

Microfinance and poverty alleviation: Case of the Northern Province in Sri Lanka

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The paper evaluates the impact of microfinance on poverty alleviation in the Northern Province of Sri Lanka. After being the central area of conflict over the last three decades, the cessation of hostilities has provided the residents of the province the opportunity to rebuild their lives and recommence their economic livelihood. Since many residents have limited access to funds, the microfinance product has become a key component in the revival of the economy in the region. Data was collected and analyzed in 2013, through a structured questionnaire, from all five districts in the Northern Province where microfinance is offered by banks and a large number of private financial institutions all competing to offer the product as the returns and risk on the product are deemed very attractive. The conceptual model associates beneficiaries' income and living standards with the key dimensions of the microfinance product which include interest cost, credit availability and the credit appraisal process. An econometric methodology using the ANOVA model was used to assess the data. The results of empirical analysis indicate a positive relationship between microfinance and poverty alleviation in the period under study. Awareness levels of the population on the micro finance product were extremely high. However, a lack of an integrated credit appraisal system and competition among vendors to attract customers has provided an enabling environment for possible misuse of the product. Access to low cost funding and high interest rates has made the product very attractive even for the more established financial institutions, though the objective of using the product to alleviate poverty has got blurred. The results are similar to what was found in Bangladesh, where it was found that microfinance not only contributes to alleviating poverty, but also contributes to overall human development in the country. However, the results are contrary to what was observed in Indonesia, where it was found that the impact of micro finance on various household outcomes is generally insignificant.

Key words: Microfinance, poverty alleviation, Sri Lanka