No Silver Bullet
An assessment of the effects of financial counselling on decision-making behaviour of housing beneficiaries in Jaffna and Kilinochchi

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September 2015
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<td>Owner Driven Housing Assistance</td>
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<td>Swiss Agency for Development and Cooperation</td>
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Executive Summary

The Swiss Agency for Development Cooperation (SDC) supported an owner-driven house reconstruction programme in the North which provides funds in the form of a staggered grant-scheme, to selected returnee families for the reconstruction of their destroyed houses. A study conducted by the Centre for Poverty Analysis (2014) found that approximately 85% of housing beneficiaries had unmanageable debt and over 50% of them lacked knowledge about managing finances (Romeshun, Gunasekara, & Mohamed, 2014). As a response to this evidence, in May 2014, SDC implemented a financial counselling module, specific to the housing process, as a way of maintaining low housing-related debt levels. This action by SDC shapes the main objective of this study, which is to understand the extent to which SDC’s financial counselling intervention shaped behavioural changes in housing beneficiaries in relation to the housing (re)construction process. The study method consists of a quantitative survey of 205 households in the Districts of Jaffna and Kilinochchi, followed by a qualitative study to further understand and triangulate the information gathered by the quantitative survey.

To help mitigate indebtedness related to housing, SDC has identified optimising the construction process by way of reducing construction costs, building houses according to a pre-determined size and features and raising awareness about financial decision-making (relevant to housing) as important interventions that can be carried out alongside the housing (re)construction process. The ‘theory of change’ of this programme posited that by shaping beneficiaries’ decision-making on house size and features, indebtedness due to construction related expenses could be minimised.

This study presents two main findings. First, the general sentiment among beneficiaries was that SDC’s financial counselling advice helped them complete the houses successfully and in a timely manner. Much praise was attributed to the Technical Officers (TO) and the community mobilisers. TOs’ close attention to technicalities of the construction process, advice and emphasis on quality of construction and materials, multiple visits to monitor the progress and constant encouragement to complete the house (within the allocated time period) was deeply appreciated by the communities. On a related note, implementing the financial counselling module was found useful by SDC staff for project planning and implementation purposes as the process of financial counselling helped them identify relatively more vulnerable households, which in turn led them to tailor the housing support according to beneficiaries’ context.

Second, financial counselling did not have the intended effect on beneficiaries’ choices on the size and features of houses. The two study samples (“treatment group” - one which included beneficiaries that received financial counselling, and the “control group”- that composed of beneficiaries that did not) were evenly split between those who built houses that are bigger, and those who built standard houses. While the quantitative statistical analysis indicates no significant difference in house size among housing beneficiaries that received financial counselling and those that did not, testimonies from respondents in the qualitative component of this study indicate that financial counselling has had its intended effect in convincing certain households to construct according to the SDC standard sizes and features in many instances.

The average cost of building a standard size house was Rs. 819,615, whereas the average cost of building a slightly larger structure was Rs. 1,090,760. Those who received financial counselling, and
built a standard house, spent an average of Rs. 829,426, whereas beneficiaries who did not receive financial counselling but built standard houses spent an average of Rs. 795,162 on construction. A significant number of households in both groups did not adhere to the standard features, which may have driven up the costs of construction. Even households that adhered to the standard sizes and features had difficulty in staying within the budget allocated for construction for each stage. This could be attributed to a number of unavoidable costs such as the impact of inflation on building material, increasing labour costs due to the shortage of construction labour that were beyond the beneficiaries’ control and should be factored into budgeting for housing programmes in the future. As such, the quantitative data of this study does not indicate a statistically significant relationship between financial counselling and construction costs. Only women-headed households, that were likely to have been closely monitored by TOs, completed houses within the estimated construction budget.

In line with the findings on the ineffectiveness of financial counselling on house size and features, the survey found that an overwhelming proportion of respondents, regardless of whether they participated in financial counselling, borrowed funds for housing. On average, households that did not receive financial counselling have slightly higher amounts of debt (Rs. 171,264), borrowed at slightly higher interest rates (12.05%) and have comparable, but marginally higher number of unmanageable loans in comparison to the households in the treatment group in which the average loan amount was Rs. 159,712 and the average interest rate was 8.20%. The slightly lower average loan amount of those in the treatment group may be that they have had more time to save or accumulate (in other ways) relatively more funds for housing in comparison to their counterparts in the control group that started construction much earlier. According to the survey data, households that received financial counselling had more financial assets in comparison to those that did not, whereas the latter had relatively more physical assets. It is possible that the longer time gap between resettlement and housing may have allowed households to save (albeit meager) sums of money to invest in housing.

An important observation of this study is abundance of formal credit offered by banks, finance companies and microfinance institutions that have recently entered the Northern market. Offering attractively packaged loans, these institutions entice people to borrow without much hassle. Even though borrowers are well aware of high interest rates associated with such institutions, they choose easy ‘access to credit’ over financial costs. High interest borrowing from finance companies and banks is also related to the difficulties that beneficiaries face in obtaining housing loans from formal banking institutions. Requirements of a standard loan application, such as getting two signatories/guarantors, showing sufficient collateral and a steady stream of income, were not feasible for most beneficiaries, who are trying to adjust to life after war. Though financial counselling SDC discourages beneficiaries from borrowing at high interest rates, their options of financing house construction are few given their low and inconsistent income streams. The desperate situation of people in war-affected areas pushes them to borrow despite their awareness of interest rates and consequences of defaulting on loans. The overall consensus among beneficiaries is that house construction left them with no option but to borrow.

The study found that ODHA invariably puts a double burden on the housing beneficiaries – the expectation of households’ own contribution, both in terms of funds as well as labour. While some
beneficiaries preferred hired labour, others who contributed their own labour stated there is an opportunity cost of LKR 993 for each day that they spent on construction work.

The finding that financial counselling has not made a difference in addressing housing beneficiaries’ indebtedness – underlines the reality that well-intentioned interventions such as the SDC initiative can do little to address circumstances that are deeply linked to the broader structural issues of the political economy of the North. In other words the indebtedness of housing beneficiaries as observed by SDC and other implementing agencies is intrinsically linked to the broader political economy of the North, which characterises big infrastructure, the ravages of the market logic, faltering incomes and the expansion of rural debt.

The recommendations (for government authorities and donors) that are stemming from this study include technical approaches to solving issues related to the indebtedness of housing beneficiaries, context-specific approaches in addressing most vulnerable groups and a prescriptive policy measure that goes beyond housing reconstruction and applies to post-war development in general:

Technical Recommendations

• Encourage implementing agencies to introduce financial counselling to housing beneficiaries as it is a useful process to identify vulnerable households, their financial difficulties, and tailor housing support accordingly;

• Encourage implementing agencies to assess and estimate all unavoidable costs associated with the housing process, paying specially attention to price increases in building material due to inflation, transportation costs and overall costs of labour (including meals for labourers) prior to implementing housing programme and financial counselling;

• Renegotiate with the Government of Sri Lanka to revise the maximum stipulated grant amount for housing, based on the aforementioned assessment of the revised cost structure.

Context-specific Recommendations

• With the support of state institutions and the private sector, launch a systematic financial awareness campaign in war-affected areas to promote better financial management and responsibility among people;

• Convene government and formal private lending institutions to discuss interest-free loan schemes as a reparation mechanism for the people in war-affected areas;

• Consult government (both national and local), private sector and other development organisations about creating sustainable livelihoods, an initiative that should move in parallel to the construction process.
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• ข้อกำหนด - ระเบียบการผลิตภัณฑ์

• ปัญญ ณิเทศก์ พลเอกสมเด็จพระเจ้าบรมวงศ์เธอ พระองค์เจ้า กรมพระยาดำรงราชานุภาพ ได้รับการเสนอแนะจาก กฎหมายว่าข้อบังคับที่ 2 ข้อ ข้อกำหนดการผลิตภัณฑ์ กีฬาการแข่งขัน ภูมิภาค บ้าน ประเทศ ประเทศไทย ได้รับการสนับสนุน/blog.

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1. Introduction

a. Background to the Study

The Swiss Agency for Development and Cooperation (SDC), Switzerland’s international cooperation agency within the Federal Department of Foreign Affairs, is currently funding and implementing several humanitarian and development programmes in Sri Lanka. An SDC supported owner-driven house reconstruction programme in the North\(^1\) provides funds in the form of a staggered grant-scheme, to selected returnee families for the reconstruction of their destroyed houses. A survey completed in 2013 by the Centre for Poverty Analysis (CEPA) among 347 housing beneficiaries receiving assistance for Owner-Driven-Housing (ODHA) Programmes in the North revealed that approximately 85% of them had an average debt of Rs. 150,871, owing largely to constructing houses. The study concluded that people’s lack of knowledge about financial management (i.e. interest rates, monthly payments) is linked to household debt and issues of repaying loans among housing beneficiaries. Although beneficiaries’ lack of knowledge about managing money was not the primary factor linked to household indebtedness, the statistical analysis found a strong relationship between household indebtedness and household members’ knowledge about interest rates and loan conditions. Over half of the households surveyed did not know the interest rates of their loans and whether the loan that they had taken was subject to varying interest rates (Romeshun et al. 2014). Moreover, respondents’ accounts revealed that money related issues caused anxiety as they did not understand the lingo used by financial experts.

Faced with the above evidence, SDC immediately acted on addressing beneficiaries’ lack of knowledge about borrowing practices (i.e. low-interest loans), a factor that correlated with indebtedness. In May 2014, SDC implemented a financial counselling module, specific to the housing process, as a way of keeping low housing-related debt levels. This action by SDC shapes the main objective of this study, which is to understand the extent to which SDC’s financial counselling intervention shaped behavioural changes in housing beneficiaries in relation to the housing (re)construction process.

It must be noted that this study is not an impact-evaluation of SDC’s financial counselling intervention. The module was implemented an year ago (May 2014) and the short time gap between the current study and the time of implementation of the module limits a comprehensive impact assessment. Furthermore, an impact assessment of any nature is complicated by the multiple interventions that target resettled populations in war-affected areas, which in turn poses significant constraints on any quantitative and qualitative enquiry that aims to isolate the effect of a given intervention. This study also faces the same limitation as SDC housing beneficiaries also participate in various other programmes initiated by other NGOs that may entail financial counselling components. For example, the Swiss Labour Assistance (SAH) currently implements livelihoods assistance programmes which include elements of managing money in the same districts and at the same time as SDC. Additionally, there may be other factors that shape beneficiaries’ financial decision-making (i.e. improvement in incomes due to stable livelihood activity between the time the SDC programme was implemented and the time of this research), in which case financial counselling may have little to do with the nature of household decision-making in relation to housing construction.

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b. SDC’s Financial Counselling Module and the Process of Implementation

To help mitigate indebtedness related to housing, SDC has identified optimising the construction process by way of reducing construction costs, building houses according to a pre-determined size and features (as prescribed by the Government of Sri Lanka)\(^2\) and raising awareness about financial decision-making (relevant to housing) as important interventions that can be carried out alongside the housing (re)construction process. By implementing such interventions, SDC intends to instill a sense of financial responsibility among beneficiaries and their ownership of the housing process. The financial counselling module was piloted in Vadamarachchi and is now being executed in 14 GN divisions. This module is implemented in a multi-stage process, actively engaging with housing beneficiaries at each stage.

**Stage 1** - Village meeting: prior to selecting beneficiaries, SDC conducts a village meeting to inform the residents about the housing programme. This meeting is convened primarily to explain the following: a) information about SDC, b) the housing programme, c) the owner driven approach to housing (re)construction, d) the procedures of beneficiary selection (i.e. selection criteria, publishing of the selection list, the grievance meeting, assessment for the selection, etc.), and e) the roles of the village committee which serves as an oversight mechanism. During this meeting, SDC staff members explain the procedures of the housing programme, emphasising the financial obligation on those selected to participate in the programme. Risks and challenges associated with beneficiaries’ own contribution, payment procedures and the time frame within which the houses must be completed, are explained to the beneficiaries at this meeting. This meeting is also used to communicate that financially weak and the most vulnerable households will receive additional support from the SDC staff throughout the implementation process. A leaflet illustrating the payment system is typically shared and explained during this meeting (see Annex 1).

**Stage 2** – Meeting with selected households: once selected to receive a housing grant of LKR 550,000 to construct a house, household members are expected to attend several mandatory meetings with Technical Officers (TOs) and engineers of SDC to discuss the housing process. At the first of the series of meetings, SDC technical staff explain the administrative procedures and the first steps of the construction process to the beneficiaries. Approximately for 20 minutes with each household, SDC staff fill out a form - housing expenses calculator (see Annex 2) - in order to estimate the effective costs of the unit. These costs are estimated based on the beneficiaries’ ideas of size and features, labour contribution, sources of funds, transport distance, etc. They emphasise the financial obligation of the beneficiary associated with building a house that is larger than the standard size and/or of a higher quality (luxury items, floor tiles, high quality door). The TOs also notify the grantee household of the expected labour contribution from family members that needs to be factored into the construction process. After the discussion and counselling the estimated amount is transferred to an information leaflet, explaining once again about the risks and challenges of the financial obligation of the home-owner, the payment schedule with personalised estimations for each month of construction that could be used for financial planning. This form remains with SDC for close monitoring of vulnerable households, and the leaflet is handed over to the beneficiary. At this meeting SDC staff explain that there is no possibility of receiving additional funds for housing (beyond the grant amount of LKR 550,000). If a household

\(^2\) The size and features of houses are determined by the Government of Sri Lanka, and not by the donor organisations. The standard size of a house is 550 square feet and the features include a gable roof, two lockable rooms of basic wood and plastered walls.
does not have sufficient funds, SDC closely monitors the beneficiary from the beginning in order to spend only the 550,000 in constructing a house. Houses that are constructed under close monitoring are sometimes fall below SDC minimal requirements, but they are ensured to be in livable condition (i.e. at least one lockable room, toilet, roof, floor kitchen functioning, etc.). As such SDC does not exclude vulnerable households; rather they inform the beneficiaries about the close monitoring procedure in a transparent manner. Beneficiaries who decide to build bigger houses are encouraged to go start off with the standard size and extend later; alternately, they are requested to furnish proof that they have sufficient financing options that will not cause delays in completing the structure.

**Stage 3 and onwards** - Advise on the ways in which the household can save money by contributing labour, bulk purchasing and choosing particular design features of the house are discussed during subsequent meetings. The purpose of these meetings is to arrive at compromises that offer the household a durable structure within a manageable construction budget. At these meetings, the TOs ask the beneficiaries how they plan to cover their own financial contribution (i.e. by pawning jewelry, remittances, etc.). According to SDC staff, this process helps family members think about the ways in which they can raise funds to finance the house they desire, or to make amendments to their ideas about the size and features of their future house. Beneficiaries that are relatively more vulnerable (i.e. female headed households, households with disabled members, families that cannot contribute the labour component, etc. ³) are given more attention and closely monitored to ensure that the grant money is spent efficiently. The frequency that TOs visit and monitor the progress of vulnerable households is higher than that of other housing beneficiaries. Close monitoring is done by both the TO and the Social Mobiliser (SM) - an individual recruited by SDC from the respective village to build rapport between the TOs and the community.

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³ These categories of “vulnerable households” are defined by SDC.
2. Research Design

a. Research Questions

The issue that led to implementing the financial counselling module was household indebtedness attributed to increased costs of housing construction, which was partly driven by beneficiaries’ aspirations of building bigger houses. It is important to note that SDC’s conceptualisation of poor financial management is strongly linked to beneficiaries’ preferences towards building bigger houses with more expensive features, rather than the beneficiaries’ actual knowledge about borrowing (i.e. interest rates, principal payments, etc.). The preference of most beneficiaries to build bigger houses and those with enhanced features (i.e. type of roof, type of floor) adds to the monetary contribution required by a given beneficiary and increases the financial burden on households. While the housing grant is set at Rs. 550,000, SDC actively advises housing beneficiaries that the completion of a house amounts to at least Rs. 750,000, with Rs. 200,000 contribution from the beneficiary. SDC has learned from past experience that the decision to build a bigger house results in financial hardship and not only leads to indebtedness but also affects the time it takes for a house to be completed. As donors and implementers operating under strict timelines for project funds, this situation complicates project planning and reporting. SDC, as any other implementer involved in housing, aims to complete construction within the allocated time period of 8 months. As such, the expected outcomes of the financial counselling module are two-fold: complete housing construction within the allocated time period and lower household indebtedness related to construction. The interviews with key informants helped further deconstruct SDC’s theory of change and it was clear that there were three expected outcomes of implementing the financial counselling module: 1) minimise the number of beneficiaries deviating from building houses of standard size and design, 2) minimise housing-related borrowing behaviour, and 3) minimise housing related expenditure. These outcomes shaped the main and the sub-research questions of this study:

Main research question: How has financial counselling shaped housing-related behavioural change in SDC beneficiaries in a way that minimises their indebtedness?

1. How has financial counselling shaped the financial decision-making in relation to the choice of house size and design?

2. How has financial counselling shaped the financial decision-making in relation to housing-related expenditure (vis-à-vis the technical tool of the housing expense calculator)?

3. How has financial counselling shaped the financial decision-making in relation to housing-related financial and borrowing decisions?

It is important to reiterate that the emphasis of SDC’s financial counselling module is on constraining construction costs by advising beneficiaries to adhere to prescribed size and features of a house. While SDC generally advises beneficiaries not to loan funds at high interest rates, and the agency’s written communication to beneficiaries clearly reiterate this message, the financial counselling process does not delve deep into educating beneficiaries about loaning processes, interest rates and principal payments. Rather, SDC’s intervention entails a strict focus on controlling beneficiaries’
aspirations to build bigger houses that are likely to incur large and unmanageable costs which in turn may increase their indebtedness. Confined by budget- and time constraints, the quantitative survey was conducted in 205 households within an 8-day period. The survey was piloted among 12 households in the selected locations three weeks prior to actual data collection.

b. Methodology

The Quantitative Survey
The quantitative survey captured the following areas related to financial counseling, debt and participation in an ODHA programme:

• Households’ decision about house size and features: the survey posed questions about house size and features (i.e. type of roof, number of rooms, etc.) and the enumerators carried a poster displaying the standard size and features prescribed by SDC to compare with the actual sizes and features of beneficiary houses. The standard size of an SDC grantee house is 550 square feet that includes two lockable rooms. The houses are expected to install a gable-styled roof to reduce costs.

• Respondents’ perceptions of the financial counselling module: a number of questions about the usefulness of the financial counselling module were posed by the survey.

• Households’ own contribution towards building the house: ODHA requires that the beneficiaries invest their money and time in building their houses. As such, the survey posed several questions about the ways in which beneficiaries financed their share of the investment. As ODHA may impinge on time spent on livelihood activities, the survey posed questions about the labour contribution of beneficiary households. These factors are likely to have an impact on the financial situation of the householders either in the form of lost income due to engagement in construction work or increased cost due to insufficient management of the construction.

• Indebtedness of households and their repayment behaviour: Total number of loans, sources of debt, interest rates and repayment information was collected by the survey. Delays/ non-payment of installments (capital and interest) or payment of only the interest are indications that the household has borrowed beyond its capacity.

The quantitative survey was tested 26th-29th March, 2015 in 13 households in Kilali, Mulliyan and Muhamalai areas for sequencing, appropriateness and clarity. Input by the field employees of Swiss Agency for Development and Cooperation (SDC) and the respondents helped improve the field instrument. The purpose of this pilot was also to test the feasibility of identifying a sample that mirrors the ideal sample proposed at the inception.

Sampling process
To understand the effects of financial counselling on SDC beneficiary households, it is imperative to compare those who have received financial counselling with a reference group that is similar in most other characteristics, but differ in participating in the financial counselling module with SDC. As such the matching criteria (for “other characteristics” of beneficiary households) for this study are the selection criteria for ODHA followed by SDC. The criteria for other characteristics are
informed by contextual factors such as displacement experience, land ownership and livelihood activity of beneficiary households. The selection criteria for ODHA are:

- Whether or not the household is conflict affected
- Whether the family returned and permanently resettled in the village
- Whether the household has a formal right to the land
- Whether the household is not supported by similar actions by other housing agencies
- Whether members of the household are not employed by the government with a salary higher than Rs. 25,000
- Whether the family is in possession of a house in another area

However, as mentioned earlier (in the “introduction”), extracting a perfect sample of those who received SDC’s financial counselling and those who haven’t is further complicated by multiple development interventions occurring in war-affected areas. A similar situation arose in Jaffna and Kilinochchi where SDC’s interventions occurred simultaneously to those of Swiss Labour Assistance (SAH) and other development actors. SAH also offers a financial counselling module alongside their livelihoods support to households in the selected research locations. On the basis of complicated ground realities such as overlapping development interventions, this study developed a sampling frame that captured households that are part of both SDC, SAH and other development agencies. While the “treatment” group or households in sub-sample A have been subjected to financial counselling by SDC, these households are subjected to overlapping development interventions (i.e. by SAH) and may have received additional advice on financial/monetary management. Thus, the effect of SDC’s financial counselling cannot be isolated in this study. For instance, if the livelihoods assistance provided by SAH or another organisation has helped the households earn additional income, the family members may opt to build a bigger house. Such decisions by beneficiaries do not necessarily mean that SDC’s intervention has failed to shape household behaviour with regard to housing, but that there is a variety of other factors that may influence decisions about housing.

1. Sub-sample A: Households with one or more of following characteristics were chosen for the “treatment group”:
   - Started the construction of house and obtained external financial support for construction
   - Received at least one (or more) installment(s) from SDC
   - Completed the housing construction supported by SDC
   - Received financial counselling from SDC and from SAH or other development agency.
   - Received livelihoods assistance

2. Sub-sample B: Households with one or more of following characteristics were chosen for the “control group”:
   - Started the construction of house and obtained external financial support for construction
   - Received at least one (or more) installment(s) from the SDC
   - Completed the housing construction supported by SDC
- Did not receive financial counselling from SDC or from any other development agency
- Received livelihoods assistance

It should be noted that this is not a randomised study; and an assumption is made that SDC housing beneficiaries share the same characteristics, and are only different to each other in receiving (or not) financial counselling. Given that this is a non-randomised medium-scale sample, derivations of conclusions that can be generalised is not attempted in this study. The specifics of the study sample are presented in Table 1:

**Table 1. Details of the Study Sample: Sub-samples, Districts, Grama Niladhari Divisions, and the Number of Total Beneficiary Households**

<table>
<thead>
<tr>
<th>District</th>
<th>DS Division</th>
<th>GN Division</th>
<th>Sample Size</th>
<th>Sub-sample category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jaffna</td>
<td>Telippalai</td>
<td>Mallakam South J212</td>
<td>4</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mallakam Central J213</td>
<td>3</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mallakam North J214</td>
<td>3</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alawetty North J215</td>
<td>9</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alawetty Central J216</td>
<td>2</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alawetty East J217</td>
<td>2</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ganeshwaram J218</td>
<td>2</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alawetty South J219</td>
<td>3</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alawetty West J220</td>
<td>5</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TOTAL</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Sandilippai-</td>
<td></td>
<td>Sandilippai J143</td>
<td>6</td>
<td>A</td>
</tr>
<tr>
<td>aradankerni</td>
<td></td>
<td>Maasiyappitty J144</td>
<td>4</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Elewalai J155</td>
<td>4</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Piranpattu J147</td>
<td>9</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TOTAL</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Kilinochchi</td>
<td>Poonahari</td>
<td>Pallikuda</td>
<td>20</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aalankerny</td>
<td>6</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kollarkurichchi</td>
<td>35</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TOTAL</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kandawalai</td>
<td>33</td>
<td>A</td>
</tr>
</tbody>
</table>

**TOTAL A = 130; TOTAL B = 75**
3. Analysis

a. Summary of the context

The findings of this study that are presented in the following sections must be understood and interpreted in the context of economic, political and social experiences of the people living in Jaffna and Kilinochchi districts that are strongly shaped by the effects of the three-decade war in Sri Lanka. The existence of a younger, unskilled, and relatively uneducated population poses serious challenges to individual and household earning potential. Engagement in casual labour, which appears to be the most common source of income, is indicative of typical post-war conditions such as the lack of livelihood opportunities and individual capacity to rebuild a sustainable method of income generation. The predominant income sources of the households in the study are casual non-agricultural labour, while the percentage of household members engaging in own agriculture, fishing or public sector jobs were significantly low. The agriculture sector in the North and East has not recovered after the war ended in 2009, and most farmers struggle with production and the lack of connectivity to markets. As a result most individuals work as casual labourers in agriculture and/or in construction.

Agriculture workers are paid Rs. 700 to Rs.800 per day, while construction workers are paid relatively higher, Rs. 800 to Rs. 1000. Even if individuals manage to restore agricultural livelihoods the minimum value paid for agricultural produce (a fact that holds true for the entire country) does not provide sufficient income to maintain daily household affairs. The lack of movable and immovable assets worsens this situation, arguably driving households to borrow funds for consumption and other purposes. A critical issue in war-affected areas that has particular implications for the implementation of the owner-driven housing projects is the lack of access to and ownership of land by resettled communities. The lack of documentation, boundary issues and irregular land distribution during the conflict period are seen as reasons for land disputes. It should also be noted that the implementation of housing project such as the SDC programme alters market dynamics in a given location. Due to mass construction schemes, the demand for labour, construction material, transportation and financing for housing invariably increase, and drive up costs of construction. Such contextual changes must be factored into planning of such interventions. A detailed account of demographic information, income, employment, assets and health conditions of surveyed households are presented in Annex 4.

b. The effects of financial counselling on house size and features

The housing construction process is conducted in six stages and the grant money is divided into six installments and distributed to beneficiaries. The first stage is the foundation for which LKR 100,000 is disbursed, and an additional LKR 35,000 is granted in case the household is in need of a well. The next stage is to complete lintel and latrine components of the house, for which LKR 120,000 is granted. The third stage, which is to build a roof for the house is allocated LKR 150,000 and an additional LKR 30,000 to complete the well. The fourth, fifth and sixth stages are to add the finishing touches to the house, for which a total of LKR 180,000 is disbursed (breakdown of installments Stage 4 (roof, chimney and pit construction) = 70,000; Stage 5 (lockable rooms, frames and plastering) = 60,000; Stage 6 (flooring and painting) = 50,000).
The current study attempted to obtain a sample of households that varied with regard to the stage of construction. Table 2 displays this information for the overall sample, the two sub-samples (the “treatment” and the “control”), female-headed households and for households that received livelihood assistance (households in both sub-samples were subjected to livelihoods support from either SAH or other development organisations). In the study sample, 55.6% beneficiaries built standard size foundations, while the remaining beneficiaries built houses that had bigger foundations.

Table 2. Stage of Construction in the Study Sample

<table>
<thead>
<tr>
<th></th>
<th>Overall Sample (%)</th>
<th>Treatment Group (%)</th>
<th>Control Group (%)</th>
<th>Female Headed (%)</th>
<th>Livelihood Assistance Group (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Standard</td>
<td>55.61</td>
<td>57.69</td>
<td>52.00</td>
<td>57.14</td>
<td>50.00</td>
</tr>
<tr>
<td>Lintel &amp; Latrine Standard</td>
<td>51.71</td>
<td>56.15</td>
<td>44.00</td>
<td>55.71</td>
<td>50.00</td>
</tr>
<tr>
<td>Roof Standard</td>
<td>35.12</td>
<td>35.38</td>
<td>34.67</td>
<td>41.43</td>
<td>34.62</td>
</tr>
<tr>
<td>Completion Standard</td>
<td>22.93</td>
<td>23.85</td>
<td>21.33</td>
<td>20.00</td>
<td>34.62</td>
</tr>
</tbody>
</table>

*Beneficiaries that may have completed one stage (i.e. foundation) may be counted in the next stage as well. Hence, each column adds up to more than 100%.

The standard plan expects the beneficiary to build two lockable rooms and a gable-styled roof. During financial counselling, the beneficiaries are encouraged to adhere to these standard sizes and features of the house in order to keep costs low. According to quantitative data, the average house size of those in the treatment group is 535.86 sq.ft.; the average for those in the control group is 542.57 sq.ft. While the average house size\(^4\) of those that did not receive financial counselling is slightly higher than those who did, both averages are lower than the standard size prescribed by SDC, which is 550 sq.ft. This means, regardless of whether housing beneficiaries received financial counselling, on average, people build houses that were smaller than the standard size. The average size of the foundation of those who adhered to SDC’s recommendations in both groups appears to be below the standard size (550 square feet), with households in the treatment group building slightly larger houses (approximately 2 square feet) in comparison to those that did not receive financial counselling. This difference is not statistically significant according to the independent-samples t-test.

Table 3 indicates that there were beneficiaries that adhered to the standard size prescribed by SDC and those that deviated from this recommendation in both study samples. Independent-samples t-tests conducted on both samples showed that the average differences in house size within both the treatment and control groups are statistically significant. The interpretation of this finding is that there is no statistical evidence to indicate that financial counselling has had an effect on beneficiaries’ choices on house size. Regardless of whether they received financial counselling, nearly half the beneficiaries in each group built houses that are bigger, while the rest built smaller-than-standard houses.

\(^4\) Average house size refers to the square footage of the structure (length \times width).
Table 3. Average house size of the overall sample

<table>
<thead>
<tr>
<th>Groups</th>
<th>Treatment</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Standard</td>
<td>Non-standard</td>
</tr>
<tr>
<td>Average house size (square footage)</td>
<td>473.26</td>
<td>615.84</td>
</tr>
<tr>
<td>Percentage of households</td>
<td>56.10</td>
<td>43.90</td>
</tr>
</tbody>
</table>

Beneficiaries who were subjected to close monitoring (i.e. women-headed households and households with at least one disabled member), built (on average) houses that were 551 sq.ft.; others that were not categorised as “vulnerable” built (on average) houses that were 532 sq.ft. The difference between house sizes of these two groups is not statistically significant. A majority of closely monitored groups also did not adhere to the standard features; only 36 out of 111 build houses with standard features. While the quantitative statistical analysis indicates no significant difference in house size among housing beneficiaries that received financial counselling and those that did not, testimonies from respondents in the qualitative component of this study indicate that financial counselling has had its intended effect in convincing certain households to construct according to the SDC standard sizes and features in many instances.

“We put the foundation according to their standard. We are going to construct the gable roof because it’s less costly.” (Household #14)

An important aspect of SDC financial counselling is to clearly communicate the added costs of building a bigger house or installing features that are more expensive. During interviews with beneficiaries, it was learned that learning about cost differentials at the inception was helpful in making informed decisions on house size and features. The testimony of Household #26 speaks to the importance of creating awareness at the beginning of the construction process, which is expected to make households more mindful of the overall contribution (own) required for the type and style desired by the family.

“I didn’t change for the roof type from required because hip roof will cost more. Also if deviated from the plan they’ll give the payment later. Carpentry charges and labour charges are high. Gable roof 60000, and hip roof 100,000.” – (Household #26)

The financial counselling module also emphasises that if beneficiaries deviate from the standard size and features, the installment payments would only be disbursed after the completion of the relevant stage – which for many beneficiaries was not a favourable state of affairs as they had limited resources at their disposal towards the house construction. For those beneficiaries that wanted to build bigger houses with different features and had sufficient financial resources at their disposal, receiving the installment payment after the end of the construction stage was not a pressing issue.

Financial counselling also helped the beneficiaries understand that if they decided to build bigger (than the standard size) their own contribution (both monetary and labour) would also increase.
“They have said that they only give 550,000. People requested more but they were clear that
there was no additional money. We know that the amount they give is not enough. Also they
mentioned if we construct to their model an extra 200,000 is needed as our contribution. Our
house is bigger than their preferred size so we know the amount will cost more than that.” –
(Household #19)

Table 4 summarises the results of hypothesis testing that was conducted by using quantitative
survey data of this study.

Table 4. Results of hypotheses testing (house size and features): a summary

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>The result of hypothesis testing* (whether the null hypothesis was rejected or not/whether there is statistically significant evidence to support the hypothesis)</th>
</tr>
</thead>
</table>
| H1: Beneficiaries that receive financial counselling are more likely to build a standard-size house | **Not Rejected/ No statistically significant evidence to support hypothesis**  
Treatment group average house size - 535.86 SQF  
Control group average house size - 542.57 SQF  
Threshold – 550 SQF                                                                 |
| H2: Beneficiaries that receive financial counselling are more likely to build a house according to the standard prescribed features. | **Not Rejected/ No statistically significant evidence to support hypothesis**  
Treatment Foundation Standard – 73HHs  
Roof Standard – 44HHs  
Control Foundation Standard – 41HHS  
Roof Standard – 28HHs                                                                 |
| H3: Beneficiaries that are more vulnerable are more likely to build a standard-size house | **Not Rejected/ No statistically significant evidence to support hypothesis**  
Vulnerable HHs average house size - 551.13 SQF  
Other HHs average house size – 532.14 SQF                                                                 |
| H4: Beneficiaries that are more vulnerable are more likely to build a house according to the standard prescribed features. | **Not Rejected/ No statistically significant evidence to support hypothesis**  
Vulnerable & Standard Features – 36 HHs  
Vulnerable & Non-Standard Features – 81 HHs                                                                 |

*Hypothesis testing was performed through independent-samples t-tests⁵.

⁵ The t-test’s statistical significance and the t-test’s effect size are the two primary outputs of the t-test. Statistical significance indicates whether the difference between sample averages is likely to represent an actual difference between populations (as in the example above), and the effect size indicates whether that difference is large enough to be practically meaningful. The null hypothesis (H0) is a hypothesis which the researcher tries to disprove, reject or nullify. The ‘null’ often refers to the common view of something, while the alternative hypothesis (presented as H1, H2,…in Table 7) is what the researcher really thinks is the cause of a phenomenon.
Section Summary

This study does not find evidence to support that financial counselling has shaped beneficiaries’ behavior regarding the choice of house size and/or features. While there is no evidence to support that close monitoring of vulnerable households has shaped beneficiaries’ behaviour and choices regarding house size and features, interviews with TOs and other SDC staff indicate that the process of financial counselling helped the implementing organisation identify those that are relatively more vulnerable, which in turn led to tailored housing support for such households.
c. The effects of financial counselling on construction costs

The main reason that SDC implemented financial counselling was to address the (hypothetical) causal link between house size and feature, construction costs, indebtedness and the time period of completing the house. Table 5 indicates that at every stage of construction, there were more households that spent more than the grant amount allocated for a relevant stage.

Table 5. Household construction costs in comparison to the grant amount

<table>
<thead>
<tr>
<th></th>
<th>Stage1 (135000)</th>
<th>Stage2 (120000)</th>
<th>Stage3 (180000)</th>
<th>Stage4 (70000)</th>
<th>Stage5 (60000)</th>
<th>Stage6 (50000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of HHs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;=135000</td>
<td>61</td>
<td>108</td>
<td>21</td>
<td>131</td>
<td>21</td>
<td>142</td>
</tr>
<tr>
<td>&gt;135000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;=120000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;120000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;=180000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>&gt;180000</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;=70000</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>&gt;70000</td>
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<tr>
<td>&lt;=60000</td>
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<td>&gt;60000</td>
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<tr>
<td>&lt;=50000</td>
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<tr>
<td>&gt;50000</td>
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<td></td>
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</tr>
<tr>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;=135000</td>
<td>36.09</td>
<td>63.91</td>
<td>13.82</td>
<td>86.18</td>
<td>12.88</td>
<td>87.12</td>
</tr>
<tr>
<td>&gt;135000</td>
<td></td>
<td></td>
<td>19.70</td>
<td>80.30</td>
<td>9.92</td>
<td>90.08</td>
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<tr>
<td>&lt;=120000</td>
<td></td>
<td></td>
<td>110767</td>
<td>113736</td>
<td>100360</td>
<td></td>
</tr>
<tr>
<td>&gt;120000</td>
<td>99087</td>
<td>173372</td>
<td>203278</td>
<td>276038</td>
<td>128548</td>
<td></td>
</tr>
<tr>
<td>&lt;=180000</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>&gt;180000</td>
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<td>&lt;=70000</td>
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<td>&gt;70000</td>
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<td>&lt;=60000</td>
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<td>&gt;60000</td>
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<tr>
<td>&lt;=50000</td>
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<tr>
<td>&gt;50000</td>
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<td></td>
</tr>
</tbody>
</table>

Given that the study sample included households at various stages of construction, it is important to examine and compare the costs of construction for those that adhered to the standard sizes and features with others that did not in each of the sub-samples. As mentioned above, the sample included households at various stages of construction and respondents provided cost estimates for stages that were not completed at the time of the survey. While most costs presented in Table 6 are actual costs, the table also presented estimates recorded by the respondents (Table 7).

Table 6. Cost at every stage for standard size and non-standard houses

<table>
<thead>
<tr>
<th>Construction Stage &amp; Donor’s Contribution</th>
<th>Stage 1 (135000)</th>
<th>Stage 2 (120000)</th>
<th>Stage 3 (180000)</th>
<th>Stage 4 (70000)</th>
<th>Stage 5 (60000)</th>
<th>Stage 6 (50000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Sample</td>
<td>140546</td>
<td>178830</td>
<td>155446</td>
<td>203515</td>
<td>198759</td>
<td>273218</td>
</tr>
<tr>
<td>Treatment</td>
<td>137176</td>
<td>173234</td>
<td>159705</td>
<td>191467</td>
<td>203278</td>
<td>276038</td>
</tr>
<tr>
<td>Control</td>
<td>148448</td>
<td>188731</td>
<td>143636</td>
<td>224720</td>
<td>189722</td>
<td>267730</td>
</tr>
<tr>
<td>Female HH</td>
<td>140286</td>
<td>180580</td>
<td>156207</td>
<td>214105</td>
<td>187191</td>
<td>275912</td>
</tr>
</tbody>
</table>

Table 7. Estimated and actual costs of completion

<table>
<thead>
<tr>
<th>Construction Stage &amp; Donor’s Contribution</th>
<th>Estimated Total Construction Cost *(550000)</th>
<th>Actual Total Cost for all Stages**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std.</td>
<td>Non- Std.</td>
</tr>
<tr>
<td>Full Sample</td>
<td>707174</td>
<td>1266452</td>
</tr>
<tr>
<td>Treatment</td>
<td>736658</td>
<td>1275882</td>
</tr>
<tr>
<td>Control</td>
<td>660000</td>
<td>1255000</td>
</tr>
<tr>
<td>Female HH</td>
<td>606000</td>
<td>1270476</td>
</tr>
</tbody>
</table>
An independent-samples t-test was conducted to test whether beneficiaries that receive financial counselling are more likely to build a house according to the standard prescribed features, and the results do not find support for the hypothesis. A significant number of households in both samples did not adhere to the standard features, which may have driven up the costs of construction. As Table 6 highlights, even households that adhered to the standard sizes and features had difficulty in staying within the budget allocated for construction for each stage. This could be attributed to a number of unavoidable costs such as the impact of inflation on building material, increasing labour costs due to the shortage of construction labour that were beyond the beneficiaries’ control and should be factored into budgeting for housing programmes in the future.

While those in the treatment group that did not adhere to standard sizes or features spent Rs. 250,000 on the average more than those who built standard houses in the same sample, beneficiaries in the control group that deviated from the prescribed features spent Rs. 325,000 on the average more than others in the control group who built standard houses. While the relatively lower expenditure in the treatment group may be due to constant reminders made by TOs, the differences in extra costs in the two samples are not statistically significant.

Understanding the cost associated with building a bigger house or a structure with more expensive features does not necessarily preclude beneficiaries from opting to use relatively more expensive construction material which could add to their financial burden. Despite the understanding of extra costs associated with opting for construction material other than the recommended variety, some beneficiaries decided to use building materials that they thought were better quality. For instance, Palmyrah is known to be stronger and long lasting; hence some decided to incur the additional expense and build doors and other features with Palmrah. The general perception in the minds of the beneficiaries is that building a house was a once in a lifetime expense and therefore, it was important for them to spend additional funds and build a “good” house.

“I am in debt already. I owe 60,000 because of the house construction. They gave us 90,000 for the roof and we spent 120,000. It cost us 20,000 only for the palmyrah reepa (wood planks). I decided to put palmyrah timber because they said [other people, not TO] the palmyrah is stronger than coconut. We want a strong house, so decided to use palmyrah. We need at least 200,000 to complete this house. I will get another 110,000 from SDC if the house is completed. It is not enough, we have to borrow the rest to complete this house.” – (Household #22)

Decisions such as using better quality material (i.e. palmyrah in the case of HH #22) indicate beneficiaries’ existing knowledge and experience about building houses and other structure. Even though the decision to use palmyrah may not be considered ideal behaviour (due to the higher cost of the wood) according to SDC financial literacy programme, the beneficiaries’ decision appears sound in the long-term.

---

6 Another possible reason for high construction costs reported in this study may be attributed to the general tendency among survey respondents to over-report costs.

7 It should be noted that when collecting data, the study team did not inquire details of the materials used in the house construction process as the households were not at the same stage of construction and therefore not comparable. Therefore instances of information disclosure such as the quote by Household #22 were declared without prompting by the study team. This shows that the beneficiaries’ recognised that the use of certain materials contributed to their indebtedness. However, such details are documented to a limited extent.
According to Table 8 the quantitative data of this study does not indicate a statistically significant relationship between financial counselling and construction costs.

**Table 8. Results of hypothesis testing (construction costs): a summary**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>The result of hypothesis testing* (whether the null hypothesis was rejected or not/whether there is statistically significant evidence to support the hypothesis)</th>
</tr>
</thead>
</table>
| H5: Beneficiaries that receive financial counselling and build standard houses are likely to incur lesser construction costs. | Not Rejected/ No statistically significant evidence to support hypothesis  
Treatment group average cost for standard house = Rs. 829,423  
Control group average cost for standard house = Rs. 795,162 |

*Hypothesis testing was performed through independent-samples t-tests.

**Section Summary**

Households in the treatment group that built standard houses and completed construction, spent Rs. 34,200 on the average more than their counterparts in the control group. Given that beneficiaries in the treatment group started construction much later to those in the control group, the cost of construction material may have risen due to inflation. The average amount spent by those in the treatment group exceeds SDC’s estimation by Rs. 79,000. Additionally, the high average cost may be skewed by high market prices of construction material and the prices of other services (i.e. transportation, water, etc.) in a few locations of the sample. However, female-headed households that were likely to have been closely monitored by TOs have completed houses within the estimated construction budget.
d. The effects of financial counselling on the time taken to complete construction

In addition to the costs of construction, TOs, through financial counseling, emphasised the importance of building standard size houses so that the houses would be completed in 8 months. Table 9 indicates the time taken to complete a structure for both treatment and control group households.

Table 9. Time taken to Complete the House

<table>
<thead>
<tr>
<th>Completed within 8 Months</th>
<th>Not Completed within 8 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of households that were part of the financial counselling programme</td>
<td>64.62%</td>
</tr>
<tr>
<td>The proportion of households that were part of the financial counselling programme</td>
<td>25.40%</td>
</tr>
</tbody>
</table>

An independent sample t-test finds statistically significant evidence to support the hypothesis that beneficiaries that build a standard house after receiving financial counselling are more likely to complete the house in the allocated time period of 8 months. Beneficiaries that received financial counselling completed construction in approximately 225 days (average figure), while households that did not receive financial counselling took 160 more days to complete their houses. Households in the treatment group that built standard houses completed construction in 212 days (average figure), whereas beneficiaries that built standard houses in the control group took 4 more months to complete their homes. Among closely-monitored households, those of standard size and features took 270 days to complete, whereas households that deviated from the standard took 320 days to finish construction.

Table 10 indicates that financial counselling has had a significant effect on the time of completion of houses.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>The result of hypothesis testing* (whether the null hypothesis was rejected or not/whether there is statistically significant evidence to support the hypothesis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H6: Beneficiaries that receive financial counselling and build a standard-size house are more likely to complete construction during the time period prescribed by SDC.</td>
<td>Rejected/There is statistically significant evidence to support hypothesis Treatment group average time taken to complete house - 224.53 Days Control average time taken to complete house - 384.34 Days Threshold – 240 Days</td>
</tr>
<tr>
<td>Hypothesis</td>
<td>The result of hypothesis testing* (whether the null hypothesis was rejected or not/whether there is statistically significant evidence to support the hypothesis)</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>H7: Beneficiaries that receive financial counselling and build a house according to the standard prescribed features are more likely to complete construction during the time period prescribed by SDC.</td>
<td><strong>Rejected/There is statistically significant evidence to support hypothesis</strong>&lt;br&gt;Treatment average time taken to complete house - 212.5 Days&lt;br&gt;Control average time taken to complete house - 332.2 Days</td>
</tr>
<tr>
<td>H8: Beneficiaries that are more vulnerable and build a standard-size house are more likely to complete construction during the time period prescribed by SDC.</td>
<td><strong>Not Rejected/ No statistically significant evidence to support hypothesis</strong>&lt;br&gt;Vulnerable &amp; Standard Size average time taken to complete house - 271.65 Days&lt;br&gt;Vulnerable &amp; Non-Standard Size average time taken to complete house – 319.83 Days</td>
</tr>
<tr>
<td>H9: Beneficiaries are more vulnerable and build a house according to the standard prescribed features are more likely to complete construction during the time period prescribed by SDC.</td>
<td><strong>Not Rejected/ No statistically significant evidence to support hypothesis</strong>&lt;br&gt;Vulnerable &amp; Standard Features average time taken to complete house – 330.35 Days&lt;br&gt;Vulnerable &amp; Non-Standard Features average time taken to complete house – 305.53 Days</td>
</tr>
</tbody>
</table>

*Hypothesis testing was performed through independent-samples t-tests.

**Section Summary**

This study finds that beneficiaries that built a standard house after receiving financial counselling are more likely to complete the house in the allocated time period of 8 months. While this finding may appear to be an accomplishment of financial counselling, the deadline to finish construction was a fait accompli and TOs would have insisted on completing the structures within the allocated 8-month time period because of SDC’s plans to phase out of Sri Lanka at the end of 2015. In other words, the timely completion of house construction would have been achieved even in the absence of financial counselling.
e. The effect of financial counselling on household indebtedness

As discussed in the section on “research questions”, household indebtedness due to housing construction is the main issue that the intervention of financial counselling sought to address. The ‘theory of change’ of this programme posited that by shaping beneficiaries’ decision-making on house size and features, indebtedness due to construction related expenses could be minimised. In line with the discussion above on the ineffectiveness of financial counselling on house size and features, the survey found that an overwhelming proportion of respondents, regardless of whether they participated in financial counselling, borrowed funds for housing. According to Table 11, housing ranks as the prime reason for households to borrow funds.

Table 11. Reasons for borrowing

<table>
<thead>
<tr>
<th>Reason</th>
<th>Full Sample</th>
<th>Treatment</th>
<th>Control</th>
<th>Female Headed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livelihood</td>
<td>4.88</td>
<td>3.08</td>
<td>8.00</td>
<td>1.43</td>
</tr>
<tr>
<td>House Construction</td>
<td>80.49</td>
<td>82.31</td>
<td>77.33</td>
<td>82.86</td>
</tr>
<tr>
<td>Food</td>
<td>0.49</td>
<td>--</td>
<td>1.33</td>
<td>--</td>
</tr>
<tr>
<td>Repayments of Debt</td>
<td>0.98</td>
<td>--</td>
<td>2.67</td>
<td>1.43</td>
</tr>
<tr>
<td>Other</td>
<td>3.41</td>
<td>3.08</td>
<td>4.00</td>
<td>4.29</td>
</tr>
</tbody>
</table>

Table 12. Household income of survey respondents

<table>
<thead>
<tr>
<th>Average household income per month – Sri Lanka (LKR)</th>
<th>45,878</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average income per month of the sample sub-group (LKR)</td>
<td></td>
</tr>
<tr>
<td>Full sample</td>
<td>21,426</td>
</tr>
<tr>
<td>Households that received financial counselling</td>
<td>21,266</td>
</tr>
<tr>
<td>Households that did not receive financial counselling</td>
<td>20,461</td>
</tr>
<tr>
<td>Female-headed households</td>
<td>22,243</td>
</tr>
</tbody>
</table>

Source: HIES, 2012

The average income of the households in the sample is significantly lower than that of the national average (Table 12). One sample t-test reveals that this difference in average income is statistically significant at the 0.001 level. Another observation is that the average income of a female-headed household is approximately half of the national average. All the sample sub-group averages are also lower when compared to the average household income in the Northern Province – LKR 23,712 (HIES, 2012). However, there has been an increase in average nominal incomes among housing beneficiaries in comparison to 2013-14. In 2013-14, the average monthly household income of a housing beneficiary household was LKR 19,000 and female-headed households among the same reference group earned an average monthly income of LKR 13,000 (Romeshun et al., 2014). Given the low levels of disposable incomes among housing beneficiaries in the survey sample, it is hardly surprising that financial counselling was not effective in addressing indebtedness. Even in the hypothetical scenario in which financial counselling convinces a beneficiary to build a house

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8 One sample t-test is a statistical procedure often performed for testing the mean value of a distribution. It can be used under the assumption that sampled distribution is normal.
according to the standard size and features as prescribed by SDC, this household would have to raise at least an additional Rs. 25,000 per month for 8 months to finance construction. This means the household would have to double their income, which leaves them with no option but to borrow from various sources.

Table 13 presents average loan amounts, interest rates and the average number of unmanageable loans. Average house size for each sub-sample is presented in the same table to examine whether there is a link between house size and borrowing. On average, households that have not received financial counselling have slightly higher amounts of debt, borrowed at slightly higher interest rates and have comparable, but marginally higher number of unmanageable loans in comparison to the households in the treatment group. The difference in average loan amounts in treatment and control groups is not statistically significant. However, the slightly lower average loan amount of those in the treatment group may be that they have had more time to save or accumulate (in other ways) relatively more funds for housing in comparison to their counterparts in the control group that started construction much earlier. According to the survey data, households in the treatment group had more financial assets in comparison to those in control group, whereas the latter had relatively more physical assets compared to the treatment group. It is possible that the longer time gap between resettlement and housing may have allowed households to save (albeit meager) sums of money to invest in housing. Assuming that the average loan amounts presented below are for a period of 12 months, debt-to-income ratio could be calculated for the full sample and for each sub-sample. The debt/income ratio for each category is as follows: full sample = 64%; treatment group = 63%; control group = 70%; and female-headed households = 57%. The higher debt/income ratio among control group households does not appear to be linked to the house size.

Table 13. Average loan amount, interest rates, house size and the unmanageable loans

<table>
<thead>
<tr>
<th></th>
<th>Full Sample (%)</th>
<th>Treatment (%)</th>
<th>Control (%)</th>
<th>Female Headed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Interest Rate</td>
<td>9.65</td>
<td>8.20</td>
<td>12.05</td>
<td>9.18</td>
</tr>
<tr>
<td>Average Loan Amount</td>
<td>164,107</td>
<td>159,712</td>
<td>171,264</td>
<td>151,413</td>
</tr>
<tr>
<td>Average House Size</td>
<td>535.47</td>
<td>535.66</td>
<td>535.15</td>
<td>541.09</td>
</tr>
<tr>
<td>Average Number of Unmanageable Loan</td>
<td>1.26</td>
<td>1.25</td>
<td>1.27</td>
<td>1.08</td>
</tr>
</tbody>
</table>

The Average Weight Prime Lending Rate (AWPR) for commercial banks fell from around 11% to about 6% from mid-2013 to mid-2015. It is possible that the households in the control group that started construction earlier, borrowed at higher rates compared to those in the treatment group that started later.

The study further explored whether being subjected to financial counselling has an effect on indebtedness (measured by whether or not a household has issues with loan repayment) vis-à-vis building a standard size house with prescribed features, and the data found no statistically

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9 This figure is based on the current estimation of beneficiaries’ own contribution – Rs. 200,000 for 8 months.

10 Asset scores were created for each household based on physical and financial assets owned by a household. The average physical asset scores were: treatment = 4.85, control = 5.44. The average financial asset scores were: treatment = 2.22, control = 1.81.
significant difference between the treatment and control groups. Households that received financial counselling and built standard size houses with prescribed features had loans averaging Rs. 155,000, whereas the average loan amount of their counterparts in the control group was Rs. 168,000. Among the households identified as vulnerable, the difference in average loan amount between those who built standard houses with prescribed features and those who did not was around Rs. 50,000; this difference is also not statistically significant.

Borrowing Patterns
This study reveals many interesting aspects about borrowing patterns and sources of housing beneficiaries. Table 14 presents the multiple sources of borrowing as stated by respondents of the survey. The first category – banks – include public and private commercial banks; the category of finance companies, though a sub-set of the “banks” was included to capture the relatively new proliferation of commercial finance companies in war-affected areas. The informal sources of borrowing mentioned by the respondents are seettu (rotating savings and credit societies), friends and relatives, local money lenders, shopkeepers - both grocery and hardware and construction workers. Easy payment systems operated by household durable suppliers are captured in the “leasing” category. Community based organisations such as Women’s Rural Development Societies and Samurdhi societies are captured in the “other” category.

Table 14. Sources of Loans

<table>
<thead>
<tr>
<th>Source</th>
<th>Full Sample</th>
<th>Treatment</th>
<th>Control</th>
<th>Female Headed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>52.20</td>
<td>47.70</td>
<td>60.00</td>
<td>45.71</td>
</tr>
<tr>
<td>Finance Company</td>
<td>5.37</td>
<td>5.38</td>
<td>5.33</td>
<td>7.14</td>
</tr>
<tr>
<td>Family</td>
<td>2.44</td>
<td>3.10</td>
<td>1.33</td>
<td>4.29</td>
</tr>
<tr>
<td>Friends</td>
<td>3.41</td>
<td>3.85</td>
<td>2.67</td>
<td>7.14</td>
</tr>
<tr>
<td>Money Lender</td>
<td>8.29</td>
<td>8.46</td>
<td>6.67</td>
<td>8.57</td>
</tr>
<tr>
<td>Microfinance</td>
<td>6.34</td>
<td>6.92</td>
<td>5.33</td>
<td>5.71</td>
</tr>
<tr>
<td>Shopkeeper</td>
<td>4.39</td>
<td>6.15</td>
<td>1.33</td>
<td>4.29</td>
</tr>
<tr>
<td>Leasing</td>
<td>1.46</td>
<td>0.77</td>
<td>2.67</td>
<td>2.86</td>
</tr>
<tr>
<td>Seettu/Chittu</td>
<td>1.46</td>
<td>1.54</td>
<td>1.33</td>
<td>1.43</td>
</tr>
<tr>
<td>Other</td>
<td>5.37</td>
<td>4.61</td>
<td>6.67</td>
<td>4.29</td>
</tr>
</tbody>
</table>

An important observation of this study is abundance of formal credit offered by banks, finance companies and microfinance institutions that have recently entered the Northern market. Offering attractively packaged loans, banks entice people to borrow without much hassle. Loans are processed, approved and a cash cheque is given to the applicant within 24 hours. These loans do not require any collateral but only requires forming a group that consists of three potential borrowers. At a given time, one person borrows and the other two members in the group act as guarantors. Weekly or fortnightly repayment is another feature of these credit offerings that appeal to the masses. People often chose to borrow from finance companies, despite exorbitant interest rates, simply because they have made borrowing more convenient for the consumer. For

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11 While the separate category of “finance companies” was created with the intention of isolating the prior from the category of “banks”, due to data collection errors, many data points belonging the former category may have been recorded in the latter.
instance, the representatives of finance companies appear at the customer’s doorstep to offer and to collect money; and even though borrowers are well aware of high interests rates associated with such institutions, they choose easy ‘access to credit’ over financial costs.

“If we go for Samurdhi that will take 1 month to get. As we have to complete the construction within this month we go for this option. This takes only 8 days to proceed. Interest is high, we know, but anyhow we have to repay the loan.” – (Household #27)

Table 15 presents evidence from the survey that is in line with the evidence generated by the qualitative interviews. A combination of loan conditionalities and easy (physical) access to the lenders appear to be the main reasons that respondents opt for high-risk financing.

Table 15. Reasons for Choosing High-risk Financing

<table>
<thead>
<tr>
<th>Reason</th>
<th>Full Sample</th>
<th>Treatment</th>
<th>Control</th>
<th>Female Headed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closer to Home</td>
<td>34.14</td>
<td>28.46</td>
<td>44.00</td>
<td>34.29</td>
</tr>
<tr>
<td>Officers come to home</td>
<td>4.88</td>
<td>7.69</td>
<td>0.00</td>
<td>8.57</td>
</tr>
<tr>
<td>Low/no Collateral</td>
<td>22.44</td>
<td>22.31</td>
<td>22.67</td>
<td>24.29</td>
</tr>
<tr>
<td>No Documentation</td>
<td>20.98</td>
<td>20.77</td>
<td>21.33</td>
<td>18.57</td>
</tr>
<tr>
<td>Weekly Repayment</td>
<td>0.98</td>
<td>0.77</td>
<td>1.33</td>
<td>0.00</td>
</tr>
<tr>
<td>No Interest</td>
<td>5.85</td>
<td>8.46</td>
<td>1.33</td>
<td>8.57</td>
</tr>
<tr>
<td>Other</td>
<td>17.57</td>
<td>20.00</td>
<td>13.33</td>
<td>14.29</td>
</tr>
</tbody>
</table>

Some households financed their own contribution by selling immovable assets such as land. This was not a common occurrence as many beneficiaries had limited moveable or immovable assets. The most common form of borrowing was pawning of jewellery. Even after selling immovable assets, beneficiaries seemed to have acquired additional finances at the cost of their jewellery, which is a significant sacrifice given the value (both monetary and symbolic) attached to gold in the North and East within the Hindu community. On many occasions, beneficiaries did not have a plan as to how they would recover the jewellery as they were only concerned with acquiring enough money to be able to construct the house.

“We sold all the jewellery; son’s ring, husband’s ring. Mortgaged up to LKR 300,000 worth of jewellery and thought we could repay and get back. But we couldn’t. Therefore the jewelleries were sold by the bank. All we were concerned about was how we build our house. For 17 years we were without a house. We only wanted a house.” – (Household #11)

Households that did not own assets or jewelry loaned money from formal or informal sources as borrowing was the only option to finance housing construction.

“If we have the jewellery, we could have pawned. Since we don’t have them we had to get the loan from Samurdhi.” – (Household #5)
Difficulty of Accessing Housing Loans
Many beneficiaries stated that it is difficult to obtain housing loans from formal banking institutions. Requirements of a standard loan application, such as getting two signatories/guarantors, showing sufficient collateral and a steady stream of income, were not feasible for most beneficiaries. As a result, some resorted to disingenuous behaviour. For instance, some admitted to using livelihood support loans to finance the construction of the house.

“No other banks to give loan for us and we had experience in getting loan from Samurdhi. We didn’t get the loan by the name of housing. We got the loan by saying to start a new business – dry fish production. From the money we got we allocated some money for that also. We already started this before getting the loan, after that we made an open hut and had log tube to dry the fish.” – (Household #28)

“We didn’t get any loan in state bank we need to submit many documents. Also they asked two guarantors signature for getting a loan amount of Rs.100,000. We don’t know anyone to guarantee. If we could able to submit and get signature we could get the loan but we didn’t.” – (Household #21)

Though financial counselling SDC discourages beneficiaries from borrowing at high interest rates, their options of financing their own contribution are few given their low and inconsistent income streams. The desperate situation of people in war-affected areas pushes them to borrow despite their awareness of interest rates. The Grama Niladhari (GN) in one of the research locations had strongly advised against high interest loans from institutions that offer flexible borrowing. However, borrowers have found a way around such restrictions. In some locations where these money lenders are not allowed to provide their services, they make arrangements with potential borrowers to handover the loan money and make collections at a location outside the village. This activity is kept secret and often without the knowledge of the GS officer.

“One of our group members refused to take a loan stating that interest rate is high. Around 25 people are getting the loans. GS does not know about this loan. Gowry knows that we are going to get this loan and she has told that to TO. GS came and spoke to us about this loan and said that “don’t borrow just because they come to you and give you a loan, it is not helpful for you. They develop from your money, not you.” - (Household #14)

“We got a loan for 20,000 in a finance agency, but we thought hereafter not to get loan from private finance agencies, because the interest rates are high and the repayment amount per period also high. We got his loan because some time we spent the money what we got from SDC if we don’t have enough income. Mostly we use that money for food. Documents needed to get the loan – Electricity bill or letter from GS and National Identity Card copy. GS didn’t give the letter because the interest rate is high. The loan should be paid whatever the situation. We manage to pay that from the earnings of my husband and son.” – (Household #21)

In contrast to these private formal lenders, a preferred alternate source of formal borrowing for house construction is the Samurdhi loans scheme, which provides loans at low interest rates, easy payment methods, less documentation and low delay charges. Further, a history associated with
borrowing from Samurdhi and a certain level of trust established with the loan scheme also drives people towards Samurdhi. In contrast to private lenders, repayment of Samurdhi loans were driven by peer pressure in the form of relatives or friends who would be held accountable if the loan is not repaid on time. Merits of Samurdhi loans notwithstanding, the delay in processing the loan seems to lure people towards formal commercial lenders despite the high interest rates, especially when faced with construction expenses that need to be urgently settled to meet the deadlines of the implementing organisation.

The overall consensus among beneficiaries is that house construction left them with no option but to borrow. One beneficiary reflected on the problematic nature of housing assistance that has put the family in a difficult and vulnerable financial situation.

“Before or after displacement we didn’t have loans, after started this construction only we are having this much of loans.” – (Household #16)

“Until completing the construction we didn’t feel, but now we couldn’t repay the loan and sometime I thought ‘why we received this housing assistance and why we got the loan.’” – (Household #28)

As cited by beneficiaries who belong to the latest round of ODHA from SDC, the fear of SDC support coming to an end was another reason to borrow for housing construction. The beneficiaries were informed that SDC will shut down and therefore there was a rush to complete the construction within the stipulated timeframe. They feared that the final installment payment would not be released if they did not have a completed house. In a bid to meet this deadline, the beneficiary had no option but to borrow.

“SDC said that they are going to close from this month therefore they asked us to complete the construction. Then only we could able to get the final payment RS 50,000. So we thought to borrow the materials and complete the construction.” – (Household #21)

**Issues with repayment**
Quantitative survey results indicate that a nearly one-fourth of the respondents made regular payments towards their loans, while another one-fourth delayed their payments. Nearly one-third of respondents never repaid any amount of their loans (Table 16).

**Table 16. Repayment of Loans**

<table>
<thead>
<tr>
<th></th>
<th>Full Sample (%)</th>
<th>Treatment (%)</th>
<th>Control (%)</th>
<th>Female Headed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest &amp; Principle Regularly</td>
<td>24.40</td>
<td>24.62</td>
<td>24.00</td>
<td>25.71</td>
</tr>
<tr>
<td>Some Delays</td>
<td>17.07</td>
<td>12.31</td>
<td>25.33</td>
<td>14.28</td>
</tr>
<tr>
<td>Always Delay</td>
<td>2.93</td>
<td>1.54</td>
<td>5.33</td>
<td>2.85</td>
</tr>
<tr>
<td>Only Interest</td>
<td>5.85</td>
<td>6.15</td>
<td>5.33</td>
<td>8.57</td>
</tr>
<tr>
<td>We Paid, but not any more</td>
<td>3.90</td>
<td>10.67</td>
<td>2.85</td>
<td></td>
</tr>
<tr>
<td>Never Paid</td>
<td>29.76</td>
<td>36.92</td>
<td>17.33</td>
<td>30.00</td>
</tr>
</tbody>
</table>
Over half of the respondents used their wages to pay off loans (Table 17). Given the evidence on the lack of sustainable livelihoods and low and inconsistent incomes (presented in the earlier section) of this study, the finding in Table 16 that illustrates the respondents’ difficulty in repayment of loans is further substantiated.

Table 17. How do Respondents repay their Loans?

<table>
<thead>
<tr>
<th></th>
<th>Full Sample (%)</th>
<th>Treatment (%)</th>
<th>Control (%)</th>
<th>Female Headed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>54.15</td>
<td>52.31</td>
<td>57.33</td>
<td>51.43</td>
</tr>
<tr>
<td>Borrowing</td>
<td>2.93</td>
<td>2.31</td>
<td>4.00</td>
<td>2.86</td>
</tr>
<tr>
<td>Curtailing Other Expenses</td>
<td>14.15</td>
<td>9.23</td>
<td>22.67</td>
<td>15.71</td>
</tr>
<tr>
<td>Selling Assets</td>
<td>1.95</td>
<td>0.77</td>
<td>4.00</td>
<td>1.43</td>
</tr>
<tr>
<td>Pay in Kind</td>
<td>0.98</td>
<td>1.54</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Savings</td>
<td>8.78</td>
<td>9.23</td>
<td>8.00</td>
<td>8.57</td>
</tr>
<tr>
<td>Chittu</td>
<td>0.98</td>
<td>1.54</td>
<td>0.00</td>
<td>1.43</td>
</tr>
</tbody>
</table>

Respondents also shared the mental stress associated with the burden of debt. Even if loans were obtained (for construction) at a relatively lower interest rate, or through acquaintances, beneficiaries experienced immense mental stress until the full amount was repaid. The testimonies below illustrate the subjectivities associated with the burden of debt as experienced by housing beneficiaries.

“I could get Samurdhi loan with a low interest rate, but I can’t sleep peacefully if I get a loan.” – (Household #26)

In addition to mental stress caused by indebtedness, there were serious health and nutrition issues among respondents. There is a marked change in food consumption patterns during house construction due to the pressures of low income and high levels of debt. Those households that are dependent on daily wage labour have to compromise their household food consumption both in terms of quantity and quality to compensate for added costs of construction. However, households with steady and/or higher income levels seem to prioritize their food expenditure and maintain the same level of consumption despite the on-going house construction.

“We had to change our food pattern. Earlier we at least have lunch with one curry sometime with dhal only. Children sometime have disagreements on this situation. What to do, if I don’t get any work outside then we switched to have meal with 1 curry.” – (Household #27)

The testimonies above indicate that borrowing occurs mainly due to the lack of income and not a lack of financial awareness. Respondents’ statements clearly indicate the expanded supply of credit and flexible lending practices, coupled with their desperation to finance necessary expenses have resulted in high levels of debt, regardless of whether or not they were subjected to financial counselling. The opening of banks and other financial institutions to make credit available for economic recovery has had the opposite effect of strangling the people in these communities.
As the discussion above contends, banks offer easy loans and have changed their business practices
to provide loans against valuables. Observations during the qualitative study find that subsidiaries
of banks and other financial companies have begun installment-based lease-hire purchasing
business, another addition to the products offered by prominent banking conglomerates. Microcredit
institutions that are common sightings offer loans at exorbitant interest rates and particularly target
women. In other words, exploitative banking and debt have taken over the war-affected areas that
were previously insulated by the predatory practices of market forces. Many respondents have
taken one loan on top of the other to make monthly interest payments and have, in the process,
got into a debt trap, which is difficult to get out of given the slim prospects for decent employment
in the North. Goods purchased on lease, including motorbikes, trishaws and tractors, are constantly
being seized for payment default. Thus, the asset base of people in these communities is depleting
alongside their incomes. In recent months, bank managers, thugs deployed by finance companies,
and the police have been visiting homes to recover loans, aggravating the climate of fear and
social tensions. Despite the push for “access to credit” interventions that are part of the package
of development programming in war-affected areas, there was no record of interest-free and/or
low-interest credit offers earmarked for housing. Given the current contextual realities of unstable
livelihoods, high unemployment and underemployment, and low asset base of people in war-
affected areas that are direct effects of a 26-year old war, the absence of interest-free or low-
interest public and/or commercial housing loans among the plethora of “access to credit” schemes
seems an uncanny irony.

While this observed extraction of communities in war-affected areas continues, people have found
ways to subvert these structures and negotiate their agency in a variety of ways. It was observed
in this study that beneficiaries did not fear that banks would foreclose on their loans and that
they would lose their houses. The collateral for loans was often gold and beneficiaries had hopes
to recover the loans in the future. Most of them were aware that the banks would not seize their
homes in return for defaulted loans.

Table 18. Results of hypotheses testing (borrowing): a summary

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>The result of hypothesis testing* (whether the null hypothesis was rejected or not/ whether there is statistically significant evidence to support the hypothesis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H10: Beneficiaries that receive financial counselling and build a standard-size house are less likely to incur unmanageable debt that is directly related to house construction</td>
<td>Not Rejected/ No statistically significant evidence to support hypothesis</td>
</tr>
<tr>
<td>Treatment average loan amount – Rs.159,712.32</td>
<td></td>
</tr>
<tr>
<td>Control average loan amount – Rs.171,264.35</td>
<td></td>
</tr>
<tr>
<td>H11: Beneficiaries that receive financial counselling and build a house according to the standard prescribed features are less likely to incur unmanageable debt that is directly related to house construction.</td>
<td>Not Rejected/ No statistically significant evidence to support hypothesis</td>
</tr>
<tr>
<td>Treatment average loan amount – Rs.155,326.2</td>
<td></td>
</tr>
<tr>
<td>Control average loan amount – Rs.168,903.4</td>
<td></td>
</tr>
</tbody>
</table>
Section Summary

The survey found that an overwhelming proportion of respondents, regardless of whether they participated in financial counselling, borrowed funds for housing. Given the low levels of disposable incomes among housing beneficiaries in the survey sample, it is hardly surprising that financial counselling was not effective in addressing indebtedness. It appears that efforts to address indebtedness vis-à-vis building a standard size house with prescribed features have not succeeded in maintaining low levels of housing related debt. Formal lending institutions such as banks and finance companies seem to be the main source of loans and a combination of increased credit supply, flexible borrowing practices, and procedural difficulties in obtaining housing loans have led beneficiaries to seek loans from banks and finance companies at high interest rates regardless of their knowledge and awareness about managing finances or interest rates. Given the evidence on the lack of sustainable livelihoods and low and inconsistent incomes a significant proportion of respondents have unmanageable debt due to housing.

f. General perceptions of beneficiaries on financial counselling

An overall sentiment among beneficiaries (as ascertained from interviews) was that SDC’s financial counselling advice helped them complete the houses successfully and in a timely manner. Much praise was attributed to the Technical Officers (TO) and the community mobilisers. TOs’ close attention to technicalities of the construction process, advice and emphasis on quality of construction and materials, multiple visits to monitor the progress and constant encouragement to complete the house (within the allocated time period) was deeply appreciated by the communities. Houses identified as “vulnerable” were visited more frequently than other households and were provided additional assistance and support. In general, all beneficiaries felt they had sufficient contact with the TO and/or the community mobilisers and received the necessary support towards the construction of houses.

“TO will come and check in every stage. If he was satisfied and approved only we can get the slip for payment. Otherwise he asked to re-construct. Also TO said that we need to monitor them as we are the owners of the house. As they were with us only we could complete the construction.” – (Household #15)

“They will ask us to keep the construction up to the standards. TO will check the quality. We cannot do the concrete without him approving the quality of the iron bars. We have to do the construction according to the TOs advice.” – (Household #17)

“Whenever we face difficulties in construction my wife says to give up the construction process. But TO comes and encourage to complete the construction. Now we completed and need to get the final payment of Rs.50,000.” (Household #23)
“TOs are very helpful during the construction. They sometimes direct us to the places from where the material can be bought for cheap. They also come and check the quality of each material we buy. They confirm the quality of the material before we start using them for the construction. Usually they come twice in a week. Based on the progress of the house, they decide on the disbursement of funds. The funds are given in stages. Since we deviated from the standard model, the funds are given to us after the completion of every stage.” – (Household #8)

From the above testimonies, it seems that TOs played a variety of roles during the construction process. On the one hand, their commitment and close monitoring seem to have helped beneficiaries finish construction on time. On the other hand, TOs conduct could be interpreted as “policing” of beneficiaries, creating anxiety and tension among household members. Evidence to support the latter claim was found in an earlier study (Romeshun et al., 2014) where housing beneficiaries stated high levels of anxiety associated with impending visits by the TOs.

Table 19 summarises respondents’ general perceptions about the usefulness of the financial counselling experience as assessed by the survey.

**Table 19. General Perceptions about Financial Counselling**

<table>
<thead>
<tr>
<th>Area of financial counselling</th>
<th>Perception</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice on sourcing of material</td>
<td>Consulting SDC was useful because it helped us keep material costs low</td>
<td>67</td>
<td>14</td>
</tr>
<tr>
<td>Advice on labour contribution</td>
<td>Consulting SDC was useful because it helped us keep labour costs low</td>
<td>80</td>
<td>13</td>
</tr>
<tr>
<td>Advice on house size</td>
<td>After discussing about my own contribution towards the house with SDC, I changed my mind about house size</td>
<td>14</td>
<td>84</td>
</tr>
<tr>
<td>Spillover effects of financial counselling on managing household finances</td>
<td>By participating in this programme, my awareness about managing household finances improved</td>
<td>95</td>
<td>4</td>
</tr>
</tbody>
</table>

**Section Summary**

The survey finds that beneficiaries appreciated the financial counselling process as the consultations with TOs helped them arrive at strategies to minimise material and labour costs related to construction. Beneficiaries were sincerely appreciative of the constant encouragement and support of the Technical Officers of SDC. However, the persistent pressure by TOs to complete houses on time also created anxiety among household members. SDC officials contend that the financial counselling process was useful for project planning and implementation as it was only through this process that they were able to identify the most vulnerable households which in turn led TOs to tailor housing support to fit the needs of such households.
g. Other issues with ODHA that financial counselling cannot fix

Part and parcel of ODHA is that it expects the homeowner to contribute labour towards building the house. The beneficiaries have a choice of hiring daily wage labour or contributing their own labour. As expected, 71% of households contributed both in the form of money and labour. In the event they chose to hire wage labour, they hired masons to help construct the house. If they decided to lower the cost of hired labour by contributing the households’ own labour, they had to forego income generating opportunities. Roughly 52% of respondents in the sample stated that there were days that they missed income generating activities due to construction work. They stated that on average, there is an opportunity cost of LKR 993 for each day that they spent on construction work. Most households survive on daily wages and this income is typically utilised for regular household consumption such as food and children’s education. This feature of ODHA points to the double burden on housing beneficiaries; the requirement of households’ own contribution, both in terms of funds as well as labour is an unjust expectation of communities affected by 26 long years of war. During interviews, beneficiaries often connected health issues with engaging in construction work. There were instances where household members faced physical injuries during construction work. These situations exacerbate the existing vulnerabilities and often result in delays in construction.

Although SDC, through its financial counselling process have communicated many of the significant costs associated with housing construction, there were some important categories of costs that were underestimated by the implementing agency – costs of food for the labourers and transportation costs. Given that the hired labourers were away from their places of origin and assisting households to build their houses, the beneficiaries felt obligated to provide meals for the workers. These provisions often included three meals, tea and beetle leaves and on certain occasions, toddy was also offered to the labourers. One household that kept financial records of the costs related to house construction stated that they have spent LKR 40,000.00 on providing meals for the labourers. Another respondent stated that they had spent on average LKR 2,000.00 per week on providing food for the labourers. The quantitative survey finds that on average, households spent LKR 863 on meals for construction workers.

Additional costs associated with meals for construction workers resulted in households members’ reducing the amount of food they consumed every day. A common response was that feeding the masons and helpers added to their already meager food budget; and there were instances where the beneficiaries starved in order to save food for the masons. It should be noted that this cost, significant in nature, was not factored into the housing expense calculator (integral to the financial counselling module) that estimated households’ own contribution.

“We would make and give the mason and the helper food. At that time, there would be times when we didn’t eat but we gave them (mason and helper) food to eat. We also paid them their wages (mason – 1200RS helper 1000).” – (Household #11)

Another category of costs that was not factored into the housing expense calculator was the additional expenses for transportation of construction material. Many of the households were located far from the main road, and reaching these households was difficult as the road/path was not properly built. This resulted in higher transportation costs that had to be borne by the beneficiary.
“We had to pay for the internal transport. The road is sand and we have to place tin sheet/plank for the wheel to carry the load. Per load its RS 500/=. Rubble and cement we get mostly like this. We did it alone, not collectively with others as this can’t be done collectively.”
– (Household #27)

Financial counselling of beneficiaries can do little to address aforementioned issues, which characterise the limitations of the broader design of ODHA. They also beg the implementing organisations to renegotiate with the Government of Sri Lanka to increase the stipulated grant amount for a house, factoring in inflation and other costs of construction that are currently underestimated by most housing programmes.
Conclusion

This study set out to review the financial counselling process adopted by SDC as a way of addressing indebtedness among housing beneficiaries. Conceptually linking household indebtedness to beneficiaries’ decisions about house size and features, the financial counselling process set out to manage household debt by urging beneficiaries to build standard size houses with prescribed features. However, there is no statistical evidence to support the claims that this intervention had an effect on house size and design; housing-related financial and borrowing decisions; or housing related expenditure. Regardless of whether housing beneficiaries received financial counselling, they were equally in debt due to housing.

The lack of opportunities to earn a stable income was the predominant reason for indebtedness. The engagement in casual labour, owing to the lack of livelihood opportunities and individual capacity to rebuild a sustainable method of income generation emerges as a grave socioeconomic issue that is directly related to indebtedness of households. The lack of movable and immovable assets (another classic post-war condition) worsens this situation, arguably driving households to borrow funds for consumption and other purposes.

There are two key findings of this study. First, the process of financial counselling was perceived positively by both housing beneficiaries and SDC staff. Housing beneficiaries were appreciative of the Technical Officers’ support and encouragement in helping them lower costs related to construction and keeping them motivated to finish construction within the allocated time period. SDC officials found the financial counselling process useful for identifying relatively more vulnerable households which in turn led to tailored housing support to such beneficiaries.

Second, financial counselling has not made a difference in addressing housing beneficiaries’ indebtedness vis-à-vis shaping their decisions on house size, features and financing for housing. This underlines the reality that well-intentioned interventions such as the SDC initiative can do little to address circumstances that are deeply linked to the broader structural issues of the political economy of the North. The government’s reconstruction strategy for the North so far has been to rebuild infrastructure. Banks and financial companies were encouraged to provide credit, taking advantage of the expanded market of consumers. Furthermore, the reopening of the A9 highway resulted in retail businesses flooding the Northern market with consumer goods that are seen as novelties by Northern consumers.

The heavy focus on large infrastructure has invariably taken away the importance of developing and roads to remote villages, providing small harbours for fishermen or digging wells and repairing irrigation tanks. The temptation caused by a plethora of consumer goods (i.e. household and kitchen appliances, motorbikes, etc.) with the opening up the Northern market to capitalist penetration from South has clearly made the population in the North go through a binge of consumption. The aggressive marketing campaigns of retailers offering installment plans has lured individuals into a consumerist lifestyle in which they are making payments for products with savings and remittances. Credit used for consumption which is now common in the North, has led a community known for its tradition of saving, into a quagmire of debt, especially in a situation in which livelihoods have been disrupted by the lack of a steady income.
While some have tried to revive the farmlands that were not cultivated during the war, multiple crop failures with unpredictable rain patterns and fluctuations in the market prices for agricultural produce have affected both the cash crop cultivators in the Jaffna peninsula and the paddy cultivators in the Vanni region. A combination of multiple crop failures and mechanised harvesting practices that are new to the area, and the consequent fall in the demand for agricultural labour has severely affected mostly landless individuals. Similarly, the proliferation of trawlers from Tamil Nadu poaching in the northern seas has destroyed fishing livelihoods. The mass exodus of migrant labour to the Middle East, where a limited but steady income is possible, can be attributed to the livelihoods losses in recent times. Those left behind in the Northern labour force that formally engaged in agriculture or fishing are moving to masonry and road work, which are in demand in view of the rebuilding programmes. However, this demand for labourers is gradually decreasing as the reconstruction and road-building boom is nearing a close.

The erosion of the social fabric, another effect of the war and its aftermath is contributing to a high prevalence in family break-ups, violence against women, alcoholism, school dropouts and a general ‘mood’ of desperation and gloom, particularly in rural areas in the North. The flooding of NGOs in the aftermath of the Tsunami offering handouts, coupled with the social effects of war, a culture of patronage and the difficulty of finding jobs has fuelled attitudes of lethargy and dependency further perpetuate the dismal state of affairs in the North. The absence of a long-term and a clear economic and political vision of political leaders (both in the Northern Provincial Council and the central government) and the various economic and political manifestations of the tense relationship between politicians in the North and the central government may destroy any possibilities for a better future for the people of the North.

In other words the indebtedness of housing beneficiaries as observed by SDC and other implementing agencies is intrinsically linked to the broader political economy of the North, which characterises big infrastructure, the ravages of the market logic, faltering incomes and the expansion of rural debt.

The recommendations (for government authorities and donors) that are stemming from this study include technical approaches to solving issues related to the indebtedness of housing beneficiaries, context-specific approaches in addressing most vulnerable groups and a prescriptive policy measure that goes beyond housing reconstruction and applies to post-war development in general:

Technical Recommendations
• Encourage implementing agencies to introduce financial counselling to housing beneficiaries as it is a useful process to identify vulnerable households, their financial difficulties, and tailor housing support accordingly.
• Encourage implementing agencies to assess and estimate all unavoidable costs associated with the housing process, paying specially attention to prices increases in building material due to inflation, transportation costs and overall costs of labour (including meals for labourers) prior to implementing housing programme and financial counselling;
• Renegotiate with the Government of Sri Lanka to revise the maximum stipulated grant amount for housing, based on the aforementioned assessment of the revised cost structure.
Context-specific Recommendations

- With the support of state institutions and the private sector, launch a systematic financial awareness campaign in war-affected areas to promote better financial management and responsibility among people;

- Convene government and formal private lending institutions to discuss interest-free loan schemes as a reparation mechanism for the people in war-affected areas;

- Consult government (both national and local), private sector and other development organisations about creating sustainable livelihoods, an initiative that should move in parallel to the construction process.

At a conceptual level, this study contributes to the discourse on participatory development interventions in post-war settings. This study implicates the importance of understanding the interconnectedness of post-war contextual challenges that demand holistic solutions which facilitate a sustainable post-war rehabilitation environment for the affected. While participatory development interventions (‘people’s processes’) such as ODHA are undoubtedly a preferred alternative to strictly donor-driven, top-down decision-making, balancing human aspirations (and resultant negative externalities – i.e. debt) and ensuring economic, political and social security for those recuperating from the wounds of war is a difficult tightrope walk for governments, donors, and other authorities that are assisting post-war reconstruction efforts. This study, while acknowledging that creating a stable and enabling environment for resettled families is a Herculean task in a post-war setting, concludes by emphasising the importance of sustainable economic growth in the affected areas. The failure to create consistent income generation opportunities in post-war areas may leave an already vulnerable population in dire circumstances under which their health and wellbeing are under tremendous strain.
References


Annex 1

SDC Housing Project - Vadamarachchi East

1. Rs 150,000.00
2. Rs 100,000.00
3. Rs 70,000.00
4. Rs 30,000.00
5. Rs 20,000.00
6. Rs 35,000.00

1 2 3 4 5 6

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கல்லால் பொறிகையாளர்கள்!

பொனை பொனை கல்லால் பொறிகையாளர்களின் பிரிவில் அந்தர்த்தம் இருக்கின்றது.

- ராசியில் பொனை கல்லால் பொறிகையாளர்கள் இருக்கின்றனர்.
- எந்தவுடனும் கூறிய ஆங்கிலத்தில் பொறித்துக் கொள்ளலாம்.
- ர.200,000.00 வரை உற்பத்தி மதி 10,000.00 வரை விற்பனை குற்றிக்கு முழு மதி கொள்ளலாம்.
- கல்லால் பொறிகையாளர்கள் வேளாண்மை மற்றும் செயல்பாடு அர்ப்பனம்.

என்றால் உலகச் சுனருக்கு வேளாண்மை அர்ப்பனம்.
The Swiss Agency for Development Cooperation (SDC) supported an owner-driven house reconstruction programme in the North which provides funds in the form of a staggered grant-scheme, to selected returnee families for the reconstruction of their destroyed houses. A study conducted by the Centre for Poverty Analysis (2014) found that approximately 85% of the SDC housing beneficiaries had unmanageable debt and over 50% of them lacked knowledge about managing finances. In response to this evidence, SDC implemented a financial counselling module, specific to the housing process, as a way of maintaining low housing-related debt levels. This intervention shapes the main objective of this study, which is to understand the extent to which SDC’s financial counseling module shaped behavioural changes in housing beneficiaries in relation to the housing (re)construction process.