Sri Lanka: ’Community-led development: Solution for microfinance crisis’

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Weligepola All Women’s Asso. for Integrated Community Development Exec. Dir. Renuka Bhadrakanthi highlights limitations in proposed microcredit legislation and in policymaking on rural dev./finance

Microfinance loans disbursed at usurious interest rates have trapped thousands of low-income women in a vicious cycle of debt. Since 2017, female victims have been demanding solutions to the microfinance crisis manifested as unpayable debt, the loss of property, family disputes, migration, mental distress, sexual violence, suicides, and courts flooded with money recovery cases.

The Executive Director of a community-based organisation, the Ekabaddha Praja Sanwardhana Kanthaa Maha Sangamaya (the All Women’s Association for Integrated Community Development) in Weligepola, Renuka Bhadrakanthi highlights several limitations in the proposed Microfinance and Credit Regulatory Authority Act. Her interview illustrates the crucial developmental role of community-based organisations within the financial landscape available to low-income people.

Resonating concerns raised by Northern co-operatives against microfinance companies and institutions at the height of the microfinance crisis, Bhadrakanthi exposes the damage caused by microfinance institutions to community-based organisations and limitations in policymaking on rural development and finance.

Following are excerpts from the interview:

What is the history of the Weligepola All Women’s Association for Integrated Community Development and its founding objectives?

We began our work in 1996 under the Civil Society Strengthening Project implemented by the United Nations (UN) Development Programme. Our primary objective was to explore eradicating poverty through community development instead of depending on aid. Nine other organisations were established as pilot projects alongside us in 10 of the poorest divisional secretariats in Matale, Polonnaruwa, and Ratnapura. All 32 women in the first group of participants came from low-income groups – beneficiaries of Janasaviya and Samurdhi. I was one of them.

What is the range of the work that it does?

Developing the garden and organising the kitchen is our priority. How to garden? How to save money? And how to produce nutritious food for the home? At the same time, we raise awareness and provide training on how to manage households. We also do loan-related programmes. We provide the necessary training for that.

Starting self employment or agricultural livelihoods needs technology, knowledge of agroecological practices, and knowledge of how to preserve local seeds. We started with savings. We focused on building assets for women. We had no intention of lending. We wanted to save. Women who could never save, saved with us.

How has the membership benefitted over the years?

In the past, people lived in huts without any assets. According to our recent evaluations, 2,022 of our members have built houses. A total of 2,026 women have an acre of land with permanent crops like pepper, coconut, and cinnamon. During the Aswesuma enumeration process, many of our members lost their eligibility. They have tiled houses, gardens with permanent crops, motorcycles, savings, etc. Our activities have enabled people to fulfil their basic needs. People developed them themselves. It is the strength of our community.

When we showed our savings, the UN gave us a matching grant of Rs. 500,000. We used it as seed capital to start the loan programme. Our average loan value is around Rs. 2,000-3,000. The most significant achievement is how our activities are reflected in the women's social status. Women are recognised. Their lives have changed. Their attitudes and behaviours have transformed.

Many of our members have very little education. They were marginalised in the village, and nobody cared about them. Now, we are invited to conduct financial literacy programmes even for government officials. Their skills have developed. One woman who works in our organisation works as a financial manager. She prepares a financial report suitable enough to be audited by an international auditing firm. The children of our members are studying well, and many have entered university. The competence of the mother is reflected in the home.

The popular belief is that unregulated money lenders and unregistered lending organisations caused the microfinance crisis. What is your view?

Big finance companies registered under the Central Bank of Sri Lanka (CBSL) and monitored by them created the microfinance debt bubble. When loan officers come to the village, women only hear the name of a big finance company. That is how we know that it is a famous finance company in Sri Lanka. So how is it not registered? Unless the finance company is big, how could they issue many loans around Sri Lanka? Finance companies work to maximise profits. They charge high interest on their loans, up to 35%, which the CBSL has approved. Can you imagine how a poor woman can pay a loan borrowed at 35% interest?

How has the Government regulatory mechanism that started after 2016 affected community-based credit organisations like yours?

In 2016, the Government introduced the Microfinance Act. Organisations like us, which had accumulated a financial base, were asked to register under the Act. A microfinance coordinator to supervise us was appointed to the District Secretariat. Officials don't understand the difference between microfinance institutions and our organisations. We need to highlight that difference. Three types of organisations provide loans to low-income women in the village: big finance companies, microcredit institutions, and our organisations. These credit providers cannot be clubbed into one group called "microfinance". When one net is used to catch all the fish, the sharks break through. Such a thing has happened with the proposed Microfinance and Credit Regulatory Authority Act.

What are your comments on the Microfinance and Credit Regulatory Authority Bill?

The proposed Act targets community-based organisations registered as social services organisations or under the Companies Act. Finance companies are outside this net. The worst thing is that the Authority is empowered to decide everything, including the interest rate, the deposit amount, the value of loans, and whether savings are permitted.

The authorities don’t have a right to make decisions for us. Our organisation operates through members’ funds, and we have built up savings over the years. The proposed Act states that the Authority will decide how to distribute profits. Profits have long been distributed among our members. Unlike finance companies extracting wealth from villages, our organisations enable the circulation of village wealth within the village.

Our objection is not about regulation. We don’t want to surrender our autonomy and our right to make decisions to a third party. The proposed Act allows keeping a security for a loan but prohibits taking savings. If a person can maintain a security, say Rs. 20,000 for a loan of Rs. 100,000, that person is not poor. Our organisation has built small savings over the years. Many women don’t save to take a loan.

Savings are a form of insurance in a crisis. By ruling out savings except in the case of security, the proposed Act has pushed us into an existential crisis. How can we sustain our loan programme without savings?

We accessed bulk funds from the Janasaviya Trust Fund (JTF). It was built with the funds from the poor people. As a Janasaviya beneficiary, my savings also contributed to forming the JTF. After some time, its name changed to the National Development Trust Fund (NDTF). After a while, the name changed again to the Sri Lanka Savings Bank (SLSB). After the NDTF became a bank, the interest rates were increased. Other benefits were slashed. The SLSB stopped issuing loans to us.

Without savings and institutional financial support, we must cease our loan programmes or turn to finance companies to source funds. The annual licence fee is also a burden on us. There is an existing regulatory mechanism. We are already registered under the National Secretariat and the Microfinance Act. We send our reports every three months. Is it not a sufficient mechanism? This proposed Act addresses the needs of big finance companies.

New community-based organisations are emerging nationwide to find answers to the microfinance crisis. When people resort to community-based solutions to find answers to their credit and livelihood-related needs, finance companies will become jobless. As people’s awareness of microfinance improves, they have stopped borrowing from finance companies. The presence of women’s organisations hinders the business of financial companies.

The proposed Act claims to address the problems of the victims of the microfinance crisis, but it ultimately benefits the perpetrators. We were not consulted when the proposed Act was formulated. Our organisations have a long history rooted in rural development programmes of the State and the UN.

Government officials need to study the ground situation when they formulate policies. They ignore social problems. When microfinance victims started narrating their experiences, the Government didn’t listen. The proposed solutions prove that they only know a fraction of the problem.

The Government should have explored whether there is an alternative to microfinance. Without a sense of history, the Government treats us as if we fell from the sky. They compare us to the financial scammer Sakvithi Ranasinghe, collecting people’s money for profit.

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