

Sri Lanka: Microfinance: the plague on the needy

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For years, one issue has been weighing 65-year-old P. M. Jayaratne down. Jayarathne, a farmer from Hingurakgoda, Polonnaruwa, has fallen ill and frequently goes to the hospital in his area for medical checkups.

He is in debt after he took a loan of Rs. 165,000 from a microfinance institution in 2014. Now, after six years, he has paid Rs. 380,000, but he has to pay Rs. 50,000 more to settle his debt.

"I took the loan to cultivate paddy. But both harvesting seasons in the year were bad. I couldn't pay the loan with interest. Since then, the debt accumulated. I don't know where to find the money to settle it now," Jayaratne told the Sunday Observer.

His story is not an isolated case. Jayaratne is one among thousands of people, generally from low-income households, who have fallen into the microfinance debt-trap. The Covid-19 pandemic has only made matters worse as many lost their jobs. People are resorting to find alternative methods to pay their debts.

Jayarathne, a farmer since his teenage years, is cultivating on a one-acre land that he inherited from his parents. He has mortgaged parts of it to find money for his medical needs. He does not have the luxury of an alternative income.

Grim scenario

The microfinance story is grimmer than it appears. Three months ago, a four-year-old child was killed in a murder-suicide in Polonnaruwa. The child's mother, a 32-year-old woman killed the child and committed suicide after failing to pay a debt she took for her husband. Six months ago, a mother from Jaffna jumped into a well with her two children in another microfinance debt driven murder-suicide.

Unofficial statistics by the Nelumyaya Foundation, an institution that aids people who are victimised by the microfinance business, shows that at least 200 people have committed suicide because they can't find the money to pay their loans.

However, microfinance was introduced as a venture to aid the poor. Defined as "provision of financial services to low-income people" by the Consultative Group to Assist the Poor, the Central Bank of Sri Lanka (CBSL) states, "it brings credit, savings and other essential financial services to people who are too poor to be served by regular banks, mainly because they are unable to offer sufficient collateral. Microfinance is expected to expand and improve income generation activities and capacities of low-income persons. It is expected that through microfinance the living conditions of low-income persons would improve, while they take on an active role in the economic development of the country."

With the outbreak of Covid-19, the CBSL introduced a debt moratorium for affected businesses and needy people. Debt collectors are going into villages demanding people to pay the sums they owe. Interest the borrowers have to pay to these institutions could range from 20 percent to 240 percent, despite the CBSL's stipulated interest cap of 35 percent.

Exploitation

Due to the lack of regulation, microfinance drivers are exploiting people who take loans. In most cases, these are women from needy households. Harassments range from verbal abuse to sexual exploitation that go largely unreported.

"With Covid-19, people's economies deteriorated. We are seeing a reduction in microfinance loans, but that doesn't mean the situation has got better," Jaffna-based political economist Ahilan Kadirgamar said.

He said there is a grave need for a separate authority to register and monitor money lending institutions.

The CBSL is drafting a Credit Regulatory Authority Act to regulate micro finance institutions. Unregulated institutions were to be licensed to give more protection to their customers. Regulated institutions are registered in the Credit Information Bureau of Sri Lanka (CRIB). Non-regulated micro-financing and micro-lending companies will come under the CRIB in terms of the Act. The lack of a regulatory body is putting marginalised groups in more debt as they are caught up in a web of multiple loans.

Director Programs, Nelumyaya Foundation and Attorney-at-Law Radika Gunaratne has created a legal aid mechanism in 2018 to support microfinance victims. The Foundation has started pro-bono legal work for victims, making appearances before District Courts for their money recovery cases.

"But considering the level of harassment that victims face, we realised that we have to empower victims to fight back," Gunaratne said, adding that the microfinance victims have started lodging complaints to police stations against harassments by microfinance agents and collectors.

"We provide legal assistance in lodging a complaint and for the investigation. A victim could go to the police station with a lawyer from the Nelumyaya Foundation," Gunaratne said.

"We understand that this is a challenging task. Police have no prior experience of complaints against microfinance companies. Victims are not alone. There are supporting mechanisms for them. Microfinance institutions have to reconsider their business practices," she said.

Microfinance and Self-Employment State Minister Shehan Semasinghe said in Parliament last week that the President and the Prime Minister are paying attention to the microfinance issue. He said that about 93 percent of those caught in the debt trap are women.

He acknowledged the absence of an Act to regulate these bodies.

Amendments to the Microfinance Act have been forwarded to the Attorney-General, he said, adding, awareness programs are being conducted in collaboration with the Central Bank in Samurdhi Bank Zones, while all state and Samurdhi banks have been instructed to prevent people from falling victim to these institutions.

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