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Research Article

MICRO FINANCING FOR SRI LANKA'S RURAL POVERTY ALLEVIATION; REALITIES, CHALLENGES AND OPPORTUNITIES

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ABSTRACT

Micro financing is regarded as an effective tool for getting rid of poverty in the rural sector population particularly, among women and landless in the developing world. In this context, Sri Lanka, an island nation having located in the Indian Ocean being a newly categorized low middle income country with a fast growing economy in South Asia is still burdening with a significant low income among rural population.

In order to overcome the challenge of low income, micro financing institutions both government and non-government sectors are active in rural areas ensuring access to formal financial services by way of lending and saving money to those rural people in poverty.

However, lack of employment opportunities, falling income due to inclement weather and natural disasters, poor rural infrastructure, land fragmentation and lack of incentives have been obstructing the prospects of getting rid of poverty despite opportunities being offered by micro financing in the country.

This paper in this backdrop is an attempt to study realities, challenges and opportunities in micro financing as a means of alleviating poverty and low income in the rural sector in Sri Lanka.

INTRODUCTION

Micro finance can be defined as varied fiscal or monetary products that microfinance institutions offer to their consumers. Micro financing is heterogeneous. It may be different in cases and it may be offered by way of micro loans, micro insurance schemes or micro savings. However, this is not new and the world saw its beginning in 1970's with the practice of social businessmen lending money on a large scale to poor workers. At the same time the world also noted that poor workers are getting benefited in such practices of micro financing. For example, the year 2006 Nobel peace prize laureate professor MuhammedYunus demonstrated the ability of the poor people to pull themselves out of the poverty credited to micro finance. Further, in his rewarding work professor Yunus showed how productive those loans made available to poor working people are, if they utilized such financial capital properly in a structured manner. Contrary to popular fears that poor people are entrapped in such loan schemes, the outstanding work of professor Yunus evidently showed that working poor class has high potentials to pay back their loans and thus receiving the attention of profit seeking investors to invest on micro financing for mutually beneficial business(investopia,2010). Findings by the Professor Yunus support the core objective of the concept micro finance what has been explained at its outset "alleviating of poverty".

There is no clear cut definition to identify a micro financing institution from other financial institutes. However, based on European Union classifications (International Labor Organization, 2002) there are three categories of such financial organizations do exist. This categorization identifies small and medium enterprises in three groups based on the number of employs. Accordingly, if the number of employs in the particular institution is between 0 to 9 it denotes a micro enterprise. If the number of employees are between 10 to 99 it qualifies for a small enterprise. If the workforce is in between 100-499 it is about a medium scale enterprise (Premaratne, 2002). The classification by the government of Sri Lanka slightly coincides with this international classification and accordingly, an enterprise with up to five in strength is considered a micro institution (Lucok *et-al*, 1995). While this classification is based on the number of employment in a particular enterprise, both government and non-governmental institutions have focused attention to those micro enterprises in order to achieve economic prosperity by alleviating poverty of

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those employed in micro enterprises. These institutions are also ambitious to self-empower poor people under poverty line as a key strategy to elevate their level of income. Among the micro financing institutions in the country Samurdhi Authority of Sri Lanka (SASL), Sarvodaya Economic Enterprises Development Services (SEEDS), Thrift and Credit Co-operative Society (TCCS), Co-operative Rural Bank (CRB) and National Development Trust Fund (NDTF) can be identified as key organizations in the sector. Further, these organizations assist to generate employments in the country particularly in the rural sector. One study shows that at least 30% of total employments in the country comes under micro enterprises and around 2,048,400 workforce have been employed by way of self-employed or as employees working in micro enterprises (Charitonenko and de Silva, 2002).

Micro Financing is not about a simple financial activity between the lender and the recipient. There are many stakeholders in micro finance. It may be in Sri Lanka or elsewhere in the third world, multilateral lending agencies, Non-Governmental Organizations, donor agencies and private banks such institutions are acting in support of micro finance. Particularly in the last two decades those micro finance institutions have been able to come and lay a significant role in the finance sector and play a role in poverty reduction.

METHOD

Multiple case study approach has been used in this research to identify challenges and opportunities in micro financing in Sri Lanka. The research considered a range of secondary data in the analysis and attempt to study as to how the ideas of Nobel laureate Professor MuhhamadYunus really working in the Sri Lanka's context. Accordingly, findings of this research study are studied with the ideas of professor Yunus that "poorest of the poor can work to bring their own development' and "towards such an endeavor micro financing offers rewarding opportunities to those poor people".

Nature of Micro Financing

As mentioned earlier micro financing is not just about money intended to people in need. This involves a range products as well as services. Out of those multiple products micro loans which also known as micro credits are significant. In this practice, relatively small amount of capital is granted as loan to those small scale entrepreneurs in need such as poultry farmers, sewing tailors, street vendors etc. and the amount of micro loan to each single person usually does not exceed US$ 100 in size. Micro loan is offered at a lowered interest rate compared to other available sources to those poor entrepreneurs. By this means micro financing institutions attempt to attract those small scale business people to them and discourage going them behind informal local money lenders.

Micro savings is the other significant method and in that small scale entrepreneurs are facilitated to save money as much as possible as they can despite the bulk size. So, here there is no minimum balance requirement for them to open up and continue a savings account. Savers are encouraged always to build a deposit over a long course of time for their life event such weddings, funerals and for their life expenses when they get older. People living in developing nations are not only burdened with their chronic poverty, they face numerous other uncertainties. Much of their lands are prone to natural disasters. Floods and landslides often ruin crops. Such calamities make those people also vulnerable to health risks. So there needs a risk management system and in that micro financing works. Crop insurance policies are one of the best examples in this. Further, such insurance policies have been to cover the members of the borrower of micro loans if in case of unexpected deaths of those loan borrowers. Therefore, micro financing coupled with such insurance policies are one of the impressive social security system for those small scale entrepreneurs who runs basically a daily game of surviving. Sri Lanka tends to be known as an anomaly in the SARRC region, due to its high human and social indicators which put it on a par with mid/high middle-income countries, despite its status as a low middle-income country. However, despite good GDP growth in recent years, consumption and expenditure poverty levels remain high (Central Bank 2005/8). According to statistical records in the Department for Census and Statistics in Sri Lanka, approximately 23% of the population in the country is living below the poverty line. Even though this is indicating a decline from the figure of 30% in 1990, it translates into more than 4 million people living below the official poverty line.

In such a context, Micro-finance institutions offer a promising alternative for expanding the reach of financial services to the non-bankable poor. Access to financial services to very poor may have an empowering effect on households, helping avoid aid dependency and helping to gender equalization through the participation of women in productive activities. The sector has developed a variety of innovative techniques to overcome the hindrances in the provision of financial services to the poor. The approach of providing micro-finance with 'Credit Plus' service is one of the key aspects of this development tool which delivered better results.

Micro Financing As A Tool

In efforts of eradicating poverty in under developed countries particularly in Asia, they face two major hurdles. Women have not been empowered socially and especially in finance. Other factor is that many living in those poverty stricken countries are landless. They work under landlords who exploit those people in poverty. As a result they have no escape from poverty other than thinking of survival on daily basis. In such contexts, micro finance has been rewarding to create new employment opportunities and grow labour force in the developing world. For this reason, many consider micro finance, an appropriate tool for eradicating poverty. Accordingly, micro finance has been also attracted as a mean of eradication poverty for the Sri Lankan authorities and economic experts since last two decades. For this reason micro finance with state blessings has been gained much popularity in the rural sector and remote areas in Sri Lanka where formal banking facilities limit their operations.

Despite the long history and the large number of institutions providing microfinance services particularly to the poor, there is limited knowledge on the impact of microfinance on poverty alleviation in Sri Lanka.

Further, Microfinance services in Sri Lanka have a wide geographical outreach but the extent of outreach of private operators including NGOs and commercial banks in rural areas is rather limited. Although the poor and the poorest groups have been reached by Microfinance Institutions, a significant proportion of their clientele seems to be from the non-poor groups. Microfinance has helped households in the low middle income class to increase their income and assets. Moreover, micro financing has helped the very poor people in the country to increase their consumption expenditure. Micro financing has also been an instrument of consumption smoothing among almost all income groups. In addition, it has helped women to increase their social status and improve the economic conditions.

However, lack of employment opportunities, falling income due to inclement weather and natural disasters, poor rural infrastructure, land fragmentation and lack of incentives have been obstructing the prospects of getting rid of poverty despite opportunities by micro financing in the country. In this backdrop, there is a lacuna into the study on realities, challenges and opportunities in micro financing as a mean of alleviating poverty and low income in the rural sector of Sri Lanka.

The Ground View

Micro financing landscape in Sri Lanka had been dominated by non-governmental organizations since its very beginning. Those non-governmental organizations in fact played a key role in the rural sector with the generous intention of alleviating poverty as their sole objective. They also had expertise knowledge on micro financing and private sector banking practices. However, market place is now experiencing lot of changes. It is evolving and some of those micro financing institutions are transforming as profit making companies. This is not bad. It is good because transformation from non-profitable stance to a profitable position make the market and industry firm. It also improves security. When the market place is competitive usually benefits go to the customers (ILO, 2006).

Therefore, alleviation of poverty is still the main objective of many of those micro financing institutions. However, the problem is that many of those rural micro financing institutions are yet unprepared to cater the demands of new challenging demands of this century. Although most MFIs still consider poverty alleviation the primary goal, selling more products to more consumers is the primary motivation of many new entrants. However, the irony is that those micro financing organizations have deviated significantly from its required target group. Statistical evident suggest that clientele of those micro financing institutions are actually not from poor people but from non-poor groups. One study shows it alarmingly high and 65% represent the non-poor groups. Aggravating the problem further, reports also says that 95% of those youth among poor groups in the society does not receive support. Since younger generation is the gearing force to elevate a society out of poverty it is questionable to access the real impact or prospects of micro financing in order to alleviate poverty. Lack of well adopted practices by micro financing institutions are the reason for this anomaly.

One study into a coastal belt community in Sri Lanka indicates the lack of expertise knowledge to access the impact of micro financing. In that the particular study has focused a poor community in the eastern province of Sri Lanka badly affected by tsunami that hit the Island nation in the year 2004. The particular research shows that 65% of the clientele of micro financing institutions following tsunami had actually from non-poor groups in the particular society. This has multiple adverse effects. Poorer people lose opportunities to rise up. Young generation find it hard to access to the capital. (Thilepan and Thiruchelvam, 2006).

Social, political and economic status of farmers in Sri Lanka is a real tragedy compared to their counterparts in the west. For example farmers in the Netherland are agro business owners. They belong to upper middle class. Contrary, majority of Sri Lanka farmer do not have even a piece of land in their own to cultivate. Many of them in fact are almost labors of landowners. If not some of them have lands but a tiny piece and the whole family work for it and generating thereby less income compared to the labor they shed (Abeyratne, S.2018). Agriculture value added for farmer is very low in the case of Sri Lanka thereby placing them in a more difficult situation when it comes to the repayment of their micro finance loans. The situation becomes even worst as the scale of production is very low as they only have a very small piece of labour intensive land.

Opportunities

In Sri Lanka, both governmental and non-government institutions are active in the business. They vary from government organizations to non-government organizations, private sector, co-operatives to village level groups. They offer promising benefits and show alternative to the clientele.

Financial loans and insurance schemes usually are profit making business that big institutions like banks, insurance companies hold into. In such a context, attention goes to recovery with profits as against social welfare of those under poverty line. If income generation is less and volatile customers will have no opportunities and this is where micro financing matters. It has an empowering effect in such a context. It avoids aid dependency and helps with no gender discrimination. Particularly for the poorest of the poor who do not have access to the formal banking sector.

Micro financing sector today has developed a variety of groundbreaking techniques to overcome the hindrances in the provision of financial services to the poor. Financing is very important to elevate someone out of poverty. However, there is also a problem associated with micro financing. It offers money however with no securities most often. However, diversified means of micro financing for example micro finance along with savings and insurance schemes have been able reduce the risk considerably (ProMiS, 2007).

In patriarchal societies like in the case of Sri Lanka women does not receive much encouragement compared to their male counter parts in elevating the level of family poverty. Their contribution to the family is immense but when get into work female often get lesser wages compared to men. Microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty. This is another r area where micro financing is paramount important in rural poverty reduction strategies.

Challenges

Employment opportunities are increasing and this trend discourage people looking for small scale enterprises and so attention to micro financing. The current state economic policies focuses economic reforms to bless multinational companies and not to the effort of uplifting the poor small scale industries.

Sri Lanka is prone to natural disasters. Unpredictable weather contributes to uncertainty in cultivation and farming. Land fragmentation and paddy cultivation becoming a less profitable mean of living had made the situation unfavorable for micro financing. Rural Sri Lanka has no proper infrastructure and facilities.

Sri Lanka relatively is with a small economy but one of the fastest growing economies in South Asia. The island nation now is a middle income country. However, there is a significant low income population lives there. Micro financing institutions have reached this space but no precise data and monitoring mechanism in place in the micro financing sector.

Criticisms in Sri Lanka

There are number of complains to government authorities by people in Sri Lanka against unscrupulous practices by several micro financing institutions. Today, such complaints are on increase as those who borrowed money finds difficult in repayment and rigid conditions of certain micro financing agencies have placed them down in a more difficult position. While the situation of those who received financial support was in peril, the central notes there are irregularities as well. For example, practices of customer protection are considerably absent among some micro financing agencies. Evidently, in the month of February 2018, over 3000 more members of cooperative societies have staged protests against their indebtedness and demanding government authorities to intervene in order to make a more fair deal with those who are in the business of micro financing (Razak.A.2018).

Even lately, Central bank has now issued new set of prudential rules and directions for micro finance companies and guidelines to the Registrar of Volunteer Social Services organizations with regard to micro finance Non-Governmental Organizations.

When considering the small scale financial sector in Sri Lanka it is evident that, micro financing is necessary for poverty alleviation among poor but not a sufficient condition for micro-enterprise promotion. Availability of micro financing institutions to lend small scale enterprises to rise up does not means that it is the most important and therefore, all conditions are fulfilled. On the other hand, most poor people wants a regular income to manage their economy and life and not building an enterprise. They may be from agricultural sector and so ideal measure for them is to groom them in farming. However, it is not the wish all poor people in the agriculture sector.

Sri Lanka is with a small economy and therefore bound to shake its foundation even from natural disaster uncontrolled. The country is prone is to natural disasters and no one can guarantee a steady paddy cultivation annually. This very evident while the government is making efforts hard to protect the farmer also encourage import of rice to avoid market fluctuations due to crop failures. Agriculture sector has been in a crisis as result despite incentives to farmers.

Micro financing encourage savings. It also assists the poor people by way of granting credits and providing insurance facilities. Therefore, if wisely utilized benefits that offer by micro financing institutions are no doubt valuable means of getting rid of poverty.

CONCLUSION

Micro financing is important but alone will have no guarantee to alleviate poverty levels of those in Sri Lanka's rural sector. On the other hand, the state should not leave micro financing to the non-governmental sector and rural development organs alone. There should be proper mechanism to ensure professional micro financing institutions are in the business and so to the best interst of those poor to come out of the poverty. Poor households in Sri Lanka have little access to institutional financial services. Development practitioners, policy makers, and multilateral and bilateral lenders, however, recognize that providing efficient microfinance services for this segment of the population is important for a variety of reasons.

Micro financing has no strategy to elevate or shift the excessive people in the agriculture industry in the country to push industrial and services sectors.

Micro finance is a blessing for grooming micro enterprises. However, there is no universally accepted definition to categorized one enterprise from another as micro institutions. However, micro institutions are tiny compared to bigger institutions. They do not have much access to the capital market. They use low level technology for production. Productivity is low and so is the income.

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