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The Impact of Samurdhi Bank's Microloans on the Economic Stability of Households in Padukka Divisional Secretariat

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Abstract

An important aspect of sustainable national development is household financial stability. The accessibility of financial services remains a problem for low-income households in Sri Lanka. This paper aims to analyze the effect of microfinance initiatives on the economic stability of low-income families within the Padukka Divisional Secretariat division in Sri Lanka, specifically their contribution to enhancing income, consumption stability, and economic shock resilience. A structured questionnaire was chosen to acquire data from a random sample of 150 microfinance beneficiaries. The data were analyzed through using partial least squares Structural Equation Modeling (PLS-SEM). The findings indicate that microfinance has a large positive effect on household income and level of savings, and also leads to improved management of consumption needs and alleviation of financial vulnerability. In addition, households that had been involved in the microfinance program longer had better financial literacy and investment in productive assets. Nevertheless, issues like high interest rates and a lack of financial training diminish the benefits that are likely to be realized by certain borrowers. Importantly, the study found that while productive loan utilization significantly improves economic stability, larger loan amounts were associated with reduced stability, suggesting a risk of over-indebtedness. Overall, the results indicate that microfinance is effective in enhancing the financial stability of low-income earners in Sri Lanka, and the government should initiate policy options like offering financial literacy education, decreasing the interest rate burden, and providing other support services in order to optimize the sustainability of microfinance in the long term.

Keywords: Financial stability, Household income, Microfinance, Poverty alleviation.

Introduction

Financial security in the household is a crucial aspect of sustainable national development. Nevertheless, the issue of limited access to finance for households with lower income in most developing nations is a significant challenge. To counter this, governments and financial institutions have developed microfinance programs, which are small-scale loans to allow poor households to invest in income-generating enterprises, enhance consumption stability, and protect against monetary shocks.

The largest poverty alleviation program in Sri Lanka is the Samurdhi Bank Program, which was initiated in 1995, as a means of empowering low-income families. Studies conducted in Sri Lanka in recent years (Dissanayake, 2024) confirm that microfinance programs such as Samurdhi have made significant contributions to improving household welfare, income levels, and consumption. The program aids poor households in various welfare and development programs, where the emphasis is put on the reduction of poverty, the creation of employment, and empowering the communities. This program has Samurdhi Bank Societies (SBS) that are microfinance institutions that offer microloans to beneficiaries to establish self-employment, small-scale businesses, agricultural activities, and for household purposes (Modoran & Grashof, 2009). Some borrowers have also used them to start small enterprises like tailoring, confectionery, handicrafts, and agricultural processing that have served to boost the household economies (Damayanthi & Champika, 2014).

Despite these achievements, there is a debate concerning the effectiveness of the Samurdhi Bank loans in ensuring financial stability in the long run. Rahman & Rajib (2023) indicated that microloans increase income, asset accumulation, and savings, but others (Dissanayake, 2024) noted that there are risks of indebtedness, credit dependency, as well as misuse of money and consumption as opposed to investment. In rural regions where the income is unpredictable, there is no certain way to know whether the microcredit actually helps in sustaining consumption, accruing savings, or becoming less prone to economic shocks.

Microcredit has been associated with poverty reduction and empowerment of women in most parts of the world, but it has also caused stress and repayment termination among some of the borrowers (Mandy, 2023). The concept of economic stability in this paper means stability in the income of a household, prudent use of debt, savings, and staying afloat during unexpected financial events, thus providing both short-term consumption and financial stability over time (Dupas & Robinson, 2013; Banerjee et al., 2015; Ullah & Khan, 2017).

The role of the Samurdhi program in alleviating poverty and dependency on welfare has been the primary focus of existing studies in Sri Lanka. Nonetheless, few studies have been done that evaluate its direct influence on financial stability at the household level, especially in relation to income security, savings patterns, debt management, and balance to economic shocks. The Samurdhi banks have been created to empower low-income households, but it is unclear whether microloans actually improve the economic

stability in the long run. Loans are used by many beneficiaries for daily consumption, education, and health costs as opposed to productive investment. Although this kind of expenditure enhances immediate well-being, it casts doubts on whether there is long-term financial sustainability. Certain families also experience a problem in repaying their loans, resulting in debt overload and financial instability. The literature available has been mostly geared towards the role of the Samurdhi program in reducing poverty (Fernando et al., 2020). Thus, the research question can be summarized as follows: Do Samurdhi bank microloans positively affect the economic stability of households, or do they pose a threat of indebtedness and financial dependence? This is an important question when it comes to Sri Lanka, where microfinance has been instrumental in rural economic development, but its performance has become a debated question.

This research is important due to the imminent necessity to test the hypothesis as to whether Samurdhi bank microloans fulfill the intended goal of empowering low-income households. Though microfinance is intended to contribute to financial self-sufficiency, few empirical studies exist on how it is contributing to the economic sustainability of households in Sri Lanka in the long run. Earlier studies have concentrated more on the outcome of poverty reduction, but not on the financial sustainability indicators that include income security, saving patterns, and debt resilience. This paper aims to fill this gap by emphasizing the role of Samurdhi loans on these two dimensions of household stability. Moreover, it has been reported that quite a number of the beneficiaries use their

loans for consumption-related needs, which raises the question of whether the program is inadvertently contributing to dependency and debt obligations.

Research problem

Based on the above explanation, the question can be summarized as follows: Do Samurdhi bank microloans positively affect the economic stability of households, or do they pose a threat of indebtedness and financial dependence? This is an important question when it comes to Sri Lanka, where microfinance has been instrumental in rural economic development, but its performance has become a debated question.

Objective of the research

The primary goal of this research is to examine how the microcredit in Samurdhi Bank has affected the economic stability of households in Sri Lanka. In particular, it will measure the impact of microloans on income, savings, and consumption stability, the role in decreasing the household susceptibility to financial shocks, and the main challenges that restrict their effective utilization.

Significance of the research

Learning about these dynamics is crucial for policymakers to reform the Samurdhi microfinance model to facilitate actual economic empowerment. The research is therefore essential in giving empirical evidence on whether Samurdhi bank microloans are the means of sustainable financial development or a long-term problem in the lives of low-income families. The study, in contrast to

many other studies in the past, which mainly advocate the outcome of poverty alleviation, is more holistic and multidimensional since it combines the household indicators of economic stability, including income consistency, savings behavior, debt management, and shock resilience, under one empirical PLS-SEM model. This offers a more context-specific and subtle insight into the role played by microfinance at the household level in Sri Lanka, as such, offering a unique contribution to the theory and practice.

Literature Review

Theoretical review

Microfinance has been widely recognized as being effective in poverty alleviation and enhancing household economic stability in developing countries. The provision of access to microcredit has made it possible for low-income households to undertake business activities, improve their levels of consumption, and elevate their general standards of living (Imai & Azam, 2010). Despite these positive impacts of microfinance, some studies suggest that microfinance only has temporary impacts on poverty and household income, depending on various conditions such as loan usage and financial literacy, among others (Hermes & Lensink, 2011). Microfinance aims to reduce poverty in developing countries, empower women or other disadvantaged groups, create jobs, help existing businesses grow or diversify their activities, and encourage the development of new businesses (Ledgerwood, 1999). According to financial inclusion theory, the provision of microcredit and loans to the poor enables them to participate in income-generating activities, therefore, contributing to the growth of their households and countries.

As far as Sri Lanka is concerned, it is evident that microfinance schemes through various government initiatives have had a significant contribution in ensuring financial inclusion and helping the disadvantaged groups within the country (World Bank, 2021). Through such microfinance programs, household incomes have improved while household consumption stability has been enhanced. However, several obstacles, including over-indebtedness, inefficient targeting of vulnerable individuals and sustainability, remain a threat to the effectiveness of such microfinance interventions. It is therefore imperative to analyze the contribution of microfinance towards enhancing household economic stability.

Poverty alleviation theory is the next theory (Chattopadhyay et al., 2020). According to Yunus, the failure of financial institutions to provide credit to the poor is the reason why poverty persists. However, he has shown that microcredit schemes have developed unique characteristics in terms of non-traditional approaches, organizational and lending procedures that have the potential to achieve high repayment rates, mobilize savings, and foster a culture of commitment and self-reliance among the poor (Asamoah & Amoah, 2015). Using propensity score matching, (Thibbotuwawa et al. 2012) examined the impact of the Samurdhi program. Using data from the Household Income and Expenditure Survey of Samurdhi Beneficiaries, the study examined the impact of the Samurdhi Poverty Alleviation Program on household well-being in Sri Lanka, and found that Samurdhi had a positive and significant impact on household well-being, particularly in improving income, food and non-food consumption, health, and

education outcomes (Thibbotuwawa et al., 2012). Microfinance research has produced mixed results throughout the world. Studies on microfinance in Bangladesh suggest that access to microfinance has reduced poverty and increased household consumption (Pitt & Khandker, 1998). Also it assists in decreasing poverty in general, especially among female participation, and at the village level (Herath et al., 2015). Thus, microfinance benefits not only poor households but also the local economy. Recent evidence also confirms that the impact of net financialization on household stability is mixed, with some showing improvements in income and financial inclusion, while others have reported limited long-term effects (Rahman & Rajib, 2023; Nopiah et al., 2024; Arthur & Turkson, 2021).

Furthermore, the main findings of six randomized controlled trials (RCTs) on the effects of microcredit are that while the provision of microcredit contributes to increased business activity, investment, and in some cases profits, it does not appear to make a significant difference in key socioeconomic outcomes such as household income, consumption, education, and health outcomes (Banerjee et al., 2015). Similarly, the Philippines showed an increase in net borrowing and an increase in informal credit access compared to the individual group control (Karlan & Zinman, 2011). These studies indicate that, although microloans could be used to help in creating temporary incomes, their ability to help in the creation of long-term economic stability is a debated issue. Similar arguments are present in South Asia, where microfinance has a history of existence. The Grameen Bank model of Bangladesh, led by Muhammad Yunus, showed a high level of

success in poverty alleviation (Yunus, 2008). It has been found that even though Nepal's microfinance enhanced the households to make more money through savings and getting credit, there was a small effect on the long-term stability of the households (Adhikari & Shrestha, 2015). These results suggest that microfinance programs are dependent on the design, monitoring, and socio-economic conditions (Hermes & Lensink, 2011). Positive impacts on household stability are short-term in situations where the main use of loans is consumption rather than investment.

Microfinance in Sri Lanka: Samurdhi program

Sri Lanka's Samurdhi program, which was initiated in 1995, is one of the most notable poverty alleviation programs in the country. Samurdhi Bank Societies (SBS) lend microloans to poor families to help them become self-employed, farm, or consume at home. There is conflicting empirical research about the program. Thathsarani et al. (2021) point out that government intervention in credit allocation and financial sector development is also very important at this stage of development. Furthermore, the results revealed that microcredit, vocational training programs, and livelihood development activities have a significant positive impact on the motivation of women for self-employment, while entrepreneurship training and infrastructure development have positive and negative relationships, respectively, with women's motivation for self-employment (Purnima et al., 2021). Also, based on the findings, they can conclude that Microcredit and welfare activity are actively working, and livelihood activity needs to improve itself.

Extensive studies conducted in Sri Lanka show that microfinance programs such as Samurdhi have a positive impact on household income, consumption, and welfare (Thavarasasingam & Balagobei, 2020; Dissanayake, 2024). But inefficiencies and targeting problems still persist (Thibbotuwawa et al., 2012). In addition, microfinance programs have shown various impacts on borrower characteristics (income, consumption, and poverty reduction) by Chilimba, et al (2020).

Methodological approaches in microfinance research

The methodological approaches that have been used in research on microfinance are various. In earlier research (including Pitt & Khandker, 1998), the causal effectiveness of microfinance in reducing poverty was measured using household surveys along with econometric models. Even more recent studies employ randomized controlled trials (RCTs) like those by Adhikari & Shrestha (2015) to learn in favor of testing the causal relationship between microfinance and household welfare. The study took a quantitative, causal-comparative research design in order to evaluate the effects of the Samurdhi benefit on the welfare of the household. The authors selected a quasi-experimental design since the study could not be conducted in a randomized controlled trial, where the treated Samurdhi recipients were matched with the control non-Samurdhi recipients. This guaranteed that the analysis was anchored on the actual policy implementation, and it was possible to make trustworthy causal inferences (Thibbotuwawa et al., 2012).

Furthermore, the methods literature emphasizes a quantitative, survey, PLS-SEM design, cluster sampling of Samurdhi self-employed women, Likert scale, structured Likert questionnaires, and strong test of validity and reliability (Purnima et al., 2021). The effect of microcredit on the livelihoods of dairy farmers of Oddusudan Divisional Secretariat in Mullaitivu District, Sri Lanka, was researched by adopting a quantitative research design. The study was also predominantly based on survey-related data collection, and statistical tools were used to test the hypothesized relationships. (Balagobei & Aravinthakumar, 2019). In Sri Lanka, the household-level surveys, descriptive statistics, and regression analysis are the most common methods used to carry out studies on Samurdhi. Others utilize mixed methods, which are a mixture of quantitative surveys and qualitative interviews, to acquire quantitative trends and household perceptions. The methodological problem in this is that the alterations to the household welfare can be directly attributed to the microloans, as other socio-economic factors, including jobs, remittances, and government transfers, also play their role. Therefore, whereas the methods have been developed through the use of descriptive case studies to more complex econometric methods, there is still space to conduct more solid household-based studies in Sri Lanka that are more specific to the indicators of economic stability.

Summary of the literature review

Although there is an increased literature available, a number of gaps in research exist: Household-level economic stability as an independent variable - Although poverty is

measured in global and Sri Lankan research, few have focused on the specific measures of income stability, savings increase, debt sustainability, and shock resilience. Empirical research on Samurdhi-oriented research studies tend to consider the welfare transfer aspect of Samurdhi and not the efficiency of Samurdhi bank microloans. Loan utilization patterns- There is little evidence available on whether Samurdhi microloans are used more as productive investment or consumption, and the interaction between these patterns and long-term stability. Policy implications -there are minimal studies that give practical advice on how to make changes to Samurdhi Bank loan structures to offer the highest level of household stability. To fill such gaps, the current paper aims to offer empirical data on how much Samurdhi Bank microloans can lead to household economic stability in Sri Lanka, in terms of income, savings, debt management, and resilience. Based on the above theoretical support, the following four hypotheses are proposed.

- H_{01} : Loan size has a significant impact on household economic stability
- H_{02} : Loan frequency has a significant impact on household economic stability
- H_{03} : Repayment ability has an impact on household economic stability
- H_{04} : Effective use of Samurdhi microcredit significantly affects household economic stability

Materials and Methods

Research design

This research problem is realistic and empirical in nature. Consequently, research philosophy may be characterized as positivist because

it is based on quantifiable evidence and statistics to establish the effects of microcredit on the economic stability of households. The researcher applies the objective and quantitative approach to research, which finds the impact of financial factors, including the size of the loan, the frequency of the loans, the ability to repay the loans, and the extent to which the loans are used, on the dependent variable, household economic stability. This study is based on the theory of microfinance and the poverty alleviation model because it underlines that access to credit can enable low-income families to become financially stable and resilient during economic shocks.

Sample size and sampling procedure

The population in this study is all the households that have taken microloans in Samurdhi Banks in the Padukka Divisional Secretariat Division in the Colombo District of Sri Lanka in the Padukka, Pitumpe, Liyanwala, and Thunmodara branches. According to the available administrative data and interviews with the officials of Samurdhi Bank, it is estimated that more than 5,000 people are the beneficiaries of microloans. Therefore, the population is considered sufficiently large for the application of the Morgan sample size determination table (Krejcie & Morgan, 1970). The Morgan table indicates that a sample size of 350 would be required for a larger population at 5% margin of error with 95% confidence for the population. However, due to practical considerations such as limited access, time frame, and sensitivity of financial data, 150 valid responses were collected. However, since partial least squares structural equation modeling (PLS-SEM) can be used with small and medium sample sizes,

the sample size of 150 used in this study is sufficient. According to Hair et al. (2011), PLS-SEM is suitable for small to medium sample sizes, and reliable results can be obtained with samples ranging between 100 and 200 observations. Thus, a sample size of 150 respondents used as the final sample is acceptable to meet the objectives of this study.

The first step in the data collection process is to determine the total number of households that obtained microloans in Samurdhi Banks in the Padukka Divisional Secretariat Division of the Colombo District. The research employed the stratified random sampling design in an attempt to provide sufficient representation within the research regions. In this manner, the four Samurdhi banks working in the division, Padukka, Pitumpe, Liyanwala, and Thunmodara have been viewed as distinct strata. Randomly, households were sampled out of every stratum, which gave a total number of 150 households. The sample was allocated to the four strata in a proportional way based on the proportion of the microloan beneficiaries in each of the four strata in Samurdhi bank. This was to make sure that the sample was representative of the population and sampling bias was reduced.

Variables used

The main factors affecting the economic stability of households are the amount of debt, the number of loan terms, the repayment of debt, and the use of debt. The quantitative factors such as age group, number of family members, and monthly household income, were analyzed using SPSS software, while non-economic factors cannot be directly measured. In such a case, a 1-5 Likert scale is used to

provide answers to non-quantitative questions that are not directly measurable, obtained through a questionnaire. The dependent variable in this study is Household Economic Stability (HES), which encompasses income stability, savings behavior, debt management, and resilience to economic shocks.

Data analysis

Descriptive and inferential statistical methods were used to analyze the data in the study. Data cleaning, coding, and descriptive analysis were performed through SPSS software in terms of frequencies, percentages, means, and standard deviations. Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to test the hypotheses through analysis of the relationships between variables and testing the hypotheses with the SmartPLS software. This study can be analyzed using PLS-SEM because the complex association between several variables can be examined, and a rather small sample size can be considered. The data analysis was performed in two phases: measurement model analysis (to determine reliability and validity) and structural model analysis (to test the hypothesized associations).

Table 1 reveals the demographic data of the respondents. A total of 150 respondents were used in the study. The gender distribution of the respondents shows that 62.7% were female and 37.3% were male, indicating a higher representation of females within the sample. There was a higher age composition with more than fifty percent of the respondents falling under the age category of less than 25 years (53.3%), then 26.7% between 36 and 45 years. The percentage (3.3) aged over 55 years

was very low, which implies that the sample was mainly comprised of young adults. Concerning the marital status, the majority of the respondents were unmarried (57.3%), followed by 37.3% and 5.3% who were married and widowed, respectively. Educational background analysis indicated that a significant percentage of the respondents had a high school education (44%) or higher education, e.g., diploma or degree (42%), which showed that they were generally well-educated. On the employment status, fifty percent of the respondents (50.6%) were formally employed,

twenty-five percent (25.3%) were self-employed, and the remaining twenty-three percent (23.3%) were not employed. Most households had four members (38.7%), then families had five members (25.3%), which showed that there is a preference for having medium-sized families. On family income, the majority (51.3%) of the respondents said that they had a monthly income of between Rs. 40,000 and Rs. 60,000, with 28.7% reporting an average income of between Rs. 20,000 and Rs. 40,000.

Table 1.

Demographic information of respondents.

Variable	Levels	% of distribution
Gender	Female	62.67%
	Male	37.33%
Age	Age Under 25	53.3%
	Age 26-35	11.7%
	Age 36-45	26.75%
	Age 46-55	5%
	Age over 55	3.3%
Marital status	Unmarried	57.3%
	Married	37.3%
	Widow	5.3%
Education level	No school education	7%
	Primary education	7%
	Secondary education	11.3%
	High school	44%
	Higher Education	42%
Employment status	Self Employed	25.3%
	working	50.6%
	unemployed	23.3%
Family members	2	10%
	3	16.7%
	4	38.7%
	5	25.3%
	6	7.3%
	8	1.3%
Family income	Less than Rs. 20,000	3.3%
	About 20,000-40,000	28.7%
	Rs. 40,000-60,000	51.3%
	More than Rs. 60,000	16.7%

Table 2 shows that the reliability and convergent validity of the key constructs, such as Cronbach's alpha (α coefficient -, composite reliability ()), and average variance extracted (AVE). As per the guidelines, a and of over 0.70 represent acceptable internal consistency, whereas an AVE of over 0.50 is convergent validity (Hair et al., 2011; Ringle et al., 2012). All these values are above the recommended level of the corresponding indicator, confirming that the measurement items are highly internally consistent and can be used for structural equation modelling. Moreover, the values of AVE of all constructs are between 0.728 and 0.870, which is higher than the recommended value of 0.50. Thus, it can be concluded that the underlying constructs account for over 50 percent of the variance in the indicators, and hence, there is good convergent validity. All in all, the findings affirm that the constructs, Household Economic Stability (HES), Loan Size (LA),

Loan Frequency (LF), Loan Repayment (LR), and Loan Utilization (LU), have high reliability and acceptable convergent validity. Thus, the measurement model can be said to be reliable and valid.

The outer (measurement) and the inner (structural) model were tested with respect to the Variance Inflation Factor (VIF) to determine the multicollinearity among the indicators and constructs. Following established statistical rules, a VIF of less than 10 means that the issue of multicollinearity is not severe (Hair et al., 2021). Outer Model (Indicator-Level Collinearity). The VIF values of the outer model measures were between 1.720 and 10.840. The majority of the indicators had VIF values that were less than 5, indicating that multicollinearity is not a significant issue for most of the items.

Table 2.

Coding of construct, VIF, composite reliability, and convergent validity.

Construct	Code	VIF	Loadings	Cronbach's alpha - <i>pa</i>	CR (<i>pc</i>)	AVE
Household Economics Stability (HES)	CS_01	3.359	0.801	0.817	0.824	0.732
	CS_02	6.912	0.862			
	CS_03	5.264	0.829			
	IS_01	7.104	0.877	0.895	0.895	0.827
	IS_02	5.117	0.808			
	IS_03	8.822	0.803			
	LP_01	3.359	0.908	0.912	0.918	0.851
	LP_02	6.912	0.913			
	LP_03	5.264	0.894			
Savings and Assets (SA)	SA_01	6.356	0.851	0.925	0.930	0.870
	SA_02	10.84	0.775			
	SA_03	5.564	0.897			
Loan Size (LA)	LA_01	3.536	0.884	0.914	0.923	0.795
	LA_02	3.556	0.906			
	LA_03	3.477	0.923			
	LA_04	2.683	0.847			

Table 2. continue

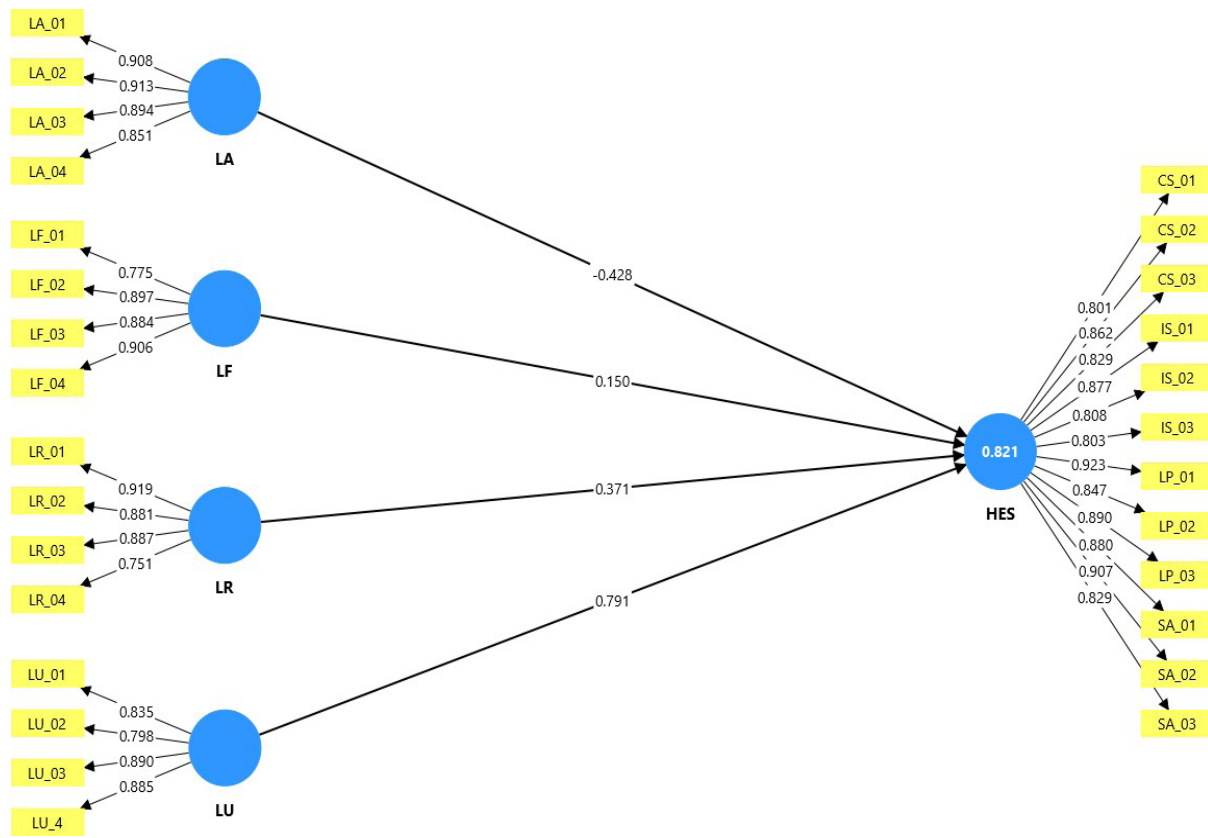
Loan Frequency (LF)	Frequency	LF_01	2.355	0.89	0.893	0.939	0.750
		LF_02	3.22	0.919			
		LF_03	2.422	0.881			
		LF_04	2.925	0.887			
Loan repayment (LR)	repayment	LR_01	3.344	0.751	0.883	0.895	0.743
		LR_02	2.651	0.835			
		LR_03	2.784	0.798			
		LR_04	1.72	0.89			
Loan Utilization (LU)	Utilization	LU_01	2.168	0.885	0.875	0.883	0.728
		LU_02	2.037	0.88			
		LU_03	3.163	0.907			
		LU_04	3.188	0.801			

Figure 1 shows the standardized factor loadings and the significance level (p-values) of the indicators observed by each construct. The loadings of all constructs are high and statistically significant ($p < 0.001$), confirming that the indicators are strong representatives of respective latent constructs. Since

all standardized loadings are above the recommended threshold value of 0.70 and are significant at 5% level ($p < 0.05$), it can be concluded that the convergent validity and construct reliability are strong across all measured dimensions.

Figure 1.

PLS-SEM algorithm.



The structural model (Fig. 1) demonstrates that the variables of LA, LF, LR, and LU all capture 82.1% of the variation in HES. LR and LU have a strong positive impact, and LF has a moderate impact. LA negatively affects stability, meaning that the bigger the loan, the less the stability. All the indicator loadings are more than 0.75, which proves good reliability and validity of the model. The R^2 value is used to demonstrate that a significant percentage of the change in Household Economic Stability is contained within the chosen variables regarding

loans. This indicates that the loan size, frequency, repayment behavior, and utilization are all factors that have a major impact on defining the financial state of households. The high explanatory ability of the model shows the significance of responsible borrowing and good application of microcredit in improving economic stability. These results verify that the results of microfinance depend more on the way in which the loans are obtained, not just received.

Table 3.

Path coefficients and their significance.

Hypothesis	Sample mean (M)	Standard deviation	T Statistics	P values	Decision
LA -> HES	-0.431	0.093	4.582	0.000	Supported
LF -> HES	0.158	0.061	2.469	0.014	Supported
LR -> HES	0.370	0.040	9.239	0.000	Supported
LU -> HES	0.787	0.074	10.725	0.000	Supported

The results (Table 3) of the structural model indicate the direct impacts of the variables associated with loans on Household Economic Stability (HES). Path coefficients have been shown to be statistically significant as the p-values of the corresponding statistics are less than 0.05, which proves that there is strong empirical support for the proposed hypotheses. In particular, a negative yet significant impact on the economic stability of households is observed on the loan size (-0.431, $p = 0.000$), which would mean that as the amount of loan increases, it would contribute to the financial strain or the inability to repay, thus minimizing the overall economic stability. The positive and moderate impact of loan frequency (0.158, $p = 0.014$) is that the more frequently a household takes loans, the better it manages and sustains itself financially.

Moreover, loan repayment ability (0.370, $p = 0.000$) has a very positive effect on household economic stability, and it should be highlighted here that the ability to repay loans is always a contributor to a better economic situation. The Effective Use of Samurdhi Microcredit (0.787, $p = 0.000$) has the greatest positive impact, as the variable shows that the more the households use the loans in a productive manner (e.g., income-generating activities), the better their economic stability. Hypothesis testing is based on p-values and t-statistics, where p-values less than 0.05 indicate statistical significance (Hair et al., 2011).

Overall, these results indicate that the economic stability of households is not only dependent on access to microcredit, but also

to a great extent on the efficiency of use and management of loans. The effective utilization of loans and good ability to repay them increases financial stability, whereas over-borrowing without financial management can adversely impact stability. This supports the wider finding that sound borrowing practices are critical to attaining sustainable economic performance among the beneficiaries of microfinance.

These results demonstrate that the model has high predictive accuracy and reliability, suggesting that the selected loan-related factors collectively play a major role in determining household economic stability. The study evaluated the effects of loan variables, such as loan size, loan frequency, loan repayment capacity, and loan use, on the economic stability of households in the framework of the Samurdhi microfinance program. The content of the analysis was done through the Partial Least Squares Structural Equation Modeling (PLS-SEM) method to evaluate the reliability, validity, and strength of the relationships among the variables.

In general, the results demonstrate that the use of loans and the ability to repay them are the strongest factors that determine the economic stability of households within the Samurdhi microfinance program. This means that households can become financially resilient in the long term by using loans to engage in productive and income-earning ventures. Conversely, the expansion of the loan amount without proper repayment ability can have a negative impact on household stability. The findings underpin the need to be responsible in borrowing, to be financially literate, and to monitor microfinance programs, so that poverty reduction can be sustainable.

Conclusions and Recommendations

Conclusions

Results of the structural model have shown that loan use and loan repayment capacity have the greatest positive impact on the economic well-being of the households, and the productive and efficient use of Samurdhi microcredit has a strong contribution to the welfare and stability of the household. There was also a positive but moderate impact on the frequency of loans, which connotes that regular borrowing can ensure financial sustainability when loans are borrowed in accordance with the purpose.

On the other hand, the size of the loans significantly influenced it negatively, which implied that too large loans could cause repayment stress and financial exposure, and hence lead to instability. These results are consistent with the findings of other researchers (Armendariz & Morduch, 2010) and (Ghalib et al., 2012) that highlight that effective use of microcredit and good repayment behavior have a sustainable impact on improving the welfare of households, whereas excessive borrowing might cause financial distress (Bateman & Chang, 2012). These findings have highlighted the critical importance of microfinance in ensuring household-level development when credit is used wisely.

Recommendations

Policy-wise, the implications of the findings are to ensure that the Samurdhi program is oriented towards the training of financial literacy, entrepreneurial skills, and loan monitoring mechanisms. This can be done by making sure that microcredit

is channeled to productive investments instead of consumption-based borrowing. Enhancing repayment discipline and financial management skills of the beneficiaries would also improve the sustainability of the program and its long-term effects in alleviating poverty. In theory, the study is an addition to the emerging body of literature on microfinance and household welfare because it empirically confirms the interrelationships between access to credit and economic resilience in developing economies. In practice, it offers evidence-based information to policymakers, development agencies, and microfinance institutions on how to improve program strategies to encourage responsible borrowing, effective resource allocation, and sustainable livelihood development.

The study demonstrates that microfinance, when implemented and used successfully, can be a potent tool for enhancing the economic stability of households and alleviating poverty. Its success, however, lies in the ability of borrowers to repay, sound and efficient use of funds, and institutional initiatives to nurture financial awareness and good credit habits.

Financial literacy, risk attitudes, consumption patterns, and entrepreneurial skills are some of the other social and behavioral variables that can be included in future research. Also, comparative research of various areas in Sri Lanka would allow gaining more insight into the effectiveness of microfinance programs.

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