A COMMUNITY FRAMEWORK · SRI LANKA

A five-step path *out of the debt trap*

A polikaraya says 10% a month. A microfinance company says 24% flat. A bank says 18%. These are not the same numbers. This booklet is the print companion to piyavara.org — the calculator, the rules, and the help directory in one place.

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>
> If you need formal help, contact the Legal Aid Commission of Sri Lanka, the Central Bank of Sri Lanka, SANASA, or Sarvodaya (details on the back page).

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Free — not for sale

PIYAVARA IN ONE PAGE

What Piyavara *does*

Sri Lanka has a real problem: informal lenders (polikarayas, unregistered microfinance operations, some seettu groups) charge effective annual rates between 60% and 400% — while quoting numbers that sound small ("10% a month", "24% flat"). Borrowers cannot compare offers because the quoted rates are not on the same scale as bank or cooperative rates. Piyavara translates every loan into one comparable number — the effective annual rate (EAR) — and gives a plain-language verdict.

Five steps

1. Know what you're paying. Convert the quoted rate to the true EAR.
2. Compare to fair alternatives. Bank, cooperative, or regulated microfinance.
3. Get out of the trap safely. Escalation path from self-help to Legal Aid.
4. Save with fair seettu. Ten community rules that keep rotating credit honest.
5. Lend to family fairly. A formula that's fair to both sides and legal under the Money Lending Ordinance.

Who this is for

Anyone in Sri Lanka trying to make sense of a loan, a seettu, or a family lending arrangement. It is written so a school-leaver can use it without help. The web version (piyavara.org) has a working calculator; this booklet has the same maths written out so you can do it with a pencil and phone.

What Piyavara is not

- Not a lender. Piyavara does not lend money or introduce lenders.
- Not a regulator. If your rights have been violated, contact the Legal Aid Commission.
- Not affiliated with any bank, government agency, or political party.

The five steps *in detail*

1 Know what you're paying

> In short: The rate the lender quotes is almost never the rate you actually pay. Convert every offer to the same number — the effective annual rate (EAR).

Lenders use three tricks to make rates sound smaller. First, they quote a monthly rate ("10% per month" sounds like 10 × 12 = 120% but compounds to 213% EAR). Second, they use flat interest ("24% flat over 12 months" is about 44% EAR because you pay interest on the full principal even as you pay it down). Third, they take fees upfront ("100,000 loan, 12,000 fees" means you actually received 88,000 but owe interest on 100,000).

To get to the EAR yourself with a calculator: (a) work out the total cash you received in hand; (b) list every payment and its timing; (c) find the rate that makes those payments equal the cash received. This is the internal rate of return (IRR). The Piyavara calculator does this in your phone; the assessment workbook does it in Excel.

2 Compare to fair alternatives

> In short: Once you know the true EAR, you can honestly compare it to a bank, a SANASA cooperative, or a regulated microfinance company — all quoted on the same scale.

Use the table on the next page as a guide. A rate at or under 24% EAR is comparable to a state-bank personal loan; 24-40% is comparable to regulated microfinance; anything above 40% signals hardship pricing; anything above 100% is predatory and legally challengeable.

SANASA cooperatives, Berendina, and state banks (Bank of Ceylon, People's Bank) publish their rates — the phone numbers are on the back page. If your true rate is above 40%, it is usually worth asking whether one of these institutions can refinance you at a lower rate. You typically need identification, proof of income (which can be informal), and a co-guarantor.

3

Get out of the trap safely

> In short: If your true rate is above 40%, do not borrow again to make payments. That is how debt bondage starts. Follow the escalation path in order.

Escalation path. (1) Assess your rate and payment schedule with the Piyavara workbook. (2) Ask a SANASA cooperative or state bank if refinance is possible. (3) If the answer is no, contact the Sri Lanka Legal Aid Commission — they will review your paperwork for free and, in the case of predatory rates (over 100% EAR), can bring a case under the Money Lending Ordinance No. 2 of 1918, which allows courts to reopen "harsh and unconscionable" loans. (4) If the lender is an unregistered microfinance company, the Central Bank of Sri Lanka receives complaints under the Microfinance Act No. 6 of 2016 and the 2025 Regulatory Authority Act.

What you should not do. Do not sign additional paper. Do not hand over your NIC or land deed as security to an unregistered lender. Do not stop making payments before you have spoken to Legal Aid — unilateral default weakens your case.

4

Save with fair seettu

> In short: A seettu (rotating savings and credit association) is one of Sri Lanka's oldest financial tools. Done well it is powerful; done badly it becomes an interest-bearing loan wearing friendly clothes.

See the "Ten rules for a fair seettu" section for the full ruleset. The essentials: written charter, verified members, cash held by a co-signed account (not one person's pocket), transparent draw order, and a rule against reselling turns at a discount — that's where seettu becomes lending with hidden interest.

5

Lend to family fairly

> In short: Family loans go wrong when the rate is either too high (secretly predatory) or too low (secretly a gift that breeds resentment). There is a fair middle.

The Piyavara fair-family formula: charge the borrower inflation + 3 percentage points, annually compounding, with the schedule written down and both parties keeping a copy. That covers your loss of purchasing power and a modest premium for the risk, without turning the loan into a money-making venture at a relative's expense. Under the Money Lending Ordinance, any rate above 12% per annum for an unsecured loan can be reopened by a court, so keeping the rate reasonable also protects you legally.

The calculator *in one page*

The Piyavara true-rate calculator solves one equation — the internal rate of return. In plain language: find the interest rate that, applied to the cash you actually received, matches the payments you actually make.

The equation

$$\textit{Net cash received} = \textit{sum over } t{=}1..N \textit{ of } \; \textit{Payment}_t / (1+r)^t$$

where r is the per-period rate. The effective annual rate is then $(1 + r)^{\text{periods per year}} - 1$.

Worked example

Face value: LKR 100,000. Upfront fees: LKR 12,000 (so you receive LKR 88,000 in hand). Monthly payment: LKR 12,000. Number of payments: 24. The rate that solves the equation is r ≈ 12.5% per month. Compounded across twelve months that becomes an effective annual rate of ~328% EAR — predatory.

What each verdict means

Your true rate	What it means	What to do
≤ 24% EAR	Fair — bank / cooperative-comparable.	Continue. If lending, use the workbook.
24-40% EAR	Comparable to regulated microfinance.	Ask if SANASA or a state bank offers consolidation at ~18%.
40-100% EAR	High — hardship territory.	Stop borrowing more. Prioritise repayment; seek Legal Aid or SANASA.
> 100% EAR	Predatory. Money Lending Ordinance (1918) allows courts to rewrite this.	Contact Legal Aid immediately. Do not sign more paper.

Quick reference — quoted vs true

What you were told	What it actually is	Verdict
"10% per month" polikaraya	~213% EAR	Predatory
"24% flat, 12 months"	~42-46% EAR	High
Microfinance company (nominal 30%)	~35-50% EAR (with fees)	High
SANASA cooperative loan	~18-24% EAR	Fair
State bank personal loan	~15-20% EAR	Fair

Ten rules *for a fair seettu*

1. **Write a charter before the first draw.**
Contribution amount, frequency, total members, draw order, penalty rules, and a dissolution clause. Everyone signs; everyone keeps a copy. No verbal-only groups — verbal seettu is where most disputes start.

2. **Verify every member's identity.**
NIC copy filed with the charter. This is not distrust; it is what makes recovery possible if someone disappears.

3. **Cap the group.**
Ten to twelve members maximum. Bigger groups take longer to complete and more members increases the chance one drops out. If you have twenty interested people, run two groups.

4. **Hold the money in a co-signed bank account.**
Not one person's wallet. The account should require two of three trusted members to withdraw. This is the single biggest protection against theft.

5. **Random or agreed draw order, decided at the start.**
Not "whoever needs it first" each round. Emergency exception rules should be written in the charter (e.g. medical), not decided ad hoc.

6. **Do not resell turns.**
The moment a member sells an early turn to another member for a discount ("I'll give you 90,000 today for your 100,000 turn"), you have created a hidden interest rate. That converts seettu into an unregulated lending scheme.

7. **One late payment triggers a written warning.**
Two triggers the penalty (defined in charter). Three triggers removal. Consistency is essential — the charter is what protects the group from favouritism.

8. **Meet in person for every draw.**
Even if only briefly. Video call is acceptable if all members agree in writing. This preserves the social pressure that makes seettu work.

9. **Publish a running ledger.**
Who paid, who drew, current balance. WhatsApp group works; a shared Google Sheet works better. Transparency prevents disputes.

10. **Have a written dissolution clause.**
What happens if a member leaves halfway. What happens if the group as a whole wants to stop. What happens if there is a dispute the group cannot resolve internally (default: Legal Aid mediation).

WHEN SELF-HELP IS NOT ENOUGH

Get help from *formal organisations*

Piyavara is self-help. When self-help is not enough, these are the organisations to contact. All are verified as of publication; phone numbers and addresses do change — please confirm before travelling to a physical office. Formal help from all listed organisations is free or very low-cost.

Legal Aid Commission of Sri Lanka
For any predatory-rate loan or written contract dispute. Free legal representation for eligible clients. Can bring cases under the Money Lending Ordinance to reopen unconscionable loans.
legalaid.gov.lk · 011-2433618 (Head Office, Colombo) · branches in each district capital.

Central Bank of Sri Lanka
For complaints against microfinance companies and licensed non-bank financial institutions. Enforces the Microfinance Act No. 6 of 2016 and the Microfinance & Credit Regulatory Authority Act 2025.
cbsl.gov.lk · 011-2477000 · Financial Consumer Relations Department.

SANASA Cooperative Federation
Local savings-and-credit cooperatives across the country. Typical loans at 18-24% EAR. Membership-based; usually requires you to save first.
sanasa.coop · 011-2865351 · branches in most divisional secretariats.

Berendina Development Services
NGO-run microfinance targeting rural entrepreneurs. Regulated microfinance rates, transparent pricing, financial-literacy support.
berendina.org · 011-2695000 · Ratmalana head office.

Sarvodaya Economic Enterprise Development Services (SEEDS)
Village-level microfinance and enterprise support. Especially active in rural and post-conflict areas.
sarvodaya.org · 011-2647159

Bank of Ceylon · People’s Bank
State banks. Personal loans typically at 15-20% EAR. Require identification, proof of income (can be informal), and a co-guarantor.
boc.lk · peoplesbank.lk · branches in every DS division.

BEHIND THE BOOK

Sources *& licence*

Key legislation referenced

- Money Lending Ordinance No. 2 of 1918 — gives courts power to reopen "harsh and unconscionable" loans; long-standing basis for challenging predatory informal lending in Sri Lanka.
- Microfinance Act No. 6 of 2016 — regulates licensed microfinance companies; complaints to Central Bank of Sri Lanka.
- Microfinance and Credit Regulatory Authority Act 2025 — strengthens oversight of the wider informal lending sector.

Rate benchmarks

State-bank and licensed microfinance company rate ranges are drawn from published rate cards of Bank of Ceylon, People's Bank, Berendina, and Central Bank quarterly microfinance reports, cross-referenced with SANASA published cooperative rate ranges. Informal-lender rate estimates use standard Sri Lankan polikaraya practice (10-15% per month) and reported microfinance-company effective rates from Central Bank monitoring.

Historical context

The seettu structure is based on the traditional Sri Lankan rotating savings and credit association — documented in community-finance research going back more than a century. The ten rules distil best practice from surviving groups and from case studies of failed ones. The five-step framework and the true-rate calculator are original to this project.

Licence

> **Support this project**
>
> Piyavara is free forever. If you found it useful, the most valuable thing you can do is share it with someone who is caught in a bad loan. Print a copy, hand it over, and walk through the five steps together. That is how the framework spreads.
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