

IMPACT OF MICROFINANCE ON LIVING STANDARDS OF RURAL COMMUNITIES IN SRI LANKA WITH SPECIAL REFERENCE TO AMPARA DISTRICT

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Abstract: Microfinance aims to uplift low-income earners by providing financial services to transform their socio-economic lives. This study examined the crucial role of microfinance in the economic development of Sri Lanka, specifically focusing on its impact on the living standards of rural communities in the Ampara district. This study selected microfinance credit facilities through dimensions such as loan amount, repayment ability, interest rates, and government intervention as the moderating variable to address the dearth of conclusive evidence of previous studies. The study, involving 300 microfinance beneficiaries selected through random sampling, utilized a structured questionnaire to ensure internal reliability through the Cronbach's alpha test to gather primary data. Six hypotheses were developed to reach the objectives, and descriptive, correlation, and regression analyses were employed for data analysis. According to the descriptive analysis, most of the sample were male, above 40 years old, passed the GCE Advanced level, and had an average family size of 2-5 members. Regression results indicate a positive and significant impact of loan amount and repayment ability on the living standards of rural residents, while interest rates have a negative and significant impact. The study contributes to existing literature by emphasizing the pivotal role of microfinance in emerging markets. Additionally, the study examines the moderating variable of government intervention, revealing that government involvement enhances the efficacy of the microfinance program, positioning it as a key economic actor, and accepting two hypotheses on government intervention. This involvement bridges gaps by facilitating domestic microfinance institutions' access to regulations, procedures, and resources, highlighting the multifaceted benefits of government assistance in the microfinance sector. This finding will be useful for the Sri Lankan government to examine and identify the socio-economic development of rural people.

Keywords: Government intervention; Interest rates; Living standards; Loan amount; Repayment ability