

COMMERCIALIZATION OF MICROFINANCE

SRI LANKA

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FOREWORD

The microfinance industry has evolved significantly over the past two decades. However, the outreach of the industry remains well below its potential in the Asia and Pacific region. If the full potential of microfinance for poverty reduction is to be realized, it is essential to expand its outreach substantially. It is in this context that commercialization of the industry has become a subject of in-depth study. Although many industry stakeholders appear to believe firmly that commercialization is necessary, there is inadequate understanding of the complex process of moving toward a sustainable microfinance industry with a massive outreach.

The Microfinance Development Strategy of the Asian Development Bank (ADB), approved in June 2000, provides a framework for supporting the development of sustainable microfinance systems that provide diverse, high-quality services to traditionally underserved low-income or poor households and their microenterprises. One element of this strategy is support for development of viable microfinance institutions that can set in motion a process of commercialization of microfinance services. As a first step, ADB approved in November 2000 a regional technical assistance project on Commercialization of Microfinance, to improve understanding of the process of microfinance commercialization as well as its challenges, implications, and prospects. The project, which was financed from the Japan Special Fund, has three components: country studies on microfinance commercialization, in-country workshops to discuss the country studies and specific institutional experiences, and a regional workshop to discuss each country study and institutional experiences in a comparative context.

The countries chosen for study—Bangladesh, Indonesia, Philippines, and Sri Lanka—represent different stages of development and commercialization of the microfinance industry.

The Sri Lanka country study was carried out by Stephanie Charitonenco of Chemonics International Inc. and Dulan de Silva, an independent consultant. Their report, presented here, was first presented at the Country Workshop on Commercialization of Microfinance, 24–26 October 2001, in Galle, Sri Lanka. Workshop participants provided valuable input to refine the report and improve its relevance. The Central Bank of Sri Lanka assisted the team of consultants in carrying out the study. Mr. A.J. Jayawardena, Governor of the Central Bank of Sri Lanka, delivered the keynote address at the Country Workshop and provided valuable comments. ADB is grateful to the Central Bank for this assistance.

This publication is one of a series of papers resulting from the project. The series comprises four country reports (on Bangladesh, Indonesia, Philippines, and Sri Lanka, respectively) and a regional report covering these countries.

It is hoped that this publication series will contribute to a better understanding of the issues involved in commercialization of microfinance and lead to better approaches toward a sustainable microfinance industry that will provide a wide range of services to poor and low-income households not only in the Asia and Pacific region but also in other regions.

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ABBREVIATIONS

ADB	Asian Development Bank
CBSL	Central Bank of Sri Lanka
CRB	cooperative rural bank
GDP	gross domestic product
HNB	Hatton National Bank
MFI	microfinance institution
NDTF	National Development Trust Fund
NGO	nongovernment organization
RDB	regional development bank
SDB	SANASA Development Bank
SBS	Samurdhi Banking Society
SEEDS	Sarvodaya Economic Enterprise Development Services
TCCS	thrift and credit cooperative society
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

CURRENCY EQUIVALENT

Currency Unit	=	Sri Lankan Rupees (SLRe/SLRs)
SLRe1.00	=	\$0.011
\$1.00	=	SLRs90 (monthly average, May–September 2001), unless otherwise noted

Sri Lanka moved from a managed float exchange rate system to a freely floating exchange rate system, effective 23 January 2001. For the purposes of calculation in this report, a rate of \$1.00 = SLRs90.00 is used. This was the exchange rate generally prevailing during this country study.

NOTES

- (i) The fiscal year of the Government of Sri Lanka ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.