Document of

The International Fund for Agricultural Development

For Official Use Only

SRI LANKA

SMALL FARMERS AND LANDLESS CREDIT PROJECT
(Loan 219-SR)

COMPLETION EVALUATION REPORT

Office of Evaluation and Studies
Office of the President

Final Draft

1999

CURRENCY EQUIVALENT

USD 1	=	LKR 29 (1987)
USD 1	=	LKR 70 (1999)

WEIGHTS AND MEASURES

1kilogram(kg)	=	2.2pounds
1kilometre(km)	=	0.62mile
1acre	=	0.405ha

FISCAL YEAR

1 January – 31 December

ABBREVIATIONS AND ACRONYMS

APL	Absolute Poverty Level
CARE	Cooperative for American Relief Everywhere
CBSL	Central Bank of Sri Lanka
CIDA	Canadian International Development Agency
CNI	Consultations Nadeau International Inc.
CRF	Credit Revolving Fund
DBD	Development Banking Department
DTCCS	District Office of Cooperative Trift and Credit Societies
DVF	Dharma Vijaya Foundation (NGO)
FA	Field Assistant
GSS	Gemi Seva Sevana (NGO)
IFAD	International Fund for Agricultural Development
LKR	Sri Lanka Rupee
LMS	Lanka Mahila Samithi (NGO)
M&E	Monitoring and Evaluation
MTE	Mid-term Evaluation
NGO	Non-Governmental Organisation
OECF	Overseas Economic Co-operation Fund
PA	Participating Agency
PCO	Project Central Office
PDO	Project District Office
RBSTC	Rural Banking and Staff Training College
RCD	Rural Credit Department
R&D	Research and Development
SAR	Staff Appraisal Report
SEEDS	Sarvodaya Economic Enterprises (NGO)
TA	Technical Assistance
TCCS	Thrift and Credit Co-operative Society
WB	Women's Bureau

LOAN SUMMARY

COUNTRY: SRI LANKA

Project Title:	Small Farmers and Landless Credit Development Project
Loan No.:	219-SR Status: Closed
Co-operating Institution:	UN Office for Project Services (UNOPS)
Executing Agency:	Central Bank of Sri Lanka
Type of Project:	Credit and Financial Service
Type of Loan:	Highly Concessional
Total Project Costs:	USD 17 805 000
IFAD:	USD 6 705 000
Borrower	USD 4 600 000
Co-financiers (CIDA):	USD 6 500 000

IFAD Disbursement Status at Project Closing: 86 percent.

<u>KEY DATES</u>

Approval	26 Apr 1988
Agreement	12 Jul 1988
Effectiveness	28 March 1989
Original Closing	31 Dec 1995
Last Closing	31 Dec 1997

TABLE OF CONTENTS

Sri Lanka
Small Farmers and Landless Credit Project
Completion Evaluation Report

1 Preface

IFAD so far has extended 10 project loans to Sri Lanka totalling USD 100.6 million on highly concessionary terms. Some USD 60.0 million had been disbursed by 31 May 1998. The Small and Landless Farmers Credit Project Loan 219SR (SFLCP) was prepared by IFAD on behalf of GOSL, financed by a Technical Assistance Grant from UNDP. IFAD and the Canadian International Development Agency (CIDA) jointly appraised the Project during June-July 1987. The Project area comprised of Puttalam and Kandy Districts for IFAD, and Galle and Matara Districts for CIDA.

An IFAD loan, amounting to USD 6.705 million became effective on March 1989. Similarly, the Management Plan for a CIDA grant of USD 6.54 million was signed on 9 October1990. The CIDA grant covered technical assistance on a Project-wide basis in addition to the financing of development activities in Galle and Matara. IFAD financing closed on 31st December 1997 at which time 86% of the approved amount had been disbursed with dollar value $5.4m. In its assessment of progress at 31 December 1998, the Central Bank of Sri Lanka (CBSL) reported that most of the SFLCP targets had been achieved.

There are two points that are given special attention in this report. Concerns were expressed as to the sustainability of the beneficiary organisations created under the Project during the 22nd session of the Evaluation Committee in Rome on 7th September 1999 in which a representative of the implementing agency the CBSL participated. Similar concerns had been reported by successive Supervision Missions. Secondly, a procedure for the draw down of IFAD funds was used in the Project that led to a large balance of unutilised IFAD funds. It is a purpose of this Report to facilitate agreement between IFAD and the CBSL of future actions to address sustainability and the future use of the surplus funds.

This Report was prepared initially through the work of a team headed by Dr Jorma Ruotsi Rural Finance Expert with participation of Mr Dulan De Silva Social Mobilisation and Training Expert, and Dr Athanassios Velianis. The team visited Sri Lanka during 20th March to 6th April. Their draft report was then edited and streamlined to reflect points made at the Evaluation Committee Meeting and to make specific the future agreed actions. Mr Iain Francis conducted a follow-up Mission to Sri Lanka between 14th and 26th November 1999 for this purpose.

2 Executive Summary

An evaluation of the Project objectives is given in Paragraph 3. The immediate objectives of donor support to the rural finance sector completed a change in emphasis during the Project period from a focus primarily on the beneficiary level to institution building and sustainability. The latter were not explicitly stated as immediate objectives of the Project. On the other hand in the second half of the Project these were clearly the primary concerns of the Project managers.

Project costs and financing are summarised in Paragraph 4. Some 86% of the IFAD loan was utilised. However, exceptionally for IFAD lending policies, financing from the IFAD loan account for credit operations was done based on the gross disbursements of the participating agencies, as opposed to net disbursements after recoveries. This procedure created large surplus funds within the CBSL. At August 1999, the capital in IFAD and CIDA Revolving Credit Funds exceeded USD 7.1 million of which some USD2.3 million only was outstanding loan, the balance being invested in Treasury Bills.

Quantitative indicators of Project progress are summarised in Paragraph 5. The results are impressive as most of the Project targets were achieved or exceeded. On the other hand these results have to be have to be evaluated against a major transformation in institutional arrangements, which was still in progress at the conclusion of the Project.

Paragraph 6 presents an analysis of the changing institutional approach to rural finance under the Project. The implementation arrangements envisaged at design stage were re-formulated during the early years. NGOs were expected to carry 70% of the Project. By 1994 roughly this proportion had been formed directly by the CBSL Provincial Development Offices (PDOs) and the Rural Development Banks (RDBs). From that point, success depended mainly on the groups formed and supported by the PDOs and RDBs, as oppose to the effectiveness of the NGOs.

The PDOs and RDBs started with a model that drew on the experience of the Grameen Bank. A complete re-engineering of the rural finance approach commenced in 1994/5. A promising new approach based on village level development societies was initiated successfully by the CBSL. However, at the closure of the Project it was clear that sustainability would require years of further support. In addition some 30% of the total number of groups had been formed under the RDBs and many of these remained dormant or in default. Two only of the ten NGOs that were engaged in the earlier years of the Project had any significant involvement by 1997. The Project blueprint for the rural finance approach was modified considerably within surviving NGO programmes.

Loan Recovery is dealt with in Paragraph 7. Performance was problematic in early years in part due to the supply driven character of the Project as it was implemented. Measurement problems and a lack of proper analysis of the portfolio were not rectified throughout the Project. However, it was clear by 1998 that the emerging structure is one that has the potential to deliver good loan recovery performance. The need for a systematic approach to delinquency particularly for the accumulated failures still remained a priority in 1999.

Operational Costs are dealt with in Paragraph 8. The initial Project approach was not one in which much importance was placed on operational costs in the context of sustainability. This was recognised by the CBSL and was a factor driving the re-structuring. The introduction of tools for modelling forecasting and planning is essential in future. Interest rates are dealt with in Paragraph 9. The CBSL is progressive in its policy towards interest rates for intermediaries and this aspect of sustainability in the new structure should not be problematic.

The Project agencies are discussed in Paragraph 10. The CBSL managers provided high standards of leadership. CBSL involvement in the SFCLP has left it in a stronger position to set policy and steer new Projects in rural finance. However, the SFLCP has brought to the forefront many fundamental issues of strategy, manpower and systems development. There is much that remains to be resolved.

The RDBs in contrast with the PDOs did not prove to be effective in institution building and were the focus of criticism over a preoccupation with quantity rather than quality. The NGO SEEDS, being nationally organised and with a major commitment to rural finance, proved to be a driving force in the Project from the perspective of both training and systems. The DTCCS were less impressive and the subject of more rigid bureaucratic control.

The technical assistance provided by CIDA focussed on financial reporting and monitoring was terminated prematurely due to concerns over the quality of work by the firm selected. The Project agencies could have benefited from technical assistance in microfinance and in the major Project systems. The work of the Supervision Missions provided milestones in the development of the Project and their approach was prescriptive. However the Missions would have been more effective if their work had been co-ordinated with technical assistance.

Paragraph 11 deals with Project systems, i.e. staff training, beneficiary training, research and development, monitoring, and impact evaluation. With the exception of impact evaluation, which was to a high standard, the Project systems could have been improved. Beneficiary training alone improved significantly during the life of the Project. The beneficiaries active in the Project are highly appreciative of both the financial services and the technical and enterprise-related training provided under the Project.

Targeting and social mobilisation are dealt with in Paragraph 12. Targeting was effective and quantitatively, the overall result of social mobilisation was impressive as stated above. On the other hand quite a high proportion of those recruited are no longer actively engaged; some 56% are still not supported under a development society or an NGO. Some of these beneficiaries will have graduated as individual clients of the RDBs. However, the majority will have only marginal continuing benefit if any. The impact on beneficiaries identified through the project evaluation mechanism summarised in Paragraph 13 suggests an impressive outcome in terms of numbers passing the absolute poverty line. However, it is unclear to what extent the Project alone can be attributed with this success and measurement issues qualify the accuracy of the reported results.

Environmental impact, which is considered to be neutral, is mentioned in Paragraph 14. The replication of the approach to rural finance targeting the poor developed under the Project is dealt with in Paragraph 15. An OECF funded project due to start in early 2000 is to expand the approach to six new districts. In view of this development no steps towards IFAD involvement in replication were deemed necessary. However, the issue of co-ordination between the old IFAD/CIDA districts and the new OECF districts remains a key concern.

The sustainability of the beneficiary organisations created under the Project is dealt with in paragraph 16 followed by Recommendations, Lessons Leant, and Agreed Future Actions in paragraphs 17-19. The Mission suggests that a planning group is formed within Sri Lanka with support from IFAD for the preparation of a plan for the required follow-on work. Such a plan should be prepared through participation in the group of the OECF Project, and also SEEDS.

3 Evaluation of Objectives

The ten-year period from Project design to completion in 1997 saw the final replacement of the 'old' supply driven approach to credit for the poor by a demand driven approach under which institution building to create 'sustainable rural financial services' is the core principle. The Guiding Principles adopted by the Donors Working Group on Financial Sector Development convened under the World Bank in mid 1995 were based squarely on a demand driven approach.

The Project was envisaged during its design in 1987 as a means 'to test on a pilot basis, with a view to nation-wide establishment, a suitable and cost effective system of extending institutional credit to the rural poor'. The specific objective stated in the Loan Appraisal Report was to:- 'promote the intensification of agricultural production by small farmers and the establishment and development of small scale non farming rural enterprises through the provision of credit and technical and entrepreneurial advice'. An immediate objective related to institution building and sustainability was not made explicit. This would be expected under a more recently designed project that supported improved rural financial services. By 1997 institution building and the sustainability of these institutions were demonstrably the appropriate immediate project objectives and the primary management concerns.

4 Project Costs and Financing

IFAD financed operations were intended to concentrate in the districts of Puttalam and Kandy, while the CIDA supported field activities would take place in Galle and Matara. Of the IFAD loan of USD 6.7 million, USD 4.4 million or 66% would be for the Project credit line. Of the CIDA contribution of $6.554 million USD 1.6 million would finance technical assistance covering all four districts. Contributions from beneficiaries in the IFAD districts in the form of savings mobilised and re-invested would amount to USD 0.29 million, representing 2.8% of costs.

The CIDA funding, reduced to USD 5.4 million in 1993, was fully used by March 1995, after which all CIDA involvement was terminated. CIDA was at this stage unhappy with performance and proposed that there would be no replication activities. IFAD then provided finance for the operational costs in all 4 districts, while the credit capital in Galle and Puttalam was drawn from the CIDA revolving fund. Since the closing of the IFAD loan at the end of 1997, the operational costs of the PDOs in all districts have been financed from investment of the surplus revolving fund capital.

By the end of the Project period, the total draw down from the IFAD loan account reached SDR 4 154 430, or 86% of the total allocation. Of the credit allocation, SDR 3 million or 93% was used. However, exceptionally for IFAD standard lending policies, financing from the IFAD loan account for credit operations was done based on the gross disbursements of participating agencies, as opposed to net disbursements after recoveries. This procedure created large surplus funds within the CBSL. As at end of 1998, the capital on IFAD and CIDA Revolving Credit Funds exceeded USD 7.1 million of which some USD2.3 million only was outstanding loan, the balance being invested in Treasury Bills.

5 Achievement of Project Objectives: Quantitative Indicators

The overall quantitative indicators of Project progress shown below must be acknowledged as a considerable achievement of the Project managers. As noted above it is however necessary if meaningful lessons are to be drawn that these quantitative indicators are evaluated against a major transformation in institutional arrangements and the rural finance approach which was still in progress at the time of evaluation. Reference is made below for this purpose to aspects of the Donor's Group Guiding Principles on Support for Rural Financial Services referred to above.

Table 1. Summary: SFLCP Performance Progress

Item	SAR	As at 31/12/94	As at 31/12/98
Nr of Villages in Project	-	1,504	2,086
Nr of Groups Formed	-	5,446	8,722
Nr of Beneficiaries In Groups	32,870	33,524	52,993
Share of Female Beneficiaries	40%	63 %	68 %
Total Group Savings (Rs)	34,700,000[1]	24,100,000	61,380,000
Nr of Loans Approved	-	24,796	45,403
Nr of Loanees (excludes repeat loans)	32,870	-	20,000
Value of Loans Disbursed	381,000,000[2]	166,800,000	369,200,000
Female Share of Loans (Rs)	40%	59 %	68%
Average Size of Loan	-	7,965	9,227
Cumulative Recovery Rate	93%	89.4%	94.1 %

6 The Rural Finance Approach

6.1 Background

The transformation in institutional arrangements referred to above first became evident in the low level of NGO involvement in Project implementation. They were expected to carry 70% of the task, but by 1994 roughly this proportion had in fact been formed directly by the CBSL Provincial Development Offices (PDOs) and the Rural Development Banks (RDBs). By one account of events many of the NGOs were ill equipped and not committed to professionalism in microfinance. By another, the dominant role of the PDOs and RDBs was an ill-advised rush to meet quantitative output targets. It is undoubtedly the case that the exclusion of SEEDS the principal nationally organised NGO from the Project up to 1994 was a strongly negative factor. The RDBs which were projected to have only 4.3% share of beneficiaries, by 1998 had nearly 30%, a high proportion of which were engaged during the period to 1994. From 1994 onwards on the success of the Project depended to a large extent on the institutional arrangements created under the PDOs and RDBs as oppose to the effectiveness of the NGOs.

The rural finance model operated under the PDOs and RDBs to 1994 drew heavily on the Grameen Bank in Bangladesh. In 1995 the PDOs started upon the clustering of the original small groups into development centres. This was proposed in the Mid Term Review in 1994. Progress in this direction was noted and strongly supported by the Supervision Mission of November 1996. These Development Centres were precursors of Development Societies the registration of which began in 1997. The change from the Grameen model, i.e. groups of groups operated through external supervision and with no internal account for the re-investment of savings, to a more decentralised approach based on Development Societies was accompanied by a re-engineering of both savings and loans administration.

6.2 Savings

The emphasis on savings is fundamental in a demand driven approach to rural financial services. The institution is then dependent on its clients for its resource base. It will be attuned to them in the savings and loan products that are offered and in its organisational set-up. Decentralisation to village level is necessary so the institution is accessible and the transaction cost of savings is reduced to a minimum. It is widespread practice to encourage re-lending from savings from the earliest stage to meet the primary credit related need of the poor, the need for repeat access to very small short duration loans, and also to build experience of village level inter-mediation.

[1] Projected at $0.503m equivalent to 35,000,000 at current exchange rate.
[2] $7.8 converted to rupees using average rate during period 29+69/2=49

Savings were expected at design stage to be re-cycled as small loans in the original small groups. In fact they were kept as group savings accounts in the bank. Effective management and supervision of the re-investment of savings in the original small sub-groups proved not to be practical. The benefits of a decentralised institution were not realised. This contributed to the need for the association of the original small groups in societies. A single set of office bearers and staff were then trained for all the sub-groups in each society to administer individual savings accounts and loans. The total amount in these individual savings accounts reached USD 100,000 in early 1999. These savings, unlike the group savings in the RDBs, were actively used to issue small loans locally to members. In 1997-1998, nearly 13,000 such loans were provided to the total value of some $200,000. The processing of these loans is fast and the interest rates are much lower (3%-5% per month) than the ones charged by the pawnbrokers or moneylenders. All interviewed beneficiaries highly appreciated the obvious positive social and economic effects of this new arrangement.

By 1997 savers still could not benefit directly from the funds in the group savings accounts in the RDBs. The success of the Project to 1995/6 in mobilising savings to be locked up as group accounts in the RDBs in this way must be seen as an aspect of the high level of motivation that was achieved rather than an effective client focussed approach.

6.3 Loans

The Project lending mechanism was based on individual 'joint liability' loans issued directly from the RDBs to the beneficiaries. This was still in place by 1999 and the provision of bulk loans remains an objective of the re-structuring that commenced in 1995 that has not yet been attained.

An institution well suited to the poor recognises that: (a) often no clear distinction can be drawn between borrowing for consumption and for production, (b) the poor household will have several sources of income during a year (c) enhancing income is linked to social as well as production related factors, (d) the lending decision is assisted by peer assessment of debt capacity and must be based on a global picture of the household economy (e) small short duration loans and repeat access are required at the early stages. The RDBs were not set-up to meet this type of market demand. The savings and credit model up to 1994 was unsuited to the poor. This, and the widespread default that resulted from a supply driven approach, was the major factor precipitating the withdrawal of the Co-financier CIDA.

6.4 The Emerging Structure

The federation of the small groups formed in the early Project years proceeded rapidly from 1996. By December 1998, 166 such societies had been established, with an average initial membership of 37, covering more than 6 000 beneficiaries.

Table 2 ISURU Development Societies under SFLCP As at 31 December 1998

	Kandy	Puttalam	Galle	Matara	Total
No. of Societies	24	43	45	54	166
No of Members	891	1 519	2 009	1 782	6 201
Shares (LKR)	299 290	833 309	921 220	1 132 370	3 186 189
Compulsory Savings	67 931	260 992	598 190	664 571	1 591 684
Other Savings	138 781	998 088	188 045	470 994	1 795 908
No of Emergency loans	1 070	1 161	6 415	3 257	11 903
No of Project loans	73	57	269	468	867
Emergency Loans (LKR)	863 615	2 146 260	6 318 380	1 364 718	10 692 973
Project Loans (LKR)	284 000	181 500	638 650	1 803 350	2 907 500

The task of federation and training using SEEDS bookkeeping procedures and trainers continued throughout 1999. However, an accumulation of failures is being left behind in this process. Some 56% of beneficiaries are still not supported under a development society or NGO. A reactivation programme in conjunction with the formation of development societies is needed.

The formation of district level unions of the development societies was in rapid progress during 1999. Delegates had been provided rooms in the district level PDOs. A strong sense of mission and commitment was evident during the attendance of the Mission at village and district level meetings. Important distinctions exist between the NGO organisations such as SEEDS and the societies and unions created by the PDOs. At village level SEEDS is community based rather than exclusively for the poor. At district level the Project organisation is member controlled as oppose to control by a management board as in the SEEDS model. Thirdly, it is not envisaged that the Project sponsored organisation at the district level will be risk bearing, again in contrast with the SEEDS model, in which for the first time under the IFAD Programme, the SEEDS organisation as a whole incurred lending risk. These differences may have significance in future if a supervisory role were to be considered for SEEDs over the organisations created under the PDOs, concurrent with a reducing CBSL role.

6.5 Gender

A proper alignment between the role of women as guardians of economic security in rural households and their participation in the organisation of rural financial services has been key in the resurgence of microfinance to assist the poorest. By 1997 the Project recorded 70% of member participants as being women. Furthermore, while the exact figures are not available, it appears that in the most active groups, which have recently formed the ‘Isuru Development Societies’, some 80% of members are women. In many areas the SFLCP is seen as a “women’s programme”.

6.6 Village Level Institutions Policy

As noted above the Project policy of limiting membership to the poor is distinct from that of SEEDS or the DTCCS. The latter embrace the community as a whole in a larger village based society with procedures to maximise the participation of the poor. Whilst successive Supervision Missions have given enthusiastic support to the Development Society concept they have continued to see an individuals involvement in the institution as temporary. The Mission of November 1997 repeated advice that the number of loans permissible and the loan size should be limited. The issue has considerable significance. It is to be expected that some beneficiaries will have businesses that grow to an extent that they are better serviced directly by the formal sector. On the other hand it is very plausible that for many others their banking needs will be best served in the long term by a village-based institution. Membership policy is an important issue in the context of scale of operation, volume of business and cost reduction, the retention of experienced and committed members, and thus sustainability. The development of a sustainable village level institution must take consideration of these factors.

In general, two successful but different approaches to social mobilisation and group formation appear to have been employed during Project implementation. The first approach emphasised groups that are primarily interested in individual economic activity. In these groups, much emphasis was placed on deposit mobilisation and credit discipline. This approach was followed in many SEEDS, DTCCS and GSS groups in all areas, as well as by many PDO-formed groups. A second approach emphasised broader objectives of social empowerment and went beyond economic objectives of savings, credit and micro enterprise promotion. Under this approach, much emphasis was placed on work sharing, welfare work and other social aspects of community development. Even in this case, active savings mobilisation was crucial, but it was seen more often as a way to protect the households against future hardships than as a means to raise investment capital for small businesses.

Working Group principles include the separation of financial and non-financial functions. There is not much evidence that this principle was given consideration in the earlier Project years. It will be vitally important in the emerging structure at village level and at district level.

7 Loan Recovery

The measures of loan repayment in use and the extent of delinquency in the portfolio were continuing concerns throughout the Project. Data was processed within a Project monitoring database designed under technical assistance funded by CIDA. Loans and savings data for the system were collected directly from the clerical records maintained by the RDBs. Cumulative recovery ratios were used initially and age analysis of overdue at later stages.

Outstanding with overdue as a percentage of total outstanding was proposed by later supervision missions. This combined with age analysis is the best measure of risk in the portfolio. Monthly recovery from rolling monthly 12-month demand is the best measure of loan recovery performance for Project management purposes. This measure was in use within SEEDS but was not adopted by the Project. Data existed within the Project databases from which to produce both the above ratios but the report programmes were not written.

The most recent measure used was overdue as a percentage of outstanding. Over the four districts this ratio was in the range 21-60%. However, the overdue in the figures in use in the Project is extracted from the databases and is the cumulative overdue figure since 1991. If this error were removed the 1998 Programme overdue ratio would be comfortably in excess of 90%. There are good grounds for confidence that effective loan recovery can be achieved within the emerging structure.

As suggested in the fore-going paragraphs not least amongst the reasons for the high failure rate was the need during the early years of the Project for an organisational set-up more attuned to the needs of the beneficiaries. In addition the Project was initiated through very diverse institutional arrangements and was clearly a pilot programme despite the large scale of implementation. An institutional analysis of loan recovery for year by year disbursements would clarify the claim strenuously made by the Project managers that most default resulted from the withdrawal of support by non-lending NGOs in 1994.

Successive Supervision Missions reported that field staff of the PDOs and RDBs were not devoting effort to pursuing overdue loans. A formalised delinquency policy and systematic procedures were required in the later year of the Project in view of the accumulation of overdue loans. A standard set of procedures should be provided for use in societies and by the RDBs to classify overdue loans of more than 3 months according to the reason for default and the decision taken on how to handle the case. It would be useful if these matters were dealt with and issued in booklet form.

The levels of loan recovery under the on-lending NGOs and co-operative bodies also remain a cause for concern. Recovery of 'IFAD loans' by SEEDs in 1999 was 92% and it has been reported by successive Supervision Missions that there are significant underlying recovery problems within the DTCCs despite full repayment of loans by the apex bodies.

8 Operational Costs

8.1 RDBs and PDOs

The Project structure does not easily permit an analysis of the operational costs and the sustainability of the lending operation from the perspective of the RDBs. The institution building work went together with the lending operation. Any attempt to analyse historical costs would undoubtedly yield extremely high figures.

The present lending operation is reliant on continuing Project support to the emerging Development Societies and District level Unions. A share of spread is to be negotiated for the development societies as non-risk bearing supervising agencies. As the societies progress to receive bulk loans it may be expected that the district level union will charge fees to the societies for their services or negotiate a fee with the RDBs payable on loan recovery.

The basic tools for financial modelling common to NGOs have not been in use within the PDOs and indeed it would in the past have been difficult to apply them in any meaningful way. It is now a priority to introduce a system for financial modelling forecasting and planning based for the emerging structure so this aspect of the task creating sustainable microfinance organisation can be properly dealt with.

8.2 NGOs and Co-operative Bodies

Loan administration costs reported by district offices of SEEDS were at a minimum in the region of 30%. It is unlikely that a different picture exists in the DTCCs or GSS. This taken together with the default rates is an indication of the considerable progress still to be made at the closure of the Project before their on-lending operations could be sustainable.

9 Interest Rates

After adjustments in 1997, the interest rates paid by beneficiaries in SFLCP lending are close to the market interest rates. This was one of the objectives of the Project. It should be noted that the Development Societies already charge much higher than market interest rates when lending from their own funds. This is to accumulate funds for their own operations and to cover themselves against credit risks. It augurs well for the future that the CBSL has a progressive attitude towards the setting of interest rates by intermediaries.

10 The Project Agencies

10.1 The CBSL

The Mid Term Review reported the period to 1994 as being characterised by an emphasis on the achievement of numerical targets with a lack of consideration for institutional and qualitative aspects. The year 1994 is regarded as a turning point in later Supervision Mission reports in which internal changes in the management of the Project by the CBSL produced a greatly improved quality of management. As an institution, CBSL is now in a stronger position to set policy and steer new Projects in rural finance. The groups formed by the Project District Office's staff have proved to be strong with high cohesiveness. The SFLCP has brought to the forefront many fundamental issues of strategy, manpower and systems development and there is much that remains to be resolved. The formation of a cadre of highly capable staff specialised in microfinance within the CBSL will be an enormous advantage in the future planning of rural financial services.

10.2 NGOs and Co-operative Bodies

Ten agencies were involved in the initial Project implementation in addition to the CBSL and the RDBs. Various factors explain the reduced role of these other agencies in the SFLCP implementation in comparison with the intention at appraisal stage. First, SEEDS, the proposed lead agency, was excluded from the Project due to Government intervention in 1991-1993. This reduced the eventual relative share of SEEDS. Second, international agencies such as CARE and UNICEF tended to work according to a project format of their own, and never took the active implementing role that was proposed to them in the Project design. Third, for smaller and less experienced local NGOs, the Project did not provide adequate financial or institution building incentives to develop their skills and to carry on as SFLCP implementation partners. After quitting the Project the NGOs left behind small groups with savings locked in group savings accounts and an individual joint liability loan model which would have proved difficult for many groups to administer effectively for the poor. Only SEEDS, DTCCS and the small GSS took bulk loans for on lending to targeted beneficiaries. Their respective share of beneficiaries at 31st December 1998 was SEEDs 18.2%, DTCCS 12.9% and GSS 0.4%.

The managers of SEEDS identify various positive impacts on their institution from the SFLCP implementation. First, funding from the Project has made SEEDS portfolio growth possible in times when alternative funds were not available. Second, SEEDS has earned substantial extra income by providing training services to SFLCP. Third, SEEDS gained valuable experience in financing its on-lending for the first time with loan funds (as opposed to grants), which method its has since used in various other projects. Finally, SFLCP provided an opportunity to SEEDS to create relations to the Central Bank and other financial institutions, which have proved useful in subsequent SEEDS operations. Similarly, the small on-lending NGO, GSS, reports that SFLCP has strengthened their organisation by assisting the organisation to expand its savings and credit operations.

10.3 Rural Development Banks

The staff of the RDBs who had very little experience or training in social mobilisation engaged nearly 30% of the beneficiaries. Their groups were formed hurriedly without adequate concern for group quality or cohesiveness and with the main objective of credit provision. Today, only a small minority of the RRDB groups function in a cohesive manner. Only five Development Societies have been formed based on these groups, indicating that the sustainability of this part of the SFLCP social mobilisation effort is doubtful. This experience of RDB commitment to institution building yields clear lessons for the future. The overriding concerns of the RDB mangers are necessarily to minimise transaction costs, increase volume of lending, and to recover loans.

The impact of the Project on the operational efficiency of the RDBs appears to have been limited. Not much change or improvement can be observed in the various operational systems in these banks during the Project period. Complaints by beneficiaries of delays in loan processing were manifested throughout the Project period. Regarding the assumed positive impact on the portfolios of these banks, the expectations of the Appraisal Report were not fulfilled. Due to low disbursement volumes, the overall impact on the RDBs' portfolios was less than expected.

The RDB managers have seen the Project as a good source of new clients. Large numbers of beneficiaries are reported by district mangers to have graduated from the Project as individual clients in line with the original Project concept. RDB district mangers state that higher default rates are tolerable in the context of developing their market through the cheap re-finance provided under the SFLCP. However, this is a view that does not take into consideration the damage done to the 'failures', many of whom may be the poorer clients, by ill-advised borrowing and future exclusion from financial services.

10.4 Technical Assistance

The funds for technical assistance for the whole project were provided as a grant from CIDA. The Technical Assistance component was contracted out to a Canadian firm CNI (Consultation Nadeau International Inc.). The Technical Assistance included three sub-components: Financial Management and Reporting, Monitoring and Evaluation, and Research and Development. Later, due to lack of progress in the training component, it was agreed that the Technical Assistance would also assist in the development of the training plan. CIDA, the financier of the TA component, was critical of the performance of the selected consulting firm. The contract with CNI was terminated prematurely in September 1994.

The Project would have greatly benefited at various times from the services of an experienced microfinance expert. Provision for this was not made in the Project design, even though it was known that in the Department selected to manage and monitor the Project, there was an obvious lack of individuals with direct experience in micro-finance operations.

10.5 The Co-operating Institution - UNOPS

There have been regular six-monthly supervision missions by the co-operating institution, the UNOPS. The quality and consistency of its supervision have been of a satisfactory standard. In the period from 1994 to 1996, the Supervision Mission reports might have benefited from a more detailed review and stronger recommendations on the SFLCP portfolio performance, particularly as CIDA had already earmarked the problems in this area as the main reason for their withdrawal from the Project. The Missions were clearly prescriptive in their treatment of the many problems identified during implementation. However, their role might have been strengthened if it had been co-ordinated with technical assistance.

11 Project Systems

11.1 Staff Training

While large numbers of staff training sessions were carried out, the quality and impact of the staff training were not impressive. Training programmes were not organised fully according to the specific needs of Project implementers or based on a systematic staff development programme. A particular problem in the training of the CBSL staff was that most trained senior people left the Project soon after the training courses. It must be appreciated that micro-finance as a modern approach to empowerment and poverty alleviation in rural areas is fundamentally different from mainstream agricultural credit, from 'old' models of co-operative thrift and credit, as well as from commercial banking. Institutional strategies, systems, and training programmes have progressed enormously during the 1990s. There remains at the end of the decade huge potential for advances in Sri Lanka as in most other Asian countries. There is a need for the CBSL to enhance its micro finance research and training facilities, to create an associated resource centre, and to better plan staff training.

11.2 Beneficiary Training

The appraisal target was to train some 20 000 beneficiaries. The bulk of the formal training, as much as 50%, was conducted in 1996-97 and a total of 45,954 participants benefited overall. The breakdown by subject was Social Mobilisation (group dynamics, leadership, society development: 3 day course duration) - 38% of beneficiaries, Enterprise Development: 2 days - 34%, Skills Development (animal husbandry etc 2/3 days) - 28%.

Following the SFLCP design, in the first four years beneficiary training was decentralised and each agency was expected to forward its training programmes for approval to the PCO. Very little beneficiary training was done in the first four years under this arrangement. Since 1995, training has been organised systematically based on an annual plan drawn in consultation with all PDOs. In that year, Training Co-ordinators were assigned to the PCO and all the PDOs. The actual training tasks were given to institutions with appropriate skills and experience on each particular type of training. These included both NGOs specialised in training, and government departments and training institutes.

While the beneficiary training clearly improved towards the end of the Project period, various important issued still require to be addressed. Insufficient planning is still done on the beneficiary level to define the actual training needs. The monitoring and evaluation of the training activity requires further development. Furthermore, the whole question of how to finance and conduct beneficiary training after the IFAD loan was closed is still to be decided. The introduction of an element of cost recovery to create a market mechanism would assist in accurate matching of training needs with courses. A separate organisational set-up and accounting for financial and non-financial functions should be introduced at district and society level in all Project agencies. The banking operations of the village level societies should not be burdened with overhead costs that act against the broad-based participation that will produce sustainability.

11.3 Research and Development

The Project included an R& D component funded by CIDA. The intention was to set up an R&D unit within the CBSL to support rural enterprises in market analysis and technology issues, and to sponsor specific R&D projects. The creation of the R&D unit was abandoned, according to the CIDA Termination Report, due to the Canadian executing agency's poor performance in transferring Technical Assistance, and it was not seen as a priority at the time by the CBSL.

11.4 Monitoring

In 1992-1993, a computerised monitoring system was developed which would enable the PCO to produce meaningful reports for Project management purposes. There are, however, some shortcomings in the monitoring system. A perusal of the system by the Mission revealed that much of the information required for effective monitoring is in fact captured in the databases. However the report programmes to process this data have never been specified or written. Competent contract programmers are available at least in some district offices but managers lack confidence in using this resource. As a result by the closure of the Project basic data processing tasks were not addressed and there is much that could be learned about performance over the years that remains locked up in the databases.

The requirement in the emerging structure is for an accounting and management information system different in concept and design from the Project monitoring system. The existing system will have to be re-assessed in the context of the emerging structures. The huge reductions in the cost of hardware and the increasing availability of high quality software that can be customised to local environments is one of the transforming elements in microfinance. The SFLCP organisations would be in a good position to exploit opportunities, as there is a high degree of standardisation in the clerical systems that are in use, in comparison with many countries. SEEDs it may be noted has a high level of commitment to MIS development in microfinance and high standards of existing expertise.

11.5 Impact Evaluation

The performance of the Project impact evaluation function has been commendable and clearly better than is the case in most development projects of the SFLCP type. Two major impact evaluation surveys were conducted and the reports provide important guidance to project implementation. Both surveys, however, did not attempt to assess sufficiently the economic progress of those villagers who did not participate in SFLCP activities. This adversely affects the chances of defining the causality between the project interventions and the improvements in the beneficiaries' standard of living. Both surveys would also have benefited from a more critical approach when analysing the income impact of the Project.

12 Social Mobilisation

12.1 Targeting

The Project activities were aimed at a definite target group based on the family income. At appraisal, the Absolute Poverty Level (APL) was considered to be LKR 16 800 per household, and the eligibility criteria for SFLCP was set just below this line. Since then, the APL was gradually increased to LKR 28 000 in 1994, which is still applied in the Project. The 1995 Impact Survey conclude that 80%-85% of the entrants to the Project have had households incomes below the APL. During implementation, IFAD proposed that the APL as eligibility criteria should be adjusted by annual inflation and fixed at the beginning of each year. This has not been done, and the LKR 28 000 still used as a poverty criteria is unrealistically low for current circumstances. It has made the entry to Project activities unnecessarily difficult.

Targeting of the poor was done through a bureaucratic process of form filling for later recording on database. There was no experimentation with alternatives such as of village level wealth ranking. Average loan size has been the only operational measure of poverty focus. The absolute number of small loans in defined size ranges would better measure the commitment of Project agencies to the poor, the number of new borrowers of small loans, and trends in these figures.

12.2 Mobilisation

The SAR target was to mobilise 32 870 beneficiaries in small groups of 5-10 people. This target was substantially exceeded and at the closing date of the project, 50 115 beneficiaries had been registered in SFLCP groups. This is a commendable achievement and indicates that the target population has welcomed the SFLCP development approach. From this total at December 31st 1998, 6,201 or 12.3% were included under Development Societies, 9,235 or 18.4% were under the SEEDs organisation, 6,713 or 13.4% were under DTCCs, and the tiny Kandy based GSS had 156 or 0.3%. The remaining 27,810 or 56% remained within their original small groups presumably to be formed into development societies at some time in the future.

13 Impact on Beneficiaries

The main outcome identified in the Project impact studies was that by 1993, 25% of Project beneficiaries had crossed the Absolute Poverty Line. By 1995 this figure had increased to 58% and by 1997, to approximately 80%. While acknowledging the positive impact of SFLCP on family incomes, the Mission feels that these results may somewhat overestimate the Project impact. Particularly in the 1995 and 1997 surveys, an artificially low APL figure was used as a yardstick, even although recommendations were made earlier to adjust the APL estimate annually to take into consideration the inflation in the country. Furthermore, the above studies were not able to define the causality between the Project interventions and the household income increases.

Another conclusion was that it was the lowest income categories that were unlikely to move beyond the poverty due to the low productivity of their enterprises. In addition to credit, they would have needed a bigger push in the form of technical advice, skill development, as well as opportunities to move into the production of goods with higher income elasticity of demand, higher value added and better markets. The studies also observed improvements in the general living conditions of the participating households in the form of better food better housing and increased ownership of household assets. In the case of most households in which beneficiaries obtained credit, there was also a changing pattern according to which family activities tended to revolve more around the Project-funded activity. A relatively small proportion of the total value of loans was invested in crop production. This confirms the observation in other IFAD credit projects that the effectiveness of credit in poverty alleviation in rural areas is linked to opportunities for diversification and access to markets.

In the view of the mission, at least as important as the income effect is the impact of the Project on the skills base and self-confidence of scheme participants, particularly on women who constitute nearly 70% of the registered group members.

14 Environmental Impact

The Project has had neither positive nor negative environmental impacts. First, the scale of its scattered on and off-farm micro operations has been too small to have a sizeable impact. Second, the nature of enterprises undertaken would make it unlikely that any would have environmental impact.

15 Replication

Two districts, Batticaloa and Ampari, were provisionally identified as areas for extension under the IFAD share of the Project. The criteria for the selection of districts and the validity of nation-wide implementation of the ‘Grameen model’ were raised in the Mid Term Review. The points made reflected concerns expressed in the Summary of Thematic Lessons on IFAD Credit Projects produced by in 1994. The expansion did not go ahead and the latter years of the Project were absorbed in re-structuring within existing provinces. An OECF funded project is to expand the approach developed under the Project to six new districts commencing in the year 2000. In view of this development no steps towards IFAD involvement in replication were deemed necessary. However, the issue of co-ordination between the old IFAD/CIDA districts and the new OECF districts remains a key concern.

16 Sustainability

The Mid Term Evaluation Report in 1994 flagged for the first time the significance the reduced role of NGOs would have for Project sustainability and recommended an increasing role for them. The UNOPS follow-up Supervision Mission in May of 1997 discussed the issue of a follow-on Project with the CBSL. Since by the time of the Mission of November 1997 no proposal had been received from the GOSL numerous issues related to sustainability were raised and possible strategies were discussed in broad terms. The Evaluation Team Mission noted following its work in May 1999 that the new organisational approach was 'still in its early stages......' and that 'the process (of establishing an efficient credit delivery system) is moving in the right direction', but that 'major systems institutional and manpower development activities are still required to develop the SFLCP approach into a sustainable rural savings and credit system...'

On the 24th of November 1999, with a yet another deadline for the termination of CBSL involvement approaching, a meeting took place between the CBSL and the RDBs. The banks informed the CBSL that in their opinion the institutional arrangements created under the Project were insufficiently developed for them to safely take-over. Also they themselves were not adequately prepared for the task. The CBSL then decided to continue in its present role in the Project including the operation of Project Development Offices in the four districts for a further one-year from 1st January 2000. The resources of the revolving fund will be used to meet costs.

17 Recommendations

The senior management of the CBSL confirmed to the Mission in May of 1999 that they see the continuous development of the SFCLP a key task of the RCD. The following recommendations are made in the context of the project work as an on-going concern fully engaging institutional and systems development.

17.1 Use of the Revolving Fund

As noted above the draw down of the IFAD loan was based on gross financing demand, as oppose to demand net of recoveries. The Loan Agreement itself does not provide guidance on the basis for the draw down requests but the procedure used in the SFLCP is exceptional within IFAD practice. Large unutilised resources were in existence at the end of the Project and these remained throughout 1998/99.

It is clear from the Mission's findings on the re-structuring of the institutional set-up which is still in progress that it would not be possible use the surplus funds for heavy increases in re-finance to the target group without a parallel subsidised institutional development programme. An indicative calculation of the resources available from the revolving fund for such a programme is shown at Annex 1. The calculation is based on a five-year programme during which the 1998/99 level of operational expenses is maintained. At the end of this period all the available resource would be deployed as loan re-finance for the target group. The calculations show that the CBSL has sufficient funds available at least to meet the operational costs of such a development programme. It should be noted however that the CBSL bears exchange rate risk and the validity of the calculation depends on the assumption that future levels of depreciation will be greatly reduced in comparison with experience in the 1990s.

It is recommended that whilst the full deployment of the resources of the revolving must be an objective, this should be achieved progressively over a number of years, linked to the progress of an accompanying development programme.

17.2 Social Mobilisation

One of the most impressive outcomes of the Project is the extent of social mobilisation, attitudinal change, and commitment amongst the beneficiaries in the groups that have been successful. This is seen as a direct result of the high quality of leadership that has been provided by the direct participation of the CBSL staff in Project implementation. Precipitous withdrawal of CBSL support would put at risk past Project achievements. It is recommended that whilst major institutional building tasks remain and no strategy is in place to institutionalise the CBSL role, the CBSL continue deployment to support the newly formed organisations.

17.3 Project Management and Institutions

In recent years the role of Central Banks in rural financial market development has been debated in Sri Lanka as elsewhere. One of the key issues has been whether the Central Banks should confine their role to policy making and regulation. With the approval for the OECF project to expand the SFCLP approach in six new districts the current policy of the Bank appears to be that of continued active participation. However, this policy is necessarily in the context of a strategy to institutionalise the CBSL role within project agencies and the newly formed beneficiary organisations. Notwithstanding the important role that the Central Bank continues to fulfil through the PDOs, it is recommended that institutionalisation and so sustainability be recognised as the key issues.

Different options have to be evaluated in respect of the approach to institutionalisation. The CBSL may prolong its role to the point that the beneficiary organisations themselves can stand alone. Alternatively it may be done by through strengthening of a project agency and hand-over of the CBSL tasks to that agency. SEEDS is the most obvious candidate in this regard. The RDBs on the other hand did not during the lifetime of the SFCLP prove themselves to be suited to the type of institution building task on which a final successful outcome to the SFCLP will depend. Alternatively diverse solutions may be appropriate; the district level unions may individually seek out NGO partners for continuing technical and financial support. It is recommended that these options and other possible options are evaluated and an appropriate strategy to institutionalisation is adopted.

17.4 The Rural Finance Approach

1. The rural finance approach which had emerged as successful by 1997 was based on societies made up of groups of groups managing their own internal savings account whilst individual members with the assistance of the society contracted loans from the RDBs. This is envisaged as a growth stage towards a 'village bank' model in which the societies will manage both an internal account for the re-investment of savings and an external account for bulk borrowing by societies. The model that this replaced of small groups providing savings to the RDBs in a group account as security for individual loans produced high rates of failure. It is recommended that the new approach be extended to as many as possible of the existing groups and in future is the model for the launch of new groups.

2. The future development of the village level societies has to be planned jointly with the development of the district level unions. Three areas of activity should be mapped out and managed as discrete divisions. Village level savings and credit - operations and development, business services, and beneficiary training. It is recommended that this division of activities is adopted as the basis for the financing, management and sustainability of the beneficiary organisations.

3. The further development of the societies as village banks would be a major achievement. However on the basis of wider international experience it will be a challenging undertaking. It is recommended that it is engaged only on the basis of clear performance criteria and prudential standards for societies which are been adhered to over prescribed time periods, and upon the formation of a detailed plan for the development of the district level unions.

4. Further attention is needed to a systematic approach to managing and reporting on delinquency. This will have to be reflected in changes to the Project database management information system. It is recommended that a delinquency policy and procedures is drawn up and agreed with the RDBs.

5. The RDBs are engaged in the SFCLP is three roles; as providers of the individual joint liability loans to group members, as bankers to graduating project beneficiaries with growing businesses, and in the future as providers of bulk loans to societies. It was a weakness in the SFLCP that no effective mechanisms were created to develop the capacity of the RDB branches in serving the SFLCP target group. The OECF project also recognises the important role of the RDBs and particularly the need to up-grade outdated clerical accounting and management information systems. It is recommended that branch level issues that impact on the effectiveness of the RDBs in serving the SFLCP target groups are included in planning future activities.

6. The village level institutions policy of the SFCLP should be looked at afresh in the context of a growing membership and a rural finance approach in which sustainability is a key concern. At one end of the spectrum is an organisation exclusively to assist the graduation of the poor to the formal banking system. At the other a village-banking model committed on a community wide basis, seeking to retain and provide services to clients with growing businesses. It is recommended that this issue is re-examined both by discussion within the beneficiary organisations themselves and by the CBSL in the context of sustainability.

17.5 Beneficiary Training and Business Services

Beneficiary training, in the localities where it was well organised and delivered, was undoubtedly a successful element of the SFCLP strategy. Both beneficiary training and business services are incorporated in the 'credit plus' approach under which the SEEDS organisation operates. Continuing support by the CBSL to the district level unions for the creation of effective linkages between training services providers and beneficiaries will be required. It is recommended that a medium term plan for institutionalisation within the district level organisations of training and also of business services is drawn up together with a financing plan.

17.6 The Management Information System

The effectiveness of the Project management information system has been hampered by difficulties in retaining a qualified data base user in the Project Head Office and by a lack of confidence in managers in using the resource. In the short-term both of these problems should be rectified. Enhancements should also be made to the standard reports produced by the system to overcome the deficiencies mentioned in this report. In the longer term the needs of the societies and unions for an MIS will have to be addressed. The scale of implementation of the SFLCP, the existence of uniform book-keeping and accounting practices in SEEDS, the PDO supported societies and, it may be expected, under forthcoming OECF project, coupled with the greatly reduced cost of suitable hardware, are all factors which point in favour of a substantial investment in both hard ware and software for an 'SFLCP MIS'. SEEDS have a high degree of expertise in this area and FAO Microbanker is well established in Sri Lanka. It is recommended that as a first step use is made of this expertise in collaboration with the OECF project for the preparation of a proposal for a suitable system.

17.7 CBSL Staff Training

It is recommended that as a first step towards improved staff training the CBSL properly stocks and maintains up to date a microfinance resource centre. Publications from the World Bank assisted CGAP would be very suitable for inclusion. A set of induction training procedures should be worked out for all new staff joining the Project. Staff should be assisted in developing computer skills including for managers the use of databases as a resource in project management. Senior managers should have access to material on the rural finance in neighbouring Asian countries. Study trips are also appropriate provided these are researched in advance and properly planned. It is recommended that a staff-training regime be introduced which reflects the above points.

17.8 Co-ordination With the OECF Extension Districts

The development work on the SFLCP will during the future years continue on two fronts: in the four "old" IFAD/CIDA districts with the funds still available from the original IFAD SFLCP loan, and in the six new districts supported by the forthcoming OECF loan. In view of the stage of development and momentum already created in the old districts it is recommended that the systems, institutional and manpower development programme outlined in these recommendations are initiated in these four districts. It will be some years before the new districts reach an equivalent stage.

17.9 Sustainability

By normal standards micro finance institutions support programmes aim for financial sustainability within a 3-5 year time span and institutional sustainability within a 7-9 year time span. The year 1994 would be a reasonable start point for these time periods. Subsidy, technical support and training will continue to be required for years ahead. The foregoing recommendations taken together are an outline of the scope of the programme required during these years to ensure the sustainability of the project achievements. *It is the principal recommendation of this Report that a planning group is formed with support from IFAD to draw up a strategy and a comprehensive plan for this which will form the basis, among other things, of future CBSL commitment.*

18 Key Lessons Learnt

1. The target group in the Project districts and women in a particular have proved to be very responsive and capable in group activity, and to integrated savings credit and training services. This is also reflected in the large scale and successes of the SEEDs organisation. This should be recognised in future programmes targeting rural communities in Sri Lanka.
2. The Grameen Bank was inspirational in the original project design. There is little resemblance between SFLCP organisational model as it has evolved and the Grameen Bank. A more decentralised organisational model is appropriate in Sri Lanka. There is now a much wider range of successful microfinance organisations operating in socio-economic conditions more similar to those in Sri Lanka which it would be more valid to study.
3. The engagement of numerous NGOs was not a successful strategy. Whilst the reasons for this may be various it is a general fact that many NGOs participate in microfinance exclusively with a village level focus. Scale of operation, a commitment to institution building and linkages, standardisation of systems and professionalism in finance are not required in this context. It is therefore unlikely that the numerous NGOs that were engaged initially could anyway have carried out the role that the PDOs later fulfilled in the SFLCP.
4. Following the internal re-organisation in 1994 the major role played by the CBSL in the operational aspects of the Project been an enormous strategic advantage. However until a strategy and plan to institutionalise the role played by the PDOs is formulated and carried through there can be no conclusion on the success of the initiative of the PDOs to form autonomous member controlled beneficiary organisations. It is by no means a foregone conclusion that village banking and district level unions can be organised successfully on a large scale or that this is universally the correct next step. The strengths and aspirations of societies vary and there may be many situations in which consolidation and improvement in the administration of individual loans by the RDBs is appropriate. The strategy for institutionalisation will have to take account of this.
5. SEEDs have played a vital role in the SFCLP in the context of strategy, training and systems development. The organisation may be expected to play a central role in the OECF Project. The working relationship between the CBSL and SEEDS needs to be strengthened for the benefit or both organisations when undertaking projects like the SFCLP.
6. The main area of failure in the Project was the engagement by the RDBs in-group formation with no real commitment or mandate on their part for the institution building task that was required. This occurred in the early years of the project and resulted from a clearly supply driven approach to credit for poverty alleviation.

19 Agreed Actions

The need for continuing action to ensure the sustainability of the project achievements and to make full use of the resources of the revolving fund is manifest and agreed between all parties. Taking this into consideration, during the follow-up mission in November of 1999, discussions were held within the RCD of the CBSL to the effect that:

1. A Planning Group will be set up under the chairmanship of the Rural Credit Division of the Central Bank having all stakeholders in the Project as members including SEEDS and if possible representation on the forthcoming OECF Project. The group would convene over a one-month period agreed in advance between the participants.
2. The output of the group would be a documented plan for the future of the institutional arrangements created under the SFLCP focussing on co-ordination with the OECF Project, institutionalising the role played by the PDOs, sustainability, and the need for future IFAD inputs.
3. The CBSL would agree to receive a technical assistance mission from IFAD to formulate a medium term plan for the sustainability of the Project. This mission would work in collaboration with the Planning Group.

There are a number of possible scenarios for IFAD commitment under the plan: (a) the exercise may be limited to the documentation of the plan, negotiated and agreed between the parties (b) further IFAD assistance might be written into the plan to support the rapid development of arrangements for a withdrawal by CBSL from district offices (c) IFAD involvement would continue for some time through a division of responsibility with the OECF Project for systems and other development work common to all ten districts as well as for support for continuing growth in the old districts.

20 Acknowledgement

The Missions held discussions with various officials responsible for Project implementation. All the four Project districts were visited and representatives of beneficiaries interviewed. The findings of the mission were discussed in a final meeting chaired by the Mr. G.M.P.D. de Silva, Executive Director of the Central Bank of Sri Lanka, on the basis of a draft Aide-Memoir. The Mission wishes to acknowledge with thanks the full co-operation and assistance provided by all partners met during the mission's visit to Sri Lanka. The follow-up Mission conducted by Mr I Francis likewise acknowledges the co-operation and support of the staff of the CBSL and Mr WJ Wijewardena Head of the Rural credit Department in particular as well as those of the participating agencies.

Appendix 1

Assets Less RF Expenses 98 to Aug 99 and External Debt

	Ifad	
	Rs	USD
Investments	206,425,278	2,907,398
Income	74,822,591	1,053,839
Loan OS	108,666,675	1,530,517
	389,914,544	5,491,754
Less Expenses 98/99 Not Deducted	13,000,000	183,099
		5,308,656
Less Total External Debt		5,379,242
		-70,586
Less estimated service charge at 1%		100,000
		-170,586

Calculation of Income Available for Subsidy 2000-2004

	1999	2000	2001	2002	2003	2004
Loan OS Year End	1,530,517	2,261,400	2,992,283	3,723,166	4,604,049	5,484,932
Loan OS Income 2% Net		37,919	52,537	67,154	83,272	100,890
Investments Year End	3,960,915	2,998,834	2,434,157	1,800,126	966,284	69,326
Investment Income		382,786	298,815	232,886	152,153	56,959
Expenses		100,000	100,000	100,000	100,000	100,000
External Debt 1999 Shortfall Compensation		34,117	34,117	34,117	34,117	34,117
Subsidiary Loan Repayments		135,000	135,000	135,000	135,000	135,000
Total Value of Funds Before ERDepn		5,260,234	5,426,440	5,523,292	5,570,333	5,554,258
Exchange Rate Depn 1.5%		78,904	81,397	82,849	83,555	83,314

External Debt 99	5.4
SL Repayments	0.675
External Debt 2004	4.725
Total ER Dpn	0.41
Fund value (5.554-total Er Dpn)	5.14
Fund value - external debt	0.415