

# Introduction to Microfinance and Divineguma Development Department's (DDD's) Way Forward...

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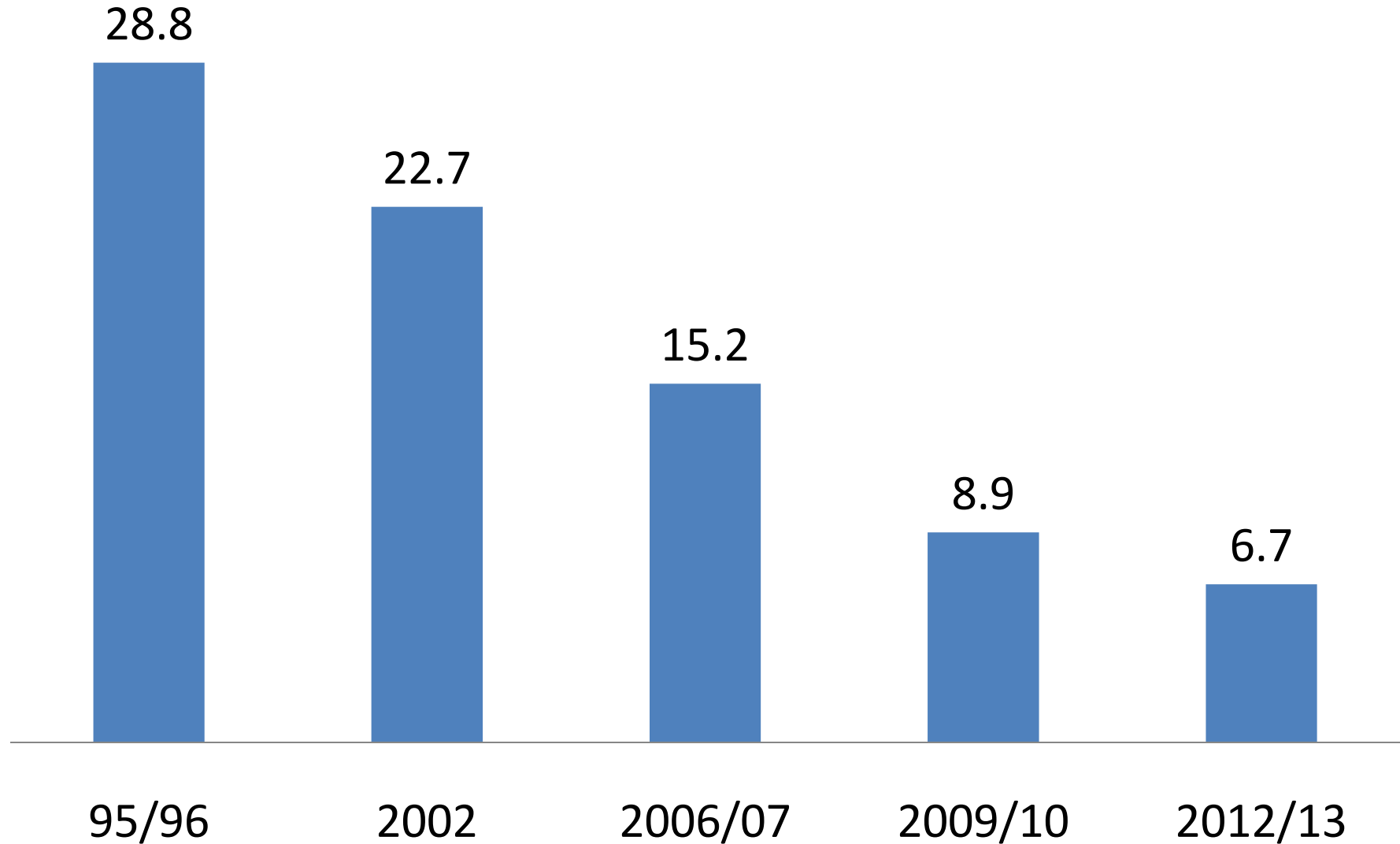
Director General (Acting)

Divineguma Development Department (DDD)

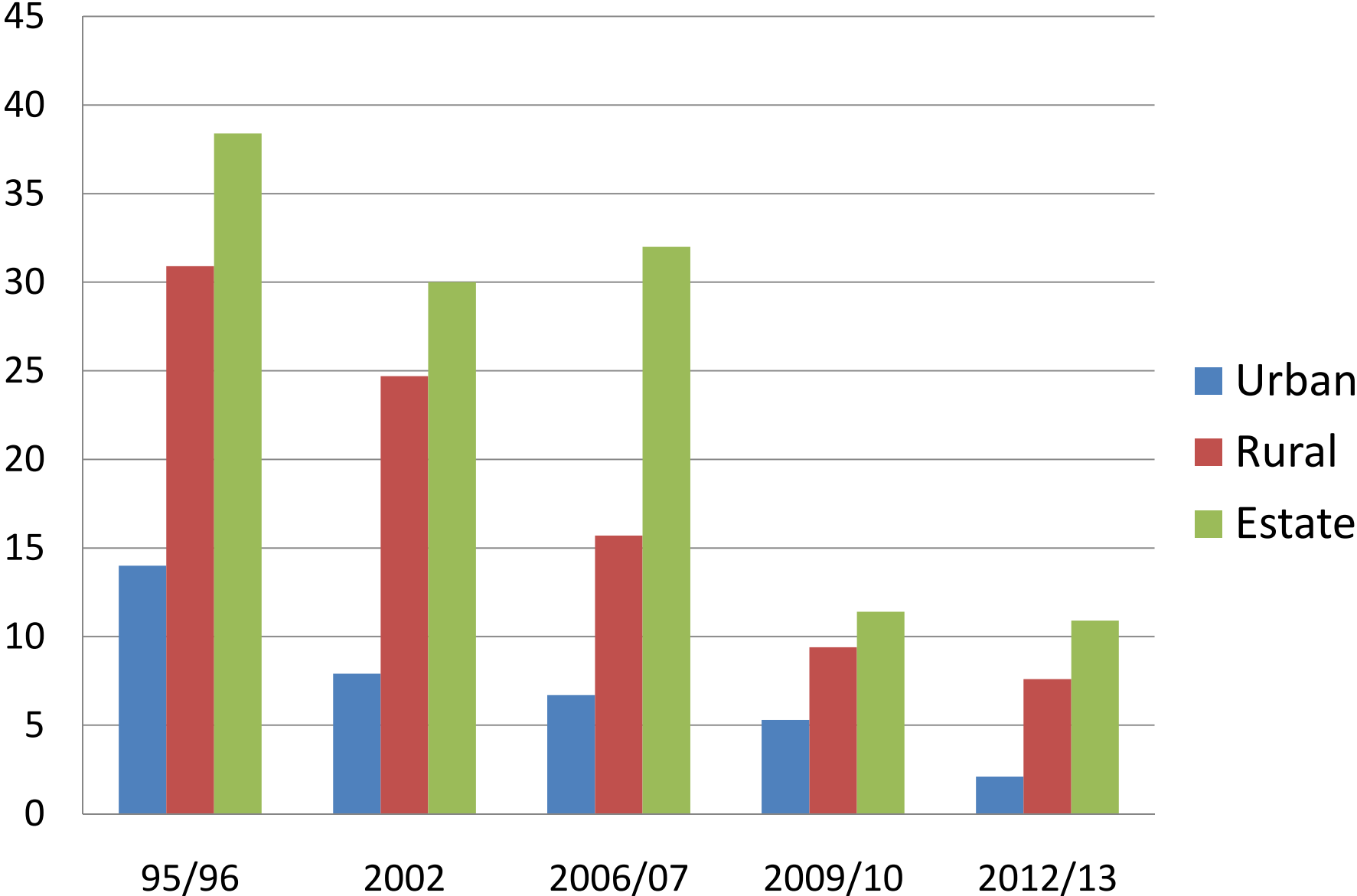
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# Some Poverty Statistics in Sri Lanka at a Glance

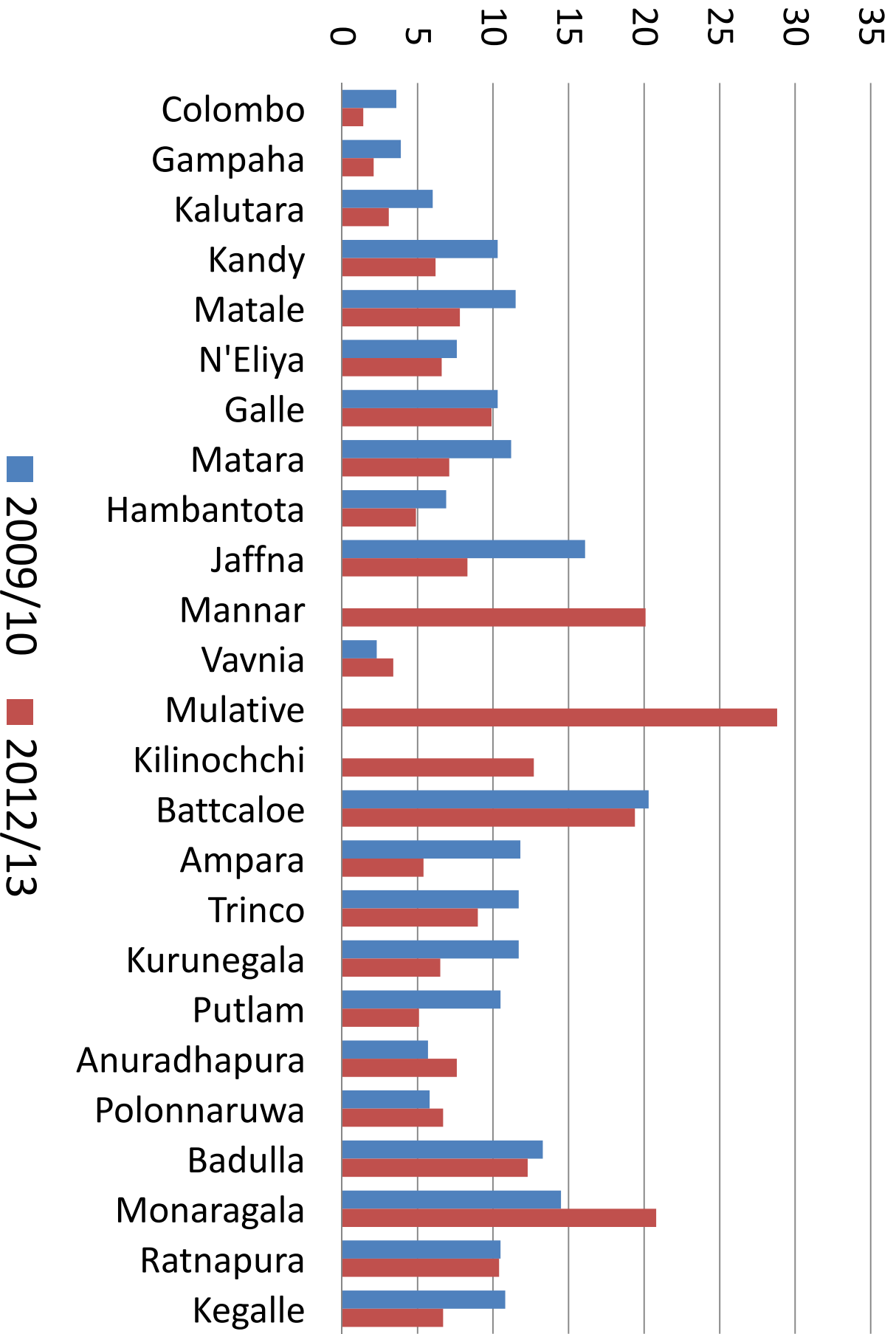
## Poverty Headcount as a Percentage



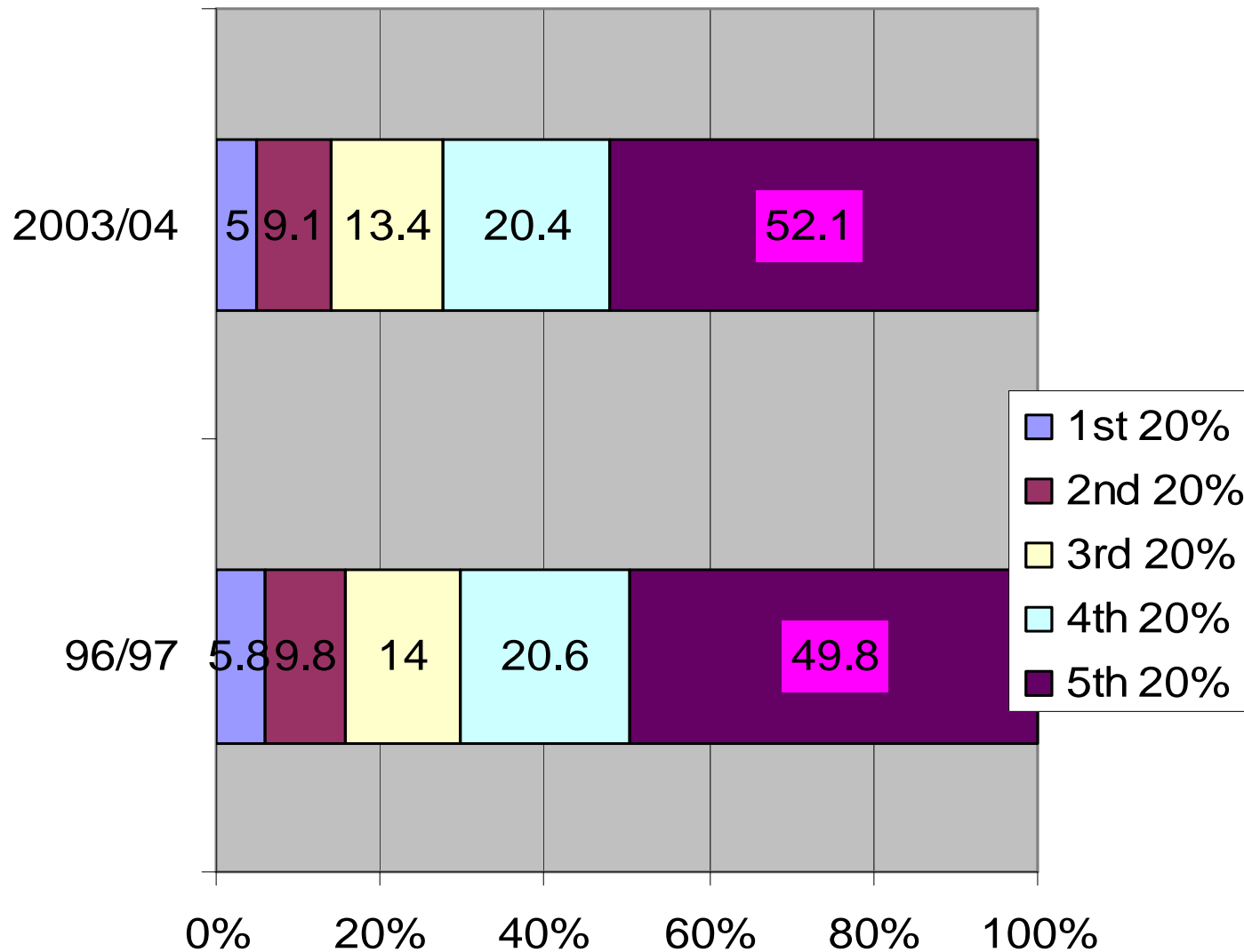
# Sectoral Poverty



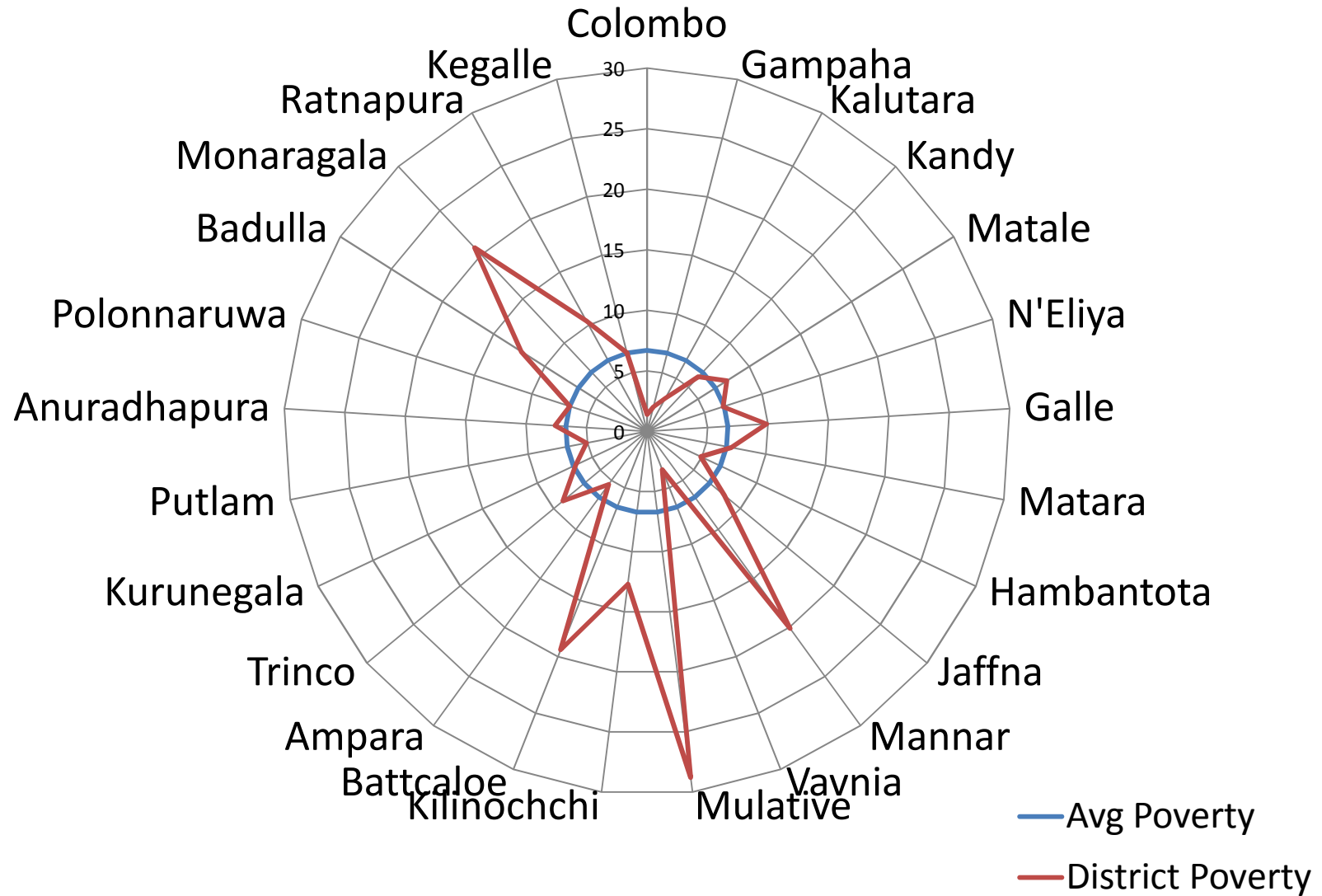
# Poverty by District



## Distribution of Household Income by Income Quintile 96/97 and 2003/04



# Poverty Distance from Country Average 2012/13



# Microfinance



# World Vision for Microfinance

- A World in which poor people everywhere enjoy **permanent access** to wide range of financial services, delivered by different types of institutions through a variety of convenient mechanisms
- To improve their financial lives, poor clients require **responsive financial services** beyond microfinance credit encompassing savings, transfers, payments, and insurance

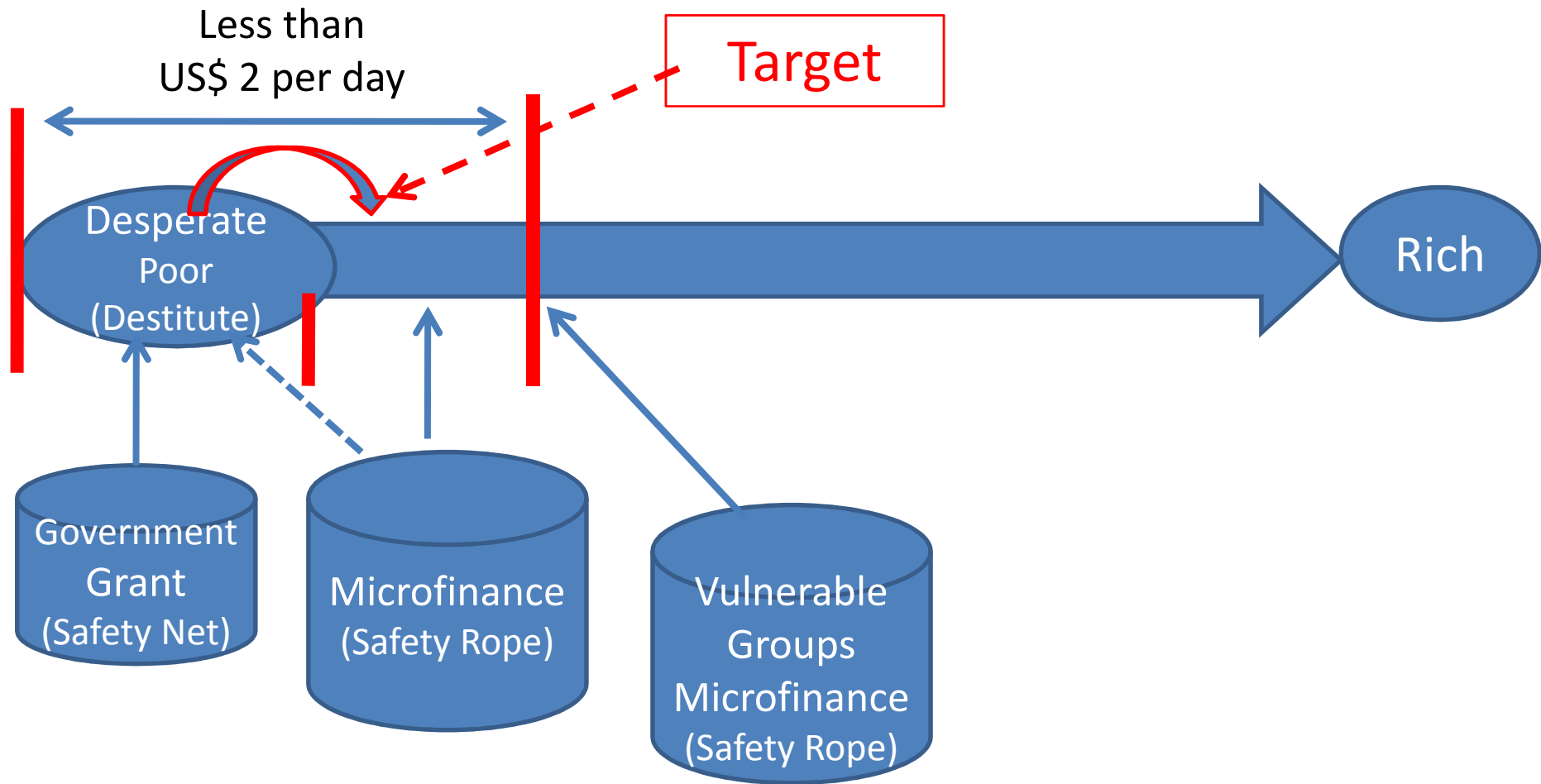
# Some basics

- Financial services are not the magic bullet for all poor people
- The destitute are often in need of other development interventions such as safety net programmes
- Able poor needs safety ropes instead of safety nets
- Large-scale sustainable microfinance can be achieved only if financial services for the poor are integrated into the overall **financial system**

# What is Microfinance?

- Provision of a broad range of financial services such as
    - Deposits
    - Loans
    - Payment services
    - Leasing services
    - Money transfers, and
    - Insurances services
- to poor and low income households and, their micro-enterprises

# Safety Net or Safety Rope



# What is Microcredit?

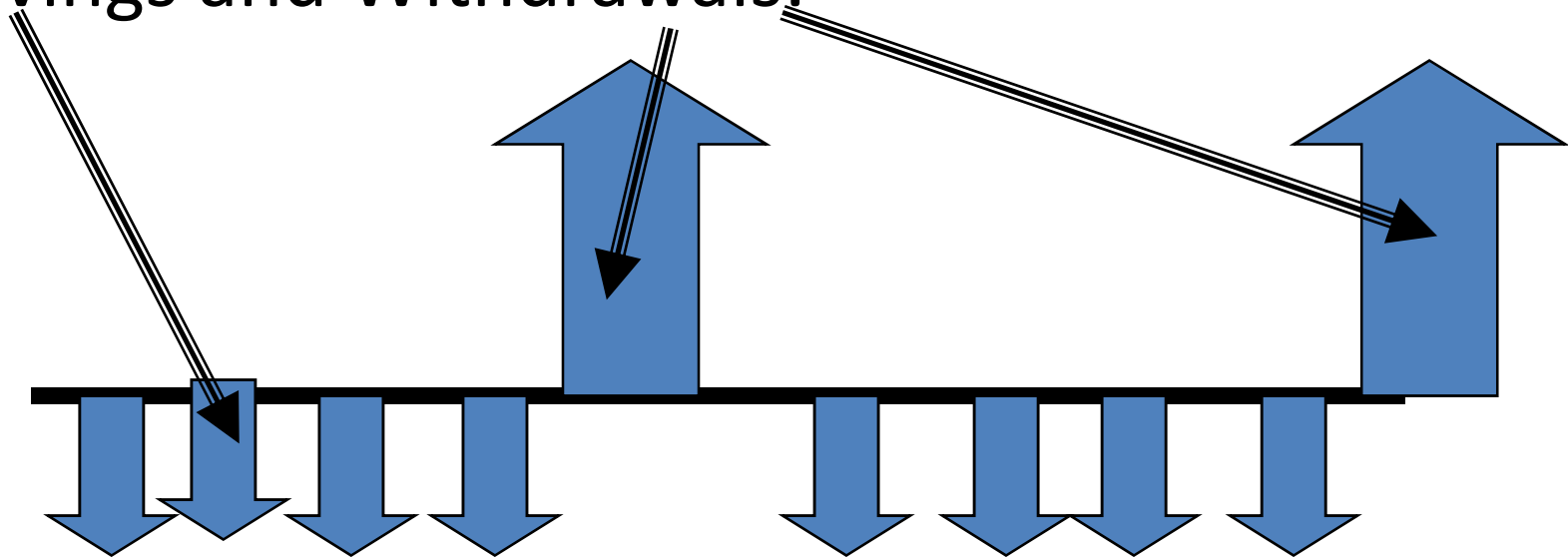
- Adam Smith – “The Wealth of Nations” -1937,p.93:  
“Money makes money. When you have got **a little**, it is often easy to get more. The great difficulty is to get that **little**.”
- **Microcredit** is all about providing this **little money** to **targeted poor** in the form of **collateral free loans** through **sustainable institutions**

What is really needed by the poor?; Is it to borrow or to save?

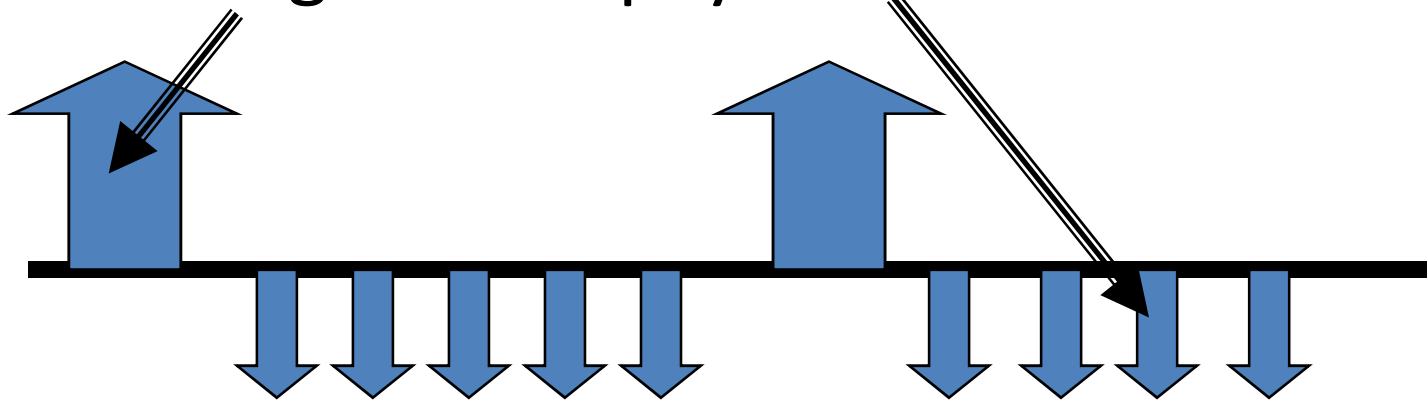
## Lump Sum Money

Both provide almost the same which has only a small difference

## Savings and Withdrawals:



## Borrowings and Repayments:



# Key Characteristics of MF

- Targeted solely for the poor
- Monetary value of products are in small sizes (less than per capita income)
- Credit officer comes to the door step of the client
- Credit for clients are Free from Assets-Based collaterals
- High cost of operations for MFIs which includes, among others, risk premium
- Cost of Credit for the client
  - Interest cost
  - Transaction cost, and
  - Opportunity cost



# Micro Credit Market Analysis

- Institutional Sources
  - Regional Development Banks (RDBs)
  - Cooperative Development Banks (CRBs)
  - Samurdhi (Divineguma) Banking Societies (SBSs)
  - Sanasa Development Bank (SDB)
  - Commercial Banks
  - Non-Government Organizations (NGOs)
- Non-Institutional Sources
  - Private money lenders
  - Friends and Relatives
  - others

# Key Operating Principles

- Understanding the Market:
  - MFIs should understand its market and design products that best serve its clients
- Streamline operations:
  - MFIs must use resources efficiently and ensure lower costs of operations
- Informal sector practices:
  - Help MFIs to manage risk and lower administrative cost
- Repayment incentives:
  - Ability to get another loan when it is needed is a powerful incentive for clients to repay current loan (Govt's decisions to wave-off loans is intolerable)

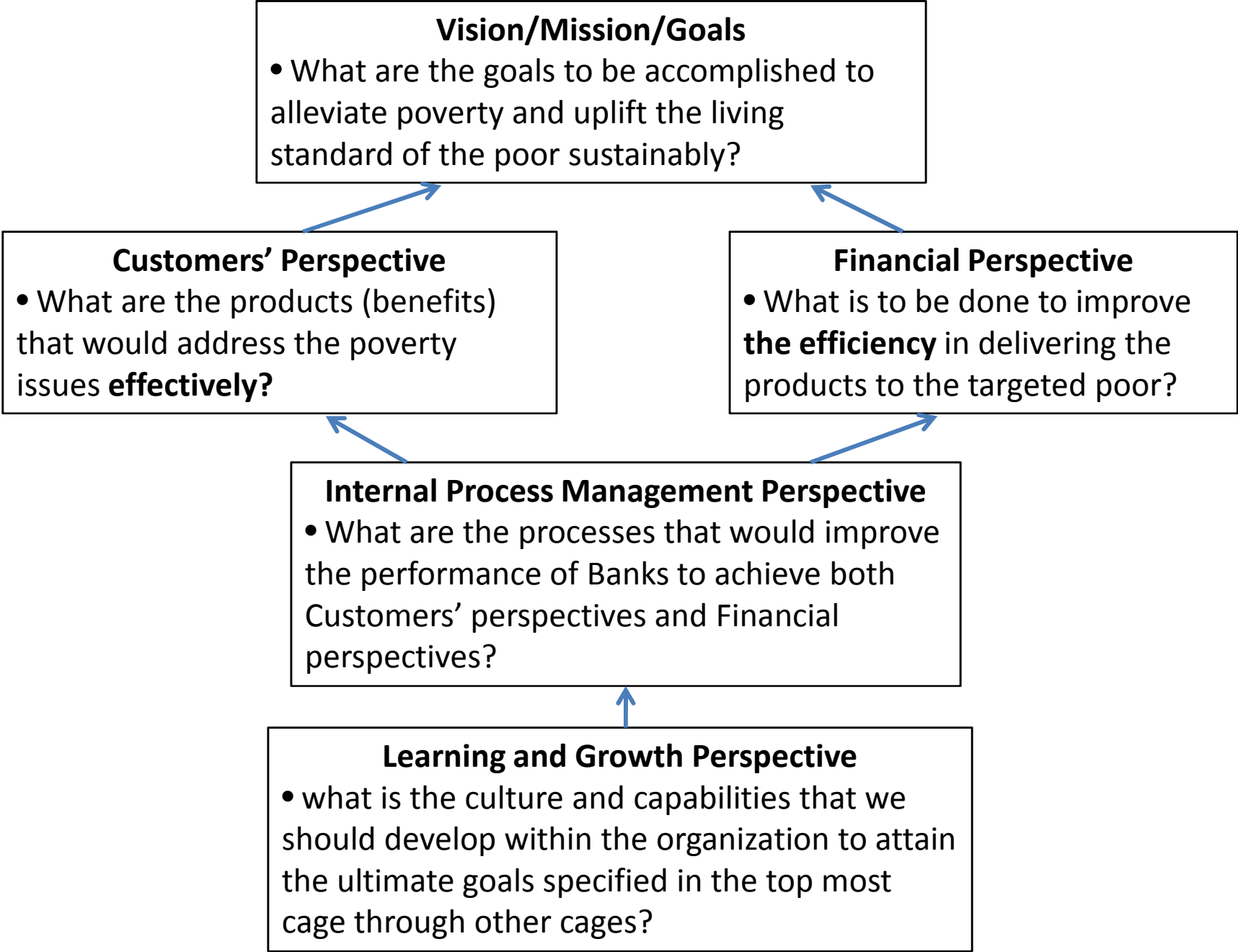
# Cont...Key Operating Principles

- Saving services:
  - Should be liquid, secure, convenient, offer competitive returns, and not be limited to borrowers
- Viability and growth:
  - MFI's staff should focus on achieving efficiency, financial productivity, and financial viability
  - Governance, Management, Staff, Service delivery
- No delinquency tolerated

## Cont...Key Operating Principles

- Sustainable interest rates high enough to cover all cost of delivery services
- Linkage to financial markets to outreach significantly
- Only people with economic opportunities can benefit from credit thus, micro credit does not create economic opportunities

Way Forward...



# Vision/Mission/Goals

- Poverty reduction at least by 1% each year over the previous year
- Reduce the No. of dependence on subsidies (Rs. 3.6 Bn each Month) by at least 1% over the previous year
- Increase the contribution of the share of the lowest quintile of the population to GDP over 3.6% in years to come

# Customers' Perspectives

- Increase accessibility for microfinance vertically and horizontally
- Innovate and introduce varied financial products that fit to each and every beneficiary (mass customization instead of mass production)
- Improve marketability of products through satellite companies (backward integration)
- Introduce skills training programs for poor for gainful employments in collaboration with existing govt institutions (heavy vehicle operation, carpentry, masonry etc.) and the private sector
- Introduce training programs on business mgt, book-keeping, working capital management etc.
- Introduce appropriate saving products and other products; i.e. micro leasing etc.
- Make the Bank an attractive place for customers – appearance, quality and efficiency of services



# Financial Perspectives

- Operational and Financial Sustainability
- Speedy delivery of financial services through efficient systems (Electronic Funds Transfers and LAN systems)
- Eliminate or cut short non-value added processes in delivering services or products
- Reduce waiting time of customers through computerized processes (LAN and other modern systems)
- Provide basic infrastructure for banks to enhance productivity
- Make the Bank an attractive place for employees
- Enhance quality of supporting services – inventory mgt, assets mgt, procurement mgt etc.

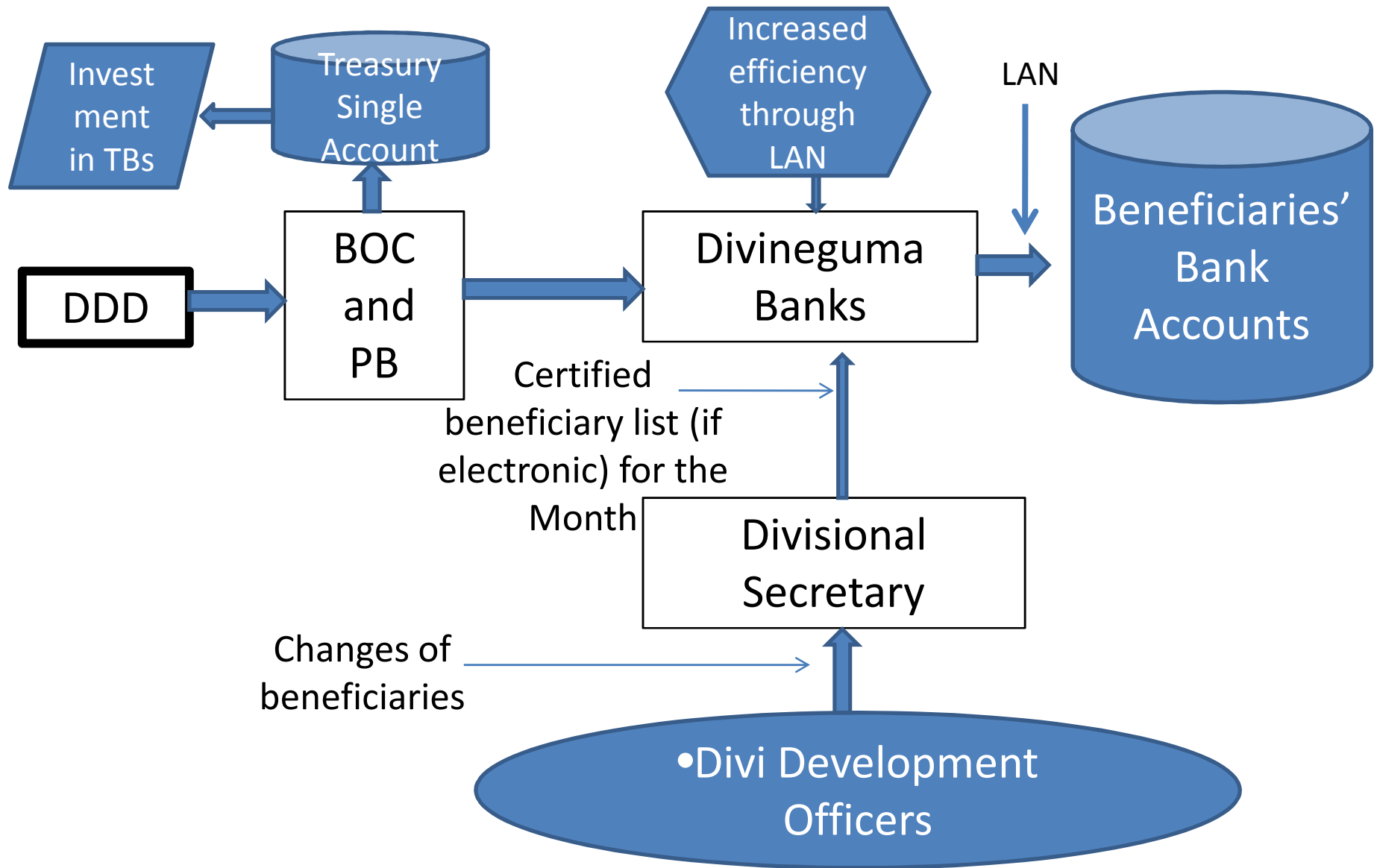
# Internal Process Management Perspective

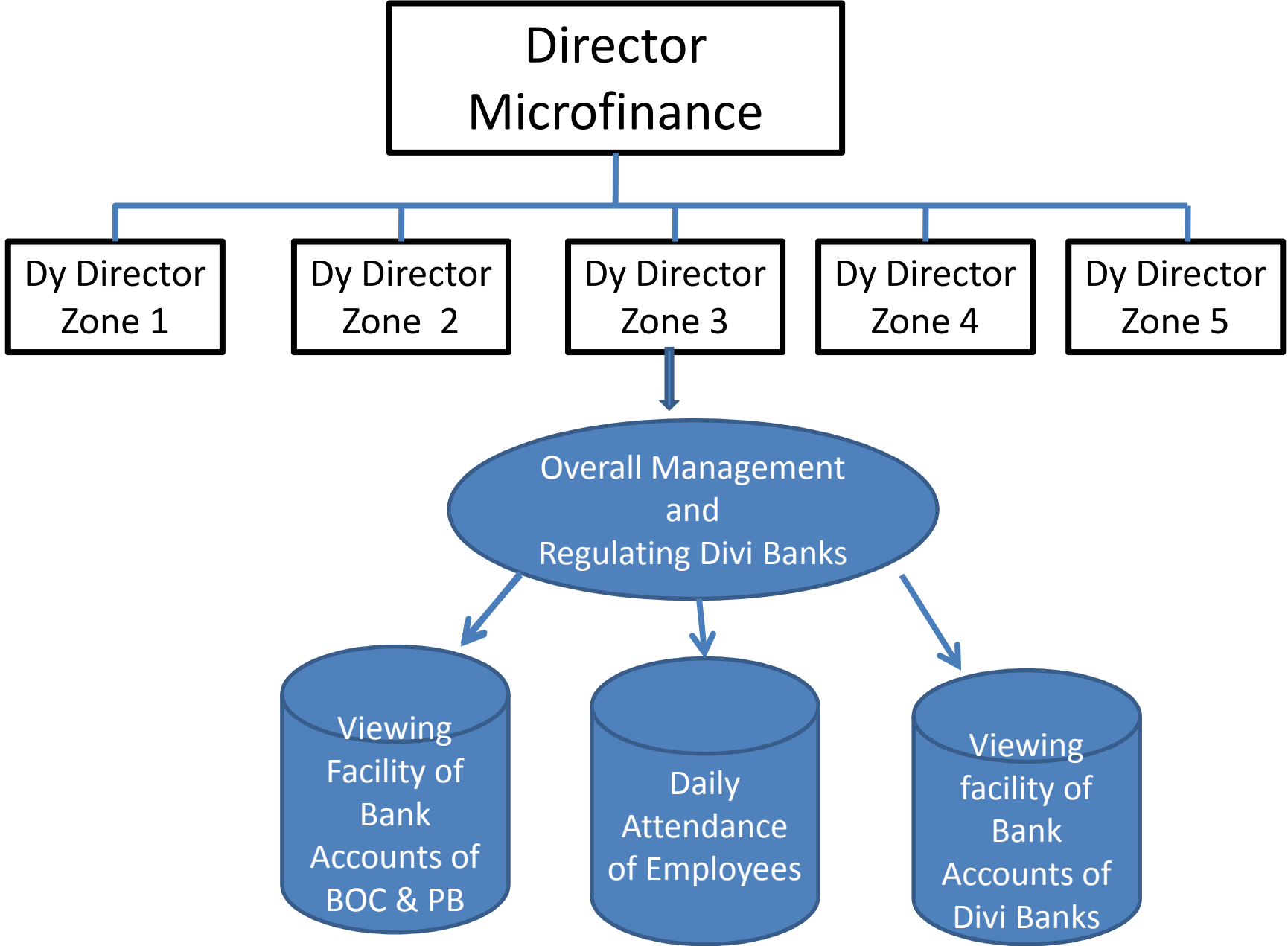
- Develop database of the poor that could be used for effective decision making
- Develop Local-Area-Network (LAN) system in each bank through which improve efficiency of services to the poor
- Transfer funds directly to Banks from the Head Office utilizing existing banking network of Bank of Ceylon and the Peoples' Bank
- Improve grievances handling process of the employees & customers
- Improve efficiency of Supporting Services (procurement, HRD, financing) in order to strengthen the Core Business (Banking)
- Develop performance measurement system of employees and introduce incentive system based on performance

# Learning and Growth Perspective

- Change the organization structure and authority levels in order to empower lower level of employees for effective and efficient decision making
- Develop team culture throughout the organization
- Develop a learning culture through experiments and experience of others
- Expose to continuous training of all employees
- Measure performance of employees and fix incentives based on merit
- Introduce/enhance technological and other competencies of employees to perform better
- Encourage innovations (financial products)
- Motivate employees through smart working rather than hard working by way of applying technology
- Manage employees based on sound principles – equity, openness, transparent decision making, opportunities for growth in carrier etc.

# Fund Transfer Process





The End for Today  
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