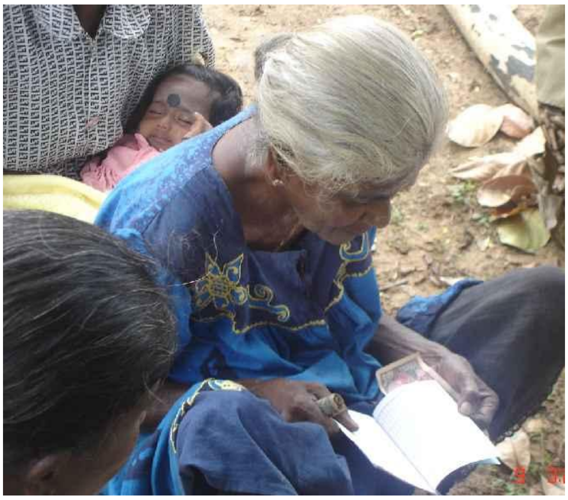
Programme Insights

7. Bridging The Gap

Building a financial services system that serves poor people in Sri Lanka



Members of a women-managed market garden producers' organization meet monthly with a bank loan officer in Inthupuram, northern Sri Lanka.
©Gayathri Jayadevan/Oxfam

Providing financial services for poor people in Sri Lanka in partnership with financial institutions, donors, service providers, and policy-makers, Oxfam GB is helping to build democratic, inclusive financial systems in Sri Lanka that serve the majority – poor people. Oxfam's indirect, facilitative approach aims to cultivate links between the formal financial services sector and people living in poverty. Poor farmers have taken advantage of affordable credit to start or expand businesses, improving their incomes and helping to lift their families out of poverty. Savings and insurance schemes now give them a cushion against hard times. In particular, opportunities for self-employment have increased the security of women and their status in the community.

Oxfam

Introduction: the financial services sector

In its programmes in Sri Lanka, Oxfam has targeted marginalized communities affected by conflict and natural disasters, especially the 2004 tsunami. Typically, members of these communities are engaged in low-income activities in agricultural value chains, such as small-scale farming and casual labour. Most small-scale farmers have few or no assets and depend for their livelihoods on subsistence farming, cultivating plots of less than five acres. In particular, Oxfam has worked to facilitate links between the formal financial services sector and people living in poverty, with the aim of strengthening the access of poor communities to a broader world of financial systems, markets, and development.

Over the past 20 years, increasing deregulation of the Sri Lankan economy has led to rapid growth in the financial services sector. Realizing the potential of financial services as an instrument to reduce poverty, the government has streamlined the process for private sector financial institutions to obtain licences to operate, thus increasing competition. Today's financial sector is diverse, with member-based financial institutions such as Cooperative Rural Banks, Samurdhi Bank Societies, and Thrift and Credit Cooperative Societies reaching a large number of clients, with the private sector playing a key role in the provision of services (ADB).[1]

However, by international standards the sector operates at a very low level. First, the lack of a national sector policy on micro-finance and the absence of a cohesive regulatory and supervisory structure mean that the performance of micro-finance programmes is poor.

Second, despite the relative maturity of the financial services market, Sri Lanka suffers from a regional bias, with service providers concentrated in Western and Southern provinces while Northern and Eastern provinces are hardly financed at all. In addition, many financial products are of poor quality – not client-driven or cost-effective, and poorly targeted. These problems are serious constraints on the sustainability of the financial services on offer and their accessibility for poor and marginalized communities. Some 60 per cent of the country's population remain unbanked (World Bank).[2]

Issues such as lack of collateral, weak legal systems, and a risk-averse attitude to enterprise culture create a greater dependency on the expensive informal financial sector.[3] Women in particular face difficulties, as they may not have the time, skills, mobility, or assets to meet the requirements of financial services providers. If married, they may not have control over financial services in their own name.

The new three-tier strategy

Improving access to affordable and sustainable financial services has always been a critical element of Oxfam GB's poverty alleviation strategy in Sri Lanka. From the late 1980s up until 2005, Oxfam implemented micro-credit programmes through NGO partners. In 2005, however, this approach was reviewed and it was realised that the model was very expensive in terms of NGO and donor resources, and ultimately unsustainable. There were a number of key reasons for this:

- Oxfam's relatively small capital base meant that the loans were small and limited in geographical coverage.
- Financial services work was not directly linked to a specific value chain, so borrowers took loans that were not subsequently invested in viable livelihoods activities. Oxfam was not able to provide technical support for all the activities.
- Oxfam's service delivery approach meant that it was viewed as a community benefactor; this encouraged a dependency mentality and a feeling amongst communities that they did not need to repay the loans.
- The approach had not responded to the changing context and in some cases involved significantly higher interest rates compared with subsidized credit channelled through the formal sector.
- Oxfam's position, experience, and focus did not enable it to influence the regulatory framework, even though this was a key reason for the poor performance of micro-credit programmes.

Oxfam also wanted to get away from the idea of segregating the financial needs of poor people and instead work to include them in mainstream financial services. It therefore ceased providing capital for finance, and instead moved to facilitate linkages between poor people, their producer organizations in local value chains, and formal or semi-formal finance providers. Oxfam's new role was to act as a broker, forging partnerships between different stakeholders in the formal and semi-formal financial sector: policy-makers and regulators, private sector financial institutions, civil society organizations, and promoters of financial services.

The programme it developed works on a multi-pronged approach, at national policy, institutional, and community levels, and four linkage models have been piloted in communities. These have engaged all types of financial institution in market-based lending, including commercial financial institutions (international and national banks) and formal micro-finance institutions (MFIs).

Oxfam GB's three strategic aims in the financial services sector

Level of impact	Aim	Target
Tier I **National policy**	Facilitate an enabling environment for the development of sustainable and responsible financial services in Sri Lanka	▪ Policy ▪ Regulation ▪ Legislation ▪ Supervision ▪ Donors
Tier II **Financial services providers**	Encourage providers of financial services to adopt market-based approaches and invest in quality support services that integrate poor women and men into the formal financial sector in successful ways	▪ Commercial banks ▪ Non-bank financial institutions ▪ Co-operatives and credit unions ▪ Finance companies ▪ NGO MFIs
Tier III **Individuals/ producer groups**	Build governance capacities of producer organizations, particularly those managed by women, to access financial services from the formal sector on fair and equitable terms and to help give them a more organized voice on livelihoods issues	▪ Smallholders/workers ▪ MSMEs ▪ Self-help groups ▪ Farmers' societies ▪ Co-operatives ▪ Women's rural development societies

In developing this strategy, Oxfam undertook socio-economic analysis to identify the poorest people and their credit needs. Community mobilization helped target the poorest for support and organized producers into groups in order to develop their skills in improved production methods, value addition, and business management. Advisory services and business counselling were provided. Oxfam then carried out a baseline survey to assess overall credit needs by sector and district, and a profitability analysis for each sector to establish the maximum affordable interest rates for enterprises in their first year.

Having identified viable financial services institutions, Oxfam then presented its findings and business plans. It entered into dialogue with a range of different institutions, including government-owned institutions, private for-profit institutions, and private non-profit organizations. Other stakeholders with whom it collaborated included government bodies both at national level (Ministry of Finance, Central Bank of Sri Lanka, Insurance Board of Sri Lanka, Agriculture and Agrarian Insurance Board, Ministry of Agriculture) and district level (District Secretariats, Department of Agriculture and Agrarian Services, Divisional Secretariats). In civil society it entered into dialogue with NGO micro-finance institutions, and in the private sector with the Bankers Association, Federation of Chambers of Commerce and Industry in Sri Lanka, and the Institute of Bankers of Sri Lanka. Bilateral donor engagement included the Asian Development Bank (ADB) and the World Bank, via the Central Bank of Sri Lanka.

How the linkage models work

A range of financial services linkage models have been promoted to support the growth and expansion of the dairy, paddy, market garden, and coir value chains in Sri Lanka. To date, more than 100 producer organizations have been involved in this initiative, mainly women's rural development societies, paddy farmers' societies, dairy co-operatives, and community-based organizations registered under the Department of Agriculture, District Secretariats, or the Department of Cooperative Development.

Linkage model 1: Bank provides finances, producer organization provides support

During Oxfam's negotiations with banks, profitability analysis highlighted the fact that linking clients directly to banks was a more efficient and cost-effective way for members of producer organizations to receive loans than delivering them via NGOs or MFIs. In this model, clients receive loans directly from banks, and producer organizations provide training, technical support, and monitoring. The producer organizations receive an administration fee from banks for monitoring work, which provides them with income. Such monitoring involves the banks working with the producer organizations to build rapport with clients and to follow up on repayments to reduce the risk of default. A joint monitoring and recovery system reduces costs and the risk of defaults, as producer organizations are able to pressure their members on repayment if necessary. Decision-making on loans is based entirely on business feasibility and financial sustainability, a factor that has contributed to 100 per cent repayment and has created interest among the banks to replicate the model in other districts. Currently, the model is being used in Hambantota (market garden value chain), Trincomalee (market garden value chain), and Batticaloa (paddy value chain).

Linkage model 2: Loans procured and disbursed by a producer organization

The delivery of credit through wholesale loans was selected as the appropriate entry point, because of producer organizations' institutional capacity and their legal entitlement to deliver cost-effective financial services. In this model, producer organizations receive wholesale loans from a number of different financial service providers and pool them into a common fund; they then provide smaller loans to members, with an administration fee (which provides income for the producer organizations) added to the interest rate. The business development services provided by producer organizations further support members in terms of financial and business management. These services include training on business planning, financial management, marketing and business counselling by technical experts. They also facilitate access to market information through collaboration with the Chamber of Commerce. This model is being used in Vavuniya (dairy value chain).

Linkage model 3: Banks provide both finance and training

Finance is provided through donor funding, so interest rates are subsidized and there is a stronger focus on community empowerment and poverty reduction. In this model, clients are linked directly to banks, which also provide business support and training. Communities are empowered to deal with banks directly and to negotiate terms. Ruhunu Development Bank and Sanasa Development Bank practise this model in the coir sector in Southern Province, with funding support from Central Bank of Sri Lanka.

Linkage model 4 (currently in negotiation): Banks gain outreach by linking with MFIs

This model focuses on partnerships between international banks and MFIs to provide greater access to end-users living in (ex-)conflict areas or in the remotest parts of the country. The model links large funds from international banks with well-established grassroots systems and the skills of local MFIs to accommodate small-value micro-credit transactions.

Box 1. Timely support for village entrepreneur

Kandasamy Nirmala, a resident of Satham Nagar in northeastern Sri Lanka, wanted to run her own business. Her husband's income from fishing was barely enough to meet the family's daily expenses; she needed something that would earn an income while allowing her to stay close to her children at home. She saw an opportunity in the fact that women from her village had to make a three-hour journey into town to buy groceries, and in 2002 she set up a convenience store in a front room of her house, selling groceries, vegetables, and fruits.

However, she faced competition when several other new convenience stores opened in the village. It was difficult for her to compete with their low prices because they sourced their products from a large wholesale market, while she sourced hers from a local wholesaler.

She needed a loan to gain a competitive edge over the other stores. But as a member of a revolving loan scheme, she was only able to borrow up to Rs. 5,000 ($108) at a time, at an interest rate of 10 per cent per month (120 per cent annually). In addition, she could not access money when she needed it, as she had to wait for other members of the scheme to repay their loans.

Kandasamy is also a member of the Satham Nagar Sarvodhayam Society, a community organization supported by Sri Lankan NGO Sarvodhaya and Oxfam GB. The society helped her to negotiate a loan from People's Bank of Rs. 50,000 ($1,077) at an annual interest rate of 8 per cent, and also helped her to access business management training and support from business development service providers such as Sarvodhaya Economic

Enterprise Development Services (SEEDS). This enabled her to invest in a wide range of supplies, attracting new customers, doubling her monthly stock turnover, and increasing sales from Rs. 600 to Rs. 1,500 per day.

She says. 'Now I earn enough to contribute equally towards the household expenditure. I have enough money at hand to look after my children's education needs [and] I now have the confidence to negotiate with bank officers and managers.'

Outcomes

To date, the activities of Oxfam and its partners have assisted some 40,000 wage earners and small-scale farmers, 70 per cent of whom are women. Access to financial services has helped farmers to obtain better prices for their produce, as they are no longer obliged to sell back to the traders who provide loans. On average, farmers have seen increases in farm gate prices of up to 200 per cent. Additionally, they have made savings on loan repayments, as interest rates on loans from the formal sector are as low as 8 per cent annually, compared with the 200 per cent per annum charged by the informal sector. Savings on repayments vary depending on the size of the loan.

The reduction in the costs of production due to the lower interest rates and the increase in farm gate prices have both contributed to generating increased profits. On average, farmers have seen their profits rise by 50 per cent over each production period (typically of six months). This in turn has enabled them to make self-investments. They have moved up the agricultural value chain and are able to engage in processing, transportation, and collective marketing schemes. Wage earners no longer need to rely on working as casual labourers to earn an income, but can now lease land to cultivate and can undertake farming activities on a permanent basis. Over the past three years, access to formal financial services has enabled more productive small enterprises to be started and existing enterprises to grow and become more profitable in higher-value sectors of the value chain.

Improving access for women

Oxfam's gender analysis, undertaken at the start of the programme, has helped to support women entrepreneurs, and 70 per cent of new enterprises are owned and managed by women. The gender assessment highlighted the particular financial needs of women (both married and single) and the challenges they faced in convincing banks to provide financial services tailored to their needs.

Gender inequities in access and use of financial services differed significantly for married women living with their husbands and for women heading households on their own. In the case of married women, the main issue was about who in the household controlled the credit obtained and the income earned from it.

Men generally assign responsibility for attending regular producer organization meetings to their wives, a tendency compounded by NGO policies that frequently target women for micro-credit programmes as part of their gender equity programming. However, while on paper the loan may have been taken by the woman in the household, decisions about what loans to take and the incomes earned from them largely remain in the hands of men. So the challenge with married women was to increase their say within the household through gender empowerment programmes, as well as to create spaces for them to engage independently in non-traditional livelihoods activities. Most women are confined to taking care of farm-related activities and have little or no involvement in agricultural markets. Oxfam's programmes have been working to create opportunities for women to engage in collection, processing, and transport activities, and also to promote women's engagement in managing construction-related enterprises such as masonry and carpentry.

Women heading households on their own by default have control over credit and income. However, social norms often prevent them from being recognized as the family's main breadwinner, and male relatives are frequently seen as such. As a result, women's entrepreneurial activities and need for credit may not be taken seriously or given priority. This is a particular issue in the northeast of the country, where years of conflict have meant that women head a significant percentage of households. Traditional cultural and religious beliefs continue to limit women's mobility, acquisition of skills, ability to make decisions, access to information and resources, and ownership of resources. In creating financial services for women, these issues need to be overcome – for example, by putting more emphasis on training and non-financial services, such as technical, financial, business, and marketing services.

Some of the recommendations implemented by banks to date include:

- Creating capacity development programmes specifically geared towards the needs of women, e.g. by including confidence-building and issues related to family responsibilities in training programmes;
- Developing approaches to marketing and promoting financial services that are more likely to reach women, e.g. through direct promotion in marketplaces and homes, through service fairs, in the context of radio programmes popular with women, and by presenting women as role models;
- Developing modalities for delivering financial services that enable women to benefit from them, e.g. bringing loan officers to communities instead of requiring women to go to banks, and

providing part-time financial management training spread out over longer periods of time.

Box 2. Supporting women to build sustainable businesses

Sharmila Nazreen Jerad lives in Puthukudiyiruppu, near Trincomalee in Eastern Province. For 20 years there were no formal financial services in her village because of the conflict in the region and displacement caused by it. People relied on limited sources of self-finance and on informal financial services, which limited their opportunities to improve their livelihoods and left them vulnerable to environmental and economic shocks.

Sharmila is Secretary of the Puthukudiyiruppu Women's Rural Development Society (WRDS) which, alongside Oxfam and local NGO SEDOT (Social Economic Development Organization in Trincomalee), negotiated with local banks to get them to respond better to the specific needs of rural clients. The banks' main concern was the risk of non-repayment. Using a series of examples, Oxfam and the WRDS demonstrated that loan repayment rates are often higher for women than for men, and also that targeting women encourages female empowerment and financial self-sustainability, while reducing poverty.

As a result, People's Bank has disbursed loans worth Rs. 200,000 ($4,306) to four members of the WRDS and is currently screening more members for loans. Sharmila herself borrowed Rs. 50,000 ($1,077), which she used to buy a cow; People's Bank also provided her with advice on business and livestock management. The cow had a calf and she was soon able to buy another cow from the proceeds of selling milk. She keeps some of the milk for her family and sells the rest, increasing her monthly income by Rs. 4,000 ($86).

In addition to the extra income, Sharmila has saved the money she would previously have spent on milk powder and curd, which amounts to approximately Rs. 1,500 per month. She says, 'The loan not only increased my income and assets, but gave me increased status in the household and community.'

Her dream, she says, is to establish a milk-bottling factory, which would supply milk to schoolchildren and provide employment for other women in the village. 'Now, with access to safe and efficient financial services, my dream is alive again. I feel these institutions can support me to take advantage of profitable investment opportunities and take risks in the future.'

Wider range of market-based services

Oxfam collaborated with the Federation of Chambers of Commerce and Industry of Sri Lanka on the Business for Peace initiative to foster dialogue with key financial institutions, present evidence of good practice on linkage banking, and support the scale-up of financial services in the conflict-affected areas of northern and eastern Sri Lanka. This has led to a wider range of market-based services being offered, including loans, savings, insurance, and remittance services. For example:

- The Lanka Putra Bank has opened operations in Eastern Province in order to provide services to support post-conflict recovery and local economic development. Its services are supporting displaced and resettled communities to boost their incomes, thus improving their ability to buy daily consumables, send their children to school, build assets, and start up small and micro enterprises.
- In 2008 two insurance companies, Sanasa and Ceylinco, launched new lines of health, life, and production-related insurance services targeting small producers in specific sectors of value chains. These have enhanced the ability of small producers to cope with external shocks and have reduced the need for them to borrow from moneylenders at high interest rates.
- Crop insurance facilitated through the Agriculture and Agrarian Insurance Board has helped producers to reduce the risk of distress selling of assets during disasters.
- Sharia-compliant services have been promoted through financial services providers Amana Takaful and BRAC to support people who follow Islamic principles to benefit equally from linkages with the formal sector.
- Savings deposits with formal banks have provided vulnerable and conflict-affected communities with increased security and greater capacity to make self-investments.

Advocating for a cohesive policy framework

Implementing a facilitative approach has involved a greater focus on networking and lobbying for Oxfam GB in Sri Lanka, and therefore has increased the potential for it to have a wider impact. Involvement in the Business for Peace initiative and in multi-stakeholder forums at district level has provided opportunities to lobby for improved industry practices. Oxfam has facilitated the formation of multi-stakeholder forums in each sector (dairy, paddy, market garden, tea, and coir) with key government institutions, private sector, and civil society organizations. These forums plan and co-ordinate sector development and advocate for better practice. They are attended by government and industry stakeholders, including private sector financial institutions, and have enabled Oxfam to facilitate dialogue on market-driven product development, using evidence from the pilot work it has done in linking farmers with banks. This is helping to leverage public and private finance to deliver commercial services at scale.

This approach has also allowed Oxfam to have a direct influence on policy outcomes in the financial sector. It has been significantly involved in ensuring that the new Microfinance Institutions Act currently in preparation provides a more helpful regulatory framework for the development of pro-poor financial services. The Act, which will be implemented by the Non-Banking Supervision Department of the Central Bank of Sri Lanka, will streamline the delivery of financial services to prevent wastage of aid funding, duplication of funds, and corruption. A second draft of the Act is being prepared by a core committee consisting of the Central Bank, the Monetary Board, and the Ministry of Finance. The draft was expected to be ready for consultation in mid-2010 and to be presented to Parliament at the end of the year.

In the post-conflict context, Oxfam's dialogue has continued with donors (ADB, World Bank, and the Japan International Cooperation Agency), with government, and with private sector financial institutions to introduce policies and practices that result in sustainable financial services for conflict-affected communities, as opposed to relief-driven micro-finance activities that often dry up once the funding comes to an end.

Box 3. Lobbying for poor people's access to banking

Some commercial banks request assets as collateral, but women and displaced communities seldom own assets or land. The programme was able to lobby for waivers to such requirements on the basis of strong feasibility. In all cases banks agreed to offer loans on the basis of business plans independently verified as viable, with a character reference from a public servant.

In communities where literacy levels are low, Oxfam and its partners lobbied financial institutions to conduct information sessions and provide support to help villagers fill in forms. The programme involved specialist lawyers and business experts who were able to support communities to negotiate terms. The simplified procedures enabled a greater number of poor women and men to be included and to gain access to formal banking.

Sustainability

Overall demand for loans for poor clients in the Oxfam programme areas, for both productive and social purposes, ranges between Rs. 300 and Rs. 500m (USD 2.7m – 4.7m). Connecting with several different financial institutions in each region has not only increased the chances of people accessing sufficient credit but also guards against the risk of a single institution withdrawing from the region or local market segment, as well as the risk of conflicts developing with a single lender.

For communities to access these services, it was not enough for Oxfam merely to provide information to them and to the financial institutions. In order to encourage institutions to service the poorest communities, Oxfam and its partners worked with them to reduce the high risk of defaults and the cost of service delivery. This involved:

- Clearly explaining to communities that the source of funding for the loans was not from NGOs but from formal financial institutions, and that repayment must be taken seriously;
- Making compulsory the purchase of savings insurance for all households taking loans for production facilitated by Oxfam. The cost of insurance was built into the total loan taken and was marketed by the banks as a financial services package;
- Starting with small loan amounts and gradually increasing them, especially in communities with no previous micro-credit history, thus helping to reduce the risk of borrowers being unable to repay loans.

Oxfam's role has been to support producer organizations to develop good governance that will enable them to interact with formal financial institutions on an equal footing. This has involved supporting them to develop risk management systems for facilitating linkages with institutions, developing their capacity in organizational management and administration, and developing systems for disseminating market intelligence, so that they receive up-to-date information which enables them to make informed choices when choosing which financial institutions to engage with.

When selecting accountable and viable financial service providers that were likely to enter rural communities and continue to offer their services there, Oxfam considered the following factors:

- Their products and services were market-based and reflected a commercial approach, rather than philanthropy;
- They were prepared to commit resources towards non-monetary support services, including capacity-building, technical support, and monitoring.

The programme has shown that it is possible to increase the outreach of financial services and to expand services to poor women and men in even the remotest rural areas, through the use of innovative public-private-producer partnerships. As explained by Mr Udayakumar, Divisional Officer of Vellavally DS Division, 'Capital is always available, but the problem is in creating linkages between financial institutions and farmers, who largely remain unorganized in rural areas.'

Working with mainstream financial service providers to develop new linkage models for financial services benefits many more poor people than the direct beneficiaries of Oxfam programmes, since the changes made are embedded in the policies, attitudes, and practices of formal financial institutions. Furthermore, the models piloted have enormous potential to be scaled up and replicated across Sri Lanka.

In each of the programme districts in Northern and Eastern provinces, Oxfam has supported the District Secretariat and the

Federation of Chambers of Commerce to establish District Enterprise Forums (DEFs). These multi-stakeholder forums bring together producer organizations, policy- and decision-makers, donors, service providers such as financial institutions, and various market actors to contribute to local economic development. The forums have enabled the participating financial institutions to showcase evidence of good practices and lessons learned about reaching rural clients, and this has encouraged and motivated others to follow suit.

Oxfam has recently completed a market assessment on the demand and supply of financial services in the post-war context, and its findings are being disseminated via the DEFs in order to influence the way that services are designed and delivered to conflict-affected communities. Additionally, Oxfam has completed a study on the impacts of co-operative lending policies and practices on women members, and this is being used to shape the Department of Cooperative Development's approach to women producers.

Box 4. A wider range of market-driven services

The facilitative approach has enabled clients to access other services beyond credit. These include bank accounts, remittance services, insurance schemes, and pensions. For example, Oxfam and its partners have held discussions with the Agricultural and Agrarian Board to introduce a crop insurance scheme for chili cultivation, adding to existing schemes for paddy, maize, onions, and betel. They are now considering insurance schemes for other crops such as eggplant, okra, snake gourd, bitter gourd, and banana. Oxfam has also facilitated access to life insurance through Ceylinco and Amana Takaful and has linked small producers to government pension schemes.

Both Kandasamy Nirmala and Sharmila Nazreen Jerad have taken advantage of such schemes. Kandasamy has deposited savings at the People's Bank and has taken out a life insurance policy with Ceylinco Life Insurance and a pension scheme with the Department of Agriculture. Sharmila has savings accounts with People's Bank and the Bank of Ceylon. She has also taken out life insurance with Ceylinco and livestock insurance through the Department of Livestock Development. She says, 'Usually we sell assets to combat any external shocks, but now I feel more secure against potential losses and have greater capacity to make self-investments.'

Conclusion

The programme highlights the impact that can be achieved with limited resources by adopting a facilitative approach in the provision of financial services. It shows the benefits of partnering with formal financial service providers, where market-based, cost-efficient, demand-driven financial products have improved opportunities for small producers to participate in higher sectors of the value chain on an equal footing.

Engaging financial service providers to deliver innovative business support services has significantly reduced costs and risks to both institutions and communities. The programme demonstrates how important it is to advocate all the way from local to national levels to create an enabling legal and regulatory environment that allows for the development of inclusive and sustainable financial services, which bring benefits to much greater numbers of poor people.

The programme has proved to be an effective tool in freeing people from poverty and increasing their participation in economic and political systems. Over the past three years, poor people have used affordable credit to start new enterprises and expand existing ones. They have taken advantage of increased earnings to improve consumption levels, send their children to school, access health care, and build their assets. Secure, formal savings and insurance services have provided a cushion when families have needed more money for seasonal expenses or in tough times. With the higher interest rates on savings offered by formal financial institutions, families have been able to increase their savings by up to 20 per cent. There are also indications that they have been able to increase their spending on jewellery, which is considered a form of savings in times of distress.

Women in particular have been empowered to participate in making the decisions that most affect their lives. By providing opportunities for self-employment, the programme has significantly increased women's security, autonomy, self-confidence, and status within households and in the wider community.

Oxfam's next step in engaging with this sector is to continue its research and advocacy efforts to highlight the key changes needed and to shape debate by raising awareness externally, so that financial service providers – as well as policy-makers and donors – better understand the multiple ways that they can affect poor people, and so that they are motivated and pressured to improve their policies and practices.

The key changes needed include:

- **The role of government:** an enabling policy and regulatory environment are required to ensure transparency and to encourage the development of innovative, demand-driven financial services targeting poor women and men;
- **The need for a wide range of services for poor rural people:** rising living costs, increased production shifting towards local markets, and the need to expand and rebuild businesses will all lead to a higher demand for loans and financial safety nets in the post-conflict environment. Financial institutions need to introduce innovative business models and business support services in order to expand their services to cater for rural-based micro, small, and medium-scale enterprises, not just well-established urban businesses;
- **Reaching women:** financial institutions need more flexible approaches to providing services and products for women to meet their complex needs;

- **The role of donors:** donors need to be sensitive to existing providers of formal and informal financial services when supporting post-conflict programmes. In particular, in-kind and cash grants and transfers can distort the market and delay the development process for formal financial institutions;
- **Public-private partnerships:** the sector needs to adapt modern technologies to introduce scalable models for delivering financial services (such as mobile banking) through private sector partnerships. This can significantly reduce operational costs for banks and transaction costs for poor clients, and can help reach thousands of people in remote parts of the country.

Although the programme is still at an early stage and an independent evaluation will be needed before firm conclusions can be drawn on its success in terms of the sustainability of loan repayments beyond Oxfam's exit, early indications are positive, as the experience of some of the beneficiaries shows (see Box 5).

Box 5. Making linkage banking work for small-scale producers

In 2006, H.M. Muthubanda, a 67-year old farmer from Trincomalee, was selected to be a beneficiary of Oxfam's market garden programme, which is being implemented with the assistance of SEDOT and Sarvodaya. In the initial stages of discussion with all those involved in market gardening, farmers identified difficulties in accessing bank loans as one of their biggest challenges.

Oxfam lobbied the banks to join the programme, and the People's Bank agreed to provide Rs. 50,000 ($445) as a loan to the farmers. As many farmers in the area were also facing difficulties due to water shortages, Oxfam facilitated loan schemes for farmers to build wells and purchase watering equipment.

The loan Muthubanda received from the bank enabled him to cultivate an additional two acres of land and increase his income. He says, 'My earnings from the vegetable garden have allowed me to take care of my family. I am looking forward to improving it some more. With the earnings, I am going to fix up my house, build a well, and expand in to the poultry trade. I have great plans for the future.'

In Batticaloa district, farmers have suffered due to the negative effects of conflict and displacement and also because of a lack of low-cost capital and irrigation facilities. In 2008, Oxfam established a Steering Committee to oversee the development of the paddy sector, following an in-depth analysis of the industry.

The committee plays an important role in influencing industry practices and policy outcomes in favour of poor farmers. One of its first activities was to improve linkages between farmers and banks in order to increase farmers' access to affordable financial services from the formal sector. To date, over 10,000 paddy farmers have accessed loans ranging from Rs. 7,500 to Rs. 250,000 ($67–$1,335) at 8 per cent per annum.

In 2008, for the first time in the two decades he has been cultivating his paddy fields, Theivanayagam Southanrajah took a loan from People's Bank. 'Before, I was paying 10 per cent interest each month to the money lender, now I pay the bank 8 per cent interest per annum', he says.

Another farmer who received a loan in the same year is Mohaneswary, who proudly explained how she cultivated paddy with her own money. 'I borrowed Rs. 30,000 ($267) from People's Bank. The total interest I paid was only Rs. 860 ($7.65) over a six-month period. After harvesting, I kept the paddy for two months and sold at a higher price of Rs. 2,300 ($20.46) per 65kg of rice. If I had sold through the local traders I would have received only Rs. 1,200 ($10.67) per bag. My earnings for the last season increased by Rs. 35,000 ($311).'

Today, People's Bank, Hatton National Bank, and the Bank of Ceylon are participating in this programme. 'The banks are very happy, as 100 per cent of the loans taken in the first year have been repaid. The farmers have also recognized the benefits of taking loans from formal institutions. In the first year of the programme 400 loans were taken; in the second year there were 2,000 loan applications,' explained Thyiyagarajah Saravanapavan, a programme officer with Oxfam GB in Batticaloa.

Key lessons learned and future priorities

- A managed risk approach is necessary at all levels when facilitating or brokering relationships between different actors. Oxfam's new approach required many of its staff and partners to become more aware of their roles and responsibilities in driving change and to learn how to make convincing business cases to private sector actors to expand and improve their service provision.
- It is a challenging task to bring marginalized farmers' groups with limited reach together with commercially driven banks that are able to deliver services at scale. However, evidence gathered from Oxfam's pilot linkage models has enabled it to present benchmarks for future replication and scale-up.
- In terms of facilitation, it is important to ensure that activities are shaped by an assessment of the overall financial services market system, in order to identify potential and key constraints that need to be overcome.
- It is important for organizations such as Oxfam to remember that their job is to act as a catalyst in stimulating the financial services sector to become more competitive and to grow to service the poorer sections of society, and that engaging and collaborating with different key stakeholders ensures sustainability.
- It is equally important to have a clear exit strategy, so that once the commercially driven activity of market players (both public and private sector) has grown, the facilitator organization can phase out its involvement. Oxfam has focused on developing a Federation of Producer Organizations at district level, which will facilitate members' access to formal financial services while being recognized as a legally credible organization in their industry.

Notes

[1] Asian Development Bank (2002) 'The Commercialization of Microfinance in Sri Lanka'.

[2] World Bank Report (2007).The term 'unbanked' refers to people who have no access to financial services (including savings, credit, money transfer, insurance, or pensions) through any type of financial sector such as banks, non-bank financial institutions, financial co-operatives and credit unions, financial companies, or NGOs (World Bank definition).

[3] In Sri Lanka, over 80 per cent of poor rural communities rely on substitutes to banking available in the informal sector, such as village-based money lenders and traders who charge higher rates of interest than market rates.

This paper was written by Gayathri Jayadevan. We acknowledge the assistance of Katie Allan, Emma Donne, Claire Harvey, Abigail Humphries Robertson, David Wilson, and Kirsty Wilson in its production.

For further information please email publish@oxfam.org.uk or go to http://publications.oxfam.org.uk

ISBN 978-1-84814-847-5. This paper is part of a set **Small Farmers, Big Change: Achieving scale in the development of smallholder agriculture.**

Oxfam GB

Oxfam GB is a development, relief, and campaigning organization that works with others to find lasting solutions to poverty and suffering around the world. Oxfam GB is a member of Oxfam International.

Oxfam House
John Smith Drive
Cowley
Oxford
OX4 2JY

Tel: +44.(0)1865.473727
E-mail: enquiries@oxfam.org.uk
www.oxfam.org.uk