

Sri Lanka: Microfinance debt crisis: Suffering continues while Government blamed for inaction

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In the quiet village of Wanathawilluwa in Puttalam, Kamala, a 46-year-old resident, opens up about a seemingly endless ordeal. Her story, while poignant, is sadly one among thousands echoing across Sri Lanka's rural landscape. As the nation grapples with a microfinance debt crisis, Kamala and countless others are caught in a web of debt, financial exploitation, and shattered dreams.

At first, life appeared to shine brightly for Kamala. She held money in her hand, and the allure of immediate financial relief beckoned. What followed, however, was a spiral into a debt trap that she could scarcely escape from. "I started repaying the money that I had obtained as a loan, some on a daily basis, and some monthly, but this never seemed to end," Kamala lamented.

With every passing month, an additional layer of interest burdened her original loan. "Five years since I first obtained Rs. 100,000 from a microfinance institution, I still haven't repaid it," she said, a deep sigh escaping her lips.

Kamala is just one of the countless victims ensnared in Sri Lanka's microfinance debt crisis. As she speaks to *The Sunday Morning*, her words reveal a common tale. "Almost all women in my village are now victims of the debt trap. At a time like this, it is very difficult to survive," she said, highlighting the desperation that drives individuals to borrow and sink further into debt.

As Kamala's story continues to unfold, and as many others like her face the same turmoil, the urgency for meaningful change grows.

Plight of Sri Lanka's microfinance victims

The plight of Sri Lanka's microfinance victims is a pressing human interest issue that calls for attention, empathy, and, most importantly, action to break free from the cycle of debt and exploitation.

The question remains: when will the promises translate into real solutions for these individuals, allowing them to reclaim their lives and dreams?

According to statistics, more than 2.4 million Sri Lankan women find themselves unable to repay their loans due to exorbitant interest rates. This unfortunate situation has exposed them to a range of physical and psychological abuse, including insults from finance companies and their debt collectors.

The victims have alleged that politicians, in their pursuit of political aspirations, have deceived microfinance borrowers and exploited them for their votes to secure electoral victories.

These victims have emphatically highlighted the root cause of the microfinance crisis: the Government's withdrawal from grassroots economic activities and poverty alleviation efforts, effectively transferring these responsibilities to the profit-oriented financial sector.

In response to these dire circumstances, victims have passionately urged the Government to take immediate action to resolve the microfinance crisis. They are calling for the debts to be written off and for measures to be put in place to uplift the livelihoods of those affected.

Relentless debt cycle

T.B. Sarath, a dedicated social activist in Polonnaruwa, shed light on the deteriorating situation that has only grown worse since the onset of the economic crisis following the conclusion of the Covid-19 pandemic in 2020. The economic turmoil has cast a long shadow over the lives of people, particularly in the Polonnaruwa District.

Sarath highlighted the magnitude of the issue by revealing that nearly 40% of the district's residents had now fallen victim to the relentless debt cycle that characterised the microfinance crisis. For these individuals, there seems to be no escape from the debt burden, which continues to accumulate due to the high interest rates imposed on them.

He explained that the economic activities at the grassroots level had slowed down significantly, making it increasingly difficult for people to make ends meet. The lack of access to fertilisers for agricultural cultivation, rising fuel costs, and a myriad of other challenges have contributed to their struggles. As a result, the residents find themselves in a constant state of survival, striving to earn just enough to get through each day.

This reflects the immense challenges faced by the people who, in the absence of a stable income and support, have been forced to adapt to a daily struggle for survival. Sarath's words serve as a poignant reminder of the urgent need for interventions and solutions to alleviate the microfinance crisis, restore economic stability, and offer a brighter future to those who have endured years of hardship.

Microfinance in Sri Lanka

As defined by the Central Bank of Sri Lanka (CBSL), microfinance is the delivery of financial services to individuals with low incomes, a concept originally established by the Consultative Group to Assist the Poor (CGAP).

These services encompass credit, savings, and other essential financial instruments and are primarily aimed at those who are unable to access traditional banking services due to their inability to provide sufficient collateral.

The overarching goal of microfinance is to expand and enhance income-generating activities and the financial capacities of low-income individuals. Consequently, it is anticipated that through microfinance, the living conditions of these individuals will improve, while they actively participate in the economic development of the nation.

In Sri Lanka, a diverse array of institutions offers microfinance services, ranging from licensed banks and finance companies to co-operative rural banks, thrift and credit co-operative societies, Divineguma banks, and other community-based organisations. Furthermore, microfinance companies and Non-Governmental Organisations (NGOs) are also actively engaged in providing these vital financial services to the low-income population.

It's essential to note that various institutions are subject to different regulatory authorities. Licensed banks and finance companies are under the supervision of the Central Bank. Co-operative rural banks and thrift and credit co-operative societies are regulated by the Department of Co-operative Development, while Divineguma banks fall under the purview of the Department of Divineguma Development.

However, a considerable number of microfinance providers operate outside the oversight of a regulatory authority, which has raised concerns regarding transparency and accountability within the microfinance sector.

Statistics reveal a concerning situation in Sri Lanka's microfinance sector. It's reported that there are approximately 15,000 microfinance institutions operating in the country without proper legal registration. This lack of regulation and oversight has raised serious issues related to transparency and accountability within the industry.

In contrast to this large number of unregistered entities, only 54 companies have managed to secure registration with the Microfinance Association. Those who have borrowed from these registered companies have been able to access certain Government benefits on various occasions.

However, a closer look at the CBSL website reveals that only four institutions have achieved registration with the Central Bank itself - Berendina Micro Investments Company Ltd., Lak Jaya Micro Finance Ltd., Dumbara Micro Credit Ltd., and Sejaya Micro Credit Ltd.

Robust regulation required

The existence of a vast number of unregistered microfinance institutions operating without proper oversight highlights a significant challenge in ensuring fair and ethical practices within the microfinance sector in Sri Lanka. This situation calls for a more robust regulatory framework and greater scrutiny to protect the interests of borrowers and maintain the industry's integrity.

Currently, Sri Lanka's microfinance sector is governed by the Microfinance Act No.6 of 2016. This legislation plays a crucial role in regulating and overseeing the operations of microfinance companies in the country, ensuring that they adhere to established standards and practices.

Under this act, Licensed Microfinance Companies (LMFCs) are subject to regulation by the Monetary Board of the CBSL. It also includes provisions for the registration of Microfinance NGOs (MNGOs) that fall under the Voluntary Social Services Organisations (Registration and Supervision) Act No.31 of 1980 (VSSO Act), with registration managed by the Registrar of Voluntary Social Service Organisations.

The act defines the microfinance business and outlines its scope, emphasising its focus on providing financial services to low-income individuals and micro-enterprises.

At present the Government is making preparations to repeal the existing Microfinance and Loan Regulation Act No.6 of 2016 and establish a new regulatory body called the Microfinance and Loan Regulation Authority (MLRA). This significant move is poised to bring about changes in the regulatory landscape for microfinance institutions in the country.

A key development in this regard is the issuance of a gazette notification pertaining to the relevant bill for the establishment of the Microfinance and Loan Regulation Authority. This initiative is being pursued under the guidance of the Minister of Finance, Economic Stabilisation, and National Policies, marking a significant step in the Government's efforts to revamp the microfinance sector.

Notably, in the previous month, the Cabinet granted approval for the publication of a draft law outlining the framework for the Microfinance and Loan Regulation Authority. This draft legislation has received the endorsement of the Attorney General, setting the stage for the creation of this new regulatory body.

Government stance

In response to the ongoing microfinance crisis, State Minister of Finance Ranjith Siyambalapitiya has stated that the Government is taking concrete steps to address the issue. He has indicated that new legislation is being introduced, alongside the launch of an extensive programme aimed at providing relief to the victims of the microfinance crisis.

Siyambalapitiya has acknowledged the dire situation faced by these victims and confirmed that discussions are actively underway to assess the feasibility of granting their requests for the writing-off of microfinance loans. This is a significant development, signalling the Government's commitment to alleviating the burden on those who have been severely impacted by the microfinance crisis.

The proposed relief measures and ongoing discussions reflect a concerted effort to find practical solutions that will offer respite to the affected individuals and help them regain financial stability, according to the Minister.

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