

# Microfinance Nurturing The Entrepreneur Spirit



---

Microfinance has emerged as a response to a critical issue in the world today; poverty. Over the past four decades, many socially minded organisations and institutions have played a major role in providing access to finance in order to alleviate poverty and to create financial inclusion of underprivileged people in rural and remote areas of the country. Microfinance not only provides the poor the much needed funds to start a livelihood development programme, but it also gives them the opportunity to save in small amounts and open doors to many financial services involving them in the big picture of the country's economic activity. Chandula Abeywickrema, Deputy General Manager, Marketing and Retail Banking of Hatton National Bank spoke to Business Today about the microfinance industry, its relevance to Sri Lanka, HNB's microfinance business and the upcoming Asia Microfinance Forum 2010.

By Thilini Kahandawaarachchi

Photography by Prabhath Chathuranga

---

## **What is microfinance?**

Microfinance, at times is very narrowly viewed, however over the last four decades it has evolved into a platform, which is now called 'financial inclusion'. Its emergence is due to one of the critical issues in the world today; poverty. Nearly four billion people around the world live under the income of two US dollars a day. In Asia there are close to two billion people who live below the income of one US dollar a day. Microfinance provides access to financial services to the poor for further income generation.

In evolving economies, capital is the most essential factor for development. Therefore, the microfinance industry evolved to create access to capital for self-employment and entrepreneurship, enterprise and livelihood creation for the 'poor' or those who are at the bottom of the pyramid. Hence, microfinance and micro entrepreneurship go hand-in-hand. A micro entrepreneur requires capital to start a business. Most of them do not have the opportunity to receive funding from sophisticated financial systems such as banks because they lack the background to obtain financing from such an institution.

Taking note of this situation, NGOs, social-minded institutions and governments have various programmes to provide the poor access to capital. That is how microfinance emerged as a tool of poverty alleviation, empowerment of the poor and a mode to create livelihood programmes for economic development. The organisations and institutions who are keen to empower the poor to come out of poverty were the drivers of this microfinance industry. During the last four decades, after many initiatives by governments the world over, the microfinance industry has blossomed in developing nations. At present it plays a considerable role particularly in poor countries in Africa, South America and Asia.

Along with microfinance, 'financial education' was introduced as literacy is low among the poor and as such they are unable to be part of economic value creation. Initiatives have been made to bring financial literacy and education among the poor people and to educate them on the importance of being economically involved.

Currently the microfinance industry is evolving into a new dimension called 'financial inclusion'. It covers four key areas. First is savings. Poor people have

the need to borrow, but they also have the need to save. They save in small amounts but recognised financial institutions do not accept such small amounts. Therefore, the poor only save at home. Since saving is an important requirement of the people at the bottom of the pyramid, many microfinance institutions and banks have now begun to downscale and provide access to poor to save money. Second is credit; providing capital for employment generation, entrepreneur creation and economic activities. Small-sized loans for income generation activities are focused on entrepreneurship creation of the poor. Third is micro-insurance. Most poor people are unaware of the benefits of insurance. But now micro insurance has become a key financial service that is available to these masses. Fourth is money transfer. In the past few decades employment opportunities have emerged in the Middle East, Far Eastern countries and in Europe. A significant number of poor people work in those countries as migrant workers. They remit money, therefore, money transfer has also become an important financial service that these people require. It is crucial for migrant workers who earn medium-sized salaries and need to remit money for their family's living, to build houses and for children's education. Thus, microfinance industry has blossomed into more financial services creating access to more people in more places.

### **Microfinance Industry Evolved To Create Access To Capital For Self-Employment And Entrepreneurship, Enterprise And Livelihood Creation For The 'Poor' Or Those Who Are At The Bottom Of The Pyramid.**

Technology has also played a pivotal role in the financial service industry; today it is in fact the driver of this industry. Online banking, telecommunication, information technology, phone banking, cost-related banking, smart cards and such have now made it possible to deliver banking and financial services at a lesser cost than before. Consequently, financial transaction costs have also decreased resulting in three responses. Firstly, the governments, the INGO's, microfinance institutions, the socially-minded organisations, the IMF, the World Bank, ADB, UN and such organisations have carried out a considerable amount of work to bring financial education to the poor. Bearing fruits of those efforts, poor people in Asia, Africa and South America have improved financial literacy levels and they are more responsible and accountable, which is critical for a sustainable, financial service industry to develop. Secondly, due to technology transformation, financial services can now be delivered to these people at a lesser cost. Thirdly, it

has resulted in the courage and the conviction of the banks and Micro Finance Institutions (MFIs) that banking with poor and providing them funding is no longer social service or CSR, but it is a huge business opportunity. Now the banks, MFI's and other stakeholders have the firm conviction that they have fortunes at the bottom of the pyramid.

As a result of these factors, at present there is a mature global microfinance industry. There are large-scale investors who are willing to partner microfinance institutions and who create financial inclusion and access to financial services as a critical business avenue.

### **What is the relevance of microfinance to Sri Lanka?**

Microfinance is crucial to the economic development of Sri Lanka. Our country has a population of 20 million, but the majority of people live in rural areas. Out of the nine provinces, all major economic activities take place in the Western Province. Though Sri Lanka has a very old banking history that dates back about 200 years, everybody does not have equal access to these financial services. For example, though there are about 25 local and international commercial banks with approximately 1,200 branches 50 percent of these branches are in the Western Province. Only the balance 50 percent is spread out in the other eight provinces.

In the Western province, for every 10,000 people there's a bank branch. But in other provinces, it ranges from 18,000 to 30,000, per bank branch. These bank branches are in key towns and cities. In remote villages people have absolutely no or less access to financial services. Thus, access to financial services through commercial banks are only marginally available in other provinces. Microfinance provides access to financial services to the people in far away places.

Over the last four decades in the country, there have been many initiatives by cooperative societies, NGOs and the government. Yet, there was no sustainable microfinance policy or a framework in the country. Now it is being evolved; there has to be a proper framework and there has to be significant capacity building in the area of financial education and information because most of the people in this country are still in rural areas. Financial education is significant because though we have a very high literacy rate of nearly 96 percent thanks to free education, the financial literacy rate is around 30 percent or below. There has to be

significant capacity building in the area of financial education that has to go across all rural areas. In the rural areas micro-level entrepreneurship and micro-level self-employment opportunities have to take place. Therefore, the microfinance industry is absolutely critical for the country's economic development. It is through a sustainable Microfinance Industry that a foundation can be laid for a strong and emerging SME industry.

It is also necessary to have either institutions or people in these rural areas, who can give financial counseling and who can help with advice on simple things such as preparing basic income expenditure statement, basic cash-flow statement, basic simple project report. There should be capacity building in that area. All these are part of a proper national microfinance framework.

Our poverty head count is about 15 percent. It is decreasing because approximately eight percent of our population is migrant workers who remit about four billion US dollars a year. That is what drives our country and its economic activity. But if you look at the estate sector, the poverty headcount is around 36 percent. This is an area, which need the benefits of financial inclusion to take place for poverty alleviation.

One reason for the success of a mature microfinance industry in Asia is due to financial literacy; various institutions and stakeholders have helped to make people more responsible and accountable. In Sri Lanka also we have to create a strong microfinance industry through financial literacy programmes and creating access to other services such as skills development. Once you have created a mature group of people who are responsible and accountable, banks and financial institutions will have the conviction and courage to move into this area not merely as a social responsibility, but as a commercial responsibility.

There is significant business for them to move into this area and that is where we could really build solid micro entrepreneurs. Approximately 15 percent of those micro entrepreneurs would eventually graduate to the SME industry. That is how economic development can be sustainably and speedily driven in a country like Sri Lanka and to that extent microfinance is relevant to Sri Lanka.

**One Reason For The Success Of A Mature Microfinance Industry In Asia Is Due To Financial Literacy; Various Institutions And Stakeholders Have Helped To Make People More Responsible And Accountable.**

**You mentioned that the poverty headcount is now around 15 percent. In Sri Lanka, what is the customer base of microfinance?**

The potential microfinance customer base is close to four to six million. If properly harnessed, four to six million micro entrepreneurs can be sustained properly on a well-developed platform. Our annual requirement of the industry if well developed would be in the range of 100 – 200 billion. Once this industry is fully developed and brought on a sustainable platform, funding requirement would increase for credit. At the same time these people would contribute to the savings with their small amounts of savings. That would increase the gross domestic savings and they would contribute to economic development.

**What is the microfinance customer base in regions such as Africa, South America and Asia?**

When compared to South Asia, poverty in Sri Lanka cannot be compared with that of Bangladesh, India, Pakistan and Nepal. Compared to those countries, Sri Lanka is indeed way ahead in poverty alleviation. Poverty levels in Bangladesh, India and Pakistan are absolutely critical and that is why in those countries the microfinance industry has developed. There is significant poverty and there is a market for that development. If you look at a country like Bangladesh, a large segment of the population falls into the category below the poverty line. Similarly in India, despite rapid development and having many super-rich and an established middle-class a large segment of its population is poor. On the other hand, most success stories are in South America in countries such as Columbia, Bolivia, Peru where there is a fast developing microfinance industry. They have developed successful microfinance models and have significantly reduced the poverty headcount.

**What are the core priorities in ensuring financial inclusion?**

The first core priority is access to financial services. In a country like Sri Lanka, taking note of the level of income generation and the level of poverty, people have more capacity to save in the rural areas. Even the poor have capacity to save. The saving habit is in their nature, but they have no avenue to save; there are no formal financial institutions or delivery points where they can go and put their savings. Banks and leading financial institutions should take optimum use of technology, move into these areas and create access to savings for people to save

money through formal institutions.

The second priority is credit. In rural areas moneylenders give credit to people at very high interest rates, but they are where the people are and credit is available to those people when they need it. Over a period of time money lenders have created an environment where poor people repay their money. If the banks and financial institutions enter this market with their current commercial rates, which is far more attractive and reasonable, there is immense business potential. The technology is there and the critical priority should be to create access to credit.

Third priority is coordination with other countries. There are many Sri Lankans who are migrant workers. They work long hours and do not have time to go to a formal bank or financial institution; some of them are reluctant to go, some of them do not have the knowledge or education to do that. Thus, they have adopted informal methods of sending money. The country does not receive any benefit from such remittances. Therefore, it is crucial that we develop a significant partnership between overseas counterparts and create our own exchange houses, banks and financial institutions and also use technology so that people would have access to formally send money.

**Hope Is The Most Important Factor For Economic Activity To Blossom. The End Of War Has Opened The Doors Of Hope To People; That Is Cardinal For Any Development.**

**With the end of the war and the economy picking up fast, how has the economic environment in the country made an impact on microfinance?**

During the last 30 years, the war had a significant impact on not only the day-to-day life, but also on people's hopes. Hope is the most important factor for economic activity to blossom. The end of war has opened the doors of hope to people; that is cardinal for any development.

Sri Lanka did not suffer only through the recently ended ethnic conflict, but we also had setbacks in 1971 and 1989 through two major youth uprisings. That is where we need to create economic empowerment. Youth of the country were educated but were not employable and lacked employment opportunities in the areas they lived. That is where we need to create empowerment for the youth. There has to be access not only to education; there should also be access to skills development, access to employment generation, access to entrepreneur

opportunities in the respective areas.

With the dawn of peace, at least one third of the country which was previously unavailable for economic activity is now open for economic activity, agriculture and development. We are mainly focusing on the North and East, but there are other provinces such as Uva, Sabaragamuwa and Southern Province, which also need critical economic development. Economic activity has to be equally spread. It will give hope to people and that in turn makes them more determined.

During the war, not only was the infrastructure destroyed in the North and East, but a new infrastructure development in other provinces did not take place. It is only now that telecommunications, transport, electricity, road networks and other infrastructure are being developed. Tourism industry was very badly affected but now when the tourism industry booms, micro entrepreneur opportunities will also grow. With micro entrepreneurs engaging in tourism related by products there will be a tremendous opportunity for the microfinance sector to develop. However, to make it sustainable, there has to be a proper framework, proper capacity building and all the stakeholders have to see eye-to-eye, and work with conviction.

### **How would microfinance contribute to attracting investors to Sri Lanka?**

Microfinance would create market opportunities. When the masses are economically empowered, their purchasing power also increases and that creates market opportunities. Microfinance industry is an avenue that ultimately enhances purchasing power and creates a local market for investors of services and products. It provides employment opportunities and reduces unemployment. Any investor looks for global opportunities. If the purchasing power of our 20 million people is high, then we would have investors coming into this country. Therefore, our task would be to facilitate micro level entrepreneurs and through their initiatives to increase the purchasing power of the masses. Then investors would be drawn in gradually because there are good market opportunities in Sri Lanka.

**Our Task Would Be To Facilitate Micro-Level Entrepreneurs And Through Their Initiatives To Increase The Purchasing Power Of The Masses. Then Gradually Investors Would Be Drawn In Because There Are Good Market Opportunities In Sri Lanka.**



## **What are the opportunities available to those involved in microfinance, in emerging markets such as Sri Lanka?**

We need more skills development level education. The skills focused education has not taken place in this country to get optimum benefit of free education. We only have a handful of agriculture institutions and technical institutions. There are no micro entrepreneur skills development institutions. There is opportunity for skills related education institutions focusing on the microfinance skills, agriculture and entrepreneur skills to emerge in this country.

There is also a large vacuum to supplement the financial service industry in the rural areas. A person in a rural area does not have access to even get a simple income expenditure statement prepared, which is vital to obtain banking facilities. There is a business opportunity for that. There is a significant capacity building requirement in this area.

In the microfinance industry, the financial institutions need to have commitment, passion and patience. If they do not have these three ingredients they will not move into this industry. Commercial banks are short-term oriented lenders because they want to make sure what they give comes back to them soon. Microfinance is not like that; we are not playing the role of the moneylenders; we are nurturing the entrepreneur spirit of an individual at a micro level; that needs holding hands with the entrepreneur. That also needs commitment, patience and passion to facilitate micro entrepreneurs to graduate and blossom. When a person comes and asks for a loan we should have the ability to see his vision and share his vision and have the passion, coupled with patience and commitment to take that risk. That is exactly what the bankers and the financial institutions should do with microfinance.

## **What are the risks involved with microfinance and how can they be managed?**

There are risks involved if you consider microfinance only from a financing point of view. But if you have the three critical ingredients that I spoke about, you can either have no risk or minimum risk. There should be great involvement in this industry. It has to be driven with financial education to make the people at the bottom of the pyramid more accountable and responsible. But, our experience shows, that when it comes to loan repayment, this sector is far more efficient than

the commercial and corporate sector. Generally banking sector is averaging about 95 percent recovery rate. In HNB, we maintain 98 percent recovery rate on microfinance. These people are more committed to repaying their loans than the others, and this is indeed critical to evaluate the microfinance industry positively.

In microfinance we do not give a loan and forget about it. Handholding is very important; field officers' greater involvement with the micro entrepreneur as a mentor, guide and as a father. There are genuine setbacks at times, but by and large, the risk in this sector is comparatively minimum compared to other sectors.

### **How long has HNB been involved with microfinance?**

HNB has been involved with microfinance for the last two decades. We launched microfinance in 1989. One of the two compelling reasons for us to move in was the 1971 insurrection and the incidents of 1989. We felt that unless young people were given access to businesses, leave alone thriving as a business, the very survival of our business was at stake. That was why we moved into rural areas, came up with a microfinance programme called 'Gami Pubuduwa', meaning reviving the rural economy. In the last two decades we were involved in microfinance, we have given close to seven billion rupees to this sector and we have created over 100,000 micro entrepreneurs in this country.

**When A Person Comes And Asks For A Loan We Should Have The Ability To See His Vision And Share His Vision And Have The Passion, Coupled With Patience And Commitment To Take That Risk. That Is Exactly What The Bankers And The Financial Institutions Should Do With Microfinance.**

### **How important is the microfinance business to HNB?**

It is absolutely critical and important because being a commercial bank, we have a programme to graduate people. We had 100,000 micro entrepreneurs and every year in the last two decades we have graduated nearly ten percent of them to the next level to small or medium scale businessmen. Some of our microfinance customers who started business 20 years ago are almost knocking at the corporate-level business today. That is the feeder opportunity for other sectors of business.

You spoke about giving access to banking, particularly in rural areas. What measures are taken by HNB in overcoming geographical exclusion when it comes

to providing banking facilities?

We have taken the lead in this sector. In 1990 we had only 32 branches and since then we have opened nearly 200 branches right across the country and most of them are in rural areas. In addition to the branches, we have about 150 microfinance centres linked to the branches in the rural areas and in villages. Through these centres we service the rural people and meet their requirements. We have a microfinance field officer who mans a centre and meets with rural people. We also have 170 school bank units that create access to young people to savings. Now we are expanding further using technology, creating access through mobile phone banking, cost machines, agents and ATMs right across the country.

**You are the Chairman of the ‘Banking With The Poor’ (BWTP) network. Could you tell us about the BWTP network?**

‘Banking With The Poor’ network is the largest Asia-based microfinance network. Our secretarial base is in Singapore. We have 50 members in 15 countries, among our members we have central banks, commercial banks and Hatton National Bank (HNB) was one of the founding members and one of the most leading Micro Finance Insitutions in Asia. The 50 members of BWTP Network represent nearly 1.8 billion people in Asia who are being facilitated by microfinance. BWTP Network has also been recognised as the voice of microfinance in Asia. Our broader vision is greater financial inclusion in Asia and that is what we stand for. We are involved in creating linkages and partnerships and we are also immersed in policy advocacy in the area of microfinance in Asia. We are also involved in creating, driving and inspiring greater access to people at the bottom of the pyramid in Asia through investment, funding and greater capacity building through our practitioners and microfinance institutions.

**BWTP network’s Asia Microfinance Forum will be held in Colombo this year. What is it about?**

One of the important things that the BWTP does is holding the Asia Microfinance Forum (AMF), which we started in the year 2006. We felt that there was a vacuum to give critical directions in Asia for microfinance industry and we felt that meeting of minds is of paramount importance to drive the microfinance industry in the future in Asia. Therefore, we wanted to bring like-minded people together to discuss and get critical directions for each other to take the industry

forward.

**Greater Financial Inclusion Is To Create More Access To More People And To Harness The Opportunities. One Has To See And Recognise That There Are Fortunes At The Bottom Of The Pyramid.**

Our body is the largest network in Asia and we took the initiative in 2006 to hold the Asia Microfinance Forum in Beijing, China. We had about 400 delegates who came together for three to four days of deliberations. They discuss the current status of the industry, the future directions, the opportunities, how to harness these opportunities and to take this industry to create more benefits to people.

It is of great value to the practitioners and stakeholders, therefore, we decided that we have this forum every two years in an Asian country and also that, the host country should benefit from this forum being held. In 2008 it was held in Hanoi, Vietnam where we had almost 500 delegates coming for the conference. The impact of the Asia Microfinance Forum in Vietnam was acknowledged by the Deputy Prime Minister in charge of Finance by stating that the AMF 2008 in Hanoi created greater awareness and gave the correct direction to microfinance in Vietnam than a decade of work done by multilateral organisations.

I have been the Chairman of this network for the last five years and I have been in the executive board for the last eight years. It has been one of my dreams to bring the conference to Sri Lanka and through that, bring benefits to Sri Lanka's microfinance industry. All these years it was not possible because of the ongoing war. But as soon as the war was over, and since the conference is scheduled for 2010 I prevailed upon my board and expressed my wish to hold the Forum in Sri Lanka. I received the support of the entire board and that is how we are bringing the Asia Microfinance Forum 2010 to Colombo, Sri Lanka from October 12 - 15, 2010. The theme of the conference is: "The Greater Financial Inclusion in Asia: Harnessing the Opportunities". We are expecting 550 delegates including central bankers, commercial bankers, leading MFIs in Asia and at least 20 biggest global investors in microfinance industry to attend the Forum.

It would definitely have a great impact on delivering financial services to not only in the region but also contribute to what the government is currently doing; the drive President Mahinda Rajapaksa has initiated to empower the poor people and to bring development to the masses and to other provinces. Therefore this

conference would definitely be a boost at this critical time.

### **What is the relevance of the Asia Micro- finance Forum to Sri Lanka?**

Greater financial inclusion is to create more access to more people and to harness the opportunities. The opportunities are there but sometimes they are not harnessed. One has to see and recognise that there are fortunes at the bottom of the pyramid. Then harnessing and bringing all the stakeholders from the government, regulators, policy makers, investors and other capacity builders and finally the recipients, together need to see eye-to-eye in the context of the big picture. We would be able to harness all these opportunities and bring economic enrichment and development to more people in more places.

### **What is the status of microfinance in Sri Lanka right now? And what is the way forward for microfinance in Sri Lanka?**

It has been left to the INGOs, NGOs and medium-sized MFIs to drive the microfinance industry in this country. They are heavily dependent on donor funding. Over the years through the international donor funding, INGOs, NGOs and medium size MFIs, facilitated microfinance in the conflict areas and selected pockets, which needed poverty alleviation without looking at the whole country's big picture to develop a sustainable microfinance industry.

There are other microfinance players such as corporative societies, Samurdhi, Samurdhi Bank and the earlier Janasaviya. Apart from state banks, Bank of Ceylon and People's Bank, who operate in remote rural areas many of the leading Banks and Financial Institutions are not involved in microfinance. Even those who are, do not have a correct model or a sustainable initiative and programme with a clear focus.

### **If All Stakeholders Begin To See Eye-To-Eye And Look At The Big Picture, Be More Passionate And Take The Initiative To Empower People, And Through That Enrich People And Make Them Winners, Then All Of Us Can Become Winners.**

At HNB we have a dedicated microfinance programme, which is branded under 'Gami Pubuduwa'. We have a dedicated department for it. Our microfinance portfolio is about seven billion rupees and we have about 200 field officers in microfinance.

We have a financial education programme which is called Divisaviya, which means “Strength to life” with a slogan of “Danumen Diyunuwa” – progress through knowledge’. Thus our microfinance business is driven through a very sustainable strategy with a profit intention while empowering the poor people. We are a national commercial bank, we mobilise savings right across the country. Our funding comes through savings.

Currently the government is enacting regulations and it is working on bringing microfinance regulations, which will materialise this year. Once the Microfinance Act comes into place, the microfinance industry will be regulated. Then microfinance institutions can formally mobilise savings. At present no microfinance institution can mobilise savings. Therefore, they have to obtain funding from donors.

There’s a requirement for a national-level micro entrepreneur policy. In countries such as India and some countries in South America, Africa and in Asia, there is compulsory lending to this sector. There has to be some sort of an inducement and a requirement for financial institutions to be involved in microfinance as a retailer or a wholesaler and lend to this sector with commitment. That commitment probably would have to be enacted through regulation. It has to be facilitated by the Central Bank and other policy makers.

HNB is a national bank, we believe in our country, we believe that the people of this country are capable. We have a good country that is strategically located, geographically important, fertile land and weather conditions, and an educated population with the right gender balance. With that, if all stakeholders begin to see eye-to-eye and look at the big picture, be more passionate and take the initiative to empower people, and through that enrich people and make them winners, then all of us can become winners.

At HNB is we are very passionate about what we do. We are very passionate about empowering and economically enriching people and through that, making them winners. If we can make them winners by making them economically enriched, then we also become winners. That is the way we look at it.

The Asia Microfinance Forum 2010 will be held in Colombo from October 12 – 15, 2010.





