Microfinance for Livelihood Development

With special reference to the Conflict and Tsunami affected communities in the Eastern Province of Sri Lanka

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ABSTRACT

Even though microfinance known to be used as a bridge between rehabilitation and development stages, due to many reasons in the post Tsunami period, Aid agencies have not implemented large scale microfinance programmes. It is understandable that conflict was one of the factors slowed down the process of implementation of microfinance programmes, but it was certainly not the only factor which discouraged the Aid agencies to develop microfinance interventions. Most of the Aid agencies implemented small scale microcredit delivery through their local implementing partners but not many were willing to take up the challenge in planning for a large scale microfinance programme. Having followed the debate on whether microfinance is a tool to be used in post disaster situations, being a humanitarian worker, I had a special interest to identify the factors influenced the aid agencies to limited within small scale microcredit activities or not expanded the microcredit activities to the level of microfinance programmes in the area though funding was available. This study is limited to the aid agencies who had their own microfinance department or had heavy microcredit interventions mainstreamed into their livelihood programmes. Other profit oriented, privately owned Microfinance Institutions are not covered under this study.

Eastern province was taken as a sample for this study due to many reasons. The main reason is that all three of the Eastern districts are the worst affected districts by conflict, Tsunami and other natural disasters including droughts and floods. The other reasons for selecting the area is that the Eastern province received substantial funding from international Aid agencies in Tsunami relief and rehabilitation process. The province also accommodates all three ethnic groups living in. It is also a fact that the Eastern province is having varieties of livelihood opportunities and with a mixed group of people in different classes of lifestyle.

This study found that microfinance policies of Aid agencies were designed for the stable conditions. The microfinance policies of Aid agencies operated in the East have not included adequate guidelines on handling microfinance operations in Post disaster settings. Policies may specify differences in entry points, partnership principles, target groups, operational strategy and exit strategy in stable conditions, post disaster settings

and volatile environments. Microfinance policies also may include provision for disaster preparedness in order to protect microfinance operations and beneficiaries from disaster or reduce vulnerability from the effect of the disaster.

This study also highlights that Aid agencies could avoid forming new groups to undertake projects unless absolutely necessary. In addition, appropriate capacity building support to be given to the newly established groups and extensive trust building was needed, especially in the areas where newly settled or relocated after conflict. It is essential that Aid agencies facilitate to ensure equal participation from all different groups of people existing in the area and also ensure that the voices of most vulnerable and marginalized groups are heard. The working approach of Aid agencies could not have many variations in the same area and agreeing on common approaches was crucial, both for effectiveness and for perceptions of equity in the area. Synergies among different actors should be maximized through efficient coordination of stakeholders in the livelihood recovery process. It is to be ensured that information is shared to the level of CBOs (not limited within international and local NGOs) and integration to be promoted to avoid duplication and gaps and also to optimize the resources available for sustainable recovery.

Further, this study highlights that since the target groups is in very poor condition and unable to restart their livelihood without external support, it is essential that Aid agencies inject external funds in addition to promoting community savings. Even though, many microfinance programmes argue that injunction of external funds will create dependency syndrome, CBOs cannot function only with the savings from the communities (since the amount of savings are very small) in a post disaster setting, especially during the volatile situations in presence of conflicts. Therefore the microcredit capital issued from outside and savings from the communities to be done at the same time to ensure effective livelihood recovery. This study also recommends that market survey to be performed by the Aid agencies, information related to potential markets to be shared with the beneficiaries and acceptable level of link with external market facilities to be made.