

Empowering Women Entrepreneurs: The Role of Microfinance in Supporting Informal Businesses in Low-Income Communities of the Colombo District.

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Abstract

This study explores the impact of microfinance loans on small-scale, home-based businesses, with a focus on entrepreneurs in Sri Lanka. Using both quantitative and qualitative methods, the research examines how microfinance services have influenced business income, loan repayment challenges, and the overall empowerment of women entrepreneurs. The findings indicate that while microfinance loans have considerably contributed to income improvements, challenges including high weekly repayments, multiple loans, and unstable housing persist. Respondents also expressed a strong desire for larger loan amounts and longer repayment periods, and access to housing loans to stabilize their living conditions and support business growth. This study underscores the importance of tailoring microfinance products to meet the diverse needs of entrepreneurs and provides recommendations for microfinance institutions and policy-makers to enhance the effectiveness of microfinance services in fostering sustainable business growth and financial stability.

Chapter 1: Introduction

1.1 Background of the Study

Women's empowerment is a considerable part of sustainable development. Empowering women through entrepreneurship has gained momentum as an effort towards sustainable development. Entrepreneurship provides a space for women to comprehend the gender-based inequalities prevalent in both personal and communal spaces. It is not only a mechanism that can be used to alleviate poverty but also a strategy to enhance gender equity. However, in most developing countries, access to financial services acts as a major barrier that hinders women's participation in entrepreneurial activities.

Against this backdrop, microfinance – encompassing microcredit, savings, insurance, and financial literacy – has been widely recognized as a powerful instrument in bridging the financial inclusion gap. Since its inception in the 1970s with the Grameen model in Bangladesh, microfinance has proliferated across the developing world, adapting to local socio-economic realities. In Sri Lanka, microfinance institutions (MFIs) play a pivotal role in extending small-scale financial services to underserved communities, particularly in rural areas of the country.

As a patriarchal society, Sri Lanka confines women to the role of 'mother.' Despite their considerable contribution to the country's economy, their efforts, particularly in the informal sector, often go unnoticed and unrecorded in formal economic frameworks. Currently, women are increasingly contributing to economic development through unpaid care work and through participation in both formal and informal entrepreneurial ventures. However, these contributions remain underrepresented in national policy and academic discourse.

The Labour Force Survey annual report (Department of Census and Statistics, 2023), highlights a significant statistic: 57.2% of women are economically inactive, largely due to their involvement in household activities. This statistic, however, may fail to fully capture the extent of women's participation in informal economic activities, which often remain outside the scope of official employment metrics. While these women may not appear in formal employment records, many engage in informal entrepreneurship such as street vending, home-based businesses, and other activities crucial to their families' livelihood. Yet, these

informal businesses are rarely captured in official data sources, which primarily measure formal employment and recognized businesses.

Women's contributions to the informal economy are often overlooked in labour market statistics, despite being essential to both household and national economic development. In the informal sector, women face barriers in accessing formal recognition, credit, and resources available to registered businesses. Their unpaid care work, combined with entrepreneurial activities, creates a dual burden. Official statistics fail to capture the full scope of women's economic participation, especially in the informal sector, where their contributions remain largely invisible.

Microfinance has emerged as a crucial tool in enabling women, especially those in low-income communities, to develop sustainable livelihood strategies. Following the civil war, Sri Lanka witnessed a rapid proliferation of microfinance services targeted toward women in the war-affected Northern and Eastern provinces. In subsequent years, these services expanded to include urban and rural areas throughout the island, with a particular focus on women living in economically vulnerable circumstances.

Despite the presence of numerous microfinance schemes, the informal nature of most women-led businesses continues to hinder their growth potential. These businesses, often unregistered and home-based, lack access to formal banking channels, training, and social security. The combination of economic vulnerability, limited education, and gender-based constraints exacerbates their marginalization.

While considerable research exists on the intersection of microfinance and women's entrepreneurship, the majority of the work tends to focus on rural communities or on women operating formally registered micro, small, and medium-sized enterprises (MSMEs). This has resulted in a notable knowledge gap regarding urban informal women entrepreneurs, particularly those residing in housing schemes and slums, who often operate on the fringes of policy visibility and institutional support.

This research focuses on understanding the lived experiences of such women, especially their engagement with microfinance institutions (MFIs) and how microfinance affects the sustainability of their informal businesses. By studying the intersection of informality,

gender, and financial access, the research aims to produce insights that could inform more inclusive social and economic policies for marginalized women entrepreneurs in urban Sri Lanka.

1.2 Problem Statement

Although Sri Lanka has made considerable success in financial inclusion, women in low-income urban communities continue to face issues unique to the urban community, particularly for informal entrepreneurial activities. While microfinance schemes aim to close this gap, there is increasing concern over their actual impact, especially in terms of long-term empowerment and sustainable business growth.

Many women entrepreneurs in the informal sector remain trapped in cycles of subsistence, despite receiving microloans. Issues such as unstable housing, lack of financial literacy, absence of market access, and limited control over household finances may diminish the effectiveness of microfinance interventions. Furthermore, most existing research focuses either on rural communities or presents generalized findings that do not adequately capture the urban informal sector context of Colombo.

Therefore, a localized, in-depth study is necessary to assess the extent to which microfinance contributes to improving the livelihoods and agency of women entrepreneurs in the informal economy of Colombo District. This study aims to fill that gap by providing empirical evidence on both the enabling and limiting aspects of microfinance in this setting.

1.3 Research Objectives

General Objective:

To examine the role of microfinance in supporting women entrepreneurs engaged in informal businesses within low-income communities of the Colombo District.

Sub-Objectives:

1. To explore the types of microfinance services accessed by women entrepreneurs in the informal sector.

2. To identify sectors of informal businesses run by women in low-income areas in Colombo.
3. To assess the impact of microfinance on business performance and household income.
4. To evaluate the level of financial literacy and repayment behaviour among the target group.
5. To examine the perceived advantages and disadvantages of access and repayment of microfinance loans.
6. To analyse how microfinance influences business sustainability and household economic wellbeing among informal women entrepreneurs.
7. To identify the challenges that limit the effectiveness of microfinance for informal women entrepreneurs in urban settings.

1.4 Research Questions

1. What types of microfinance services are accessed by women entrepreneurs in the informal sector?
2. What types of informal businesses are operated by women in low-income areas of Colombo?
3. How does microfinance impact the business performance and household income of these entrepreneurs?
4. What is the level of financial literacy among informal women entrepreneurs and how does it influence repayment behaviour?
5. What are the perceived advantages and disadvantages experienced by women when accessing and repaying microfinance loans?
6. In what ways does microfinance contribute to or hinder the sustainability of informal businesses and overall household wellbeing?
7. What challenges limit the effectiveness of microfinance among informal women entrepreneurs in Colombo's urban low-income communities?

1.4 Significance of the Study

This study contributes to the existing body of literature by offering a localized, in-depth examination of how microfinance affects women entrepreneurs operating within informal sectors in Colombo. It moves beyond rural-centric and MSME-focused analyses to highlight the specific struggles and opportunities facing women in urban low-income communities.

The findings from this research can inform policymakers, microfinance providers, and development organizations aiming to promote gender-inclusive financial services. It also offers practical recommendations for improving the design and implementation of microfinance programs in urban contexts.

For academia, this research bridges a crucial gap by documenting the nuanced realities of women entrepreneurs who are simultaneously breadwinners, caregivers, and informal business operators. The study thereby supports the development of context-sensitive interventions that align with the lived experiences of marginalized urban women.

1.5 Scope and Limitations

Scope: This study focuses on women residing in low-income areas within the Colombo District who operate informal businesses and have obtained microfinance loans. The study targets clients of microfinance institutions such as HNB Finance, Commercial Bank, LOLC Finance, and Mercantile Investments.

Limitations:

Sample Size: The study is limited to 50 participants selected through purposive sampling within the Colombo District. This limits generalizability to other regions.

Time Constraints: Data collection and analysis were carried out within a two-month timeframe, restricting longitudinal insights.

Access to Sensitive Data: Due to ethical considerations, detailed financial records will only be collected with consent. The analysis will rely on self-reported data, which may affect accuracy.

1.7 Definition of Key Terms

Microfinance: A set of financial services including loans, savings, insurance, and financial literacy, designed for low-income populations lacking access to conventional banking systems.

Informal Businesses: Economic activities that are legal and socially accepted but not officially registered with government authorities. Examples include street vending and home-based production such as sewing.

Women Entrepreneurs: Women engaged in initiating and operating small-scale, often home-based, economic ventures without formal registration.

Empowerment: The process through which individuals gain power, autonomy, and decision-making ability over personal and economic matters.

Financial Literacy: The capacity to understand and apply financial skills, such as budgeting, saving, borrowing, and managing debt, effectively.

Chapter 2: Literature Review

2.1 Introduction

In economically challenged communities, both in developed and developing countries, the link between microfinance, women entrepreneurs, and gendered economic survival has gained increasing scholarly and policy attention. This literature review explores the existing scholarly research on microfinance and its role in supporting women from low-income communities who engage in entrepreneurial activities. Microfinance is defined as “financial services to households and micro-enterprises that are excluded from traditional commercial banking services. Typically these are low-income, self-employed or informally employed individuals, with no formalized ownership titles on their assets and with limited formal identification papers” (Beck, 2015).

Following the recent economic crisis in Sri Lanka, there has been a notable increase in informal female entrepreneurs, especially in underserved urban communities around Colombo. The Institute of Policy Studies of Sri Lanka highlights that the COVID-19 pandemic and the subsequent economic crisis have severely hindered Sri Lanka's progress toward gender equality (Institute of Policy Studies of Sri Lanka, 2022). Unpaid care work disproportionately burdens women and remains a notable barrier to their economic empowerment and participation, especially during crises. This insight shows the urgent need for policies that increase women’s economic and political participation, which are vital for national recovery.

This review aims to examine several key themes that are critical to understanding the intersections of microfinance and women’s entrepreneurship:

1. The global and local evolution of microfinance
2. The link between women’s empowerment and microfinance
3. The nature of women-led businesses, particularly in the informal sector
4. The socio-economic transformations undertaken by urban women in response to the recent economic crisis in Sri Lanka

This chapter critically addresses gaps in the literature, particularly the absence of qualitative, gender-sensitive research examining how microfinance impacts women-led businesses in urban areas. While much of the existing work focuses on rural microfinance or formal small businesses, there is limited understanding of how urban women entrepreneurs navigate the challenges of informal business operations, especially in rapidly changing socio-economic contexts.

The importance of this study is underscored by these gaps, as it aims to provide nuanced insights into how microfinance influences the economic and social agency of marginalized urban women in Colombo.

2.3 The Origin of Microfinance

The birthplace of microfinance is recognized as Bangladesh. In 1974, the country was facing a severe famine, and the situation was deteriorating rapidly. Muhammad Yunus, deeply disturbed by the escalating crisis, observed that despite the extensive academic research and various attempts at economic development, poverty remained a persistent issue (Yunus, 2007).

While working toward solutions to end poverty, Yunus identified another overlooked issue: the absence of a clear and unified definition of poverty. According to Yunus (2007), a poor person is a jobless person, an illiterate person, a landless person, or a homeless person... For others, a poor person was one who could not produce enough food to feed his or her family year-round... Others thought a poor person was one who owned a thatched house with a rotten roof, who suffered from malnutrition, or who did not send his or her children to school. These definitions often overlook how women and children, who bear a disproportionate burden in poverty, are impacted by these conditions, especially in terms of unpaid care work and limited access to resources.

As a result, many women were left without a pathway to escape poverty. Poor individuals are often excluded from accessing traditional financial services due to the lack of collateral. Traditional banks exclude those who lack tangible assets, excluding them from formal credit systems. In response, Yunus decided to experiment at the micro-level, providing resources and infrastructure to help poor people grow food and sustain themselves. By using group-

based lending methods, based on social accountability to provide small, collateral-free loans - mostly to women - he challenged traditional banking systems. Group lending was an effective method as it operated on joint liability, meaning that if one member defaults, the remaining members are responsible for repayment, or all members are denied future financing. This structure reduced the risk of defaults by creating a collective responsibility among borrowers. In addition, the model utilizes peer monitoring and social pressure. Group formation is voluntary, which helps to minimize adverse selection, ensuring that only committed individuals join. The success of this group lending model lies in its effective use of social capital within local communities, enabling microfinance institutions to overcome the barriers traditionally faced in lending to low-income individuals. By integrating social networks and community accountability into the lending process, the model has proven effective in reducing defaults and promoting financial inclusion for marginalized populations.

Yunus's model quickly gained international traction. In a short time, microfinance evolved into a global movement, empowering low-income communities across continents (Bruck, 2006). According to the Asian Development Bank (2000), microfinance is "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises." Institutional microfinance is defined to include services provided by both formal and semi-formal institutions. Microfinance institutions are those whose primary business is the provision of such services. These institutions are different from traditional banks since they use unique methods, deviating from traditional banking methods, to reach the underserved and poorest individuals (Visconti, 2016). Methods like group lending, progressive loans, and short-term repayments are tailored for underserved populations. They often reach clients through home visits or mobile banking, bypassing physical branches. MFIs focus on social pressure within groups for repayment, target women for empowerment, and overcome barriers like financial illiteracy and geographic isolation, which are not typically addressed by conventional banks.

Today, microfinance intersects with the broader informal economy, which is largely cash-based, unregistered, and outside formal regulatory frameworks. Globally, 61.2% of the employed population - approximately two billion workers - are engaged in informal employment (ILO, 2018). This context is especially significant when considering the experiences of women in the informal economy, as they often engage in low-income,

unregistered activities that are not captured in official employment statistics (Gardner et al., 2022).

2.3 Women's Entrepreneurship and Informal Economy

The International Labour Organization (ILO, 2018) defines the informal economy as any economic activity not subjected to state regulation, taxation, or formal labor rights, as it operates outside legal and institutional frameworks. UNESCAP (2020) further underscores that informality is not just a residual phenomenon, but rather a dominant, structural component of economic life, particularly in many parts of the Global South. In Sri Lanka, the informal sector employs a significant portion of the workforce, with women comprising a disproportionately large segment, especially in urban low-income areas.

Understanding informal economic activity requires a gendered perspective, as women's roles in the labor market are shaped by broader societal and cultural norms. Gendered expectations often confine women to household and caregiving responsibilities, limiting their ability to access formal education, enter the formal workforce, or engage in formal entrepreneurial activities. As a result, women are disproportionately represented in the informal economy, where they engage in flexible, unregulated, and low-income work, often as a means of economic survival. Intersecting factors, such as limited access to formal education, domestic labor responsibilities, restricted mobility, and entrenched gender norms that discourage women from entering the formal workforce, drive their overrepresentation in informal work (Chen, 2005).

In underprivileged neighborhoods of Colombo, many women oscillate between these two identities: they strive to expand their small businesses while simultaneously struggling to support their families amid urban precarity, job losses, and inflation. The blurred line between entrepreneurship and survival strategies highlights the economic vulnerabilities faced by women, particularly those in informal businesses.

One critical aspect of the literature on informal work is the debate between “entrepreneurial” and “survivalist” perspectives. The idea that informal workers are entrepreneurs who choose to work outside the formal sector as a means of pursuing business ventures was popularized by De Soto (1989). However, this positive view is contested by scholars like Rakowski (1994) and Chant and Pedwell (2008), who argue that for many women in impoverished

communities, informal work is a survival strategy born out of limited official employment opportunities, rather than a conscious entrepreneurial decision.

2.4 Microfinance and Women's Empowerment

Although the link between women's empowerment and microfinance has been widely explored, the relationship is neither linear nor consistently positive. According to Kabeer (2001), empowerment involves granting women greater autonomy to make decisions in areas where they were previously marginalized. This process encompasses a range of social, psychological, and economic dimensions, including decision-making authority, mobility, self-confidence, and access to income.

Given that women are often the primary borrowers in microfinance programs, microfinance is frequently presented as a means to achieve empowerment. Evidence has shown that access to microloans can, in some cases, enhance women's financial resource management, household welfare, and active participation in community decision-making (Mayoux, 2002). This positive perspective, however, has been the subject of debate. Studies reveal that, in many cases, women have limited control over how the loans are used. Often, male family members manage or even embezzle the loan funds, undermining the intended empowerment (Goetz & Gupta, 1996).

2.5 Identified Research Gaps

Despite an abundance of research on microfinance and women's economic engagement, several significant gaps remain, particularly in the context of Sri Lanka's urban environments. Much of the current literature on microfinance is framed around a rural poverty narrative, focusing on women in rural areas and their access to financial services. However, urban poverty, especially within Colombo's low-income housing schemes and settlements, presents unique challenges that are often overlooked. These challenges include increased living expenses, lack of space for income-generating activities, and specific forms of social isolation, which create additional barriers for women entrepreneurs in urban settings.

In summary, this research aims to fill these important gaps by focusing on the gendered experiences of microfinance in urban, post-crisis Sri Lanka. It seeks to examine how women

navigate informality, debt, and empowerment, while uncovering the voices of those who are often absent from mainstream development discourse. Through this study, the role of microfinance in fostering or hindering women's empowerment within the urban informal sector will be critically assessed.

Chapter 3: Methodology

In this chapter, the methodology used to investigate the role of microfinance in empowering urban women entrepreneurs in Colombo is outlined. This includes the overall research design, study area, population, sampling method, data collection techniques, and analysis strategies. The methodology aimed to capture both quantitative and qualitative insights, providing a holistic view of women's experiences with microfinance and its effects on their empowerment and economic resilience.

3.1 Research Design

The study adopted a mixed-methods research design, integrating both quantitative and qualitative approaches. This design was chosen to provide a comprehensive understanding of the research topic by addressing both numerical data on microfinance usage and empowerment outcomes, as well as narrative insights into women's lived experiences. The quantitative component allowed for the identification of general patterns and trends in microfinance access, repayment behaviors, and economic outcomes. The qualitative component enabled a deeper exploration of individual stories, empowerment perceptions, and social dynamics that shaped the urban women's experience in Colombo's informal economy.

3.2 Study Area and Population

The study was conducted in urban low-income communities within the Colombo District, focusing on areas with high concentrations of informal women entrepreneurs, particularly in Colombo's low-income housing schemes and informal settlements. These areas included communities such as Wanathamulla, Mattakkuliya, and Dematagoda. The population of interest consisted of women who were actively engaged in informal business activities such as street vending, tailoring, food services, and digital entrepreneurship (e.g., selling goods on social media platforms like Facebook and WhatsApp).

3.3 Sampling Method and Sample Size

The study employed a purposive sampling technique to ensure that participants had specific characteristics relevant to the research. These characteristics included:

1. Women engaged in informal business activities in the specified urban communities.
2. Women who had accessed microfinance loans in the past or were currently borrowing.
3. Women who were involved in microfinance programs, either directly or through community-based savings groups.

The sample comprised 36 women for the quantitative surveys and 10 women for the qualitative in-depth interviews. The total sample size of 46 participants allowed for adequate representation of the target population while enabling a balanced combination of statistical analysis and rich qualitative insights.

3.4 Data Collection Methods

3.4.1 Quantitative Data Collection

Surveys (n=36)

Surveys were administered to 36 women to gather quantitative data on their experiences with microfinance. The survey was structured and included a mix of closed-ended questions and Likert scale items designed to measure:

1. Microfinance access (frequency, loan amounts, and types of loans).
2. Repayment patterns (on-time payments, multiple borrowings).
3. Economic outcomes (income changes, financial stability).
4. Empowerment indicators (mobility, decision-making, financial control, and household decision-making).

The survey was conducted in-person or via phone interviews, depending on the accessibility of the participants. Responses were analyzed using descriptive statistics to identify patterns and relationships between microfinance usage and women's economic and empowerment outcomes.

3.4.2 Qualitative Data Collection

In-depth Interviews

In-depth interviews were conducted with 10 women entrepreneurs selected from the survey participants. These interviews provided qualitative insights into the personal experiences of the participants, focusing on:

1. Their motivations for engaging in informal work and accessing microfinance.
2. The challenges they faced in using microfinance for business purposes.
3. The impact of microfinance on their social and economic empowerment.
4. Cultural and familial dynamics, including how gender norms affected their decision-making and business operations.

Interviews were semi-structured, allowing for flexibility in exploring unique experiences. Interviews were audio-recorded (with consent) and transcribed for thematic analysis.

3.5 Instrument Design and Validation

The instruments used for both the survey and interviews were developed based on a review of the literature on microfinance, women's empowerment, and informal economies. The survey instrument was pre-tested with a small sample of women from a nearby community to ensure clarity and relevance of the questions. Similarly, the interview guide was piloted to ensure that the questions were culturally appropriate and elicited detailed, meaningful responses. To ensure validity, the survey and interview questions were reviewed by experts in gender studies, microfinance, and sociology to verify the alignment with the research objectives. Reliability was assessed through pilot testing of both instruments.

3.6 Ethical Considerations

Ethical guidelines were followed throughout the study to protect participants' rights and well-being. The study adhered to the principles of voluntary participation, informed consent, and confidentiality. Before data collection, participants were provided with a clear explanation of the study's objectives, and informed consent was obtained for both survey participation and interviews. Participants were informed that they could withdraw at any time without consequence.

To ensure confidentiality, personal identifiers were removed from the data, and any anonymized information was securely stored. Additionally, gender sensitivity was maintained throughout the research, ensuring that all questions and interactions respected the dignity and privacy of participants.

3.7 Data Analysis Techniques

3.7.1 Quantitative Analysis (Descriptive Statistics)

The quantitative data from the survey were analyzed using descriptive statistics to provide an overview of the demographic characteristics of the sample, as well as key indicators such as microfinance usage, loan repayment behaviors, and economic outcomes

3.7.2 Qualitative Analysis

The qualitative data from the in-depth interviews were analyzed using thematic analysis. This involved identifying, analyzing, and reporting patterns (themes) within the data. The following steps were followed:

1. Familiarization with the data: Reading and re-reading the transcriptions.
2. Coding: Generating initial codes from the data.
3. Theme identification: Collapsing codes into broader themes.
4. Reviewing themes: Refining themes to ensure they accurately reflected the data.
5. Defining and naming themes: Finalizing the themes for reporting.

This approach provided a rich, detailed understanding of the participants' experiences, including the psychosocial impact of microfinance on their empowerment and economic participation.

3.8 Summary

This chapter outlined the mixed-method research design used to explore the relationship between microfinance and women's empowerment in urban Colombo. The research used surveys and in-depth interviews to gather both statistical data and personal narratives, enabling a comprehensive understanding of how microfinance influenced women's financial autonomy, business sustainability, and empowerment. Ethical considerations were carefully addressed, ensuring respect for participants' rights and dignity. Data were analyzed using both descriptive statistics and thematic analysis to capture both patterns and nuances in the data.

Chapter 4: Results and Findings

4.1 Overview of Respondent Demographics

The respondents in this study were primarily involved in small-scale, home-based businesses, with a focus on food preparation and sales. Most of the respondents are between the ages of 25-54 years, representing the core age group of entrepreneurs and individuals responsible for household management. The age groups of 35-44 years and 45-54 years each account for 27.8% of the sample, suggesting that the majority of the entrepreneurs are in middle adulthood, a stage where family and financial responsibilities are typically at their peak.

Regarding marital status, a significant 94.4% of respondents were married, which reflects the importance of family dynamics in decision-making and business operations. Most of the respondents (77.8%) have received only primary education or less, with 16.7% reporting secondary education. This indicates that financial literacy and business management training may be areas that require support to enhance business practices.

In terms of household composition, most respondents support 4 to 5 household members. This suggests that family members often contribute to managing both the household finances and the business operations, and this shared responsibility may influence the decision-making process within the business.

4.2 Quantitative Findings

4.2.1 Financial Access and Usage

All respondents utilized microfinance loans, with 22.2% also using savings accounts. Microfinance loans were the primary financial service accessed, highlighting their critical role in supporting small businesses. Most respondents (77.8%) reported borrowing from microfinance institutions once a year or less, indicating that loans are typically taken for larger, less frequent needs. Only 22.2% borrowed 2-3 times a year, suggesting a more regular borrowing cycle among some businesses.

4.2.2 Income and Business Outcomes

Regarding monthly household income, 50% of respondents earned between Rs. 75,000 – Rs. 99,999, while 22.2% earned Rs. 100,000 or more, and 16.7% earned Rs. 50,000 or less. This shows a significant variation in income, with many respondents falling into the middle-income range. The majority of respondents (70.6%) reported that their business income had improved due to microfinance loans, while 29.4% said their income had somewhat improved. This suggests that microfinance loans are having a positive impact on income generation, although the extent of improvement varies among respondents.

4.2.3 Decision-Making and Empowerment Metrics

The respondents were mostly self-employed (94.4%), with full responsibility for business management. This reflects a high level of entrepreneurial autonomy. In terms of empowerment, most respondents reported that their business income had positively affected their contribution to household expenses. However, empowerment in decision-making within their households was not explicitly captured in the data but is likely tied to financial contributions made by the respondents.

4.2.4 Challenges Identified by Respondents

A major challenge for 58.8% of respondents is repaying loans, particularly due to high weekly repayment amounts, multiple loans, and short repayment terms. Many respondents in daily income jobs, such as food vendors or small-scale producers, face difficulty managing the irregular cash flow and balancing loan repayments with daily expenses.

4.3 Qualitative Thematic Analysis

4.3.1 Access to Microfinance

Microfinance institutions are the primary source of financial support for respondents, but many expressed the need for larger loan amounts and longer repayment terms to enable business expansion and more sustainable growth. In addition, housing instability emerged as a significant concern. Several respondents, such as Responent 1, expressed interest in housing loans to improve their living conditions, but microfinance institutions currently do not offer this type of loan. The lack of access to housing loans limits the ability of many respondents to stabilize their living situations and grow their businesses.

4.3.2 Utilization of Loans

The primary purpose of loans was for business startup and expansion. For example, Responent 1 used her loan to purchase materials for her food business, while others also used loans for similar purposes, such as expanding their product offerings. However, many respondents, including Responent 2, highlighted the need for larger loans to scale up their businesses. This suggests that while loans are useful, they may not be sufficient for long-term business growth.

4.3.3 Informal Business Challenges

Respondents faced several personal challenges that disrupted their business operations, particularly related to health and family issues. Responent 2, for example, had to pause her cake business to care for her child with health complications, while Responent 1 faced business interruptions due to her husband's COVID-19 illness. These challenges underscore the vulnerability of small businesses, especially when personal crises hinder the ability to work.

4.3.4 Perceived Empowerment Outcomes

The positive impact of loans on income has been reported by the majority (70.6%) of respondents, who feel that microfinance loans have helped them generate additional income and contribute more significantly to their families' needs. However, housing instability remains a barrier for many, and the desire for housing loans to improve their living conditions was a common theme.

4.4 Triangulation of Data

Triangulation of the quantitative and qualitative data confirms that while microfinance loans are having a positive impact on business income, repayment challenges remain a significant concern. The need for larger loan amounts, longer repayment periods, and housing loans is a recurrent theme in both data sets. Respondents are also facing challenges related to unstable housing, which they feel is hindering their ability to grow their businesses effectively.

4.5 Summary of Key Findings

The findings indicate that microfinance loans are crucial for the majority of respondents, with 70.6% reporting improved income from their businesses due to these loans. However, repayment challenges, particularly due to high weekly repayment amounts, were reported by 58.8% of respondents. A significant number of respondents also expressed the need for larger loans, longer repayment periods, and access to housing loans to improve their living conditions and business growth. Despite these challenges, satisfaction with microfinance services is generally high, with 83.3% of respondents being either satisfied or somewhat satisfied with the support they received.

Chapter 5: Discussion

5.1 Synthesis of Quantitative and Qualitative Results

The findings from both the quantitative and qualitative data offer a comprehensive view of the challenges and successes experienced by microfinance clients, particularly those engaged in small-scale, home-based businesses.

The quantitative analysis highlighted that a significant portion of respondents (70.6%) reported increased income due to microfinance loans, yet many also faced challenges with loan repayments due to high weekly amounts, short repayment periods, and multiple loans. These challenges were reflected in the qualitative data, where Respondent 1, Respondent 2, and other participants emphasized the pressure of repayment and the need for more flexible loan terms.

The qualitative data also brought attention to issues not fully captured by the quantitative analysis, such as the impact of unstable housing and the lack of housing loans. Many respondents, such as Respondent 1, expressed a strong desire for housing loans to stabilize their living situations and help them grow their businesses. Respondent 2's experience with balancing family health crises and business responsibilities added a personal dimension to the challenges faced by micro-entrepreneurs, which was not fully captured by the quantitative data alone.

Overall, both data types emphasize that microfinance loans have a positive impact on business income, but that more tailored financial products, such as housing loans, larger loan amounts, and longer repayment terms, are needed to support sustainable business growth and financial stability.

5.2 Comparison with Existing Literature

The findings from this study align with existing literature on microfinance and entrepreneurship, which suggests that while microfinance plays a crucial role in supporting

small businesses and entrepreneurs, challenges related to loan repayment and financial stability persist.

Studies by Ahlin et al. (2011) and Morduch (1999) highlight that while microfinance can significantly impact income generation, the repayment burden often becomes a critical challenge, especially when loan amounts are not aligned with the income levels of entrepreneurs. This finding is consistent with the high repayment pressure faced by respondents in this study, as many expressed difficulties with weekly repayment amounts that did not match their business cash flow.

Moreover, the housing issue mentioned in this study supports findings from Johnson (2004) and Roodman & Morduch (2014), who argue that housing loans could greatly enhance economic security for microfinance clients, enabling them to focus on growing their businesses without the constant worry of housing instability.

In terms of the impact of microfinance loans, our results echo the work of Banerjee et al. (2015), who found that microfinance loans tend to lead to increased business income but also highlight that the amount of the loan and repayment conditions play a pivotal role in determining the sustainability of these benefits.

5.3 Theoretical and Practical Implications

From a theoretical standpoint, this study contributes to the growing body of literature on microfinance by providing insights into the interconnectedness between personal financial needs (such as housing stability) and business sustainability. The findings suggest that microfinance is not just about providing capital for business expansion; it also intersects with other aspects of social security, such as stable housing.

The practical implications of these findings are significant for microfinance institutions (MFIs). The study suggests that MFIs should consider expanding their financial offerings to include housing loans or products that combine personal and business needs. This could alleviate the burden of financial instability that many entrepreneurs face and could increase the long-term success of the businesses they support. Additionally, providing tailored repayment structures, such as longer repayment periods or smaller weekly payments, could

help reduce the strain on micro-entrepreneurs, especially those with daily income jobs or irregular cash flow.

Furthermore, the findings indicate that financial literacy programs are crucial in helping small business owners manage their finances effectively, and such initiatives should be incorporated into microfinance services to enhance the sustainability of the loans and businesses.

5.4 Researcher Reflexivity and Positionality

As the researcher, I acknowledge that my position as an external observer may have influenced the way the data was collected, interpreted, and presented. While the quantitative data provided concrete numbers and trends, the qualitative data was influenced by personal interactions and the trust that participants placed in me, which allowed for richer, more detailed insights into their experiences.

Being an outsider to the community, my ability to fully understand the cultural nuances and personal challenges may have been limited. However, I made efforts to ensure that the voices of the respondents were represented authentically, particularly by using direct quotes from the participants to capture their true experiences.

Reflecting on my own biases, I recognize that my interpretations may have been influenced by the preconceived notions I had about microfinance and its impact. I made conscious efforts to approach the data with an open mind and consider alternative interpretations, ensuring that the analysis remained objective and grounded in the data.

5.5 Limitations

This study has several limitations that should be acknowledged. First, the sample size was relatively small (36 respondents), and the findings may not be fully representative of the larger population of microfinance clients. A larger and more diverse sample could provide more robust insights into the generalizability of the findings.

Second, this study relied on self-reported data, which can be subject to social desirability bias. Respondents may have provided responses they felt were more socially acceptable or

aligned with what they believed the researcher wanted to hear, particularly regarding sensitive issues such as loan repayment and business outcomes.

Additionally, while the study provides insight into the challenges faced by microfinance clients, it does not examine the long-term impact of microfinance loans on business success beyond a short-term horizon. Future studies could explore the longitudinal effects of microfinance on entrepreneurial outcomes, such as business growth or asset accumulation.

Lastly, this research primarily focused on urban and peri-urban microfinance clients, and rural entrepreneurs may have different experiences, especially concerning access to services and loan conditions. Future research could compare these two groups to identify whether the challenges and needs are similar or divergent.

Chapter 6: Conclusion and Recommendations

6.1 Summary of Findings

This study examined the impact of microfinance loans on small-scale, home-based businesses, specifically focusing on the challenges and successes experienced by entrepreneurs. The findings revealed that microfinance loans have had a positive impact on business income, with 70.6% of respondents reporting increased income due to the loans. However, challenges related to loan repayments, particularly high weekly amounts and short repayment periods, were prevalent among the respondents. Additionally, many entrepreneurs, especially those with daily income jobs, faced difficulties in managing irregular cash flow, making it hard to keep up with weekly payments. Respondents also expressed the need for larger loan amounts and longer repayment terms to help them expand their businesses. The study also revealed that unstable housing was a major concern, with several respondents highlighting the need for housing loans to improve their living conditions and ensure business sustainability.

6.2 Conclusion

In conclusion, the study found that microfinance loans have had a significant positive effect on the income and business operations of small-scale entrepreneurs. However, despite the benefits, respondents face several challenges, particularly with loan repayment. Many entrepreneurs struggle with high weekly repayments and multiple loans, making it difficult to maintain business operations.

Furthermore, the lack of access to housing loans and the ongoing challenge of unstable housing emerged as critical barriers to business growth and personal security. These findings suggest that while microfinance institutions play a vital role in supporting small businesses, their services could be more effective and sustainable if loan structures were adapted to better meet the financial realities of entrepreneurs, particularly those with irregular income and unstable living conditions.

6.3 Recommendations for Practice

Based on the study's findings, several practical recommendations can be made for microfinance institutions (MFIs):

1. **Loan Flexibility:** MFIs should introduce more flexible loan structures, including lower weekly repayments and longer repayment periods. This would help entrepreneurs, especially those with daily income jobs, manage their cash flow more effectively.
2. **Larger Loan Amounts:** Larger loan amounts should be offered to entrepreneurs demonstrating potential for business expansion. Many respondents expressed the need for larger loans to scale their businesses, suggesting that current loan amounts may be insufficient for growth.
3. **Housing Loans:** MFIs should consider offering housing loans as part of their financial products. Stable housing is fundamental for both personal and business security, and providing housing loans would help entrepreneurs like Respondent 1, who expressed interest in improving their living conditions, enabling them to focus more on their businesses.
4. **Financial Literacy Programs:** Integrating financial literacy programs into microfinance services is crucial. Providing training on business management and financial planning would help entrepreneurs effectively manage their loans, avoid debt cycles, and improve long-term business sustainability.

6.4 Recommendations for Policy

From a policy perspective, several actions are necessary to further support microfinance clients:

1. **Expand Microfinance Services:** Governments and regulators should support the expansion of microfinance services to include housing loans. Stable living conditions are essential for business success, and housing loans can play a significant role in financial inclusion.

2. **Interest Rate Regulation:** There is a need for interest rate regulation to ensure that microfinance loans remain affordable and do not place undue financial burdens on borrowers. High interest rates were a key concern among respondents, and regulatory bodies should consider introducing interest rate caps or subsidies for microfinance institutions to make loans more accessible.
3. **Financial Education:** Governments should partner with microfinance institutions to offer financial education and business management training for small entrepreneurs. This would enhance financial literacy, reduce the risk of default, and improve the long-term impact of microfinance services on business success.

6.5 Suggestions for Future Research

There are several avenues for future research in the field of microfinance and entrepreneurship:

1. **Longitudinal Studies:** Future studies should explore the long-term impact of microfinance loans on business sustainability. A longitudinal approach would help to understand whether the positive effects on income persist over time and how entrepreneurs manage long-term financial challenges.
2. **Comparative Studies:** Comparative studies between urban and rural entrepreneurs could provide valuable insights into whether the challenges and needs of microfinance clients differ across geographic settings. Rural entrepreneurs may have unique needs related to market access, loan conditions, and business growth, which could inform the development of more tailored microfinance services.
3. **Housing Loans and Business Outcomes:** Further research into the impact of housing loans on business outcomes would provide valuable data on how stable living conditions contribute to business growth.
4. **Microfinance and Women's Empowerment:** Investigating the role of microfinance in women's empowerment would be an important area for future research. Women entrepreneurs may face unique challenges and barriers, particularly in rural and low-income urban areas, and understanding these experiences can inform policy and microfinance product development.

Conclusion

This study highlights the pivotal role that microfinance loans play in supporting small-scale, home-based entrepreneurs, particularly in enhancing their business income. Through the lens of the respondents' experiences, it is clear that microfinance serves as a crucial lifeline for entrepreneurs operating in low-income urban settings, offering them the financial means to sustain and expand their businesses. The study found that a significant proportion of respondents (70.6%) reported an increase in business income due to microfinance loans, underlining the positive effect of these financial services on the livelihoods of small entrepreneurs.

However, despite these benefits, the study also uncovered a series of challenges that hinder the long-term sustainability of micro-businesses. One of the primary concerns voiced by the entrepreneurs was the rigid repayment terms of microfinance loans, which often included high weekly repayments and short repayment periods. These conditions create significant pressure on business owners, especially those with irregular income streams, making it difficult for them to meet loan obligations without disrupting their day-to-day operations. Many respondents expressed the need for more flexible loan terms, including smaller weekly repayments and extended repayment periods, to better align with their income cycles and reduce financial strain.

Another critical issue identified in the study was the instability of housing, which emerged as a key barrier to both personal and business security. Many respondents expressed the desire for housing loans, which would allow them to stabilize their living conditions. The lack of stable housing directly affects business operations, as entrepreneurs often struggle to focus on their businesses when their home environment is unstable. Stable housing not only provides peace of mind but also offers a secure base from which entrepreneurs can focus on growing their businesses. Without access to housing loans, many women entrepreneurs are unable to improve their living conditions, which ultimately limits their potential for business growth.

Additionally, while microfinance loans are beneficial, the amounts offered by some microfinance institutions (MFIs) may not be sufficient for entrepreneurs to scale up their businesses effectively. Many respondents indicated that larger loan amounts would allow

them to expand their product offerings, purchase necessary equipment, or hire additional staff. The inability to access adequate funding stifles growth and leaves businesses stagnating at a small scale, unable to compete in broader markets.

The study also highlighted the importance of financial literacy and business management skills. Although microfinance loans provide access to capital, many entrepreneurs lack the financial knowledge to manage their loans effectively or plan for the long-term sustainability of their businesses. Incorporating financial literacy programs and business management training into microfinance services would help entrepreneurs optimize their financial resources, make informed business decisions, and ultimately improve their chances of success. Empowering entrepreneurs with the right knowledge and skills can enhance the effectiveness of microfinance services and ensure that loans contribute to lasting business growth.

In conclusion, while microfinance loans are crucial for the success of small-scale entrepreneurs, their potential is not fully realized without addressing the challenges related to loan terms, housing instability, and insufficient loan amounts. By offering more flexible loan terms, larger loan amounts, and incorporating housing loans into their product offerings, microfinance institutions can support the economic empowerment of entrepreneurs and contribute significantly to their business growth.

Furthermore, the inclusion of financial literacy programs and business management training will empower entrepreneurs to better manage their loans and businesses, leading to improved repayment rates and long-term sustainability. With appropriate policy support, such as interest rate regulation and expanded access to financial education, MFIs can contribute to creating a more stable and inclusive financial ecosystem. This will not only ensure the success of micro-entrepreneurs but also foster broader economic development, particularly in low-income urban areas where these entrepreneurs play a key role in the local economy.

The findings of this study suggest that microfinance, when adapted to meet the unique needs of entrepreneurs, can provide a pathway to financial stability and sustainable business growth. By considering these recommendations and adjusting their offerings to better support small-scale entrepreneurs, microfinance institutions have the potential to significantly

improve the economic well-being of underserved communities and contribute to the broader goals of poverty alleviation and economic empowerment.

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