

# Elements of microfinance on spatial poverty alleviation in Sri Lanka: Structural equation modeling

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## Abstract

Sri Lanka being a developing country, its poverty can be identified as a serious issue for the development of the country. Poverty can be identified as a spatial characteristic in Sri Lanka which can be seen in the high poverty rates in several areas as the result of disparities of natural and physical resources distribution and, geographical disadvantages. Microfinance has been identified as a significant tool for eradicating poverty in many Asian countries after the 1990s. Sri Lanka also launched several microfinance programs to reduce poverty in the country. Despite the availability of microfinance in Sri Lanka, very few studies have been carried out; therefore, only limited knowledge of the empirical and theoretical impacts of the various microfinance elements on poverty alleviation is available. This study is an attempt to remedy this paucity of knowledge. Primary data were gathered through a Likert scale questionnaire that was distributed among 497 borrowers of the Samurdhi microfinance program. This sample was chosen from five districts of Sri Lanka. Structural Equation Modeling was used for testing the hypotheses. The findings of the study revealed that microcredit was the most significant element of microfinance for alleviating spatial poverty in Sri Lanka. Nonfinancial Services and Insurance Services also had a positive impact on spatial poverty alleviation. Micro Savings and Social Intermediation Services did not have a notable positive impact on spatial poverty alleviation in