

Analysis of social and institutional mechanisms of managing the loan portfolio of a community based organization that serves the self employments of its members

LNAC Jayawardena¹ and DKK Narampanawe¹

Microfinance services in Sri Lanka have a wide geographical outreach but the extent of outreach of private operators, Non-Governmental Organizations (NGOs) and commercial banks in rural areas is rather limited. There is a wide range of institutions involved in providing microfinance services viz: co-operative societies, numerous local and international NGO's, commercial and development banks etc. Repayment of loans could seldom be fully guaranteed and lenders have developed various institutional mechanisms aimed at reducing the risk of default. Sewa Lanka Community Financial Services (Sewa Finance) is a Microfinance institution, affiliated to Sewa Lanka Foundation. It lends to Community Based Organizations (CBOs) with the objective of improving the income earning capacity of members by investing in self employment activities.

The overall objective of the study was to study the social and institutional mechanisms of CBOs with the aim of improving the management of its loan portfolio and the repayment capacity of loans. Facilitating the livelihood improvement of the poor CBO members was focused. Galle District was selected for the study. Sewa Finance had been in operation with 56 CBO's for over two and half years, disbursing loans amounting to Rs 35 Mn. Sixty respondents were selected from four CBO's on structured random sampling, based on the performing quality of portfolios. Data collection was done through a questionnaire survey and the CBO leaders and Sewa Finance Officials were interviewed. Respondents were engaged in livelihoods such as retail shops, coir industry, confectionary, garment trading, sewing, farming, bakery, carpentry etc. Major social and institutional factors relating to CBO's function were sought. Strengths and weaknesses of the existing credit appraisal were noted. Steps to establish a system to assess the social and institutional mechanisms of a CBO for credit appraising were suggested.

Key words: Social, Institutional, CBO, Improvement, Livelihood

¹ Postgraduate Institute of Agriculture, University of Peradeniya, Sri Lanka