Enabling Dialogue...
A series of workshops organized by GTZ PROMIS

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

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

Date and Venue: April 20, 2010, Jaffna

Language: Tamil and English with simultaneous translations

GA’s address:

- Jaffna has a rich savings culture. Savings mobilized in Jaffna should be used (as loans) for the development of the people in Jaffna. Jaffna’s cooperative sector has a long history.
- The cooperative institutions have been playing a major role in Jaffna and these institutions need to be strengthened.
- More support should be given to improve the livelihood activities of the people.
- Beneficiaries should receive more benefits from the programmes implemented by the Donors/International Agencies.

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 TCCS Union, Jaffna”
  by Mr. S. Nahuleswaran, District Secretary, TCCS Union, Jaffna

The presentation gives the key information about the institution and its services and shares the experience, TCCS union had during different periods since their inception in 1982. This co-operative institution had around 523 member societies with more than 27,000 clients up to 1990. Due to the abnormal situation and the displacements that took place time in Jaffna after 1990, the TCCS Union’s activities were affected severely. Since 1996, the TCCS union has been in the process of reactivating the defunct societies especially with the support of various institutions such as GTZ –ProMiS, NDTF etc, and presently the Union has more than 11,700 clients in 233 active societies (which were 190 societies in 1996). Further, the presentation highlights the opportunities and challenges that the Union is currently facing especially after May, 2009.

Questions & Answers

Where does Sri Lanka stand in terms of Inclusive Finance & Key Principles of Microfinance? In Sri Lanka only a small proportion of marginalized people are being reached. However improvements are there. GTZ PROMIS for example intents to reach marginalized groups with microfinance activities. The price for credit is still high in Sri Lanka. New technologies (mobile phones, smart cards, etc) are not yet integrated into the operations of MFIs.

Social service minded institutions/NGOs provide better service to the poor. Why should microfinance be “mainstreamed”? Wouldn't this deteriorate the microfinance services to the poor? Formal institutions have sound financial, human resource, technological infrastructure. By using these facilities, MFIs and other formal institutions can reduce their cost of lending and provide better service to poor people. Hence interest rates can come down and more people can be reached.

Will lending for the traditional small scale economic activities be viable in present context? How can TCCS ensure whether the loans are used for the intended purpose (and not for other purposes, especially consumption)? Especially small scale cottage industry activities unable to compete with the products coming from south in terms of price & quality. But there is still high demand for some traditional activities such as palmyrah handicraft products. Loan monitoring is done by field officers. The close relationship of field officers with the members will help to know clients well.
Due to the high inflation rate in SL, the real interest rate that savers get is negative. Is this a kind of exploitation of poor people’s money by the government/banks? When there is a sound interest rate policy, this kind of situation can be avoided. The interest rates for lending and for savings are correlated. If a bank lends at low interest rates to borrowers it cannot afford to offer high rates on savings or else it makes losses. If people want the credit at low interest rate, then the interest rate for savings also will have to be reduced. Therefore, there should be a balance between the two rates.

Are there any information (Inventory) available about MFIs operating in Jaffna to know who is doing what type of service and where? UNDP recently compiled the information about the MFIs operating in Jaffna. This database is in Tamil. This is available on: [http://mfjaffna.speedit.lk/](http://mfjaffna.speedit.lk/)

How long does TCCS Union take to disburse the loan? It depends on the type of loan. If it is an ordinary loan (90% of the savings), it can be obtained within a day. For other loans, time varies from 01 day to one week depending on various factors (type of loan, previous history, etc.)

Does TCCS’s operation a threat/challenge to other MFIs in Jaffna? No comments from other MFIs. But TCCS said, sometimes they face challenges due to other Institutions’ operations. Because a) some institutions couple their MF activity with other support such as support for constructing shelter, toilet, well etc., b) they offer credit facilities without charging interest rate, or at much lower interest rates and c) when any disaster arises, other institutions provide compensations or write off their loans, whereas in TCCS it is not possible.

Other comments:

Marketing is a main problem for the small scale entrepreneurs. Also they have difficulties in competing with the products from the south. Entrepreneurs can reduce/avoid these problems by acting collectively.