

**MICROFINANCE AS AN INSTRUMENT FOR ECONOMIC  
EMPOWERMENT OF THE POOR: WITH SPECIAL REFERENCE TO  
THE HAMBANTOTA DISTRICT**

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The study attempts to assess the effectiveness of Microfinance (MF) services in enhancing the economic empowerment of poor beneficiary households in the Southern Dry Zone of Sri Lanka. In theory, if the poor households invest the MF services (in terms of both financial and social intermediationary functions) in the income generating livelihood activities, they could easily cross the poverty line by achieving economic empowerment. International evidence of the impact of MF on economic empowerment of beneficiary households (HHS), however, remains contested. Research findings of most studies on the MF sector in Sri Lanka are also not an exception to this phenomenon.

The Hambantota district in Sri Lanka attracted the attention of MF researchers in early 2000s and they have pointed out that the degree of the positive impact of the MF on economic variables of households are hindered by a number of factors such as the lack of improvement on the infrastructure, industrial establishment and information about market place in the region. In the recent past, however, the district has gained more support with the infrastructure development programmes of the government. The data and information for the study were collected from a sample survey of 240 households including 90 households (whose participating period with MF is less than three years) for purposes of comparison. The impact variables include the change of income, savings, employment, diversification of livelihood activities, and some important welfare indicators. In the analysis average treatment effects were calculated and the mean differences of each of the impact variables were statically tested using T- Test, and Binary Logistic Regression models.

The study found that the economic empowerment of long-beneficiary households (HHS) in terms of income and savings of the family, development of fixed income sources, purchase of durable consumer goods, satisfaction of the utilization of loans and financial and employment security have been positively significant with 5% confidence level, while the mean difference of the level of youth employability is not statistically significant. The empirical findings in this study prove that the effectiveness and the sustainability of the MF programmes are largely dependent on the level of involvement of the youth in it.