

ABSTRACT

Sri Lanka has been successfully achieving the millennium development goals of poverty alleviation for last two decades, showing a rapid reduction of Poverty Head Count Ratio from 26.1 percent to 8.9 percent from 1990/1991 to 2009/10. Hambantota District recorded the highest reduction in Poverty Head Count Ratio from 32.4 percent to 6.9 percent during the same period. Microfinance programmes play an important role in poverty reduction in many developing countries including Sri Lanka. Twenty five percent (25.0%) of microfinance programmes have been established in the Southern Province of Sri Lanka and this could affect on the reduction in poverty of Hambantota District. The main objective of this study is to identify the impact of microfinance on changing socio economic wellbeing, empowerment of people and poverty reduction of the beneficiary households.

The study mainly used primary data collected from a survey from June to September 2012. Four stage sampling method was employed for the study. Hambantota District was selected as the study area due to the rapid poverty reduction of that District purposively. In the second stage, three Divisional secretaries of Sooriyawewa, Agunukolapalessa and Ambalanthota were purposely selected out of 12 divisional secretariats in Hambantota districts representing different economic activities and representing all five selected microfinance institutions of Samurdhi, SANASA, Janashakthi Bank, SEEDS and Rural Banks. The third stage is the quasi-experimental design of the sample as control group and treatment group to see the differences of the outcomes of two groups to see the impact of microfinance on poverty alleviation and empowerment. Clients who have experiences for more than three years with microfinance institutions were taken as treatment group while the clients who have experiences only less than one year with microfinance institutions were taken as the control group. The fourth stage followed the simple random sampling method to select clients out of the two lists of treatment and control groups of each DS division. The final sample consisted with 240 individuals including 150 treatment group and 90 control groups. Each segment was equally distributed for three DS divisions and five institutions. Questionnaire survey was mainly employed for the primary data collection and response rate was 100 percent. Key informant interviews and focus group discussions were used to obtain detailed image on the role of microfinance institutions on poverty alleviation and empowering. Descriptive statistics, simple regression models, t – Test and Binary logistic regression models were employed for the analysis.

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The overall findings of the study are; the economic empowerment of people including living standard of people, income and savings of the family, development of new income sources, development of family economy, purchasing of durable consumer goods, development of business/occupation, self confidence about the future, satisfaction of the utilization of loans and financial and employment security, reduction of external shocks, training helped to develop new income sources and training provided helped to develop skills have been improved with the microfinance programmes in Hambantota District while employability is not significantly affected by those programmes. The social empowerment consisted with training programs, developing leadership, counseling programmes created significant changes of their lives, team work ability, social harmony and education of children; Family health condition, condition of house and ability of friendly working with officials were also positively affected by the microfinance institutions. The impact of microfinance institutions on poverty alleviation was tested by poverty line derived using per capita expenditure of the household using the survey data. The mean value of poverty lines derived for the Hambantota District by the Department of Census and Statistics of Sri Lanka for the months from June to September (Rs. 3477) was used as the poverty cut off point of the District. Poverty reduction of the area was highly contributed by microfinance institutions of SEEDS, Janashakthi Banking Societies, and Co-operative Rural Banks while Sanasa and Samurdhi Banks contributed less. Encouraging more microfinance institutions in poor areas, performance based continuation of loan provision, imposing realistic interest rates targeting poor, performance based payments of the agents from the microfinance institutions, awareness programmes for the poor on utilizing microfinance in proper manner are some possible policy implications for the further development of microfinance programmes for poverty reduction and empowerment in Hambantota District of Sri Lanka.

Key Words: Microfinance, Poverty reduction, Economic and Social Empowerment