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Impacts of Microfinance Institutions: Issues and Concepts-An Empirical Study on Sri Lankan Context

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Abstract:
Micro Finance Institutions (MFIs) Provide financial and non financial services to the poor people in developing countries for their income generating activities as well as in Sri Lanka. It can be divided into different legal categories depending on the country in which the institution is based. An MFI could be aNon Government Organization (NGO), a credit cooperative or a non-bank financial institution and Community Based Organizations (CBOs). It has dual objectives which are both social and financial. The social objectives mean that the MFI contributes to improvement and alleviating poverty. The financial objectives focus that the MFI must keep enough profit for their sustainability.MFIs providefinancial, social intermediation, entrepreneurship development and social services to the clients for achieving the social objectives. Microfinance in Sri Lanka has a long history and MFIs are established in all forms and dimensions and it can differ in size, practice, legal act, strategy and budget. The reliability is important to the microfinance system and it determines how smoothly an MFI operates. The aim of this study is to examine the impacts of MFIs in Sri Lanka at household level and community level. This concept paper focuses on a review of academic literature on impacts of various activities when it provides services to the clients. The research designs both combining quantitative and qualitative tools are used. For this purpose, previous studies from developed and developing countries on this regards have been examined and then found out the solutions from the literatures that were the secondary data on which have been derived from reports, documents and research papers of NGOs, government departments and MFIs etc., In addition to this, the primary datawas gathered through the direct personal interviews (questionnaires) from the clients of MFIs such as Samurthi, Women rural development societies(WRDS) and Thrift Cooperative Credit Societies (TCCSs)who are living in the rural areas of Valikamam North and East Divisional Secretariat (DS) Divisions and Thenmaradchi DS Divisions have been selected. With the history of MF in Sri Lanka, the concepts such as Governance, clients, operations and products have been explained and challenges or issues facing MFIs were taken into account for the investigation of the MFIs in Sri Lanka. Finally it was concluded from the comprehensive literatures and observed primary data gathered from the study area, that the impact of MF is significant at household and community level. Further, the women empowerment is significant impact on MF since most of the clients of MFIs are women. However, micro credit has negative impacts on people's feeling because most people are more concerned about paying back the loan and they expect the marketing and financial difficulties with the increasing cost of living in Sri Lanka.

Key Words:
MFIs, Impact, concept and issues.
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1Background of the Study

Microfinance is meant as a development tool that provides financial and non-financial services such as small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very poor people for their self income generating activities. It is mostly used in developing countries (Robinson, 1998). The service of the banks and the financial intuitions are entirely for the people who are financially strong and have enough money in the earlier days. However a person from the weaker section of economy was unable to avail the Micro finance services. In addition to these microfinance provides other basic financial services such as savings, insurance, and money transfer for low income people and weaker section of economy. MFIs provide both social intermediation services such as the group formation, training facilities and self confidencedevelopment and financial intermediation services as well (Ledgerwood, 1999). There are different microfinance (MF) service providers such as nongovernmental organisations (NGOs), cooperatives, credit unions, commercial banks and financial institutions. Self employed low income poor people are the target group of MFIs (Ledgerwood, 1999).

In the literature, the terms microcredit and microfinance are often used interchangeably. Sinha(1998) statedthat "microcredit is referred as small loans, whereas the microfinance is suitable where Non-Government Organizations (NGOs)and MFIs supplement the loans with other financial services (savings, insurance, etc)". So, the microcredit is a component of microfinance. Microcredit and microfinance are relatively new terms in the field of development and firstimpending tomeaning in 1970s, according to Robinson (2001) and Otero (1999). Prior to then, from 1950s through 1970s, the financial services had been provided by donors or governments were mainly inthe form of subsidised rural credit programmes. These often resulted in high loan a default, high losesand an inability to reach poor rural households (Robinson, 2001).Robinson stated that the 1980s represented a turning point in the history of microfinance in that MFIssuch as Grameen Bank began to show that they could provide small loans and savingsservices profitably on a hugeamount. The difference betweenmicrocredit and the subsidised rural credit programmes of the 1950s and 1960s was that microcreditinsisted on settlement of loan with interest rateswhich covered the cost of credit delivery and byfocusing on clients who were dependent on the informal sector for credit. It was now clear for thefirst time that microcredit could provide large-scale outreach profitably.More than 128 million of the world's poorest families received a microloan in 2009. Sri Lanka is in the SAARC region. It'shighhuman and social indicators which put it on a mid/high middle income countries. But it's status as a low middle income country level. In Sri Lanka, since the beginning of the last century, Co-operatives, co-operative rural banks, state banks and Central bank were involved in small credit distributions to farmers and others. The origin of the micro financing in Sri Lanka was the early 1900s. In 1911, the British Government sanctioned to establish Co-operatives ie thrift and credit co-operative societies (TCCS) in Sri Lanka.

Post-independence, the government concentrated on agriculture credit and the credit facilities had been granted through the Bank of Ceylon and Peoples Bank which weretwo state banks. The credit facilities were granted on a subsidized rate and loans were written off in many instances due to political pressures. The other important developments in evolution of MF sector were establishment of the Co-operative Rural Banks (CRBs) in 1964, rejuvenation of TCSS under federation of SANASA in late 1970s, establishment of 17 Regional Rural Development Banks (RRDBs) in 1985 and their subsequent consolidation in 1998-99 into 6 Regional Development Banks (RDBs), Janasaviya programme in late 1980s and Samurdhi Development and Credit Scheme in 1996.

Late 1980s and 1990s saw the entry of several local and international Non-Government Organizations (NGOs) into MF. In the evolution of MF sector in the country, the role of post tsunami relieve is very crucial. In this situation, a substantial amount of fund was channelized to MF sector and it has some negative impacts on the sector.Microfinance had now turned into an industry according to Robinson (2001).

1.2Types of MF Providers

In Sri Lanka there are various MFIs providing financial and non-financial services for marginalised people. Currently over 10,000 outlets of various institution types are providing microfinance services to the clients. The following types of MFIs are functioning in Sri Lanka.

i.Licensed Commercial Banks (LCBs) (Eg. Hatton National Bank (HNB))

ii. Licensed Specialized Banks (LSBs):(Eg. Regional Development Bank (RDBs) and SANASA Development Bank)

iii.Registered Finance Companies(Eg The Lanka Orix and Leasing Company (LOLC))

iv.Samrudhi Bank Societies (SBSs)

v.Cooperatives (CRBs and women cooperatives)

vi.MFIs (NGOs/Companies):

The government has an overwhelming role in MF sector through major retail level providers - Samrudhi Banks, CRBs and RDBs and commercial banks (state banks). According to MahindaChintana, 65% of microcredit in Sri Lanka is provided through the government.

1.3Microfinance products

MF providers provide a wide variety of products such as micro credit, micro saving, micro insurance and micro leasing. Of which micro credit includes loans for consumption, income subsistence and starting micro enterprises and its expansion. These loans are provided with or without physical collateral and lending methodologies vary such as individual, small group and village banking models. Samurdhi Banks are the main source of finance for savings products. According to GTZ study, over 80% of the households receive an interest rate below 10% . Micro insurance is provided by HNB, Ceylinco Insurance and Sanasa Bank offering life, property, mortgage, loss of income and disability insurance. Further, micro leasing is provided by finance and leasing companies. Registration with CBSL under the Finance Leasing Act of 2000 is mandatory to carry out leasing activities.

2Research Problem:

Micro Finance Institutions (MFIs) have vital role among the poorest people to increase their income in Developing Countries. The poorest people are the vulnerable people who are living with poverty and without health nutrition, no access in education and their per capita income per day will be below 1 US$ (CARE, 2005). MFIs play an important role against the poverty by assisting poor people to increase their wealth (Zama, 2004, cited by Haq, Hoque, and Pathan, 2008). The MFIs empowering the poor people because they are providing financial and non financial services to enhance their living standard by providing the facilities for poverty alleviation, health nutrition, education and self employment opportunities and helping to get capital and independent income and contribute economically to their family and society.

Support of thousands of microfinance customers in Sri Lanka reveals that access to financial services facilitates poor people to boost their household income. According to the report of Dirk Steinwand& David Bartocha microfinance is an adaptable supporter that affords them to remake their lives, plan for their future and their children and empower them with self esteem and confidence. The impacts of microfinance are a combine in most cases where one impact leads to another. Eg improved income is used for enhancement of the family or children education & health nutrition etc. Microcredit is the extension of small loans to those in poverty designed to encourage self employment. So far, 13 million micro entrepreneurs worldwide have benefited from microcredit. However 200 million families who work hard, cannot access affordable credit (Swider Paul, (2000). It is often argued that the formal financial sector and informal financial sector in developing countries have failed to serve the poorer section of the community (Chowdhury et al, 2004).

The MF channels are moreextensive in Southern province (24% of total) while north and eastern area (3.9% of total) are very much underserved. Also 90% of MF outlets are concentrated in rural areas; approximately 10% in urban areas and 1% in the estate sector. Approximately 50% of Sri Lankan households do not have access to credit. The Sri Lanka MF sector is large and varied in terms of outreach and institutional types, offering various financial services. In case of rebuilding of Northern and Eastern Province of Sri Lanka, there is vastrange for expanding MF services.It is often argued that the formal financial sector and informal financial sector in developing countries have failed to serve the poorer section of the community (Chowdhury,2004). After 30 year war situation ended in 2009 the role MFIs are very important in war affected areas to rehabilitate and revitalize the situation. The research problem is highlighted in this study;

"Whether Microfinance Institutions (MFIs) has significant impact on poor people at household level and community level in Sri Lanka and focus any issues in this regards"

The prime objective of this study is to investigate the impact of Micro Finance Institutions (MFIs) . In addition to this the following objectives also have been generated in line with the aim of this study.

- To find out the impact of MFIs at household level
- To find out the impact of MFIs at community level.

3Literature Review

Though there are many theories, approaches and models propounded by different experts, a close observation would reveal that the different theories, approaches and models are not contradictory. They are, in fact complementary to one another. Each theory emphasizes some particular aspect or aspects of micro finance and impact on various activities.

Hulme (1999) reviewed the methodological options for the impact assessment (IA) of microfinance and presented three paradigms of impact assessment: the systematic method, the humanities custom and Participatory Learning and Action (PLA). He concluded that a greater focus on internal impact monitoring by microfinance institutions. In recent years microfinance projects and institutions have been subjected to a vast amount of impact assessment study. Hasan (2002) concluded in his descriptive view of the study that the micro credit movement in the present world. This study emphasized on the Grameen Bank and its attainment. About 4/5 institutions like Grameen are emerging in the different parts of the world to eliminate poverty in every week.

Brau, and Woller, (2004) discussed the issues of MFI sustainability, management practices, its' products and services, client targeting, regulation and policy and impact assessment in a summary literature review. They believed that this study will help turn the attention of finance researchers to the important issues in microfinance. Most of the tools, models, and frameworks in the existing finance literature can be brought to allow on the problem of world poverty and have the potential to significantly move both the theory and practice of microfinance. Microfinance provides the finance regulation in a possible path to make a significant difference in the lives of millions of poor people.

Khachatryan, (2010) discussed the research in progress on financing MFIs and its influence on their strategies in the context of its philosophical and methodological connotations. Double objectives will be covered with the help of combining both quantitative and qualitative research methods. He empathized on the fact that it takes place in a recently developing non-conventional financial sector which is highly heterogeneous in different countries. As a result in his study certain constraints in the research methodology and these limitations are to be taken into consideration.

Self-help groups intermediated by microcredit have been shown to have positive effects on women, with some of these impacts being ripple effects. They have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them control over assets and increased self-esteem and knowledge (Zaman, 2001). Several recent assessment studies have also generally reported positive impacts.(Simanowitz& Walker 2002).

According to Chowdhury,M.J.A Studies in Bangaladesh have found that, microcredit schemes have had substantial, through the enhancement of women's position in decision-making on household expenditures and family planning. It has been found, among others, that women's mobility has improved dramatically.

4Research Methods

This study adopts two methodological directions: theoretical and empirical.The first step in this research deals with reviewing relevant literature, summarizing the existing empirical evidence and by building a new typology. The secondary data which have been derived from the past studies are used to analyse this study. The data related to impact of MFIs, issues and concepts has been gathered from the previous studies which focused at household level and community level. In order to meet the objectives of the study, the data has been analysed regarding the impact at household level and community level which has been derived on development, poverty, economic impact, social impact and empowering women. 50 women who obtained micro credit facility more than 3 years in the Jaffna District was considered to gather information to investigate the impacts of MFIs. Further, the primary data was gathered through the direct personal interviews (questionnaires) from the clients of MFIs such as Samurthi, Women rural development societies(WRDS) and Thrift Cooperative Credit Societies (TCCSs) who are living in the rural areas of Valikamam North and East Divisional Secretariat (DS) Divisions and Thenmaradchi DS Divisions have been selected.

5Discussions and Findings:

Collateral, credit rationing, preference for high income clients and large loans, and bureaucratic and lengthy procedures of providing loan in the formal sector keep poor people outside the boundary of the formal sector financial institutions in developing countries. An impressive literature exists on the effectiveness of micro-credit or micro financing programs on improving the economic situation of women (Fernando,1997;Ahmed et al., 2001). However, Pitt et al., (2003) found that women's participation in micro-credit programs increased their standard of living.

5..1Assessing the impact of Micro finance on clients

However, the Micro finance impact can be analyzed in various ways, in this study which is considered only household and community level. Under the household level the impact on poverty, economic condition and women empowerment has been accounted in this. study. The development and social impact has been analysed under the community level.

5.1.1Micro finance and its impact on development

Micro finance has very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. It helps poor households to meet basic needs and protects against risks, it is associated with improvements in household economic welfare, and it helps to empower women by supporting women's economic participation. Littlefield and Rosenberg (2004) stated that the poor are excluded from thefinancial services sector of the economy so MFIs have emerged to address this market failure. Byaddressing this gap in the market in a financially sustainable manner, an MFI can become part of theformal financial system of a country and so can access capital markets to finance their lending portfolios, allowing them to radically increase the number of low income people they can reach (Otero, 1999).

5.1.2Micro finance and its impact on poverty

Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty. Poverty relates to income, and poverty measures are based on thepercentage of people living below a fixed amount of money, US$1 dollar a day (World Bank,2003). Otero (1999) stated that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. Perah, (2008) explained that if microfinance can reduce poverty then it could be used as a powerful tool for preventing HIV/AIDS.

Fasoranti (2010) examined the effects of micro credit scheme on poverty alleviation among rural dwellers. He concluded from his findings that poverty was high among the economically active age group and it was revealed that all respondents possessed formal education.. Further, the study showed that the major poverty index was high in the study area. Moreover the micro credit scheme has positive influence on major economic variables of income, savings, consumption expenditures and asset acquisition. Punjabi (2010) highlighted that the importance of microfinance (MF) and innovative methods which can be used to elevate poverty like person to person lending by using web based interfaces, where a person can act as a guarantor to a poor person. Pushpuakumara (2011) concluded that the micro financing is an important factor in reducing poverty, since it has positive relationship between microfinance credit usage and performance.

Okafor, Oluwakemi, & Samuel, (2011) found from their study on ‘Empowering women entrepreneurs in Ogun State through micro finance: Challenges and Prospects’ that there is no significant relationship between the objectives of microfinance institutions and the financial needs of the respondents. This shows that although micro finance scheme is a good strategy for reduction of the poverty level of Nigerian women entrepreneurs, more awareness need to be created among Nigerian women entrepreneurs especially those in the rural areas. .

5.1.3Micro finance and its impact on Economic condition

Burra, (1997) studied on micro credit interventions in South Asia show that while micro credit increases opportunities for livelihoods and enhances income levels of households, its impact cannot be said to be so significant as to change women’s lives phenomenally. Access to microcredit has a positive economic impact. The impact becomes larger for those closer to the poverty line and it also increases with the duration of membership or intensity of loans as members begin to invest in assets rather than consumption (Morduch and Haley, 2001). Microcredit delivery in various points of the world has improved the economic position of households, enhancing the asset base and diversification in to higher return occupations among members.

Ayadurai, (2004) concluded that the women entrepreneurs of the North East of Sri Lanka must be recognized as an important unit contributing to the economic growth of the country. They must be supported by the international organizations involved in the growth and development of entrepreneurship, especially women entrepreneurship, to help them “function” effectively as women entrepreneurs.Maheswaranathan and Kennedy (2010) revealed in their research on Impact of Micro-credit on Eliminating Economic Hardship of Women that the microcredit led to the elimination the economic hardship of women.

5.1.4Micro finance and its impact on Social condition

The other social impact of microcredit is on domestic violence. Domestic violence might reveal either a declining or an increasing trend with women’s access to micro credit (Goetz and Gupta, 1996). The reason for the decline could be the increase in awareness among family members that provides women a public forum where they discuss matters that were previously kept privately. On the other hand, according to the report compiled by (Rahman, 1999) an increase in domestic violence has been observed for 70 percent of 120 women borrowers of Grameen Bank following their involvement in microfinance.

The provision of financial services is related with two specific sets of social aspects. The first relates to interaction with the staff of the organizations which have the potential to bring change through training and other activities. The second set of social relations is those between members of the groups organized by microfinance organizations. However, these groups do not embody the same principles of organization or the same kind of relationships between members (Mayoux, 2005). Child education also improves with the provision of micro credit. In this regard, the delivery of microfinance to women results in greater return as compared to men (Kabeer, 2005).

Kabeer (2003)stated that wider social impact assessment is important for an organisation’s internal learning process,as an MFI should be aware of the “full range of changes associated with its efforts and uses these toimprove its performance”. She considers social impact to relate to human capital such as nutrition,health and education, as well as social networks (2003). The Micro finance organization strategies provide the poor the possibility of belonging to a group they choose despite the socially or economically imposed relationships (Kabeer, 2005). This helps for meeting with others of similar experience and share knowledge. Such practices in effect are believed to empower them both individually and collectively. McGregor et al. (2000) stated that wider social and economic impacts can occur through the labourmarket, the capital market, the market for goods consumed by poor people, through production linkagesand through clients participation in social and political processes.Chowdhury, Mosley and Simanowitz (2004) argue that if microfinance is to fulfil its social objectives ofbringing financial services to the poor it is important to know the extent to which its wider impactscontribute to poverty reduction.

(Osmani, 1998) Kabeer (2003) refered to a study conducted by the Grameen Bank which showed that non members of a Grameen village were significantly more likely to use contraception than non-members in a non-Grameen village. This was occurred due to a dispersion of the "small family norm" of Grameen women through social networks within the village as the Grameen Bank emphasises women's productive roles, as opposed to their reproductive roles, and non-members picked up this norm from members..Zohir and Matin (2004) stated that the interaction within MFI groups can create co-operation and trust that not only facilitates the microfinance activities, but also contributesadvantages away from the service provided, such as a larger sense of society, trust and reliance on the group in times of crisis. These networks can place the basics for other social capital developments in the society. They stated that the cultural impacts of social intermediation that affect the greater community could be a change in attitude of society towards the acceptable age of women's marriage, domestic violence, dowry, etc.

5.1.5Micro finance and its impact on Women empowerment

According to Quaraishi, (2007), Microcredit has contributed positively to women by allowing larger freedom, access to networks, greater decision making participation in household activities, spcifically decision making on economic activities and greater participation in social and political activities.A study by Hoque and Itohara (2009) reported that micro credit is contributing to some extent in generating economic activities and participation in family decision making of the rural women. And also stated that micro credit program in Bangladesh is developing gender awareness among the women.

Haileselassie, (2007) studied that the micro finance plays a significant role in the economic empowerment through the provision of loans to poor women who are uneducated and unable to fulfill the collateral requirements required by other financial institutions. Microfinance enables them to become self-employed. Further, some of the women have managed their incomes in small amounts and increase their savings also. In addition to the decision making power of the women on the loan secured from the MFI has enhanced following their participation in microfinance. He indicated that the delivery of microfinance had positive impacts in the economic empowerment of the clients however the income increases as small amount.

According to Premaratne and Senanayake (2011) the microfinance has an impact on women. It leads to develop confidence, participation, skill development and empowerment. But they found out from their study that there is no impact on sustainability and rural development, particularly poverty reduction, creation of employment opportunity and savings of assets in the rural areas. Tilakaratna, Galappattige and Perera (2005) revealed in their study on Promoting Empowerment through Microfinance in Sri Lanka that microfinance is an important component of the lives of the poor especially among poor who are keen on being entrepreneurs. A reasonable percentage of clients, who have started up their businesses with the aid of the MFIs, mentioned that training provided to them had helped them to improve their businesses.Claims that participation in microfinance activities has implications for women's empowerment within the household were investigated by a number of studies with varying results. Intra-household decision making was one commonly investigated indicator of women's empowerment. While there is evidence that microfinance can have an impact on women's role in decision making in house hold level, which has not happened in all spheres or in all areas of decision making (Cheston and Kuhn, 2002).Arulrajah& Philip, (2011) concluded in their research that the role of INGOs and NGOs has the moderate level contribution on the respondents' perception even though they have played a considerable role in improving equality and personality development of Women Headed Households in Sri Lanka (Manmunai South west DS Division).

Jain and Jain (2012) focused of their study was to evaluate the impact of micro finance among rural women in three dimensions of empowerment ie, economic, social, and political. It was concluded that there was no significant relationship between age and economic features, social empowerment and political empowerment.

Women's position in the household decides their autonomy in the family. It is good to examine whether women can decide about household matters like buying jewelries, having access to money, having mobility to go to market, relatives or elsewhere and getting basic rights and health care facilities. It has been concluded from various researches that the MFIs support to the women empowerment in developing countries.

The Impact of Micro finance on Development, Poverty, Economic, Social and Women empowerment has been analyzed from the previous studies. Most of the researches agreed that the micro finance is an important tool for poverty alleviation. Further, Economic and Social, Improvements and women empowerment also have been accepted rather than development. However, each andevery developments and improvements depend on each other. Eg. Economic and social Improvements and poverty alleviation leads to development and women empowerment.

The table 1 (See appendix 1) illustrates the results from the respondents who were asked questions regarding the microfinance and its impact on development, poverty, economic and social conditions and women empowerment by using 5 point Likert scale rating from 5 to 1 completely satisfaction to completely dissatisfaction in respectively.

From the above results 95% is satisfied positively with poverty alleviation. 65% is not satisfied with the impact on development. Further, regarding the impact on economic condition 58% is not satisfied and 20% is not satisfied with social condition. In addition to this 19% is not satisfied with women empowerment. There are some issues have been found out from previous results which were the reason for this negative impacts above. It could given briefly as follows:

6Issues:

i)lack of financing and funding, balancing time between the entrepreneurial venture and family, poor access to education and training programmes to help women improve their entrepreneurship, managerial and technical skills and inefficient production systems and weak infrastructure. Their biggest constraint was lack of international aid which was however not seen as a major problem in many of the other Asian and African countries, (Ayadurai, 2004).

ii)No positive sustainable rural development especially reduction of poverty, cration of employment opportunities and creation of assets in rural areas. Accessibility of MF depends on factors such as the level of household income, distance to MFI, availability of information technology, interest rate, level of education, vocational training and collateral availability (Premaratne, 2011)

iii)Role of INGOs and NGOs has the moderate level contribution on the respondents' perception even though they have played a considerable role in improving equality and personality development of women headed households in Sri Lanka (Arulrajah& Philip, 2011)

iv)About 45% of the clients claimed that they were satisfied with the business development services provided by their organizations though a majority did not comment (Tilakaratna, Galappattige and Perera, 2005).

v)Transaction cost of borrowing declines as the size of loan increases. Transaction cost of borrowing increases due to high travel cost and opportunity cost of borrowing (Chulangani and Ariyawardana, 2010).

7 Conclusion

In this study researcher reviewed the evolution of microfinance and examinedbriefly the types of MF providers, products and activities exist today. The Impact of MFIs in development, alleviating poverty , economic condition, social impact and women empowerment was also examined. Key challenges facing MFIs today that are affecting their
impact on poverty alleviation were seen to be an over-emphasis on financial sustainability over socialobjectives, and a failure of many MFIs to work with the poorest in society. Therefore, there is a greaterneed for MFIs to carefully design services that meet the needs of the poor and this can only be doneConsultative Group to Assist the Poor – a multi donor effort of western donor countries and internationalagencies formed by the World Bank to address the problems facing microfinance (Grameen Bank, 2000b).Subsidies create incentives for the capture of funds by those who are better off and therefore better able to gainaccess to the funds because of their social, economic and political status (Von Pischke, 1999).when MFIs understand their needs and the context within which the poor are working (Morduch, 2004).If MFIs are to meet their overall development objectives then they need to ensure financial sustainabilityand outreach of financial services designed to meet the needs of those most in need of such services.The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it isgenerally accepted that it is not a silver bullet, it has not lived up in general to its expectation (Hulmeand Mosley, 1996). However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but ontheir families and on the wider community. There is however a need for greater assessment of thesewider impacts if the true value of microfinance to development is to be understood (Zohir and Matin,2004). One such tool for measuring wider impact is a livelihood security analysis based on alivelihoods framework which analyses how a project impacts on the livelihoods of beneficiaries.
The importance of microfinance in the field of development was reinforced with the launch of theMicrocredit Summit in 1997. The Summit aims to reach 175 million of the world's poorest families,especially the women of those families, with credit for the self-employed and other financial andbusiness services, by the end of 2015 (Microcredit Summit, 2005). More recently, the UN, aspreviously stated, declared 2005 as the International Year of Microcredit.
According to the state of Micro Credit Summit Campaign Report (2005) 3200 MFIs reached more than 92 million clients in 2004 of which around 73% were living in poverty when they were provided the first loan to them.

However, micro credit has negative impacts on people's feeling because most people are more concerned about paying back the loan and they expect the marketing and financial difficulties with the increasing cost of living in Sri Lanka.

5RECOMMENDATIONS

In order to lessen the problems and overcome the challenges, the study makes the following recommendations for the consideration of the policy makers, the practitioners and the other stakeholders.

1. For reaching the poor women it is necessary to expand services to remote areas and deepen the services down to them.
2. Appropriate technologies should be introduced to get advantage of the local potential such that thepoor women can get sizable profits and return out of their loan proceeds.
3.With the growth of MFIs, it is needed to have matching number of institutions that can providecapacity building training to the MFIs. The government should come up with programs providingcapacity building of the new MFIs such that they could develop professionalism and provide quality microfinance services to the poor.
4. The staffs must have professional knowledge and skills to provide quality services to

the poor.

5MFIs should be given legal authority to collect savings deposits from the clients as well as nonclients in the remote districts to cultivate savings habits among the local people and also to raise financial resources generated by MFIs.

6. In order to avoid staff corruption and racketing, MFI top management should be vigilant and watchful of staff behavior and relationships with clients and other vested interest groups.

7.If awareness will be created to enlighten the poor on the activities of microfinance, it has been identified as the best option for reduction of poverty, and a strategy for helping the poor and women entrepreneurs to access financial services which leads to save and to have better access to credit will enable them manage risk, build assets, increase income, enjoy a better life and also help to reduce gender inequality among women entrepreneurs.

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Appendix I

Table 1

Micro finance Impact on Development, Poverty, Economic, Social and Women Empowerment.

	Completely Satisfaction	Satisfaction	Somehow satisfaction	Dissatisfaction	Completely Dissatisfaction
Impact on Development	5%	10%	20%	25%	40%
Impact of poverty	35%	40%	18%	7%	0
Impact on Economic condition	0	22%	20%	35%	23%
Impact on Social	15%	34%	31%	19%	1%

condition					
Impact on Women empowerment	29%	16%	36%	16%	3%

Source: Survey results

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