Rebuilding Lives after the Tsunami: Exploring the Livelihood Status of BRAC's Beneficiaries in Sri Lanka

Munshi Sulaiman

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ABSTRACT

BRAC Sri Lanka started rehabilitation and livelihood support programme for the tsunami-affected people about 6 months after the disaster. Though the programme components include a range of rehabilitation and livelihood supports, this study focused only on the grant and loan receivers. The study finds some evidences of effective targeting by the programme. There is also evidence of programme impact on the beneficiaries' income and assets. Length of participation in the programme has positive associations with the income and assets of the beneficiaries. However, the associations are more obvious for the grant receivers than the loan receivers. The loan programmes were initiated at a later stage once the 'grant phase' was over. Since it usually takes a few loan cycles to show a clear impact on income and assets, the proper assessment of borrowing should wait for two more years. BRAC's loan programme in Sri Lanka seems to have a very good prospect of flourishing further.

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INTRODUCTION

"You see my house is shining but life inside is not so shining, it's full of struggle"
[Ms. Selvarani, Manmunai Pattu in Batticaloa]

This was the response to the question 'Is your present house better than the original?' by a tsunami victim in Sri Lanka. Already a poor woman, deserted by her husband, she suffered complete destruction of her house and livelihood; and has recently received a newly constructed house donated by an INGO. In the aftermath of the Tsunami, the world has observed not only the devastations of the nature but also the commitment of human being to help each other and rebuild from the beginning. Help of all forms and from all corners have poured into the affected areas in unprecedented short period of time.

Sri Lanka has been one of the worst affected countries due to the Tsunami. According to official figures, over 31 thousand died and a large number of people living in the coastal areas of eastern, northern and southern provinces have suffered loss of their livelihoods. Just after the tsunami, the immediate efforts were to fulfill the most basic needs. Gradually efforts have been put into rebuilding their houses and providing other assistances to start their livelihood. While some efforts are now centralized to ensuring shelters for them so that they can have a sound base to restart their livelihoods, others are concerned about giving an impetus to their livelihood endeavor.

Most of the organizations who have come from outside to help the affected people in Sri Lanka are working on relief and rehabilitation and others are concentrating on giving sustainable livelihood support. BRAC Sri Lanka (BRAC-SL) started its operation after six month of the Tsunami and commenced with community works and aid. Community works included activities such as installing latrine and tubewells, cleaning dug wells and homestead. They have also distributed kitchen utensils and materials for homestead gardening. About 3,500 were given school materials since they lost those during the Tsunami. In addition to that 1,252 orphan students receive monthly installments from BRAC-SL as education support.

While doing the rehabilitation works, BRAC-SL also concentrated on activities to promote livelihood development. Their approach to livelihood development programme comprises of aid and loan. Over 4,000 households have received grants to start income generating activities. Though it started livelihood support activity by giving grants, the relative emphasis gradually shifted to providing soft loans. Observing a gap in the demand and supply of credit facilities, their operations are envisaged towards providing livelihood assistance through credit services. So far, about 30,000 households have been served.

Instead of going out there with a predetermined livelihood support package, BRAC-SL has been differentiating packages by the present status of the households. For this purpose, household information is collected through a survey in the operational areas. The households are categorized into 'target group' and 'non-target group' based on the collected information. The households of 'target group' receive either grant or loans without any service charge. The 'non-target group' is eligible to take loan at 10% service charge. Therefore, presently the livelihood beneficiaries consists of three groups,

a) 'Target group' who received grants to start income generating activities (Grant for short here after)

b) 'Target group' who received loans that are free of service charge (interest[1] free loans or 'IFL' for short hereafter)

c) 'Non-target group' who received loans at 10% service charge (interest bearing loans or 'IBL' for short hereafter).

An earlier appraisal[2] of the activities of BRAC-SL has assessed the extent and process of service delivery from the suppliers end. This paper intends to look at the state of affairs from the participants' end. It has to be emphasized here that this is an attempt to explore the efforts of the programme participants to rebuild their livelihood after the disaster. Though this study would try to investigate the programme influence on those efforts, this is not an 'impact evaluation' of BRAC-SL's activities since it is methodologically impossible to do that.

CONCEPTUAL FRAMEWORK

It is very useful to have conceptual framework guiding organizations of thoughts though it is often not feasible to stick to the framework. In this study we followed the framework of 'anatomy of environmental shocks' by Carter et al (2006)[3]. Three different phases can be identified at household level strategy to deal with crisis (Figure 1). Crisis period is the duration of the disaster. Though the period can be months or years, in the case of the Tsunami it was only matter of hours. Coping period is the duration in which the households' main concern is maintaining regular and immediate needs. Recovery phase starts with the households' planning to consolidation and adopting/restoring a livelihood. However, there is a considerable gray area, even conceptually, between coping and recovery period.

Crisis of any kind has costs for the households who are facing those events. Two components of crises-induced costs are direct losses and indirect (coping strategy-related) losses. Relative magnitude of these two components of loss can vary according to the initial status. The losses incurred by the damages done by the environmental hazards are perceived as direct cost. If the poor adopt the kind of livelihood that is more susceptible to environmental shocks, this greater vulnerability can result in higher extent of direct costs. However, such pattern is usually observed when the environmental disaster under consideration is recurrent in nature, which is unlike the Tsunami that had unprecedented devastation.

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[1] Though this has often been termed as interest for the sake of simplicity, it is actually termed as service charge by BRAC-SL. This is charged at flat rate and repayable in 50 equal installments. This service charge covers only a fraction of their operational/administrative cost.

[2] Jordi del Bas Avellaneda, "Mid-term review: Tsunami rehabilitation and livelihood re-establishment programme (Sri Lanka)", unpublished

[3] Carter, M. R., P. D. Little, T. Mogues and W. Negatu. "Shocks, sensitivity and resilience: tracking the economic impacts of environmental disaster on assets in Ethiopia and Honduras". DSGD Discussion paper No. 32. IFPRI, 2006.

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Figure 1. Conceptual framework on households' well-being from disaster
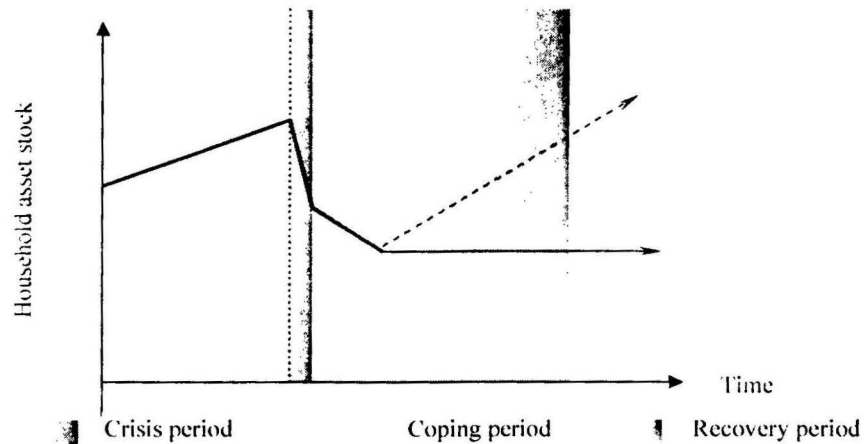
Extent of direct loss can also depend on the initial endowments. However, alternative measures (i.e. absolute monetary value and percentage of asset holdings) of direct loss can overturn the association. Usually the richer households suffer more in terms of direct asset losses from disasters.

However, the extent of indirect losses is determined by the type of coping mechanism adopted. Positive mechanisms such as soft loans and drawing on kinships will reduce coping cost. Negative mechanisms such as asset sales and costly loans will reduce the probability of long-term improvement or even trap the household into poverty. Reducing consumption is often part of the coping mechanisms. There could be some intermediary coping mechanism such as dissaving. However, there is usually limited scope of cost cutting strategy for the already poor households. Better-off households can adopt less costly means of coping mechanisms whereas the already poor have fewer options to fall back on during crisis coping. This may lead them to further deterioration of their status and prolong the coping period. However, even the better-off households may have to take costly coping mechanism if the extent of loss is very large. Usually, the initial coping mechanisms are largely driven by the informal insurance system and the poorer have to depend on charity rather than reciprocity.

The longer-term effect of an environmental shock on household productive assets will depend on both sensitivity to, and resilience from shocks. Sensitivity (magnitude of loss) and resilience (ability to bounce back) in turn are likely to depend on a household's own wealth prior to and in the wake of the shock, and on its access to employment and capital, as mediated by either market or social mechanisms.

The role of rehabilitation and social safety net programmes are crucial in reducing the chances of asset depletion during coping period. Livelihood support programmes can have effect long-term well-being both by lessening the extent of indirect loss from costly coping strategy and by making the improvement trajectory in the recovery phase steeper.

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METHODOLOGY

For this study, a structured questionnaire survey was conducted among the beneficiaries of BRAC-SL. For the survey to be representative of the beneficiaries, the sample size should be 223 at 95% confidence level with a maximum allowable absolute error upto 0.15. This was rounded up to 250. When sampling is done following multistage clustering, the sample size needs to be increased. Therefore, the sample size was increased by one and half times to 375. It was noted that a portion of beneficiaries received the assistances while they were staying in temporary shelters and many of them have moved to their permanent residence. Some of them have settled in different place sometimes at quite distance from their original place of residence. This creates the possibility of attrition from the sample. Therefore, a target sample size was increased to 420.

BRAC-SL operates through its divisional offices. Divisional office is the lowest stratum in the organizational hierarchy and directly involved in selecting the prospective programme participants and delivering different service packages. At the time of designing the survey, there were 22 such divisional offices out of which 7 were randomly selected. The selected divisions are-

- Kalmunai North, Sainthamaruthu and Nintavur from Ampara district,

- Kaluanchikudi and Manmunai Pattu from Batticaloa district,

- Tissamaharama from Hambantota district and

- Matara from Matara district.

In each of these divisions, 10 clusters were selected at the second stage. For the participants who have taken loans, the Village Organization (VO) is essentially the cluster. As there are two types of loans being disbursed, usually different VOs are formed for those who receive service charge free or service charge bearing loans. Some VOs include both the types of loan receivers. However, no such VO is formed for the grant receivers and they were grouped by their location. The clusters at the division offices were stratified to ensure that selected beneficiary for the survey includes all the three groups. After selecting the clusters, 6 programme participants were randomly marked for the survey. Thus, 420 beneficiaries were chosen for the survey, 60 each from the seven divisions.

Therefore, the sample included the beneficiaries who have received three kinds of supports i.e. grant, service charge free loan and loan with a rate of 10% service charge. However, there are also some orphans who received small amount of stipends for purchasing educational stationeries with the aim of protecting them from dropping out of schools. Since this study focuses on the livelihood activities, they were not included in the survey.

A short and simple questionnaire was designed for the survey. Seven enumerators were trained to conduct the survey. Field-testing was done to ensure quality and consistency of information. Two supervisors were given the task of monitoring the survey by checking through the completed questionnaire in the field and reinterviewing parts of the questionnaire in a few instances. Data collection took place during the first two weeks of October 2006.

Out of the 420 selected beneficiaries, 389 could be interviewed and the rest were not available mostly because they have moved to different places at some distance. After data

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collection, consistency checks were done which show that the quality of the data is fair. However, a few questionnaires were omitted because of inconsistency or substantial missing information. The final sample size stood at 370, which is representative of the BRAC-SL beneficiaries. Among them 104 comprising of 27% received grants. The comparable figures for the interest-free and interest-bearing loan receivers are 96 (25%) and 188 (48%) respectively. Though 22% of the grant beneficiaries have also taken interest-bearing loans from BRAC SL, they have been considered as grant beneficiaries.

Beside this survey, a number of case studies and group discussions were done to get the contexts of the numbers and to put some flesh on the statistics. After all, life does not follow the coefficients of the regressions and it is full of varieties. However, the findings presented in the paper unless specified otherwise come from the survey. Excerpts of a few of the case studies are presented in boxes.

WHY AND HOW DOES INITIAL STATUS MATTER?

Initial status of the households, condition before the Tsunami, is important in determining the extent of direct losses that they suffered from disasters as well in the coping mechanisms they adopt. We found that poorer households suffered more in both of these aspects.

## ASSOCIATION BETWEEN INITIAL STATUS AND EXTENT OF LOSS

Extent of loss from the Tsunami is dependent on the type and amount of pre-Tsunami asset holdings. For example, the people involved in direct fishing have suffered disproportionately greater damages compared to other groups. Those who are involved in activities like fish retailing have suffered income losses due to the disruption in fish catching. However, they may not necessarily have suffered direct damage of property by the Tsunami. People living closer to the sea have incurred more losses. However, there is no evidence on whether the poorer or the richer live closer to the sea.

In such a situation, the households with greater amount of physical assets are likely to suffer higher extent of losses. We also found some positive association between the initial status of well-being and the amount of losses. The respondents in the survey were asked to identify their welfare status in terms of the balance in their income and regular basic expenditure on a scale of five categories from large deficit to large surplus. They have identified their status for three points of time, a) before the Tsunami, b) just after the Tsunami (for simplicity and consistency, we referred to three months after the Tsunami as this period), and c) currently i.e. at the time of this survey.

Figure 2 presents average amount of asset losses, which were collected in the need assessment survey, for these groups. People identifying their initial condition (i.e. before Tsunami) as large deficit and small deficit were merged into one group as deficit as only two respondents reported that they had large deficit in income to meet regular expenses. On average, the BRAC-SL beneficiaries who reported having deficits before the Tsunami have suffered asset losses worth Rs. 172,000. The comparable figure for those reporting large surplus in income is almost double.

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Figure 2. Initial condition and amount of asset loss

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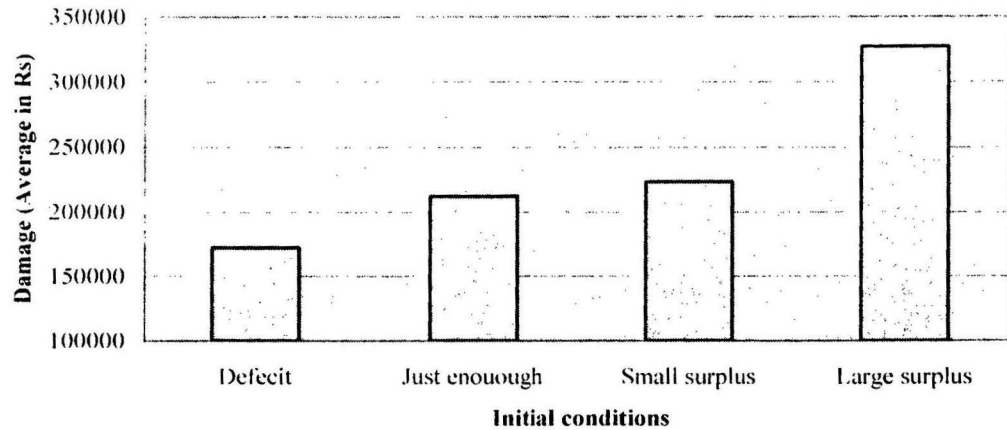
Considering the extent of losses only in terms of monetary units can be misleading as the richer have more assets to lose and the same amount of asset loss will have varying levels of effects on different groups depending on their overall socioeconomic status. However, we do not have the information about pre-Tsunami stock of assets of the households. Therefore, the respondents were asked to rate the extent of financial and asset losses due to the Tsunami.

Table 1. Initial condition and extent of asset loss

Extent of direct asset loss	Condition before the tsunami				Total
	Deficit	Just enough	Small surplus	Large surplus	
Severe	49	45	44	31	44
Moderate	28	37	24	48	30
Mild	22	18	29	19	25
No loss	0	0	3	2	2

Column total may not be 100 because of rounding

Self-perceived extent of asset damage does not show a clear pattern across the pre-Tsunami welfare status though the amount of loss does. Nonetheless, extent of reporting the asset losses as 'severe' is lower among the 'large surplus' group compared to other three groups. It is interesting to note that regressing the self-rated extent of asset damage by only the amount of asset loss does not yield any significant association. However, when initial condition is incorporated both become significant where better-off households have lower asset damage and amount of asset loss show expected positive association. Therefore, in the aftermath of disasters it is worth trying to reach those who were poor even before the disaster occurred since they are ones who are the hardest hit by the disasters. BRAC-SL's approach to serve by collecting information through interviewing each household is a good way of doing this. However, the urgency of the situation and rapidity of action are vital issues in executing livelihood support in this targeting mode. When BRAC SL started its activities (about 5 months after the tsunami hit the country), the urgency of relief work has lessened to some extent and they have been able to expand their activities at fair rapidity.

Significant positive association exists between the self-reported extent of asset loss and house damage measured in similar four-category scale (Correlation coefficient 0.40 significant at less than 1 percent level). It is conceivable that who lived closer to the sea and suffered

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house damage the worst victims of the tsunami. However, the extent of house damage is similar across all the four categories of households categorized by initial status.

Overall 44% of the respondents reported the direct asset damages by the Tsunami as severe for them. The 2% of the beneficiaries who reported suffering no damage belong to NTG group. Three quarters of the programme participants suffering at least 'moderate' damage demonstrate that the programme has largely concentrated on more affected people.

At this point, it would be interesting to reflect on whether there is any pattern in the targeting of BRAC-SL. Table 2 presents the regression estimates where the dependent variable is the number of days elapsed after receiving livelihood assistance from BRAC SL and the explanatory variables are female headedness, self-rated extent of asset loss, the income-expenditure condition before the Tsunami and dummies for the division offices. According to this estimate, on average, a female-headed household had received the assistance 37 days earlier than a male-headed household among the beneficiaries. BRAC-SL's attention to the female-headed households is commendable in the context of the disadvantages that they faced in aftermath of the disaster. This has been vividly expressed in a study[1] on the reconstruction efforts after the Tsunami.

> As to the gender balance of participation, in the immediate aftermath of the disaster women formed groups and took charge of camp affairs, but the reconstruction process left very little room for their participation. In most of the village development committees set up by the fishermen's union decision making rests with the men. As a consequence, women feel sidelined and discriminated against. Also, most of the local NGOs undertaking reconstruction work are male-dominated and, given cultural sensitivities, INGOs cannot easily address women's issues. Women's organizations engaged in awareness building and lobbying find it difficult to identify their place in reconstruction work.

Table 2. Who gets priority to BRAC-SL?

Explanatory variables	Coefficients	t - value
Female headed households	37.62***	(2.83)
Extent of loss (1=No loss, ... 4 = severe)	10.88	(1.54)
Pre-tsunami condition (1=deficit, ... , large surplus=4)	-2.98	(1.38)
Division dummies	Not reported	
F test for division dummies	25.32	
Observations	359	
R-squared	0.34	

*** Significant at less than 1 percent level

The coefficients of extent of loss and the pre-Tsunami condition yield expected sign but are not significant at less than 10% level. This is probably showing that BRAC-SL is not dealing only with those who are directly affected by the Tsunami. Indirectly affected households who have suffered other idiosyncratic shocks can participate in the programme (Box1). The estimates for the dummies for the divisions have not been presented since it is conceivable that the branches that have started operation earlier will have beneficiaries participating for longer period.

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[1] C von Braunmuhl, R Bolz, L Jayatilake and K Noble. "Tsunami: A study on disaster response in Sri Lanka" Bread for the World, Heinrich Boll Foundation and Medico International. Berlin. 2006.

> **Box 1.** *My assets were not destroyed by the Tsunami,but it does not mean I wasn't affected …*
>
> Mrs. J. Kepichan (58) had been living with her husband and a daughter. She was not directly affected by the Tsunami. However, her husband had suddenly passed away two days after the Tsunami because of cardiovascular disease. She had food processing business of her own. It could make adequate living for them.
>
> When the Tsunami washed away her sisters' houses, they moved into her house. Now she had fewer earners but two more dependants. Her income now wasn't enough to make regular expenses. She used up Rs. 10.000 savings that she had in her bank accounts. Moreover, she had to mortgage her ornaments to the bank and took Rs 15.000 loan to meet expenses. To add to her pain, a number of people who have moved nearby her house to take shelter, started the same business she does. Gradually, she ended up with little working capital. Though one of her sisters received a house as a grant from an NGO, she is yet to move there since she has no means of income and is afraid of further crisis. In such a financial crisis she took a loan of Rs. 25,000 as a non-target group from BRAC-SL. Now she runs the business with the help of her sisters and daughter and planning to get her ornaments back soon.

ASSOCIATION BETWEEN INITIAL STATUS AND COPING MECHANISMS

Households try to cope with crises through numerous strategies. Reducing consumption by withholding relatively more expensive expenses and prioritizing among the necessities is often the immediate response to asset/income losses. Informal support from relatives was the key instrument of dealing with the situation immediately after the Tsunami. Such informal networks complemented more formal support from the government and NGOs[5].

However, when income flow is substantially reduced, the households have to use up their savings, sell the more liquid assets or take loans. Table 3 shows the extent of use of these mechanisms. Extent of borrowing money without interest is the highest among the 'deficit' group. More importantly, 90% of these interest-free loans for that group were from informal sources i.e. from relatives, friends, or neighbours.

Table 3. Coping strategy by initial status

	Deficit	Just enough	Small surplus	Large surplus	Total
Interest free loans	71%	53%	41%	54%	**49%**
Informal sources	90%	96%	74%	88%	**84%**
Amount (only who used)	15,931	12,115	12,820	12,615	**13,596**
Loan with interest	11%	21%	35%	29%	**26%**
Bank	0	2%	10%	7%	**3%**
Informal sources	33%	30%	72%	50%	**63%**
Amount (only who used)	10,000	18,000	14,584	15,821	**14,687**
Sale of assets	1%	8%	8%	2%	**5%**
Amount	6,300	10,000	10,466	10,000	**10,157**
Use savings	0%	0%	4%	8%	**3%**
Amount	-	-	8,375	11,500	**9,417**

[5] B Ternstrom, E Girard-Barclay, D Rajsingham, Y Deshmukh S B Pedersen. "Links between relief, rehabilitation and development in the tsunami response: Sri Lanka case study". Tsunami Evaluation Coalition and Sida, Ohain, Belgium. March 2006.

Borrowing at interest is higher among the relatively better-off categories. A few of the beneficiaries who had surplus before Tsunami have been able to take loan from banks. From the discussions with the beneficiaries, it was observed that it was relatively easy to take loans from bank by mortgaging ornaments though the borrowed amount was usually much lower than the value of the ornaments. However, there are some social taboos regarding keeping such things as mortgage and fear of not being able to recollect the possessions. Moreover, the household may not possess any item that can be mortgaged to take such loans.

Very limited extent of dependence on sale of assets and using cash savings among the beneficiaries suggests such presumption that the selected beneficiaries were not so well-off to have adequate savings and liquid assets to sell after the Tsunami. The amount of assets that they had were also destroyed by the Tsunami. It has to be mentioned here that to explore coping strategy, we explored whether they had adopted these four means to maintain the regular expenses within three months after the tsunami. While it leaves other possible strategies largely unexplored, it also suffer from the restriction of coping period. The length of coping period is likely to vary among different households and for some this may be lifetime. Sometime a massive covariate shock like the tsunami can create further crises previously not being confronted (Box 2).

Often getting children out of school and sending family members to relatives/friends' houses for temporary stay were also used as coping technique. However, we found very limited extent of such incidences. Only in 11 cases (comprising 2.8%), they had sent family members to relatives' houses. Only 9 households mentioned getting their children out of school to maintain livelihood after Tsunami. While the extent of this event is very limited, the consequences are often far reaching by translating poverty over intergeneration. Therefore, BRAC-SL should continue the educational support based on need assessments.

Box 2. *Crisis begets crisis...*

Mrs. Subaitha (55) is the head of a five-member household. Her husband has been sick for the last 16 years and unable to work. The household is entirely dependent on her income from paddy husking business.

Her family is presently living in the dilapidated house very close to the sea. Since the house is just 45 meters away from the high tide mark (in the buffer zone), she is not being able to repair it even after getting Rs. 50,000 from the government. She does not know whether and when she can find a place to build a house.

Her eldest daughter is now 22 years old. Subaitha arranged of her daughter's marriage with a local fisherman and the marriage was supposed to take place in early 2005. She agreed to pay Rs. 50,000 as dowry. However, the Tsunami not only destroyed her and the expected son-in-law's house but also washed away the marriage agreement. She has started the business again with assistance from BRAC-SL (Rs. 10,000 grant and Rs. 20,000 loan). Her income is hardly enough to meet the basic needs. However, the groom is now demanding Rs. 100,000 and a house as dowry.

AN ACCOUNT OF DIFFERENTIATING PACKAGES

Instead of going out there with a predetermined single approach, BRAC-SL considered the contexts in which people were coping and trying to rebuild their lives, and learned from these exposures. Assessing the situation at rapid pace, working out alternative approaches that suit the heterogeneity of the situations and maintaining the flexibility to implement different approaches simultaneously are crucial to make effective interventions. Table 4 shows the comparative profile of the three groups of livelihood support beneficiaries viz. grant receivers, interest free loan (IFL) receivers and interest bearing loan (IBL) receivers.

Table 4. Profile of different types of beneficiaries

	Grant	IFL	IBL
Female headship	32%	28%	20%
Age of head			
< 30 yrs	9%	8%	16%
30 - 49 yrs	52%	55%	59%
50+ yrs	40%	37%	25%
Education of HHH			
No education	20%	11%	6%
Grade 1 - 5	48%	45%	32%
Grade 6 - 10	27%	17%	30%
O Level +	5%	26%	32%
Do not have any male earner	34%	31%	21%
Earner member ratio	0.37	0.45	0.42
Household size	3.48	1.12	3.84
Single member HH	16%	10%	6%
Never participated in MC before	41%	16%	21%

Moreover, when compared to the national statistics, all the three groups seem to be poorer than the general population of Sri Lanka. For example, female headship is 17% in Sri Lanka[6]. Similarly, the extent of completion rate of 'O' level has consistently been much higher at over 60% in Sri Lanka. Poverty level also has very close association with the education attainment of the households. In 1995, over 56% of the households were poor if the principal earner had less than lower secondary education[7]. However, if the principal earner had completed O/L, A/L and graduate education, the poverty figures were only 20%, 13% and 6% respectively. Therefore, BRAC-SL has been successful not only in targeting the poorer segments of the population but also in differentiating within them to provide appropriate livelihood support package.

The extent of ever participation in microfinance among the grant beneficiaries is 59% which is much lower than the IBL beneficiaries. Microfinance as a tool of livelihood improvement has not been used very effectively in Sri Lanka. Moreover, there have been concerns that 'excessive' aid and subsidizing microfinance would hamper its usefulness in the long run. A review by CGAP[8] pointed out such concern.

Donations poured into Tsunami-affected areas helped meet the most urgent and primary needs of the population. However, donor response to the Tsunami also had the negative consequence of exacerbating some pre-existing substandard practices in microfinance. In fact, many people interviewed by the review team expressed the sentiment that "post-Tsunami aid is harming sustainable microfinance."

The reasons that they have identified are a) mixing grants with loans, b) creating a culture of dependency (dependency syndrome), c) imposing interest rate ceilings and d) putting pressure to make disbursement. In such a situation, managing 'good practices' of microfinance is a daunting task and it is noteworthy that BRAC-SL has been very successful in implementing diversified packages simultaneously and maintaining excellent overall recovery

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[6] T Tudawe. "Chronic poverty and development policy in Sri Lanka: overview study". Chronic Poverty Research Cenre. CPRC Working paper No. 9.

[7] D Gunewardena. "Consumption poverty in Sri Lanka, 1985-1996: a profile of poverty based on household survey data". Mimeio. 2000. (As cited in CPRC working paper No. 9)

[8] Duflos E., J. Ledgerwood, B. Helms and M. Moyart. "Country level effectiveness and accountability review Sri Lanka". Aid effectiveness initiative, CGAP. 2006.

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rate, which is close to 100%. Therefore, it is quite possible to mix grant, subsidized microfinance with interest bearing microcredit.

The basic ingredient to this successful mix of interventions is transparency to the beneficiary. During the informal group discussions and in-depth interviews with the beneficiaries, the issue of 'giving more supports to some people and not as much to some others' was raised. It was observed that the beneficiaries are quite aware about the range of services being provided by BRAC-SL and they could say why they have been selected for the particular service she is receiving. Such transparency about the services to the participants can only strengthen the acceptance of the provider and improve the targeting effectiveness. There have been a number of instances where the existing beneficiaries gave information about prospective beneficiaries to make right choice of package. Moreover, it generates pressure on the staff to get the beneficiary selections right.

THE PRESENT CONDITIONS OF THE BENEFICIARIES

This section tries to explain the present status of the beneficiary households and how they may have achieved those conditions. Over three quarters of the beneficiaries suffered either complete or major damage of their dwelling houses (Table 5). However, no significant difference was observed among the three groups of households under consideration. Most of those who suffered house damage were able to reconstruct their houses. In this reconstruction, the assistance from the government has been the major source of expenditure. Some of the beneficiaries received housing assistances from both the government and NGOs. About 20% of the IFL and IBL beneficiaries reconstructed their houses mainly by loans, mostly taken from informal sources. None of the grant beneficiaries reported taking loan for building house.

Table 5. House damage and rebuilding

Variable		Grant	IFL	IBL	Total
Extent of house damage	Completely	56	54	47	51
	Mostly	25	30	27	27
	Partially	8	9	14	12
	No damage	11	6	12	10
Whether repaired (if suffered)	Fully rebuild	68	58	48	55
	Mostly repaired	8	17	29	22
	Partially repaired	23	21	21	22
	Not yet repaired	0	3	1	2
Main source of expenses (if repaired)	Own income/savings	10	13	5	8
	Govt. assistance	67	54	59	59
	NGO assistance	0	8	7	6
	Govt. + NGO assistance	23	8	9	11
	Loan	0	18	21	15

Self-reported poverty status of the beneficiaries shows that before the Tsunami, over 60% of them had surplus situation. Only a few were in break-even position. Extent of deficit for the IBL beneficiaries was only 10%, which was less than half as prevalent as for the other two groups. However, immediately after the Tsunami (3 months), the situation of over 40% of the beneficiaries has gone down to deficit and less than 20% could maintain surplus. The situation seems to be gradually improving as the extent of deficit is going down. It has gone down the furthest for the grant beneficiaries. Most of the beneficiaries reported their present condition as a balance between their income and regular expenditure.

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Figure 3. Self-reported economic situation (pre-tsunami, post-tsunami and now)
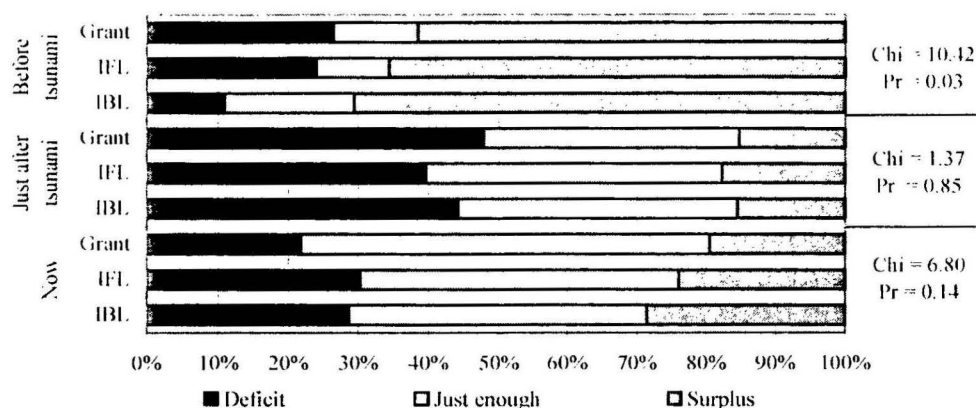

Table 6 presents some income-related information of the beneficiaries. Average per capita monthly income of the beneficiary households is over Rs. 2,000. However, there is sharp difference between the grant beneficiaries and the loan beneficiaries. BRAC-SL stopped the supervision visits to the grant beneficiaries about 3 months ago. They may incorporate the grant beneficiaries in the village organizations (VO) so that they can be helped further based on their needs.

Table 6. Income information

	Grant	IFL	IBL	Total
Per capita income	1,758	2,356	2,428	2,211
Depending on one IGA	54%	49%	46%	50%
Continuing supported enterprise	84%	100%	92%	91%
Had the source earlier	74%	76%	77%	76%
Brac supported is main	59%	70%	68%	63%

Half of the beneficiaries are depending on only one income generating activity. Relatively higher proportion of the grant beneficiaries is dependent on one income source. This is largely because they have fewer earners and sometimes single-member household. It can be difficult to regain the pre-shock situation in short period of time by simply restarting an enterprise (Box 3).

Over 90% of the beneficiaries are involved in the enterprise for which they have taken support from BRAC-SL. It is of utmost importance, for grant or loan to be of any advantage, that the beneficiaries actually invest the amount in earning activities. Poor financial management in post-shock situation can trap a household into poverty (Box 4). A few studies have shown that extravagant expense for building houses and for purchasing other household materials have been a hindrance to progress of different groups of people in Sri Lanka[9].

It was found that all of them who had earlier engagement in the same activity before the Tsunami for which received BRAC-SL support, are continuing the supported enterprise. However, 20% of those who did not use to do the enterprise have stopped the activity. BRAC SL's strategy to support the income generating activity in which they are experienced is well

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[9] S Hettige. "Alcoholism, poverty and health in rural Sri Lanka". *Sri Lanka Journal of Agrarian Studies*. Vol. 8 (1): 27-44. Colombo. 1993.

thought of. Overall, BRAC SL supported enterprise is the main source of income for the 63% of the beneficiary households.

Box 3. It takes extra efforts to rebuild...

Selvarani (43) lives with her 19 years old son and 23 years old daughter. Her husband abandoned her 12 years ago to live in the Maldives and got married there. Her son has mental disability and her daughter started working in an NGO for Rs. 4,000 monthly salary 4 months ago to arrange her graduate education expenses. Selvarani managed her household through her income from poultry. Tsunami washed away all her belongings including her 166 birds.

She depended on help from her brothers and borrowings from neighbours to live after the Tsunami since the food stump and Rs. 5,000 from the government was not adequate. By the time she started poultry by taking service charge free loan from BRAC-SL 9 months after the tsunami, her debt with different persons had mounted to Rs. 35,000. Instead of going for the indigenous quality of birds that she used to rear, she bought 50 one-day-old broiler chicks, as the returns would be much rapid. It was very difficult for her to rear those since it requires constant care and she had no prior experience. Her risks paid-off in 60 days and she made some handsome profit to repay a portion of her debt.

She still has to count on the assistance from her brothers though now she has started her usual poultry rearing in a smaller sclae. She expects to take at least Rs. 50,000 loan from BRAC-SL and hope it would be large enough to expand her enterprise so that she does not have to remain a burden to her brothers.

Box 4. I got this TV for Rs. 32,000...

Rajendra has a 6 moths old daughter and her husband is an irregular day labourer. They live in a tiny one-room house of her mother, which her mother gave them as their own house was destroyed by the Tsunami. However, her old mother is living in a relatives' house. When they got Rs. 5,000 from the government as tsunami victim, they got a TV by paying the first installment. The rest were payable in Rs. 3,000 monthly installments for 9 months. She managed to pay 4 or 5 installments in 8 or 9 months. She had to mortgage her ornaments to clear the TV deal. Then she took a loan of Rs. 20,000 from BRAC-SL for fish vendoring and gave the money to her husband who bought a bicycle for this purpose. Instead of doing the business, they paid the rest of the money to get the ornaments back. Now she is paying BRAC-SL's installments irregularly and, in the meantime had to mortgage the ornaments again to maintain expenses and service the loan. However, she hopes if she can get a larger loan after repaying the remaining installments, her husband would get the ornaments back and start vending.

WHAT ARE THE TRAJECTORIES OF CHANGE NOW?

The beneficiary households are gradually recovering their situation by accumulating both productive and non-productive assets. There is visible differences in asset holdings between the grant and loan beneficiaries which is understandable given the differences in endowments that has been observed. Seven percent of the households reported that their present situation is good or better than the status they had before being affected by the Tsunami. Two-third expressed that they expect to get back to the original situation within a few years. However, about 18% of the households reported to have got trapped or not improving. Furthermore, 9% of the households reported that their situation is getting worse. It is interesting to note that none of the grant beneficiaries reported such a pattern in their conditions even though they are poorer than the other two groups in a number of respects.

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Table 7. Resilience of the beneficiaries

		Grant	IFL	IBL	Total
Total assets		47,599	75,934	62,540	62,302
Productive		20,394	35,284	32,546	30,253
Non-productive		21,682	32,868	25,507	26,458
How life today compared to pre-tsunami?	As good/better	5	8	8	7
	Worse but ill improve soon	72	59	66	66
	Worse and not improving	23	16	20	18
	Worse and deteriorating	0	17	6	9

A look at the differences in household characteristics between those who are observing descent and the rest yield some useful results. Extent of female headship among the deteriorating households is 47% as opposed to 24% among the rest. Before the Tsunami, 57% of this descending group had deficits compared to only 19% among the rest. Moreover, 48% of these households have no male income earner in their households, the extent of which is much lower at 21% among the rest. Therefore, it seems that they are indeed disadvantaged by endowments.

Despite facing such disadvantages they did not receive grant, which is more suitable for them than loans. The probable reason is that they were identified later on when the programme has shifted their focus from grants with the assumption that by now everyone has taken up some income generating activity and need loans to expand those. In fact, majority of these beneficiaries have joined the programme after February 2006. This is roughly the period when it was decided to focus more on providing credit. Since they are very small in proportion and already participating in BRAC SL's programme, it would be worth to put an extra effort to identify them and rethink about support package.

DOES PROGRAMME PARTICIPATION MAKE ANY CHANGE?

The livelihood supports of BRAC-SL may influence the change in welfare of the beneficiary households in a number of ways. If the support gave them the impetuous to restart the enterprise, this may mean extra earnings for the period, which would have been lost in delays to start the activity. This can also mean refraining them from adopting more costly means of coping. The amount of assistance can increase the amount of income by providing the required working capital. In a number of group discussions, the programme participants mentioned that the weekly meetings give them a sense of unity and provide courage.

We may think of a range of impact. However, all of them are not measurable and it is not desirable either to attempt measuring them all at once. Therefore, this study would try to capture whether there is any programme effect on the asset holdings and income of the beneficiary households. Since there is no control group as such[10], any measure of impact can only give an indication of direction of influence if there is any influence.

The length of participation in the livelihood programme by the beneficiary has been considered as the variable that may reflect programme effect on the beneficiaries. This has a very strong assumption that the new entrants into the programme have the characteristics similar to the earlier entrants. If the later entrants are relative worse-off, the 'impact' figures

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[10] Probably no one would have cared about having a control group of any kind for evaluation purpose in a devastating situation that the tsunami had created.

will be overestimated and vise versa. However, we have seen that the worse-off people get some priority in the programme (as shown in Table 2).

Table 8 presents the regression results where the dependent variables are asset or income and have a range of explanatory variables. In the first regression, both duration of programme participation and amount of support (grant, loan or both) have strong association with amount of assets owned by the households. According to the estimate, one extra day of participation in the programme increases the amount of assets of the households by Rs. 70. Similarly, one extra rupees of assistance from BRAC-SL is associated with 1.41 rupees increase in assets. This positive coefficient of duration strengthens further when other explanatory variables are included in the second regression. Among the other variables, 'number of income sources' and 'self-perceived poverty status just after the Tsunami' have significant associations with assets.

Table 8. Determinants of assets and income

Dependent variable ⟶	Assets value (in Rs.)		Per capita monthly income	
Explanatory variables	(1)	(2)	(4)	(5)
Length of programme participation (in days)	70.04**	93.98**	1.85*	2.19*
	(2.15)	(2.19)	(1.75)	(1.95)
Total amount received from BRAC-SL (in Rs)	1.70***	1.41**	0.01	-0.02
	(3.33)	(2.37)	(0.69)	(1.15)
Grant beneficiary (1=yes, 0 otherwise)	-	-24,355.39	-	-1,061.89**
		(1.63)		(2.03)
IFL beneficiary (1=yes, 0 otherwise)	-	-14,733.19	-	-106.62
		(1.30)		(0.27)
Age of HHH	-	39.78	-	6.49
		(0.10)		(0.46)
HHH completed o level (1=yes, 0 otherwise)	-	-8,614.05	-	803.32**
		(0.76)		(2.01)
Number of earners in the household	-	6,292.77	-	82.52
		(1.08)		(0.41)
Household size	-	3,813.73	-	-512.09***
		(1.47)		(5.62)
Number of income sources for the household	-	14,557.97**	-	944.02***
		(2.27)		(4.21)
Condition after the Tsunami (1 = large deficit, ... 5=large surplus)	-	13,211.83**	-	298.66
		(2.46)		(1.59)
Continuing supported enterprise (1= yes, 0 else)	-	9,215.19	-	144.74
		(0.47)		(0.21)
Constant	22.681*	-73,227**	1.668***	1.321
	(1.73)	(2.38)	(3.77)	(1.23)
Observations	362	260	309	259
R-squared	0.04	0.17	0.01	0.22

Absolute value of t statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

Similar positive association between duration and per capita monthly income is observed. Grant beneficiaries have significantly lower level of income than the IBL beneficiaries. On average, per capita monthly income of a household with a head who has completed at least 'O' level is 803 rupees higher than a similar household with lesser educated head. Diversification of income sources is important in increasing income flow as well.

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Table 9. Determinants of asset and income by beneficiary group

	Grant group		Loan groups	
Dependent variable	Per capita monthly income	Assets value (in Rs)	Per capita monthly income	Assets value (in Rs)
Explanatory variables	(1)	(2)	(3)	(4)
Length of programme participation (in days)	9.13** (2.45)	585.14*** (3.81)	0.95** (2.11)	69.10* (1.67)
Total amount received from BRAC SL (in Rs)	0.02 (1.09)	3.20*** (3.60)	-0.04 (1.42)	0.75 (1.00)
IFL beneficiary (1=yes, 0 otherwise)	-	-	-171.17 (0.37)	-18,112.07 (1.57)
Age of HHH	18.34 (1.14)	-586.86 (0.88)	8.90 (0.49)	144.47 (0.92)
HHH completed o level (1=yes, 0 otherwise)	-33.38 (0.04)	-29,514.08 (0.87)	827.93* (1.75)	-602.92 (0.05)
Number of earners In the household	168.34 (0.70)	11,232.88 (1.14)	46.63 (0.18)	8,097.16 (1.14)
Household size	-355.23*** (3.44)	4,959.66 (1.17)	-556.74*** (4.70)	2,462.72 (0.78)
Number of income sources Of the household	823.38*** (3.05)	-5,265.98 (0.47)	951.93*** (3.36)	19,826.99*** (2.61)
Condition after the Tsunami (1 = large deficit, ... 5=large surplus)	46.87 (0.24)	17,487.55** (2.19)	455.06* (1.76)	12,670.36* (1.83)
Continuing supported enterprise (1= yes, 0 else)	314.68 (0.46)	13,658.34 (0.48)	33.54 (0.04)	8,573.98 (0.35)
Constant	-3,544* (1.77)	-274,057*** (3.33)	1,442 (1.06)	-78,757** (2.16)
Observations	65	65	194	195
R-squared	0.36	0.43	0.22	0.17

Absolute value of t statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

When these regressions are run separately for the grant beneficiaries and loan beneficiaries (both IFL and IBL), length of participation comes out as a significant explanatory variable. However, the effects are much higher for the grant beneficiaries compared to the loan receivers. The estimates can be suffering from omitted variable bias. Personal characteristics such as entrepreneurship skills cannot be taken care of without panel data. Moreover, the estimates do not control for the assistances received from other formal or informal sources. This could not be done since the quality of this information has not been satisfactory. Errors in information occurred due to the variety of assistances and the long reference period. The bias in the estimates, if any, can either overstate or understate the influence depending on the direction of associations between assistances received from other sources and duration of participation in BRAC-SL.

Another variable that could influence income and the stock of physical assets is regional effects. Indeed, inclusion of dummies for the divisions makes the coefficients of duration insignificant (results not reported). However, this happens because of the multicolinearity between division dummies and duration. In a regression with duration as the dependent variable and the divisions as explanatory variables yields an F statistics of over 28, which is

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understandable by the fact that BRAC-SL did not start in all the divisions at the same time. Therefore, the estimates do not control for the regional variations in 'impact'. Nonetheless, the estimates give some strong indication of programme influence on the assets and income of the beneficiary households.

STIVING TOWARDS A SUSTAINABLE MICROFINANCE

NGO participation in microfinance in Sri Lanka is marginal. They account for 17% of the total number of loans[11]. Their share in the total outstanding is even lower at a mere 7%. This is due to the reason that they target poorer clients who borrow smaller amounts compared to alternative microfinance providers. The 'society' and CBO-based microfinance mechanism that both the government and many of the larger NGOs follow often fail to reach the poorest. Observing the gap in credit supply, BRAC-SL is planning to provide microfinance services in Sri Lanka for a longer period.

BRAC-SL is disbursing second loan to the participants who have completed their first loan cycle. However, in the group discussion, people raised their concern about the interest rate. Rate of interest rises in the second loan. It was observed that in the places where the programme beneficiaries can access other microfinance services, they are more concern about the interest rate and less about size of the second loan. Relative importance of interest rate and loan size reverses in the areas with limited/no alternative services. Analytically it makes relatively more sense to reduce interest rate for the subsequent loans. Throughout the first cycle of loan, a lot of valuable information is exchanged between the participants and the staffs, which is important for the staffs to take right decisions. Moreover, lowering interest rate for later loans create an incentive against dropping out.

There is the pitfall in excessive focus on sustainable microfinance, which is moving away from the poorer people. The mechanism of providing interest free and interest bearing loans simultaneously helps in keeping the focus on the poor. Therefore, BRAC-SL should consider the mission before going for harmonizing the credit services.

Observations of different VO group meetings and the activities of the programme organizers (PO) give an understanding that the existing social norm is helpful for VO-based microfinance. In a number of group meetings of over 30 members, the whole processes of installments were done within 20 minutes. Given the good economic ethics (which was also noted by the management) and the scope of larger loans, it is possible to attain sustainable microfinance in Sri Lanka in good. For this, BRAC-SL should prepare a detail work plans 5 to 10 years. This would enable them to better communicate the process to the participants. This is very important as a number of local staff mentioned frequent changes in decisions as a hindrance to their activities.

Promoting local expertise in microfinance is also an objective of BRAC-SL. They have been working with 8 local NGOs to make them familiar and accustomed with the VO-based microfinance services so that they can replicate this in their own programme. The purpose can be served through demonstration as well. Through expanding their operations in the field, they can exhibit the mode of work to a larger audience of microfinance organizations who are interested to learn.

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[11] CGAP. "Sustaining microfinance in post-tsunami Asia." Washington, D.C. 2005.

CONCLUSION

Starting rehabilitations and livelihood support programme for the Tsunami-affected people in Sri Lanka, BRAC -L has managed to provide effective services. Their approach of providing differentiated services to different groups was found well designed and rigorously implemented. The study found strong evidence of targeting the poorer segment among the Tsunami-affected people. A large portion of the beneficiaries was at disadvantaged position even before the disaster. Moreover, it is clearly visible that female-headed households get priority to BRAC-SL. The strategy of beneficiary selection through rapid survey seemed effective.

There are evidence of programme impact on the assets and income of the beneficiaries measured by the length of their participation in the livelihood support programme. While their self-reported welfare status shows that they are fighting back after the Tsunami, most of them are yet to get back to their pre-Tsunami status. This calls for continuation of the supports. A small group of participants, selected at the later stages, received loans from BRAC-SL while it was clear that they require aid. Therefore, BRAC-SL may reconsider providing aid on selective basis though they have stopped giving aid after March 2006. Such an approach would also facilitate keeping focus on the poor when the programme scales up.