

# THE CITIZEN

Ground level discourse 1



A Woman affected by microfinance company's exploitation (photo: www.dailymirror.lk)

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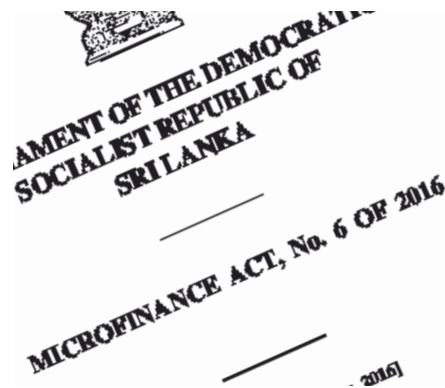
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## State intervention in Microfinance

Microfinance, like many other aspects, has evolved into a political tool, with the Sri Lankan government serving as the primary arbiter of the microfinance sector. The government plays a pivotal role in providing funding and support to microfinance institutions, a factor that has raised concerns about its potential impact on the financial direction and independence of these institutions.

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## Mothers and wives neglect

People who migrated from all corners of Sri Lanka to cultivate new areas face immense challenges, including the hazards of nature, wildlife, and malaria. Despite these difficulties, the tireless efforts of these brave individuals, who left their homes to establish themselves in a new land, are evident in the vast fields they cultivated. Their struggles were often a matter of life and death, but their resolute

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## 01 *Continue...* State intervention in Microfinance

Furthermore, microfinance borrowers often find themselves unwittingly entangled in political agendas, as various political parties exploit them for their own purposes. Microfinance has frequently been utilised as a means to garner favour with voters, with promises of interest reduction, grace periods for loans, provision of micro-credit to supporters, and the establishment of microfinance institutions in specific regions.



Awareness Raising Session on microfinance (Photo: CPA)

*borrowers often find themselves unwittingly entangled in political agendas, as various political parties exploit them for their own purposes.*

Apprehensions about the politicization of microfinance regulation were substantiated by the government's enactment of the Microfinance Act 2016. Despite its implementation, there is substantial criticism asserting that the Act is excessively restrictive, granting the government an undue level of control over the sector.

Some of the repercussions of this political involvement include

- Decreased efficiency in microfinance operations and an elevated risk of loan default

- Reduced access to microfinance for those in impoverished conditions.
- Additionally, there is a heightened likelihood of corruption and rent-seeking practices.

The consensus is that regulatory measures are imperative to mitigate the negative consequences of political interference and ensure that microfinance continues to play a positive role in poverty reduction in Sri Lanka. To achieve this, there is a pressing need to modernise and regularise the Microfinance Act, while fostering transparency and accountability within the microfinance sector.

- Citizen

## High percentage of women

The majority of customers in licensed public and private commercial banks, regional development banks, and finance and leasing institutions are men, accounting for 61% to 68% of the customer base. In contrast, customers of Samurdhi Bank Societies, Savings and Credit Cooperative Societies, Non-Governmental Organizations, etc., are predominantly women, constituting 60% to 67% of the clientele.

Notably, microfinance institutions emerge as the primary source of loans for women, resulting in a higher percentage of female clients among microfinance service beneficiaries in Sri Lanka.

## The lenders

Microfinance institutions in Sri Lanka offer a range of financial services, extending beyond credit to include savings, insurance, payment services, and consultancy. The microfinance sector in Sri Lanka encompasses various types of institutions, contributing to its diversity. These include Savings Institutions, 'Seettu' Schemes, Loan Societies, Death and welfare societies and Savings and Loan Societies etc.

- The key components of the microfinance sector in Sri Lanka are:
- Regional Development Banks and Other Specialised Banks
- Cooperative Rural Banks and Other Cooperatives
- Savings and Credit Co-operative Societies (SCOs)
- Samurdhi Bank Societies
- Financial Institutions of Non-Governmental Organisations
- Other Financial Institutions (Commercial Banks, Registered Financial Companies Providing Microfinance Services)



# Microfinance is....

Photo: freepik.com

It is estimated by Women's World Banking (1995) that over 500 million economically vulnerable individuals without financial literacy engage in micro-enterprises and petty trades globally, lacking access to dependable financial services. Microfinance has emerged as a developmental strategy to uplift low-income groups, gaining popularity in developing countries as a powerful tool for poverty reduction. This trend is evident in the flourishing microfinance sector within the Sri Lankan economy.

While a precise definition of microfinance is elusive, it can be understood simply as a service linked to savings and credit, catering to the financial needs of low-income and self-employed entrepreneurs. Microfinance activities encompass various aspects, including the provision of small working capital loans, informal assessment of borrowers and investors, innovative collateral arrangements such as group collateral or compulsory savings, swift and easy loan disbursements, follow up, ability to borrow repeatedly based on loan repayment history and a focus on performance and loan repayment

capabilities. Notable features include the potential for repeated borrowing, accommodating significant loan requests, flexible disbursement and follow-up procedures, and the offer of secure savings products.

Microfinance institutions in

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***moneylenders, gold pawnbrokers, 'Seettu' and credit societies, and finance institutions, play a significant role in the microfinance landscape of the Sri Lankan economy.***

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Sri Lanka span a diverse range, including savings and loan societies, credit societies, state-owned banks, commercial banks, non-banking financial institutions, and non-governmental organisations. The operations of these institutions

are governed by a framework of regulations derived from various ordinances and regulations.

In addition to formal institutions, informal microfinance service providers, such as moneylenders, gold pawnbrokers, 'Sittu' and credit societies, and finance institutions, play a significant role in the microfinance landscape of the Sri Lankan economy.

Microfinance institutions operating in Sri Lanka contribute to economic growth by providing essential finance and guidance to cottage industries, the self-employed, and small-to-medium enterprises. This approach not only fosters the economic participation of microfinance service beneficiaries but also enhances their entrepreneurial skills, generates employment opportunities, reduces rural poverty, and promotes rural development. The multifaceted impact underscores the crucial role played by microfinance in shaping the economic landscape of Sri Lanka.

- Citizen

# "There are positive results due to our interventions"

Suranga Rupasingha  
Foundation for Economic Cooperation  
Kantale



Photo: CPA

We have been implementing programs in the districts of Polonnaruwa and Trincomalee in collaboration with the Centre for Policy Alternatives (CPA), aiming to address the challenges faced by numerous women ensnared in microfinance loans in these areas over a long period of time. Through our intervention, we have managed to provide some relief to the distressed women.

While the concept of microfinance loans is commendable, the situation has been exacerbated by the infiltration of both reputable and unscrupulous institutions. An example that comes to light is 'SANASA' where loan instalments collected during home visits are inflated with additional charges, such as travelling charges for a single visit being billed as if it occurred three or four times. Additionally, some institutions retain deeds as collateral for loans, contravening the Microfinance Act, which explicitly prohibits such practices.

When we visited these areas with the CPA, we encountered distressing reports of suicides and widespread crises. In response, we explored avenues of support, with

one major focus being the provision of legal aid. The Centre for Policy Alternatives has been instrumental in extending maximum support for this initiative. Another crucial aspect is enhancing financial literacy, a task that we continue to successfully undertake.

*loan instalments collected during home visits are inflated with additional charges, such as travelling charges for a single visit being billed as if it occurred three or four times. Additionally, some institutions retain deeds as collateral for loans, contravening the Microfinance Act, which explicitly prohibits such practices.*

A common challenge in these areas is the lack of financial literacy, leading borrowers to accept exorbitant interest rates without awareness of alternatives with lower rates. Now they are aware of alternative options to seek lower rates etc. Our approach has been to identify these issues and seek solutions by collaborating with institutions such as the Human Rights Commission and the Right to Information Commission. We have also engaged with the Central Bank to find solutions.

Addressing the lack of resource personnel for this work in the Central Bank has been a significant challenge, and we have provided support in this regard. Identifying individuals burdened with real debt problems, we facilitated meetings with Central Bank representatives to negotiate debt write-offs and loan concessions.

Efforts were also made to obtain details of institutions holding land deeds as collateral for loans and secure their release from the Central Bank's oversight. Continuing our outreach, we gather individuals who have taken loans in villages, providing them with financial literacy and referring relevant cases to the Central Bank.

The outcomes of these initiatives have been promising. Our collaborative efforts with the Centre for Policy Alternatives demonstrate that with a clear vision and unwavering dedication, it is possible to address and resolve the challenges posed by the microfinance crisis.



A discussion on microcredit held in Kantalai (Photo: CPA)



A workshop on problem solving in the microfinance area (Photo: CPA)

# Positive and negative impacts of Microfinance

Microfinance has exerted a profound influence on the people of Sri Lanka, yielding both positive and negative impacts.

## Positive Impact:

Microfinance has been instrumental in poverty reduction. Numerous studies have demonstrated that individuals utilizing microfinance are more likely to escape the clutches of poverty compared to non-borrowers. Additionally, microfinance has played a pivotal role in fostering economic development. Borrowers, predominantly women, are more inclined to initiate or expand their businesses, creating jobs and contributing to overall economic growth. Microfinance has notably empowered women, enhancing their income, assets, and decision-making capabilities.

## Negative Effects:

However, certain microfinance borrowers have found themselves ensnared in debt traps, particularly when unforeseen circumstances like natural disasters or illness impede loan repayment. Furthermore,

there have been allegations of predatory lending practices by some microfinance institutions, charging exorbitant interest rates and fees that make loan repayment challenging. Unfortunately, microfinance has not consistently reached the most impoverished individuals, with some institutions directing loans toward middle-income earners.

Overall, while the impact of microfinance in Sri Lanka is positive, challenges such as high interest rates and predatory lending practices need to be addressed. Specific success stories highlight the transformative potential of microfinance. For instance, a woman in northern rural Sri Lanka utilized a microfinance loan to launch a small vegetable marketing business, significantly increasing her income and improving her family's living conditions. Similarly, a group of women in southern Sri Lanka employed a microfinance loan to establish a sewing cooperative, generating employment and income.

In the eastern part of Sri Lanka, a man utilized a microfinance loan

*It is important to remember that Microfinance is not a magic wand but a tool that can be used to uplift the lives of people. However, it does not come without risks.*

to kick-start a fish farming business, thereby augmenting his income and enhancing his livelihood.

These examples underscore the tangible benefits experienced by individuals aided by microfinance in Sri Lanka. While microfinance has played a pivotal role in eradicating poverty and fostering economic development, it is essential to recognize it as a tool, not a magic wand. Managing associated risks through regulation ensures that borrowers are protected from predatory practices.

- **What is the association's perspective on microfinance?**

A: When discussing microfinance loans, many people tend to simplify it, thinking of it merely as the exchange of loans between lenders and borrowers. There's a socialized image portraying lenders as dangerous and borrowers as very innocent individuals. However, it's more nuanced than that. As an association, we perceive microfinance as an expansive subject. Before providing loans, we proactively establish community based organisations. This pre-lending phase aims to empower women in the village through a comprehensive two to three-month awareness program. The primary goal is to foster financial literacy, encompassing education on debt management, debt repayment, and saving. Through these initiatives, a strong foundation of trust is built between all parties involved, enabling us to provide loans. Without this multifaceted approach, the essence of small loans would be lost'

- **Has the country's economy progressed through this?**

Undoubtedly! It has made a substantial contribution, even in the present times. Amid the COVID-19 pandemic, the economic collapse hit the poor the hardest. They found themselves in dire straits, losing daily jobs, and some children couldn't even attend school. In these challenging circumstances, women were able to leverage microfinance loans for relief, while others managed to survive without depending on hand outs. Some even initiated new job opportunities. Consequently, there was a significant contribution to the country's economy. This initiative stands as a commendable project, infusing vitality into villages and fostering the growth of resilient families—a positive trend for the nation's economic landscape.

- **What is the Association's opinion on the acknowledgment by the Human Rights Commission regarding the violation of the Community's language policy in maintaining microfinance loan agreements and documents in English?**

We, as an association, are actively addressing this issue. Our operations are conducted in Tamil and Sinhala languages. This challenge is widespread in Sri Lanka. Notably, even government-recognized banks issue loan documents in English, raising doubts about whether bank employees themselves understand the content, let alone the borrowers. As

an association, we are striving to progress and amend these conditions for the benefit of all.

- **High-interest rates in microfinance institutions has become a huge burden to the people, is it not possible to maintain these rates at a more**



**Uday Bandara**

Chairman, Ceylon Microfinance Professionals Association community.

## These issues should be sorted through directives

### **favourable level?**

High-interest rates in microfinance services have indeed become significant concerns. However, it's crucial to understand that financial service providers also borrow from banks to provide these services and sustain their operations. Balancing the maintenance of these institutions, covering operational costs, and paying employee salaries necessitates careful consideration. We do not advocate for an increase in excessive interest rates. Notably, even with the

recent increase by the Central Bank, we have urged our members to maintain a maximum interest rate of 35%.

- **It is reported that there are approximately ten thousand lending institutions in Sri Lanka. How many organizations are currently members of the association?**

Presently, we have 51 member institutions, and the process for obtaining membership is exhaustive and thorough. Currently there are no allegations against the member institutions registered under the association, and we consistently monitor their operations.

- **Currently, only four institutions are registered with the Central Bank. Why hasn't the Central Bank accepted the rest of the Association's members?**

A: The Central Bank is currently in the process of studying this matter, and the subject is relatively new to them. Recognition by the Central Bank has primarily been granted to institutions with high capital. As of now, only four institutions meet these criteria. We anticipate that in the future, improved conditions will enable more institutions to gain the trust and recognition of the Central Bank.

- **Do you believe there is a need for regulatory oversight of microfinance services?**

Absolutely! We have earnestly requested the current government to expeditiously implement regulatory oversight. The creation of a regulatory authority stands as a permanent solution to the numerous serious problems that currently prevail.

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*These are issues that need to be rectified under regulations*

*The root causes for most of the issues often stem from a lack of discipline within lending institutions and among borrowers and the lack of financial literacy. It's essential to address these issues gradually, seeking alternatives instead of solely focusing on issues*

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The proliferation of lending institutions, akin to mushrooms, necessitates government intervention, as even the Central Bank has limited capacity in this regard. Presently, our association's role is somewhat constrained, and due to the micro finance issues sometimes there is a perception that even we do not have standards. We are also viewed with the same opinion of other microfinance institutions without proper standards. To effect change, timely intervention by the minister is imperative, and the establishment of a regulatory authority is crucial.

- **Is the association aware of the tragedies involving sexual bribes, sexual coercion, assault by debt collectors and suicides among those who received microfinance loans?**

Yes, we are aware of these distressing issues. The root causes often stem from a lack of discipline within lending institutions and among borrowers. Additionally, the dearth of financial literacy in the country exacerbates these challenges. It's essential to address these issues gradually, seeking alternatives instead of solely focusing on issues. Media narratives tend to highlight borrowers' stories, but it is equally crucial to engage with lending institutions. The interest shown to take a loan diminishes when faced with repayment. This is a human quality. There is no point in sending people to the gallows. These are systemic issues requiring rectification under appropriate regulations.

- **Does the association have a mechanism to resolve grievances and problems faced by borrowers?**

Certainly, we have dedicated personnel available around the clock to address all complaints. We have also communicated these concerns to the state minister. Moving forward, we aspire to minimize shortcomings and enhance our efforts in this field. A substantial number of individuals are without collateral, we extend loans to this group, acknowledging the associated risks. Cooperation and understanding between these two groups are paramount in this commendable process. Drawing inspiration from the success in Bangladesh, we endeavour, with collective support, to replicate this success.

- Tiran Bangagamaarachi

# Microfinance, Poverty and Politics

In contemporary times, where virtually everything is entwined with politics, the microfinance sector has also become a political tool. The incumbent government consistently assumes a pivotal role in overseeing the microfinance sector, leveraging its influence when allocating funds and providing concessions to microfinance institutions. One prevalent accusation is that these institutions, in turn, align their financial decisions with the government's directives, leading to a diminished independence for the microfinance entities—a grievance articulated by these institutions.

Notably, other political parties also engage in making promises to microfinance borrowers, attempting to sway them into their political sphere. This tactic is often employed as a means to garner favour with voters. Campaign promises such as interest rate reductions, debt write off pledges, extension of loan periods, and commitments to establish microfinance institutions in specific areas have become prominent issues on the political platform during election periods.

In response to the politicization

of microfinance regulation, the government introduced the Microfinance Act in 2016 to ostensibly bring some semblance of order. However, the Act, laden with numerous restrictions, has inadvertently granted the

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*In essence, untangling the web of politics from these sectors is imperative to foster an environment where microfinance can genuinely play a positive role in poverty alleviation in Sri Lanka.*

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government more control over the sector than necessary. Microfinance schemes initiated by the government, such as Samurdhi and Janasaviya, have eventually transformed into mechanisms for accumulating votes, entwining

microfinance with the political landscape.

The encroachment of politics into these crucial sectors emerges as a formidable impediment to poverty eradication in Sri Lanka. For microfinance to effectively contribute to poverty alleviation, regulatory measures must be enacted without any political affiliation or influence. However, achieving this objective has proven to be a formidable challenge.

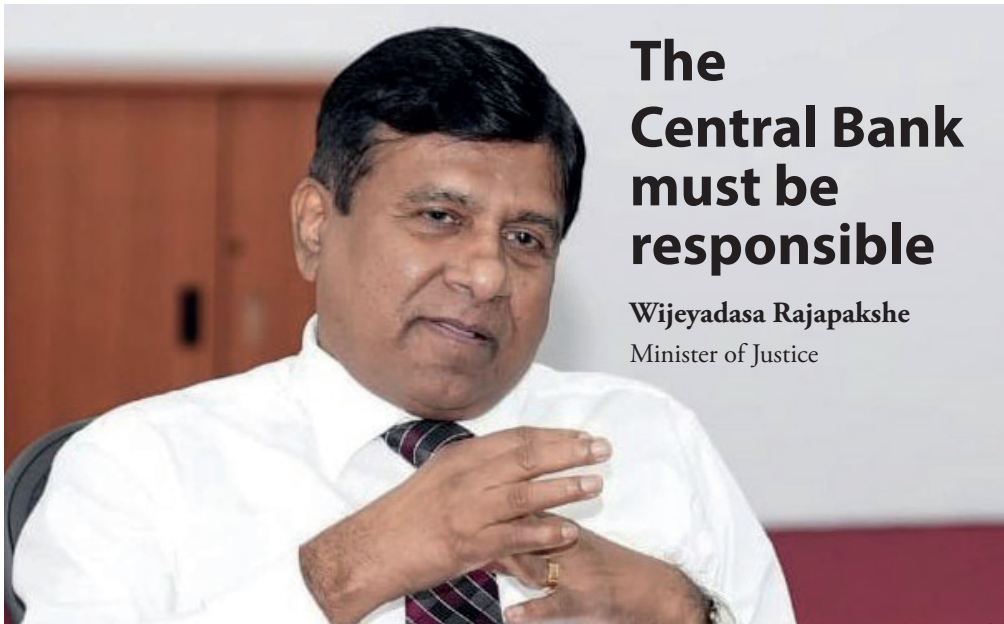
Rather than sporadic political pledges, there is a pressing need for all political parties to unite and envision sustained progress in the microfinance sector. Government interference in microfinance should be curtailed, and efforts should be directed toward fortifying its independence. Reforms are imperative to strike a balance and mitigate the overly restrictive nature of the Microfinance Act.

This endeavour necessitates a collaborative commitment from all stakeholders, including microfinance institutions, civil society organisations, and donors. A cautious approach is crucial to prevent the sector from becoming a casualty of political manoeuvring.



A workshop on problem solving in the microfinance area (Photo: CPA)





## The Central Bank must be responsible

Wijeyadasa Rajapakse  
Minister of Justice

Photo: www.ft.lk

- **Question: Why is there a delay in presenting the Microfinance Regulation bill to parliament and getting it approved, especially when there's already a drafted and cabinet-approved bill for the purpose?**

We have been informed that the Ministry of Finance is working on a draft bill. It is a subject of the Finance Ministry. However, we have reservations about whether such a bill from the Ministry of Finance can effectively address the growing concerns in the microfinance sector. This is because the surge in microfinance transactions over the past decade has increased rapidly. This would not have happened if the banks met the expectations of the public. This points to a need for long term reform within the banking system. The micro finance practise is a provision that is misused to exploit the customers. We need to understand why people turned to the microfinance system. This has not taken place in other countries. This is because the traditional banking system has forgotten the ordinary people of the country. Both private and state banks prioritised profits over people and the Central Bank, too, fell short of its responsibilities in the recent past.

*is whether these individuals would go to court to prove and defend themselves regarding ten or fifteen thousand rupees, especially considering the financial constraints in these villages. It's not a practical option for them. Therefore, there's a need to find a pragmatic alternative.*

- **Question: When we raised these concerns with the Central Bank as journalists, their response was dismissive, stating that it's not within their purview. Don't you think that this a serious issue?**

There are valid points on both sides of the argument. Currently, there isn't a clear law definitively placing this responsibility within their jurisdiction. However, the

Central Bank cannot evade its responsibilities, especially given that policy decisions fall under their purview. Now it is converted into an independent body. They are responsible for making Monetary policy decisions. However, they are unable to effectively monitor, inspect, and control the microfinance institutions spread nationwide. This highlights the need to establish a dedicated institution with the authority and resources to address these issues comprehensively.

- **Question: One of the primary issues observed is that the loan agreement forms are exclusively in English. Given that most of the 'Vedda' women who have taken microfinance loans cannot speak Sinhala, let alone English, isn't this a serious injustice? Can't you take legal action against this?**

Legal action can be taken, as it is within our legal framework. There should be a confirmation that the terms have been understood, and this certification should be provided by a responsible party. Currently, if these agreements are signed in the conventional manner,

they are considered valid even in court. However, if there is evidence of fraud or a discrepancy, a tangible document can be presented. The challenge, though, is

whether these individuals would go to court to prove and defend themselves regarding ten or fifteen thousand rupees, especially considering the financial constraints in these villages. It's not a practical option for them. Therefore, there's a need to find a pragmatic alternative. The most effective approach would be to establish a secure lending system for these people. This current banking system has essentially become a vehicle for predatory lending, and the Central Bank should bear responsibility for this situation.

● **Question: Is it not possible to integrate the proposed system and regulatory task into the local government structure of our country?**

It's a bit challenging. Implementing it at the provincial level may not be successful. The required methodological expertise at the provincial level is lacking. This is something that should be carried out at the Central Government level. We can't rush this process and expect results within 24 hours. It needs to go through a thorough and proper long term procedure.

● **Question: Can we expect some relief to the people who are exploited and exhausted by microfinance?**

As the Minister of Justice, it's not effective if government policies of another ministry is passed on. That's why we have enacted laws to ensure justice. We have to do this even if it requires some work outside the normal system. The Ministry of Finance and the Ministry of Justice need to collaborate on this. The Ministry of Finance understands banking systems well, but their knowledge of the law is limited. On the other hand, we are well-versed in the legal aspects but have limited knowledge on the banking system. Therefore, a joint effort is needed. Since I was a banker at one time, I understand this. However, it's not possible to resolve 100% of the issues faced the people. Achieving that in this country is not feasible. Nevertheless, we will explore if these issues can be addressed in the future.

(NB: Despite numerous attempts to contact the minister responsible for the subject, Shehan Semasinghe, to discuss microfinance issues, these efforts were unsuccessful. The minister often promised to schedule times and days for discussions, but we need to keep in mind that those opportunities did not materialise.)

## The path of microfinance in Sri Lanka

Microfinance in Sri Lanka has a substantial history dating back to the early twentieth century, marked by the establishment of the Thrift and Credit Co-operative Societies (TCCS) in 1906. These societies initially focused on providing credit and savings services to rural communities.

In the 1970s, TCCS underwent reorganisation, transforming into Sanasa, currently the largest microfinance institution in Sri Lanka. Presently, Sanasa boasts more than two million members and has evolved into an institution offering a diverse array of financial services, including loans, savings accounts, insurance, and training. During the 1980s, the Sri Lankan government promote microfinance through the Janasaviya programme. This programme aimed to provide loans and other support to impoverished households, facilitating the setting up or expansion of their businesses.

Since the 1990s, the

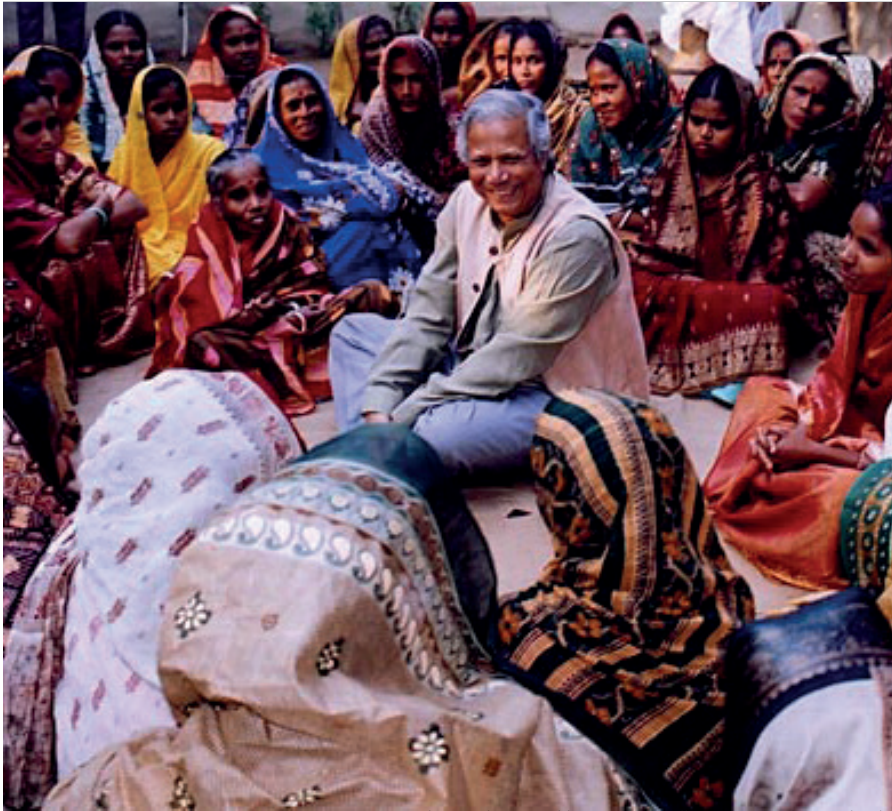
microfinance landscape in Sri Lanka has experienced rapid growth, with the entry of numerous non-governmental organisations (NGOs) and commercial banks into the microfinance market. This expansion has resulted in the provision of a broad spectrum of services to a significant portion of the population. Consequently, the microfinance sector in Sri Lanka has undergone effective regulation and revitalisation. Microfinance in Sri Lanka has witnessed substantial growth, with over 10,000 microfinance institutions serving more than five million people.

This sector has undeniably played a significant role in poverty reduction and the promotion of economic development in the country. Key milestones in the history of microfinance in Sri Lanka include:

- 1906: Formation of the first Thrift and Credit Co-operative Society (TCCS).

- 1970: Restructuring of (TCCS) into the Sanasa movement.
- 1980s: Launch of the Janasaviya programme by the Sri Lankan government.
- 1990s: Entry of numerous NGOs and commercial banks into the microfinance market.
- 2016: Enactment of the Microfinance Act, regulating the microfinance sector.

Despite challenges in Sri Lanka's financial sector, including high interest rates, restricted access to financial services for the poorest individuals, and low financial literacy, microfinance emerges as a success story. It has played a vital role in reducing poverty, fostering economic development, and empowering women. Therefore, with appropriate regulation and guidance, the microfinance sector can be expected to sustain its growth in the years ahead.



Muhammad Yunus addressing Jobra village women (Photo: yale.edu)

Building on this concept, Grameen Bank commenced providing small loans to the underprivileged in Bangladesh in 1983. Over the years, the bank has disbursed more than \$ 2 billion in loans to millions of borrowers, making a profound impact in alleviating poverty for millions.

In addition to Grameen Bank, Yunus founded several other organizations dedicated to advancing microfinance and social development. A prolific author, his notable works include 'Banker to the Poor' and 'Building Social Enterprises'.

Beyond the Nobel Peace Prize, Yunus has received numerous accolades, including the Presidential Medal of Freedom and the Padma Shri. He stands as a prominent

# The banker of the poor

At the center of the microfinance narrative stands Muhammad Yunus, the visionary credited as the father of micro-loans—a concept integral to providing small loans to entrepreneurs in developing nations. A Bengali economist and social entrepreneur, Yunus founded Grameen Bank in 1976, transforming it into the world's largest microfinance institution. His ground-breaking work earned him the Nobel Peace Prize in 2006.

Born in 1940 in Chattogram, Bangladesh, Yunus pursued Economics at Dhaka University and later earned his Ph.D. After completing his economics degree at Vanderbilt University in the United States, he returned to Bangladesh, where he taught economics at the very university where he once studied.

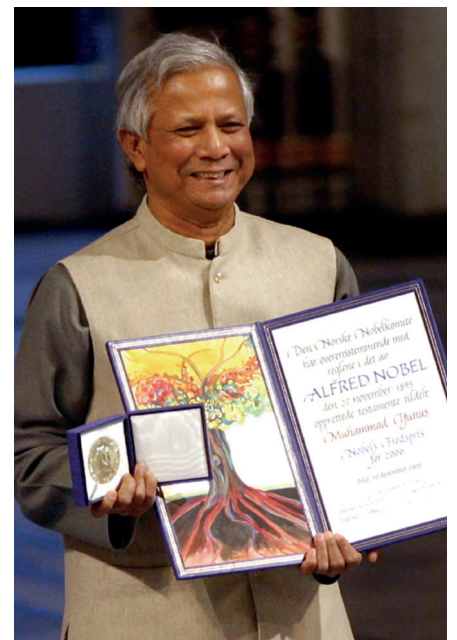
In 1976, Yunus initiated the lending of money to impoverished

women in Jobra village. Recognizing their inability to secure loans from traditional banks due to a lack of valuable collateral, Yunus established a loan system based on trust. To formalize this arrangement, he encouraged borrowers to form Self Help Groups.

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***Grameen Bank started providing loans to the poor people of Bangladesh. It started in 1983. Since then, the bank has provided more than \$ 2 billion in loans to millions.***

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Yunus with Nobel Prize (Photo: John Mcconnico/AP)

advocate for social change, a champion for the poor, and a revered hero in the quest for a more equitable world.

# Performance of Microfinance Institutions



(Photo: GIZ-PRoMIS)

As per a 2006 study on microfinance, it was revealed that Sri Lanka boasts over 14,000 microfinance institutions, including the SANASA network of 5,424 societies. However, this study also highlighted that half of these societies (50%) are non-functional. Presently, the number of acceptable microfinance providers is confirmed to be less than the initially reported 14,000.

An earlier survey conducted by the GIZ-PRoMIS program covering the entire country in 2006-2007 identified a minimum of 10,000 active financial service providers in the country. Contrastingly, the Central Bank reports suggest the existence of over 16,500 microfinance services.

According to the GIZ-PRoMIS survey it was revealed that 90% of microfinance clients reside in rural areas. Unfortunately, microfinance institutions operating in plantation areas exhibit minimal activity, constituting just about 1% of the total number of such institutions. This raises concerns about the accessibility of microfinance loans to the most impoverished individuals.

Notably, the data indicates that

while 82% of the loans have been directed to individuals earning an

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income of Rs 5,000 monthly and 50% have been disbursed to those who earn a monthly income of Rs. 3,000.

Following the end of the war, banks and microfinance institutions have expanded their reach to the northern regions. The distribution of microfinance services by provinces is as follows:

- Western Province: 12.2%
- Central Province: 10.1%
- Southern Province: 24.0%
- North Western Province: 10.2%
- North Central Province: 3.9%
- Uva Province: 10.8%
- Sabaragamuwa Province: 11.2%
- Northern Province: 5.2%
- Eastern Province: 12.3%

As of 2010, the total loan amount provided exceeds Rs. 60 billion, with Rural Development Bank and Sanasa Development Bank contributing the majority of the loans. Additionally, Sarvodaya Seeds has granted loans exceeding Rs. 3 billion, emphasizing that many other active micro-institutions focus on providing services in smaller amounts.

- Tiran Bangamarachchi



Affected women protesting (Photo: www.dailymirror.lk)

## 01 continued

### Mothers and wives neglect

courage and dedication to their cause is reflected in the thriving fields.

*When mothers and wives neglect or abandon their duties and responsibilities, the children in such families who are affected end up becoming a social problem. Despite occasional government announcements about writing off microfinance loans, these have not been implemented.*

The Mahaweli Development Authority initiated by the Sirimavo Bandaranaike Government was to be completed in 30 years. However, under the J. R. Jayawardene Government, it was completed in six years. Contrary to popular belief that this rapid development ushered in prosperity to the people, evidence suggests otherwise since the farming communities of Senapura, Kagama, and Katiawa have not seen the expected flourish.

Farmers managed to construct a dwelling only where the women sought employment in the Middle East.

Despite the provision of housing and agricultural equipment by D.S. Senanayake, who established the farming colonies, over time, the evolving need for both housing and land became increasingly apparent. The crisis deepened with challenges in cultivating as the youth moved out of agriculture and it was difficult to obtain reasonable prices for produce. The stagnation in agriculture led to some farmers abandoning their activities and moving to urban areas. Women departing for employment

opportunities in the Middle East, and the inclination of young individuals to enlist in the military became increasingly noticeable. Young women sought employment in garment factories, striving to realize the aspirations of their youth.

Against such a backdrop, financial institutions, targeting women at home, descended upon the colony like vultures preying on their vulnerability and this was far from a solution to poverty. These institutions charged exorbitant interest rates, relaxed loan eligibility criteria, and sometimes even provided instructions to circumvent regulations. By offering loans with the explicit knowledge that there would be no investment or production, certain institutions failed to demonstrate generosity and benevolence. Instead, their focus was solely on collecting instalments, exacerbating the myriad of problems existing in the colony. The actions of these microfinance institutions were so ruthless that they contributed to family chaos amid issues such as land problems, water scarcity, and the escalating costs associated with crop cultivation. Actions included

taking away furniture, seizing property and, in extreme cases, threatening violence and demanding sexual bribes if instalments could not be paid.

Individuals have even formed relationships with representatives from those institutions who visit weekly and monthly, and in some cases, these situations have escalated to individuals fleeing in secrecy. When mothers and wives neglect or abandon their duties and responsibilities, the children in such families who are affected end up becoming a social problem. The resulting depression and inadequate education may sometimes lead to abuse from a father, brother, grandfather, or even a neighbour in a motherless home.

The impact of microfinance institutions is evident in the chaos within the colony. Both adults and children are affected. Currently, some of these institutions are untraceable. Certain institutions are not registered with the Central

Bank and lack a proper address. Consequently, it cannot be verified whether the agents who continue to collect premiums are associated with these unregistered institutions.

The stringent conditions for group loans have relaxed, and group meetings are no longer held as before. The connection between

***Women faced with micro finance debt state that recovery agents continue to collect weekly and monthly instalments while harassing them and threatening to seize furniture or household goods if payments are not made.***



(Photo: www.dailymirror.lk)

politicians and these institutions, contributing to rural poverty, is well-known. Despite government announcements to cut off microfinance loans, representatives continue to collect instalments, often resorting to threats.

The responsibility for the socio-economic problems caused by microfinance institutions lies not only with the institutions themselves but also with politicians who exploit them to maintain power. The suicides and family issues resulting from the high interest rates are a shared burden for both women and men, emphasizing the destructive consequences facilitated by political authority.



Affected women protesting (Photo: www.dailymirror.lk)



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