

# **INDIGENOUS MICROCREDIT AND ENTERPRISE ESTABLISHMENT: A SRI LANKAN CASE STUDY**

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## **Abstract**

Sarvodaya is the largest Southern-based non-governmental organisation operating in Sri Lanka. Based on the Gandhian values of Truth, Non-violence and Self-sacrifice, Sarvodaya seeks to assist economic and social development in a sustainable manner. This paper reports on an independent evaluation undertaken with one of its many programmes, known as SEEDS (Sarvodaya Economic Enterprises Division), which provides credit to the rural poor members of society to establish micro-enterprises.

Primary research was undertaken over a ten week period in mid-1999, based at SEEDS in Sri Lanka. Villages were sampled in a total of six districts, and semi-structured interviews were conducted with forty five entrepreneurs. Participant Rural Appraisal (PRA) was employed in two districts with groups of SEEDS loan recipients to establish how they see wealth (and what they aspire to), as well as to obtain detailed information on their daily activities and the associated time allocations.

The findings show that a wide variety of traditional and non-traditional enterprises have been established or expanded in rural areas with credit from SEEDS. The self-sustainability of SEEDS-initiated enterprises is considered in terms of the comprehensiveness and usefulness of the enterprise support and training provided, and whether enterprises are dependent upon external factors for survival.

Credit recipient enterprises have often substantially improved individual and community wealth, and evidence was found of a limited 'trickle-down effect'. However local inequalities in the village have usually increased as a result. Attention is also paid to unsuccessful enterprises, which fail to improve the quality of life for loan recipients and the community.

The overall quality of life has improved for most SEEDS loan recipients, as they establish enterprises which make them financially independent. Social consequences include female empowerment and improved self-confidence for successful entrepreneurs.

## THE POTENTIAL OF SMALL-SCALE CREDIT TO THE POOR

The well-documented success of micro-enterprise credit programmes in recent years has led to an explosion of interest in their use as a tool for alleviating poverty and generating economic growth in [developing] economies (Wydick, 1999:131).

One person in four of the world's population lives in extreme poverty (DFID, 1997), despite over fifty years of development assistance from the economically developed countries (Simon and Närman, 1999). The majority of impoverished men and women in the developing world are extremely willing and able to undertake paid work if they are given the opportunity. In recent years there has been growing recognition that poverty can be alleviated by nurturing small-scale and locally based micro-enterprises, and encouraging their growth into more financially successful operations through the provision of financial credit (Ditcher, 1995; Wydick, 1999). As Otero and Rhyne (1994:1) point out, "For increasing numbers of poor people, micro-enterprises are a source of income and employment where no other alternatives are available." Micro-enterprises vary in type, though they commonly operate in agricultural production or small cottage industries. Micro-enterprises are characterised by their small-scale and local area of business, often employing the sole owner or a few members of the immediate family.

In terms of funding micro-enterprises, some form of credit is usually required since the very poor almost invariably lack the funds and other resources to increase production and improve their living standards. There is growing recognition amongst development practitioners and academics that "for people with almost no resources of their own who are seeking to raise their level of income, some form of credit is vital" (Devereux *et al.*, 1987: 55).

However, credit opportunities for the poor are limited, especially in the most geographically inaccessible areas. For many generations poor people have had access only to the *informal* credit market<sup>1</sup>. Devereux *et al.* (1987:10/11) observe that there are significant problems with the informal credit sector:

- Lenders can insist on repayment of loans at any time;

- Interest rates may be excessively high. Lenders may force credit recipients (and their families) into a state of further indebtedness. It can bond successive generations of an indebted family to their lender;
- Credit may be conditional upon supplies being purchased from the lender or production being sold to the lender (at unfair prices);
- Borrowers may be obliged to perform services, make presents or provide political support to their lenders.
- Borrowers may be prevented or dissuaded from participating in formal credit schemes, or village action groups, of which the lender disapproves;
- Personal conflicts with the village credit-lender may prevent some people from receiving loans;
- Poor people (in areas with no local credit-lender) have no means of receiving credit from cash-rich areas because of their immobility.

Studies of existing credit projects indicate that, with proper implementation, formal credit programmes can significantly improve the lives of the poor in a sustainable manner<sup>ii</sup> (Todd, 1996). In Southern countries a number of government programmes, non-governmental organisations (NGOs), co-operatives and commercial banks provide credit services with a mixture of results<sup>iii</sup>. However opportunities for *formal* credit to the rural poor remain limited in extent.

Ditcher (1995: 132) suggests that there were over 125 credit projects in operation around the world in the early 1990s<sup>iv</sup>. Since the 1970s NGOs moved from aid programmes towards self-help programmes, which reflects the growth in popularity for NGOs to provide credit for the poor to help themselves. International NGOs often facilitate credit and savings for both *domestic* and *enterprise* purposes, because credit can *reduce* rather than just alleviate poverty in rural areas (Ditcher, 1995: 129-131).

NGO credit providers have the capacity to reach the very poorest members of society because they are flexible and outward-reaching (Hulme and Edwards, 1995). Credit is sometimes regarded as a 'magic bullet' because it is repaid to the lender, and therefore is a sustainable means towards economic development. Devereux *et al.* (1987) note that formal credit provision also became popular because credit for the poor has reasonable interest rates, and may be for longer periods of time than the informal sector.

Borrowers may also benefit from 'extension services' such as business advice and extra support from trained employees.

However, formal credit programmes face a number of problems including:

- Formal credit institutions are often geographically inaccessible to the poor, who are immobile;
- Formal credit institutions require justification as to why the credit is needed;
- Registration forms and bureaucracy represent a hurdle for the illiterate. Obtaining credit may be a time-consuming process. Credit delays are damaging for small farmers;
- A man's signature may be required;<sup>v</sup>
- Collateral of some form is required. The very poorest of society do not possess land or goods they can use as collateral;
- Approaching a credit institution may be daunting, especially for the illiterate;
- Institutions may be insensitive and lack understanding of the lender's needs;
- There is a risk of creating local dependency upon subsidised credit. Borrowers may become over-dependent upon one key official from the lender's staff;
- Credit cannot be used as a single tool - it must be properly integrated into development programmes (Devereux *et al.*, 1987: 18-21, 49-52).

In a deliberate attempt to address these concerns, a summit on micro-enterprise lending was held in January 1997, sponsored by the US government (Fairley, 1998:1; Wydick, 1999: 131/132). It was attended by a consortium of international aid agencies, commercial banks and government authorities which agreed to direct \$23.6 billion towards credit for 100 million impoverished households by the year 2005.

## **METHODOLOGY**

The research was undertaken in the summer of 1999 from the Sarvodaya Headquarters in Moratuwa, 28km from Central Colombo. From this base eight field trips were undertaken to six districts within which SEEDS operates (Figure 1). The districts were selected on the basis of transport feasibility: each field trip required a driver supplied by Sarvodaya. These trips were pre-planned and arranged through SEEDS National



Headquarters in Ratmalana. A total of 45 enterprises were visited and entrepreneurs interviewed. Some of the interviews have been summarised in the case studies used in this paper.

Each field trip began with a visit to the SEEDS District Office in order to meet and interview district staff. It was also an opportunity to learn more about the district and the challenges it faces. At least one member from the district office (usually the District Manager or a senior Field Officer, or both) accompanied Jane Sear in the field and introduced her to loan recipients. It is unfortunate that a true random sample of SEEDS enterprises could not be visited, but it was not practical because of the transport difficulties and the requirement for field guides.

A field guide translated each interview from English for the SEEDS credit recipients to answer in Sinhala. Subsequent discussion with the translator clarified issues and resolved questions attendant on the translation process. Between six and twelve SEEDS enterprises were visited in each village, depending on time availability. For political reasons it was not always possible to interview unsuccessful loan recipients.

In two districts it was possible, in addition, to gather a group of women SEEDS entrepreneurs to undertake a Participatory Research Appraisal (PRA) exercise. This comprised three components in each case:

1. **Wealth ranking indicators**; how women perceive wealth, and what they aspire to.
2. **Village wealth ranking map**; on the basis of ranking criteria in point 1 above, participants were asked to draw a map of the local village showing which households were SEEDS loan recipients and which were not, and to categorise the relative wealth of each household illustrated. This is an appropriate exercise because it provides a visual method of illustrating relative wealth, so language is not a barrier. Mikkelsen's (1995: 133-5) guidelines on how to carry out such an exercise were adhered to. Local translators and district field officers were consulted prior to undertaking the wealth ranking and social mapping exercises. Please note that the PRA maps drawn in the respective villages (Figures 6 and 7) have different

- symbols to show wealth, and whether or not households are SEEDS loan recipients.
3. **Time ranking exercise;** used to show typical daily schedules of female loan recipients. The aim of this exercise was to establish the prioritisation of women's time on a typical day, and whether the enterprise prevented time being spent on home and family duties.

Altogether forty five SEEDS credit recipient households were interviewed in six of the 18 districts. Seven out of the 258 village banks were visited. It would be nice to conduct extended follow-up research on the effects of credit and banking facilities on the rural poor SEEDS recipients.

### **CREDIT FOR THE RURAL POOR OF SRI LANKA**

Since Sri Lankan independence in 1948 there has been considerable government expenditure on social development<sup>vi</sup>, which has assisted economic advancement and further opportunities for growth (Yapa, 1998). However, Sri Lanka remains a country of economic extremes between the elite of society and the poor. The poorest members of Sri Lankan society dwell in rural areas – 78 per cent of the population are rural-based (UNDP, 1998:174). Poverty remains widespread - between 25 and 30 per cent of the total population live in absolute poverty (Asian Development Bank, September 1997:1). In rural areas opportunities for employment and income generation are limited. Casual employment is commonly found through family, friends and neighbours.

One fifth of all households consume less than the required minimum in caloric food energy (Gunaratne, 1987)<sup>vii</sup>, despite relatively high quality of life indices (Yapa, 1998; UNDP, 1998). Existing literature on poverty in Sri Lanka points towards economic development (through increasing production and increasing income) as the principal means of reducing poverty since the more redistributive policies of the 1970s (Yapa, 1998:96).

During the past twenty years or so there has been a significant increase in the number of *formal* credit schemes operating for the rural poor of Sri Lanka to aid the establishment or expansion of existing micro-enterprises. Wanigasundara (1989) observes that the Co-operative Bank has long been established but does not offer

business advice or other services with its credit. Many national and international NGOs have established credit programmes for the poor in many parts of the country, but they also fail to offer support and business advice.

One credit-providing NGO that does offer extension services alongside its credit is the Sarvodaya Shramadana Movement (Sarvodaya)<sup>viii</sup>. It is a voluntary, non-governmental, non-profit, non-sectarian, non-political people's development movement founded in 1958. Sarvodaya is the largest organisation of its kind in Sri Lanka, operating in over 8,600 villages nationwide (representing a third of all villages). Sarvodaya is based on the Gandhian values of Truth, Non-violence and Self-denial. Its objective is to satisfy the ten basic human needs for the total awakening of all.<sup>ix</sup> Sarvodaya seeks to achieve this through a variety of village development programmes, of which credit is one tool.

Sarvodaya Economic Enterprises Development Services Ltd (SEEDS) is the rural banking section of Sarvodaya<sup>x</sup>, which aims to assist and empower people economically in rural villages. SEEDS works through 2,260 Sarvodaya Shramadana Societies in the rural villages of Sri Lanka. It has 258 village banks, with total savings (from small investors) of Rs 358.5 million<sup>xi</sup>, and has distributed loans to small enterprises at an increasing year-on-year rate to the cumulative total of Rs 742 million since its formation. The loan ceiling has been increased over time. It stood at Rs 25,000 in 1999 but it was expected to be doubled to Rs 50,000 within three years. No data on the mean or median loan size is available. During the first quarter of the 1999/2000 financial year alone the rural poor established over 2,300 new enterprises through SEEDS loans. The cumulative total exceeded 30,000. (SEEDS, 1999a:1;1999b:14; 1999c:1).

Since its establishment in 1988, SEEDS has significantly improved the opportunities for economic growth in thousands of villages across the country. SEEDS targets the rural poor - members of Sarvodaya Village Societies - providing them with opportunities for entrepreneurial training, savings and credit services, business development, agricultural extension services and business information. SEEDS claims to be the first grassroots development bank of its kind in Sri Lanka. Figure 2 illustrates the organisational structure of SEEDS, through which it targets some of the most inaccessible members of rural society.



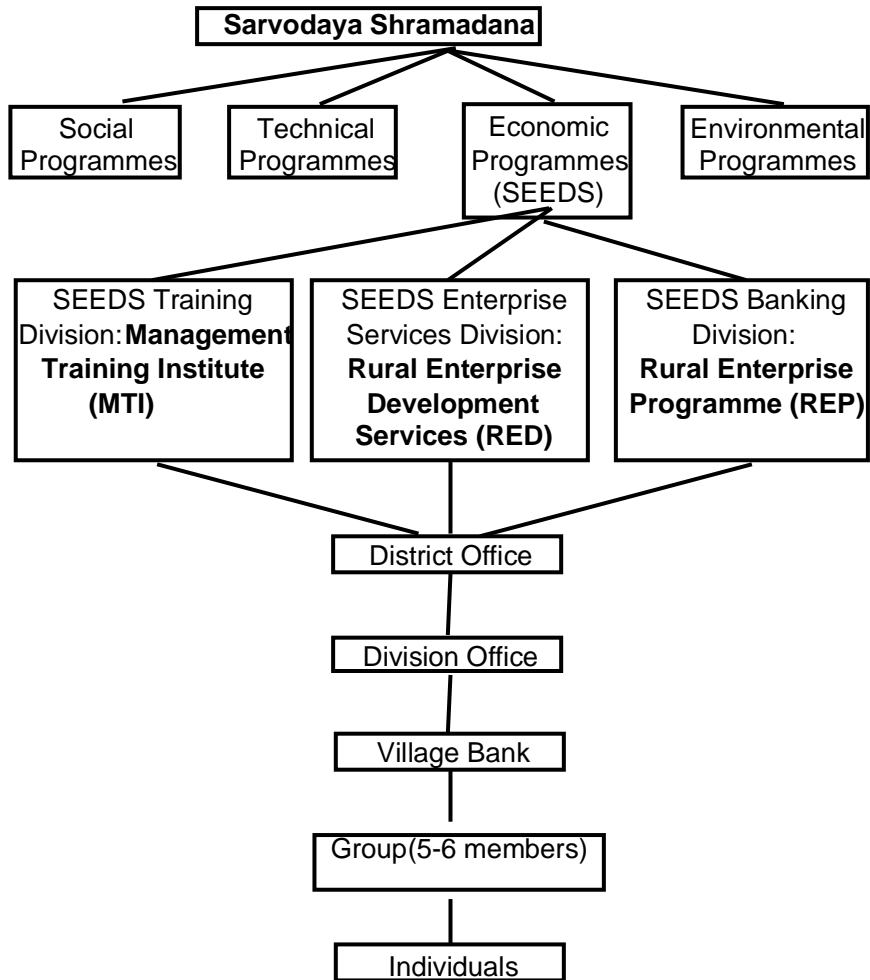
Credit loans are given to men and women, so long as they meet the requirements and agree to repay the loan at a particular rate. The programme has several distinctive features, including savings as a prerequisite to the granting of credit, and an innovative loan guarantee mechanism. Loan applicants must save for at least six months and deposit 10 per cent of the total project capital towards a refundable loan security fund. Recipients also do not require conventional collateral, but are required to organise themselves into peer groups as a means to ensure repayment through peer pressure. During the tenure of loans, recipients also receive regular counselling, business advice and technical support (SEEDS 1999b:13).

Almost sixty per cent of loan recipients were women in 1998 (SEEDS, 1999c: 3). Women tend to be heavily involved in local *Sarvodaya* activities (such as child care and healthcare provision), established in the village prior to the arrival of SEEDS village banks. Women hear about SEEDS and opportunities for credit through Sarvodaya because SEEDS is part of the same organisation.

In recent years, an average of 10,000 new enterprises have been established annually through SEEDS loans. Loan recipients engage in variety of enterprises which differ from district to district and from village to village. These enterprises may be categorised into two groups:

- Agri-business, which includes traditional income-generating activities of rural areas such as soil cultivation and rearing of animals;
- Non-farm enterprise, which includes services, trading and production industries.

**Figure 2**  
Organisation Structure of Sarvodaya Economic Development Services (GTE) Limited



SEEDS is encouraging the diversification of economic activities away from traditional agricultural enterprises because there is often a dependency upon agri-business for local employment in rural areas. A detailed list of some of the typical enterprise activities for each category is given in Table 1.

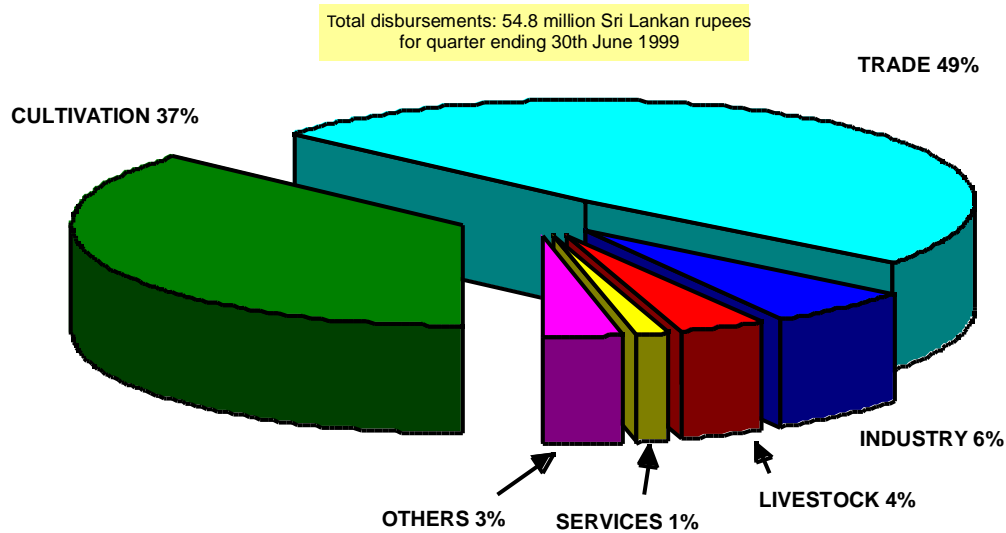
**Table 1 Examples of popular agri-business and non-farm enterprises**

Agri-business	Non-farm enterprise
Tea bush cultivation	Two-wheel tractor repair
Banana and pineapple cultivation	<i>Bajaj</i> three-wheeler operation
Dairy management for milk production	<i>Bajaj</i> three-wheeler repair
Ornamental flower cultivation	Motorbike and bicycle repair
Ornamental fish cultivation	Bee-keeping for honey production
	Food technology (processing and sale of foods such as yoghurt, cake and ice-cream)
	Coir yarn production for rope making and mat-production
	Spinning and weaving
	Sewing and tailoring (especially ready-made garments)
	Batik/fabric painting
	Mosquito net making

Figure 3 provides a sectoral breakdown of the enterprise activities established through SEEDS<sup>xii</sup>.

During the last quarter of the 1998/9 financial year, SEEDS distributed Rs 54.76 million in loans (SEEDS 1999a). Loans to the rural poor were used to establish new enterprises or expand/diversify existing enterprises. Project feasibility studies are undertaken by extension officers and field managers before credit is given to prospective loan recipients to assess whether the intended project is likely to be financially viable. Feasibility studies are intended to reduce the risk of loans being awarded to enterprises unlikely to succeed. Some form of collateral is also required.

Figure 3  
SEEDS Sector-wide Loan Disbursements (%)



A variety of factors influences an entrepreneur's choice of activity. SEEDS loan recipients often operate a mixture of modern and traditional activities in order to lessen the overall risk. Loan recipients are affected by several factors:

- Size of initial capital outlay required for the micro-enterprise
  - SEEDS loans are limited in amount, particularly if an enterprise is being newly established. Other sources of capital may be available, such as their own savings
- Skills and knowledge of the entrepreneur
  - Existing skills and knowledge limit the range of activity unless training is available
- Raw materials (availability and type)
  - These vary between villages, depending on location. Easy access to raw materials is often required
- Markets must be easily accessible
  - transport to the potential markets may be limited. If goods are bulky this exacerbates the problem. Bicycles are often borrowed from friends and neighbours. Walking to markets or from door-to-door is time-consuming and laborious work (especially for women)
- Traditional gender roles

- Women are restricted to activities which are socially acceptable within their culture. Most enterprises visited were run by women undertaking handicraft activities such as cooking or sewing. Men were usually engaged in carpentry or mechanical repair.

### **Loan Repayments**

The majority of SEEDS loan recipient enterprises make enough income to continue their existence. The loan recipient is responsible for repayment (including interest) according to the loan agreement, and the appropriate expenses (rent, wages and material costs) must be met. However the sustainability of micro-enterprises is often dependent upon a number of factors. This section is concerned with some of the factors which indicate the self-sustainability of an enterprise.

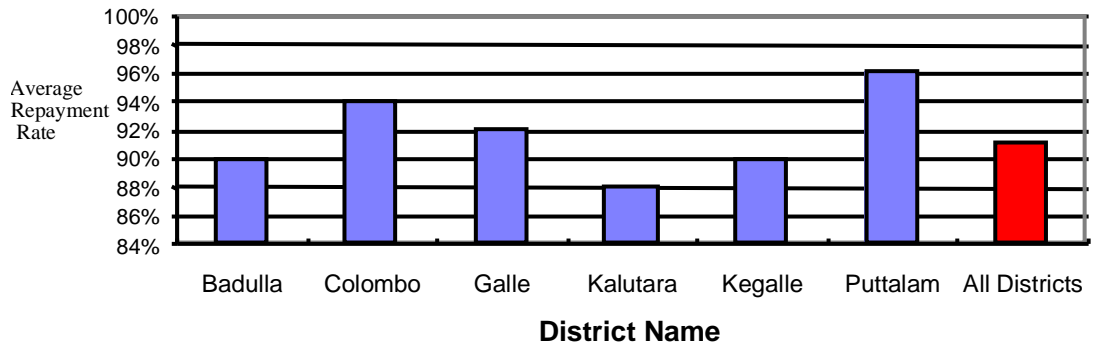
Repayment rates are indicative of enterprise success or failure from a credit-providing organisation<sup>xiii</sup>. For a credit recipient, the repayment rate may be defined as:

$$\text{Repayment Rate} = \frac{\text{Amount of loan repaid at end of contract}}{\text{Amount of loan borrowed at start of contract}}$$

The overall repayment rates for SEEDS' small enterprises are generally high, and the relative spread (88-96 per cent) is quite low (see Figure 4 for repayment rates per district). The repayment rates vary with time as well as by district. The average repayment rate (for all districts) was 93 per cent in March 1999, and 91 per cent in June 1999. This represents an excellent standard compared to commercial banks. Default on loan repayments may be either temporary or long-term, and an enterprise may recover or fail as a result.

The effects of small enterprise failure may include deepening poverty, disempowerment and social isolation from family, friends and neighbours. Case study 1 shows some of the effects of small enterprise failure, which include deepening poverty, disempowerment and social isolation from family, friends and neighbours.

**Figure 4.  
Enterprise Average Repayment Rates  
for Districts sampled**



**Case Study 1 An Unsuccessful Tea Dust Making Enterprise, Colombo District**

*The effects of small enterprise failure - deepening poverty, disempowerment and social isolation from family, friends and neighbours*

This lady entrepreneur, Mrs. S, borrowed RS. 10,000 from SEEDS in early 1997 to establish a tea dust making business. The enterprise involved purchasing tea leaves from local suppliers. The leaves were ground into tea dust and sold on to a larger supplier. Unfortunately the price of tea escalated, resulting in a decrease in demand for her supplies. After one year of business, she was forced to cease trading. She gradually repaid Rs. 9,000 of her loan to SEEDS, from her husband's income. Mrs. S hopes to repay the remaining Rs. 1,000 also from her husband's income. Therefore the final repayment to SEEDS is dependent on her husband continuing to work.

Repayments and the keeping of agreements are taken very seriously in rural areas of Sri Lanka. Mrs. S says her immediate friends and neighbours put pressure on her to repay her loan quickly to SEEDS when her enterprise failed. She claims that when she was unable to repay, members of her extended family and neighbours socially isolated her - she was considered to have brought disgrace upon the family. The effects of this occurrence are sometimes too profound for words to describe.

## NON-CREDIT FACTORS AFFECTING ENTERPRISES

Almost every SEEDS entrepreneur interviewed had a degree of dependency upon at least one other person to assist in the running of their enterprise (usually a friend, relative or neighbour). Though this is normal in the working culture of Sri Lankan society (everyone helps and everyone benefits), too much dependency upon an individual who has no responsibility for the SEEDS loan may be regarded as being risky because it is not known how committed the helper is to the enterprise. If help which is relied upon is suddenly stopped, the enterprise may fail. Case study 2 shows an enterprise dependent upon the input of many members of the extended family.

### Case Study 2 A Rope Making Enterprise, Puttalam District

#### *Dependency upon the wider family with the running of the enterprise*



**This family established a rope-making enterprise in 1996. They purchased a weaving machine with money from their own savings. They need a constant supply of coconut husks, which they purchase locally. Nine months prior to our interview, the family joined a SEEDS village bank, and have received a total of Rs 12,000. Though the mother has control of the loan, five family members are employed in production and selling aspects of the enterprise. They are *unpaid*, but their help is relied upon for the survival of the enterprise. They have begun to make and sell concrete garden pots as a sideline business. They are hoping to establish an ornamental fish business and hope to borrow another Rs 10,000 soon, once they have completed the compulsory saving period.**

The climate, weather and seasons are most likely to have adverse effects on marginal farmers (case study 3). Marginal farmers may be unable to repay unless they borrow again from another source, often at a higher interest rate, which exposes them to becoming more (and not less) impoverished than before they received the first loan. Devereux *et al.* (1987: 29) state that certain capital inputs *prior to credit* from the credit-providing organisation such as irrigation, community wells, pump sets, and village grain and seed banks all help to reduce risks of enterprise failure due to adverse weather and climate.

### **Case Study 3 The Fruit and Vegetable Grower, Puttalam District**

*How adverse climate, weather and seasons make marginal farmers vulnerable*



**This enterprise is a small-scale subsistence one, because it makes just enough money to cover the costs. The success of the crops is dependent upon the weather, and crop sales are their only source of income. Three months prior to the interview, Mr. and Mrs. C obtained a Rs 10,000 loan from SEEDS to establish the enterprise. Young plants and seeds were purchased and planted. Demand for the fruit and vegetables at the local market is good, they say. The couple have no business or vocational training, but hope to receive instruction from SEEDS. Mrs. C hopes to increase her loan from SEEDS by another Rs 15,000 to spread risk by diversifying the production of goods. This will reduce the dependency of the enterprise on the weather.**



Enterprises receiving credit from organisations similar to SEEDS have a tendency to become dependent on the organisation for Extension Services.<sup>xiv</sup> “Outside assistance may discourage communities which are largely capable of helping themselves from doing so, and generate undesirable dependence on further inputs” (Devereux *et al.*, 1987: 49). Credit-providing organisations can assist the establishment of enterprises and help to increase their sustainability, though too much support and assistance can have a counter-productive effect in terms of fostering dependency upon the lending organisation.

### **Training and support for individual enterprises**

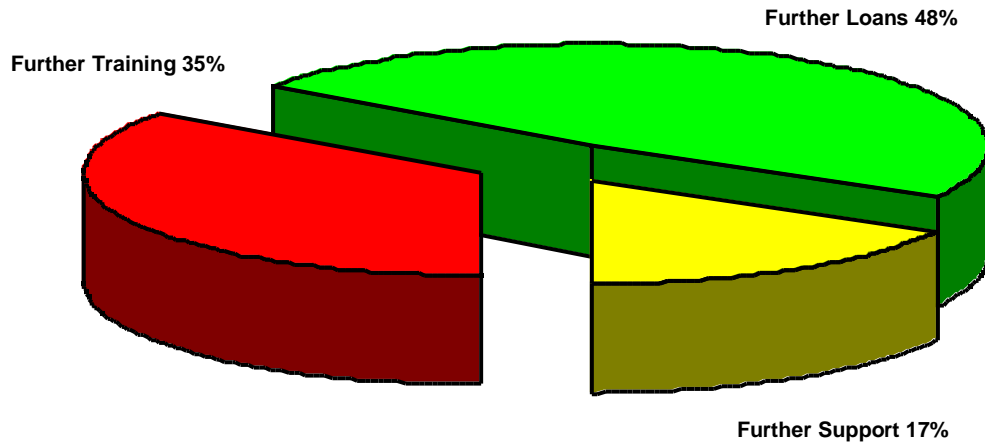
Padmanabhan (1988: 14-15) argues that the credit-providing organisations must be responsible for providing extension services such as support and advice to the enterprise to prevent failure. These include identifying market changes and potential areas of economic growth, training in business management and teaching vocational skills.

SEEDS recognise that the proper implementation of credit programmes must include appropriate support to the beneficiary at different levels: “By providing skills training, awareness training and introducing new technologies and techniques, the potential for successful enterprise can be increased” (SEEDS 1998: 10).

Most SEEDS-funded enterprises have a degree of dependency on SEEDS for extension services, or on the work of individual field staff at village level. However, the majority of loan recipients are aware that this support system stops once their Small Business Loans are repaid. SEEDS operate a two-day Small Business Management course for entrepreneurs, which is designed to increase enterprise independence.

Through interviews with existing loan recipients, we sought to establish how individuals felt that the self-sustainability and financial success of their enterprises could be improved with further help from SEEDS. Figure 5 shows their responses.

Figure 5  
Which Further Service from SEEDS would you most prefer (%)



The number of staff in SEEDS village banks varies between villages, as did the regularity of their visits to borrowers. In Kosgama village, Colombo District, for example, the SEEDS village bank was newly established, and many entrepreneurs in Kosgama complained they had not received the two days mandatory Small Business Training from SEEDS, at the time of the field research. As a result, some loan recipients were having problems (e.g. uncertainty over the correct procedure for accounting).

### **Creation of individual and community wealth**

Many SEEDS loan recipients have grown substantially since the establishment or expansion of their enterprise from a SEEDS loan. The majority of the enterprises sampled in this research were successful in generating profits<sup>xv</sup>. Some enterprises have been extremely profitable, enabling the entrepreneurs to buy themselves a variety of goods for the home (see case study 4). In households where enterprises had been profitable, the home was often newly built, extended or improved. New and better

furniture was purchased; children frequently attended school and wore better clothes.

#### Case Study 4 Garment Manufacturer, Kalutara District

*The generation of new wealth for the entrepreneurial household.*



**Mrs. C established this profitable enterprise after previous employment as a chief supervisor in four garment-producing factories from 1981 to 1996. Since its establishment the enterprise has been successful in producing profits, and Mrs. C employs four local workers full time. In April (the Sinhalese New Year) and December (Christmas) the demand for her garments increases. Cloth is supplied locally (which assists local businesses), and garments are transported to retail fashion shops throughout Sri Lanka. Since the establishment of her enterprise, Rs 350,000 credit has been obtained from SEEDS. The loan has already been repaid from profits generated, and Mrs. C has commissioned the construction of a new house, and has afforded new goods such as a television set and furniture. Her children attend school on a regular basis and have their needs of food and clothing, and so forth well met.**

However a significant number of enterprises survive either on a subsistence basis or fail altogether, therefore generating no wealth for the entrepreneur but actually increasing poverty. Thus, some entrepreneurs are actually made worse-off because they have the added responsibility, and burden, of repaying credit which they didn't have before. I observed that unsuccessful or marginal enterprise households were living in smaller houses, often badly in need of repair. Furniture was sparse and children rarely attended

school. Case study 5 is an example of marginal (or subsistence) enterprise.

### **Case Study 5 The Brick Maker, Badulla District**

*A marginal enterprise which has generated small profits but the entrepreneur remains in a state of poverty.*



**Mrs. K, a widow, had some experience in brick-making in her youth, and learnt the trade through observing others.**

**Mrs. K established her enterprise in August 1998 with Rs 10,000 SEEDS credit. She has repaid Rs 2,000 of her loan and is satisfied with the loan arrangements. She hopes to apply for another loan to expand her enterprise in the future. She would like more vocational training and business advice. Though this lady appears to be quite satisfied with her lifestyle, it is evident from her home that she has few possessions. The children do not attend school; they appear malnourished and wear old clothes. The enterprise fails to generate enough profit to improve the material well-being of her household.**

#### **The ‘Trickle-Down’ effect**

Sharma and Zeller (1999) observe that three credit programmes in Bangladesh were deliberately located in poor parts of relatively well-developed areas (where infrastructure was good), rather than in the most remote and underdeveloped areas. This was to enable local development to occur where infrastructure was good, to maximise

scope. Though they were located in relatively poor and rural areas, they were often not located in extremely underdeveloped rural areas. There were several reasons for this, including the need for recipient areas to be accessible by SEEDS staff, but more significantly because accessible areas have most scope for economic development due to the surrounding infrastructure (Sharma and Zeller, 1999: 2133). Money generated through trade and enterprises are most likely to ‘trickle-down’ - or spread/diffuse - throughout the local economy and benefit all individuals.

The ‘trickle-down’ effect works through trade between individuals and businesses as money is generated through production and consumption. Interview responses showed that 83 per cent of SEEDS recipients believed community wealth had been created since the arrival of their local SEEDS village bank, and the establishment SEEDS credit recipient enterprises<sup>xvi</sup>.

SEEDS loan recipients were asked whether they conducted trade with other SEEDS initiated enterprises. Only seven per cent replied in the affirmative. SEEDS enterprises did not trade greatly amongst themselves. SEEDS enterprises traded mainly with larger or non-local businesses located in towns. The significance of this is that a large amount of trade and economic development is not being conducted locally by a number of SEEDS enterprises, so local people do not benefit in this way.

Results of the interviews to loan recipients indicate that the arrival of SEEDS village banks - which give access to savings and credit provision for the poor - have generated a certain degree of wealth within the communities. However benefits have not been equitable, as some people have grown in wealth whilst others have not benefited at all.

### **Implications for local inequalities of wealth**

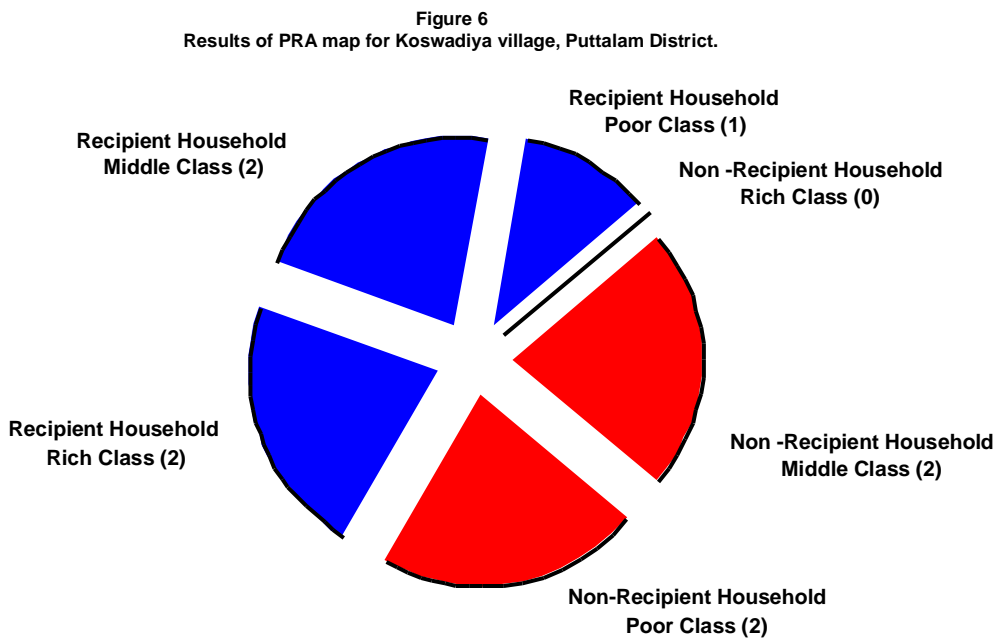
The arrival of SEEDs village banks has generated wealth for successful entrepreneurs and a handful of businesses they trade with, but not everyone has benefited from

economic prosperity. Inequalities of wealth have increased between rich and poor individuals locally, because ‘trickle-down’ is selective in who it benefits. The poorest members of society are not assisted by SEEDS directly, because they are not targeted by the organisation (due to the requirement of collateral for organisation sustainability). Eighty five per cent of interview respondents believed that inequalities of wealth had increased as a result of the establishment of SEEDS loan recipient enterprises. Only 15 per cent believed that this was not the case.

In two sample villages (Pittiwella in Galle district and Koswadiya in Puttalam district) a PRA wealth ranking exercise was undertaken. Mikkelsen (1995) notes that “Wealth ranking is a means to target the poorest of the poor. It can encourage an attitude change within agencies better to consider who they can realistically help: those with direct welfare needs and/or those with development possibilities” (1995:130). However, she also points out that wealth ranking exercises have limitations: “Despite the important contribution of wealth ranking applications, wealth ranking is not able to overcome all problems involved in analysing social and economic dimensions of life in the communities concerned” (1995:135). All wealth ranking is relative. Only three categories of wealth were given for simplicity (rich, middle-class and poor). The map doesn’t indicate whether the relative wealth of a household is a consequence of enterprise establishment or if the household was in that category before the loan was received. The data sample is small.

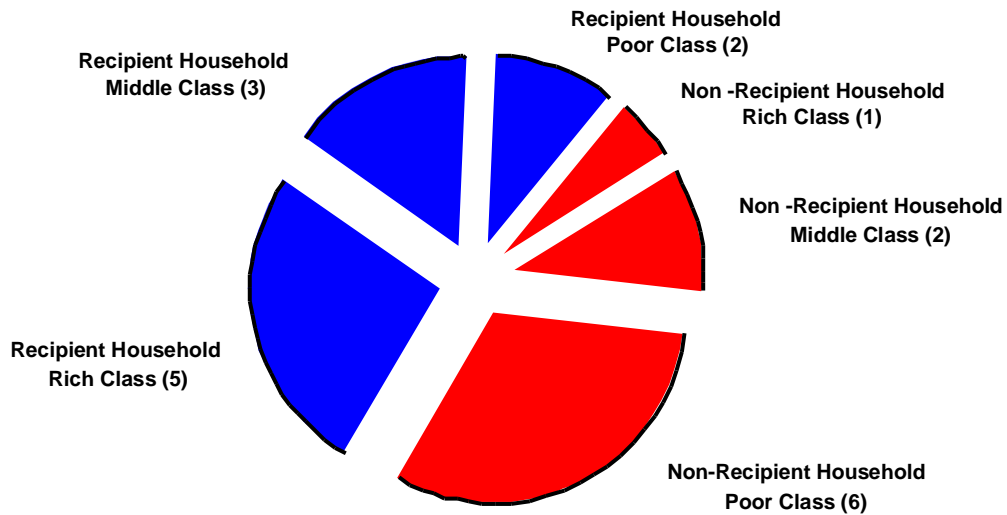
The results of our exercise indicate how women view wealth, and thus what they aspire towards. It also indicates spending priorities (the ability to consume is a key consequence of wealth), which help to identify the relative wealth of the households interviewed. In each village, local women who were recipients of SEEDS loans drew a map to show the number of relatively *rich*, *middle-class* and *poor* SEEDS credit

recipient and non-recipient households in the villages. Though this method is limited in its usefulness for the reasons indicated above, a number of points can be drawn. The results are summarised in figures 6 and 7.



Results of the Koswadiya village PRA map confirm that SEEDS loan recipients are usually of rich or middle-class status, i.e. they are relatively prosperous.<sup>xvii</sup> Two *rich* households drawn on the PRA map are SEEDS loan recipients. There is one *poor* household on the map which is a non-recipient. In both categories (SEEDS loan recipients and non-recipients) there were two *middle-class* households illustrated. The PRA map shows SEEDS loan recipient households are generally richer, but the map illustrates that inequalities between those *with* loans and those *without*, are not great. However, it is not possible to tell from the PRA maps whether the relative wealth class of each loan recipient household is a result of enterprise establishment or whether it was in that class before establishing the enterprise.

Figure 7  
Results of PRA map for Pitiwella village, Galle District.



The results of the Pitiwella village PRA map show more significant inequities between the proportions of *rich*, *medium* and *poor* households for SEEDS loan recipient households and non-SEEDS households. Whilst the number of middle-class homes illustrated in each category is similar, there are four more households illustrated as ‘rich’ in the SEEDS loan recipient category and four more households illustrated as ‘poor’ in the non-recipient category. The inequalities of wealth between houses in this village, therefore, are much greater.

### **Non-financial effects of receiving a credit loan**

The provision of credit can burden and complicate life for its recipients as well as improve their lives in other ways. These issues are explored in further detail now:



**Family time:** A PRA time ranking exercise was undertaken in the two villages to assess the prioritisation of time for two groups of sample women. The results are shown in tables 2 and 3. The data in these tables are generalised because they were made by two *groups* of women. They are representative of an average working day for women. They do not represent an individual's working day.

**Table 2 Women's activities ranked by time (for SEEDS loan recipients) Pittiwella village, Galle district**

1 <sup>st</sup> - 4 am. <i>Get-up</i>
2 <sup>nd</sup> - 4.10-5.30 am. <i>Clean home and garden</i>
3 <sup>rd</sup> - 5.30-6 am. <i>Wash and worship the Lord Buddha</i>
4 <sup>th</sup> - 6-6.30 am. <i>Preparing the breakfast</i>
5 <sup>th</sup> - 6.30-7 am. <i>Prepare children for school</i>
6 <sup>th</sup> - 7-8 am. <i>Visit market to buy vegetables, fish and rice. Also take children to school</i>
7 <sup>th</sup> - 8-11 am. <i>Run the business</i>
8 <sup>th</sup> - 11 am-1 p.m. <i>Prepare and eat the family lunch</i>
9 <sup>th</sup> - 1-6 p.m. <i>Run the business</i>
10 <sup>th</sup> - 6-8 p.m. <i>Clean the house, worship the Lord Buddha, and prepare the dinner</i>
11 <sup>th</sup> - 8-9 p.m. <i>Do the children's school work and watch television tele-drama</i>
12 <sup>th</sup> - 9-10.30 p.m. <i>Have dinner, clean the kitchen. Go to sleep</i>

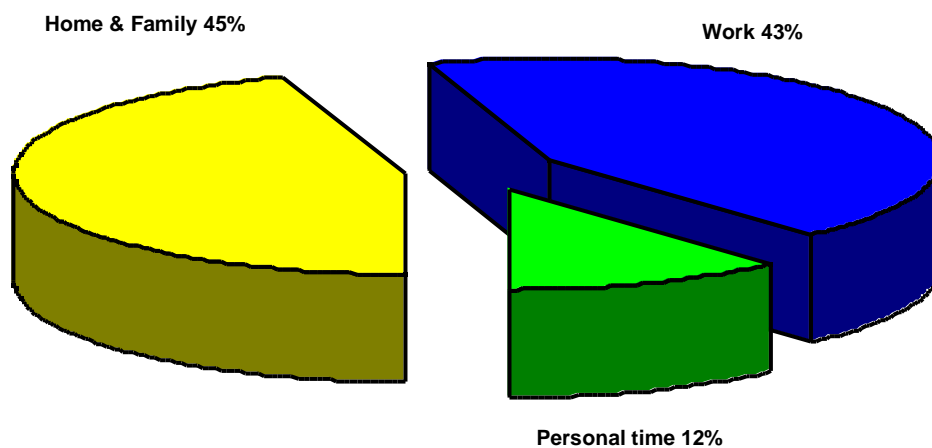
**Table 3 Women’s activities ranked by time (for SEEDS loan recipients).**

**Koswadiya village, Puttalam district**

1 <sup>st</sup> - 4-4.10 am. <i>Wake-up</i>
2 <sup>nd</sup> - 4.10-6 am. <i>Preparation for the business</i>
3 <sup>rd</sup> - 6-6.45 am. <i>Cleaning enterprise workshop and house</i>
4 <sup>th</sup> - 6.45-9 am. <i>Work in the enterprise</i>
5 <sup>th</sup> - 9 am-12.30 p.m. <i>Visit the market to purchase household necessities</i>
6 <sup>th</sup> - 12.30-1.20 p.m. <i>Prepare lunch</i>
7 <sup>th</sup> - 1.20-4 p.m. <i>Work in the enterprise</i>
8 <sup>th</sup> - 4-6 p.m. <i>Prepare dinner</i>
9 <sup>th</sup> - 6-9 p.m. <i>Work in the shop</i>
10 <sup>th</sup> - 9-10 p.m. <i>Close the shop. Watch television</i>
11 <sup>th</sup> - <i>Bedtime</i>

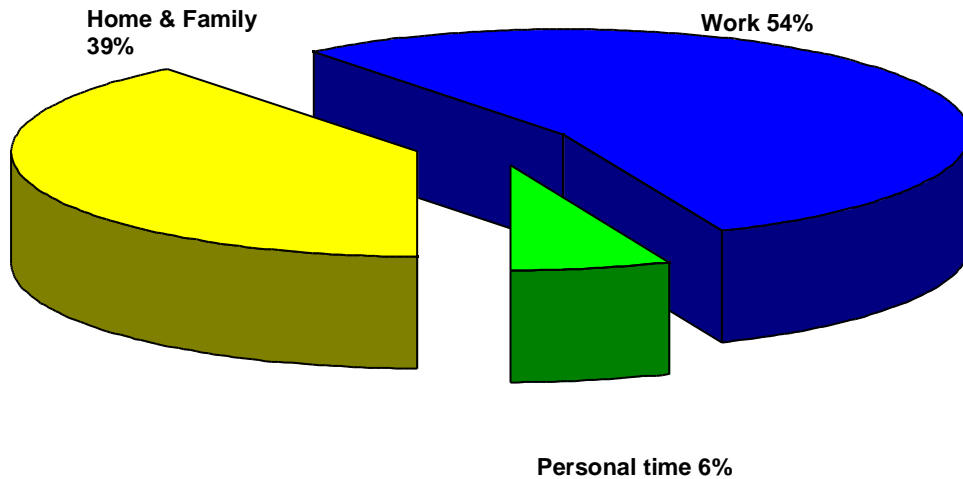
The activities which women undertake in a typical working day (illustrated in tables 2 and 3) may be divided into three categories. We have labelled the categories ‘work’, ‘home and family’ and ‘personal time’. In this context, ‘work’ means the activities directly concerned or associated with the enterprise. Figures 8 and 9 illustrate the breakdown of time among the three divisions of labour. It shows the prioritisation of women’s time into each category.

Figure 8  
Time Allocation of women in Pittiwella village (%)



The results for Pittiwella village show that home- and family-related activities<sup>xviii</sup> are the highest priority of time on an average working day for the women, occupying some 45 per cent of their time (or 500 minutes per day). Time spent on work is slightly less than it is for home and family, occupying 43 per cent of the working day (or 480 minutes). This indicates that women still value their traditional gender roles contained within the home and family, despite the added pressure of the enterprise. Friends, relations and neighbours assist most women entrepreneurs with household or family duties concerning the running of the enterprise. Just 11 per cent of time (or 130 minutes) of the typical working day is spent on personal needs such as washing, praying or viewing television. Women get approximately 5.5 hours' sleep each night, rising at 4 am to start each working day.

Figure 9  
Time Allocation of women in Koswadiya  
village (%)



Female credit recipients in Koswadiya village prioritise their time differently to women in Pittiwella. In Koswadiya village women spend more time on their work and less on *personal time* and *home/family* duties. 54 per cent (or 585 minutes) of time is spent on work during a typical day. Less time is given to duties concerning the *home and family*, approximately 39 per cent (or 425 minutes) of the working day. Just six per cent of time is *personal* (70 minutes per day). Koswadiya women also rise at 4 am to start each new working day but go to bed on average half an hour earlier than women in Pittiwella village.

These statistically significant differences in time allocation between the two villages are difficult to explain with certainty. However, it seems likely that they reflect the different types of enterprises established in each village. Koswidiya has more ‘basic’ or primary enterprises, itself probably a reflection of that village’s more rural character and lack of a main thoroughfare, for example. The effort required to make the enterprises viable may thus be greater. Nevertheless, the results of this PRA exercise

show how substantially women in both villages who become loan recipients, have changed their time budgets away from domestic and personal activities. The consequences of this are considered below.

### **Effects of loans on the self-esteem and self-confidence of loan beneficiaries**

The majority of SEEDS loan recipients have never before received credit. Loan recipients interviewed reported that at first the responsibility (and formality) of the SEEDS loans appeared daunting, especially for entrepreneurs who were unaccustomed to managing large sums of money. Being responsible for an enterprise gave SEEDS loan recipients a new social standing or status within the home and the local community. Being a member of the village support group gave further duties and responsibilities. The repayment support group took the responsibilities of repayment very seriously indeed. Many loan recipients (in particular women) claimed they felt 'empowered' as a result of their new responsibilities. Empowerment is usually a consequence of establishing and managing the enterprise, rather than a direct result of being eligible for a loan. Case study 6 is an example of how individuals are being forced to take responsibility for their income through the establishment of an enterprise.

## Case Study 6 The Baby Clothes Shop, Galle District

*The empowerment of a woman who was previously dependent upon her husband's income.*



**Mrs. W is a widow with a young daughter. After her husband died a few years ago she had only a small income. Her circumstances were such that she had to support herself and her daughter. She enjoyed sewing and decided to develop her hobby into an enterprise, and opened a baby clothes shop. She borrowed Rs 10,000 from SEEDS and attended their two day Small Business Management Training course. She found the initial compulsory savings period difficult because of her small income. Mrs. W hoped to repay her loan by the year 2000 and then to take out another loan to expand the business, by employing a local girl and purchasing a showcase and railings for the clothes. She is enjoying the new-found independence, and claims she feels 'empowered' as a consequence of establishing her new enterprise.**

### **The enterprise: burden or joy?**

For most loan recipients interviewed, the enterprise is regarded as a joy because it entails an occupation, status and income all at once. Most entrepreneurs were proud of their achievements, even in the most modest of enterprises. Case study 7 is an example of a remarkable individual who saw credit as a way of becoming self-sufficient through generating his own income, an opportunity that had never before been available to him. It is also an example of how a personal disability does not necessarily prevent the formation of a new enterprise. In this particular case the gentleman concerned has found a new purpose and joy in life, through the receipt of credit and the establishment of his enterprise.

#### **Case Study 7 The Local Village Shop, Galle District**

*How the establishment of an enterprise has given an individual a new and immense happiness in life, as he is able to generate an income and has new-found respect.*

**This village shop was established nearly two years previously by a disabled man who is confined to a wheelchair. The loan is in his name, although the compulsory savings of Rs 10,000 were funded by his sister, who helps with the enterprise. Before establishing the enterprise, the man felt himself to be a burden on his family due to his disability. But now the gentleman is able to generate his own income and is no longer reliant upon others for money. He collects fruit from local farmers in his wheelchair, travelling many kilometres during the day over rough roads and in all types of weather. This is an example how a disability has not prevented the establishment of a new enterprise. The gentleman informs me that the establishment of the enterprise itself has given immense joy to his life. Eventually he hopes to commence a boutique business adjacent to the fruit and vegetable shop.**

The responsibilities concerned with enterprise establishment may be great. Extension services are provided by SEEDS to prevent enterprise failure, where the credit recipient is unable to cope. SEEDS village support groups (5-6 members) are designed to assist with problems which individuals face. The support group enables the sharing of

knowledge and advice between credit recipients in the village.

### **Community benefits from a wider choice of goods and services**

One benefit brought to the community by the arrival of the SEEDS village bank, and thus SEEDS credit recipient enterprises, is the increased range of goods and services brought to the village by the new enterprises. Otero and Rhyne (1994) observe that in many villages the provision of supplies is monopolised by just one or two businesses. They may charge inflated prices but allow purchases on credit (further encouraging people to buy their goods from a particular store in what amounts to informal tying). Limited choice increases poverty for many individuals because of the high prices charged by monopoly suppliers.

Ninety per cent of interview respondents claimed that the choice of goods and services had improved in their village since the establishment of SEEDS credit enterprises. It was impossible to measure the extent to which the choice of goods and services had improved in the villages that were sampled in a one-off study like this. However it is clear that any improvement in choice provides an improvement in the non-financial well-being *of all individuals* within the local community, regardless of whether they are SEEDS loan recipients or not. SEEDS enterprises have provided competition with existing suppliers, thus hopefully benefiting villagers through greater efficiency and lower prices, provided, of course, that all the enterprises remain viable in the medium to long term.

### **SUMMARY AND CONCLUSIONS**

Training and support from SEEDS district staff and village representatives vary in quality and quantity. Training and support varies between villages depending on the number of staff, their commitment, resources (such as transport) and the number of SEEDS enterprises established in each area.



Not all enterprises are self-sustaining and some fail completely. However the number of potential enterprise failures is kept low by the requirement of collateral, the signing of repayment agreements and the pre-requisite of a business plan before SEEDS provides credit for the establishment or expansion of an enterprise. There are also many marginal enterprises which neither make profits nor lose money. These marginal enterprises are vulnerable, and do not help to 'develop' the economy of the individual or community. The enterprise continues to exist because its owner cannot afford to repay the loan that funded it.

Loan repayments from SEEDS credit enterprises are neither consistent nor regular. This is particularly the case with farming. However there exists intense social pressure from family, friends, neighbours and loan recipient peer groups to repay on time, which adds to the already-heavy burden on marginal enterprise credit recipients. Aggregate SEEDS data show variations in quarterly repayment rates by district, enterprise and personal/household characteristics but the rates were generally above 80 per cent (SEEDS 1999,a,b,c).

Most enterprises sampled in this study were dependent on external factors such as family help. Help is informal and unpaid. There are significant inequalities of wealth arising from those enterprises which are commercially successful (individuals *have* bought material goods), and those which are unprofitable (individuals and their families have become poorer as they struggle to save and repay their credit loan).

In all villages it was evident that there had been a 'trickle-down' effect as a consequence of the arrival of SEEDS village bank, though benefits have only reached a few local people. SEEDS enterprises had often created new employment opportunities and had initiated new local trade links.

The PRA map undertaken in two sample villages provides evidence that greater inequalities of wealth have occurred between SEEDS loan recipient households and households which had not received loans. However, it seems likely that the arrival of

SEEDS credit in villages merely *increased* rather than *created* local inequalities of wealth. Loans are restricted to individuals who have collateral, so those who already have some wealth have the opportunity to create more. The poorest of the poor are not helped with credit.

Loan recipients (especially women) often felt empowered as a consequence of the establishment of their enterprises. The establishment of new enterprises often changed the role of the loan-receiving individual in their home as they received greater respect from family and neighbours for the responsibilities they undertook with the enterprise.

Evidence from the PRA time ranking chart shows that entrepreneurs (especially women) worked long hours but usually found enough time for their enterprise and their families (most work from home). However, entrepreneurs have little personal time and relied heavily on friends or relations to assist with caring for children, elders and running the enterprise.

Most successful entrepreneurs were happy and seemed proud of their enterprises. A large number interviewed had ambitions to expand the enterprise size or capacity, or to modernise production technology (through the purchase of a new automated sewing machine, for example). Though sacrifices were made by the entrepreneur (especially of personal time), credit gave them (and their families) a new opportunity to help themselves to improve their lives in a sustainable manner.

Local communities within villages often benefited from a wider choice of goods and services. However, all villages had local markets in place before the arrival of SEEDS credit in the village. Markets already provided a reasonable supply of goods to local people, so it may be argued that SEEDS enterprises have only marginally improved choice in the village (the extent of increased choice varies between villages).

### **Significance of the findings**

This research has uncovered a number of strengths and weaknesses of SEEDS credit and extension services. This is the first independent study of its kind to be undertaken on SEEDS, which is surprising considering its size and influence<sup>xix</sup>. Further study is justified on the issues covered in this research, and on wider issues related to the provision of credit for micro-enterprise establishment in developing countries.

SEEDS management are largely aware of the weaknesses within the organisation and are making attempts to remedy the situation. Our main concerns are:

- SEEDS fail to target or assist the “poorest of the poor” in local society;
- SEEDS must be careful not to expand to such a size that it becomes inefficient and out-of-touch with the people it currently works with;
- SEEDS faces increasing pressure from foreign donors to change its status from a community-based organisation to one that is driven by efficiency and profit (i.e. similar to a commercial bank). SEEDS must beware of not ‘losing its roots’ (Hulme & Edwards, 1995).

In an interview in mid-1999, SEEDS Chief Executive Mr Salia Rayasinghe responded to these concerns as follows:

- SEEDS deliberately avoid extending credit to the poorest members of society. A guarantee in the form of collateral is necessary to prevent default on loan repayments, which would be catastrophic to the future of SEEDS.
- SEEDS maintains the quality of its service to credit recipients through the district office, village bank, and group members. Future expansion would enable more people to benefit from SEEDS credit services without jeopardising the current beneficiaries. There are plans for more extension services such as the provision of further business and vocational training.

- SEEDS seek to become independent of external donors within five years. This will increase their autonomy and ability to shape their own future.

SEEDS is regarded as one of the most successful credit-providing organisations in South-east Asia, because credit is used in conjunction with a number of development programmes run by Sarvodaya. SEEDS credit recipients are usually empowered financially and socially as a consequence of their loans and enterprise establishment. Trained and dedicated staff provide a range of extension services, and there is continuous research into the improvement of services and training for loan recipients.

SEEDS have undoubtedly contributed towards grassroots development in many hundreds of villages nationwide. However, if even such local and appropriately oriented credit and technical assistance organisations as SEEDS fail to reach the poorest of the poor – and, indeed, explicitly avoid doing so in order to reduce the risk of loan default undermining their viability and ability to rotate credit – it raises the far larger question of how the most marginalised and vulnerable members of poor communities are to be reached and assisted. This issue is of fundamental importance in the context of current donor emphases on poverty reduction and elimination (e.g. DFID, 1997; Burnell, 1998).

Despite a recent increase, there remains insufficient research into the economic, political, social and environmental effects of credit and micro-enterprise establishment in rural areas of developing countries (Wydick, 1999). However it is immediately evident that credit has made significant steps towards the alleviation of poverty in many developing countries. Otero and Rhyne (1994:1) state that “new techniques for providing financial services have made it possible to achieve previously unthinkable scale and outreach...”

Yet the provision of credit and affiliated services to the poor is effective only when implementation is properly managed. This requires a large capital investment,

committed staff and a workable policy. Devereux *et al.* (1987: 56) claim that “Small scale schemes for the very poor, if properly administrated, can be the most rewarding ones in terms of the improvement to their living conditions [and] the building of new community structures ...” It is therefore essential, given the improved well-being of many communities as a result of credit, that credit provision is promoted by sensible development practitioners.

Careless implementation of credit programmes may have the opposite effect to that intended. “Consequently delivering credit effectively to rural people becomes a complex process often not appreciated or understood. In a way, of all the services, rural credit is the most difficult to deliver” (Padmanabhan, 1998: 118). It is essential therefore that credit-providing organisations continue to share their experiences and knowledge, as was done at the summit held in America on micro-enterprise lending in January 1997 (Wydick, 1999:131/132). SEEDS is especially active in the sharing of knowledge and information on credit provision.

With the sharing of essential knowledge and experiences a number of lessons have been learnt to shape future policies concerning credit provision. In their *Manual of Credit and Savings for the Poor of Developing Countries*, Devereux *et al.* (1987: 55/56) summarise a number of key issues which enhance the effectiveness of credit implementation schemes:

- Credit is just one method towards development. “Credit [is] simply one tool, albeit a powerful one, in integrated programmes of development” (Devereux *et al.*, 1987: 56);
- Credit is effective only if used in conjunction with extension services (such as training and savings promotion);
- Beneficiaries of credit must clearly understand their obligations to repay;
- Credit beneficiaries should actively participate in the design and administration of the credit scheme;

- Loan interest (at a reasonable rate) encourages a sense of independence for credit recipients. It also provides a return for the credit-proving organisation;
- Credit requires time to be effective in individual households and communities;

A return visit to the enterprises would enable their business development to be tracked. It would reveal how they react to challenges such as enterprise expansion and market changes.

The use of credit as a tool for community development has become popular with NGOs and governments of the developing countries in recent years. Enormous sums of money have been invested in credit programmes throughout the world. However, existing literature on the subject often neglects the key issues, such as the impact on the loan-receiving rural poor and their local environments. There is a need for further research to be undertaken on credit for micro-enterprise establishment (Wydick, 1999), and to share knowledge and experiences of credit providers throughout Asia for the mutual benefit of credit facilitators and the rural poor.

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<sup>i</sup> Ghate *et al.* (1992: 8) observe that *informal* lenders can be individuals or institutions, but are typically smaller and with less regulation than *formal* institutions.

<sup>ii</sup> Successful credit programmes such as the Grameen Bank in Bangladesh were widely documented within development literature of the time. Todd (1996) observes that the Grameen Bank 'poverty reduction model' was replicated by many new credit providers in Asia and beyond. The Grameen Bank was a success because the latest results indicate benefits for loan recipients have been long-term.

<sup>iii</sup> Devereux *et al.* (1987: 9) observe that formal banking institutions have long neglected the rural poor as a potential market for their services because they lend only to those who already have assets. Banks require some form of collateral, which is well beyond the means of the poorest members of society.

<sup>iv</sup> Ditcher's study refers to projects three years or older at the time of research in 1995, and refer to programmes instigated or fostered by international NGOs and that reach more than 1,000 borrowers.

<sup>v</sup> This is a factor which further prevents female-headed households from qualifying and therefore deepens their plight of poverty.

<sup>vi</sup> The Asian Development Bank (September 1997:1), observes that social development has been achieved through a rapid decline in fertility and population growth (Sri Lanka has the lowest fertility rate among low-income countries after China). Sri Lanka has also achieved a high adult literacy rate of 93 per cent for men and 86 per cent for women. There is also a comparatively long life expectancy, low rate of infant mortality and "relatively good access" to safe water and sanitation facilities.

<sup>vii</sup> This represents over three and a half million people.

<sup>viii</sup> By Act of Parliament the SSM was incorporated in 1972 as the Lanka Jatika Sarvodaya Shramadana Sangamaya (LJSSS). Its name, roughly translated, means "The awakening of all through the voluntary sharing of time, resources, thoughts, energy and labour". It is an approved charity by gazette notification of 25<sup>th</sup> August 1965.

<sup>ix</sup> The ten basic human needs, as identified by Sarvodaya are- 1) A clean and beautiful environment. 2) A clean and adequate supply of water. 3) A minimum of clothing requirements. 4) An adequate supply of food. 5) Basic health care. 6) A modest house. 7) Energy requirements. 8) Basic accommodation. 9) Total education. 10) Spiritual and cultural needs.

<sup>x</sup> SEEDS is a separate legal entity of Sarvodaya although it remains part of the same organisation, and works towards the same goals of a no-poverty, no-affluence society.

<sup>xi</sup> The exchange rate on 31/12/99 was 116 Sri Lankan Rupees (Rs.) to the British pound.

<sup>xii</sup> Figure 3 demonstrates the proportion of credit given to each enterprise category. In figure 3 agri-business is split into cultivation and livestock, and non-farm enterprises is split into trade, industry and services.

<sup>xiii</sup> Please note that the (ir)regularity of credit repayment rates is only one indicator of enterprise self-sustainability.

<sup>xiv</sup> Extension services offered by credit providing organisations (including SEEDS) include business and vocational training, marketing support, business advice and support, equipment lending.

<sup>xv</sup> As already stated in *Methodology*, the enterprises sampled in this research, were *not randomly sampled* but chosen by SEEDS employees.

<sup>xvi</sup> Since only SEEDS loan recipients were asked in the interview, the results do not reflect everyone's view in the village as a whole.

<sup>xvii</sup> The requirement of prior savings in order to receive a SEEDS loan is only affordable by those with relative wealth to begin with.

<sup>xviii</sup> Duties classified as 'home' or 'family' have been merged into a single category because it is often impossible to separate the two.

<sup>xix</sup> *Influence* upon credit-receiving individuals, their communities, and similar credit-providing organisations across Asia.