

9

Community finance systems in Sri Lanka



Community finance in SRI LANKA =

SAVINGS GROUPS

- 7,620 groups in 69 cities
- 80,020 saving members
- \$13.4 million in total savings
- Savings started in 1989



CITY FUNDS

- 40 Women's Coop Branches
- in 69 cities and towns
- \$13.4 million in lending capital
- First branch started in 1989



NATIONAL FUND

- Community Livelihood Action Facility Network (CLAF-Net)
- \$733,159 in lending capital
- Started in 2005

THE STUDY :

The community finance study in Sri Lanka was carried out by members of Women's Coop, with support from the Colombo-based NGO Sevanatha. The study focused on 185 WB branches, but figures were gathered for all 277 branches around Sri Lanka. Besides the summary of the Sri Lanka study presented here, more details about various aspects of Sri Lanka's community finance story are highlighted in later parts of the report:

- Lots of women (Pg. 50)
- "They are so rich" (Pg. 54)
- Looking after others (Pg. 59)
- High interest rates (Pg. 67)



■ **A HISTORY OF PROGRESSIVE HOUSING POLICIES:** Like its bigger neighbors, the island nation of Sri Lanka, with a population of 21 million people, is urbanizing fast, and poor migrants seeking opportunities are pouring into cities, where problems of housing and slums persist. After Sri Lanka won its full independence in 1973, following three centuries of colonial rule, the new republic became, for a while, an incubator for some of Asia's most progressive and pro-poor housing policies. Policies were enacted in the early 1970s to control rents and to enable poor tenants to become owners of their housing. The Local Authority Housing Act of 1979 empowered towns and cities to issue house ownership to poor families living in municipal houses and on municipal land, and to provide basic services to poor settlements. The National Housing Development Authority (NHDA) was set up in 1979 and launched a number of housing programs for poor families. In the early 1980s, the Urban Basic Services Program (UBSP) set up Community Development Councils (CDCs) in urban poor settlements, to plan and carry out a variety of projects to address problems the communities faced, through a system of "community contracts." The communities would plan the projects and carry out the work themselves, then the government would reimburse them for the work, according to certain fixed rates for roads, drains, toilets and water supply systems. For the government, this was a way to spread scarce development resources over a wider area, and for communities it was a chance to upgrade their settlements and generate some employment locally in the process. This same system of CDCs and community contracts was put to use in the Million Houses Program, which the NHDA launched in 1985. In this program, the state changed its approach from providing housing to being facilitator of a housing process in which poor people in rural and urban areas built their own housing, and the government supported them with soft loans and technical assistance.

■ **EVERYTHING BUT LAND TENURE:** Most of the poor settlements in Colombo and other cities by the end of the 1990s were partly or fully upgraded under the UBSP and Million Houses Program, but in most, the land tenure remained insecure. In the late 1990s, the government began shifting to a strategy of demolishing inner-city settlements, turning over the land to developers and resettling the people in high-rise buildings whose construction was cross-subsidized by the private sector profits from redevelopment of the former slums. Now that the country's long civil war is over and Sri Lanka's long-delayed urban development is moving into high gear, the economic pressure on urban land is making the government more amenable to this kind of top-down solution, and the specter of large scale evictions is looming.

■ **COMMUNITY FINANCE IN SRI LANKA:** Sri Lanka also has a history of some quite progressive community finance programs, driven by the government. The British introduced community-based Thrift and Credit Cooperative Societies (TCCSs), mostly in rural areas, in which people gave micro loans to each other from their pooled savings. After independence, as part of its focus on alleviating poverty in rural areas, the government greatly expanded and federated this system of TCCSs (there are 8,500 today), and later introduced "Samurधि Bank Societies", which also operated in rural areas, but with more government control. In urban areas, some banks and finance companies have dabbled in micro-finance lending to the poor, but follow conventional banking procedures and come with high interest rates.

■ **WOMEN'S COOP:** It wasn't until the last years of the Million Houses Program that a truly community-managed finance program emerged in Sri Lanka, in the first Women's Bank savings groups. It all began in 1989 when nine poor women in a Colombo slum came together, with support from a community activist named Nandasiri Gamage, and began their collective loan fund with a capital of 45 Rupees (US 30 cents). At first, their savings program was supported by the NHDA, but when the agency's leadership became too heavy-handed and authoritative, the growing network of women's savings groups decided to break away and manage their program independently. In 1990, the women decided to formalize their savings program by registering it with the government as a district-level cooperative society. Two years later, as the savings process spread to towns and cities outside Colombo, Women's Bank upgraded their registration to a national level cooperative federation, and were re-christened as Women's Development Services Cooperative Society - or Women's Co-op, for short.

■ **SMALL GROUPS:** In the Women's Coop system, the basic unit is the small savings group of 5-15 members, who live near each other and meet every week to save and transact loans. If the group grows larger than the 15-member limit, it divides like an amoeba and forms two groups. The idea of these small groups is to keep them to a manageable size, so everyone can agree, everyone can take part and nobody has too much burden. As Anoma Jayasinghe, a former WC Finance Secretary put it, "Five to fifteen members is a good number for sitting together and discussing; if you have more than that, it becomes difficult to make decisions." She also explained that the groups are not only for savings and loans. "All problems and issues come to the savings group. We help each other in every way; we're like a family. When someone in a member's family dies or is sick, her other group members come and cook for her visitors."

277 CDFs in the study (figures in US\$)

SAVINGS LINKED TO 277 BRANCHES

- Total number of members 80,020 members
- Number of savings groups 7,620 groups (in 69 towns & cities)
- Total savings \$13.4 million (2.01 billion rupees)

CAPITAL IN 277 BRANCHES

- From member savings \$13.2 million (100%)

LOANS FROM 277 BRANCHES (2004-2015)

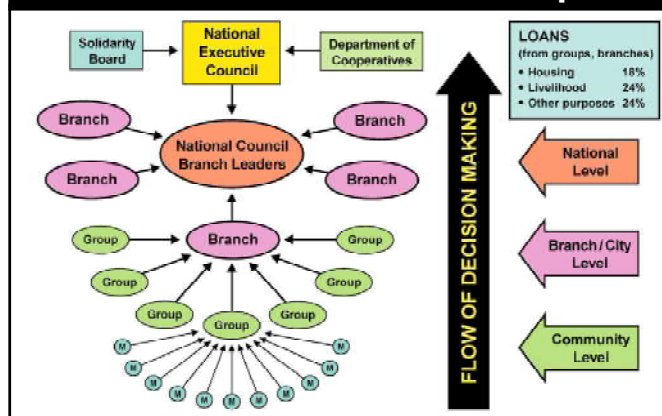
- Housing and land (18% interest) \$204.7 million (81,573 hh)
- Income generation (24% interest) \$103.3 million (144,227 hh)
- Other purposes (24% interest) \$139.8 million (206,089 hh)

TOTAL LOANS \$447.8 million (441,889 hh)

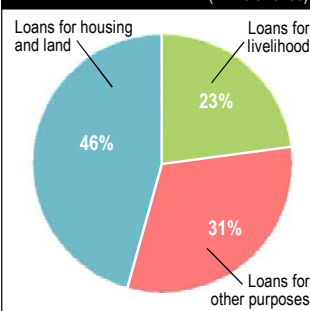
GRANTS FROM 277 BRANCHES

- Welfare + insurance \$365,280 (528 hh)

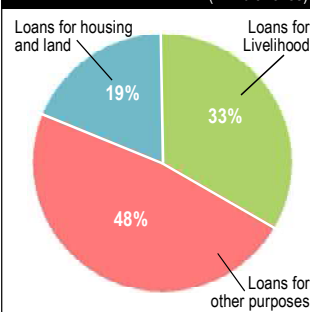
SRI LANKA: Structure of Women's Coop



LOAN AMOUNTS (277 branches)



LOAN NUMBERS (277 branches)



■ **BRANCHES WORK LIKE CDFs:** 8-30 of these small savings groups then form a primary branch. In smaller towns, there may be only one branch, but in larger cities, there will be several branches. When a branch gets larger than 300 members, it will divide and make two branches. Each savings group chooses a leader to represent it at the branch level, and these group leaders elect the branch management committee from among themselves, and that committee takes decisions about branch-level loans and other matters. The savings groups keep some of their savings in the group, for their own small internal loans, but save larger amounts at the branch level, which functions like a larger CDF for its members. The branches also manage a variety of welfare and health programs (see page 33), funded completely by members. Both small groups and branches have complete decision-making power over the money kept at their level, and no money leaves the city. Group leaders are also tasked with looking after other groups, and that develops friendly links between groups and makes it easy to monitor progress from the grassroots level. The national executive council, which is funded by small monthly contributions from members, provides direction and support, sets policies and innovates with new programs. It also provides advisory services on housing, tenure, education and other issues. All the national-level leaders are elected by the members and have a tenure of only two years. Usually, the old leaders are voted back every two years, but the crucial point of the short tenure is “to keep the leaders responsible.”

■ **SAVINGS AND LOANS:** Women's Coop members do seven types of savings, all of which earn interest, and also contribute regularly to five special funds. Members take loans to meet a variety of needs (education, emergencies, housing improvements, service connections or consumer purchases), but the overwhelming majority of loans are for livelihood, to improve the women's incomes and boost their families' economic position. Loans for all purposes are made to individual members, only very seldom to groups. There are standard policies throughout the country on loan terms and ceilings, which are determined by an individual member's savings record, according to a staged lending system in which members can take progressively larger and larger loans each time they pay back the last one.

Why such HIGH interest rates?

Women's Coop members pay 24% interest on all loans except for housing loans, which are given at 18%. To many community savers in other countries, those rates seem very high. But the women are fiercely proud of their system and quick to point out that all that interest goes right back into the group or the branch-level loan fund, where it brings more benefit to more members, finances many of their programs and allows them to remain an independent and self-sustaining national support system for the country's poor women. And that 24% is still much lower than the interest rates charged by informal money lenders in Sri Lanka (120 - 240%), which used to be the women's only credit option.

Seven types of SAVINGS available to members and friends:

1. **Compulsory savings:** Each member must save at least 5 rupees per week, at the weekly meeting.
2. **Member savings:** Members can save any amount they like, and this saving earns 6% interest.
3. **Children's savings:** To motivate children to save, for their own school needs and treats.
4. **Non-member savings:** Branches also accept savings from non-members and pay 6% interest.
5. **Fixed-term deposits:** Open to both members and non-members, earning a higher interest.
6. **Society savings:** Welfare societies and community organizations can save with Women's Coop.
7. **Shares:** Members pay 3 rupees/mo (to the branch) & 1 rupee/month (to national Women's Coop).

Members also contribute to five special FUNDS: (See page 33 for details)

1. **Life Insurance Fund:** Members who make a one-time deposit of \$110 to this national-level fund will qualify for \$3,000 in benefits when a member or her spouse dies.
2. **Health Fund:** All members can get health care and hospitalization benefits paid by their national and branch-level health funds, and can also access care directly from WC clinics and hospitals.
3. **Welfare Fund:** The various welfare programs for members are paid for by this fund.
4. **Rescue Fund:** This fund (also called the “Security Fund”) covers losses to the branch, and is financed by a percentage of income earned on interest from loans from the branch.
5. **City Development Fund:** This fund, established in 2012, during the ACCA Program, finances various development activities in communities where members live - improvements which benefit both members and non-members. Each branch allocates \$1 per member per year to this fund.

9

■ **100% SELF-FUNDED:** All of the Women’s Coop’s operations, overheads and activities - and all its lending capital - are funded by its members. Every month, each member pays one rupee for national coordination and three rupees to support branch-level activities. With 80,000 members, that means about 1.3 million Rupees (\$8,500) each month for national coordination and branch activities. Each branch also sets aside 1.5% of its interest income for training the “educated daughters” of members to be auditors, as rigorous auditing of accounts is a monthly ritual at both branch and national levels.

National CLAF-NET fund adds more citywide aspects to WB’s work . . .



During the course of the first small upgrading projects in the city of Moratuwa, financed by the CLAF-Net fund, the mayor helped to negotiate for 488 poor families in eight settlements to be granted freehold titles to their land. “This was the first time we have been able to give title deeds to shanty dwellers in Moratuwa,” Mayor Samanlal Fernando said. “We don’t have control over a lot of the land in the city, which is under the control of various central government agencies. But if we have the people’s support, our negotiations with the central government are stronger.”

The Women’s Coop’s membership-based structure has been very effective at improving the lives and economic position of its individual members, but less able to deal with larger settlement-wide and citywide problems of land, housing and access to basic services. In the last 13 years, though, the Women’s Coop has been able to reach out and complement its 100% people-owned and member-based development program with a more citywide perspective and more collaborative activities in the cities where it operates, through its close working partnership with the national CLAF-Net Fund.

The Community Livelihood Action Facility Network (CLAF-Net) is a national revolving loan fund that was set up after the 2004 tsunami, with seed capital from ACHR, as a collaboration between Women’s Coop, Sevanatha, and other local NGOs. The independent fund is managed by a steering committee which includes representatives from WC, Sevanatha and other community organizations. Initially, the fund provided individual loans to savings members in tsunami-affected communities, to restore livelihoods and repair damaged houses. Then, between 2009 and 2014, CLAF-Net’s capacities were greatly expanded when the ACCA funds for Sri Lanka (about \$1 million) were added to the fund’s lending capital and given out in loans for various purposes, mainly to WC members around Sri Lanka.

To address those larger, more structural problems in the ACCA cities, CLAF-Net worked with WC to develop a more citywide and more collaborative process, with more emphasis on building working partnerships between the local authorities, local NGOs, Women’s Coop and the local communities, which they called the Urban Settlement Upgrading Program. In each new city, Women’s Coop initiates savings in as many settlements as possible, right away, and a joint process to survey and map all the communities and vacant land in the city begins, with community members taking the lead. A citywide slum profile is prepared and then presented and discussed with the mayor and council members. This detailed information about slums in the city is then used as the starting point for a process of participatory citywide prioritizing of problems, citywide planning and action by the communities, with CLAF-Net and Women’s Coop providing guidance, technical support and flexible finance from two sources.

In some cities, collaborative City Development Committees have been set up, with the local authorities, community leaders, Women’s Coop representatives and other actors, which now meet regularly to discuss and tackle key issues of concern to the poor in the city. In several cities, these collaborations have led to some striking breakthroughs. In the town of Nuwara Eliya, for example, in the tea-growing central highlands, most of the town’s 32 slum settlements now have savings groups, and several have been upgraded. The mayor chairs the joint city development committee, which meets once a month and has become the key platform for discussing and jointly addressing land and housing issues of the poor. The mayor has regularly taken the communities’ side in these meetings and helped negotiate with other national land-owning agencies for secure tenure in several settlements, and municipal staff now routinely join Women’s Coop leaders when they start savings groups in new areas.

Although it operates as an independent fund and continues to partner with other organizations, most of CLAF-Net’s loans have gone to Women’s Coop members who meet their internal lending criteria. Loans of up to \$1,670 are given for housing, land, toilets and livelihood, at 8% interest (members pay 12%, and WB keeps the 4% margin for its activities), and repayable in 18 to 36 months, through the savings groups and branches. CLAF-Net now meets most of its staff, overheads and outreach expenses through the interest earned on loans, making it another example of a self-sustaining institution.

CAPITAL IN THE CLAF-NET FUND

- Total capital \$733,159 (100% donor funds)

LOANS FROM THE FUND (2005-2016)

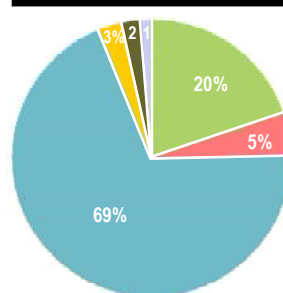
- Housing \$1.13 million (1,297 hh)
- Land \$47,143 (16 hh)
- Livelihood \$326,507 (2,270 hh)
- Agriculture \$78,118 (385 hh)
- Tube wells \$18,338 (120 hh)

TOTAL LOANS \$1.64 million (4,245 hh)

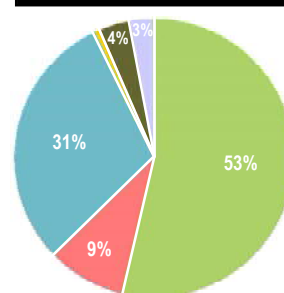
GRANTS FROM THE FUND

- Total grants \$230,446 (mostly ACCA)

AMOUNT OF LOANS



NUMBERS OF LOANS



- Housing
- Land
- Livelihood
- Toilets
- Agriculture
- Tube wells

SRI LANKA: Community finance at work



Conditions in resettlement camps like this one in Mannar are bad, and WB savings groups are using CLAF-Net loans to build toilets and tube-wells.

1 HEALTH AND INSURANCE PROGRAMS: Welfare is an important part of the package of programs and services available to Women's Coop members. Each branch runs its own welfare scheme, funded from part of the interest generated on loans from the branch, which provides for funerals, births and eye-glasses. Benefits are set by each branch and are scaled to the amount of the branch's savings. Older branches with more money tend to give higher benefits. In one branch, for example, members get \$250 for a death in the family, \$30 for a birth and \$30 for eyeglasses. Each branch also manages its own self-funded health care fund, in which members can deposit a certain lump sum every year, or every five years, to qualify for benefits. Most branches offer different levels of membership: one level pays for the whole family's full medical treatment and hospitalization, one level pays only for the member and her spouse, and one level only provides a subsidy. Some branches also run their own small health clinics. The Women's Coop also runs a national health program, with their own hospital and mobile health clinics. All these facilities are free for members, and all the nurses in the hospitals and clinics are daughters of members. Another national program offers life insurance, and pays \$3,000 to the family if a member dies. To join the scheme, members pay a one-time deposit of 17,500 Rupees (\$110), which is kept in a separate account, and loaned out at interest. The interest income provides the insurance benefits. Husbands of members get the same benefits, and if the husband and wife both die, the insurance pays double to their surviving family.

2 EVERY MEMBER IS A LEADER: The Women's Coop has found an interesting way of ensuring 100% participation - not just in savings, but in many aspects of development in the communities where WB members live. All women in each savings group are responsible for specific development issues, in a program they call "Every member is a leader." The subjects are finance, auditing, health, education, culture and media, welfare, housing, agriculture, disaster management, children and entrepreneurship. The leaders from each subject, from all the savings groups in a branch, meet regularly and select an "action committee" of five women, which meets once a week and manages all sorts of activities in the community. Leaders from each action committee then select a secretary, who represents that subject on the branch-level executive committee, which in turn selects leaders from each subject to represent the branch on the national councils - of which there are eleven: one for each development subject. These issue-based sub-networks are how new programs get developed within Women's Coop, and how information about them gets quickly disseminated, and needs quickly get addressed. When Women's Coop has big anniversary celebrations, the members of each subject group wear the same color saree and sit together in their hundreds, in carefully-arranged rows, so the stadiums where they gather look like rainbows - organized rainbows of women!

3 COMMUNITY FINANCE AND THE TSUNAMI: Soon after the 2004 tsunami destroyed 80% of Sri Lanka's coastal communities and left 40,000 dead and a million homeless, the Women's Bank decided that the best way to help people get back on their feet was to give them loans to rebuild their livelihoods and houses as soon as possible. They stood by their group-based savings and loan system as an effective and self-sustaining development mechanism, even in a catastrophic situation like this one. But to make it easier for tsunami-hit members to borrow, they relaxed their membership and borrowing rules and set up a special emergency loan fund for housing, land acquisition and income-generation (with an initial capital of about \$185,000 from Selavip, ACHR and WC members). A few days after the tsunami, 150 enthusiastic national WC leaders divided themselves into teams and travelled to the most devastated coastal areas to get the affected families to link together into groups and start saving, and then channeled loans from the emergency fund to these new groups, to start small businesses and rebuild houses. Besides money from these external funds, WC branches in Colombo also made loans to newer tsunami-hit branches from their own considerable savings, and this inter-group lending became a pattern that continues today. By November 2006, WC was working in 117 tsunami-hit villages in nine districts, with 7,000 new savings members in 65 new branches, who had saved \$195,000 and taken \$570,000 in loans. At a time when so many people were still languishing in squalid relief camps, or waiting for government compensation, these loans from Women's Coop were probably responsible for the greatest amount of housing reconstruction going on in the country.

4 COMMUNITY FINANCE IN THE WAR-TORN NORTH: When Sri Lanka's long civil war finally ended in 2009, the north of the country, where the worst of the fighting took place, was in ruins, and traumatized residents (mostly ethnic Tamils) who'd been forced to flee into the jungle or to refugee camps, began to return to their bombed-out communities or to government resettlement camps, to start their lives again. But conditions in both old and new communities were very bad: no functioning government, no housing, water supply, electricity or sanitation. At the same time, a lot of government and aid-driven housing schemes were being implemented, but their selection criteria was so heavy with bureaucracy that the poorest families were being left out. Women's Coop, CLAF-Net and Sevanatha all saw an opportunity in war-affected cities like Kilinochchi, Mannar and Mullaitivu to work with the people and build new linkages and areas of work. So as they did in the tsunami-hit areas, the Women's Coop began setting up savings groups, and CLAF-Net followed up with loans to new WC members for livelihood, toilets, tube wells, house repairs and roads. The war-torn north has now seen a huge growth of Women's Coop savings groups.