

## **Executive Summary**

Over the past four decades, microfinance industry has grown immensely all over the world and it is recognized as the leading solution for poverty alleviation.

The oil crisis that swept across the world in seventies directly affected the balance of payment situation in the third world countries including Sri Lanka. The only short term solution was further borrowing and the major donors like IMF proposed to provide the required credit to bridge the negative gap between the external income and expenditure of the developing nations. Not having too many options the smaller economies such as Sri Lanka were compelled to borrow from the IMF. The deal, however, was on a serious condition that borrowing nations would buy a package called the Structural Adjustment Programme which would eventually bring about a paradigm shift in the entire economy of the borrower. The package offered to Sri Lanka had eleven elements which the country had to implement. Liberalization of imports and exports, devaluation of the rupee, removal of subsidies and encouraging foreign investments were some of those elements, which as anticipated, increased poverty within a short period of time.

Though increasing poverty became the order of the day the solutions offered to mitigate poverty had serious limitations given the perennial conflict between the paternalistic approach of the government and the participatory methods of the civil society organization which were supposed to develop a partnership with each other under the poverty mitigation strategy of the donors. The package of solutions offered through the Janasaviya Trust Fund (JTF) which was later called the National Development Trust Fund (NDTF) did not last long particularly due to the resistance of the political community towards the empowerment of the poor engineered by the civil society organizations. Within a few years a government operated parallel system was established through Samurdhi.

It was at this critical juncture that Arthacharya Foundation realized that the sustainable and long term solution lied only in the development of a replicable and low cost poverty reduction model. The twenty one year old history of the Arthacharya and Arthavida Foundations is the effort they made to develop and refine this model. In building up its own model Arthacharya and Arthavida were particular on the theoretical aspects of poverty alleviation while respecting the day to day ground realities. Arthacharya's

decision to break away from both rural development and community development schools of thought where the focus was on a geographical area or the community regardless of their socioeconomic diversities enabled it to concentrate only on the poor below the poverty line of the country.

The main purpose of the study was to carry out in-depth studies on a number of microfinance loan members of Arthavida Foundation to identify and build a framework of the unique and general factors that have enabled them to succeed. Twelve branches (12) were selected as the sample to carry out the in-depth survey on each of them. All discussions were held informally and three (3) focus group discussions were held to validate the findings of the impact of microfinance on them.

The analysis led to some value-adding findings. All loan members interviewed were thinking very much similar to businessmen. The strategies adopted by Arthavida Foundation on effective management of non performing advances via employ training and development during their loan repayment period strengthened this. Further to this, each loan member has a unique strength which they have identified and capitalized upon. These unique strengths have enabled them to sustain in the areas of their business operations. Another valuable finding was that loan member's vision expands beyond the output and outcome level up to the impact level. Loan members have their ultimate aim to improve their living standards, empower and alleviate poverty from their families.

This case study quantifies that Arthavida Foundation microfinance programme has positive impact on its poor micro entrepreneurs who are below the poverty line of the country.