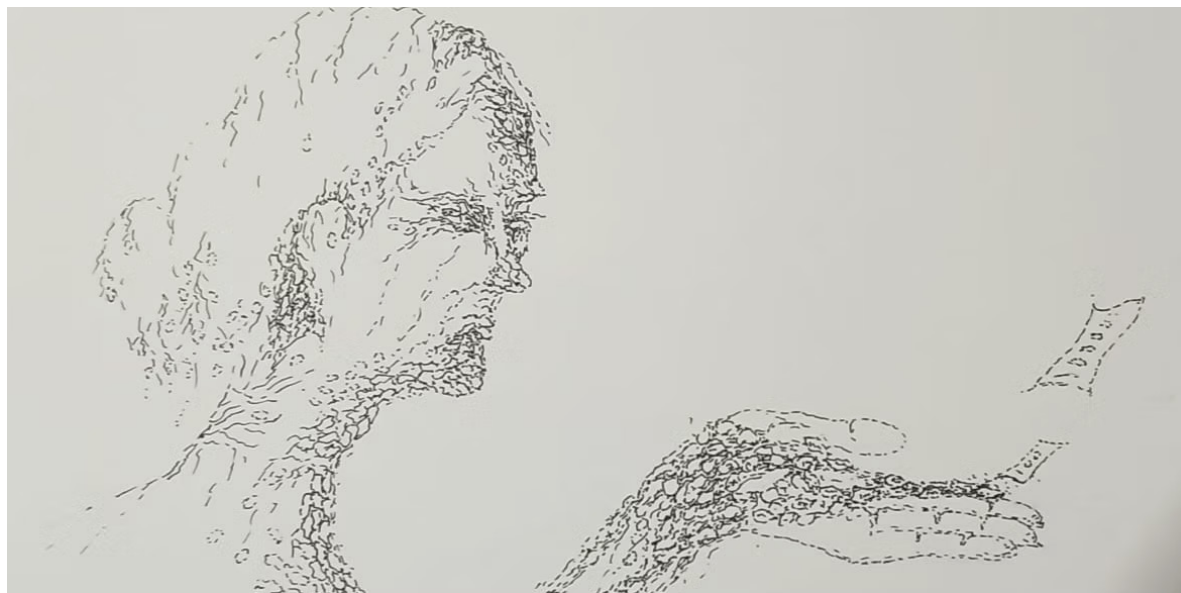


End the Microfinance Menace! No to the New Bill!

Feminist Collective for Economic Justice



The National People's Party (NPP) marked the completion of its first year in government in September 2025. Sadly, the new government has already lost touch with the realities on the ground. Tilvin Silva, General Secretary of the Janatha Vimukthi Peramuna (JVP)—the main party in the coalition government, made a recent media statement that they have no information of anyone in Sri Lanka suffering from hunger. Contrary to the claims of the ruling party, our experiences working with grassroots women's groups have revealed an overall degeneration of people's lives in the face of harsh austerity policies the NPP has chosen to continue.

We are deeply concerned that while several laws and policies rolled out by the previous regime continue to trap people in poverty, the same laws and policies are being merely trimmed and re-proposed by the current government. Will the new Microfinance Bill, which yet again has not been placed before the people for public consultation, be the latest knot in the noose?

Growing household indebtedness

The Feminist Collective for Economic Justice (FCEJ) encounters and documents the daily realities of many falling deeper into the household debt trap. It is leading families into food insecurity and financial ruin. Households are compelled to turn to microfinance companies or informal lenders due to inadequate incomes, increased cost of living and reduced government investment into economic activities in their localities, in the context of the economic crisis.

In the Northern Province, households are compelled to turn to microfinance companies that offer daily, weekly and monthly loans due to inadequate incomes. People's time, labour, and incomes go to obtaining and repaying loans. Many women have lost their small savings and assets, accumulated with much hardship, trying to meet basic food and other essential needs. Women become members of multiple village-level savings and credit groups just to become eligible for

loans. To build small savings as collateral for the loans, they end up borrowing more money from friends, relatives, and loan sharks.

In the Eastern Province, households are trying to survive through the meagre income of day-wage labour. Many struggle to find adequate work or earn an income from home-based precarious informal sector production. It has pushed families to take loans to meet basic food, health and other emergency needs. Unable to repay these loans, women are borrowing from microfinance companies at exorbitant interest rates, often more than 40% interest. Women have lost assets such as jewellery, vehicles, houses, and land. Many have taken loans against their land deeds as collateral. Indebtedness has resulted in increased domestic violence, health issues and reduced opportunities for development.

Women are paying the loan instalments by starving themselves and their children. In the small village of Thalankudah, there was visible malnutrition and neglect in the households. One woman died by suicide leaving young children behind as she was unable to repay the debt she took to build a small house over her head. Another woman with a disabled child attempted suicide, unable to face the threats from loan collectors, who regularly entered the home and refused to leave until the money was collected, often hurling verbal abuse and sometimes resorting to physical intimidation. Just last week, a money lender forcibly took her national identity card as well as her bank card until she repaid the instalment, leaving her with no access to her own account.

In Colombo, women in low-income urban areas are borrowing to eat and meet basic education expenses, such as utility bills for electricity and water, and pay the mortgages on their homes. The threat to their survival and homelessness is ever present. Sadly, the practice of rolling debt is all too common. Exploiting such desperation, daily loans are offered via SMS and mobile phone apps. New forms of public humiliation and coercion, such as obtaining access to their phone content, are used in the loan recovery tactics.

The debt trap

As the above cases show, poor working-class households, be it in rural agriculture and fishing communities or the urban working class, are caught in a debt-trap system. As the economic crisis at the household level deepens, households are financially depleted. Low wages, austerity-driven high costs of living, and inadequate state support and state protections from exploitation have created perfect conditions for a growing and exploitative microfinance loans sector.

Desperate to meet basic needs, women turn to neighbours, and then local loan sharks, microfinance companies—including online and mobile-based loans—NGOs, self-help groups, cooperatives, and the state *Samurdhi* scheme. In this context, even when alternative credit-lines and programmes are initiated, such as through self-help groups, NGOs and cooperatives at low-interest rates, they are ineffective as those loans are often utilised to pay off other exploitative loans.

The extremely high daily and weekly interest-levying schemes which may not require collateral, however, employ extraction by threat, physical and verbal abuse, intimidating family members, holding hostage bank cards, identity documents, assets, and accessing phone contacts to intimidate by humiliation. Some companies have called contacts, claimed that the borrower has named them a guarantor and demanded repayment. A full range of personal, family and social assaults are exerted in the recovery of loans.

Some companies use women's homes as loan collection centres. The woman in charge, while she gets a small commission, is also often deeply in debt. Women are formed into groups and held responsible for the nonpayment of group members. Such practices have sown deep fissures and conflicts within communities. While the extraction is making many households more precarious and destitute, the industry capitalists are enriched.

Decades of protests and state's failure to respond

Over the past decades, women have protested predatory loans. In Batticaloa, women's groups urged the Government Agent to intervene in regulating access of microfinance companies into war-torn rural villages. In the north in 2018, there were massive protests organised by cooperatives and women's movements against microfinance companies. In Hingurakgoda, Polonnaruwa, a continuous *satyagraha* was led by the Collective of Women Victimised by Microfinance in 2021.

In 2016, the Microfinance Act No. 6 was enacted as a response to growing unregulated microfinance providers. The Act failed to address many of the key concerns surrounding predatory practices, exploitation of vulnerability of the poor and was instead merely loosely regulatory. The interest rate cap was effective to an extent to control the growth of microfinance.

In January 2024, the interim government tabled the Microfinance and Credit Authority Regulatory Bill in Parliament. The bill was challenged before the Supreme Court for failing to regulate large finance

companies and to effectively address harmful practices. The court determined that several clauses of the bill were unconstitutional and can only be passed with a special majority in parliament. The Ministry of Finance withdrew the bill, following the determination of the court.

Subsequently, a nine-member committee was appointed to review the Microfinance Bill and have public consultations at all levels. However, no public consultations took place. One microfinance victim and two persons representing community credit providers were burdened with representing microfinance victims in Sri Lanka in the review process. They opposed the basic framework of the bill and demanded that a fresh approach be taken to understand the crisis and the nature of policy and regulatory solutions needed.

Ignoring those demands, in August 2025, the cabinet of ministers of the NPP government granted policy approval to present the new Microfinance and Credit Regulatory Authority Bill to parliament. At the time of issuing this statement, it was reported that the Bill has been gazetted, however, no such bill is accessible on the government printer's website for review.

In contrast to the government's blindness to reality, even the World Bank has acknowledged that

The fiscal adjustment has disproportionately impacted the poor, who continue to grapple with job and income losses... Food prices remain more than double their pre-crisis levels and real wages are yet to recover. In response... many households have scaled back spending on human capital, particularly on nutrition, healthcare, and education.

However, the World Bank too, continues to offer failed recommendations, ignoring the causality between rising household debt, rising starvation and the government's fiscal adjustment.

Our urgent demands

Initiate a fair state-led debt relief programme and include necessary allocations in the upcoming government budget. Without a debt relief/cancellation programme for household debt, any social welfare or alternative programme becomes meaningless.

Gather national data on the impact of microfinance and household debt—including tracking the extent

of suicides and attempted suicides, rising domestic violence, impact on household nutritional levels, and loss of assets.

The *Samurdhi* programme should be reviewed and strengthened, including the role of the Samurdhi Bank to use the savings of the poor in more meaningful ways, rather than to merely generate more loan schemes. The government should admit the failure of the *Aswesuma* scheme and take corrective actions.

New legislation must address the predatory and exploitative practices associated with microfinance lending. The Wickremesinghe-Rajapakse proposed bill made no explicit mention of banning such practices. Interest rate caps, restrictions on access and activities of microfinance companies and strong consumer protection practices can curb the violence and exploitation.

Mediation boards are over-burdened in dealing with dispute resolutions of incidents relating to microfinance debt. Given the enormity of the problem, and keeping at the centre ethical and human considerations, mediation boards should be further strengthened to be able to respond fairly and offer humane options.

The government must acknowledge the impact of the economic crisis and austerity plaguing most Sri Lankan households and initiate a programme for local economic regeneration to prevent further indebtedness.

The very basic expectation of the government when enacting policies is public consultation, particularly with women who are affected by those changes. A law that does not fully recognise their experiences, does not effectively regulate predatory practices and curtail the proliferation of microfinance, will have devastating consequences on the lives of people, especially women, in Sri Lanka.

The Feminist Collective for Economic Justice (FCEJ) is a collective of feminist economists, scholars, feminist activists, university students and lawyers that came together in April 2022 to understand, analyse and give voice to policy recommendations based on lived realities in the current economic crisis in Sri Lanka.

Image credit: Kamala Vasuki (2019)