

The SANASA Model

Co-operative Development
through Micro-Finance



The Inspiring Story
of Sri Lanka's Credit Union Movement

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Canadian Co-operative Association

in collaboration with

Centre for the Study of Co-operatives
University of Saskatchewan



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Preface

In 1990, the Canadian Co-operative Association (CCA), which promotes co-operative development around the world, was asked to participate in a co-operative thrift and credit movement in Sri Lanka called SANASA. CCA's role was to help establish an educational campus that would further the movement's development of professional managers and leaders and provide practical skill training for its members. It was the beginning of CCA's long-term relationship with a movement that has proven to be one of the most exciting and vital in co-operative and micro-finance history.

CCA felt it was important for SANASA's activities to be documented and shared with institutions seeking a viable model of micro-finance delivery. A team of researchers was sent to Sri Lanka to uncover the historical, legal, financial, and social underpinnings of this movement. They were: Dr. Ian MacPherson, Dean of Humanities and Professor of History at the University of Victoria; Daniel Ish, Professor of Law at the University of Saskatchewan; Ingrid Fischer, a credit union manager; and Lloyd Hardy, a graduate of the University of Saskatchewan and consultant specializing in micro-finance. They were joined by Sirisena Tilakaratna, professor of Economics and chairman of the University Grants Commission of Sri Lanka.

What the team found is a co-operative movement as fresh and eager and optimistic as a child, yet wise and pragmatic as a grandmother. Although the movement faces challenges, as does any dynamic entity, the four researchers came away from that beautiful, tragic country with a renewed faith in co-operativism. They found SANASA a shining example of how sustainable co-operative development can help to alleviate poverty, build bridges, promote democracy, and provide hope for the rural poor.

This is their report.

—WILMA GROENEN, EDITOR

Co-operative Principles

Definition. A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles. The co-operative principles are guidelines by which co-operatives put their values into practice.

First Principle: Voluntary and Open Membership. Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

Second Principle: Democratic Member Control. Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Third Principle: Member Economic Participation. Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Fourth Principle: Autonomy and Independence. Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Fifth Principle: Education, Training, and Information. Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of co-operation.

Sixth Principle: Co-operation among Co-operatives. Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

Seventh Principle: Concern for Community. Co-operatives work for the sustainable development of their communities through policies approved by their members.

Introduction

It's a typically hot and humid August day in Sri Lanka; early morning, but already thousands of people from across the island are converging on the football stadium in Colombo, the capital. By noon, 150,000 of Sri Lanka's poorest have filled the seats, waiting in expectation for the day's activities to begin.

Unwitting outsiders would be forgiven for assuming such a crowd is gathered for a major religious event or a much beloved cricket match. They would be wrong. These are members of Sri Lanka's vital thrift and credit movement, known by its acronym, SANASA. They have come to Colombo to express their democratic right at the Annual General Meeting and National Congress.

The SANASA movement is one of the most powerful and interesting social and economic movements in the world today. At its root are 800,000 individual members who, through 8,400 local, or primary, societies, pool their savings and resources to fund their own economic and social development. Cumulatively, they possess nearly 4 billion rupees in savings (Rs 49 = Cdn. \$1, 1999), and their organizations have become a major force in Sri Lankan society. SANASA is largely a self-sustaining movement built upon involvement by virtually all segments of society.

A network of organizations with strong roots in many of the communities of Sri Lanka, SANASA is a movement of far-reaching influence. Building upon a commitment to education and consultation, it continually presents its message to, and hears that message confirmed by, a large segment of the population. Emphasizing local responsibility and self-reliance, the movement remains independent of government and resists involvement in politics. Envisioning the creation of powerful organizations, SANASA has shown remarkable consistency and constancy throughout its twenty-year program for growth.

Sri Lanka is a fragile country where a devastating civil war, fueled by people with cultural differences and political interests, has been waged for the better part of two decades. By espousing an inclusive approach and insisting on a democratic structure, SANASA has transcended the ethnic and religious divisions of the country. The fact that SANASA has not only grown, but thrived, in such an environment is a tribute to its fundamental strength and ingenuity.

The SANASA movement represents one of the best examples of how cooperative development through micro-finance can work—rivaling other, better publicized approaches, such as Bangladesh’s Grameen Bank—to finance economic development. It stands as a powerful system that coincidentally empowers people in communities.

Our hope is that this case study, an examination of the SANASA vision, its promising approach to development, the challenges it faces, and the lessons to be learned from its twenty years’ experience, will encourage an exploration of co-operative models of micro-finance as a basis for development around the world.

The SANASA Model

**Co-operative Development
through Micro-Finance**

Defining a Vision

SANASA's vision has developed naturally and logically since 1978. On a philosophical level, the movement is centred on people working together to develop their inner capacity. The success of the movement is based on the very firm belief that community activism can create social and economic resources capable of responding to a wide range of needs, especially economic needs. SANASA accepts, as a matter of faith corroborated by experience, that ordinary people, if adequately prepared, can govern complex economic organizations and "master their own destiny."

A more ambitious goal of SANASA is to create a new social order based on co-operative principles and values. The social order envisaged is not one that directly challenges the political structures of Sri Lanka, but rather is intended to transform the lives of the disadvantaged within the constraints presented by a difficult political and economic environment. Basic assumptions about the possibilities of latent human potential are deeply ingrained in the movement, reinforced by extensive education and training programs and by an emphasis on local responsibility.

Another fundamental component of SANASA's vision is an integrated set of local, regional, and national institutions. Local savings are the crux of these institutions. SANASA encourages a thrift habit, and insists that all development begins with savings mobilized from within the movement.

At the local level, the rural poor form primary thrift and credit co-operative societies (PTCCSs), or primary societies, which can start with as few as fifteen and grow to over one thousand members. These members pool their savings to provide the financial services they need to change and improve their situation. Active participation is encouraged. For example, members wishing to have access to credit must attend monthly meetings where the affairs of societies are openly discussed. The result is a movement with one of the best records of voluntary member involvement of any co-operative movement in the world.

The primary societies function autonomously within an integrated set of regional and national institutions, which include district thrift and credit co-

operative societies, known informally as district unions, and the apex institution, the Federation of Thrift and Credit Co-operative Societies (FTCCS). These institutions are the result of a series of planned steps that have been carried out over a twenty-year period. The development process, first focusing on education and service and then upon institution building, has recently expanded to include the creation of organizations designed to maintain infrastructure, develop communication systems, and provide banking, insurance, construction, and marketing services.

From the beginning, it seems, the leaders of the movement were aware that co-operatives wield two kinds of power: that which can be nurtured locally and that which can be accumulated by combining the economic and social influence of local societies on a national level.

Making an Impact

The leadership of the movement recognized very early that in order to be successful, SANASA had to be a living organism—flexible, pragmatic, and vital to the people who make up its membership.

“Oh, people will join any organization—not just this organization—if there is a very immediate, tangible result. If you’re preaching co-operative principles, if you try to train them, they’d never come. They want immediate results. Economic benefits. Immediate results which they can visualize. Then they join.”

—P.A. Kiriwandeniya, Honourary President, SANASA

SANASA is such an effective development tool among the poor in Sri Lanka because it recognizes and responds to needs within the local communities and develops its institutions accordingly. If it makes sense, and can be applied without compromising the movement’s vision, SANASA will try it. Through determination and discipline, the members of SANASA—the rural poor—have shaped a co-operative movement that actively improves their lives, both economically and socially.

Economic Impact

The study *Finance Against Poverty*, completed in 1992 by David Hulme and Paul Mosley, reviewed the theory of micro-finance and assessed the effectiveness of the theory when put into practice. Detailed comparative data were compiled from micro-finance movements in seven developing countries, providing “a wealth of information and research on the impact of savings and credit on productivity, employment, poverty levels and socio-political relations.”

SANASA was one of the movements studied in *Finance Against Poverty*, and fared very well under Hulme and Mosley’s careful scrutiny. They found that the SANASA movement has a significant impact on poverty alleviation

in Sri Lanka, noting that the movement encourages existing societies to include and assist poorer villagers and also encourages the establishment of new societies by poorer people. Our findings echoed Hulme and Mosley's. In the interviews conducted for this report, we found that a large number of the members fell below Sri Lanka's poverty line, set at four thousand rupees per month for a family of five. The option of paying share capital in instalments enables even the very poor to join.

Access to credit has clearly improved the lives of the beneficiaries. Hulme and Mosley noted that a quarter of households below the poverty line before

SANASA Profiles

Champa Dayaratne wakes at 4:00 a.m. She quietly does her household chores, working over a wood fire to make breakfast and rice lunches for her husband and three children. She wakes the children and feeds them breakfast, then sends them off to school. By 7:00 a.m. she has opened her grocery store, located in a small building on her property. She will spend twelve hours at the store before closing it for the evening, going home, making supper, and finishing the household chores. She falls asleep at 9:30 p.m.

It's a long, hard day, but Champa doesn't mind. Profit from her small grocery store has bought the bricks that will build her family's new home. It has afforded her family a vacation to visit relatives and take them presents. It has given her family a sense of financial security they never had before.

Two years ago, Champa had no job and was looking for a way to earn income to help support her husband and three children. She learned about the entrepreneur training course offered by the SANASA Campus in Kegalle. After saving for six months through her women's group, she took the course, used her savings as collateral to borrow Rs 10,000 from the Kegalle primary society, and started a grocery store in Kegalle. Her first loan was used to buy basic supplies, such as tea, rice, and sugars. After three months, she took another five-day course to further upgrade her entrepreneurial skills. It took six months to pay back her loan. A year later she made enough profit to purchase a freezer.

With growing profits she now carries a complete range of basic and some frozen food products for her customers. Her inventory comes from a local warehouse. Champa saves one hundred rupees every day, and uses the rest of her profit to support her family and keep the business going. She provides one-third of her family income.

their first loan had graduated above the line by the time of their study in 1992. Again, our findings corroborate this observation. Two societies in the Kurunegala district, for example, reported that 70 percent of their members fell below the poverty line in 1995. In 1998 that figure had dropped to 50 percent.

“SANASA is an organization which helps poor people like us. Now, I am an able, qualified woman. I have an education. But I have no employment. When I got married, I didn’t earn any income, so I started this business. And also, through my other group members, I’ve been helped a lot. So SANASA is an organization which helps to develop people and also increase their life standards.”

—SANASA member

The manager of Kotagedara PTCCS attributes the improved standard of living to the income-generating enterprises members were able to undertake with the help of loans from the society. When asked where they could turn for credit if the primary society ceased to exist, most members said they would be at the mercy of money lenders who lend money at “fire rates.” Those rates range from 100 to 240 percent per annum. The availability of reasonably priced credit has freed many small traders from the control of brokers. This in turn gives them greater choice as to when and where they sell their products, and improves profit margins.

“Before, I borrowed from the vegetable brokers in Colombo. Then you must send your produce to them and they take a large commission. You must wait at least three days to get paid. If you ask for an advance you have to pay more commission. Now I get paid right away and my profit has improved at least 10 percent.”

—Member, Kudaoya Sameneliya PTCCS

All of the societies carry out varied welfare activities for their members, including death donations, religious festivals and scholarships. Some societies have group loan funds or rates that make concessions for the very poor. Welfare activities are funded either from general revenue or from special levies for specific projects.

Social Benefits

SANASA's approach to development results not only in successful economic ventures but in many social benefits as well. Membership in SANASA empowers people.

Education and Training

Whether through practical skill training, theoretical training in areas such as leadership and democracy, or the simple act of voting at meetings, SANASA tries to ensure that every sector of the membership reaps social benefits.

“Before we formed the society there were not many fresh vegetables in the village. Then we were trained in vegetable cultivation. Now some of the women borrow money to buy seeds and grow vegetables.”

—Mr. Edwin, Treasurer, Katuwangoda PTCCS

Training and education for members is a major step toward empowerment, involvement, and leadership, and as such is a major focus of the movement. District unions and primary societies play a critical role in making quality training available to members. District unions focus on theoretical training in practical issues, and primary societies provide on-the-job, skill-development opportunities. Training includes topics as diverse as animal husbandry, dressmaking, new cultivation practices, personal financial management, democratic rights and responsibilities, and new entrepreneurial opportunities. Many societies operate enterprises that offer skill-development opportunities as well as provide income to the society. These enterprises include brick-making plants, coir rope factories, catering services, and carpentry shops; the opportunities are as varied as the societies themselves.

“You know the best thing in this SANASA movement is that anybody who gets the training here will not be isolated any more, as they will be linked with the SANASA movement thereafter.”

—Dr. Hemamali Palihakkara, Director, SANASA Campus

The SANASA Education Campus in Kegalle plays a significant role in developing management expertise within the movement. The campus pro-

vides a full range of management training to staff and directors of district unions and primary societies, including accounting, financial management, human resource management, and marketing, as well as train-the-trainer seminars for the district unions. The campus is also creating a banking faculty to provide education and training for employees of its newest institution, the SANASA Development Bank Ltd. (SDBL). Other faculties are planned for the insurance, marketing, and communication arms of the movement.

Gender Representation

Women are an important part of SANASA. In 1998, 54 percent, or 432,000 of its 804,750 members, were women. SANASA is about involvement: in 1980, just over 9,000 leaders were involved in running SANASA activities; by 1998, this had grown to over 55,000 leaders. Women's involvement in leadership roles in primary societies has grown significantly. In 1984, only 34 women were leaders in primary societies, making up less than 1 percent of the volunteer leaders. By 1998, over 17,600, or 39 percent of the approximately 45,300 leaders in primary societies, were women.

Although women are still certainly under-represented in leadership positions, particularly at the district union and federation levels, their increasing involvement in primary societies is the result of very specific efforts undertaken by the movement:

- **Women's committees.** Committees have been formed to address women's issues regarding self-employment, families, and children. They arrange a variety of activities, from parenting and nutrition counselling, to training in self-esteem, job skills, and entrepreneurship. The women's committees also assist women members in preparing their project proposals when applying for loans.
- **Education for self-employment.** Village women wanted self-employment programs, but because they lacked the skills to start a business, they often settled for traditional income generation, such as sewing and beauty related activities. There was a perceived need to expand the range of their dreams. The campus responded with self-employment training, such as preschool training, which started in 1992, and has since graduated 150 students with qualifications to start preschools in their villages. Training is also available for those interested in bakery or welding. The

- THE SANASA MODEL

success of women in these programs is paving the way for and giving confidence to other women.

- **Representation.** SANASA also addresses women’s participation in the movement at the structural level. At least one member of the women’s committee must also be a member of the society’s governing body, ensuring female representation. Two positions on the FTCCS board are reserved for women, and a national women’s committee has been formed.

Gender Representation in PTCCS Leadership

Year	No. of Women’s Committees	Male	Leaders in PTCCSs*		Total
			Female		
1990	1,841	37,081	925		38,006
1992	1,863	37,863	4,275		42,138
1994	2,855	30,436	14,931		45,367
1995	2,224	31,596	16,771		48,367
1996	2,226	31,641	19,336		50,977
1997	2,709	31,207	16,986		48,193
1998	2,458	27,681	17,617		45,298

*Those elected to any of the following posts: chair, vice-chair, secretary, treasurer

Note: Figures relating to the number of women leaders prior to 1993 are based on district union reporting and are assumed to be under-estimated. After 1993, figures are based on surveys conducted at the primary level and are accurate to a high degree.

Source: SANASA statistical reports

Unfortunately, although these efforts on the part of SANASA have been accompanied by a dramatic increase in women’s involvement, women remain under-represented in key positions throughout the movement as a whole. The increase in the number of women in leadership positions has occurred largely at the primary level, often in roles that can be described as secondary or supportive. Although women attend primary society meetings in high numbers, they often do not participate. There are several reasons for this. Often, discussions at the primary society, where men talk about savings and credit, are of less interest to women, who prefer discussing self-employment

or income generation. As well, women are often simply not asked for their participation, or their attempts to participate in discussions are ignored.

The absence of women in critical leadership roles is most notable at the district union and federation levels, where decisions are made that affect the districts or the movement as a whole. At these levels, women seldom occupy key positions. Throughout the SANASA network, underrepresentation of women in significant decision-making roles presents a continuing challenge.

Future Leaders

Primary societies play a role in educating SANASA's future participants and leaders. Children's societies encourage a savings habit by giving bonuses to the top savers, and often by giving a higher interest rate to children's savings accounts. Some societies organize trade fairs for children to display and sell their crafts or produce. One divisional office encourages children to think about the importance of co-operativism by hosting essay and picture contests that ask children to depict what the primary society means to them. In keeping with the movement's strong emphasis on education and training, many primary societies offer tutoring services, usually on a fee basis, to members' children. Almost all societies have scholarships.

SANASA Profiles

Dayarani Ramawikrama makes a four-hour journey to Colombo every weekend to study for her general arts qualifying exam. Although it is a long journey, Dayarani is grateful for the opportunity. She receives a small scholarship of Rs 1,200 per month and her parents give her a little support, but without the loans she receives from Madiha East Primary Society she would be unable to continue her studies.

Dayarani is very active on the women's committee of her primary society. The committee delivers many services to the village including helping the sick, organizing religious activities, training women who are interested in self-employment, and helping them develop project proposals to support loan applications. Dayarani is oblivious to her own contribution to the "remarkable service" she credits to her primary society. If Dayarani were denied the opportunity to study, the loss would be felt not only by her but also by the many women with whom she shares her new-found knowledge.

“We have competitions [literary]. We get prizes for the competition. We have a library, English classes, a fair where we sell our vegetables.”

“I save my birthday money and money Mother gives me.”

“SANASA is a better bank than Mummy.”

—Children’s society members, Nissankamalla PTCCS

In 1992 the movement started youth programs called Green Clubs, which teach young people about environmental protection. The SANASA Education Campus has set aside ten acres of land to be used as a laboratory for the clubs to study natural vegetation. The campus has also made arrangements with the minister in charge of forestry and the environment to meet with club members and discuss environmental issues, giving young members a chance to develop speaking and leadership skills. Each district has at least one Green Club, with total membership at well over five thousand. Many of these youths also sit on the boards of their primary societies.

Democratic Values

“We need a very strong mass education program to create confidence in democracy, create confidence in a civil society, create confidence in our own capability. For that reason, I think that our monthly membership meetings, the 800,000 membership in our primary societies, is really the ground for exercising democratic values.”

—P.A. Kiriwandeniya, Honourary President, SANASA

Meeting attendance provides an opportunity to see democracy in action and make democracy work for the benefit of the members. Attendance is one of the credit-granting criteria of all societies, but confers much larger benefits than mere credit access. By participating in meetings, members experience direct democracy and learn how to speak in a public forum. This experience is carried over into interactions with other public and private organizations. Members are well informed of the activities of their society and are able to voice concerns, influence decisions, and raise new issues to be considered by the membership at regular and frequent intervals.

“My speaking skills have improved a lot since I was elected to the board. I have much more confidence now and am not afraid to speak out in public when I think something is wrong.”

—Chairman, Yatiyana PTCCS

Finally, in a very fragmented society, SANASA manages to reach out and bridge some of the many class and ethnic barriers. Its membership and much of its leadership are from small farmer groups and working-class areas. As well, the movement has developed in Tamil- as well as Sinhala-speaking areas.

“We think we are bridge makers between ethnic groups.”

—P.A. Kiriwandeniya, Honourary President, SANASA

Roots of Self-Reliance

How does one begin to understand what makes such a movement work? At least some of the clues lie in the nature of traditional Sri Lankan society, the country's early co-operative history, and the long-term impact of the independence movement typical of the early national period.

The co-operative impulse infuses Sri Lankan life. For twenty centuries, the pervasive teachings of Buddhism, particularly Theravadan Buddhism, have significantly shaped the country's religious, social, and cultural landscapes. Theravadan Buddhism's emphasis on self-effort and practical matters, concern for the common good and right livelihood, and strong sense of community structured around the temple create a fertile context within which co-operative thought can flourish.

Spontaneous co-operation traditionally played an essential role in Sri Lankan society, whether through community organizations that shared precious water resources, informal institutions that planted and harvested crops, or informal savings circles. Without romanticizing the traditional ways of life, or downplaying the difficulties common to them, the peoples of Sri Lanka have developed effective, communal ways of practical sharing over the centuries.

Early Co-operative Development

The British introduced the formalized co-operative structures typical of European societies. The roots of the SANASA movement stretch back to 1911, when the British administration passed an ordinance for the regulation of a thrift and credit co-operative movement in what was then called Ceylon. Patterned after similar legislation for India passed two years earlier, the ordinance was intended primarily to assist more prosperous farm families to enter the market economy without relying on expensive credit from local moneylenders. In Sri Lanka the movement speedily became a significant force, largely controlled by the elites of rural and village communities. By 1964, some four thousand societies had been formed.

The system that developed became paternalistic, relying on the Registrar of Co-operatives to provide model by-laws, inspect societies, and approve essential business practices—notably the raising of funds, the kinds of investment to be made, the limits of interest rates, and the disbursement of major expenditures. The societies faded under this often smothering, cumbersome, bureaucratic, and inconsistent control.

Added to these problems were a lack of effective educational programs to empower elected leaders, high rates of illiteracy leading to disempowered members, and a reliance on government sources for funding, all of which encouraged administrative interference.

After gaining independence in 1948, the national government continued to use co-operatives as a development tool. In 1957, multipurpose co-operatives were created by the government to help modernize the countryside. They were used to distribute rural credit provided by the government's People's Bank as well as to provide inputs and undertake marketing activities. As in so many other newly independent countries, multipurpose co-operatives increasingly became agents of government rather than instruments of local empowerment. They drew support away from the thrift and credit co-ops, and often contributed to a sense of mistrust of co-operatives among the rural poor.

In 1978, the thrift and credit movement was resuscitated, largely through the efforts of P.A. Kiriwadeniya and a group of mostly younger community activists concerned about the deteriorating conditions in much of rural Sri Lanka. The sons and daughters of those who had led the nationalist movement, these leaders were highly educated young people who were drawn to the possibilities of co-operatives as an important way to empower newly freed people and help shape a modern nation. In the thrift and credit societies they found a distinctly Sri Lankan approach to the resolution of rural problems and a structure within which they could work.

The rapid growth of the movement and the enthusiasm of the membership exceeded even the wildest expectations of SANASA's leadership. That SANASA has been able to accomplish so much is explained by several factors, including its complete independence from government influence, the general appropriateness of its policies, its ability to secure foreign assistance on its own terms, the nature of its leadership, and the significant economic and social space it has been able to occupy.

Independence from Government

“Promoting democratic systems and exercising democratic rights ... impacts on our society.”

—P.A. Kiriwandeniya, Honourary President, SANASA

Sri Lanka’s political situation is fragile at best. The recent history of the country has seen highly authoritarian and invasive governments. The current leadership is an exception, but death squads, condoned by both government and opposition movements, existed as recently as six years ago. SANASA members and leaders were murdered in significant numbers in the late 1980s and early 1990s. Sri Lanka may be one election or one assassin away from a repeat of the past.

In this delicate situation, the leadership of SANASA wisely remains completely apolitical, showing a remarkable ability to function independently while still retaining respect from government. Vigilant attention to remaining independent is important for the success and longevity of the movement.

SANASA’s constitution requires that any board member or leader within the movement remove himself or herself from any political position. This creates trust from within both government and the membership.

In addition to this structural measure, the leadership of SANASA, particularly Kiriwandeniya, is outspoken, if not defiant, in its defence of SANASA’s independence in a country where politics permeates the lives of virtually everyone. Kiriwandeniya’s high profile in Sri Lanka (he was awarded an Order of the President recognition three years ago) and his open lines of communication with bureaucrats and politicians of all political stripes serve SANASA well.

“We have people from all kinds of groups ... the Muslim community, Tamil, Sinhalese, Buddhists, Christians. These people, regardless of their religion, believe they get together for the betterment of their lives. SANASA can set an example to the world where you can see all these communities working together to uplift not only their economic conditions, but their spiritual conditions as well.”

—Rev. Aluthwewa Ananda, Nalanda PTCCS, Matale

Practical Policy Orientation

SANASA's policies grow naturally out of its vision and are focussed essentially on practical matters. Its training programs, while concerned with teaching co-operative values and principles, are primarily aimed at improving the effectiveness of local organizations. Most of the monthly meetings of local societies are spent considering the financial situation, notably any delinquency or looming problems.

SANASA also conducts its affairs in a transparent manner through extensive consultations and comparatively open accounting systems at the local, division, district, and national levels. That commitment to openness, which flows readily from an underlying faith in human potential, is in striking contrast to the control of information typical of government activities in Sri Lanka and most other countries, and of private enterprise throughout the world.

Another striking feature of the SANASA approach is its flexibility. It is not and has never been just a "banking" movement. Its aim is always the general economic and social betterment of its members in any way that makes sense. It takes on the operation of post offices, the development of communication systems, the promotion of marketing activities, and the sponsoring of activities for women and youth. Unlike many co-operative movements as they become institutionalized, SANASA retains its broad, but always practical, vision.

Donor Assistance Guidelines

SANASA has successfully sought help from international development programs and the international co-operative/credit union sector since the late 1970s. It always does so, however, on its own terms. The SANASA leadership does not accept all the assistance it might, because it wants to develop local societies and the national movement in accordance with its own philosophy.

Significant aid has been received from Australian Community Aid Abroad, the Netherlands's Rabo Bank, HIVOS (an NGO associated with Rabo Bank), Swiss Inter-Co-operation, the Canadian Co-operative Association (in partnership with the Canadian International Development Agency), the World Council of Credit Unions, and several similar organizations. This aid

has been used to fund training activities, to develop leadership programs, to encourage better management of local and district societies, and to build institutional infrastructure, particularly at the district and national levels.

At the same time, the movement insists upon management of its own affairs, the development of diverse social and economic programs, and management, as much as possible, by Sri Lankan people. These conditions are not always welcomed by all international organizations.

SANASA has strict guidelines for accepting donor funds. For example, before entering into an agreement with a donor organization to deliver micro-finance, SANASA must satisfy itself that:

- The program is relevant to its objectives of promoting the standard of living of the poor;
- The donor is a respectable organization;
- The organization will not attempt to change SANASA's systems, for example, the linking of savings to credit;
- The organization will not attempt to take money out of SANASA, for example, by requiring that savings be kept in the formal banking sector;
- The program will be delivered in a true partnership without the donor trying to dominate SANASA; and
- There can be no political influence.

Kiriwandeniya: A Visionary Leader

SANASA's development has been profoundly influenced by the consistency and effectiveness of its leadership. While there have been several individuals who have played prominent roles, undoubtedly the key role has been played by SANASA's Honourary President, P.A. Kiriwandeniya.

Growing up a devout Buddhist, he was naturally drawn to finding a "middle way"; he has always shown a capacity to find a practical but honourable method to accomplish what needs to be done. Before joining SANASA, he spent time studying and understanding both Marxism and Gandhian community programs, neither of which in his view provided a satisfactory blend of ethical and economic dimensions. He found that mixture within the philosophy and methods of the co-operative community banking movement.

Kiriwandeniya possesses an unusual combination of leadership skills. He can be an animator of public discussions in both small and large groups. Equally, he can be a superb communicator through addresses that often keep the attention of an audience for hours. He is always in part a teacher—as much concerned with what is being learned as with what is immediately accomplished. He moves easily back and forth between the people of Sri Lanka and the international co-operative movement. He is a perceptive observer of trends in international development circles and is able to comprehend when those trends can be honestly accommodated to the long-standing objectives of the SANASA movement. Over the years he has earned an unsullied reputation as a spokesperson for the full range of Sri Lankan society.

Kiriwandeniya's commitment is legendary within the country and respected by those from outside who evaluate his work. In short, not only has he been the essential founder of the movement, he has been able to retain his role even though the movement has started to become institutionalized and the qualities required of leadership are changing. Few leaders in the history of successful social movements possess such diverse skills and abilities.

Over the years, Kiriwandeniya and others within the movement have developed a growing cadre of leaders at the local, regional and national levels. Leadership development was a clear objective of

SANASA Profiles

Sunethra Dissanayake steps off the bus at the SANASA Education Campus in Kegalle. She is happy and confident as she heads to her class, where she is learning to weld. She is participating in a women's training program she heard about through her primary society in Kegalle.

When she first announced her intentions to become a welder, her family did not support her decision. That certainly didn't help her nerves on those first few days of classes. Today, her family is behind her and she is full of confidence, planning to open a shop after her six weeks of training, and ready to compete with the two men who already provide welding services in Kegalle.

She expects to earn Rs 5,000 to 6,000 (Cdn. \$102 to 122) per month. If she could set up a workshop with more equipment, perhaps with the help of a loan through her primary society in Kegalle, she could make more money to help her family, and also employ others.

the educational and training programs begun in the early 1980s; it is why so many resources are still spent on education and training today; it was the reason for forming the SANASA Campus at Kegalle (which named its main building in honour of Canadian co-operator Alex Laidlaw, who was appointed by the Sri Lankan government in the 1960s to chair the Royal Commission for co-operative movements). Developing the necessary leadership remains a challenge, since the movement will grow steadily if current plans materialize.

Filling a Social and Economic Void

Like many countries in the developing world, the Sri Lankan state has undergone dramatic change over the last three decades. When independence was secured in 1948, the Sri Lankan government embraced activist roles as it sought to move into an industrialized economy in the space of one or two generations. The government promoted rapid change in the countryside and encouraged the transition to a market economy. The country initiated a welfare state, fostered educational reform, and began to develop an industrial base. Many in the generation that matured during the early independence period, including most of the people who came to lead SANASA, were naturally very proud of, and committed to, the creation of a dynamic society freed from colonial controls and building its own distinct traditions.

During the 1970s, partly because of external pressures and partly because of the shifts in the political landscape in Sri Lanka, the state began to retreat from its activist role. Within the villages and the working-class urban areas, governments played less important roles, particularly in stimulating the economy. Farm families had less support, especially if they were in marginal economic circumstances. The result was a growing restlessness that led many people to look increasingly to SANASA and its savings and credit program as

Social Indicator Scores for Sri Lanka

World Bank 1992 Statistics on Sri Lanka's social indicator scores are very favourable. Life expectancy is 71 years, the infant mortality rate is 19 per 1,000, and the literacy rate is 88 percent. Still, poverty and unemployment are ongoing problems for a large segment of the population. Because of the high deficit, continuing ethnic conflict, and military spending, the government finds it increasingly difficult to deliver social programs.

a way to help control their own destinies. For many, SANASA became a source of hope and optimism as other economic and political alternatives lost their appeal.

With the right people and the right timing, a revolution was sparked. It started with a meeting called by the Walgama society in the Kegalle District, where Kiriwandeniya had started his work with the thrift and credit co-operatives. Most people attending came from nearby communities and were concerned with strengthening the existing movement and planning for its expansion. The enthusiasm generated at the meeting led to another conference in 1979 that brought together people from a wider selection of societies. Thereafter, national meetings were held on a regular, usually annual, basis. Out of these meetings emerged the three-tier structure that characterizes the movement, and a development model based on identified needs in the rural community.

Organizational Design

The seeds of most co-operative movements are rooted in necessity—the fulfillment of simple needs that otherwise cannot be met. As the movement experiences success, both the membership and the range of services offered expand, leading to the development of successive tiers to accommodate the increasing complexity and diversity. In co-operative movements, the tiers are organized in such a way as to allow the membership continued democratic control. SANASA followed this typical pattern.

The Three-Tier Structure

Primary thrift and credit co-operative societies are the first tier of SANASA. They provide direct services to members and nonmembers, including savings, loans, and a variety of welfare activities. The primary societies are the foundation of SANASA, the solid democratic base from which the complex, multifaceted, and powerful movement has grown.

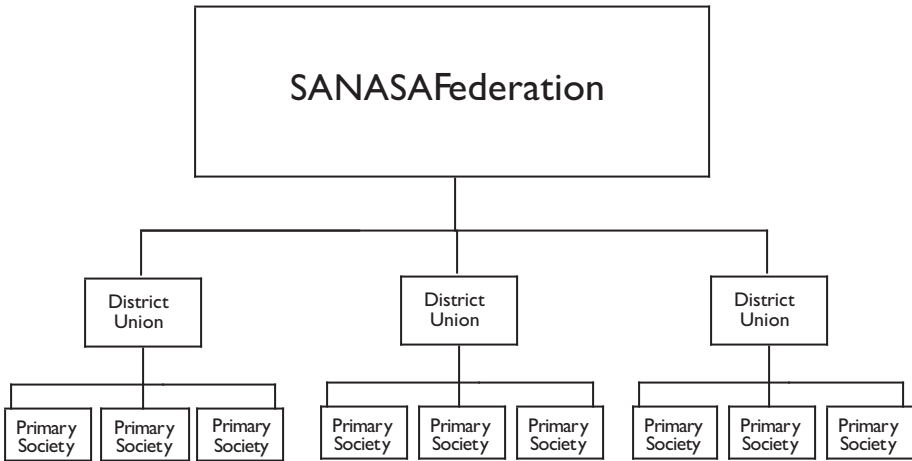
“What if the worst happened and the government interfered in the federation, donors hastily withdrew, internal cost recovery failed and the succession was ineffective? No doubt SANASA as currently constituted might collapse, but the operations of thousands of PTCCSs would continue [because] SANASA has genuinely institutionalized itself at the village level, and its primary societies have an autonomous capacity to function (albeit on a reduced scale) without the higher tiers.”

—Hulme and Mosley, Finance Against Poverty

The district level makes up SANASA’s second tier. Each district union consists of two hundred to six hundred primary societies. District unions provide onlending services to primary societies as well as monitoring, education, problem solving, and business planning support. Many district unions have created divisional offices, which in turn use development officers to

improve service to primary societies. Where divisional offices are used, each is responsible for twenty to fifty individual primary societies. Divisional offices provide administrative support to the primary societies, including staff and member training, bookkeeping assistance, development activities, and membership drives. Each development officer is normally responsible for four or five primary societies and concentrates on increasing membership and assisting with bookkeeping. Some divisional offices also accept deposits from non-members, an important source of liquidity for the movement. Refer to Appendix 1 for a chart of primary society and district membership statistics from 1994 to 1997.

SANASA’s apex federation, FTCCS, provides leadership, training, and education through the SANASA Campus. It also acts as liaison and lobbyist with government and regulatory agencies, and channels development monies from donors.



Financial Management

Traditionally, FTCCS has relied on donor support for much of its financial stability. Hulme and Mosley expressed concern about this. However, it should be noted that this support goes directly toward infrastructure, and especially toward the educational work that SANASA’s leadership has targeted as crucial to the long-term success of the movement. The money targeted for lending is completely generated within the movement. Concerns about donor

dependence are being addressed effectively, with FTCCS making great strides toward self-sufficiency. Despite increasing delinquency levels, SANASA's expense/income ratio has improved substantially, showing a surplus in 1995 and only a slight loss in 1996 and 1997.

FTCCS Expense/Income Ratios (Rs Millions)

	1988	1989	1990	1991	1992	1995	1996	1997
Income	0.70	1.80	2.65	2.88	8.49	32.34	35.84	37.80
Expense	3.21	4.01	4.45	4.93	11.88	32.04	36.40	38.45*
Annual Surplus	-2.51	-2.21	-1.80	-2.05	-3.39	0.30	-0.56	-0.65
Expense/ Income Ratio	4.59	2.23	1.68	1.71	1.40	0.99	1.02	1.02

*adjusted for investment in SDBL

Source: SANASA statistical reports

Hulme and Mosley noted that the primary societies are more financially independent, stable, and sustainable than the district unions and FTCCS. This is often the case. Societies work exclusively from internally generated funds, so delinquency problems directly affect the rate of growth of the society. It is in the best interests of the membership to encourage growth. The tremendous commitment generated by ownership allows primary societies to continue to survive and grow.

Despite some successes, there is a growing need for primary societies to improve financial management and achieve lower delinquency. As a rural movement, SANASA has a membership whose fortunes depend on the vagaries of weather; increasing globalization is another threat. Successive crop failures and international competition for commodities have driven delinquency rates up to 70 percent in some cases. As well, increasing sophistication of members, competition from other financial institutions, and mobility are eroding both member commitment and the effectiveness of the monthly meeting in keeping delinquent members in check. It is important for the movement to continue to strengthen its weakest members.

Staff and directors become more aggressive in pursuing delinquent accounts as they receive delinquency management training. Personal visits from staff and directors are a common method of encouraging members to deal

with arrears. In the Polonnaruwa District, one society, whose delinquency rate climbed to 70 percent after two years of drought, changed its lending policy to require borrowers to form solidarity groups to qualify for new loans. The society's delinquency rate has now dropped to 50 percent, despite a subsequent crop failure. District unions actively mediate disputes between borrowers and primary societies. Smaller societies and those with paid staff generally have lower delinquency rates; some have no delinquency at all.

To provide liquidity to meet loan demand, societies have attracted nonmember and children's deposits. Some societies have more nonmember and child depositors than they have members. (Nonmembers can take advances against their savings—usually no more than 80 percent—but may not take loans.) Nonmembers are attracted by high savings rates and the convenience of banking services in their own village. During 1998, deposit rates were as much as 5 percent higher than at commercial banks. In keeping with the member focus, member deposits receive a higher rate than do nonmember deposits. In late 1998 and early 1999, primary societies were beginning to drop

Financial Sustainability

The fundamental strength identified by Hulme and Mosley in their 1992 study is evident today. The SANASA movement has enjoyed steady and continuous growth since 1978. In 1997, growth exploded with a deposit increase of 61 percent over 1996, while membership grew by a mere 2.6 percent. Nonmember deposits accounted for 16 percent of growth. No single factor can be identified as a driving force; however, there appear to be a number of contributing elements:

- Reductions in savings rates at the commercial banks were not followed by primary societies, resulting in an interest rate differential of up to 5 percent in some cases.
- Primary societies invested heavily in fixed assets and staff during 1997, with a 58 percent and 14 percent increase over 1996 respectively. There is a strong correlation within individual societies between the acquisition of a clearly identifiable office with paid staff, and growth of the society.
- SANASA continues to build trust and gain recognition as a viable alternative to other financial institutions, through strong word-of-mouth publicity.
- Announcement of the SANASA Development Bank has enhanced the image of the primary societies and further developed trust in the movement as a whole.

Balance sheet statistics for the primary level of thrift and credit co-operatives for the years 1994 to 1997 are included in Appendix 2.

their deposit rates but most were still making a strategic decision to maintain rates above those of the commercial banks. At the same time they increased loan rates, thereby improving their margins.

Most societies have nonfinancial sources of revenue; some earn as much as 45 percent of their income from nonfinancial sources. Nonfinancial revenue is usually generated by one or more enterprises owned by the society, such as brick-making factories, carpentry shops, catering services, retail outlets for agricultural inputs, English or computer classes, and tutoring for scholarship aspirants. Members work at these enterprises, developing their skills in the process. Societies also capitalize on their own assets by renting out chairs and rooms for special events and meetings.

One district union in the Matara District decided that setting up its own enterprises would result in direct competition with members. Instead, the district union encourages primary societies to fill identified needs by offering financial resources and providing training and technical assistance to members to help them to establish the necessary enterprises.

SANASA sees training staff and directors in financial management as one of its biggest challenges. Primary societies that have received training see a marked and immediate improvement in financial accounting, management, and delinquency control. SANASA's challenge is to reach all of its 8,400 societies with this training as quickly as possible.

SANASA recognizes that what has worked in the past may not work in the future, and through such measures as the SANASA Development Bank, continues to ensure the financial viability of the movement. SANASA's financial success and sustainability have been recognized by A.S. Jayawardena, the governor of the Central Bank of Sri Lanka. The governor was also impressed by SANASA's commitment to the rural economy.

“The small and medium sector is quite a dynamic sector ... They create more employment per unit of capital than the larger sector; larger investments. By the nature of this organization—people getting together and doing things to help each other—that principle will also ensure there's a commitment by the people to see that the loans are repaid and that investments are made sensibly.”

—A.S. Jayawardena, Governor, Central Bank of Sri Lanka

Much of the governor's assessment was based on a study conducted by the central bank, which noted the exceptional recovery rates of loans in primary societies and indicated that the rates were often better than those of most banks. Under his authority, the SDBL was registered as a licensed specialized bank by the central bank in 1998.

The Four Pillars of Development

Originally, the leaders of SANASA identified four key areas of development that must come under community control for the movement to remain sustainable. Within SANASA these are known as the four pillars:

- Banking
- Marketing
- Construction
- Insurance

Diversifying to provide these services has afforded SANASA a large part of its success. Continuing to diversify will see SANASA into the future. Already, the leadership has identified emerging needs, such as communications and transportation, that it is attempting to meet.

The First Pillar: Banking

A fundamental tenet of SANASA's approach to sustainable development is that, as far as possible, the beneficiaries must generate the financial resources for development themselves, rather than rely on money granted from the top. Involvement promotes discipline, long-lasting bonds, and learning. Funds can be supplemented from outside sources to fill in gaps or temporary shortfalls, but communities must seek to generate internally the funds needed for development.

For SANASA, savings are the foundation of rural development, the pillar that must support the entire structure. Savings are the source of credit, local capital, grassroots development, and sustainability. For that reason, savings must precede credit. Well-managed savings and credit activities create sustainable grassroots organizations and promote profitable businesses for the participants. This leads to growth in the capacity of the grassroots organization and enables it to widen its scale of support for productive activities and enterprises.

Members of SANASA recognized very early that their organization would not control or benefit from banking activities without education. In the Sri Lankan context, this education had to focus first on changing people's attitudes toward development and increasing their knowledge of the co-operative approach to development. Only after these had been addressed could education focus on skills in managing savings and credit, and on the members' own income-generating activities.

The Second Pillar: Marketing

The second pillar targeted by SANASA is marketing. While most top-down development efforts in Sri Lanka have focussed on improving the quantity of production, SANASA recognized immediately that the critical factor in production is finding and developing markets. SANASA also knew it must ensure that producers sell in those markets that will earn them a reasonable profit; this has not always been the case because of powerful middlemen, problems with the scale of production, distance, and poor-quality products.

As a result of this analysis, SANASA's development strategy includes community-controlled institutions to market the products produced by community members or organizations. Initially, small producers were organized into groups to increase their bargaining power, and producers and consumers were linked directly through their SANASA societies or similar organizations in their communities. In 1996, SANASA incorporated a production and marketing company, SANASA Producer Consumer Alliance Ltd. (SANEPPA). SANEPPA is now building the knowledge base and infrastructure capacity needed to assist significantly with the production and marketing activities of its members.

The Third Pillar: Construction

In rural Sri Lanka, the community infrastructure (schools, government buildings, roads, bridges, and minor irrigation works) and private housing require a substantial amount of construction and maintenance activity. Private contractors, usually from urban areas, are often unwilling to undertake small projects in rural villages. This not only leads to delays in providing basic infrastructure to the communities, but also often results in substandard work by labourers unattached to a particular project.

SANASA believes that grassroots control over community construction and maintenance activity provides income-generating activities to village participants, while avoiding long periods of neglect and disrepair. The community organizations ensure high-quality work because they have a lasting interest in the village.

The Fourth Pillar: Insurance

Insurance is essential for sustainable rural development. All credit activities involve risk, but development credit has the highest level of risk of all credit activities. These risks are encountered at both institutional and individual levels, and involve both rural development programs and the credit institutions that lend to them. As well, while poor people need insurance against property loss, partial or full disability, accidental death, and production loss or natural calamities, the formal insurance sector denies coverage to poor individuals and their grassroots organizations. As a result, SANASA included as part of its core development strategy the creation of community-controlled insurance organizations.

SANASA has developed all four pillars in a reasonably short period of time, especially considering that planning in SANASA is a painfully slow process, with ideas flowing in from every level of the movement and every corner of the country. This nonlinear, seemingly haphazard approach to reaching goals and objectives ensures consensus and inclusive, democratic decision making. It also has the potential to be a nightmare for planners. However, although the process may seem haphazard, it remains true to the vision and is pinned together by a remarkable long-term plan that was started in 1978 by the original leaders of the revitalized movement.

The Grassroots Development Process

SANASA's activities are based on the development of the people. According to SANASA, "*development is the protection of human life*. To protect human life, human rights, basic needs, and skill-development opportunities must be fulfilled."

The leadership of SANASA analysed the root causes of poverty in Sri Lanka and concluded that lack of access to capital and a failure of the education system have resulted in widespread poverty and the degradation of human life. Historically, most poor people accepted that poverty was their fate and did not trust each other enough to take any joint action to actively seek solutions to their poverty. Religious leaders often encouraged these attitudes, creating even greater barriers to organizing the poor. The education system did not attempt to address the problem of poverty or to raise awareness about poverty alleviation. Since the education provided was irrelevant to the socio-economic needs of the society and was geared toward traditional, colonial, "white collar jobs," education could not do much to resolve the problem of poverty, other than raise literacy to a remarkable standard (90 percent).

Successive Sri Lankan governments tried and failed to address the issues of rural poverty. The fatal flaw in all their attempts was their top-down approach. Programs were planned outside of the villages and "delivered" to the poor; they failed to achieve substantial or lasting results in rural development as they were unable to deal with local complexities. The biggest impact they had was to create dependence in poor communities by providing financial handouts.

SANASA offered an alternative development approach. Its rural development strategies were based on the establishment of autonomous, grassroots organizations that would become sustainable by being fully involved in planning the development processes in their communities. The approach had three stages:

- First, small groups of fifteen to twenty members, most often men, were brought together through community or occupational bonds. These

groups promoted thrift, accumulation of savings, and the investment of savings in community development.

- Second, the groups were extended to include the community at large by bringing in nonmembers and other groups such as youth, children, and women.
- Finally, improvements in the community were undertaken through these local organizations, which took over the responsibility of community development under the four pillars model.

This approach seems reasonably simple, but its success was largely due to long-term strategies that were and are based very firmly in the long-term vision of the movement's leadership: the establishment of a co-operative social order achieved through an alternative financial system based on co-operative values.

This vision was unattainable in 1978, given the development problems facing the movement and the nation, and particularly the poor. Undaunted, SANASA developed four, five-year plans, and has been amazingly consistent and continuous in its adherence to this long-term vision.

Motivation and Promotion, 1978–1984

SANASA's development efforts have always focussed on strengthening the primary societies. Initial development efforts focussed almost exclusively on overcoming entrenched, fatalistic attitudes and motivating poor villagers to believe in their own self-worth. SANASA promoted the idea of working co-operatively in grassroots organizations to solve the problems of poverty faced by families and communities.

SANASA also attempted to promote understanding of the movement among key government ministers and officials, particularly in the Department of Co-operatives. These efforts have always met with mixed results, and to this day, tensions exist between the Department of Co-operatives and SANASA. Still, in order to set itself apart from the government-dominated multipurpose co-ops, SANASA had to educate people associated with the department about the movement and its principles of democracy and self-reliance.

Education and Training, 1985–1990

Motivational efforts were continued, while the voluntary leadership was strengthened through education and training that focussed on leadership and its responsibilities, co-operative principles and values, and the importance of savings mobilization. During this period, SANASA developed a partnership with the Canadian co-operative movement through its international development organization, the Canadian Co-operative Association. This partnership was forged to assist SANASA in its efforts to develop the SANASA Education Campus at Kegalle. The campus assumed responsibility for the education efforts of the entire movement, improving the quality of training and developing the professionalism of the primary societies at both the managerial and leadership levels.

Building Institutional Capacity, 1991–1995

From 1991 to 1995, the movement strengthened the capacity of primary societies by improving the financial management of the entire movement. The campus developed and delivered courses on lending and financial management, while the federation and the World Council of Credit Unions developed an information system to monitor financial performance and to improve financial reporting and management at all levels. The movement initiated a grading system for primary societies based on their operating and financial performance; the system allows for a better identification of the needs of primary societies and more focussed development and training efforts.

Alternative Financial System, 1996–2000

The institution building that took place from 1991 to 1995 strengthened the movement and prepared it for the establishment of a SANASA bank by the year 2000. The SANASA bank is the cornerstone of the alternative financial system based on co-operative principles. It supports and is supported by the development of institutions involved in marketing, insurance, and construction. Each of these institutions is owned by the movement and was created to strengthen the primary societies.

A Structural Analysis of SANASA

Twenty years of outreach, growth, and diversification have significantly changed SANASA's work in Sri Lanka. However, because it espouses an active, "living" philosophy, the movement has been remarkably agile in incorporating the changes necessary to achieve its goal of sustainable development and a new social order.

A close look at the network of interrelated organizations, and the organizational and legal structures that govern them, provides the nuts and bolts of a co-operative development model that may be emulated, at least in part, by those wishing to develop successful and sustainable approaches such as those seen within the SANASA movement.

Organizational and Legal Structure

The overall corporate structure of SANASA is developing as the activities of SANASA increase and its membership grows. SANASA incorporates entities such as SANEPPA, its marketing corporation, as "stand alone" corporations whose shareholders are co-operatives from all three tiers. Control of these entities lies ultimately with the individual co-operative members. This protects SANASA's co-operative and democratic nature much more than developing subsidiary corporations with the federation as the sole or primary shareholder. It also provides limited liability to other parts of the SANASA network should any of the enterprises be unsuccessful. Whether the decision to choose this structure was motivated by the desire for more grassroots democracy or as a defence against interference by the government bureaucracy (a matter discussed in a later section), the result is a very democratic structure.

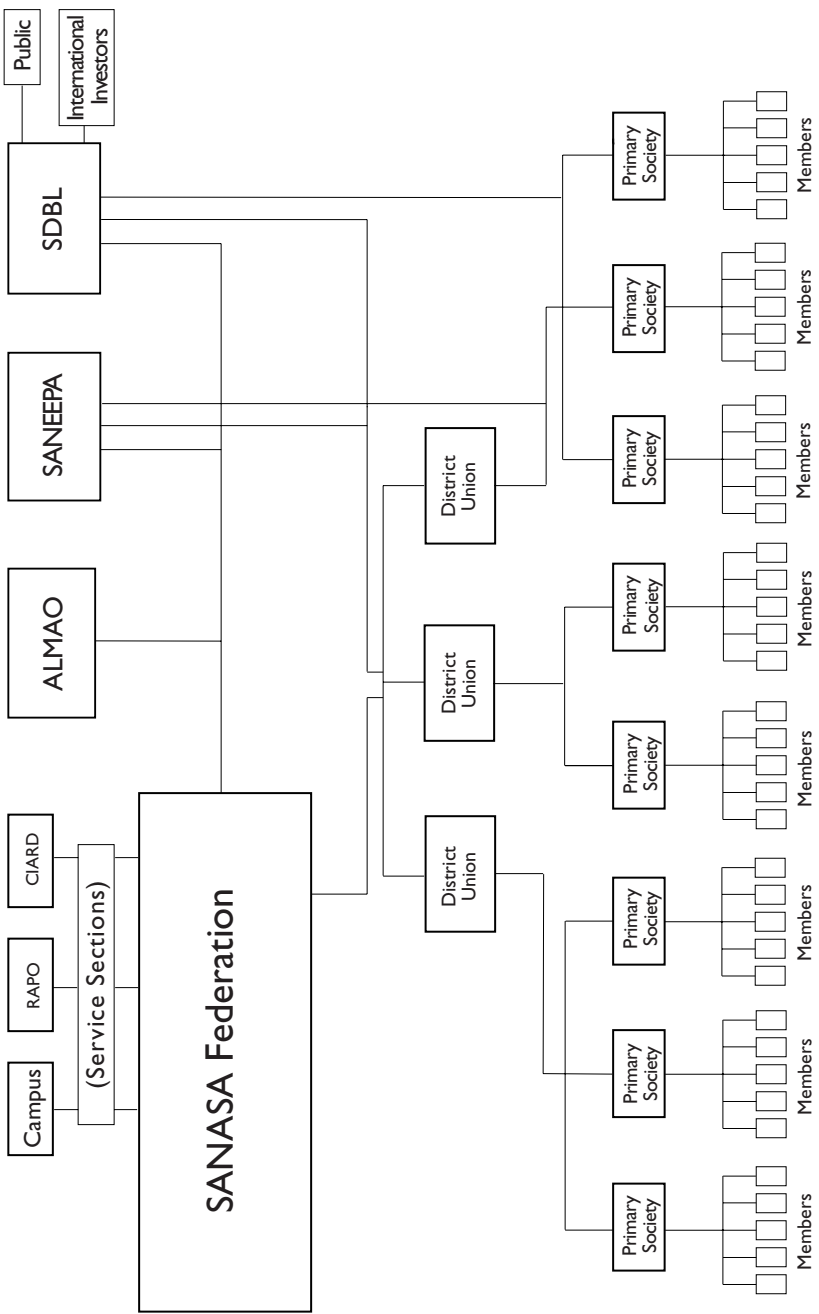
SANASA's formal structures are rather complex. These were not imposed or designed from the top down, but evolved as the business and operations of SANASA expanded. The result is a refreshingly utilitarian approach that has protected the most fundamental of co-operative principles and values—control by people rather than by capital or vested interests.

The operations of SANASA are organized into legal entities created under several separate acts of the legislature. The basic co-operative structure of SANASA uses the general co-operatives legislation of Sri Lanka, the *Co-operative Societies Law, No. 5* of 1972, as amended in 1983 and 1992. The first-tier co-operatives, the primary societies, are incorporated societies whose members, or shareholders, are individuals. The second-tier organizations, the district unions, are incorporated by primary societies. The third tier, the SANASA Federation, is a corporate entity with the district unions as members. All are incorporated as separate entities. The primary societies can be incorporated with or without limited liability; about 90 percent are unlimited liability societies.

As the activities of SANASA expanded, entities were created under other, non-co-operative legislation. These entities are organized and operated as co-operatives because the other legislation is flexible enough to accommodate the co-operative structure. They include the SANASA Development Bank Ltd. (SDBL), the SANASA Producer Consumer Alliance Ltd. (SANEEPA), and All Lanka Mutual Assurance Organization Ltd. (ALMAO).

SDBL, incorporated as an ordinary business corporation, was registered as a licensed specialized bank by the Central Bank of Sri Lanka in 1997, bringing SDBL under the supervision of the central bank. The shareholders of SDBL are primary societies, district unions, and the SANASA Federation. Rather than set up SDBL as a subsidiary corporation of the federation, which would have filtered member input through every tier of the federation structure, the current model allows input by members through only one tier, the primary society. In addition, the corporate constitution allows outside organizations to buy shares (no individuals may be shareholders). International organizations are also allowed to invest in SDBL by purchasing shares, but the latter are nonvoting shareholders.

SDBL is still determining its role. Currently it facilitates capital accumulation and interlending ability among primary societies and district unions. Some of SDBL's officials are eager to increase its capital base by tapping into wealthier urban areas and ultimately seeking commercial bank status. They argue that this is necessary to support the poor, rural members of SANASA. The governor of the central bank strongly believes that SDBL's fundamental role is to support the primary societies and their members. He is opposed to SDBL becoming "just another bank" with an urban focus. The governor used



Legend

- SANASA — Federation of Thrift and Credit Co-operative Societies
- ALMAO — All Lanka Mutual Assurance Organization
- SANEIPA — SANASA Producer Consumer Alliance Ltd.
- SDBL — SANASA Development Bank Ltd.

- CIARD — Community Infrastructure & Resource Development
- RAPO — Rural Agency Post Office Services
- CAMPUS — SANASA Campus for Co-operative & Development Studies

the example of another Sri Lankan bank, the People's Bank, as a caution. According to the governor, the People's Bank arose out of the co-operative movement but has long ago lost its co-operative philosophy.

"If SDB turns into another People's Bank, it will be a disaster—loaning to rich people in the city is not their purpose. The sole purpose is to help the primary societies, not to develop another commercial bank."

*—A.S. Jayawardena, Governor,
Central Bank of Sri Lanka*

Like SDBL, SANEPA, the marketing organization, is incorporated under the *Companies Act*. The goal of SANEPA is to develop production and marketing assistance for SANASA members. It is owned solely by SANASA membership, but again, not as a subsidiary of SANASA Federation. Rather, its shareholders are primary societies, district unions, and the federation.

ALMAO provides life, health, and property insurance to SANASA members and to all levels of SANASA co-operatives. It is a registered society under the *Societies Act*. Ultimately, company status is hoped for, but because of government regulation of the insurance industry, further requirements must be met before that status is granted. As a society, ALMAO can only offer its services to SANASA's institutional

SANASA Profiles

Daya Deersinghe's first priority is her four children, aged ten to twenty. Her small rug-making business earns money to help her eldest son study accounting in the neighbouring city of Matara. She also saves money for an education fund for the younger children. Daya is one of ten members of the Parawahere Naotinna Primary Society who supplements her household income by hand-making coconut-fibre mats for export to Germany.

Daya used her first loan of Rs 3,000 to buy coir and paint to establish her business. Each rug costs about Rs 170 to make and wholesales for Rs 400. Although Daya only works part time at her business, it has grown with the help of two more loans; her last loan of Rs 15,000 is more than two-thirds repaid.

Daya would like to avoid having to sell her rugs to the teacher in the village who arranges the exportation of her labours. Daya and the board of her primary society look forward to SANEPA opening an office in their district, so entrepreneurs can use its services to develop new markets for their goods. A member of Parawahere Naotinna for seven years, Daya enthuses, "SANEPA has helped a lot, they have introduced so many new ideas to the village."

and individual members. With company status, business will not be limited to SANASA members. The share ownership structure of the future corporation will probably be identical to that of SANEEPA.

SANASA has numerous other “service sections” that are not yet separate entities but operations of SANASA Federation or one of the other entities. The SANASA Education Campus, Community Infrastructure and Resource Development (CIARD), and the Rural Agency Post Office Services (RAPO) are service sections of the federation. Business Development Centres are a service section of SANEEPA. SANASA’s goal is to incorporate all of these service sections as separate legal entities once they become more fully developed. This plan parallels what occurred with SANEEPA.

Governance

Proper governance in co-operatives focusses upon the democratic nature of co-operatives and how this is assured formally and informally. The rather complex “corporate” structure of SANASA and its operations results in formal member control mechanisms and boards of directors arrangements that differ among the various societies and organizations, but are relatively easily described and assessed. Informal influences of power and control can have a more important impact on the democratic structure of a co-operative than formal, legal structures, and yet the effects of these informal mechanisms are vastly more difficult to assess.

The basic SANASA co-operative tier structure is typical of western co-operative organizations. The boards of directors of the primary societies are elected from the membership. The directors supervise the business of the primary society, and select employees, a job that is left to management in western co-operatives. Most primary societies hold monthly meetings with outstanding numbers of members in attendance. One primary society holds two back-to-back identical meetings each month to accommodate, in the physical space available, the attendance of all the members.

The business conducted at membership meetings is the fundamental business of the co-operative. Decisions that, in Canada for instance, would be considered appropriate for management personnel to deal with are considered by the general membership. The more immediate link between the owner-members and the business of the co-operative is workable partly

because of the relative lack of complexity of the business conducted. The result is an immediate accountability of the elected directors, and the management, to the membership.

At the primary society level, the directors are “hands on” with respect to co-operative business. The hired management and support personnel appear to have very limited authority even with regard to relatively routine matters. A division of responsibility—where the board is responsible for setting policy and management is responsible for implementing policy—is very much blurred, if not nonexistent, throughout the SANASA organization. Again, the simplicity of primary society business means management possesses little de facto power because of its expertise or access to information. The so-called “principal-agent problem,” where managers do not completely follow the directives and policies of the owners, does not appear to exist at the primary society level.

The governance of district unions and of the federation follows a typical delegate structure: the primary societies elect the boards of directors of district unions, and the board members of the district unions elect the board of directors of the federation. Although the grassroots links with the individual members diminish with the district union and the federation, the fundamental democratic control so important to co-operatives is present. At the two upper tiers, the complexity of SANASA’s business increases considerably. The tradition of a “hands on” board of directors still very much exists at these levels, but there are signs of more control moving to professional management and away from voluntary boards. This is inevitable as SANASA becomes increasingly sophisticated.

Evidence of board/management dissonance appears to be emerging at the SANASA Development Bank. Senior management personnel, who were recruited out of the commercial bank sector, have goals for ambitious growth that are aimed at the urban sector. The board of SDBL does not *appear* to have embraced this vision, although the possibility does exist that the board *does* agree with the stated growth goals of management but is unwilling to acknowledge its agreement at this stage. This could be out of deference to the governor of the Central Bank of Sri Lanka, whose firm views of SDBL’s role are at variance with those of SDBL management.

“Do not start lending in the cities. We want the focus to be in rural areas. We prefer the agency relationship of SANASA’s primary societies.”

—A.S. Jayawardena, Governor, Central Bank of Sri Lanka

There are three factors or developments that may have an effect on issues of governance and self-determination within SANASA. The first will appear as SANASA’s business becomes more complex and sophisticated. In the banking and insurance industries, for instance, the business issues faced by SDBL and ALMAO require increasingly greater professional expertise. Boards of directors, who are representatives of the individual members, will necessarily place greater reliance on management expertise and business judgment. The “hands on” approach of the past will necessarily give way to boards that are more concerned with policy direction, personnel policy, and management evaluation. This change of role is a natural result of the evolution of a co-operative movement from simple, rural-based primary societies engaged in uncomplicated enterprises into organizations that are broadly based and are engaged in sophisticated business ventures.

A second factor that affects governance is SANASA’s entry into areas of enterprise that are strictly regulated by government or government agencies. Again, banking and insurance are important examples of this. The government of Sri Lanka has a legitimate interest in regulating these industries to protect the interests of its citizens. This is a role that modern-day governments are expected to play. SANASA organizations must operate within externally imposed regulatory regimes. Of course, this may result in constraints that conflict with grassroots expectations, and impair to some extent the self-determination of co-operatives. This is not a negative influence if the regulatory action is well motivated. A positive influence of such regulation is that it will encourage more accountability and foster business discipline among SANASA organizations.

A third factor that may have a tremendous impact on governance and democracy within SANASA is the role government chooses to play. Sri Lanka is a country where government has not been reluctant to impose itself into the lives and affairs of its citizens—sometimes in a most authoritarian manner.

Legislation and Government Relations

The first co-operative legislation was introduced in Sri Lanka in 1911. It was similar to the comparable English legislation at the time. One of the hallmarks of the legislation was that, in addition to incorporating co-operatives, it partially regulated their operation, primarily through the offices of the registrar. This balance was one that existed in virtually all co-operative legislation in British Commonwealth countries and colonies. In the 1970s, amendments were introduced in most countries to limit the regulatory function of co-operative legislation and move toward more “enabling” legislation similar to that which applied to ordinary business corporations. However, Sri Lanka moved its *Co-operative Societies Law* in the opposite direction.

In 1972 the government introduced numerous amendments to co-operative legislation to greatly enhance the power of the registrar in controlling the affairs of co-operatives. The most significant change was subsection 46(1) of the act, which authorized the registrar to conduct an inquiry on his or her own initiative. If the registrar concluded that the co-operative was not “performing its duties properly,” control of the co-operative could be taken by replacing the board of directors, or certain members of it, with people of the registrar’s choice. The reason for the amendment was that the government saw co-operatives, particularly the multipurpose co-operatives, which are not part of SANASA, as playing a key role in carrying out government initiatives, policies, and programs.

Throughout the 1970s and 1980s there were numerous “46(1)” inquiries (as they became known), resulting effectively in the control of co-operatives moving to government appointees. This power was also used to force amalgamation of co-operatives, creating larger organizations to carry out government policies. Multipurpose co-operatives came to be seen as agencies of government rather than democratically controlled people’s organizations. Only one SANASA co-operative was ever the subject of a “46(1)” inquiry. One reason for this “neglect” of SANASA by government was that SANASA was not seen as sufficiently prominent to benefit government purposes.

The *Co-operative Societies Law* was again amended in 1991; this time the amendments reduced the power of the registrar. Although the registrar still had power to dissolve a co-operative (a power that exists in all jurisdictions),

the wholesale ability to take control by replacing the board of directors was removed. Thus the most draconian aspects of government control disappeared.

Today, the registrar retains much discretionary power. For instance, a co-operative may be registered *if* the registrar is “satisfied ... that the activity in which the society proposes to engage is economically feasible and ... if he thinks fit.” These latter words appear to give the registrar limitless discretion over whether incorporation will be granted. Similar discretion is given in provisions dealing with approval of amendment of by-laws. These provisions give significant power to the government, through the office of the registrar, over the affairs of co-operatives. In contrast, similar officials operating under Canadian co-operative legislation use objective factors to determine if an incorporation will occur and whether by-laws are valid. Subjective powers granted with words such as “if he thinks fit” have long disappeared from Canadian legislation.

With one notable exception (the “Million Houses Program” described in a later section), SANASA has experienced little government interference. It might be that in the 1970s and early 1980s SANASA was seen by government as not worthy of its interference because of its insignificant economic presence. However, today SANASA is not perceived as an insignificant organization; its vast membership and array of operations belie any such conclusion.

Currently, SANASA’s relationship with the government appears to be stable. Given the history of Sri Lanka, however, this stability is fragile. As outlined above, the *Co-operative Societies Law* has been used to interfere with and control the operations of co-operatives in Sri Lanka. While SANASA has not been the subject of such interference in the past, this benign treatment cannot be taken for granted in the future.

The Four Pillars—and an Emerging Fifth

Banking: The SANASA Development Bank Limited

The SANASA Development Bank can engage in all normal banking activities except two vital functions of a commercial bank—chequing accounts and foreign exchange. Its lending portfolio must focus on medium- and long-term loans, leaving short-term lending (loans less than one year) to the commercial banks.

“The SANASA Development Bank will be deeply conscious of the need for reinvesting capital drawn from the rural sector in the rural sector itself. The bank will not drain the resources of the rural sector for the benefit of the city.”

—P.A. Kiriwandeniya, Honourary President, SANASA

SDBL hopes to attain commercial bank status by the year 2005, enabling it to offer chequing accounts and engage in foreign exchange on behalf of members. These services will better serve the membership, help retain current members, attract new members, and increase the capacity of SDBL to mobilize funds.

The establishment of SDBL was the achievement of eighteen years of preparation by SANASA and seven years of bargaining and representations to various authorities. As early as 1978, Kiriwandeniya engaged in an active dialogue with the membership to encourage them to think of their primary societies as banks. This dialogue continued until 1990, when the movement formally decided to establish a bank.

Changing the attitudes of the people and the village leadership was and is difficult. Most of the leaders in SANASA are social developers strongly committed to their social movement and uncomfortable in the role of business development. If a bank was to become a reality, SANASA had to be viewed as a business development movement without losing its social aspect. Even with the establishment of SDBL, fostering this attitude remains one of the greatest challenges facing SANASA.

*“Banks accept deposits—we also accept deposits.
Banks release loans—we also release loans.
Banks charge interest—we also charge interest.
Banks have customers—we also have customers.
We are also banks.”*

—P.A. Kiriwandeniya, Honourary President, SANASA

The bank's clients are the district unions, the primary societies, SANASA members, and nonmembers who fall within the larger SANASA constituency, including small businesses, micro-entrepreneurs, and the poor. Individual borrowers access the SANASA Development Bank through their primary soci-

SDBL's Vision

The vision of the SANASA Development Bank Ltd. is to raise the income levels of the poor through co-operative and development-oriented financial services.

SDBL's Mission

The mission of the SANASA Development Bank Ltd. is to establish a development bank equipped with the capacity to provide a range of financial and complementary services focussing special attention on:

- Facilitating access to financial services and business advisory services for the poor, small business, and micro-entrepreneurs
- Developing and extending outreach of rural financial markets by enlisting the services of the primary society network

AND

To serve as the apex credit institution of the thrift and credit co-operative movement with the objective of:

- Strengthening the SANASA movement to become a sustainable rural credit institution
- Raising the income levels of the poor through sustainable approaches to development

eties and have included farmers, artisans, fishermen, vendors, and agricultural and plantation labourers.

The federation is the single largest shareholder of SDBL; however, over 3,800 primary societies own shares, making them the majority shareholders. The district unions are the third major shareholders of SDBL. Investors in the bank receive dividends based on their share holdings, giving the different tiers of the movement additional incentive to co-operate with the bank in its activities and ensure its profitability

Kiriwandeniya is the chairperson of both the federation and SDBL. The general manager of the federation sits on the board of SDBL. All but two members of the board of directors come from within the movement.

The establishment of SDBL as the apex credit institution of the thrift and credit co-operative movement has meant a change in the relationships within the movement. Moving the responsibility for banking from the federation to SDBL means a major shift in strategy for the federation, which can no longer rely on lending to the district unions as a source of revenue. However,

there is hope that SDBL will pay dividends to the federation to partially offset this loss of revenue.

The federation's new role is to provide the financial management and auditing services that the movement is willing and able to pay for. It is also involved in a financial strengthening program with the World Council of Credit Unions in a number of primary societies in the westcentral part of the country. The general manager of the federation expressed optimism about this role.

The relationship between the district unions and the bank is not clear. A district union can borrow directly from SDBL if it needs funds for inter-lending to the primary societies. As well, a district union can recommend loans to primary societies. While some district union leaders believe these roles will be continued, others see SDBL assuming the role of lender to the primary societies, and the district unions returning to their original purpose of providing services to the primary societies.

The bank is developing a relationship with the primary societies. While individual members cannot purchase shares in the bank, they can invest in the bank through their primary societies. As well, loans must be channeled through the primary societies, improving the image of the societies and providing them with an opportunity to increase their membership. Members of primary societies may wish to receive loans in excess of their individual maximum credit limits. The primary societies can recommend these members to the bank. Primary societies can also borrow directly from SDBL.

SDBL is the only development bank in Sri Lanka with a licence to open branches throughout the country. This allows effective service to the poor from locations close to their communities. The first branch opened in Colombo in August of 1997. Nine more branches opened before the central bank called a halt in order to examine profitability and determine if the expansions benefit the movement and its members.

It took only twelve months for SDBL to become profitable. When the first branch opened in Colombo, large amounts of savings were attracted from within the movement, but there was very little loan demand. The bank had two choices. It could invest the deposits in money-market investments or it could seek lending opportunities outside of the immediate SANASA movement but still within the larger SANASA constituency, which it sees itself serving. Management chose the second option.

System Discipline and the SANASA Development Bank

Management ability within the SANASA movement varies widely. The autonomy of primary societies is a strong factor in this inconsistency. While the federation is able to provide leadership, it has no legal means of enforcing standards. Some district unions have been able to bring a level of discipline to their primary societies by using loan conditions to impose standards. For example, a district union may impose management standards as a condition for a primary society to receive a loan. In such a case, the district union is able to intervene directly with the management of the primary society by requesting that the manager's salary be disbursed by the district union, subject to the manager achieving certain performance standards agreed upon by the manager and a district field officer.

The federation is exploring other ways to improve management and enforce standards. The opening of the SANASA Development Bank is a step in this direction.

The bank is developing an agency relationship with the primary societies; this relationship will see the societies involved in a number of activities on behalf of SDBL:

- opening savings accounts and transacting deposits and withdrawals
- making recommendations for credit facilities
- making loan disbursements
- conducting loan collection and follow-up
- selling shares
- pawning

Primary societies will receive commissions and fees from SDBL for these services.

The agency relationship that SDBL is developing with the primary societies will strengthen their financial position by improving operational and managerial professionalism. Sri Lanka's central bank and SDBL have agreed upon minimum financial and risk management criteria to be met in order for a primary society to have an agency. Society managers will need to achieve individual accreditation through the SANASA Education Campus. To qualify as an agent for SDBL, a primary society must follow sound business practices in the areas of:

- staffing and training
- accounting
- record keeping
- financial performance
- security
- facilities and hours of operation

By December of 1998 the situation had reversed, and SDBL is now facing a serious liquidity problem. Currently, 98.5 percent of the savings deposits raised by the bank are lent out. Even with Rs 144 million in share capital, the bank will need either to borrow money to meet its commitments or develop an aggressive savings mobilization campaign. In either case the cost of funds is likely to rise, squeezing profit margins. The bank has also received applications for over Rs 947 million in loans. Although not all of these loans will be approved, this level of demand does point to a serious liquidity problem. It also reconfirms SANASA's analysis that there is a large unmet loan demand by small entrepreneurs in the country.

The majority of SDBL loans (65 percent) are not given to SANASA members. While this might be considered a serious problem in the lending strategy of the bank, the board and management see this as confirmation that SDBL is reaching the wider SANASA constituency of small and micro-entrepreneurs in rural Sri Lanka who have been passed over by the formal banking system. Their participation in local economies is crucial if economic development is to take place in rural communities.

Nonmembers must channel their requests for loans through the primary societies, which can either handle the requests themselves, or, if a loan requires that the society extend the member's credit limit, go to SDBL for assistance. Insistence that nonmember loans be recommended by the primary society is a clear strategy on the part of the bank to attract these nonmembers who, it is hoped, will eventually join the local primary societies in their communities and thus strengthen the local community institutions.

*Marketing: SANASA Producer
Consumer Alliance Ltd. (SANEIPA)*

SANASA has always believed that improvements in productivity and quality are prerequisites to successful marketing, another key to community economic development. In the past, SANASA marketing initiatives were mostly confined to regional efforts close to the centres of production. Short-term, nonpermanent solutions to regional production and marketing problems were usually undertaken by volunteers and producers in rural communities. These efforts were inadequate to address the increasingly complex problems encountered in an open market economy. The leadership of the movement

saw an opportunity to set up a permanent company with professional management to profitably undertake national marketing and production efforts. In 1995, SANASA established its own marketing and production company, SANEIPA.

By 1997, SANEIPA had developed unique strategies to become profitable while finding solutions to the production and marketing problems facing SANASA members and their communities. The approach involved four complementary components:

- **Technology transfer for the enhancement of production.** Successful marketing requires high-quality products, especially for the export market. Technology transfer is aimed at improving both the quality and quantity of agricultural outputs by sharing knowledge, techniques such as composting and fertilizing, and even seed varieties.
- **Marketing.** Successful businesses require successful marketing. SANEIPA has forged partnerships with wholesalers, exporters, and developmental marketing agencies, to improve links between local, national, and overseas markets. SANEIPA also arranges for short-term loans directly from SDBL to purchase produce for resale to wholesalers in the city. SANEIPA offers better prices than the producers are able to obtain in the local market, arranges for the goods to be shipped to a buyer, and makes a profit by adding a mark-up. SANEIPA is not directly involved in exporting but does provide goods that are exported by others.
- **Business consulting services.** SANEIPA provides business consulting services on a fee-for-service basis to entrepreneurs who need business plans, project reports, or feasibility studies. These services are often provided in co-operation with SDBL or the primary societies. For example, entrepreneurs who apply for loans usually need a business plan or project report. SDBL refers potential clients to SANEIPA for help with their business plans, thereby helping to facilitate credit for the entrepreneurs. The bank then pays SANEIPA a commission for this work.
- **Information sharing.** Like the rest of the world, Sri Lanka has entered the information age. Marketing, production, and community development all require sound information. SANEIPA is setting up a database of marketing and production information to evaluate supply and

demand conditions. Soon information on local and national resources, infrastructure developments, economic conditions, and government programs will be added. This information will be available, for a fee, to anyone interested, helping to facilitate local development and enable producers to better match their production to market demand.

In order to implement the four components of its plan, SANEPA is establishing Business Development Centres, or BDCs, which are linked electronically via computer to a co-ordinating centre in Colombo. Two BDCs and the co-ordinating centre have already been established, with another twenty planned by the year 2000. The co-ordinating office in Colombo acts as the hub of a national information system. Currently it gathers information on Colombo wholesale prices and supply and demand conditions. As well, by organizing SANASA members into producer groups, it is attempting to gather farm supply and farm-gate prices throughout the country. As the BDCs are established, they will take over this latter function and feed their information into the main database. Soon SANEPA will also be collecting information on government programs, national statistics, and economic and financial conditions, while the regional offices will supply information on local resources and opportunities.

SANASA Profiles

Yam production in the Ratnapura district provides an example of how the marriage of production and marketing is supposed to work. Farmers in the district have been producing yams for a number of years. SANEPA found a buyer who wished to export the local yams to the Middle East and the Maldives. SANEPA organized the local farmers into production co-ops so that it was easier to monitor supply and organize sales and shipment, and also arranged to sell and transport the yams to the exporter in Colombo.

Unfortunately, many of the yams in the first shipment were not of a high enough quality for export purposes. SANEPA provided technical instruction to help the planters improve their farming techniques through better planting practices and fertilizer use. This has resulted in higher outputs and better quality yams that meet the requirements of the export market. The planters are receiving a higher price and SANEPA is able to earn fees on the sales.

SANEEPA hopes to serve both members and nonmembers; however, nonmembers will be encouraged to join primary societies. In order to access the database, users must pay registration and monthly fees. SANASA will lower costs for members by allowing each producer group to pay a collective fee and supply its members with information. SANEEPA also hopes to sell access to the information in the database to buyers who want information on farm supply or to investors who wish to set up businesses outside of Colombo.

Each BDC is staffed by a manager, a clerk, and two business professionals who are able to develop and write business proposals, undertake feasibility studies, and access and use the information in the database. These services are also available on a fee-for-service basis.

Insurance: The All Lanka Mutual Assurance Organization (ALMAO)

“ALMAO will make the less-privileged, neglected sector of the economy a safe area for investment.”

—P.A. Kiriwandeniya, Honourary President, SANASA

Insurance is essential for risk protection, both for grassroots development organizations and for villagers participating in development. For SANASA, in its limited role as a banker to a local community bound by mutual understanding, the risk factor was less important. However, as the role of banking has grown, and with the development of SDBL, disbursements have become larger; informal systems of mutual trust have become less appropriate for risk management of loans. More formal institutional arrangements were necessary to manage these risks, both for the SANASA institutions and the membership. In 1992, ALMAO was formed by SANASA and registered under the *Societies Act*.

As a society, ALMAO cannot sell its own insurance products, so it has become an agent of the Sri Lanka Insurance Corporation and offers the same insurance coverage as the corporation. The main risks covered by this arrangement are loan protection, guarantee of deposits, and property insurance. Little is spent on advertising because the primary society network is wide and effective. This helps keep premiums low and therefore affordable to both the primary societies and their membership.

SANASA research revealed that death donation societies, formed to assist in the event of funerals, were able to sell a form of life insurance to members of the societies. A membership in one of SANASA's primary societies automatically confers membership in a death donation society. Based on this information, ALMAO established a life insurance program through the primary societies, which collect the premiums and receive commissions for doing so. Premiums are very low, making them affordable to the poor. The terms of the policies are also designed to help give maximum benefit to the poor. For example, if a member buys insurance, makes payments for a year and then quits, 25 percent of the premiums will be refunded. This would not be the case with any other insurer. The life insurance policies are reinsured through the Insurance Corporation of Sri Lanka Ltd., thus limiting the risk to ALMAO.

In 1995, ALMAO had 217 institutional policyholders and 4,825 life insurance holders. By 1998, the numbers had grown to 410 institutional policyholders and 23,197 individual life insurance policyholders. By the end of 1998, ALMAO had accumulated over Rs 10 million after paying out all indemnities. In 1998 alone, Rs 8 million was accumulated when ALMAO decided to more aggressively market its insurance. ALMAO is expected to expand in a manner parallel to SDBL, with subsidiary branches and the development of an agency relationship with the primary societies.

Construction: Community Infrastructure and Resource Development Services (CIARD)

In August 1998, SANASA established the last of its original four pillars, CIARD, a company to undertake community infrastructure development. Since the company is new, its place within the movement is not yet clearly defined. However, it has established its main objectives, which are:

- community-based infrastructure development;
- project management;
- institutional development related to community infrastructure development;
- project appraisal;
- liaison with local and international consulting teams to undertake infrastructure development projects;

- monitoring and evaluation of infrastructure development projects; and
- consulting work related to community infrastructure development.

Communication: Rural Agency Post Office Services (RAPO)

When SANASA first analyzed the problems encountered in rural development, communication was not included. The information age was just beginning and its impact on rural Sri Lanka had not been felt. However, in the modern social context, improved access to information and knowledge is seen as a priority. Sri Lanka's postal department not only has failed to reach the remote areas but also has failed to adjust to the restructuring requirements of the open economy. Marketing and production in rural areas suffers from non-availability of market information. Postal service is poor or does not exist, and other forms of communication such as fax and e-mail are not available. SANASA saw these obstacles to development as an opportunity and made a proposal to extend communication services to the rural masses. The proposal was accepted by the government. This led to the establishment of a fifth pillar, RAPO, which is another registered company owned by the movement.

RAPO is establishing rural post offices through the primary societies. The primary societies are able to offer these postal services in their existing buildings, usually with their existing staff. The target was to establish 60 post offices in 1998 and 250 in 1999. However, the demand for this service is much greater than anticipated. Seventy-five rural post offices were established in primary societies in 1998, and 350 more have applied for 1999. The primary societies earn fees by providing postal services such as selling stamps, collecting fees and fines, registering letters, and accepting bill payments. Postal service is also important as a way to increase the role of the primary societies in the community and encourage people to join.

RAPO would like to change its post offices to post shops where all services pertaining to mailing and information will be available. These services will include the development of a courier service using the 8,400 primary societies as contact points. Since SDBL and its branches are already spending Rs 40,000 a month on couriers, this new service would become a revenue source. Other services will include fax and telephone access, and eventually e-mail and networking arrangements that will enable villages to be in contact with the outside world.

SANASA's Approach to Rural Finance

SANASA targets the rural poor, but as a co-operative it must be open to all members of the community, rich and poor. This presents a unique challenge for the movement. Neither its leadership nor its membership is exclusively poor. In fact, its leadership is made up largely of lower-middle-class professionals such as schoolteachers, civil servants, and small-business people. Yet since 1978, the movement's primary focus has been on the creation of sustainable co-operatives to deliver savings and credit services to the rural poor. This does not mean that the movement ignores the needs of one or the other of the groups that form its membership. It does not.

When they are first formed, most primary societies have only the capital to provide small loans for micro-credit and emergency or instant credit. As the societies mature, as they mobilize more savings by offering a wider range of saving options, they are able to provide larger loans for an increasing number of needs such as housing, education, consumption, and business. The movement offers a classic example of how a micro-finance institution can evolve to meet the changing needs of its members. This evolution is continuing with the formation of the SANASA Development Bank and the other subsidiaries that are being formed and linked to the primary societies.

Each primary society is an autonomous organization with its own board, elected by the membership. As a result, each primary society has the right, within the limits of the legislation, to establish its own criteria for savings and credit. The apex organizations have no direct control over the affairs of the primary societies. This situation could lead to 8,400 micro-credit models. It is a testimony to the effectiveness of the movement's education efforts that this has not happened, and that the movement instead has adopted a relatively uniform approach to delivering its rural banking services.

The Micro-Credit Model

According to the SANASA movement's philosophy, all developments are to be undertaken from within the people's own resources and capabilities.

Membership in the primary societies is open to almost anyone in the community over eighteen years of age, regardless of race, language, religion, gender, or income. Only those with criminal records are excluded. A current member who can confirm the quality of the applicant's character must sponsor a new member. In some primary societies, an applicant must conduct business with the primary society for a probationary period as a nonmember before being admitted as a member.

Each primary society elects, from its membership, a board of directors, which is responsible for carrying out the policies set by the membership at monthly general meetings. To help ensure that the primary society remains a highly democratic organization, the entire board of directors is re-elected annually. Committees are also elected to help manage the affairs of the primary society. These include an audit committee, a credit committee, and a women's committee. Often committees for planning, education, culture, and youth are also formed.

Each member of a primary society must purchase a membership share. The cost of the shares varies, usually ranging from Rs 100 to Rs 240. To encourage the poor to join, the membership fee can be paid in equal monthly installments of Rs 10.

To remain a member of a primary society, a member must attend at least 50 percent of the monthly membership meetings and must be a member of good behaviour within the community. The member must not default on any loans taken from the primary society.

Member education is a fundamental belief of the SANASA movement. A number of educational initiatives are directed at members, leaders, and employees. The SANASA Education Campus has been established to co-ordinate these ongoing educational efforts.

Savings are the foundation upon which all development and banking activities are built. Members can demonstrate their credit worthiness by accumulating savings in the primary society. Primary societies encourage members to save by offering a variety of savings options, including regular savings, fixed savings, compulsory savings, children's savings, nonmember savings, and a variety of other small deposit accounts.

Primary societies that have excess savings are encouraged to keep their liquid funds in deposit accounts at the district union. The district unions then lend these funds to other primary societies that cannot meet their loan

demand from internal savings. This process of interlending helps the district union earn revenue and supports the internal growth of the movement.

Before receiving his or her first loan, a new member must be a member of the primary society for three to six months and must regularly attend the monthly membership meetings. To obtain future loans the member must not default on a previous loan and must continue to attend the regular monthly meetings of the primary society.

Loans are linked to a member's savings. When members first join a primary society they can receive loans only after they have accumulated savings. Although the savings requirements vary between primary societies, members are usually required to have 10 percent of the loan amount in membership shares and at least another 10 percent in compulsory savings. The membership shares are paid a dividend based on the earnings of the primary society. The compulsory savings pay a fixed rate of interest, competitive with market rates in the banking system for fixed deposits. Neither the membership share nor the compulsory savings can be withdrawn unless a member leaves the primary society.

SANASA Profiles

Gunaratre and his family used to make an unpredictable livelihood in their family-owned rubber tree plantation. Ten years ago he found out about SANASA. Encouraged by the inclusive premise, he and five other villagers joined together and began saving, contributing what they could on a regular basis. The first loan granted from these savings was approximately five hundred rupees. Since the monetary base was small, loans were granted one at a time. Growth was slow, sustained by the dedication and commitment of the community.

Today the average loan is about ten to fifteen thousand rupees, and is usually for renovations, repairs, and equipment and supplies for small businesses and cottage industries. Membership is 250 strong, with monthly meetings to discuss ideas and concerns. A local resident willed SANASA the ground on which the SANASA meeting house was built by the villagers in a community building project.

Gunaratre borrowed from the local society to open a grocery store and tea shop. This venture supplements the family's income and provides a buffer against the instability of the income generated by rubber tapping.

In most primary societies, loan size is graduated. A member's first loan is usually quite small, often about Rs 5,000; as each loan is repaid, the loan amount increases. The maximum loan a member can receive depends on the reserves and deposits of the primary society. In some of the older, more successful primary societies, maximum loan size is as high as Rs 500,000.

When primary societies first begin, because of their limited funds they usually offer only two types of small loans: small micro-business loans and instant or emergency loans. The micro-business loans cover small enterprises, animal husbandry, and paddy production. SANASA was one of the first micro-finance movements to allow emergency, or instant, credit, a testament to its innovative spirit. Any member can request an emergency loan and it will be instantly granted. The loans are designed to meet the short-term needs that are encountered by members in their daily lives. By providing instant credit at rates of interest varying from 2 percent to 4 percent per month, the primary society enables its members to meet social obligations, medical needs, and other emergencies without becoming entrapped in debt. Members are expected to repay the loans in one to three months and can receive as many of these loans as they require as long as they continue to repay them.

As the primary societies mature and build larger reserves of funds, the variety of loans increases. Examples include small (Rs 15,000 to Rs 50,000), medium (Rs 50,000 to Rs 100,000), and even large (over Rs 100,000) business loans, house loans, paddy loans, education loans, debt repayment loans, vehicle loans, street vendor loans, business lines of credit, and in some cases consumption loans.

To be eligible for a loan, a member must have two guarantors cosign for the loan. In most cases the guarantor must meet the same share and compulsory savings requirements as the applicant. For some larger loans when security, such as a mortgage title, is given, the applicant will not require a guarantor. Loan length varies for different types of loans, increasing as loan size increases, up to a maximum of five years. Competitive, market interest rates are charged on all loans. In some cases the very poorest members receive interest rates that are discounted 2 to 3 percent. Loan payments are usually monthly; however, in some types of higher-risk lending, such as to street vendors, the primary society will send someone to collect loan payments daily. Loan disbursements for all but instant credit loans are usually made either biweekly or monthly.

To receive a loan, a member must apply for an individual maximum credit limit (IMCL), which sets the maximum they can borrow. In some primary societies one IMCL is established for all members and in others it is determined on an individual basis. In either case, the IMCL must be approved by the general body at a general meeting. Once a member has an IMCL and applies for a loan, their application is taken to a credit committee. For a larger loan the member will be required to submit a project proposal or business plan. If the credit committee approves the loan it is sent to the board of directors, which gives final approval. In almost every case, if the credit committee approves so does the board. The loan is then released. The process of establishing the IMCL mitigates further bureaucratic delays.

Each primary society has an audit committee that reviews the loan portfolio before each monthly general meeting and reports on all loan payments and delinquent loans. It also prepares an annual audit of the books of the primary society and reports results at a general meeting.

A loan is considered delinquent when the member has missed three consecutive payments. Managing delinquency is expected to be a priority of all primary societies. A number of steps are taken to collect delinquent loans. The first steps all involve peer pressure. In some primary societies the names of delinquent members are read off and posted at the monthly general meeting. In almost all cases the members are visited in their homes and encouraged to make their payments. The guarantors are also contacted and asked to speak to the member about the loan. If the member has sufficient shares and savings to cover the loan, these will be seized. The shares and savings of the guarantors can also be seized but this is a step rarely taken. If these steps fail, the member is sent three letters demanding repayment. If the member still does not pay, the loan is turned over to the commissioner of cooperatives, who then assumes responsibility for collecting on the loan. This process can proceed to an arbitration hearing and finally to court action.

New primary societies are expected to raise all their needed loan funds within the community from deposits and member shares. However, as a primary society matures and demonstrates a capacity to manage its loan portfolio prudently, it can borrow funds from either the district union or the SANASA Development Bank if loan demand is greater than savings. The federation has recommended that external borrowing be limited to 25 percent of the value of deposits.

The Million Houses Program

In 1984 USAID agreed to provide a loan of US \$40 million to the Government of Sri Lanka for house construction for low income people under what came to be known as the Million Houses Program (MHP) administered by the National Housing Development Authority.

Initially the program was implemented by village-level authorities, but an evaluation of the scheme revealed that the recovery rate on the loans was only 60 percent. The MHP was extremely important to the government but it was obvious that with such low loan recovery rates the MHP would not achieve its targets. An investigation by USAID consultants of the various channels available for loan disbursement resulted in a recommendation to the government that the SANASA movement would be an ideal channel.

In 1985 the government invited SANASA to participate in the implementation of the MHP. The leadership was reluctant to become involved. Until then it had used no outside funds for onlending. It had maintained credit discipline and high repayment rates because primary societies used member funds for lending. There was a great deal of fear that an influx of "easy credit" would undermine the credit discipline and the co-operative spirit that made the movement sustainable. However, given the political turmoil and government repression facing the country at the time, the leadership felt they had little choice but to agree.

Unfortunately the worst fears of the leadership were realized. Many new primary societies were formed simply so members could take advantage of the MHP. The sudden influx of money for housing loans skewed the loan portfolios of most societies and district unions. In some districts as much as 88 percent of new loans went to housing. Default rates for housing loans began to rise. Then in 1988, during an election campaign, the government announced that people under the poverty line would not have to repay their loans. This led to widespread defaults, with repayment rates dropping to as low as 20 percent in 1990.

At the same time, many of the new societies became liabilities to the movement. The new societies had no commitment to credit discipline, self-reliance, or co-operative principles. SANASA was forced to seek new partnerships with overseas organizations to help it meet the growing need for co-operative education and training to address this serious challenge to its self-reliance and independence. Foreign aid workers in Sri Lanka heard about SANASA's needs and brought forth proposals developed by outside experts without input from SANASA. Fortunately, the Canadian Co-operative Association forged a genuine partnership with SANASA to support education and training, which SANASA had identified as necessary to strengthen the movement.

To this day SANASA is still dealing with the residual effects of the MHP. Some district unions and primary societies have still not collected the MHP loans. As well, a great deal of time, money, and resources were spent re-establishing credit discipline, teaching co-operative principles, and building a commitment to self-reliance. However, the experience also created a strong resolve within the movement to avoid all programs with political influence and partnerships with organizations that ignored the plans developed by the movement.

Targeted Micro-Credit Programs

Although SANASA believes that all developments have to be undertaken from within the people's own resources and capabilities, the movement has also been willing to use donor funds to strengthen the apex organizations and to deliver micro-credit programs targeted at the poor. SANASA's strict guidelines for accepting donor funds are based on some hard lessons learned through experience. SANASA has been involved in lending programs where these criteria were not met and the programs have caused major problems for the movement. The sidebar on the previous page describing the Million Houses Program deals with one such experience.

Micro-entrepreneurs are one of the targeted client groups of SDBL. The federation and SDBL are both involved in donor-funded, onlending, micro-credit programs. Both the federation and the bank have remained consistent in their approach to credit when developing lending programs, and have attempted to involve the movement in their efforts. If a district union or a primary society wants to participate in a micro-credit program, they must have no delinquent loans and must be recommended by either the federation or, in the case of a primary society, its district union.

Although the exact design of the programs varies to meet the specific needs of the target groups, there are common features in these programs. In most cases the primary society is involved in the lending process either as the direct lender or by providing a letter of recommendation, although in some cases the bank will lend directly to nonmembers. The link between savings and credit is maintained. Before receiving credit the applicant must open an account and save at least 10 percent of the value of the loan. Some group lending is undertaken, but even in these cases the loan applicant must have two guarantors who are acceptable to the bank or the primary society. Repayments are strictly monitored and the schedule of repayments is designed according to the business and its risk. Project proposals are usually required before loans are released, and business records must be kept once loans are received.

In summary, both SDBL and the federation attempt to use the proven and tested lending methodology developed by the movement, but there is a willingness to be flexible by introducing modifications, such as group lending, to better meet the specific needs of the target group.

Challenges

The SANASA approach to micro-finance development is successful both economically and socially. The movement has achieved success beyond expectations and is an entrenched part of Sri Lankan society. As in many developing countries, this success hinges largely on the continued stability of the political landscape. Aside from this, SANASA faces challenges that are common to all dynamic, growing organizations worldwide. Others are specific to co-operative organizations.

Balancing Growth and Local Interests

SANASA has achieved a size that allows it to create increasingly powerful national structures that can have an immense impact on the national economy. It possesses a powerful network of co-operative organizations that are deeply rooted in the village and community life of the country. As it builds its own version of an extensive, integrated national movement, one of its most complex challenges is how to retain its strong base and vitality in local communities.

Managing a Diversity of Interests

As a movement, SANASA is pressured to respond to the needs of all its members. SANASA must carefully weigh possible services in light of which services make the best use of its resources, which have the greatest impact for the greatest number of members, and which most effectively further its vision.

Creating a Sustainable Structure

Creation and maintenance of a sustainable structure depends on successfully addressing the challenges presented by delinquency management, administrative efficiency, asset liability management, cost effectiveness, and competitive pricing.

Developing Management Expertise

While the SANASA movement attracts many highly skilled individuals because of its ethical and practical approach to social and economic issues, it currently lacks the financial capacity to retain that expertise. At all levels of the movement, SANASA loses or fails to recruit management expertise because of salary competition with the private and public sectors.

Leadership

SANASA has a strong core of leaders at each level of the movement. However, there do not appear to be a second wave of leaders in the wings. SANASA needs a strategy to encourage younger members and employees to come forward to develop leadership skills.

Gender Issues

The rate of female participation is much higher in SANASA than it is in most co-operative organizations around the world. Even so, female representation in leadership roles is disproportionately low considering their membership within the movement. The issues affecting female participation are generic to every movement: for example, women have greater household and family responsibilities, a situation that practically limits their ability or desire to participate in leadership positions.

Youth Involvement

Children are major depositors in the primary societies, yet SANASA struggles with youth participation as those children mature and take on new responsibilities as young adults. In order to retain youth members and encourage them to accept leadership positions, the movement needs to be responsive to expectations of youth in their changing environment. As with the issues surrounding leadership succession, SANASA needs a strategy to encourage even more participation by youth in the affairs of the movement.

Preserving Democratic Structures

As the movement expands and develops new structures to deal with the needs of its members, SANASA must find a balance between ensuring maximum

democratic participation and maintaining organizational agility and operational efficiencies. The need to engage more professional managers will further challenge this delicate balance. The dichotomy of vision or goals as evidenced, for example, between the board and managers of SDBL, is an inevitable development that causes a constant source of tension in most cooperative movements. What is important is that the movement be aware of the existence of this dichotomy and develop mechanisms to deal with it before it becomes an unmanageable issue.

Member Retention and Commitment

The movement faces increasing competition from commercial and financial institutions as well as NGOs. Commercial banks are wooing profitable members with deposit incentives, threatening liquidity in the system. NGOs offer instant solutions without the long-term commitment or compulsory savings and meeting attendance required by SANASA.

Maintaining Independence

SANASA's success will inevitably lead to more external pressures to partner with government and NGOs that see it as an effective service delivery vehicle and as a potential threat to private industry. Although the leadership has shown great ability to ward off government interference, a more permanent solution could be achieved through legislation that would remove the vast discretion given to the registrar in the current act. These changes could apply not just to SANASA but to all co-operatives incorporated under the *Co-operative Societies Law*. A change of such broad application may not be politically feasible.

Further changes could be tailor-made for SANASA by introducing legislation separate from that which governs multipurpose co-ops. Separate legislation would accommodate both the efficiency of SANASA's operations and the public interest the government is mandated to protect. In some ways, a separate act might place more rigorous financial controls on SANASA, but at least the standards would be objective, rather than the current highly subjective standards.

An alternative to specialized legislation is an act aimed at all credit co-operatives, as distinct from multipurpose co-operatives. While this would

not suit the particular interests of SANASA as well as specialized legislation, it is a better alternative than the current state of affairs.

Canada has models for both approaches. In Saskatchewan, for instance, specialized legislation is applied to one particular co-operative. The Saskatchewan Wheat Pool, an agricultural marketing co-operative, was created and is governed by a special act of the legislature. More generally, there are two acts that apply to co-operatives. One is designed to apply to multipurpose co-operatives, while the other applies to financial and credit co-operatives (known as credit unions). Each has provisions that are designed specifically for the operations of the type of co-operative to which it applies.

As well as these obvious challenges, some tensions are related to the rapid growth of the SANASA movement. There is tension between the desire to promote autonomous democratic decision making and the need to bring discipline to the system. Changes in society and the changing needs of the membership also present challenges. With improved communication and increased mobility there is competition from the private sector, which challenges member loyalty and some of the underpinning tenets of the movement, such as monthly meetings. With increased urbanization, primary societies feel pressure to reform their policies to respond to changing demographics.

Conclusions: Lessons from SANASA

“When set against the comparative performance of other rural finance institutions and a background of civil war, insurgency and political decay, SANASA’s performance is remarkable.”

—Hulme and Mosley, *Finance Against Poverty*

The SANASA movement in Sri Lanka provides positive proof that co-operative micro-finance is not only feasible, it can be a phenomenal tool for rural development. The poor can mobilize their own savings to invest in their own development, creating an independent, internally motivated movement with a committed, enthusiastic membership. SANASA is a force for economic development: it provides opportunities for members who would otherwise not have access to such services. SANASA is a force for political change: it opens a democratic forum to the voice of the rural poor and reaches across barriers in a highly fractured society. SANASA is a force for social growth: it offers a means to create a new co-operative order.

Although the financial statistics reflect both the internal vagaries of the country (including drought and war) and the external vagaries of the marketplace, overall, SANASA is a financially viable organization.

SANASA has learned some critical lessons in its twenty-year journey.

- First, it has learned that micro-credit alone does not work. Although the movement initially focussed on micro-finance, it quickly moved beyond that to become a socio-economic development force.
- Second, SANASA has learned that it must remain obsessively apolitical to gain the trust of the membership. In Asia, most credit unions and co-operatives are seen as either instruments of government corruption or tied to opposition parties and interest groups. SANASA does not allow any political influence to permeate the movement. SANASA also insists that external development agencies provide services on SANASA’s terms. This profound independence has allowed the movement to stay true to its vision.

- THE SANASA MODEL

- Third, success requires adherence to a long-term vision that incorporates a grassroots development model and lays the necessary groundwork to ensure participation, commitment, and democratic control. For development agencies, this means establishing a long-term relationship, rather than merely injecting money into individual projects.

SANASA draws on many strengths, any or all of which could be incorporated in other situations.

- SANASA is fiercely independent at all levels: each primary society is autonomous, each institution has been created independently from the rest, and the movement as a whole maintains independence from both government and donor influence.
- It practises deep democracy.
- It emphasizes education and training.
- It shows amazing resilience and flexibility, a tribute to its democratic nature. For example, in the early years of the movement, nearly forty SANASA leaders were killed, and yet the movement continued to flourish because it was the people, not the leaders, who owned it.
- It continues to rely on the grassroots membership as the source of its strength and the reason for its existence.
- It has a clear, long-term vision—one that has been followed with remarkable accuracy. This vision has created a model of sustainable, democratic, grassroots co-operative development.

The essence of the SANASA model is the three-stage development process that first brings people together through community or occupational bonds, then extends these small groups to society at large, and finally takes over the responsibility of community development. Democracy is guaranteed through the three-tier structure, and sustainability is built on the four pillars of development. These structures and processes have created an interrelated movement run by the people for the people.

In a highly fractured society, SANASA reaches across all borders, building bridges and providing hope for people trying to control and participate in their own development.

Appendix 1

Primary Thrift and Credit Co-operatives, 1994–1997

	1994	1995	% change	1996	% change	1997	% change
Membership							
Individual members in PTCCSs affiliated to district unions	688,036	693,485	7.9	721,441	4.0	750,574	4.0
Individual members in PTCCSs	719,692	726,277	1.0	768,061	5.8	788,250	2.6
Societies							
Member PTCCSs in district unions, secondary level unions & division level unions	6,923	7,230	4.4	7,526	4.1	7,624	1.3
Member unlimited liability societies	6,240	6,446	3.3	6,498	1.0	6,664	2.6
Member limited liability societies	626	719	14.9	795	10.6	851	7.0
Associate member societies	57	65	14.0	233	25.8	109	-53.0
Total PTCCSs in Sri Lanka	7,681	7,992	4.1	8,340	4.4	8,424	1.0
Grading of member societies*							
Grade I societies	1,225	1,102	-10.0	1,249	13.3	1,265	1.3
Grade II societies	2,696	2,024	-25.0	2,351	16.2	2,482	5.6
Grade III societies	3,246	2,950	-9.1	2,967	1.0	3,159	6.5
Employees & volunteers (in PTCCSs)							
Volunteer office bearers in member PTCCSs	45,367	48,367	6.6	50,977	5.4	45,267	-13.0
Employees in member PTCCSs	2,799	3,027	8.2	3,080	1.8	3,563	15.7

Source: SANASA statistical reports

* Grade I societies are new or dormant societies and have no employees or offices

Grade II societies have part-time paid staff and may or may not have an independent office

Grade III societies have full-time paid staff and have an independent office

Appendix 2

Balance Sheet Statistics of Primary Societies, 1994–1997

	1994	1995	% change	1996	% change	1997	% change
Savings balance in member societies (Rs millions)							
Shares	316.4	301.8	-4.6	346.9	14.9	840.5	142.3
Ordinary savings	556.7	669.8	20.3	701.1	4.7	1,046.6	49.3
Fixed deposits	127.8	177.7	39.0	270.9	52.4	492.7	81.9
Children's deposits	125.5	225.6	79.8	294.0	30.3	261.9	-10.9
Compulsory deposits	241.6	283.5	17.3	346.1	22.1	480.3	38.8
Nonmember deposits	292.6	252.5	-13.7	341.9	35.4	585.1	71.1
Other deposits	75.0	126.6	68.8	121.1	-4.3	188.0	55.2
Total	1,735.6	2,037.5	17.4	2,422.0	18.9	3,895.1	60.8
Fixed assets of member societies							
Total assets of PTCCSs	200.9	203.5	1.3	228.2	12.1	361.4	58.4
Loans							
Loan balance	1,805.1	1,844.1	2.2	2,112.7	14.6	2,278.3	7.8
Past due loans	120.7	171.0	41.7	322.5	88.6	453.3	40.6
Delinquency rate	11%	9%	-18.2	15%	66.7	20%	33.3

Adapted from SANASA statistical reports