ROLE AND IMPACT RELATIONSHIP BETWEEN MICRO FINANCE AND POOR'S ACCESS - A case study of Jaffna District, Sri Lanka.

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Abstract

Microfinance has become a vital role in access to poor people in the rural areas. It assists the poor people in health nutrition, education and self employment opportunity etc. The major objective of this study is to show the relationship between role & impact of Micro finance on Poor peoples' access in the study area. This study is based on both quantitative and qualitative methodologies in order to find out the possible solution of the problem. The study was guided by the following research questions: what are the problems relating to access of microfinance? And the mechanism for obtaining the micro finance? To what extent the problems enabled the respondents to get the micro finance services? Stratified random sampling techniques were used to get a total of 106 respondents. Data were collected through close ended questionnaires, semi structured interviews, discussions, observations and documentary reviews. Data analysis was based on descriptive statistics using various statistical tools like regression, correlation, t- test and ANNOVA by using SPSS package. The Study findings show that the majority of the poor have access to micro finance because they have affected by the war. In the Post war context the micro finance assistance is important to those people. However some respondents have also indicated that micro finance does not make them successful in their undertakings as they make them to become more dependants on them. Micro financial institutions should encourage poor to borrow by revisiting the collateral conditions and reducing interest rates. The result of the study was that microfinance helps the different categories of poor people and has the positive significant effects on the dependent variable i.e access to micro finance. It was found that there is a high interest rate on micro loans because of the administrative cost. The government takes interest and supports the microfinance sector. The results of the study also show that there is improvement in access of the microfinance in the recent times in terms of investments, active borrowers, branches and personnel etc because of the rehabilitation of the war affected areas in Sri Lanka.

Key words: *Micro finance, Poverty, Living standard, Self Employment, and Health care.*

Background of the study:

Most of the poor people in the world live in rural areas. In many developing countries, food security and rural development are ongoing challenges. Poor people may protect themselves from poverty, increase their sources of income and also increase the right path out of poverty by shaking hand to micro finance. More than 65 million poor people have accessed micro credit schemes in the world. To meet with basic necessities of ordinary life to take the benefit for education, to bridge a cash flow gap or to take the advantage of investment opportunity, micro finance may be the initial step in contravention of the poverty cycle. Micro finance is very helpful to poor people with respect to convenient savings and to get money to acquire assets such as goods and services for a small business, for residential places, for better health care and for children's education.

It is estimated that over 70% of Sri Lanka's population live in rural areas. (Weerawansa, 2011) The thirty years of war in the North East of Sri Lanka came to an end in May 2009. There were more than 300,000 Tamil civilians and armed forces who were held in Internally Displaced peoples (IDPs) in the various geographical areas of the North and East of Sri Lanka (World Bank, 2012). Many of the IDPs returned to their villages and some were continued to be held in the encampment. In Jaffna, there are 29000 female-headed households out of the total of 100000 women affected by war in the district of Jaffna (World Bank,2012). In post war economy, a country like Sri Lanka will need to address multifaceted socioeconomic issues in respect of poor people affected by the war. There was a need for development interventions for these people to help them return to normalcy. In this situation the MFIs should have to help them with the assistance of the foreign aids and government funds.

The microfinance assists in reducing poverty and improving living conditions of households. (Tilakaratne, G, 2005). However, from this point of view we would say that the microfinance is an important tool for the rural development in Sri Lanka in its' experience the rural sector faces many obstacles and challenges while try to achieve the rural development. The majority of the rural poor people take their living from agriculture and off-farm employment. Micro finance provides financial, economic and monetary services to poor People and these services include credit and saving and some of the Micro Finance Institutions (MFIs) provide insurance and payment services as well. MFIs are the organizations, engaged in providing the micro credit and other financial/economic services to the poor borrowers for self employment and income generating activities. Several MFIs have been established and operating towards resolving the problem of poor people's access in Micro finance particularly those who engage in small level business (Befekadu, 2007). Poor people are unable to access the commercial banking systems because of collateral, complicated loan application procedures and distance. Successful rural development means revitalizing the rural areas to provide a foundation for accelerated income growth, abundant job opportunities in farm and non-farm activities, sustainable use of natural resources.

Micro Finance Institutions (MFIs) have vital role among 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 play an important role in empowering the poor people because they are providing financial and non financial services to enhance their standard of living by getting the facilities for poverty alleviation, health nutrition, education and self employment opportunities and empower women by helping to get capital and permitting them to get an independent income and contribute economically to their family and society. In fact, it is difficult to separate the impact of micro credit from that of other involvements. According to the state of Micro Credit Summit Campaign Report (2005), 3200 MFIs reportedly to 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.

Support of thousands of microfinance customers in Sri Lanka reveals that access to financial services facilitates poor people to boost their household income, make assets, and cut their vulnerability to the crises that are so much a part of their daily lives. According to the report by Dirk Stein wand and David Bartocha on 'How microfinance improves lives in Sri Lanka (2008) mentions that microfinance is an adaptable supporter that afford them the means to remake their lives, plan for their future and that of their children, empower them with self esteem, integrate in to social structure by enjoying access to social networks and making contributions towards welfare of their families and that of the community. The impacts of microfinance are a combine in most cases where one impact leads to another. For an example improved income is used for enhancement of the family or children education & health nutrition etc. Micro finance providers support to the poor people in various ways such as education, training and awareness programmes in order to empower them from their vulnerable situation. This study focuses on role and impact relationship between microfinance and poor peoples' access in rural areas in Jaffna District.

Research Problem:

In recent years, governments and Non Government Organizations (NGOs) in many low income countries including Sri Lanka have introduced micro credit programs targeted to the poor. Many of these programs especially target women on the view that they are more likely than men to be credit constrained, have restricted access to the wage labour market, and have an inequitable share of power in household decision making (Pitt et al., 2006). Women spend their more income for their family (children's education, health care and other family commitments) than men and they have more responsibility of their family. This is the reason that more attention has been given to the women regards providing micro finance facilities.

Overall, rural areas are poorest and 90% of the poor live in rural area in Sri Lanka (Attapattu, 2009). The worst sector of poverty level and social indicators is the estate sector which registers a 30% head count poverty ratio based on the national poverty line as compared with rural 24.7%, urban 7.9% (Attapattu, 2009). Less than 1/3 of the population earned around 2/3 of total income, whereas more than 2/3 earned around a 1/3 of the total income. So, which Gross Domestic Product (GDP) is rising in Sri Lanka this growth is not being converted into poverty reduction on the poor's share of the growth is not large enough (Attapattu, 2009). From time to time Sri Lanka faced challenges and problems due to war situation and the nature. (Tsunami, flood etc.) There was a civil war for last 30 years and the Sri Lankan Government has disrupted the country during this period. In addition to this the country was affected by the tsunami in 2004 and more than 38,000 people was killed and left many vulnerable from the loss of livelihood. In this time most of the poor people were affected by various reasons. Sri Lanka Government has undertaken various activities to increase their standard of living condition.

Further, 84.9% of the population in Sri Lanka lives in rural areas and 4/5 of the country's poor are concentrated in the rural sector. Feminization of poverty described as "the burden of poverty borne by women, especially in developing countries" indicates a situation in which women constitute a disproportionate percentage of the world's poor. However, the fall in the national poverty index, the disparities in poverty level among the urban, rural and estate sectors have persisted. In 2006/2007 the proportion of the population below the poverty line the estate sector was 32% followed by rural sector 15.7% and while in the urban sector at 6.7% was less than ½ of the national line. In 2009/2010 the respective indices for the urban, rural and estate sectors were 5.3%, 9.4% and 11.4%. Poverty has come down from 23% in 2003 to 15% in 2007 (www.statistics.lk). It is indeed difficult to state to what extent microfinance targets the poorest segment of the population has contributed to the poverty level. No studies or research exist where this variable has been isolated and which shows micro finance's contribution to natural poverty alleviation. But circumstantial evidence gives enough reason to believe that MFIs have contributed to this decline. In this situation the research problem of this study has been arisen as follows:

"Do MFIs have an important role and impact relationship between poor people access and micro finance in rural areas?"

The following research questions have been underlined from this statement:

- What are the problems relating to access of microfinance?
- And the mechanism for obtaining the micro finance?
- To what extent the problems enabled the respondents to get the micro finance services?

All borrowers have no access to micro finance due to different factors. In present study research efforts were made to see the impact of micro finance on poor's access in the study area and also to find out the borrowers' link to Micro financial institutions for solving the problems of access as well.

Objectives of the study:

Every study must have to formulate its objective in order to distinguishable and take place it more rational and fruitful. This study has the prime objective of finding out to what extent the poor people access the micro finance in order to enhance the living standard and rural development. And also the following objectives have been identified in order to achieve the possible solutions of the access and mechanism towards micro finance activities in the study area.

- To find out the impact of microfinance on poor peoples' access.
- To find out the problem and bringing into light the problems faced by the poor people.
- To identify the mechanism or tools for getting facilities from MFIs.
- To suggest possible solution to enable to get the micro finance facilities without interruptions.

Research Hypothesis:

Microfinance institutions play a significant role in meeting the financial needs of poor peoples, farmers, household and micro entrepreneurial etc. All borrowers possessed different features like age, education, work and experience etc. On the basis of these features they participate in micro finance and make use of that credit, improve their living standard, educational level, health and financial position of the poor segment of the society and reduce poverty. Hence micro finance will contribute a lot towards the overall development of the economy. Therefore this study would also help MFIs and other financial institutions, whom to provide micro finance.

This study is based on the following assumption developed as hypothesis:

H_0 = Micro finance has no impact on poor people's access to Micro finance in the study area.
H_1 = Micro finance has impact on poor people's access to Micro finance in the study area.
H2=There is a relationship between microfinance and poor peoples' access.
H3=There is a significant differences between the factors of sex, age, education, occupation and experience and access of poor people in microfinance.

Literature Review:

Provident and Zacharia (2002) Formation and accessing group as collateral is the most important reasons for the micro finance. Formation of group and group loan is the main problem for the poor with respect to access to micro finance because delay or non repayment of installment at right time by any group member may create problem for all group.

Regular employees have easy access to micro finance in the shape of salaried loans. Borrower must have to provide the collateral or guarantee from the employer. Mostly the poor people have limited resources and work on daily basis instead on regular or permanent job, because of either low or lack of education, thus remain fail to provide the personal employer guarantee or collateral conditions, so they do not have easy access to the salaried loans.

Location of the bank may indicate the nature of client focused or served and the accessibility of the bank. Besides, long and far distance from the MFIs may create hurdle for the people to get the access to micro finance because of cost and time implications. Therefore, the location of banking services with respect to far distance does not allow them from accessing the same.

According to Coleman (2004), approachable and rich people have greater access to micro finance as compared to poor. Access to Micro finance and age had a negative but significant relationship (Khalid, 2003). Morduch, (1998); Mosley, (1998) Qualified and highly educated people could easily understand the procedure for obtaining the micro finance. Information relating to borrowing of micro finance had significant relationship between literacy status and micro credit determination. Demographic factors had significant impact on micro credit constrained conditions Morduch (1995), Gulli (1998), Khandker (1998), Pitt and Khandker (1998), Zeller (2000), Parker and Nagarajan (2001), Robinson (2001), Khandkr (2001), Khandker and Faruque (2001), Coleman (2002), Pitt and Khandker (2002), Khandker (2003).

Easy access to MFIs helped the poor people to produce self employment opportunities, Managerial skills, productivity, and positive cash inflows and reduce the consumption cost etc which in turn enabled them to increase their income level and other socio economic benefits like education and health care. Sichanthongthip study (2004) showed that micro finance has positive impact on borrower's higher monthly income level after the member accessed to credit. Shaw (2004) studied two microfinance institutions in Sri Lanka and showed that the less poor clients' micro business that accessed loans from micro finance programs could earn more income than those of the poor do.

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.

Mushtaq, (2008) identified in his study of Role of micro credit in poverty alleviation that the training and education, clean water and hygienic environment, nutrition and adequate food accommodation, income and savings are important factors of poverty alleviation. Because it leads to improve the living standard, healthy and earning capacity for family members, strong enough for national disasters and can live in a better way in respectively.

According to Dubreuil, & Mirada, (2010), the impacts of the micro credit programs are mostly related to personal such as age, formal education and geographical origin and family issues. It is dependable with the profile of women without access to traditional banks' credit, seeking for better standards of living.

In Sri Lanka, since the beginning of the last century, Co-operatives, rural banks, state banks and the Central bank were involved in small credit distributions to farmers and others. However these were not identified as microfinance while replacing the traditional credit schemes that became a failure over the decades. The origin of the micro financing in Sri Lanka was the early 1900s. In 1911, the British Government authorized to set up Co-operatives in Sri Lanka. The village superiors and headmen dominated the cooperative societies up to 1942.

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.

Maheswaranathan and Kennedy (2010) revealed in their research on Impact of Micro-credit on Eliminating Economic Hardship of Women that the micro credit led to the elimination the economic hardship of women.

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.

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Research Methodological Frame work:

The population for this study comprised of self employed persons involving agriculture, livelihood activities like poultry rearing, goat rearing, home gardening and small businesses in Jaffna district, Sri Lanka. The population was too large and it was impossible to contact every member of the population. To overcome this difficulty the study was confined to limited area in Nallur, Uduvil, Kopay Divisional Secretariat Divisions. Therefore, 106 respondents have been selected from the population taking in to consideration the cost and time benefit analysis. To give maximum chance of selection to each and every member of the population, stratified sampling method was used in this study. Data was collected through the questionnaire. In this connection, a structured questionnaire was developed, containing appropriate number of closed ended questions to allow the respondent to give maximum information. Due to largely scattered population and also to avoid risk of insufficient responses, the questionnaire was delivered to the respondents in different areas and got back, dully filled by them. Primary data collected during the course of this research study was subjected to statistical analysis by using SPSS (Statistical Package for Social Sciences) version 16.0.

The linear function that can be shown as the following model access to micro finance:

$Y = a + bXi + e$

Where

Y = dependent variable, a = constant, b= slope of line, Xi = independent variables, e = error term.

$Y = a + bX_1 + bX_2 + bX_3 + bX_4 + bX_5 + e$

Where

Y= Access,

a=Constant,

X_1=Sex, X_2=Age, X_3= Education, X_4= Occupation, X_5=Experience, and

e=Error term

Data Analysis and Interpretation:

Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. In this study the independent variables sex, age, education, occupation and experience correlate with microfinance as follows. The table 1 shows that the sex, occupation and experience have weak positive relationship with microfinance 0.188, 0.45 and 0.021 respectively. Further it reveals that the age and education have weak negative relationship as -0.216 and -0.130 respectively. From this analysis the hypothesis 1 has been accepted and hypothesis 2 could be disproved. And out of 5variables only 3 has weak positive relationship with microfinance.

Table 1:

Correlation of independent variables and microfinance:

	Sex	Age	Education	Occupation	Experience	Microfinance
Sex	1	-.392**	-.019	.282**	-.238*	.188
Age		1	-.112	-.189	.499**	-.216*
Education			1	.066	-.156	-.130
Occupation				1	.004	.045
Experience					1	.021
Microfinance						1

**Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

Source: Survey Results

Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another. In this study, three out of five independent variables i.e. sex, occupation and experience had insignificant impact R_2 = .101 (Table 2) on the access to micro finance that depicts a very little change in all independent variables brings approximately 10.1% change in access to micro finance, where as one independent variable i.e. age had significant impact on access to micro finance. Further, sex, education, occupation and experience had insignificant impact on access to micro finance ($p>0.05$) Over all there is insignificant impact $p=0.055$ (Table1) of dependent variable of access to micro finance on the independent variables collectively at $F=2.254$ (Table2).

Table 2:

Impact of Variables on access to Micro finance (Regression analysis)

Model	**R**	**R^2**	**Adjusted R^2**	**F**	**Sig.**
1	**.318**	**.101**	**.056**	**2.254**	**.055**
Sex	**.188**	**.035**	**.026**	**3.821**	**.053**
Age	**.216**	**.047**	**.037**	**5.074**	**.026**
Education	**.130**	**.017**	**.008**	**1.800**	**.183**
Occupation	**.045**	**.002**	**-.008**	**.215**	**.644**
Experience	**.021**	**.000**	**-.009**	**.046**	**.831**

Source: Survey Results

Sex:

Sex had insignificant impact p=.053 (Table 2) on access to micro finance using t-test. Correlation of sex with access to micro finance was found about 18.8% (Table 1). The main cause was that in study area gender had equal access to micro finance because both had good information regarding to obtain credit, know how to get it; they could pay interest and adopt the procedure to get micro finance.

Age:

Age had significant impact p=.026 (Table 2) on access to micro finance using ANOVA. Correlation of age with access to micro finance was found approximately -.21.6% (Table 1). The main cause was that, in study area age group of 31 – 55 had 63.2% access to micro finance than age group of 18- 30 who had 31.1% and above 55, 5.7%only.

Education:

Education had insignificant impact p=.183 (Table 2) on access to micro finance using ANOVA. Correlation of education with access to micro finance was found to be -13% approximately (Table 1). The main cause was that the education group had equal access to micro finance in the study area because all respondents had no relevant information with respect to obtain the micro finance, know how to get it, ability to pay the interest and adopt the procedure to get loan. And MFIs also had no relevant education qualification to provide microfinance facilities to the clients.

Occupation:

Occupation had insignificant impact p=.644 (Table 2) on access to micro finance. Table 1
shows correlation is 4.5% between occupation and access to micro finance. Occupations of the respondents under study area were farming and small business. Both farmers and business people had access to micro finance equally and the required information to obtain credit, and other facilities, payment of interest, loan procedure to get credit and such other attributes had no change to any one occupation in the study area.

Experience:

Experience had insignificant impact p=.831 (Table 2) on access to micro finance in the study area. Correlation of experience with access was 2.1% (Table 1). Under the post war situation it could not be expected the experience from the respondents. Every one started their activities nearly that they had within two years experience. MFIs encouraged the self employments activities in the study area and they have not expected the experience to provide loan and other facilities to the members.

From the above analysis Null hypothesis 1 has been rejected and hypothesis 2 accepted which has positively been correlated and approximately 10% impact on access to micro fiancé. Further hypothesis 3 has been accepted there is approximately 32% correlated among the variables and it has been found there is a relationship between the microfinance and access to microfinance. Further, hypothesis 4 has been rejected because there is significant difference between only age and access to micro finance and other factors have insignificant differences.

Conclusions and Suggestions:

Micro finance was found positively correlated with access to micro finance at R= .318 & R^2 = 0.101 but it had only 10% impact on access to micro finance. In this study only 5 variables have been reviewed but other factors such as marital status, family size, credit, investment, repayment, knowledge and awareness have 90% impact on access to micro finance. Further, age had significant impact on access to micro finance. Medium aged group have been paid full attention towards on access to micro finance. Sex, education, occupation and experience of the respondents had insignificant impact on access, it means they had greater role to play in accessing to micro credit, yet not utmost importance given to above factors. In study area micro finance had been granted to the people for poverty reduction, enhancing their financial situation and for improving their living standard. They had to repay the principal plus interest in installment. Although micro finance had positive impact on poor's access, yet it has helped the poor people to come over the poverty line. Under post war development context micro finance is an important tool to promote entrepreneurship developments in the study area. The government and other political parties should give more attention to improve the microfinance activities in the war affected locales. However it has been indicated that the poor people become more dependents on micro finance rather than it make them successful in their undertakings. Further, the amount of loan is small and the interest rate on micro loan is high too because of the administrative cost. The government should take interest and support to the micro finance sector which will be useful to the rehabilitation of the war affected areas in Sri Lanka.

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