

## Original Article

### Microfinance in rural villages; study based on two selected villages in Vavuniya North Divisional Secretariat Division in Vavuniya district (Maruthodai and Mara-Illupai)

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Manuscript ID:  
BN-2026-030201

ISSN: 3065-7865

Volume 3

Issue 2

February 2026

Pp. 1-5

Submitted: 10 Jan 2026

Revised: 20 Jan 2026

Accepted: 09 Feb 2026

Published: 28 Feb 2026

DOI:

[10.5281/zenodo.19843814](https://doi.org/10.5281/zenodo.19843814)

DOI link:

<https://doi.org/10.5281/zenodo.19843814>



Quick Response Code:



Website: <https://bnir.us>



#### Abstract

Microfinance is not just microcredit but microcredit is a very important facility as microfinance can't survive with any other facilities without microcredit. However the importance should be given to other financial services as well. Small group function shows that poor people have the capacity but they need opportunity. So opportunity should be created to the poor people. microcredit should be provided, not only for livelihood, for all other financial need of the poor people. Financial service providers should encourage the alternative or subsidiary livelihood intervention by the poor people. Those who engaged in the traditional livelihood activities, should be motivated to engage in alternative and subsidiary livelihood activities. Indebtedness is a burden but when people bear it, it will not be a problem. But until it become as a problem people can't get the pain. Indebtedness is not a painful problem but when it became as over-indebtedness it will be the tragic condition of the poor people. So there should be mechanism or regulation developed by the Government or the respective body as a preventive measure to limit the services provided by the financial institutions to an individual. Such mechanism/ regulation will protect or safeguard both, the poor people and the financial service providers.

**Keywords:** Small group, Over-indebtedness, Alternative livelihood, Subsidiary livelihood

#### Introduction

There is an evolution of poverty alleviation programme in Sri Lanka. Government of Sri Lanka implemented series of poverty alleviation programmes. Poverty alleviation programme started in 1953 and it got different name and shapes with the change of the government/ political party in power. 1977 food stamp was introduced as poverty alleviation programme. Actually it created dependency of poor people on state rather uplifting the economic condition of the poor people.

1990 Jana Saviya programme was implemented by the Government. It was a two years programme and in the programme all the poor families will get savings of LKR 25,000 and they should start 'Income Generation Activities' (IGA). So the Government assistance will be stopped. The programme was designed on the basis of economical developmental model. It supported for 'Income Generation Activities' of the poor and encouraged savings among the poor. Theoretically it was a good programme but finally at the implementation level it failed due to various reasons. Scholars criticized that poverty is not only the economic problem but it also a social problem and the poverty alleviation programme should be approached in sociological perspective as well. In 1994 Samurdhi Development programme was implemented by the Government. Samurdhi development programme urged to support the poor people until they come out from poverty. Samurdhi development authority is the state mechanism of the programme. Parallel there were many development and rehabilitation programmes implemented in different provinces; NEIAP in North & East and Gemidiriya (Community driven development programme) in South, and it provided micro credit facilities to poor people to support their 'Income Generation Activities' and the livelihood.

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#### How to cite this article:

Thayaparan, I., & Kesavan, R. (2026). Microfinance in rural villages; study based on two selected villages in Vavuniya North Divisional Secretariat Division in Vavuniya district (Maruthodai and Mara-Illupai). *Bulletin of Nexus*, 3(2), 1-5. <https://doi.org/10.5281/zenodo.19843814>

In 2011 Divinaguma development programme was implemented by the Government. In 2013 Divinaguma act was passed in the parliament. This is more formalized programme. However, all these programmes which were implemented by the Government (parties in power) and it became as more politicized than a programme with the mission to alleviate poverty? Government/ political parties in power, implemented the programme to protect their vote bank rather than alleviate the poverty. When each programme was designed, they didn't consider the lessons from the previous programme to make the new programme success. Even for the Divinaguma programme there were many criticisms from the political point of view and at the same time to meet the purpose of alleviating the poverty.

Still the micro credit projects implemented by the development programmes are in function to give the financial access to the poor people in the rural and urban settings. Further financial institutions expanded their activities in the rural and urban settings to provide the microcredit facilities. Especially in the Northern and Eastern provinces, in the post war situation, the functions of the financial institutions provided additional burden on the rural and urban poor people. Basically they try to inject their financial activities through the existing community based structures. In some villages, community based organizations are more vigilant about the activities of the financial institutions as they heard about many negative incidents from other villages.

### Background

Poverty alleviation programmes implemented by the Government in all parts of the country from 1977 as a separate programme. In war zone areas especially North and East the implementation and the continuity of the programme was disrupted by the fighting of Government and Liberation Tigers of Tamil Eelam (LTTE). People faced multiple displacements and the programme lost the continuity.

Meantime there are several development and rehabilitation programmes which have microcredit project for the poor families. The projects are implemented through the Community Based Organisations especially Rural Development Societies (RDS), Women Rural Development Societies (WRDS), Farmer Organisations (FO) and etc.

Maruthodai (M) and Mara-Ilupai (MI) are two villages in Nedunkerny Divisional Secretariat division in Vavuniya district. They were under the control of LTTE till 2009. Main livelihood activity of the people is farming and animal husbandry is a subsidiary livelihood. While the poverty alleviation

programme was implemented there were other microcredit programmes implemented in those villages; NEIAP (North-East Irrigated Agriculture Project), Revolving loan by Non-Governmental organisations, Thrift and Credit societies and state banks. NEIAP provided microcredit through Women Rural Development Societies (WRDS) for livelihood of the individual household. Function of Thrift and Credit society was limited due to the lack of access to the functional office in Vavuniya town which is under the Government control. State banks also provided agriculture loan to the farmers.

After the final war between the Government and the LTTE in 2009, people resettled in those villages in Oct 2010, after one year. After the resettlement, especially in the North and East the financial institutions heavily expanded their activities. It is obvious that people got more access to the financial services but it is questionable whether poor people got the services for their financial need. Mainly all the projects and the commercial banks provide microcredit for business/ livelihood. But the financial need of the poor people is not just for business/ livelihood but also to build assets, smooth consumption, and managing risks.

Non-Governmental organisations implemented the projects in those villages especially ASB (Arbeiter Samariter Bund) supported the construction of permanent houses which is an owner driven programme. The money given to construct the house was not enough. This is common in all the permanent housing programme in the country especially in the North and East. The organisations providing microcredit facilities were not ready to provide credit to meet the need of the people. So people borrowed money from informal money lenders or sold their properties.

ZOA Sri Lanka is another NGO implementing community development programme. ZOA is also implementing the microcredit programmes in the villages, which is a community driven programme facilitated by ZOA directly. People form self-help groups/ small groups and do savings and distribute loan among them with the bonding collateral.

### Research Problem

Microcredit is part of microfinance activity. There are many government projects with microcredit facilities and private financial institutions providing microcredit facilities. With the presence of multiple service providers, poor people fight against the poverty. It is questionable whether the poor people are getting actual microfinance support from those service providers and the impact of microcredit facilities among those poor people.

### Research Questions

How effective the existing microfinance facilities?  
To what extent indebtedness leads to aggravate the problem of the poor people?  
What would be the expectation of the people or what kind of services should be provided by the financial service providers?

### Methodology

This is a qualitative research study. Basically, semi structured interview and Key informant interview techniques were used to collect the data of the research. Two case studies were done on particular aspect to see the gravity of the issue.

### Interview

The interviews were mainly one-to-one and one-to-many interviews in person; however few discussions and follow-up matters were executed by telephone conversations. Time is limited and the field location is far from the researcher so it was ideal to use the semi-structured interview.

Interview is structured with particular questions related to the research questions; facilities provided by the existing microfinance service providers, level of debt among the people and the expectation of the people to get the credit facilities.

Further key informant interview is used to get the data especially from the office bearers of the community based organizations in the villages and they were contacted in person and through telephone conversations as well.

### Case Studies

Case study is used to elaborate the particular situation addressed by the key informants from the villages.

### Data Presentation and Analysis

There are 72 families registered in the Maruthodai (M) however 45 families are residing in the village itself. Out of 45, nearly 35 families are Samurdhi recipients. The village is little far from the Nedunkerny town/ junction.

There are 200 families in Mara-Ilupai (MI) village and nearly 50 families are Samurdhi recipients. Informant said they are not satisfied with the selection of Samurdhi beneficiaries. There are some families those who really need Samurdhi Support, are eliminated. But there are some better-off families included as Samurdhi beneficiaries.

There are different microcredit provision through government projects, other programmes and from Banks in the selected village;

- NEIAP project (M, MI)
- Meel-Eluchchi Project (M, MI)
- Thrift and Credit society (M)
- Samurdhi development programme (M, MI)
- Peoples Bank (M, MI)
- Bank of Ceylon (MI)

- Regional Development Bank (Sponsored by ZOA) (M, MI)

There are some other financial institutions involved in those villages;

- Commercial Credit
- LOLC

### Financial Services for poor people

Microcredit facilities are provided in both, Maruthodai (M) and Mara-Ilupai (MI) villages. Microcredit is the provision of small loans to individuals, usually within groups, as capital investment to enable income generation through self-employment (Kirsten Leikem, 2012).

Informant in both Maruthodai and Mara-Ilupai said all the loans are provided for livelihood purposes. Mainly people engaged in agriculture. People are involving in traditional agricultural activities; seasonal cultivation of same variety of crops. A family take a loan from one project and they couldn't get the profit as they expected because the market price was very low. Of course when all the families do the same variety of crops, there will be an excess of goods in the market so price go down.

There is no guidance provided to the loan beneficiaries. People need guidance and support to engage in alternative and supplementary livelihood. As people involve in traditional agricultural activities and the cultivable land is squeezed due to the contamination of 'Explosive Remnants of War' (ERW). So people missed the guidance and support for suitable livelihood in their areas.

According to Vijay Mahajan (2005) "Microcredit is a necessary but not a sufficient condition for micro-enterprise promotion. Other inputs are required, such as identification of livelihood opportunities, selection and motivation of the micro-entrepreneurs, business and technical training, establishing of market linkages for inputs and outputs, common infrastructure and sometimes regulatory approvals (Anis Chowdhury, 2009).

Further 'Crop Insurance', ZOA official said there were three people from Maruthodai received loan from Regional development bank. It was a precondition for the borrowers to do crop insurance. So one beneficiary got insurance claim in 2014 as the crops insured. But there is no other service provided even the banks do not provide or encourage the borrowers to do crop insurance when they take loan for agriculture purpose.

There were three families received Agricultural loan from Peoples' Bank, amount of LKR 50,000.00. Informant said only two families fully invested the loan for agriculture purpose and one family used nearly 50% of the loan to purchase items for household needs. Informant said even it happened with the loans provided through the government

projects. Basically loan will be processed for the purpose of livelihood and used for consumption purpose.

Microfinance should provide quality financial services, including not just credit but also savings, insurance, and fund transfers. Poor people/ people living in poverty, like other people, need a diverse range of financial services to run their business, build assets, smooth consumption and manage risks. So Microfinance institutions should expand their financial services to meet the different type of financial need of the poor people.

There is no single service provider provided credit for the purpose except livelihood. So the real purpose of microfinance is not met. People in the rural villages have access to financial services but do not have proper microfinance services as a package.

In Mara-Ilupai, informant said families are interested engaging in the small group function facilitated by ZOA. There are 11 small groups with nearly 90 families. These groups are functioning from 2013. Small groups are doing weekly savings and provide loan from their saving with weekly repayment. The loans are provided for not only livelihood purposes but also to build asset, ceremonial function in the family, education need, medical need and other consumption purposes. Informant said there is one small group is functioning well with savings of more than LKR 100,000. The group provide loan up to LKR 25,000. It is provided as case study 1.

Informant reported that there are 6 families received vehicles on leasing from private financial institution. Four families got tractor on leasing for multi-purpose but mainly for agriculture and two families got motorbike. Out of 6 families two families lost their vehicles. One family didn't pay the instalment so the finance company took the tractor. But for one family, there was an accident with the motorbike and they couldn't take the motorbike from the Courts due to some legal issues. So they requested the finance company to provide support as they are the legitimate owner of the motorbike. Family didn't get the support from the finance company so they stopped paying the instalment. Informant said the mother of the boy, who got the motorbike in leasing, was verbally harassed by the officer of the leasing company. It is provided as the case study-2.

### **Indebtedness**

Informant in Maruthodai said 15 families, out of 35 Samurdhi beneficiary families, are taking minimum two loans and 3 families take 4 loans at a time. Informant said people took all the loan for the purpose of livelihood otherwise they can't take the

loan but used for different purposes. However they managed to repay the loan.

Informant said he/she is one of the four borrowers and borrowed four loans from the service providers. It's very hard to repay. Monthly repayment of the loans is more than LKR 25,000.00. She is not a Samurdhi beneficiary. Yes, she is not poor because when we consider the monthly repayment of loan and household expenditure. They might have more than LKR 50,000 as the monthly family income.

Informant said there are families taking new loan to repay the old loan. Samurdhi and Meel-Eluchchi loans repayable in weekly instalment basis. They are struggling but do the repayment. The informant said they have to do additional work to do the repayment. Informant said it's a burden but it's bearable.

Informant said there are some other private financial institution; 'Commercial credit' approached their community based organization especially WRDS to distribute loan. WRDS has experience because they are the CBO distributing a NEIAP loan and a women group distributing Meel-Eluchchi loan, so they didn't accept the request of the financial institution.

### **Conclusion**

Over the past decade, microfinance institutions have succeed, in providing credit and savings services to the entrepreneurial poor, through innovative strategies. It is an evolving subject.

Microfinance met its purpose providing financial access to the poor, microcredit facility is playing key role. Microfinance is not just microcredit but it is a very important facility as microfinance can't survive with any other facilities without microcredit. Importance should be given to other financial services as well. Further microcredit should be provided, not only for livelihood, for all other financial need of the poor people.

There is an effective mechanism which is similar to the Grameen Bank Model of Mohammed Yunus of Bangladesh. As the case study 2 expressed, poor people support each other to come out from the poverty. Small group function shows that poor people have the capacity but they need opportunity. So opportunity should be created to the poor people.

Further, financial service providers should encourage the alternative or subsidiary livelihood intervention by the poor people. Especially people who resettled in the war zone areas are facing more problems with the traditional livelihood activities. So people should be motivated to engage in alternative and subsidiary livelihood activities.

Indebtedness is a burden but when people bear it, it will not be a problem. But until it become as a

problem people can't get the pain. Indebtedness is not a painful problem but when it became as over-indebtedness it will be the tragic condition of the poor people. So there should be mechanism or regulation developed by the Government or the respective body as a preventive measures.

In many ways, people living on low incomes are among the casualties of an earlier era of 'easy credit'. They and the population in general, were actively encouraged to make use of credit during a period in which few attempts were made by creditors to assess ability to repay or by the Government to restrict borrowing (Chris Dearden, and et al, 2010).

The Government should engage to regulate the microfinance activities to protect both the poor people and the financial service providers.

#### **Acknowledgment**

We would like to express our sincere gratitude to all those who supported us in completing this research study on microfinance in Maruthodai and Mara-Ilupai villages

Our heartfelt thanks go to the Divisional Secretariat officials, officers of the Samurdhi Development Programme, representatives of banks and microfinance institutions, and members of Community Based Organizations (RDS, WRDS, Farmer Organizations, and Small Groups) for their cooperation and valuable insights. Without their openness and willingness to share information, this study would not have been possible.

We are especially grateful to the villagers of Maruthodai and Mara-Ilupai who generously shared their experiences, challenges, and expectations regarding microfinance services. Their participation in interviews and case studies provided the foundation for this research.

We also acknowledge the guidance and encouragement received from our academic colleagues and institutional authorities at the University of Colombo and Rajaratta University of Sri Lanka for their continuous support.

#### **Financial support and sponsorship**

Nil.

#### **Conflicts of interest**

The authors declare that there are no conflicts of interest regarding the publication of this paper

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