans were provided after the staff of the PAs or the PFIs observed for a period of around three months after the formation of the beneficiary groups the subjects, noting factors such as the participation rates of the beneficiaries in the weekly meetings, savings, which should be more than 70%, condition of housing and situation of family members, and commitment to the income generation project and so on.

The above-mentioned income ceiling was not considered as an absolute requirement for the eligible beneficiaries, as the amount of income declared by the beneficiaries was not always reliable and there could be some household, whose income exceeded the ceiling but were poor in terms of socio-economic conditions<sup>23</sup>. It seems that the ceiling on the monthly income was revised in some districts in the later stage of the project period; however a record of such revisions was not available.

From the above-mentioned actual criteria for eligible beneficiaries, it is understood that the project defined the eligible beneficiaries as the ones who are “keen on receiving small amounts of loans, have the capacity for entrepreneurship to implement income generation projects, the commitment to continuously participate in weekly meetings and save their earnings but do not have access to formal credit schemes” and that whether a beneficiary belongs to “the poor” was not the absolute priority.

An annex to the additional project completion report of the project also states: “There are grounds to suspect that the identification of those in poverty could have been flawed and that in any case the ultra poor have not been targeted under the scheme”. Considering that statement and the above-mentioned definition of the eligible beneficiaries, there is a high possibility that in addition to the poor, lower-middle-income families also benefited from the project, as illustrated in Figure 6.

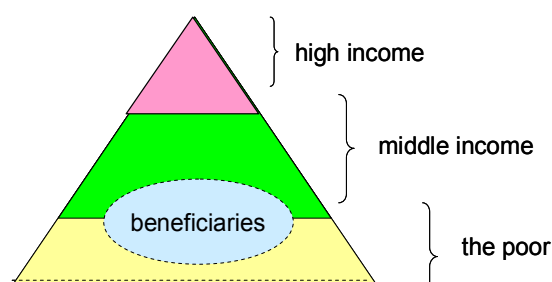


Figure 6: Beneficiaries of the project

(Source: Illustrated by the external evaluator)

However, the above-mentioned criteria for the selection of the eligible beneficiaries were

<sup>23</sup> A household may have a monthly income exceeding the ceiling when, for example, their son is engaged in military service or their daughter works for a garment factory; however, the parents (beneficiaries) depend solely on the income they earn by day labor because they do not wish to use a cent of the income of their children. In other cases, a family with income exceeding the limit may have heavy expenses as a family member is handicapped or seriously ill or the number of family members is extremely large.

appropriate in general, considering the fact that it was difficult to select the poor only by their income; the poorest of the poor are usually a target for social welfare and are not always a target of micro-finance as a strong commitment and a certain capacity for repayment by the beneficiaries are a priority for microfinance projects in order to ensure efficiency and sustainability. If several strategies that prioritize the poor are adopted at the time of the project appraisal, the benefits that the project can provide to the poor can be expanded (see the examples of such strategies in the Recommendations section of this report).

## 2.4 Impacts

The expected impacts such as poverty reduction, empowerment of women and employment creation were produced by the project.

In the ex-post evaluation, the following items in the section below from (1) to (6) were identified as the “expected impacts” with reference to the appraisal documents, and the degrees of the impacts were examined based on the results of the surveys of the beneficiaries.

### 2.4.1. Impacts to project areas and target communities

#### (1) Contribution to poverty alleviation

As a result of the questionnaire survey of the beneficiaries, 69% of the respondents stated, “My family had been considered as a poor household at the time I joined the project”. As shown in Figure 7, 73% of the above-mentioned respondents said, “The project was very much helpful for my family to rise from poverty”, and 21% said, “The project was helpful to some extent for my family to rise from poverty”.

In the questionnaire survey, the beneficiaries were asked if their family was a recipient of “the Samurdhi Programme”, a social welfare programme targeting the poor, at the time they joined the project and at the time of the ex-post evaluation. As a result, it was found that the percentage of the Samurdhi recipients out of the total number of beneficiaries of the project was reduced from 50% to 30% at the time of the ex-post evaluation. Considering these results, it is concluded that the project contributed to poverty reduction to a considerable degree.

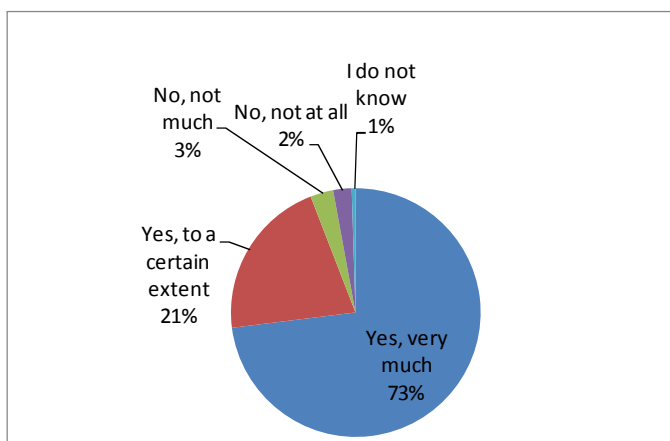


Figure 7: Was the project helpful for your family to rise from poverty?

(A question for 206 beneficiaries who replied that their family had been considered as a poor household at the time they joined the project.)

(Source: questionnaire survey)

## (2) Empowerment of women

Percentages of females among the beneficiaries and the loanees were more than 75%, showing that the participation of females in the project was high. However, considering the fact that the participation of females in community development projects in Sri Lanka is generally high and that participation and empowerment are not the same, the high participation of the females alone cannot be regarded as empowerment of women. Therefore, in the ex-post evaluation, the degree of empowerment of women was examined with reference to the interviews of the staff of CBSL, observations of the external evaluator and results of the survey of beneficiaries, as there was no existing data available in this regard.

CBSL believes that empowerment of women was realized as they witnessed several examples of empowerment in terms of their leadership, activeness, participation in social activities, presentation, behavior, recognition by others and so on when they conducted monitoring of the project. For example, in the early stage of the project, the female beneficiaries sat at the back of the room when both males and females attended the meetings. They spoke little. However, in the later stage of the project, women sat in front and expressed their opinions without hesitation. The external evaluator also observed other examples of female beneficiaries giving speeches with confidence at the meetings.

CBSL also observed that the social status of the female beneficiaries was improved as a result of the income generation projects. They are now playing important roles in various events in their village or were selected as leaders of the rural development societies or Buddhist parishioners' societies as their leadership in the beneficiary groups was recognized by other people in the village. The external evaluator also found several similar examples in the case studies from the survey of the beneficiaries that the female beneficiaries improved their social skills through activities of the beneficiary group or income generation projects, and thereafter played an important role in the community.

Among the 284 female respondents of the questionnaire survey, 70% answered, "I escaped from financial dependency on my family members, including my husband", mainly because of the benefits of the income generation project they implemented with loans from the project. Although it was a subjective judgment made by the beneficiaries, it was confirmed that there were considerable numbers of female beneficiaries who believe that their empowerment was realized because of the project.

Considering the above findings, it is concluded that the project contributed to the empowerment of women.

## (3) Impacts on rural economy

Several examples were found in the ex-post evaluation that the project contributed to the rural economy. The following examples were found in Kurunegala district. All the industries in the following examples were utilizing regional products or resources and their initial investments in them were less than 50,000 rupees, which was the maximum loan amount



the beneficiaries could obtain by the project. The group loan scheme of the project was especially effective for some of the industries, in which processing was undertaken by small groups. The PDOs observed that the loan scheme of the project enabled a considerable number of beneficiaries in particular areas to engage in these rural industries. Therefore, it is considered that the project produced a positive impact on rural industries to a certain extent.

- Processing of coco-peat for export (Coco-peat is a box-shaped gardening material for export made from coconuts husk, which are widely produced in the districts)
- Processing of cashew nuts (Cashew nuts are a local product in North Western Province including the target district)
- Production of bricks (large areas in the district have clay-rich soil suitable for bricks)
- Production of wicks for oil lumps (it is popular as an on-the –side job for females)
- Dairy farming (One calf could be bought with 50,000 rupees, which was the maximum loan amount of the project)
- Highland vegetable cultivation by introduction of a drip irrigation facility (such a facility could be purchased with 50,000 rupees)
- Betal leaf cultivation for export (there is a market for the export of betal leaves in the district)

#### (4) Impacts on employment creation

In the questionnaire survey, the beneficiaries were asked if they employed someone in their income generation projects. It was found that 103 respondents, i.e. 34% out of the total number of 300 respondents, employed their family members or relatives on a part-time basis, and 91 respondents (30%) did the same on full-time basis. It was also found that 66 respondents (22%) employed staff who was not their family members or relatives on a part-time basis, and 27 respondents (9%) did the same on full-time basis. Accordingly, it is evaluated that the income generation projects produced a positive impact on employment creation. The following case study shows an example of employment creation.

## Case study in Badulla district

### Cement block production

- The beneficiary obtained loans from the project two times for vegetable cultivation, but each attempt was a failure. Somehow, they paid back the loans.
- Borrowed Rs. 22,000 again from the project and started cement block production. They purchased moulds and materials at first. The business was successful. They paid back the loan.
- They borrowed Rs. 92,000 from the Uva Development Bank, the PFI of the project, under the industrial loan scheme. They paid back the loan and again borrowed Rs. 150,000 for expansion of the business. They made repayment as scheduled.



- ✓ They tried again in spite of the initial failure
- ✓ Now they are the “graduates” of the project
- ✓ Their keen effort made their business successful
- ✓ Established one more workshop
- ✓ Employed two youths recently

Mr. Punnyadasa & family

#### (4) Benefits by ethnicity

There were no documents showing the ethnic composition of the beneficiaries of the project. However, according to the recollections of the stakeholders of the project, most of the beneficiaries in the six target districts were Sinhala. Among the six districts, Nuwala Eliya district and a part of Badulla district have a lot of Tamil communities working on tea estates. However, even in such areas, there were relatively few Tamil beneficiaries, due to the following reasons:

- It was difficult for the project to give a priority to the Tamil estate workers at the time of selection of the eligible beneficiaries, as the survey for the selection showed that the income of the Tamil estate workers, who have monthly cash income, was often higher than the income of the Sinhala who are living in the villages and do not have regular income.
- Awareness creation programmes were not conducted actively for Tamil communities, as there were few field officers in the PDOs who speak Tamil.
- The PFIs became rather negative for lending to the communities of Tamil estate workers after the occurrence of incidents in which several beneficiary groups in the estate were confused by interventions of the labor unions and defaulted on their loans.

Socio-economic indicators for the estate Tamil communities, such as for education and health, were comparatively lower than those of other areas in Sri Lanka, except for the North and East of the country, which were the areas under the ethnic conflict. The socio-economic situation of the estate Tamil communities needs to be improved through effective implementation of micro finance. The above-mentioned lack of engagement in the estate Tamil communities by the

project was difficult to be avoided, as at the time of the project appraisal, there was no particular impetus for benefiting the Tamil community through the project and there was no specific strategy to provide benefits to the community as a priority. However, CBSL regrets the result and has a plan to prioritize Tamil communities in the Nuwara Eliya district under the revolving fund scheme.

The project expanded the target area in 2005 to the North and East provinces of the country. Loans were provided mainly to the districts of Ampara, Vavuniya, Jaffna and Trincomalee. The expansion of the target area showed the commitment of the Government of Japan to provide active support to peace building in the country during the peace negotiation process between the Government of Sri Lanka and LTTE<sup>24</sup>. The expansion was a timely strategy for the people in the North and East provinces that allowed them to enjoy a peace dividend. However, impacts of the project in the North and East provinces were unknown as there were no documents in this regard, and the external evaluator did not have an opportunity to visit the area due to time constraints.

(5) Impacts on socially vulnerable groups

It was found in the ex-post evaluation that the beneficiaries of the project included socially vulnerable people, such as the elderly, widows and communities of low caste. In particular, the impact on the elderly in promoting their economic independence, as shown in the following case study, is worth mentioning as Sri Lanka is on the way to becoming an aging society.

**Case Study: Hambantota district**

- Borrowed Rs. 20,000 in 2003
- Borrowed Rs. 20,000 in 2009



- ✓ Sold 4 male calves
- ✓ Selling milk to an established company
- ✓ Selling eggs to a local businessman

- Socio-economic self-reliance of an elderly woman was achieved by the project.
- The previous group was dissolved as members moved to other villages. She formed a new group with young women.
- She is an active and cheerful grandmother. Young women in the village like her leadership.

**Dairy farming and poultry**



Ms. Misinona (75 years old)

- She always has money at hand
- She buys books for grandchildren
- She is proud of herself as she can give donations to temples

<sup>24</sup> Liberation Tigers of Tamil Eelam. The group demanded a separate independent Tamil nation in Sri Lanka and was involved in armed conflict mainly in the North and East of Sri Lanka until May 2009.

## 2.5 Sustainability (Rating: b)

Although there are positive factors, such that the revolving fund scheme of the project is being utilized properly and actively and CBSL is gradually transferring its roles in the administration of the scheme to the PFIs, some problems have been observed in the sustainability and expansion of the effects of the project for poverty alleviation. Therefore, sustainability of the project is fair.

### 2.5.1 Executing agency

#### (1) Structural aspects of operation and administration

All the PDOs were closed at the end of December 2006 when the project period was over. The revolving fund scheme was introduced in April 2007. In July 2007, CBSL employed district coordinators and two or three staff for each PDO, re-opened PDOs and employed 95 community development assistants and dispatched them to the PFIs.

Thereafter, CBSL again closed the PDOs at the end of June 2009. CBSL decided on the closure in order to reduce the administration costs of the revolving fund scheme and also to reduce the dependency of the PFIs on CBSL. Monitoring of the scheme, training for the beneficiaries and staff, registration of development societies, which were conducted by the PDOs, were undertaken by the PFIs after July 2009.

Currently, the RDBs are making various efforts for maintaining the sustainability of the effects of the project by establishing a “microfinance unit” in the bank and employing selected community leaders out of the beneficiary groups and entrusting them to support the beneficiaries. CBSL is going to continue guidance and supervision of PFIs and provide financial assistance for training and awareness creation programmes, if the PFIs need them.

In addition to the RDBs, state commercial banks, namely the Bank of Ceylon and the People’s Bank, SANASA Development Bank and commercial banks, namely the Hatton National Bank and the Sampath Bank, are participating in the revolving fund scheme. The activities were expanded all over the country to a total of 22 districts, except for the three districts where the damages caused by the ethnic conflicts were more serious than in others. Under the revolving fund scheme, the performance of the PFIs, such as the People’s Bank, SANASA and the Bank of Ceylon, which have many branches in rural areas, is high.

#### (2) Technical aspects of operation and administration

The same methods for selection of the eligible beneficiaries and appraisal of the loans were continuously adapted to the revolving fund scheme. The PFIs reprinted the training materials for bookkeeping, which were developed under the project, and are utilizing them for the training courses.

However, most of the techniques and knowledge accumulated by the project belong to the individuals and have not been institutionalized yet. Therefore, there were many cases in which the activities of the beneficiary group were suddenly stopped after an experienced officer in

charge of the group was transferred to another area. Another problem was that the field officers often did not properly hand over the necessary information to his/her successor at the time of the transfer.

### (3) Financial aspects of operation and administration

The Ministry of Finance allocated a total of 1,000 million rupees in 2007 and 2008 to CBSL for the revolving fund scheme. As of June 2009, CBSL had disbursed almost the entire amount of the allocation. The number of loans approved during the above-mentioned period was 27,582. The same amount of loans that the project disbursed for the period of the first six years was disbursed in two years under the revolving fund scheme, which shows the high demand for the scheme. As a result of reviewing the operational status of the fund scheme, it was found that the scheme is operated properly and utilized well.

To find out the situation of the repayment by the beneficiaries in the six districts, the latest data of the RDBs, which were the PFIs of the project, was examined. As shown in Table 3, it was found that the repayment rates varied among the RDBs. There are the RDBs that show satisfactory performance, with recovery rates (total recoveries as a percentage of the total on demand) at 94% to 96% and the portfolio quality<sup>25</sup> kept at 8% to 9%, while there are other RDBs that have many bad loans, with the repayment rates as low as 84% to 87% and portfolio quality at 40% to 80%.

Table 3 Status of Repayment by the Beneficiaries at the time of the Ex-post Evaluation

Name of the RDBs	Name of the districts	(a) Portfolio quality	(b) Ratio of delinquent borrowers	(c) Total recoveries as a % of total on demand	As at:
Ruhuna Development Bank	Hambantota	8%	14%	94%	30-Jun-09
Wayamba Development Bank	Kurunegala	9%	n/a	96%	30-Jun-09
Kanduratha Development Bank	Nuwara Eliya	21%	24%	92%	30-Apr-09
Kanduratha Development Bank	Matale	20%	21%	91%	30-Apr-09
Sabaragamuwa Development Bank	Kalutara	40%	51%	87%	30-Apr-09
Uva Development Bank	Badulla	80%	78%	84%	31-Mar-08

(Source: Reports submitted by PFIs)

Note (a) Portfolio quality = Total amount in arrears/total amount outstanding x 100

(b) Ratio of delinquent borrowers = Number of delinquent borrowers (arrears)/ Number of outstanding borrowers x 100

(c) Total recoveries as a % of total on demand = Total amount of recoveries/ total amount on demand x 100

In regards to the RDBs, which generally have high recovery rates, the senior officers have a commitment to the project and the scheme. Factors contributing to their strong performance were: the banks provided loans to the beneficiaries utilizing other sources of funds until the commencement of the revolving fund and bank officers continuously visited the beneficiary

<sup>25</sup> RDBs define the loans for which repayment has not been made for more than three months as “loans in arrears”.

groups and carried out follow-ups so that the beneficiaries were encouraged to continue income generation projects and repayment of the loans. The RDBs with low recovery rates have experiences in discontinuation of the provision of loans and visits to the beneficiaries during the above-mentioned period of confusion, as well as inadequate communication with and follow-ups for the beneficiaries. According to the definition set by the RDBs, a loan is categorized as a “loss” if it is in arrears for more than 18 months. The percentages of the loans in the “loss” category out of the total numbers in arrears were 61% and 66% for the Sabaragamuwa Development Bank and for the Uva Development Bank respectively. These figures show the seriousness of the problem these banks are having.

In the future, the amount recovered from the PFIs is planned to be allocated as an annual budget for the revolving fund scheme. CBSL expects to have an allocation of around 385 million rupees in 2010. The amount to be allocated from 2010 and thereafter will be much less than the allocation for 2007 and 2008. Therefore, the amount of allocation in the future will not be able to keep up with the demand for the loans among the beneficiaries. Considering the fact that the unit amount of a loan will be increased year by year due to inflation, it is certain that the number of beneficiaries and loans to be provided under the scheme will be reduced in the future.

Therefore, CBSL is planning to disburse the revolving fund to the least developed area in each of the six districts<sup>26</sup>. CBSL is also advising the PFIs to continue lending to the beneficiaries utilizing other sources of funds. In this regard, large-scale banks, such as the Bank of Ceylon and the People’s Bank are planning to continue lending by utilizing their own funds in the future: therefore there is a high expectation that the effects of the project and the revolving fund scheme will be continued by these banks. However, there is concern that the RDBs, which have comparatively less capacity for fund-raising, will not be able to continue lending to the existing beneficiary groups in the future.

The financial condition of the Government of Sri Lanka is very tight at the moment, and it will be expected to spend a large amount of funds for rehabilitation and reconstruction programmes under the post-conflict situation. In order to continue the revolving fund scheme in the future, CBSL needs to emphasize the necessity and effects of the scheme, so that the Ministry of Finance will ensure the budget allocation for the scheme as a priority.

## 2.5.2 Current status of project operation and administration

### (1) Situation in early 2007: Stagnation of project activities and confusion among the beneficiaries

As a result of the interviews with the stakeholders of the project, it was found that the beneficiaries were confused, with a considerable number of beneficiary groups stopping their

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<sup>26</sup> For example, CBSL plans to prioritize the estate community in Nuwara Eliya district, which is less developed in socio-economic terms however was not benefitted much by the project as mentioned earlier. CBSL conducted training courses for several Tamil speaking field officers to commence programmers in the area.

activities during a period of around one and half years from the end of the project until the re-opening of the PDOs in July 2007. For example, there was a rumor among the beneficiaries that the beneficiaries did not have to repay the loans as the project was over and the PDOs were closed. The support for the beneficiaries, who are organized into groups formed by the PDOs, was suspended as mentioned earlier. The beneficiaries who lost their hope of obtaining the loans again from the project left the groups and joined other micro-finance schemes.

The PFIs tried to support the beneficiary groups, which were formed by the PDOs, after the closing of the offices; however, they faced various difficulties in conducting follow-up activities, as mentioned in 2.2.5 (2). Some PFIs continued lending to the beneficiaries after the end of the project until the commencement of the revolving fund scheme by utilizing other financial sources, while some did not due to a lack of commitment by the senior managers or limited capacity in fund-raising.

During this period, the provision of bulk loans from the PFIs to the PAs was stopped. SEEDS and the Arthachariya Foundation absorbed the beneficiary groups into their own groups and continued provision of the loans utilizing other funds. However, the Samastha Lanka Community Development Forum could not make such an arrangement. As a result, the provision of loans by the Forum to the beneficiaries was suspended for a period of 15 months.

CBSL instructed the institutions involved in the project that the project would be completed at the end of 2006 and that PFIs would have to undertake the roles of the PDOs and continue the provision of loans to the beneficiaries by utilizing other financial sources after the end of the project until the commencement of the revolving fund. Nevertheless, the above-mentioned confusion and stagnation occurred mainly due to the following reasons.

- During the last period of the project, the PFIs were extremely busy with handling a large number of loan applications from the beneficiaries and had little time to undertake the roles of the PDOs and obtain the information of the beneficiary groups formed by the PDOs.
- It was difficult for the PFIs to undertake the roles of the staff of the PDOs, as the entire PDO staff of fifteen members resigned at once.
- The above-mentioned instructions the CBSL provided to the representatives of the PFIs, the PAs and the PDOs were not conveyed properly to all of the staff of these institutions working in the branch and district offices. Among the staff, there were some who did not tell the beneficiaries that the project would be finished, concerned that they might lose their motivation to continue the project activities.
- At the time of the project appraisal, it was expected that “the sustainability of the project will be ensured as the consultants working for the PDOs will conduct technical transfer to the staff of the PDOs, so that their administrative capacity will be enhanced”. However, there was only one staff from CBSL in a PDO, who was either a staff of CBSL or PFIs and dispatched as a “district coordinator”. All the other staff in the PDOs was contracted employees hired by a local consultant company. Technical transfer was not

realized in these circumstances.

It was not clearly defined at the time of the project appraisal how CBSL and the PFIs would be involved in the work of the PDOs during the project period and after the end of the project. However, considering the above-mentioned expectation for technical transfer, it can be assumed that there was a plan for several staff from CBSL or the PFIs to work for the PDOs for a long time. However, in actuality, contracted employees worked for the PDOs and they resigned at the end of the project period.

It seems that an “exit strategy” to ensure the sustainability of the effects of the project was not adequately discussed and adopted. The strategy could have included what institution should take over the responsibilities of the above-mentioned contracted employees after they resigned at the end of the project, the decision that the PFIs should be the ones to take over the responsibilities, what measures should be taken to improve their capacity in order to realize a successful take-over of responsibilities, and so on.

(2) Situation in late 2007: Active utilization of the revolving fund scheme

After that, the PDOs were re-opened and the revolving fund scheme was started proactively. The number of beneficiary groups newly registered in the six districts during the period from the end of the project to June 2009 was 12,283 and the number of development societies registered in the period was 190. According to the results of the questionnaire survey, the beneficiaries borrowed their second and third loans under the revolving fund scheme.

During the above-mentioned period, formation of the development societies was encouraged to enhance sustainability of the effects of the project. The development societies are authorized to issue shares to the members, create capital and operate their own saving and lending schemes. The representatives of the society have a responsibility to monitor and conduct audits of

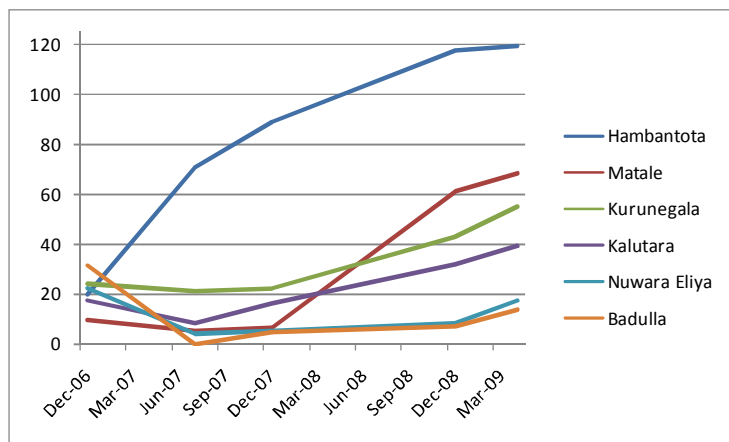


Figure 8: Number of Development Societies after the End of the Project Period

(Source: Progress reports of the revolving fund scheme)

the activities of the beneficiary groups, which comprise the society. There are several development societies which are conducting collective purchasing and marketing as well as social welfare activities. Figure 8 shows the trends in the numbers of the development societies in each district after the completion of the project. The numbers of the development societies were reduced in all the districts except for Hambantota district until July 2007. However, after



the re-opening of the PDOs in July 2007, the numbers were gradually increased. In Hambantota district, unlike in other districts, the handing-over process of the responsibility of the PDO to the PFI was conducted smoothly to a certain extent. As a result, the number of development societies in the district has been increased steadily.

When a development society is formed, the PFIs can conduct administrative work and collection of repayment by visiting the monthly meetings of the development society but not by visiting each beneficiary group, which comprise the society. Therefore, the PFIs have a merit of reducing the administrative costs of the project/scheme by forming the development societies. However, among the RDBs, there are some which do not have much commitment to forming the development societies. The main reason for this diminished commitment is that once the beneficiaries form a development society and their saving and lending schemes become functional, they sometimes stop saving at and borrowing loans from the PFI. In other words, the beneficiaries sometimes became too independent and do not feel the necessity to continue dealings with the PFI anymore.

There were several beneficiary groups, which were dissolved or disappeared or reduced their activities during the above-mentioned period. According to the result of the questionnaire survey, the reasons for this situation were as follows:

- Meetings were not held as the members of the group lost their interest in the activities.
- The members of the beneficiary group lost a sense of trust after one or some of the member (s) went into default.
- The beneficiary groups did not receive any assistance or instructions from the field officers.
- Some of the members in the group left the group and jointed other micro-finance schemes.
- The members did not have opportunities to share ideas and opinions among themselves.

### (3) Issues identified at the time of the ex-post evaluation

As a result of the interviews in the ex-post evaluation, it was found that the staff of the PDOs observed the following issues in the operation of the revolving fund scheme:

- There are some PFIs who do not conduct awareness creation among the potential beneficiaries in a proper manner, i.e., by explaining the objectives of the scheme and the significance of the group activities to the villagers at the introduction meetings.
- There are some PFIs who do not monitor the progress of the saving programmes, self-help activities for the reduction of unnecessary expenses and the development of leadership, but simply distribute loan application forms immediately after the group formation.
- There are some PFIs who do not monitor the weekly meetings and saving programmes of the beneficiaries.

At the time of the feed-back seminar for the stakeholders of the project, which was one of the programmes in the ex-post evaluation, the participants confirmed that the above-mentioned issues were not only the concern of the staff of the PDOs but a common concern among the stakeholders of the project. Considering the above-mentioned issues and the fact that CBSL is in the process of simplifying the administrative work of the scheme, it is concluded that the sustainability and the expansion of the effects of the project, as a poverty alleviation project, are not guaranteed at the moment, as there are several concerns about whether the “credit plus” approach will be emphasized and whether the poor will benefit as a priority in the future.

According to the project completion report of the project, CBSL had planned to conduct surveys of beneficiaries every year and to conduct a comprehensive impact survey in August 2008. In this way, CBSL recognized the need to study the impact of the project periodically, but in actuality, no survey was conducted after the one in December 2007, as CBSL found it difficult to obtain enumerators for the surveys.

### 3. Conclusion, lessons learned and recommendations

#### 3.1 Conclusion

As stated above, the relevance and effectiveness of the project were high, although the efficiency and sustainability of the project were moderate. Therefore, this project is evaluated to be satisfactory.

#### 3.2 Lessons learned

- (1) “Credit plus”, which is an approach not only to provide loans (credits) but also to develop the potential capacity of the beneficiaries by providing awareness creation programmes, training, advice and assistance to the beneficiaries, is a key for the effective implementation of the micro-finance programme.
- (2) In order to prioritize the poor as the beneficiaries, it is necessary to identify the particular areas in the target districts where poverty is prevalent by utilizing geographical poverty information, to conduct strict monitoring of the screening process of the eligible beneficiaries, to implement training and assistance actively for the beneficiaries on the planning and implementation of the income generation project.
- (3) In case a project is implemented in various districts in the country, it is recommended at the time of the project appraisal, to examine and decide methods for the establishment of an implementation structure of the project, especially the modes of employment and appointment of regional staff for project administration.
- (4) In case new institutions for project operation, such as the PCO and the PDOs of the project, should be established, it is necessary to decide the details of the implementation structure, roles and staff allocation of each related institution, with due consideration of an “exit strategy” for the new institutions at the end of the project, in order to prevent the related

institutions and beneficiaries of the project from becoming confused after the completion of the project. It is also recommended for such institutions to withdraw gradually from the project with an appropriate handing-over process at the time of the closure of the offices.

- (5) In order to enhance the sustainability of the effects of a project after its completion, it is necessary to implement activities for capacity building of PFIs during the project period, considering the institutional, human resource and financial aspects. (See Recommendations (1) and (3) below for ways to promote capacity building)
- (6) It is noteworthy that under the revolving fund scheme of the project, efficiency is improved by the creation of an environment based on the principle of competition, which encourages the inviting of a lot of PFIs to participate in the project. However, there were several issues observed in the field, such as a loss of the character of the project as a “poverty alleviation project” and the absence of a “credit plus” approach, and so on. Considering these factors, it is essential to implement a micro-finance project in a way that produces well-balanced results in both qualitative and quantitative aspects, by implementing proper monitoring of the qualitative effects of the project while introducing a competitive environment for PFIs.

### 3.3 Recommendations

#### <To Sri Lanka : PFIs>

- (1) It is recommended that PFIs implement micro-finance for poverty alleviation as a corporate policy. At the same time, the experience and knowledge gained in this field should be institutionalized by establishing a micro-finance unit in banks.
- (2) In addition to the revolving fund scheme of the project and the fund for the successor project, “Poverty Alleviation Micro-finance Project II”, it is recommended that PFIs provide loans to the beneficiaries proactively by utilizing other resources and their own funds.
- (3) PFIs are also advised to actively conduct training on micro-finance to all the branch managers and field officers to ensure and promote human resources development in this area.
- (4) The following strategies are recommended to be adopted so that the poor will be priority beneficiaries:
  - (a) Emphasize the “credit plus” approach and ensure there is sufficient budget in this regard. Conduct monitoring to determine whether the approach is being duly adopted.
  - (b) Conduct frequent monitoring of the performance on beneficiary selection of the field officers. Provide necessary advice to them if many of the beneficiaries tend not to belong to the poor.
  - (c) Encourage the branches of the PFIs by utilizing geographical poverty information to form larger numbers of beneficiary groups in areas where poverty is prevalent. Use relevant maps at the regular meetings to ensure progress in this area.

- (5) It is recommended that PFIs establish methods for the accurate measurement and monitoring of project effects and impacts; they should then conduct regular data collection, update their computer data bases, and conduct field monitoring by using such data in addition to conducting beneficiary surveys once every two or three years.
- (6) It is recommended that PFIs enhance follow-up procedures for the loan repayment by the beneficiaries.
  - (a) In case a beneficiary is found to be delaying repayment, visit her/him immediately and provide advice to solve problems, if any, and encourage repayment.
  - (b) Keep in close communication with the beneficiaries and establish a sense of mutual trust, which will motivate the beneficiaries to make the repayment on time.
  - (c) Introduce an emergency loan scheme for small amounts of loans or a micro-insurance system, and provide support to the beneficiaries in case they are experiencing an unexpected misfortune or sudden expenditures.

**<To Sri Lanka: CBSL>**

- (1) It is recommended that CBSL conduct supervision of the PFIs and monitor the effects of the revolving fund scheme continuously in order to emphasize the importance and effects of the scheme and continue the scheme in the future. In order to carry out this supervision, in addition to the data CBSL is collecting at the moment, it is recommended to ascertain and verify the level of impacts produced by the scheme by monitoring the situation of loan repayment by the beneficiaries and provision of the bulk loans to the development societies by the PFIs as well as to conduct occasional field visits.
- (2) The following matters are recommended to be considered adequately when CBSL conducts a similar kind of micro-finance project in the future:
  - (a) Implementation structure, roles of the relevant institutions and staff allocation should be decided with due consideration of the “exit strategy” and in a way that ensures the PFIs will acquire project know-how during the implementation period in order to prevent the beneficiaries from being confused after the end of the project.
  - (b) In order to avoid delays in implementation of the project, the method for establishing the implementation structure, especially the modes of employment and appointment of the regional staff in charge of the administration of the project, should be duly examined and decided at the time of project appraisal. Progress monitoring of the project should be conducted appropriately by the steering committee, which should be comprised of representatives of the related institutions.
  - (c) If a project aims at “poverty alleviation”, it should be implemented in a way to produce well-balanced results, both qualitatively and quantitatively, by carrying out appropriate monitoring of the qualitative impacts of the project while encouraging the production of quantitative effects, such as increasing the numbers and amounts of loan disbursements by introducing the principle of competition.

- (d) Methods for measuring the impacts of the project and evaluating the project overall should be examined adequately at the time of project appraisal. For example, indicators and target figures should be identified. Methodologies on various subjects such as collection of necessary data for base-line surveys and the inputting of the same into computer databases, identification of control groups for the base-line surveys, regular collection of data on the indicators and implementation of surveys on beneficiaries should be examined.

**<To JICA>**

- (1) It is recommended that the following matters should be confirmed at the time of project appraisal when JICA implements a similar kind of micro-finance project.
  - (a) If a project aims primarily at poverty alleviation, there should be certain strategies incorporated in the implementation process of the project to ensure that the poor are the priority beneficiaries of the project.
  - (b) The methods for ascertaining and verifying the impacts and evaluating the effects of the project should be established. There should be a plan to conduct impact studies and evaluations regularly.
  - (c) Implementation structure of the project should be designed in a way so as to facilitate the sustainability of the effects of the project after the project period.
- (2) In cases when methods for project evaluation are not established by JICA, and indicators and target figures are not identified at the time of project appraisal, it is recommended that a mid-term review of the project should be carried out to rectify this situation.

### Comparison of Original and Actual Project Scope

Item	Planned	Actual
(1) Outputs	(a) No. of groups formed : n/a (b) No. of loans disbursed : .n/a (c) Amount of loans disbursed : 655 million yen (d) Training : n/a <ul style="list-style-type: none"> <li>• Training to beneficiaries</li> <li>• Training to staff</li> </ul> (e) Procurement of equipment: vehicles and equipment (f) Project administration: Employment of administrative staff of PCO and PDOs (g) Consulting services <ul style="list-style-type: none"> <li>• International : 22MM</li> <li>• Local : 1,128MM</li> </ul>	(a) 13,131(No. of registered groups) (b) 53,027 (c) 1,159 million yen (1,145 million rupees) (d) <ul style="list-style-type: none"> <li>• Training to beneficiaries: 1,737 courses</li> <li>• Training to staff : 13 courses</li> </ul> (e) Vehicle and equipment (f) and (g) Employment of staff of PCO and PDOs <ul style="list-style-type: none"> <li>• International : 0MM</li> <li>• Local : 2,688MM</li> </ul>
(2) Period	August 1999 - December 2005 (76 months)	August 1999 - December 2006 (88 months)(116% of original plan)
(3) Cost		
Foreign currency	208 million yen	0
Domestic currency	1,402 million yen (758 million rupees)	1,487 million yen (1,352 million rupees)
Total	1,610 million yen	1,487 million yen
ODA loan portion	1,368 million yen	1,368 million yen
Exchange rate	Rs.1.0=¥1.85(as of January 1999)	Rs.1.0=¥1.87 (2002-2006 average)