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DETERMINANTS OF SOCIAL SUSTAINABILITY IN MICROFINANCE GROUPS IN RURAL SRI LANKA: A QUALITATIVE STUDY ON THE ROLE OF TRUST AND COOPERATION, CONFLICT MANAGEMENT, GROUP FUNCTIONING, AND SOCIAL NETWORKS

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ABSTRACT

Microfinance has emerged as a crucial mechanism for sustainable development, socially, economically, and environmentally, particularly in rural contexts of developing countries. While the economic sustainability of microfinance groups has been studied comprehensively, social sustainability, particularly in rural Sri Lanka, remains underexplored. This study examines the dynamics of group interactions and their role in sustainability to recognize the key determinants of social sustainability in microfinance groups in rural Sri Lanka. It focuses on social and economic inclusion, leadership empowerment, and community well-being. Additionally, the study reveals the role of leadership, trust, and conflict resolution in sustaining groups. Sixteen interviews were conducted with leaders of microfinance groups in rural areas of the Anuradhapura district in Sri Lanka. The interviews employed a qualitative approach, utilizing a pre-tested interview guide and face-to-face interviews, a purposive sampling method, descriptive analysis, and in-depth thematic analysis while preserving the research ethics The findings

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of the study revealed that trust and cooperation, conflict management, group functioning, and the impact of social networks on microfinance groups significantly influence the social sustainability of these groups in rural Sri Lanka, enhancing social capital and cohesion, leadership empowerment, socio-cultural context, economic inclusion, and community well-being. Furthermore, this study highlights the importance of adopting a comprehensive and holistic approach to enhancing socio-cultural and economic inclusion through microfinance in rural Sri Lanka. The social sustainability of microfinance groups leads to overall sustainability through community-based growth and development, poverty reduction, and prominent financial inclusion.
Keywords: *Conflict Management, Group Functioning, Microfinance, Social Sustainability, Social Networks, Trust and Cooperation, Sri Lanka*

Introduction

Microfinance is defined as 'the provision of financial services to low-income people by the Consultative Group to Assist the Poor' (Central Bank of Sri Lanka, 2025). It serves as a bridge for low-income households to achieve financial inclusion; its products, such as loans, savings, and insurance, inspire more people to become incorporated into the financial system (Adeola & Evans, 2017; Woolcock, 2001). Muhammad Yunus introduced a microfinance development model that involved straightforward engagement with low-income level communities and the development of microeconomic concepts through the Grameen Bank project (Yunus, 2004). Microfinance has emerged as a critical mechanism for sustainable development (three dimensions: social, economic, and environmental sustainability), especially in rural contexts in developing countries. Sustainability, a process that enables the creation of a high-quality life and a passionate economy while respecting the need to preserve the environment and sustain natural resources, demonstrates the principle that future generations should live in a world that the present generation has enjoyed but not diminished (Clough et al., 2006).

Sustainable development is defined as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs' (Brundtland, 1985), whereas *Social sustainability* is the 'managing and specifying both positive and negative effects of activities, processes, systems, and organizations on social life and people' (Balaman, 2019). Vallance et al. (2011) identified three social sustainability types: (1) development sustainability, which addresses inequity and poverty; (2) bridge sustainability, which concerns the changes in behavior to acquire bio-physical environmental goals; and (3) maintenance sustainability, which aims to preserve the socio-cultural practices and patterns in the changes of social and economic contexts. Microfinance has the potential to boost sustainable development and enhance livelihoods through promoting entrepreneurship and financial inclusion. Adeola and Evans (2017) emphasize that a collection of long-run relationships intertwines financial inclusion and microfinance, leading to social sustainability through economic empowerment enhancement driven by microfinance. There, microfinance has a statistically significant and positive impact on financial inclusion levels in the long run.

Additionally, as a social dimension of sustainability, social capital a combination of social norms, networks, and trustworthiness leads to the stability of microfinance groups (Postelnicu & Hermes, 2018). The findings of this study will guide microfinance institutions, rural development officers, and policymakers in developing interventions that strengthen leadership, social cohesion, and inclusivity in microfinance initiatives. Stakeholders in rural Sri Lanka can achieve success in microfinance groups by developing strategies for enhancing resilience and understanding opportunities and threats related to social sustainability. Furthermore, integrating social sustainability principles with microfinance contributes to economic and environmental sustainability as well as community empowerment and social well-being. By making the social capital and internal group dynamics explicit, the stakeholders would be able to perform to both safeguard sufficient economic sustainability and social embeddedness of the microfinance interventions.

The economic sustainability of microfinance groups has been studied comprehensively; however, social sustainability remains underexplored, especially in the rural Sri Lankan context. Although microfinance has many potential benefits, sustaining microfinance groups in the long run has been identified as a critical challenge. Most scholars argue that many microfinance groups become unsuccessful after a few years due to socio-cultural constraints, economic stress, lack of leadership and trust, and internal conflicts. Therefore, identifying and exploring social sustainability is critical since community-based microfinance initiatives play a crucial role in poverty reduction, especially in Sri Lanka, which has been a developing country for decades. Accordingly, this study aims to fill the current research gap by investigating the key determinants of the social sustainability of microfinance groups in rural Sri Lanka. It focuses on social dimensions, including social cohesion and structure, leadership and empowerment, socio-cultural context, economic inclusion, and community well-being that affect the sustainability of microfinance groups.

The exploration of social dimensions, such as group cohesion and trust, social capital, leadership and participation, equity inclusion, education and capacity building, social norms and cultural influences, gender roles, economic inclusion, and community well-being, shape the microfinance groups successfully with a holistic approach by understanding the significance of social sustainability in rural Sri Lanka. This study aims to identify the key determinants of social sustainability in microfinance groups in rural Sri Lanka by concentrating on social cohesion and structure, leadership and empowerment, sociocultural context, economic inclusion, and community well-being to explore the dynamics of group interactions and their role in sustainability and to assess the role of leadership, trust, and conflict resolution in sustaining groups. The methodology implies development of situation-related, direct approach to the enhancement and endurance by means of intensifying action through the visioning of situation-related action plans and adjustment toward considering unique social and cultural conditions of rural Sri Lanka.

The rest of the paper is structured as follows: Section 2 presents a literature review section. Section 3 explains the methodology, which is the quantitative study approach of the research design, including data collection procedures, participant selection processes, and the analytical strategy used to investigate research questions. Section 4 contains the Results and discussion. Section 5 provides the conclusion.

Literature Review

Social sustainability involves focusing on the well-being of communities and individuals by promoting equity, human rights, and access to education and healthcare. This study examines the social dimensions that impact the sustainability of microfinance groups. The concept of social sustainability in microfinance has been investigated by several scholars, focusing on determinants such as social cohesion and trust, social capital, leadership and participation, equity and inclusion, education and capacity building, social norms and cultural influences, cultural sustainability, gender roles, economic inclusion, and community well-being. Microfinance groups encourage entrepreneurship, foster socio-economic growth, and give access to financial resources. With this comprehensive social alignment of microfinance, microfinance institutions can not only promote the livelihoods of individuals but the development of strong and inclusive communities that support long-term development.

Social cohesion and structure, including group cohesion, trust, and social capital, have a significant impact on the social sustainability of microfinance groups in rural Sri Lanka. Social capital (functions as a combination of social norms, networks, and trustworthiness) formation leads to the stability of microfinance groups by substituting the lack of physical collateral with their social collateral (Postelnicu & Hermes, 2018; Woolcock, 2001). On the other hand, social cohesion provides social protection, enabling microfinance groups to access business loans from MFIs, thereby facilitating the development and survival of their businesses (Bongomin et al., 2020). The extent and nature of social networks within and between component sectors or groups are significant variables that shape developmental performance. The extent of integration of people with low incomes into the formal economy has been a crucial measure of the success of microenterprise programs (Woolcock, 2001; Niranjala et al.,

2024a). Poverty, which diminishes social sustainability, is significantly and negatively affected by social trust (Gereke et al., 2018). The strong and potential social networks within community-based organizations contribute to livelihood success in the Sri Lankan context (Gunasekara et al., 2017; Niranjala et al., 204b).
Scholars emphasize the importance of social cohesion and structure in enhancing the effectiveness of microfinance. For example, Firdaus (2020) connects microfinance sustainability and cultural norms through social capital enhancement, while Bongomin et al. (2020) highlight that social cohesion has a positive and significant impact on the relationship between the survival of women MSMEs and microfinance accessibility in post-war communities, which, in turn, significantly influences the survival of women MSMEs. Zainuddin and Yasin (2019) emphasize that national culture (four dimensions: power distance, uncertainty avoidance, individualism, and masculinity) significantly affects MFI performance.

Effective and efficient leadership and empowerment are crucial for ensuring the social sustainability of microfinance groups in rural contexts. Leadership enhances group performance and cohesion by facilitating equity inclusion, active participation, and capacity building. Leadership styles significantly impact the microfinance performance of MFIs, emphasizing leadership roles in problem-solving, effective and quick decision-making, and guiding group objectives (Kariuki & Wachira, 2017; Sumanapala et al., 2025a). Strong leadership demonstrated the positive impact of social sustainability through equitable resource allocation and the promotion of inclusivity. Non-financial innovations such as education are crucial for integrating with microfinance, which empowers members by enhancing their knowledge through capacity building and improving self-reliance and decision-making (Hadi et al., 2015; Sumanapala et al., 2024b). It is not only about individual empowerment but also about building the overall strength of the group by contributing to long-term sustainability. Furthermore, Pretes (2002) highlights the significance of the micro equity concept, which involves equity grants to microfinance group members, leading to active participation and a greater commitment to the sustainability of microfinance groups the Village Enterprise Fund (VEF) in Kenya, Uganda, and Tanzania are a few examples.

The socio-cultural context, as in rural Sri Lanka, has a significant effect on the social sustainability of microfinance groups. Firdaus (2020) emphasizes that cultural norms and structures brighten the operational dynamics and collaborative behaviors of microfinance groups. The consistency of ethnographic accounts of the effect of microcredit projects on low-income level households access to loan facilities that lead to various outcomes such as welfare depending on fundamental conditions and decision-making of households and emphasize gender roles and social hierarchies' challenges; for example, women borrowers may experience a decline in welfare (Hudon, 2008; Ngo & Wahhaj, 2012). Cultural sustainability is a crucial component for conserving critical characteristics of community well-being. Gender diversity is significant in terms of efficiency and group success; for example, some scholars argue that women's contributions are behind in every success (Ebissa & Asfaw, 2024). Group participation and microfinance enhance social capital and collective empowerment of women against cultural barriers (Sanyal, 2009). Garikipati et al. (2017) identified rigid socio-cultural structures and gender discrimination as barriers in the microfinance sector that critically affect gender equality and empowerment.

The economic inclusion of microfinance in the rural Sri Lankan context has a critical impact on the social sustainability of microfinance groups. Cull and Morduch (2018) emphasize the role of microfinance in enhancing financial access and economic development for low-income communities. Adeola and Evans (2017) highlight that a collection of long-run relationships merges financial inclusion and microfinance. Microfinance has a statistically significant and positive long-term effect on financial inclusion levels but a positive and insignificant impact in the short run. They further emphasize the significance of financial inclusion by providing evidence from Nigeria on the enhancement of economic empowerment driven by microfinance, which leads to social sustainability. Brown et al. (2016) reveal that commercial microfinance banks make a significant contribution to the financial inclusion and sustainability of low-income households. Financial inclusion enhancement leads to economic development and strong economic resilience of microfinance groups in frontier markets and emerging markets.

As a key determinant of the social sustainability of microfinance groups, community well-being has a wide effect on social equity, education, and health. Microfinance contributes to community welfare beyond its economic consequences while facilitating collaborative responsibility and a sense of identity. Duvendack et al. (2011) examined the evidence on the effect of microfinance on the well-being of low-income communities. They revealed that microfinance has a statistically insignificant impact on well-being results measured even though there are significant and positive impacts on variables (such as activities of business and borrowing). Rahman et al. (2015) demonstrated the role of sustainability of Islamic microfinance institutions through community development, identified commitment and time as key drivers to build a sustainable microfinance operation, and revealed that the Islamic microfinance community includes product innovation, strong drive for sources and membership of funds, technology enhancement, financial literacy, education, and spiritual development. Sestito (2023) revealed how conflict affects social identification and cohesion and identified that conflict has a positive effect on ethnic identification and community engagement. Therefore, reducing conflicts will ensure community well-being.

These studies collaboratively emphasize that social cohesion and structure, leadership and empowerment, socio-cultural context, economic inclusion, and community well-being are the key determinants of the social sustainability of microfinance groups. The case studies demonstrate how microfinance strengthens social sustainability, particularly in rural contexts. Research on social sustainability and microfinance is extensive, but qualitative studies on the experiences of microfinance groups are lacking. Only a few research studies have focused on the socio-cultural dynamics of microfinance in the rural Sri Lankan context, examining the intersection of community well-being, leadership, gender roles, and cultural norms within microfinance groups. This study aims to address the identified research gaps by exploring live experiences and group interaction dynamics and assessing the roles of leadership, trust, and conflict resolution in microfinance groups to identify the determinants of social sustainability.

Methodology

The study employs a qualitative approach, utilizing primary data and focusing on case studies to explore the key factors that influence the social sustainability of microfinance groups in rural Sri Lanka. Qualitative research enables a vast area of study to be condensed into a simple, manageable, and single topic, offering an exhaustive understanding of a specific circumstance or problem (Mohajan, 2018). There has been a careful consideration of the failure or inadequacy of microfinance groups, especially in rural Sri Lanka, to generate expected developments recently, which has led to excessive criticism of these programs. Consequently, it is vital to understand the reality of this circumstance. Accordingly, this study conducted 16 interviews with leaders in microfinance groups in the rural areas of the Anuradhapura district, Sri Lanka, marking the data saturation point for the issue under investigation. Individuals were chosen as the units of analysis. The ideal sample size for qualitative studies that utilize empirical data ranges from 9 to 17 individual interviews or 4 to 8 focus group discussions (Hennink & Kaiser, 2022).

This study used a pre-tested interview guide and face-to-face interviews with an average duration of 30 to 45 minutes to perform the series of key informant interviews with respondents beyond the common interview technique as the data collection method while using a purposive sampling method to select the research sample from microfinance groups as the sampling technique by ensuring both success and fail sample inclusion. Most questions in the interview guide were open-ended questions to help identify the social dimensions of the social sustainability of microfinance groups. The interview guide consists of two sections: Section 1 covers the demographic factors of respondents, and Section 2 tests the determinants of social sustainability in microfinance groups in rural Sri Lanka. This research employed descriptive analysis and in-depth thematic analysis as data analysis methods. The data were collected collaboratively with the respondents while preserving the research ethics.

Results and Discussion

The Results and Discussion section is organized into two key components: the first presents the socio-demographic characteristics of the participants, while the second explores the key determinants contributing to the social sustainability of microfinance groups.

Socio-demographic Profile of Microfinance Groups

This section presents the socio-demographic profile of the microfinance groups that participated in the study. Understanding these characteristics is essential to contextualize their financial behavior and sustainability.

Table 1: Socio-demographic Profile of Microfinance Groups

Case	Membership Duration	Number of Members	Membership Criteria Status	Current Occupation	Level of Formal Education	Main Source of Income
C1	> 5 years	15	Financial	Small Businessman	Secondary	Small Business
C2	> 5 years	17	Financial	Small Businessman	Primary	Small Business
C3	> 5 years	15	Financial	Small Businessman	Secondary	Small Business
C4	> 5 years	21	Financial	Small Businessman	Secondary	Small Business
C5	3 to 5 years	6	Financial	Small Businessman	Secondary	Other
C6	> 5 years	6	Financial	Small Businessman	Primary	Small Business
C7	> 5 years	10	Financial & Social	Small Businessman	Secondary	Small Business

C8	> 5 years	6	Financial & Government	Small Businessman	Primary	Small Business
C9	> 5 years	18	Financial & Government	Other	Secondary	Foreign Remittance
C10	> 5 years	27	Financial	Small Businessman	Secondary	Other
C11	> 5 years	9	Financial & Government	Farmer	Secondary	Agriculture
C12	> 5 years	5	Other	Farmer	Secondary	Agriculture
C13	> 5 years	5	Financial & Other	Farmer	Secondary	Agriculture
C14	> 5 years	5	Financial, Random, & Other	Farmer	Secondary	Agriculture
C15	> 5 years	5	Other	Farmer	High school	Agriculture
C16	3 to 5 years	5	Financial	Farmer	Secondary	Agriculture

Source: Field Data, 2024

The socio-demographic profile of microfinance groups (Table 1), as reported by the group leaders in rural Sri Lanka, illustrates several key characteristics. Table 1 shows that the majority of microfinance groups have been operating for over five years, indicating that high operating years lead to high stability of microfinance groups. The membership of most microfinance groups ranges from 05 to 27 members; in some groups, the number of members equals 05 (C14). The collected data demonstrate that the minimum membership number should be at least five to build a stable and prosperous microfinance group. A significant proportion of microfinance groups (n=14) used financial status (income level and financial needs) as the membership criteria. In addition to financial status, C7 considered social status (social status and community influence); C8, C9, and C11 have used government status (by a government mandate); C13 is a Samurdhi beneficiary, and C14 is considered random selection, mandatory annual membership fee and mandatory regulation: number of members should be equal to 5. However, C12 and C15 did not consider the members' financial status when selecting members for their microfinance group. Their selection criteria were based on being a Samurdhi beneficiary and having the repaying trust of the members, respectively.

Data on membership criteria status demonstrate that, beyond income level and financial needs, social status and community influence, compliance with public administrative rules and regulations, agreement to the microfinance groups' rules and regulations, and mutual trust are equally important to building a sustainable microfinance group. The current occupations of the group leaders fall between those of farmers (n = 6) and small businessmen (n = 9), except for C9. The majority of respondents are small business owners. The formal education level of the respondents ranges from primary (n = 3) to secondary education (n = 12), except for C15. The highest formal education level among the respondents is high school. It suggests that people with a medium level of formal education tend to join microfinance groups to improve their financial status and sustain their households and the overall economy. The primary source of income lies in between agriculture (n = 6) and small businesses (n = 7), except for C5, C9, and C10, indicating that the majority of the microfinance group leaders depend on their small businesses.

Based on the socio-demographic profile of microfinance groups, the significance of microfinance lies in facilitating financial support to enhance small businesses and the agricultural sector in rural Sri Lanka while fostering social sustainability among microfinance groups and within their social context. As seen via a micro-level perspective, such assistance has been used to increase household earning levels, and economic strength, at the same time as strengthening community bonds through the action of group responsibility and common involvement.

Determinants of Social Sustainability of Microfinance Groups

This study reveals that key determinants of social sustainability among microfinance groups enhance the performance of the small business and agricultural sectors while fostering social status among the microfinance groups in the rural context and contributing to the country's economic stability. This study examines how these key determinants relate to and enhance the social sustainability of microfinance groups. According to Table 2 presents a structured summary of the qualitative data collected during the study, organized under four main themes and each theme is broken down into key categories, which are further illustrated by specific free codes direct ideas from the participants.

Table 2: Overview of Data Structure

Theme	Category	Free Codes
Trust and Cooperation	Trust within the group members	Select members by considering their trust and past good behaviors
		No cheaters in groups
	Help and support each other	Strong unity with members in daily activities
		Other members help with money in an emergency
		Helping each other
Conflict Management	Collaborative decision making	Solve problems as a team
		Discuss with group members
	Social relations	Relatives/ neighbors and friends
Functioning of the Group	Culture and religion	No cultural and religion differences
		All belong to the same cultural and religion
	Gender	All of the members are females
		Most of us are female
Influence of Social Networks	Relatives/ neighbors/ Friends	Better involve trusted people
		Money transactions with Relatives/ neighbors/ Friends cannot be maintained properly
	Relationship between the members	With relatives cannot maintained properly
		Relationships make difficulties in group management

Source: Field Data, 2024

Considering the social dimensions that affect the sustainability of microcredit groups, the key findings (Table 3) present the patterns observed during the 16 case studies. Four themes could be identified in the social sustainability of microcredit groups: Trust and Cooperation, Conflict Management, Functioning of the Group, Influence of Social Networks.

Table 3: Key Findings – Key Determinants of Social Sustainability of Microfinance Groups

Thematic Areas	**C 1**	**C 2**	**C 3**	**C 4**	**C 5**	**C 6**	**C 7**	**C 8**	**C 9**	**C 10**	**C 11**	**C 12**	**C 13**	**C 14**	**C 15**	**C 16**
Trust and Cooperation	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Conflict Management	*	*	*	*	*	*	*		*		*				*	*
Functioning of the Group	*	*		*		*		*		*	*	*	*	*	*	*
Influence of Social Networks			*	*	*		*	*		*		*	*	*		*

Source: Field Data, 2024

This section encompasses four key themes based on the key determinants supported by specific examples and respondents' quotes to provide a broad understanding of the social sustainability of microfinance groups in rural Sri Lanka.

Trust and Cooperation

Trust and cooperation are two main dimensions of social capital. Social capital is identified as a combination of social norms, networks, and trustworthiness (Postelnicu & Hermes, 2018). According to Sanyal (2009), group participation and cooperation within microfinance groups enhance social capital and collective empowerment in the face of cultural barriers. Social capital formation leads to group stability of microfinance by substituting the lack of physical collateral with social collateral (Postelnicu

& Hermes, 2018). Gereke et al. (2018) emphasized that poverty is negatively and significantly affected social trust. It represents the idea that poverty, which diminishes social sustainability, increases social distrust and vice versa.

All cases reveal how trust and cooperation contribute to social sustainability. C1, C3, C8, and C12 emphasized the positive impact of trust and cooperation to represent variation among various perceptions. “There is good trust among the group members. In some cases, if someone is unable to pay the loan installment, the members of the group join together and pay the installment until it is paid later, as a help” (C1), and “There is good trust and cooperation among the group members.” (C3) demonstrates how trust and cooperation sustain and continue the stable existence of microfinance groups. Further, “If even one member is unable to pay the installment, the installments of the other members of the group are collected and divided into four and pay all members’ installments; it will be settled after receiving money from the non-paid member. Such a trust can be seen within the group members” (C8). “No issues were reported in our group; we are united, and there is good cooperation among group members. The important factor is the trust. We need to give assurance to take a loan to the member; otherwise, he or she cannot take the loan.” (C12) establishes that trust between each group member is crucial to ensure timely microfinance loan repayments and decrease the risk of defaults, while cooperation enables mutual collaboration, cooperative problem-solving, and the exchange of indigenous knowledge for sustainable microfinance group creation.

On the other hand, some cases, such as C4, C6, C9, and C15, demonstrate the opposite idea, while the majority of cases show the positive and significant effects of trust and cooperation. For example, “Someone comes and asks me a loan. So, I trust her and help her. If she does not want to keep that trust, there will be a problem. The loan installment should be paid properly as promised” (C4), and “If there is a lot of support and trust in the team, they will go well, and it is the members of untrusted groups who do not pay the loan installments” (C9). Trust and cooperation highlight that these determinants enhance the resilience of microfinance groups by empowering the members with new economic opportunities while building long-term social sustainability.

Conflict Management

Effective conflict management is critical in the social sustainability of microfinance groups in rural Sri Lanka. Sestito (2023) revealed how conflict affects social identification, cohesion, and community well-being and described how conflict can positively affect ethnic identification and community engagement. Therefore, effective conflict management is essential for community well-being. Inaccurate conflict management, arising from inequity, micromanagement, and financial disputes, can undermine group sustainability and active participation, ultimately leading to disbanding. “No Conflicts have arisen in our group yet. All members do their responsibilities well” (C2). “There are no problems within the group; the three members take the loan together and then they pay the installment on the relevant date anyway” (C3) and “There have been no problems within the group because all members are very friendly with me so that we can talk and solve any problem.” (C11) indicates that well-structured conflict management strategy which strengthens by trust and cooperation, and collaborative decision-making process can establish long-term group stability, reinforce team bond, and enables transparency.

Conversely, “There have been no such conflicts within the team. If such a conflict occurs, the higher officials of the relevant institutions will be informed” (C6), and “No such conflicts have arisen within the group. If there is a conflict, the chairman will resolve it.’’ (C15) illustrates the lack of conflict management, despite the groups having some conflict management procedures, while C1 and C7 remained silent about conflict management. Microfinance groups can promote social harmony by developing equitable conflict management mechanisms and well-mannered communication to ensure stable community well-being and financial empowerment within the groups.

Functioning of the Group

Characteristics such as group participation, cultural sustainability, social capital formation, cultural norms and structures, social cohesion, community well-being, proper socio-cultural structures, and gender diversity are essential components for sustaining group functioning. Group participation and microfinance promote social capital and collective empowerment against cultural barriers (Sanyal, 2009). Social capital formation leads to the stability of microfinance groups by substituting less physical collateral with their social collateral (Postelnicu & Hermes, 2018; Woolcock, 2001). Furthermore, national culture has a significant impact on microfinance performance (Zainuddin & Yasin, 2019). Firdaus (2020) emphasizes that cultural norms and structures brighten the operational dynamics and collaborative behaviors of microfinance groups through social capital enhancement, while Bongomin et al. (2020) highlight that social cohesion positively and significantly affects the relationship between survival of Micro, Small, and Medium-sized Enterprises and microfinance accessibility and its significant effect on survival of MSMEs. Gender diversity is critical in group development and efficiency; for example, some scholars argue that women's contributions are behind every success (Ebissa & Asfaw, 2024).

However, Garikipati et al. (2017) identified rigid socio-cultural structures and gender discrimination as barriers in the microfinance sector that critically affect gender equality and empowerment. Some cases such as C1, C2, C4, C6, C11, C15, and C16 emphasize that the cultural and gender diversities of microfinance groups positively and significantly affect on functioning of group and decision-making process not only having those diversities: "Our group has members from different social cultures, Buddhists, Christians, Muslims. Cultural and social factors have not become a problem while running the team. The team has both males and females" (C8) but also without any diversities: "The team members all belong to the same culture. No problems were created because of the culture and dynamics. All members are females" (C6). "No deviation from our members' cultural norms and values impacts the functioning of our micro-credit group. There is no evidence for group dynamics and cultural practices or beliefs that influence decision-making. No gender will influence group operations both males and females can join our small group. However, the majority joined are females." (C14) demonstrates that it excludes rigid socio-cultural structures and gender discrimination and emphasizes the value creation of social sustainability in group functioning. Still, cases such as C10 have no idea about the functioning of groups: "Everyone is Buddhist. All members are women." (C10) experiences: "We have not faced any experiences like this, no differences in religions and culture, because we all are in the same group" (C12).

Leadership and economic inclusion are essential for sustainable group functioning. Kariuki and Wachira (2017) revealed that leadership styles have a significant impact on microfinance performance and emphasize the importance of leadership roles in solving problems, effective and fast decision-making, and guiding group objectives. "We select our members by considering their trust and past good behaviors; we work as a team, we always help our team members, and we are unity for special activities of our home and agriculture activities" (C13), and "Leadership has a great responsibility. But I don't feel it so serious when dealing very friendly with our members." (C11) indicates the significance of leadership and empowerment: "There have been no such conflicts within the team. If such a conflict occurs, the higher officials of the relevant institutions will be informed." (C6) represents the lack of leadership within the microfinance group. Commercial microfinance banks significantly contribute to financial inclusion in low-income households' sustainability, and financial inclusion enhancement leads to economic development and strong economic resilience of microfinance groups (Brown et al., 2016). "Money transactions with relatives cannot be maintained properly." "When relatives and friends are members, problems arise in the team. If there are members who do not pay loan installments, there is no way to blame them, and then the friendship will be lost," and (C4) revealed the importance of economic inclusion.

The absence of transparency, leadership, empowerment, and weak internal management strategies will lead to the collapse of microfinance groups. However, active member engagement in collaborative decision-making, problem management, and loan repayments will empower the group with social capital and continuous existence. Effective group dynamics also improve long-term resilience and collaboration. This study reveals that social cohesion and economic stability encourages sustained livelihoods and empowers rural households by allowing them to operate within well-structured microfinance groups. It is important to emphasize that sustainability of the microfinance organizations in Sri Lanka can be based on the three interrelated pillars i.e., transparent leadership, participatory involvement, and strong internal management. The combination of these pillars enables the generation of social capital, the reinforcement of group resiliency as well as the process of long term economic and social empowerment.

Influence of Social Networks

A social network is another sub-component of social capital, as it functions as a combination of social norms, networks, and trustworthiness (Postelnicu & Hermes, 2018; Woolcock, 2001). Its formation contributes to the stability of microfinance groups. The extent and nature of social networks within and between component groups are fundamental variables that shape the performance of development, and the extent of integration of low-income people into the formal economy has been a crucial measure of the success of microfinance programs (Woolcock, 2001). Further, the strong and potential social networks within community-based organizations contribute to livelihood success in the Sri Lankan context (Gunasekara et al., 2018). Genuine and strong social bonds between members encourage collaborative responsibilities with trust and cooperation, which positively impact the functioning of groups, ensuring high loan repayment rates and enhancing long-term feasibility. This study reveals diverse perceptions regarding the influence of social networks.

In social networks, the same factors can have different effects on different groups, given their social characteristics and dynamic nature. For example, some cases emphasize that the members being the relatives and friends will ensure the survival and performance of microfinance groups: “It is easy to deal with relatives and friends because there is trust. When we have to deal with people we don’t know, problems can arise, and strong words can be exchanged and scolded. Such problems do not arise with relatives” (C10). However, some reject it because “the presence of relatives in the group creates difficulties for me in the management. Because of their friendship with me, they defaulted on loan installments, which made me face so many problems. Problems will arise when the same family members come to the team. If they miss the loan installments, we cannot force or pressure them for payments” (C7), and “It is better to involve trusted people who are not relatives or friends in the group. Even if we see a mistake of the other person in the group, we can say it to him without any problem because we have no close relationship. If the group members are the same family, the guarantor cannot pressure the borrower to pay the loan, even if he has not paid.” (C8). These cases demonstrate that social networks can have both positive and negative effects on the social sustainability of microfinance groups, depending on the nature of the members and groups.

In some cases, such as C12, C13, and C14, the influence of social networks on their groups is highly valued for ensuring the day-to-day process of microfinance growth, both collectively and individually: “Yes, good relationship with the team will positively impact our day-to-day activities and no negative impact reported yet” (C12). Some cases illustrate high social networks bring obstacles to group sustainability: “When the friendships of the group increase, obstacles can occur. There was a person who was running a business. She had some problems, was sick, and could not pay the loan installments. This created a problematic situation. After that, she decided to pay the loan with her husband’s salary. The institute stopped giving her loans” (C3). “Problems arise when the friendship and relationship increase between the members because of the friendship. Once I signed as a guarantee for a loan. That person took the loan and gave it to another friend without informing us, and then they did not pay the loan, and many problems arose” (C5). Nevertheless, additional social pressure can lead to financial stress and elimination, and a community-based support system leads to reduced risk by diminishing financial stress, equipping Indigenous safety nets, and fostering entrepreneurial development. Thus, a well-performing social network ensures the inclusivity, resilience, and long-term social sustainability of microfinance groups in Sri Lanka.

According to the results, trust and cooperation are crucial components of the social sustainability of microfinance groups as they collaboratively contribute to fostering strong connections, coordinated responsibilities, and financial stability within the microfinance groups. For example, Firdaus (2020) connects microfinance sustainability and cultural norms through social capital enhancement. In addition, Bongomin et al. (2020) highlight that social cohesion positively and significantly affects the relationship between the survival of Micro, Small, and Medium-sized Enterprises and microfinance accessibility, and it has a significant effect on the survival of MSMEs. Trust and cooperation are crucial for the sustainability of microfinance groups, fostering social bonds, accountability, and collective responsibility. They enable informal mechanisms like pooled repayment support and peer monitoring, reducing default risk and enhancing financial stability. Taken together, the results fall in line with more general literature emphasizing the need to pay special attention to contextualized conflict resolution in models of group-based microfinance (Labie et al., 2009). There is little doubt that a single solution to conflict management may be uneffective in heterogeneous communities of any rural area where culture, power structures and communication processes differ. Rather, microfinance institutions ought to facilitate development of group-level conflict resolution systems focusing on equity, transparency and involvement of the members. Besides resolving the disputes, these mechanisms lead to inclusion, accountability and resilience which are critical in terms of social sustainability. Socio-cultural factors, leadership processes, economic inclusion, and group involvement are very important activities that facilitate the smooth working of the microfinance groups. The current study echoes the fact that the functioning within a group is quite complex, paying attention to the functions of social capital, cultural conventions, gender diversity, and leadership in influencing the long-term viability and survival of the microfinance groups in rural areas of Sri Lanka. The conclusions are in line with Sanyal (2009) and Postelnicu and Hermes (2018) as they consider the group participation and the development of social capital as the main factor facilitating the sustainability of microfinance groups. These empirical observations support the assumption that the existing belief that trust, cooperation, and effective conflict regulation shaped by means of social capital, cultural norms, and participatory leadership are central to social sustainability of microfinance groups, i.e. developing strong social bonds, increased accountability, and financial resilience by informal means of peer monitoring and loan pooling. As it can be incorporated with the current literatures, the study emphasizes the importance of the context-specific conflict-resolving approach, socio-cultural dynamics, and wide-group involvement in the survival of microfinance groups in the rural environment of Sri Lanka.

Micro finance group activities are highly determined by social and cultural issues, leadership styles, economic inclusion, and participation of the groups. To a greater extent, the current study confirms the complexity of how a group functions and the importance of social capital, cultural norms, gender diversity, and leadership towards the sustainability and resilience of a microfinance group in rural Sri Lanka. Increment in the involvement of women can help immensely in making microcredit groups self-sustainable as it has increased the social capital and has added to the probability of reimbursement of the loans granted as well as has stabilized dynamics within a group of them. There is greater tendency of women developing greater expertise which involves networks of trust and cooperation which are key to group cohesion and responsibility. Research has indicated that women are more productive in their loan repayment as well as likelihood to use their loan productively, and this decreases the chances of default on the loan, which will promote the financial fitness of the group. Also, the fact that women always come to the meetings, engage in inclusive decision-making, and support systems within their peers makes their groups always because something and continue. It is also a form of making them take part in breaking conventional gender codes resulting in increased power and control among the group. What it produces are the dynamics of collaboration and transparency that reinforce the social and financial aspects of group sustainability (Sanyal, 2009; ArmendAz & Morduch, 2010; Postelnicu & Hermes, 2018).

Further both enabling and constraining implications of social networks with regard to microcredit group performance are found via this study, as has been cited by other investigations. On the one hand, close social ties, especially the ones organized either on the principles of family or close friendships can establish the atmosphere of trust in which the members feel supported, safe and determined to stick to their financial obligations. Conversely, however, the dense social networks may also be a danger when relation obligations run counter to financial improvidence. The current research findings also reflect the earlier warnings of cultured publications, as well (Banerjee et al., 2015; Karlan et al., 2010; Gunasekara et al., 2018). Altogether, the framework reiterates that to attain sustainable group cohesion and survival, internal social processes should be nurtured with social capital. This understanding lends further credence to the need for microfinance strategies to focus on relationships, faith, and participatory social practices as much as they regard the financial and structural aspects.

Framework for Social Sustainability of Microcredit Groups

Based on the research findings the following framework provides a comprehensive lens to understand the dynamics that influence the social sustainability of microcredit groups in rural Sri Lanka.

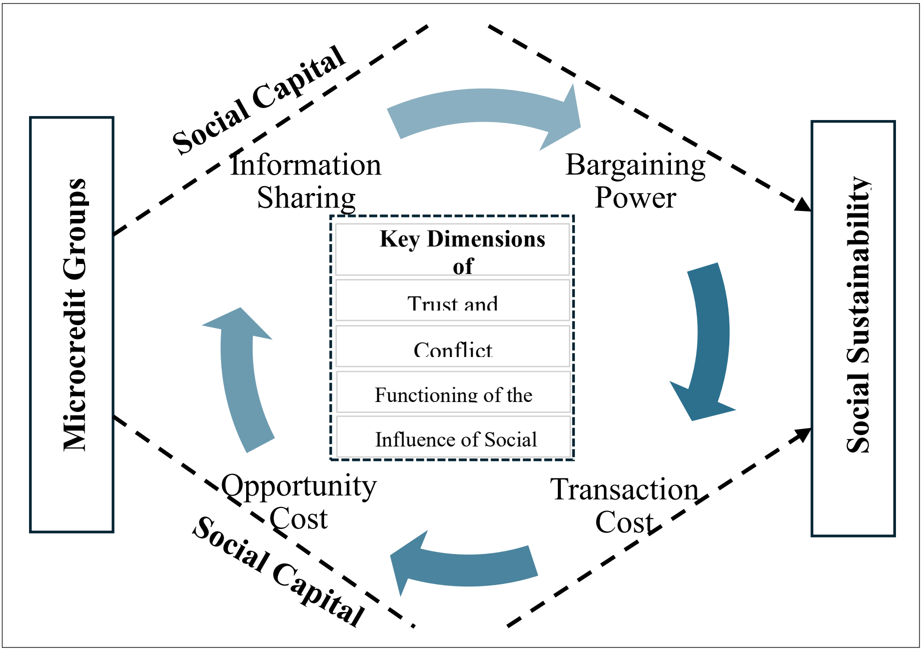

Figure 1: Identify the framework for Social Sustainability of Microcredit Groups

The framework presented in Figure 1 illustrates the process through which Social Sustainability is established within microcredit groups, particularly in rural Sri Lankan contexts. At the core of this model are four critical determinants: Trust and Cooperation, Conflict Management, Functioning of the Group, and Influence of Social Networks. These elements represent the internal social dynamics that shape the group's long-term cohesion and effectiveness. However, their functionality does not emerge in isolation. It is actively enhanced through the mechanisms explained by Social Capital Theory: information sharing, bargaining power, transaction cost, and opportunity cost. These theoretical constructs act as enablers, facilitating better coordination, stronger relationships, and more equitable group interactions.

As these four determinants become stronger through these social capital processes, the microfinance groups develop deeper inter-member trust, more efficient conflict resolution, better organized and goal-oriented operations, and stronger ties to external community and institutional networks. This interactive and reinforcing cycle gradually leads to the formation of a socially sustainable microcredit group. In essence, social sustainability is not a static end goal, but a dynamic outcome produced by the continuous and reciprocal strengthening of these four determinants through social capital mechanisms. This model highlights that sustainable group success relies not only on economic or structural factors, but deeply on the quality and depth of internal social relationships. Hence, the above dynamics, in their turn, are supported by the mechanisms of social capital allowing sharing information, increasing the bargaining power, and reducing transaction and opportunity costs. This constant, mutual interaction results in a further level of trust, more harmonious coordination, and integration with the outside networks, proving that the quality of the social relationships internal to the bonds is the main driving force of social sustainability instead of focusing merely on economic or structural factors.

Conclusion and Recommendations

This study aimed to identify the social sustainability determinants of microfinance groups in rural Sri Lanka, explore the dynamics of group interactions and their role in sustainability, and assess the roles of leadership, trust, and conflict resolution in sustaining groups by adopting a qualitative case study method. The findings demonstrate that trust and cooperation, conflict management, group functioning, and influence of social networks within microfinance groups significantly affect the social sustainability of microfinance groups in rural Sri Lanka, enhancing social capital and cohesion, leadership empowerment, socio-cultural context, economic inclusion, and community well-being. Trust and cooperation were identified as critical factors that foster stability and responsibility of microfinance groups, while effective conflict management mechanisms support microfinance group sustainability by ensuring smooth procedures and discouraging dissemination.

Leadership empowerment in microfinance groups enhances the decision-making process, promotes group resilience, and facilitates coordination. At the same time, social cohesion and networks shape microfinance groups through the collaboration of the social capital concept, influencing loan repayment and overall operational procedures. Although these determinants have a significant and positive impact on the social sustainability of microfinance groups, issues such as economic stress, lack of leadership empowerment, and various socio-cultural constraints interfere with the long-term social sustainability of microfinance groups. Similarly, this study emphasizes the diverse perspectives on the role of social networks; some respondents view them as valuable, while others perceive them as sources of problems. These opposite perspectives demonstrate that the success or failure of microfinance groups largely relies on the nature of groups and their management methods.

This research study further highlights the need for a comprehensive approach that explicitly addresses socio-cultural inclusion and economic inclusion to enhance microfinance in rural Sri Lanka. Strengthened leadership empowerment and conflict management strategies, enhanced economic and social inclusion, market access, and financial literacy are supportive of the regulatory frameworks that promote the well-being of beneficiaries in successful microfinance initiatives. The social sustainability of microfinance groups ultimately leads to community-based growth and development, poverty reduction, increased financial inclusion, and strengthened overall sustainability. In the current study, empirical support is provided, which confirms that the rural microfinance groups in Sri Lanka have high level of social sustainability when the internal mechanism of trust, conflict resolution, group operation and social networks is supported by social capital. Nurturing pro-inclusive leadership, meaningful relationship development and cultural conflict management thus becomes a necessity in maintaining cohesion within the group and realizing sustainable microfinance performance.

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