



Effect of microfinance services on the performance of micro-entrepreneurs: A study in Pilimathalawa area

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Abstract

This study examines the effect of microfinance services on the performance of micro-entrepreneurs in the Pilimathalawa area. One hundred micro entrepreneurs received the benefits from the Samurdhi Bank selected as a sample in this study purpose. The microfinance services – micro-credit, micro-savings, and micro-training- are considered independent variables and entrepreneurs performance considered as dependent variables of the study. Data were collected through issuing a structured questionnaire to the respondents and analyzed using SPSS version 20. The Regression analysis and factor analysis were done for the effects of financial services on the performance of micro entrepreneurs. The present study results indicated that the microfinance services – micro-credit, micro-saving, and micro-finance have highly impact the performance of entrepreneurs. Finally, the microfinance services – credits, serving, and training - have highly effective on the performance of the micro-entrepreneurs. Further, the study recommended that the micro-savings has a higher effect on the entrepreneurs' performance than that of other services

Keywords: micro-entrepreneurs, microfinance services and performance

Introduction

The microfinance movement in Sri Lanka dates as far back as 1906 with the establishment of Thrift and Credit Co-operative Societies (TCCSs) under the Co-operative Societies Ordinance introduced by the British colonial administration. Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however, some microfinance organizations also provide insurance and payment services. In today there is area wise institutions providing microfinance in Sri Lanka, such as state banks, Regional Development Banks and other licensed specialized banks, Co-operative rural banks and other co-operatives, Thrift and credit cooperative societies (TCCSs/Sanasa Societies), Samurdhi Bank Society, NGO-MFIs and Other financial (Microfinance industry report, 2009). The research question of the present study is; How does the



microfinance services affect the micro-entrepreneurs' performance? The objectives of the present study are to:

- measure the impact of microfinance services on the performance of the micro-entrepreneurs.
- determine which services have a higher effect on the performance.

Literature Review

The microfinance banks' services have significantly improved the performance of women-owned enterprises in Benue State, Nigeria. The study concludes that microfinance banks loan services and saving services have a more significant effect on women-owned enterprises' performance. The study also concludes that microfinance banks' training services have significantly improved the skills and experience of women transferred to their enterprises (Diaka & Asenge 2019). Syed Hussain Haider et al., (2018) highlighted training of microfinance beneficiaries is vital for getting better performance. The results indicated that the growth rate of Micro and Small enterprises whose owners have been trained was better than those Micro and small enterprises whose owners have never been given training. Khin et.al. (2017) found that the significant microfinance service factors influencing women entrepreneurs' entrepreneurial success utilizing such services in Sri Lanka. Kingsley Bernard et. al., (2017) discussed the influence of microfinance services on women's entrepreneurial success in Sri Lanka. The study found that the positive relationship among micro-credit, micro-savings, and women's entrepreneurial success and the negative relationship between micro-insurance and entrepreneurial success.

Herath et al., (2015) found that microfinance's impact on poverty and vulnerability of women borrowers. The finding of this study identified that four criteria – access, creation and control over private resources, freedom of decision making at home, self-confidence on socio-economic activities and status in community and family were positively affected the women. A qualitative study expressed that microfinance services (micro-credit, micro-savings, micro-insurance, Business support, skills development) on the entrepreneurial success of poor women. Further, the study discussed weaknesses of such services in the process of women achieving entrepreneurial success (Kingsley Bernard 2015) The provision of a micro-loan by micro-finance institutions was rated as the highest factor that positively contributed to the performance of small and medium enterprises, followed by the economy's general performance and consulting services. Finally, Provision of micro-loans by micro-finance institutions was rated as the factor that positively contributed to the performance of small and medium



enterprises (Kinimi 2014). Prasansha Kumari (2014) explored the impact of microfinance on small entrepreneurship in Sri Lanka. The study identified four finance services – credit, saving mobilization, micro-insurance, and pawning. Further, the study concluded that the small-scale entrepreneurs empowered and created new business through SEEDS's financial services.

Even though many foreign and Sri Lankan researchers researched the impact of microfinance in entrepreneurial development and women entrepreneurs' performance. There were also few numbers of researches regarding effects of microfinance factors on entrepreneurs' performance in Sri Lanka. These studies are also based only on entrepreneurs' performance. Therefore, the researcher has identified this as the research gap and will carefully investigate the effect of microfinance in entrepreneurs' performance. Based on the above literature survey, following hypotheses were derived in this study:

H₁: Microfinance services have a higher impact on the entrepreneurs' performance.

H₂: There is a significant effect of Microfinance services and the entrepreneurs' performance.

Methodology

For this study purpose, 100 micro-entrepreneurs identified in the Pilimathalawa area get assistance from Samurdhi Bank. A convenient sampling technique was used in this study. The microfinance services – micro-credit, micro-savings, and micro-training- are considered independent variables and entrepreneurs performance considered as dependent variables of the study. Data is entered and analyzed using SPSS version 20. Reliability, Validity, Regression analysis, and factor analysis were done for the effects of financial services on micro entrepreneurs' performance.

The first reliability of variables was measured in this study. For measuring the reliability, Cronbach alpha was calculated. The Cronbach alpha of the variables of this study is 0.997. It is greater than the cut-off rate 0.70. The KMO and Bartlett's tests were measured for the adequacy of data. The study indicated that all variables' adequacy is 0.711 and significant. It is indicating that the values of adequacy are Meritorious.

Results and Discussions

Impact of Microfinance Services on the Performance of Entrepreneurs.

For testing Hypothesis 1, the regression analysis was done in this study. The results are illustrated in Table 1, Table 2 and Table 3.



Table 1. Results of model fit

Model	R	R ²	Adjusted R ²	Sig-value
1	0.902	0.813	0.807	0.000

The results from Table 1 show that the coefficient of determination (R-square) explains the variation in the dependent variable due to changes in the independent variable. The R-square value of 0.813 indicates that there was a variation of 81.3% in the performance of entrepreneurs. Due to the microfinance credit service changes, microfinance savings service, and microfinance training service of 95% confidence interval. Also, the value of R (0.902) indicated that there was a strong relationship between variables. As well as statistics in table 4.8 indicates that the population's parameter had a significance level of 0.000, which shows that the data is ideal for concluding the population's parameter as the value of significance (P-value) is less than 5%. This implies that microfinance credit service, microfinance saving service and microfinance training service significantly affect the performance of entrepreneurs in the Pilimathalawa area.

Table 2. Estimated results of multiple Regression

Variables	Unstandardized coefficients	Std.Error	Standardized coefficients	Sig. value
Constant	0.751	0.152		0.000
M-credit***	0.548	0.067	0.579	0.000
M-saving***	0.166	0.055	0.183	0.003
M-training***	0.213	0.048	0.256	0.000

Note: *** represents 1% level of significant

In the above table, Firstly, the regression coefficient for microfinance credit service is 0.548, which implies that the respondent who have strongly agreed and more satisfied with the micro-credit service given the microfinance institutions, their performance also will be higher. In other words, the entrepreneurs have better micro-credit services; their performance also higher. Based on the study P-value for microfinance credit service, 0.000 is less than 0.05, which is an indication that the variable has a significant positive effect on the performance of entrepreneurs. Secondly, the regression coefficient for microfinance saving service is 0.166, which implies that, the respondent who has strongly agreed and more satisfied with the micro-savings service given the microfinance institutions, their performance will also be higher. Based on the study, P-value for microfinance savings service 0.003 is less than 0.05, which is an indication that variable has a significant positive effect on the performance of entrepreneurs.

Finally, microfinance training service is 0.213, which implies that the respondent who has strongly agreed and more satisfied with the micro-



training service given by the microfinance institutions, their performance will also be higher. In other words, the entrepreneurs have better micro-training services in their performance. According to the study P-value for microfinance training service, 0.000, is less than 0.05, which is an indication that variable has a significant positive effect on the performance of entrepreneurs. Based on the regression, the hypothesis one is supported in this study. Hence these three services highly impact the performance of the entrepreneurs in the Pilimathalawa area.

Demographic variables of respondents and performance

Effect of Microfinance services and the entrepreneurs' performance

For testing the hypothesis 2, the factor analysis was done in this study. The results of the factor analysis illustrated in table 3.

Table 3. Factor loadings and Communality Estimates

Item	F1	F2	F3	h^2
TQ1	0.975			0.629
TQ2	0.963			0.786
TQ3	0.969			0.720
TQ4	0.958			0.780
TQ5	0.976			0.749
SQ1		0.951		0.972
SQ2		0.951		0.973
SQ3		0.956		0.987
SQ4		0.956		0.959
CQ1			0.788	0.992
CQ2			0.881	0.967
CQ3			0.820	0.983
CQ4			0.860	0.957
CQ5			0.851	0.990
Eigen	6.67	3.37	2.40	
Variance	47.63	24.07	17.16	
Com.Var	47.63	71.69	88.86	

$h^2 = \text{Communality Estimates}$

Factor I: Micro-training factor

The factor I explains 47.63 percent of the total variance. This includes TQ1, TQ2, TQ3, TQ4 and TQ5. This factor also has significant factor loadings on these variables, which are formed in this major cluster. So this factor has provided a basis for the conceptualization of dimension, which can be called “Micro training factor.”

Factor II: Micro-Savings factor

Factor II explains 24.07 percent of the total variance. This includes SQ1, SQ2, SQ3, and SQ4. This factor also has significant factor loading on these variables, which formed the second important cluster concerning the



variation. So, this factor provided a basis for the conceptualization of dimension which can be called “Micro saving factor.”

Factor III: Micro-credit factor

Factor III explains 17.16 percent of the total variance. This includes CQ1, CQ2, CQ3, CQ4 and CQ5. This factor also has significant factor loading on these variables, which formed the third important cluster concerning the variation. So, this factor provides a basis for the conceptualization of dimension which can be called “Micro credit factor”

Table 4. Factor wise average score

Serial No.	Factor	Factor score	Rank
I	Micro-training	0.209	2
II	Micro-saving	0.261	1
III	Micro-credit	0.204	3

The factor ranking shows that factor II: Micro-saving is the most crucial issue that impedes the entrepreneurs’ performance in the Pilimathalawa area. This factor includes provide the capital necessary to invest (SQ1), Risk of repayment of the loan (SQ2), Cover the expenditure of the business (SQ3) and Smooth irregular income (SQ4). This has reflected the own savings of the entrepreneurs were the best asset for the entrepreneurs. Therefore, it highly affected their performance than the other factors. The second most crucial factor is Micro-training. This factor includes Knowledge of financial literacy (TQ1), Management skills (TQ2), Operational skills (TQ3), Technological skills (TQ4) and Knowledge of leadership (TQ5). These factors have been found working to improve the business knowledge of the entrepreneur. The micro-credit factor includes Physical assets of the business (CQ 1, Machines/tools/equipment), Operational facility (CQ2), Number of products (CQ3), Number of buyers (CQ4) and Business volume (CQ5) and it was the third important factor.

Based on the results, the cumulative variance of the three factors is 88.8%. It observed that the factors have a higher effect on the performance of the entrepreneurs. These three factors highly effect on the entrepreneurs’ performance. Hence hypothesis 3 is accepted.

Conclusions and Recommendations

This study's main objective is to examine the effect of microfinance services on the entrepreneurs’ performance in the Pilimathalawa area. Based on the results, the study concludes that the microfinance services significantly impact on the entrepreneurs’ performance. Micro-training, micro-savings, and micro-credits have a higher effect on the entrepreneurs' performance in



this study. The results supported the prior researchers' study (Kimani et al. 2013, Kingsley Bernard et al. 2017, and Syed Hussain Haider et. al., 2018). The study recommended that the micro-savings have a higher effect on the entrepreneurs' performance than other services. The researchers need to consider other determinants and the entrepreneurs' subjective and objective performance in their future studies.

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