Spiralling into poverty, one debt at a time

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Abstract

Microcredit was initially promoted as a means of improving the conditions of individuals previously excluded from accessing financial services through investment in microenterprises. More recently however, it is observed that credit facilities which were meant to be invested in productive purposes, are in fact being used predominantly for consumption, as a means of survival in the face of trying circumstances, contributing to increased levels of indebtedness among its users – a majority of who are women. This essay seeks to understand the multiplicity of factors and circumstances that contribute towards the decision to borrow from microfinance institutes, as well as to understand the social and economic implications that result from increasing levels of indebtedness. The findings are broadly analysed within the context of Sri Lanka's Northern and Eastern Provinces, which were directly impacted by the armed conflict.

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1. Introduction

Microcredit was originally promoted as a means of providing access to individuals excluded from traditional financial services due to their existing socio-economic conditions, the opportunity to independently advance their own wellbeing and thereby to move out of poverty. Women in particular have been targeted by microfinance practitioners and policymakers, with the view that microcredit programmes would have the widest social benefits. This is based on claims that women were more likely than men to utilise the resources to benefit the entire household (Ngo & Wahhaj, 2012) as well as empower women through access to finances they would otherwise be excluded from on account of intersecting gendered vulnerabilities (Consultative Group to Assist the Poor, 2020).

Since its introduction in Bangladesh in 1976 through the Grameen Bank, microcredit was lauded as a panacea for the struggle against poverty, with Dr. Yunus and the Grameen Bank being awarded the Nobel Peace Prize for "efforts to create economic and social development from below" (The Nobel Prize, 2006). Since then however, there have been numerous debates on the perceived success of microfinance, with particular attention on increasing levels of individual indebtedness, the challenges women face in balancing their care responsibilities while servicing debt obtained for productive purposes (Kabeer, 2005; Sengupta, 2013), questionable debt collection practices, as well as unregulated lending (Arambepola & Kulasabanathan, 2019; Bateman, 2012a).

What is troubling is that this growing discontent with microfinance is becoming commonplace. In Sri Lanka, it is estimated that nearly 80% of the microfinance loans obtained are by women (Lanka Microfinance Practitioner's Association [LMFPA], 2018 as cited in Arambepola & Kulasabanathan, 2019). Many of the women who access these loans, do so in response to having limited or no alternative resources to draw upon in times of need. Worryingly, they tend to use the microcredit predominantly for the purpose of fulfilling their daily consumption needs rather than investment in livelihood improvement. With limited recourse for repayment, this has led to a context of individuals taking on more debt to repay existing loans, and thus over-indebtedness.

The increasing levels of indebtedness among women in Sri Lanka came to a head with the rise in the number of reports of women struggling to repay the loans they had taken. Practices of taking out more loans to pay back existing debts, leaving villages due to the inability to pay the next instalment, migrating for work overseas to service the mounting debts, pawning and selling of precious jewellery – worth more to the owner than its market value – and instances of debt-related suicides, particularly in the northern and eastern provinces which were directly impacted by the armed conflict, were occurring more frequently (Arambepola & Kulasabanathan, 2019; International Labour Organisation [ILO], 2018; Srinivasan, 2018). Since its recognition as an issue in the post-war northern and eastern provinces, the prevalence of microcredit related indebtedness has been highlighted in multiple localities across the country via community mediation board settlements (Munas & Lokuge, 2016). But the question of what leads women to borrow for consumption instead of an entrepreneurial activity is not clear. Are women driven by structural constraints to borrow for consumption? Have women's social roles and associated responsibilities changed? And how are these conditions more complicated in a post-war setting?

1.1. Research Objectives

In this light, the paper will attempt to unpack the possible factors contributing to burgeoning levels of indebtedness among users of microcredit facilities and the consequences, focusing on the post-war context of Sri Lanka.

1.2. Problem Statement

Increased access to microcredit in post-war Sri Lanka keep women who access it in a continued state of poverty despite its intended outcome of empowerment. The essay focuses specifically on microcredit accessed for consumption purposes, with a particular emphasis on understanding the social and economic consequences of these decisions, and how it impacts the lives of the female borrowers.

1.3. Research Questions

To understand how microcredit accessed for the purposes of survival contributes to increasing levels of indebtedness and its consequences for women within Sri Lanka's post-war context, this essay attempts to answer the following questions.

- Does microcredit help those in poverty?
- What socio-economic and political factors lead women to borrow for consumption?
    - What are the alternatives available?
- What are the social and economic consequences of borrowing for consumption?

1.4. Relevance of the Research

At present, microcredit is being used as a tool for survival rather than investment; it is thus a coping mechanism in the face of environmental shocks and a lack of viable sources of income generation. Existing research on the topic tends to focus heavily on an economic analysis without adequate emphasis being placed on the structural factors that contribute to this system being the way it is.

This research essay intends to provide insights into the underlying factors contributing to increased indebtedness among users of microcredit, the impact of depleting assets among an already vulnerable community, and propose possible corrective policy measures. Beyond an economic analysis, the research essay hopes to understand the social and cultural implications of increased indebtedness, particularly among economically marginalised women.

1.5. Limitations

The author recognizes that a multiplicity of factors contributes towards the decision to access microcredit and it is not possible to document them all within the limited scope of this essay. The arguments presented here are based on secondary data and interviews with women borrowers from selected post-war locations. As every individual's experience with regard to microcredit is unique, the findings from the essay cannot be generalised to the experiences of women across the country but offers a case study of what women may undergo in such contexts.

2. Literature Review

This section will capture the arguments made by both the proponents and detractors of microfinance in order to ascertain whether access to microfinance leads to the empowerment of women and the impact on poverty. To this end, it will reflect on how microfinance evolved from its original conceptualisation, to its present version which is interspersed with commercial interests within a neo-liberal dimension. It will also briefly explore the existing narratives which link the access to microfinance as a conduit to spur entrepreneurship, and subsequently poverty alleviation, with a focus on women.

2.1. Distinguishing between microfinance and microcredit

In much of the existing literature reviewed, it was observed that the terms microfinance and microcredit were used interchangeably although distinctions do exist. Within the context of financial service provision, microcredit is defined as the provision of small loans to the poor to help them establish or expand an income-generating activity, which will in turn allow them to escape from poverty (Bateman, 2011). The term microfinance by comparison encompasses a host of financial services offered such as savings, insurance, money transfers, in addition to loans (Asian Development Bank, 2000).

In the context of Sri Lanka, microfinance institutions predominantly provide loans and limited saving facilities, with other services scarcely provided on the assumption that the poor have little or no capacity to save, and therefore did not require the other services (Tilakaratna, 2012). For the purposes of this essay, I will place greater emphasis on the provision of small credit facilities, referred to as microloans or microcredit, with an attempt to unpack the multiplicity of uses of the loans accessed and its impact on the borrowers. However, as microcredit is a component within the microfinance services provided, the debates surrounding this topic will be presented using the terminology used by the respective authors.

2.2. The rise of Microfinance: A strategy for financial inclusion?

Since the 1970s, the perceived success of microfinance was lauded as a panacea for the struggle against poverty and promoted across the globe. In recognition of its contributions over the years towards poverty alleviation and to increase public awareness and access, the United Nations [UN] General Assembly declared 2005 as the International Year of Microcredit (UN Capital Development Fund, 2006). With its inclusion within target 1.4 of Goal 1 of the Sustainable Development Goals which aims to end poverty by 2030, microfinance continues to be recognised for its positive contributions (UN Statistical Division, 2020).

Microfinance was originally conceptualised as a means to provide credit to individuals and households who were excluded from accessing financial services on account of their economic conditions. It was seen as an opportunity to establish an income generating enterprise which would allow them to lift themselves out of poverty (Bateman, 2012b; Bezboruah & Pillai, 2017; Hassan, 2002). The adoption of microfinance on a wider scale also coincided with the discourse at the time that presumed the poor were "best left to themselves and the informal market" and thus excluded from the formal financial services sector (Marr, 1999, p.2).

Factors contributing towards the exclusion of individuals from formal financial services included, the geographic distance of vulnerable, predominantly rural households from economic centres, low population density, and gender (Conroy, 2008). Prior to the formalisation of the Grameen Bank, Yunus documents that formal banks in Bangladesh withheld financial services from the poor on account of their lack of literacy and concern about non-repayment of unsecured loans, as well as lack of information regarding the use of loans, and the limited ability to enforce re-payment (Yunus & Jolis, 1999). Therefore, at the outset, microfinance institutions (MFIs) such as the Grameen Bank acted as intermediaries between formal financial institutions and development agencies. They were able to offer loans or credit services to individuals with low incomes who had little or no physical collateral requirement or proof of savings (Armendáriz & Morduch, 2010; Marr, 1993).

Repayment of the loans offered by MFIs was ensured through the formation of groups within the locality/community which would take on joint liability through an internal monitoring system among its members. This allowed individuals who lacked physical capital to use their social connections as a form of collateral (Herath, Guneratne, & Sanderatne, 2015). Ana Marr (1999), elaborates on how social collateral allowed groups to self-select members who they trusted would comply with timely repayment to avoid penalties to the whole group. This helps ensure future access to credit, thus, contributing to high rate of repayment characteristic of microcredit. In addition to group pressure, the high repayment rate is also attributed to the borrower's desire to ensure continued access to the credit service (Rosenberg, 2010).

To its credit, microfinance is attributed with increasing the level of financial inclusion for previously disadvantaged groups/communities (Armendáriz & Morduch, 2010; Conroy, 2008; Stein, 2010). Wichterich (2012) highlights how MFIs generally enter markets and localities which are unserved or have limited formal financial services or banks, providing services to individuals and communities formerly excluded from access and opportunities. Conroy (2008), reiterates how MFIs enable households in remote locations to access financial services while also minimising the transaction costs of accessing these services in terms of time and money, gaining these institutes a loyal following. The popularity and loyalty towards MFIs is visible in the Sri Lankan context as well (Arambepola & Kulasabanathan, 2019), particularly in the former war-affected regions where state services were slow to establish in the aftermath of the armed conflict on account of limited infrastructure, and high incidence of poverty among the population returning after protracted periods of displacement (Thilepan & Thiruchelvam, 2011).

2.2.1. Entrepreneurship: Self-help and self-rising

Robinson (2001) has argued that microfinance contributes towards the development of entrepreneurial hubs, enabling its proprietors to enhance their incomes, and in some instances to even graduate from micro to small enterprises. Chliova, Brinckmann, and Rosenb (2015) cite a number of studies that support this positive correlation between entrepreneurship and the enhancement of wealth. Chliova, Brinckmann, and Rosenb (2015) go on to recognise that microcredit acts as a conduit for individuals who were previously constrained from accessing financial resources to either initiate or grow their entrepreneurial ventures, and by extension, becomes an effective tool for alleviating poverty (Bezboruah & Pillai, 2017).

Much debate exists in the theoretical fields with regard to the ability to attribute entrepreneurship financed by microcredit with escaping poverty, with questions raised about measuring the actual monetary impact on the entrepreneur (Hermes & Lensink, 2011; Morduch, 1999). Other critics highlight a lack of profit generating potential on account of the high interest rates charged (Webb, Bruton, Tihanyi, & Duane, 2013), and limited business management skills of entrepreneurs (Hulme, 2000). To this end, citing an example from the Indian context, Wichterich (2012) identifies the possibility of oversupply of production-related enterprises which limits the potential for success of entrepreneurial activities in localities among individuals with similar skills/capacities. Factors such as these, contribute towards questioning of whether all the ventures initiated as microenterprises are able to generate adequate income to cover the cost and interest payments of the credit acquired, particularly on account of the size of the loans and limited profits generated (Chliova, Brinckmann & Rosenb, 2015).

2.2.2. Commercialisation of microcredit

Although attributed for enabling financial inclusion for those who are traditionally marginalised, the MFI practices are observed to have shifted since its inception in the 1970s. In light of its acclaimed success, donor subsidies to MFIs ended with a push to obtain funds from commercial lenders, resulting in the services being offered at higher market-based interest rates, which accounted for the cost of lending (Bateman, 2011). Hulme and Arun (2011) present arguments that these rates were now too high for the poor to pay, and in some instances even on par with informal money lenders. Raising additional questions of how inclusive microcredit is in its current incarnation. This emphasis on profit is referred to by Copestake (2007) as a “mission drift” from the original motivation of microfinance to ensure financial inclusion, and to empower the vulnerable.

The perceived success of microlending and the profit motive increased the number of providers in the market, leading to an oversupply of credit by MFIs in a bid to reach as many borrowers as possible with limited checks and balances in place. This, to some extent, is attributed to the collapse of the MFI sector in Andhra Pradesh in India (Wichterich, 2012). The liberalisation of the financial market and limited regulations in place were generally allowed, as MFIs were seen to be filling in where the states did not (Kadirgamar, 2017). As a consequence of the commercialisation of the sector and the subsequent profit motivation, Fouillet, Hudon, Harriss-White and Copestake (2013) question the extent to which microfinance can be deemed to empower those who access it.

In the words of Hulme and Arun (2011, p.24), “it is bad loans and bad institutions that are responsible for delinquency rather than bad clients”. As the review of the literature has indicated, scepticism about microfinance’s ability to help the poor is becoming more common. But lending continues to take place, and women in Sri Lanka continue to rely on microcredit. But the question of why women would do so, is not as clear in the literature.

2.3. Microcredit to the rescue?

Microcredit is lauded for its positive impacts in the form of helping the poor manage their daily needs themselves in times of uncertainty; enabling them to invest in microenterprises (and themselves), thus providing them with the opportunity to improve their income and asset base, to cope with external shocks (Stein, 2010). For many years, the development industry has claimed the existence of a positive link between microfinance and empowerment/upliftment of the poor through improved consumption, decision making ability and access to health care (Hashemi, Schuler, & Riley, 1996; Pitt & Khander, 1996). More recent literature however, calls into question the impacts and the causality associated with microcredit, and its ability to lift individuals and households out of poverty.

Through a new body of literature, the need to consider multiple factors has been emphasised, but with growing consensus that microfinance has little or no real role in poverty reduction; contrary to the dominant assumption which links microcredit with poverty reduction. Referring to a study conducted in eastern India, Wichterich (2012), reinforces the weak link that exists between access, repayment and improved economic condition of women borrowers, where although over 97% of women borrowers surveyed had repaid their loans, only 9% of cases reported long term financial improvement. In the context of determining if microcredit can be attributed with reducing income poverty or whether it can be attributed with empowering women, the findings are found to depend on the indicators used for measurement, as well as the methodologies adopted. In their evaluations Guérin, Kumar & Agier (2013), indicate that randomized control trials have shown negligible effects with regard to the effects of microfinance, while also citing a number of other studies which have indicated a negative impact on women, both within, and outside the household as a result of microfinance. This requires us to delve deeper into understanding how access to microcredit impacts women in particular.

2.4. Women targeted as beneficiaries

These problematic elements associated with microfinance then raise the question of how its main beneficiaries are affected. MFIs offering microloans particularly target women as beneficiaries as they are traditionally excluded from financial services on account of having fewer or no personal assets compared to men (Bezboruah & Pillai, 2017) therefore enabling access to microcredit is seen as a means of correcting a gendered injustice (Schuster, 2014). Beyond this altruistic reasoning, women were also targeted as they were considered more reliable debtors, maintaining regular and higher repayment rates, and lower rates of default, with a repayment rate as high as 98% recorded (Bateman, 2012a; Rankin, 2002; Wichterich, 2017). In their work, Arambepola and Kulasabanathan (2019), and Armendáriz and Morduch (2010) cite numerous studies which attribute the targeting of women and the provision of microcredit to start small businesses, towards the empowerment of women to uplift the household out of poverty, reinforcing the continued targeting of women. This was attributed to the belief that women would use the credit facilities for the benefit of their households in terms of spending on education, health and nutrition (Ngo & Wahhaj, 2012).

When microfinance was introduced, it intended to empower women by providing them access to finance, financial literacy and the ability to engage in entrepreneurial activities. According to Wichterich (2012), in Bangladesh, Yunus had intended to link credit with making women more independent in the areas of household decision making, coupled with the ability to practice family planning and modernizing women in their freedom to move. Therefore, empowerment through the access to microfinance was perceived to promote self-employment and thereby, financial autonomy among women (Guérin, Kumar, & Agier, 2013). Numerous case studies from across the world have highlighted women's empowerment as a result of access to microcredit through income generation opportunities in Côte d'Ivoire (Fofana, Antonides, Niehof, & van Ophem, 2015), greater decision making in household spending in Bangladesh (Porter, 2016), and increased social participation in certain communities in India (Pathak, 2008). Within patriarchal societies, the ability to earn an income is attributed to strengthen women's bargaining power in the household, leading to their empowerment (Herath, Guneratne, & Sanderatne, 2015).

The extent of women's empowerment as a result of access to microfinance however, is called into question by Fletschner (2009). According to him, even though women are more connected to financial systems, they are still offered very small loans, limiting their ability to do much with the credit facility. Because of the size of the loans and the fact that they are limited to very specific sectors on account of their existing skills and household responsibilities imposed by social structures, the businesses they invest in are not necessarily always profitable (Bezboruah & Pillai, 2017; Murray & Boros, 2002). As early as 1998, Linda Mayoux points out how women's access to microfinance was no clear indicator for empowerment. For those who do access funds for the purposes of microenterprise, Naila Kabeer (2005), Nilanjana Sengupta (2013), and Brooke Akerly (1995) contend with the challenges women must endure in servicing the debt while also bearing the burden of care work and household survival. Thus, questioning the extent to which microfinance is able to reduce conditions of poverty, and empower poor women, when it is deemed to increase the burden on women.

These arguments present the basis for recognising that women's lived realities are complex and the need for multiple assumptions to be maintained in order to ascertain linear correlation between access to microcredit and empowerment. To this end, Mayoux (1998), elaborates on how access to microcredit does not infer women's uptake of financial services, repayment levels or enterprise performance; nor can inferences be made with regard to the wellbeing of women as a consequence of increased household income. Rankin, (2002) points out that increased household income may in some instances lead to widening inequalities in the household, or as Mayoux (1998) indicates, may lead to no changes in gender roles or social empowerment within the private or public sphere. Caution with attributing access to microcredit with immediate empowerment is expressed in the work presented by Weber and Ahmad (2014) from Pakistan, who found that empowerment was more visible among women who had experience with borrowing over longer periods, as compared to new borrowers of microcredit. It is necessary to be conscious of the fact that women are not a homogenous group and have both unique, and intersecting identities based on gender, caste, class, as well as social interactions which determine the extent of success and empowerment experienced as a consequence of utilising microcredit (Guérin, Kumar & Agier, 2013).

2.5. Microfinance in Sri Lanka

Sri Lanka has been no stranger to accessing credit during instances of financial difficulty, with Gant, de Silva, Atapattu and Durrant (2002) documenting instances of state owned and private commercial banks offering microcredit facilities as far back as the 1960s. A proliferation in microfinance institutes was observed in the wake of the 2004 Tsunami, where microcredit was used as a tool for recovery (Becchetti & Castriota, 2011) with another surge witnessed at the culmination of the armed conflict in 2009. The Central Bank of Sri Lanka ([CBSL], 2012) recorded an increase of 25% of the number of branches of licensed commercial and specialised banks between 2010 and 2011 in the Northern Province, and an unprecedented increase of 118% in the Eastern Province.

At present, a host of institutions are in the business of providing microfinance services in Sri Lanka, from licensed banks, licensed finance and leasing companies[1], co-operative rural banks, thrift and credit co-operatives societies, community based organizations, microfinance companies, and non-governmental organizations that engage in the microfinance business (CBSL, 2018). Given the multiplicity of service providers operating in the sphere of financial service provision – predominantly in the provision of microcredit – the challenge lies in that, these multiple MFIs are not regulated by a single central authority. Even though the Microfinance Act of 2016 was meant to correct these shortcomings (Tilakaratna & Sooriyamudali, 2016), it has fallen short of expectations and is in the process of being revised – the progress of which, is not yet known. The implications of the absence of regulations however, become further heightened under extenuating contexts such as the post-war recovery period.

The changing dynamics of the microfinance sector reflected upon in this chapter are also observed to some extent in the Sri Lankan context. While the extent of the challenges faced by Indian borrowers may not be comparable to the situation in Sri Lanka, the growing concerns regarding women and rising indebtedness require a more focused perspective. Evidence of the commercialization of the MFIs, the inability of state policies to regulate the sector and to empower women have all been found in Sri Lanka. The surge of private MFIs at the end of the armed conflict may have helped ensure financial inclusion of those previously excluded. Despite recognition that microcredit is contributing to an environment of increased indebtedness, public debate has also focussed on the MFIs rather than critically examining structural failures that may contribute to the existence of this phenomenon and the resultant consequences.

Miller, Grimes, McMullen and Vogus (2012), acknowledge that the determinants of either success or failure is dependent on a multiplicity of contextual factors, and the recognition of intersectional identities of the individuals and their surroundings that contribute towards the impact

[1] Categorised as non-bank financial institutions by the Central Bank and operating with a license issued by the Central Bank of Sri Lanka

experienced and documented. Therefore, this essay hopes to understand the factors and circumstances that contribute to the present phenomena of multiple microloans accessed through microfinance providers, and the consequences of increased indebtedness particularly amongst female borrowers and their households. To do so however, the focus will be on why women borrow for consumption instead of entrepreneurial activities, the structural factors and socio-cultural concerns may underpin their decision-making and the consequences for women and their households.

3. Methodology

For the purpose of this essay, I used a mixed methods approach. Qualitative data analysed were in-depth interviews conducted as part of a study funded by the Ministry of Foreign Affairs of the Netherlands which looked at how debt collection practices impacted female borrowers in the districts of Batticaloa, Monaragala, and Mullaitivu, and data collected for a study commissioned by the Swiss Development Cooperation which looked at the indebtedness among beneficiaries of housing assistance in the districts of Jaffna, Killinochchi, and Mullaitivu.

The data was collected at different points since the end of the war in 2009, and therefore, capture the nuances that are unique to the post-war districts. The data collected were part of larger research and evaluation studies conducted by the Centre for Poverty Analysis (CEPA) in Sri Lanka, where I am currently employed. CEPA has established research quality guidelines that all researchers must follow in collecting, analysing and presenting data. These include maintaining the anonymity of the respondents, removing all identifiable markers including the names of any MFI from which the women had borrowed (in this particular instance). While data protection is of paramount importance, for the greater public good, CEPA also uses the existing data to trace developments across time.

In line with these, to protect the identity of the respondents interviewed, where excerpts are included in the essay, their names and any identifying characteristics have been excluded. As the interviews were conducted in the local languages, the translated transcripts may have lost the nuance of the responses to the questions asked.

Quantitative data available through the government's Department of Census and Statistics (DCS) and the Central Bank of Sri Lanka have been used. Basic calculations were completed using the data for the purpose of making comparisons of the data over time and to disaggregate by gender and location.

3.1. Conceptualising poverty

The international poverty line considers anyone who earns below US$1.90 a day to be poor. This is a flawed and reductive way to view poverty although it the accepted measure of development because understanding poverty involves looking at factors which cause and contribute towards maintaining conditions of poverty. Therefore, for the purpose of this essay, poverty is looked at, from a multidimensional perspective in order to understand factors beyond economic considerations such as access to education, healthcare, and water (Alkire & Robles, 2017). In this essay therefore, the emphasis is that women and their households experience poverty as a result of multiple disadvantages, some of which are beyond their control.

The paper does not discount the importance of a stable income but rather, agrees with the notion put forth by Richard Rosenberg (2010) who argued that "economic poverty is not just a matter of *low* incomes, but also of *irregular* and *uncertain* incomes. To put food on the table every day, and to meet other basic consumption needs, poor households have to save and borrow constantly" (p.2). For this purpose, the paper uses Robert Chambers' (1995) argument which recognises how factors such as ill health, vulnerability, and social inferiority, contribute towards a person's experience of poverty. To this end, the capabilities approach presented by Amartya Sen (1999) is also used to justify the need to look at the multiple factors that contribute towards an individual's ability to access basic resources, which contributes towards a person's economic status and overall wellbeing. This approach considers an individual's unique identity and needs, as well as the freedom the person possesses to be able to prioritise the utility of the opportunities available (Walker, 2011).

Although both these theories assist in looking beyond the standard and often times linear connection between income and poverty, there is a need to delve a little deeper to understand the gendered dimensions. Given the dearth of literature that focuses on how multiple identities of women and men come into play in enabling or disabling them to move out of poverty, the paper will also take this into consideration. Since the analysis is primarily focussing on women's experiences, women are not necessarily viewed as a homogenous group but as experiencing different forms of discrimination as a result of their multiple identities.

3.2. Positionality

My ideas on poverty and the importance of using a multi-dimensional angle for analysing poverty is heavily influenced by being an employee of CEPA. It is important to point out that given my interests in post-war policy discussions and the evident failures of actors to respond effectively to help the post-war regions, these ideas may influence how access to microfinance and women's choices are analysed. It is recognised that data collection as well as interpretation of data is subjective. The fact that the data analysis in this essay is influenced by my own subjective understanding, is also recognised.

4. Discussion

4.1. How we got here: Setting the context for borrowing

Sri Lanka experienced nearly three-decades of armed conflict between the armed forces of the Government of Sri Lanka (GoSL) and the Liberation Tigers of Tamil Eelam (LTTE), which came to an end officially in May 2009. The brunt of the war was felt by residents of the northern and eastern regions of the country where the fighting was concentrated, with an estimated 470,000 persons experiencing displacement from their places of origin as a consequence (Internal Displacement Monitoring Centre, 2012). They experienced loss of lives and loved ones, disruption of education, destruction of their homes, and protracted periods of displacement. The end of the armed conflict also resulted in an increase in the number of women headed households of which 90,000 are estimated to be widowed (UN, 2015), increasing the burden of responsibility on women to support their households. Upon return to their places of origin once the fighting had ceased, much of what they had known was no more; houses were damaged and destroyed, schools were razed to the ground, agricultural land was overgrown, fishing equipment destroyed, and the provision of basic services were stunted.

Prior to the outbreak of the war, the Northern Province was a significant contributor to the country's agricultural and fisheries sectors and these were the primary source of income for many households in the region (Sarvananthan, 2004). The deterioration of the livelihoods and the local economy is widely recognised as a consequence of the armed conflict (Kadirgamar, 2013; Jayatilaka & Amirthalingam, 2015), giving rise to limited income generating opportunities in both the formal and informal sectors.

It is in this context that emerging data from the post-war locations began to indicate a proliferation of MFIs and the sudden over-reliance on credit, especially among low-income households. The lack of a regular stream of income in the midst of attempting to rebuild their lives is attributed to the challenges experienced with regard to meeting basic living expenses by households, leading to high levels of borrowing and indebtedness (Gunasekara, Najab, & Munas, 2015; Romeshun, Gunasekara, & Munas, 2014). While the war was one reason why people were in a difficult condition on account of their displacement and experiences of having to cope, there are structural factors that contribute to people remaining in vulnerable conditions.

4.1.1. Factors contributing to household distress

Groups identified as vulnerable – women headed households, persons with disabilities, households with a large number of dependents – were prioritised for receiving assistance towards the construction of their houses destroyed as a result of the armed conflict by various non-state development agencies (Romeshun, Gunasekara & Munas, 2014). An evaluation of the housing assistance programmes found that these housing grants were insufficient to complete the construction without a contribution of finance and labour from the beneficiary (which was a condition of the assistance); resulting in an additional challenge for those who were already struggling to meet their daily household consumption needs due to infrequent income streams (Gunasekara, Najab, & Munas, 2015; Romeshun, Gunasekara & Munas, 2014). This struggle was compounded by the lack of or depletion of savings and assets during the period of displacement (Amirthalingam & Lakshman, 2010). Thus, creating an opening for households who wanted to construct their houses with assistance, to turn to microfinance companies to bridge the deficit, until such time as the debtor could secure a regular, and sufficient flow of income.

Although a host of livelihood assistance programmes were initiated in the aftermath of the armed conflict by a mix of state and development agencies, the viability of these programmes remains a cause for concern. A recent project implemented by the UN Development Programme in three administrative divisions in the Northern Province providing households with agricultural, fisheries, and livestock assistance, was found to have challenges as it had not adequately taken into consideration the dynamic post-war context. Issues identified included not just structural inequalities, but also a lack of appropriate skills among the target group and weak market linkages. These factors contributed to delays in establishing a steady stream of income among the displaced population returning and being resettled (CEPA, 2019). To this end, Kodikara (2018) also argues that although both the agriculture and fisheries sectors have received government and donor financial allocations for their revival, it has not been sufficient to meet all of the demands and challenges of rebuilding these sectors, with stable and secure employment opportunities only available to a few.

The regeneration of livelihoods is also hampered by the fact that youth in particular, consciously choose not to go into traditional jobs of farming or fishing. This is attributed to the changing attitudes and preferences for white-collar employment opportunities, coupled with a dependence on the state for jobs and handouts (Asian Development Bank, 2018; Sarvananthan, 2007). Compared to the national unemployment rate of 4.4%, Sri Lanka's high youth unemployment rate of 20.1% attests to this sentiment (Department of Census and Statistics [DCS], 2018).

Another factor contributing to household financial distress is the impact of climate change induced variations in weather conditions which affect livelihoods that are highly dependent on natural resources. Weather patterns can no longer be predicted, resulting in unseasonal rains as well as prolonged and more frequent droughts which affect crop yield (Seo, Mendelsohn & Munasinghe, 2005); a challenge further exacerbated by the damaging of irrigation tanks during the war and increased salination of the groundwater in the Jaffna District (CEPA, 2018). Since 2011, the United

Nations Office for the Coordination of Humanitarian Affairs [UNOCHA] (2014) has recorded a series of drought/flood cycles particularly in the Dry Zone, which has led to an increase in the disaster-affected population. An estimated 430,000 persons in the Northern and Eastern Provinces were affected as a result of floods which occurred in 2013 (UNOCHA, 2014), while an estimate of 900,000 persons were deemed food insecure after continuous crop failures in 2016 and 2017 due to drought (FAO, 2017). Complicating things further, households engaged in small-scale primary production often have low profits, struggling to meet basic living standards, as they do not have diversified income streams. This means that when disaster strikes, they have limited capabilities for coping (UNOCHA, 2014) or securing alternative employment opportunities, increasing their vulnerability to food insecurity.

When considered through a gendered lens, these factors contribute towards an increased burden on women. The added burden female family members experience as a consequence of a depleted household income is not unique to the Sri Lankan context; in a study conducted by Singh, Rahman, Srinivas and Bazaz (2018) in rural India, they concur that non-regular incomes can negatively affect the wellbeing of women with regard to their health and nutrition. In an environment where men take pride in being the primary breadwinner and provider of the household, when the income that they bring is insufficient or infrequent, it puts a strain on household survival; and by extension on women who are responsible to managing household wellbeing. So, what can or do women do?

4.1.2. What can and do women do?

Despite high levels of educational attainment and social indicators for women compared to its neighbouring countries, Sri Lanka's female labour force participation rate has remained consistently low over the past two decades, between 30-35% which is approximately half compared to that of males (DCS, 2018; Ranaraja, Hassendeen & Gunatilaka, 2016). This pattern of labour market participation is attributed in part to the traditionally ascribed gender roles of women, which expect them to bear the burden of household care responsibilities (Otobe, 2013). For women who do seek employment outside the home, concerns about personal safety in the workplace, safety and cost of transportation, as well as housing – if working outside the locality – weigh their choice of employment (Gunatilaka, 2013). The absence of any institutional support towards childcare or elderly care also contributes towards excluding women willing to work outside the home (Gunatilaka, 2013). In addition, patriarchal norms and societal pressures influence the type of jobs they are allowed or encouraged to engage in. Jayawardena (2017) identifies that women who engage in non-standard work predominantly experience weak job security, low employment based social security coverage, and low wages. Compounding this fact, women on average are paid significantly less than men for the same type of work (World Economic Forum, 2019). These factors contribute towards women looking for work that is closer to home and flexible.

As discussed, the limited opportunities and barriers women experience, influence their ability to engage in gainful employment outside the home, and contribute towards household income. To this end, the shift towards self-employment would appear to be the natural progression as it offers women the flexibility and control, allowing them to balance the expected household care responsibilities (Deyshappriya, 2019). Thus, setting the stage for the potential to make use of the increased availability of credit offered by MFIs to establish entrepreneurial activities. Interestingly enough, there has been an increase in the share of own account workers in the decade preceding 2010, which coincides with the surge in MFIs – however, the data available does not ascribe this increase with the increased availability of credit facilities or improvement in overall household wellbeing (Otobe, 2013). Deyshappriya's (2019) work in selected districts of Sri Lanka – although limited in geographic scope to be generalisable – states that of those engaged in small and micro enterprises, only 10% are women. This reiterates the findings from a case study of 20 female entrepreneurs in the Eastern Province of Sri Lanka, that there is no guarantee and weak correlation between access to microcredit for entrepreneurial activities and improvement in economic circumstances (Ranawana & Senn, 2019).

4.1.3. Microcredit for consumption

Similar to global practices, women in Sri Lanka are the target of MFIs with 80% of the borrowers being female (LMFPA, 2018 as cited in Arambepola & Kulasabanathan, 2019). This is accounted for on the basis that women have a higher potential of repayment (Murray & Boros, 2002). In a context where sustainable income sources are scarce and women's mobility is limited, microcredit becomes a means of meeting financial gaps in the household to weather the bad times. To this end, Arambepola and Romehsun's, (2019) work and the findings from a study by Tilakaratna (2012) show that individuals surveyed had on average 3 to 4 microloans simultaneously.

Very few of the women interviewed actually used the credit they obtained to establish or improve business ventures, and for those who did, the income earned was far from substantial. Among the latter, households that take on loans for agricultural purposes had to also deal with the uncertainty of crop yield which can affect their ability to repay the loan. Data gathered confirms the findings in existing literature, that loans are used predominantly for consumption purposes such as health requirements, children's education, coming-of-age ceremonies, weddings, and funerals

(Humle & Arun, 2011); it is also used to bridge the gap in income between cultivation seasons and more recently to repay existing debt (Tilakaratna's, 2012; Tilakaratna & Hulme, 2015).

For households which have minimal savings and incomes which only cover their regular household expenditure, microcredit allows them to cope with expenses they would otherwise be unable to meet. Households that take on loans for agricultural purposes have to deal with the uncertainty of crop yield which can affect their ability to repay the loan, even though it was taken for productive purposes. Comparatively, selected interviewees stated that when they borrowed from MFIs for consumption purposes, they would intentionally mislead the loan officer as to the purpose of the loan in order to secure the finances. Because the credit is obtained for consumption purposes however, households have to eventually figure out how to repay the loan with their existing income streams. The challenges associated with repaying a loans acquired for consumption purposes is elaborated in the following excerpt,

> I was in well settled stage in earlier. I had all the jewels and all the facilities, but now I am struggling to live a normal life. I have heart problems, so my husband spends money for my health. My son also has this problem. So, I need money for my hospital expense. I couldn't sleep well because of these loans. Every week, I am struggling to repay it. I took only 2 loans even I couldn't manage it … Sometimes my sons say that we don't [need to] study further because of my loans and difficulties (Female, Karaithuraipattu, 29/04).

As MFIs target women as clients, men are predominantly excluded from accessing microcredit. Instances of women borrowing on behalf of their male family members with the intention of investing in a venture which would yield a return are not uncommon. However, in instances when the expected return from the borrowing does not materialise, women are left with the burden of repayment as elaborated in the following excerpts.

> I sent to my second son to Qatar, but he didn't get any salary there [even though] he stayed 7 months there. He returned home without anything … I don't give the healthy food for my children because I pay the loans and I don't have money to cook (Female, Mullivaikkal East, 29/04).

Another except,

> My mother got a loan for sending my brother abroad. But he returned and got married so we couldn't pay the loan properly. Mother has got money from

community money lender also, and they confiscated our land (Female, Chenkalady, 26/04).

Although state banks present the most reasonable alternative in terms of interest rate repayment, the transaction cost associated with the sourcing of information, transportation, presentation of collateral, and proof of purpose (Marr, 1999) are increasingly restrictive in times of emergency. Comparatively, credit offered by MFIs are accessible within the space of a week, or faster still if you had not defaulted on previous repayments/instalments. For households who experience multiple challenges and a dearth of viable alternatives to secure finance, the ease of borrowing facilitated by MFIs is greatly appreciated. Findings from Tilakaratne and Hulme's (2015) work in three districts outside the Northern and Eastern Province, show an increase of over 250% in multiple borrowings between 2006-2007 and 2009-2010. Although not quantified, findings from Arambepola and Kulasabanathan's (2019) study also indicate the prevelance of multiple borrowing among its respondents.

4.2. Why do micro finance institutions continue to offer credit?

According to Rosenberg (2010), the use of microloans for consumption smoothening should not be looked upon with disdain as it is how poor people cope when their survival is threatened. However, having operated for several years and aware of the possible risk of default en-masse resulting in the collapse of the sector, one wonders why MFIs continue to lend to women when they are aware that the loan is being used for consumption rather than productive purposes. The answer lies in the combination of the profit orientation of most institutes as well as their confidence in the repayment of the loan.

As discussed earlier, most MFIs are commercially motivated. Given the high number of MFIs operating in the sector, there is high competition to secure as many clients as possible even if they are aware of multiple borrowing. Operating within a sector where regulations are lax, MFIs offering short-term credit are recorded to charge high interest rates, with effective interest rates estimated to reach as high as 220% (The Economist, 2019). Borrowers are often unaware of the detailed terms and conditions, only concerned with the frequency of repayment – whether weekly or daily; particularly in times of crisis when the they are more concerned about securing the credit. This sentiment is reiterated by one of the women interviewed,

> We don't select any company on purpose. We need the loan so we don't check anything. We have got the loan for urgent purpose, then only we think about the interest rate and payment methods (Female, Mullivaikaal East, 29/04).

MFIs continue to lend even in the midst of growing discontent and concern about the creation of a microcredit bubble. Findings from the data show that MFIs have confidence in the commitment of women borrowers to repay the debt – even if it means debtors take on multiple loans – attributed in part to the dynamics of group lending, where collective penalties are enforced when even one member does not pay, and unscrupulous collection practices employed by male collection agents (Arambepola & Kulasabanathan, 2019). MFIs in Sri Lanka should heed the Indian experience where the repayment rate is recorded to have remained at 95% prior to the collapse of the microcredit sector, attributed to the over-indebtedness of women, and their eventual inability to repay (Wichterich, 2012).

4.3. Struggles to repay: What are the consequences?

When the credit is taken for consumption purposes and the repayment period begins faster than an inflow of income is secured, borrowers are often left with limited choices when it comes to servicing the loan besides taking on further debt. Even in households where men are present, their income streams are often inadequate and infrequent to bridge the gap between meeting household consumption needs and servicing the debt. Some of the traditional coping mechanisms include, resorting to cutting down on consumption, and sale or mortgaging of assets such as land, housing, and jewellery to repay the loans. Ease of acquiring multiple loans facilitated by weak regulations can act as a double-edged sword, where access might ensure inclusion within a financial system, but contribute towards added stress and disempowerment in the long run. This sentiment is reiterated by one respondent who stated that, "We can get all loans here easily. I am always thinking about these loans only now. I save every single rupee to repay the amount" (Female, Mullivaikaal East, 29/04). The depletion of assets leaves households with little to no collateral, plunging them deeper into levels of poverty in the event of future crises (Bateman, 2012a).

There are non-financial and social implications of not being able to service the debt experienced particularly by women, who bear the burden of repayment on account of the loan being taken out by them. This challenges the notion of microcredit resulting in their empowerment or improvement of their circumstances.

As much of the lending is facilitated through group lending, the non-payment by one individual creates a burden on everyone else in the group; it can also lead to ostracization in social interactions within the community and prevent future opportunities to access microloans. Arambepola & Kulasabanathan, (2019) note that collection days are stressful for women who are unable to make the repayment and they have to contend with male collection agents refusing to leave the premises of female borrowers, insinuating sexual overtures and/or verbal abuse in public spaces adding to a component of shame and harassment (Tilakaratna & Hulme, 2015).

In response to the pressure of indebtedness, a respondent indicated that her mother had moved away from the village as she was not in a posittion to repay the multiple loans after having foregone all other means of repayment.

> She [mother] got lot of loans from MFI's and now she is not in our village. My mother got a loan to send my brother abroad. But he returned and got married so we couldn't repay the loan properly. *Amma* (Mother) got money from the community money lender also. My mother has given our land as security, and they confiscated our land. Eventhough we paid their interest, we couldn't get it back. My mother has got LKR 500,000 (USD 2,670) for her land. My mother couldn't pay it because she is in sick and older (Female, Eravur Pattu, 26/04).

Reports of migrating overseas for employment was another measure women were turning towards as a coping mechanism (ILO, 2018). Given the quality of employment opportunities available in conjunction with the skills the women possessed, migration overseas, besides ensuring remittances, does not do much for their wellbeing. Although an increase in suicides are reported in the media and attributed to inability to repay, (Edirisinghe, 2019; Srinivasan, 2018; The Economist, 2019) it was not possible to attribute this to microcredit entirely based on the interviews carried out.

The practice of mortgaging gold jewellery is common across South Asia and in Sri Lanka, and has been used as a coping mechanism during times of emergency as it is a highly liquid asset (Amirthalingam & Lakshman, 2010). This does however come with non-financial consequences as there is social and cultural value attached to jewellery beyond its use as an asset during times of hardship. Romeshun, Gunasekara, and Munas (2014), note that the loss of jewellery contributes to reduced participation of women at community gatherings due to the social standing attached to gold jewellery, which can be argued to increase their social vulnerability during challenging times.

According to Tilakaratne and Hulme, (2015) pawning is perceived as a low risk option for both lenders and borrowers as the lender is able to use the jewellery pawned as a means of debt recovery, while for the borrower, defaulting on the loan would result in "the worst-case scenario being losing the pledged asset rather than accumulating interest" (p.61). Although this argument holds from an economic and financial perspective, for the person putting up the jewellery, the eventual loss of the item holds value that exceeds monetary gain, due to cultural and sentimental value attached, which in most instances, can be argued to supersede the material value attached to the item.

4.4. Policy responses and way forward

Although there has been recognition of the increasing levels of indebtedness among women particularly in the conflict affected regions in the north, highlighted primarily through media reports, there has been a limited in-depth analysis of the problem at hand. Concern has been focused on the inability of debtors to repay rather than to look at the factors contributing to the problem.

In the immediate aftermath of the armed conflict, the government prioritised investment in large scale infrastructure – primarily roads – influenced in part by political motivations to be able to show tangible improvement (Sanguhan & Gunasekara, 2017). Comparatively minimal consideration was given towards assisting its citizens who were returning after a protracted period of displacement with creation of sustainable jobs and livelihoods (Sanguhan & Gunasekara, 2017). Therefore, there still exists a need to address the structural failures in the form of limited suitable livelihood opportunities with a steady stream of income, and ensuring the capability of an already vulnerable population to withstand the impacts of climate change, that contribute towards conditions of increasing levels of indebtedness, and depleting assets. To this end, the government in partnership with development partners should ensure that alternative measures are introduced as a means of lifting households out of poverty and engage in a comprehensive identification of the needs of the affected population. This would help ensure the proposals made are feasible and sustainable; particularly for those who have come to depend on microcredit as a means of coping with disruptions to their income flow.

In conflict affected regions where a high number of women headed households reside, measures introduced to incorporate women within the labour force should take into consideration social and cultural elements which presently exclude them from participation such as: type of work, existing skill level, distance from home, and the burden of care. A long-recognised need identified as contributing to low female participation in the labour force is the lack of childcare facilities (Gunatilaka, 2013). To this end, it is proposed that the government introduce affordable childcare facilities, allowing women to balance their care responsibilities with the need to generate an income.

Providing training to individuals within the locality to manage the facility, could provide some employment opportunities as well as ensure the self-sustainability of these institutes in the long run.

An intervention proposed by the CBSL towards addressing the issue of indebtedness in 2017 included a six-month moratorium, coupled with a central budget allocation of LKR 500 million (USD 2.6 million) as debt relief for the 2018 financial year (Srinivasan, 2018). As with any number of policy interventions proposed thus far, this too was reactive rather than creating any long-term impact within the microfinance sector. It is necessary to question what happens after the six-month period, and whether the country is able to sustain such commitments if steps are not taken to prevent this from recurring.

The Microfinance Act introduced in 2016 (Parliament of the Democratic Socialist Republic of Sri Lanka, 2016) is essentially toothless, as it introduces no measures to curb harmful microlending practices such as predatory interest rates and multiple lending. Contrary to the natural trajectory of incorporating savings to enhance microfinance services (Hulme & Arun, 2011), it goes on to curtail the function of MFIs who incorporate savings together with their lending facilities in a bid to "prevent illegal deposit mobilization" (CBSL, 2018), while allowing institutes providing credit below a certain threshold free reign and continued exclusion from a central regulatory authority. While these shortcomings have been acknowledged and there has been attempts to revise the Act, it remains too early to state how the introduction of regulations would impact the female-dominant clientele.

Although a Credit Information Bureau (CRIB) facility exists in Sri Lanka, its utility with regard to checking the credit worthiness and prior borrowings of intended borrowers is limited in scope as it is mandatory only for commercial banks, leasing companies, licensed specialised banks, and finance companies already registered under the CBSL (Tilakaratna & Hulme, 2015). While MFIs have recently been granted access to utilise this facility, this comes at a cost which is transferred to the borrower. Complicating matters further, utility of the CRIB is dependent on whether information was entered at the time the first or previous loan was obtained. Given the severity of the issue it is recommended that going forward, all institutes – formal and informal – are mandated to input information and verify credit history of potential debtors prior to the authorisation of a loan.

As an alternative, in the interim, it is proposed to give due consideration to the code of conduct developed by the LMFPA (2018) for its members which outlines several conditions for compliance with the aim of implementing services which benefit its customer base such as, checking the number of pre-existing loans and stating the interest repayment cost upfront. While implementation of the code of conduct is voluntary among its members, it would be useful to understand if there is willingness for adoption by non-member institutes and whether the microfinance regulatory authorities would be in a position to incorporate selected elements into revised versions of the Microfinance Act.

The paradox of any proposed regulatory measures is that it could decrease the supply of credit facilities (Hulme & Arun, 2009) contradicting the original intention of making microcredit accessible to those previously excluded. However, learning from the experience of Andhra Pradesh in India which experienced a bursting of the microcredit bubble (Wichterich, 2012), regulations could protect the industry from collapse. If policy measures/regulations introduced restrict women from accessing microcredit, alternatives proposed should and must take into account the social and cultural factors which influence and prevent women from utilising existing measures, while also taking heed to recognise the intersectionality of women on the basis of their caste, class, and ethnic identities.

Recognising the commercialisation of the microfinance system to be extractive in the form of depleting assets from vulnerable post-war communities, Kadirgamar (2017) draws on a model implemented in India, proposing the introduction of cooperatives as a community-based alternative to MFIs. The cooperative model proposed, seeks to bring together those engaged in informal sector livelihoods such as fishermen and farmers, to pool their resources to improve their productive capabilities and reinvest their revenue within the local, rural economy; eventually expanding to support other local enterprises (Kadirgamar, 2017).

Despite its noble intentions, because cooperatives depend predominantly on community cohesion for success, the question arises as to whether the intra-community distinctions that exist along the lines of class, caste, ethnic, and gender can be overcome for effective implementation. Whether communities can come together for the greater good or whether the individualistic sentiments will reign supreme, continuing to exclude the most vulnerable, is another question for consideration. Furthermore, it is necessary to question whether traditional patriarchal norms would continue to exclude female participation. These questions cannot be addressed through this analysis but are possible areas for future research in order to maximize the utility of microcredit.

5. Conclusion

Despite microcredit delivering on its mandate to improve financial inclusion of women, its ability to create lasting and impactful change in the lives of the those who turn to it in their time of need is entirely dependent on the context and circumstances in which it operates. In the former war-affected regions of Sri Lanka, the availability of credit facilities through microfinance institutions has helped women – who have minimal viable alternatives – to survive the various challenges they experience.

Returning after a period of displacement and experiencing the effects of an armed conflict, households came back to a much-changed environment. Picking up the threads of their lives was not as simple as continuing from where they had left. Houses were destroyed, livelihoods had been disrupted, and family members had passed or were missing, changing household composition. In addition, the weather patterns were increasingly unpredictable, subjecting a community predominantly dependent on natural resources for income generation into further vulnerable conditions.

Socio-cultural norms and practices in a predominantly conservative, patriarchal society, influence the opportunities available for women to participate in income generating activities. The unequal burden of household care responsibilities and limited formal structures of support are further challenges women must contend with. Income streams that do exist are unsteady and barely suffice to meet basic household needs. For households with limited assets or savings, the occurrence of an unexpected expense, plunge them into conditions of uncertainty. The availability of microcredit in such circumstances, allows households the opportunity to cope in the absence of alternative structures of support.

In a context where microcredit is used predominantly for consumption rather than investment, struggles with repayment are not uncommon, leading to a condition of multiple borrowings to be able to service existing debts. As the debt burden grows, households are found to spiral deeper into conditions of poverty which have both financial and non-financial impacts on their wellbeing. As principal borrowers of the loan, women experience a heavy burden.

If microcredit is to be the panacea it was intended to be, the context in which it is made available needs to be evaluated and provision amended to be beneficial to the people it was meant to serve, rather than embed them in further conditions of vulnerabilities.

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