

Impact of State Banking Services on Rural Livelihood Development in Polonnaruwa District of Sri Lanka

W.M.D.B.K. Weerasekara^{1,*} and R.K.D. Randeni²

*Department of Business Management, Faculty of Management Studies,
Rajarata University of Sri Lanka, Mihintale, Sri Lanka^{1,2}*

*Corresponding author: dilinibhagya321@gmail.com

Abstract

This study explores the impact of state banking services on rural livelihood development in Sri Lanka, specifically focusing on the Polonnaruwa District. This district was selected due to its predominantly agrarian economy and the persistent challenges of financial exclusion, despite the widespread availability of state banking facilities. To address this gap, the study examines how four dimensions of banking services—credit and loans, savings and deposit services, digital banking, and interest rates with repayment flexibility—affect rural livelihoods in terms of income growth, agricultural productivity, employment, and financial inclusion. A quantitative research design was employed, and data were collected through structured questionnaires from 100 respondents, including farmers, small business owners, and households. The reliability and validity of the instruments were confirmed using Cronbach's alpha (>0.90) and KMO statistics (0.754). Descriptive statistics, correlation, and regression analyses were performed using SPSS. Findings indicate that credit and loan facilities ($\beta = 1.034$, $p < 0.01$) have the strongest positive effect on rural livelihood development, followed by savings and deposit services ($\beta = -0.035$, $p < 0.05$) and interest rate policies ($\beta = 0.000$, $p < 0.05$). Digital banking showed only a marginal effect, constrained by low digital literacy and infrastructure limitation. The study concludes that while state banking services significantly contribute to rural livelihoods, their effectiveness depends on improving digital adoption, enhancing financial literacy, and designing borrower-friendly credit schemes. This research provides empirical evidence for the Sri Lankan context and offers practical insights for inclusive financial policy-making.

Keywords: credit, digital banking, interest rates, rural livelihood development, savings