Outcomes of Enabling Dialogue Workshop Batticaloa “Key Principles of Microfinance”

Participants: approximately 40 participants from local authorities, MF practitioners, Technical service providers (TSPs), Microfinance and Livelihood Promoters

Date and Venue: April 22, 2010, Batticaloa

Language: Tamil and English with simultaneous translations

GA’s and District Director – Planning’s addresses:

- The microfinance sector in Batticaloa needs “uniformity” in interest rates. Samurdhi is providing micro loans at rates of 10 to 12% to the end borrower. All other MFIs should provide loans at same rates or otherwise stop operating.
- The sector needs more coordination among its actors.
- A value chain approach is missing, where beneficiaries are also taught in how to add value to the businesses.
- If not properly monitored by MFI, poor clients can fall into a poverty trap.

Presentations: can be downloaded from http://www.microfinance.lk/enabling_dialogue.php

- “The evolution of Microfinance: From subsidized credit to sustainable Inclusive Finance” by Dr. Nimal Fernando, Managing Director of InFin

The presentation highlights the evolution of microfinance from the old paradigm of subsidized credit to micro credit, microfinance and lately the so called Inclusive Finance. During this evolution some Key Principles of Microfinance have been developed. Those Key Principles are vital for the development of a sustainable microfinance sector which reaches out to a large and increasing number of poor and has a lasting impact on reduction of poverty. These Key Principles are among others that interest rate ceilings hurt poor people, that donors should invest into capacity building of MFIs, that the government should create a conducive environments, that microfinance institutions should at least cover their costs and that poor people need a variety of financial services, not only credit. This last point is reflected also in
the so called Inclusive Finance approach, which stresses the need of: permanent access to financial services, wide range and high quality of services at affordable prices and provision of the services to the entire active population including the poorest and marginalized groups.

- **“Experience Sharing and Challenges of YMCA Batticaloa**
  
  By Rebecca Constantine, Programme Coordinator of YMCA Batticaloa

The presentation highlights the achievements and the challenges of the microcredit programme of the YMCA Batticaloa. With the start of the Capacity Building measures by GTZ PROMIS in 2006 the MFI has been able to substantially increase its number of clients and net profits. However it is still facing several challenges such interest rate setting, competition from subsidized government microfinance programmes, insufficient knowledge microfinance due to insufficient microfinance training available in Tamil language, persisting risks crop failure due to lacking insurance, inadequate funds and their timely availability among others. Currently the main source of funds for its operations comes from borrowings from NDTF. However, NDTF has imposed a ceiling on the interest rate that YMCA can charge from its clients. This ceiling is too low and does not allow YMCA to earn profits. This is a major problem faced by the YMCA at present.

**Questions & Answers**

**How does the Board of Directors supporting the activities of YMCA Batticaloa?** The Board of Directors of the YMCA Batticaloa is greatly supporting the microfinance activities, even though it is not one of the usual activities of the YMCA. Some awareness creation training for the board, supported by GTZ, and its composition (some members have backgrounds in banking and in microfinance) have helped to make the board favorable of YMCA’s microfinance activities.

**How does YMCA Batticaloa keep the balance between microfinance and social work?** We have separated our microfinance activities from other activities even though we have not created an entirely separate legal body. But the staff is only focusing on microfinance and is not involved in any other activities, like social activities. This keeps out microfinance activities professional and does not create tensions between the different requirements and expectations.

**Would YMCA Batticaloa be able to reach inland areas of Batticaloa, where the real marginalized people live?** In principle yes. However we would need more access to capital, if it is from donors, investors, NDTF or other commercial banks. Access to funds is the main bottleneck to reach to those marginalized areas. Since the area is also quite remote, we would need some kind of vehicles and subsidies for operational costs as well.
Other comments:

- The presentations were too generalized. Instead a concrete Action Plan or Batticaloa areas is needed (Note: the workshop was not meant to provide, such a plan) including responsibilities such as who should create the enabling environment and how.
- The view that an interest rate ceiling is needed (or “uniformity of interest rates”) was rejected by the practitioner participants, since it puts in danger the sustainability of the microfinance institutions.
- Microfinance clients should be able to choose freely their microfinance provider. If the client values other services than interest rates (e.g. time, loan amount, quality services) he / she will choose the appropriate institution. Competition should ensure that