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IMPACT OF MICRO FINANCE ON POVERTY ALLEVIATION IN SRI LANKA: WITH REFERENCE TO ANURADHAPURA AREA

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ABSTRACT

Microfinance is a new innovation in the field of finance and it has rapidly spread all over the world within last five years addressing to the financial requirements of poor. Poverty is a fundamental question currently confronts by the Sri Lankan government too as it negatively affects to the development process. Anuradhapura is one of rural areas where people are in financial squeezes due to lack of development initiatives, resulting micro finance institutions has invaded the area during last few years and significant amount of poor people's has embraced the concept of microfinance rather adjoining with formal bankers. Hence the study was examined impact of microfinance on poverty alleviation in Anuradhapura Area. The result was generated from the answers taken from 139 randomly selected microfinance beneficiaries in Anuradhapura area and data were analyzed across different statistical tests through SPSS software. The light of the study highlighted that microfinance has significantly contributed to reduce the level of poverty in Anuradhapura.

Key Words: Microfinance, Anuradhapura Area, Poverty Alleviation

1. Introduction

Poverty is the one of most critical questions in the world which everyone tries to develop different kind of strategies to reduce poverty level of poor people. Barr, Michael S (2005) emphasized there are around three billion people in the world; half of the world's population daily income is less than two dollars. Therefore they do not have sufficient financial capability to fulfill their daily requirements. To enhance such poor people living standards the United

Nations Organization (UNO) announced the millennium development goals, aimed to eradicate poverty by 2015 (Barr, Michael S ,2005). They involved NGOs around the world and government bodies to overcome this goal. At that time they identified ninety percent of poor people in developing countries cannot access to formal financial services due to lack of income ((Robinson & Marguerite S, 2001), After that all authorities bodies get together and discussed about this matter ,finally they identified microfinance is a best solution to reduce poverty. Resulting, UNO announced year 2005 as a year of micro- credit (Annual Report- Bangladesh, 2005). Hence number of incapability peoples gathered around the Microfinance programme in developing countries to enhance their income level further more. Such initiatives made a strong leg up to spread the concept around the world within shorter time period.

However micro finance sector of Sri Lanka has shown considerable growth in last few years. Micro finance practice number of financial institutions hence the institutions expand their service to overcome the competition in the microfinance sector. But micro finance services mainly cover four key areas such as savings, credit, micro insurance and money transfers these services supported to increase living standard, enhance income, ownership of assets and level of consumption of the households. Finally these services subject to poverty alleviation of poor people. Mainly Sri Lankan microfinance projects were based on foreign borrowings and foreign loans (Source). According to the central bank report in 2015, the last year foreign loan facilitate for the microfinance projects was higher than the financial borrowing of the country. Resulting, poor people gathered around the microfinance with the intension of decreasing their poverty level and increasing their living standard.

2. Research problem

The Micro Finance Regulatory Act was tabled in the Sri Lankan parliament in 2015, allowing private sector financial institutions to take part with the government development process through financing poor needs with simple regulations. Resulting, burst of microfinance institutions established around the country within last two years with different strategies to capture the customers to overcome market competition. Prior to the Microfinance act, many institutions had pledged array of schemes to address the financial requirements of poor without any formal legal background. The act made strong platform for capable institutions with sound regulatory background. That was remarkable turning point of the micro finance history of Sri Lanka. Hence the, current study examines after financial regulatory act microfinance, the impact microfinance has on poverty alleviation of poor people at Anuradhapura District. Current study was important for the financial institutions, government, policy makers, NGO and poor people in their decision making process. Few previous studies had analyzed the impact of microfinance on poor's income in Polonnaruwa, Kegalle and Trincomalee districts therefore current study fills the existing literature gap of microfinance in Anuradhapura District identify the impact of microfinance on poor people.

3. Literature Review

3.1. Theoretical Aspect of Research

Microfinance is an important source of financing for poor, lower-income people in developing countries. (Nawaz, 2010). It commonly associates with small, working capital loans that are invested in microenterprises or income-generating activities (Craig , et al., 2006). Microfinance is more generally defined as the provision of financial services to those excluded from the formal financial system (UNCDF, 2002).

Poverty is “A condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency (Ghalib, 2007) .Sen, (1987) discloed poverty as deficiency due to a lack of resources, both material and non-material, e.g. income, housing, health, education, knowledge and culture . According to the worlbank they dicsribed Poverty as pronounced deprivation in well-being (World Bank 2011)Different countries masure their povert level in the country as same as village to establish new rules and regulations and introduce new projects to alleviation poverty.

3.2. Empirical Literature Review

D.G.P. Kaluarachchi and A.Jahfer (2014) investigated micro finance and poverty alleviation in Sri Lanka using randomly selected microfinance beneficiaries from polonnaruwa district.Attention was mainly given to identify the contribution of microfinance for the poverty alleviation. Accordingly, loan amount, repayment ability, accessibility of getting loan and interest rate were independent variables of the study and poverty alleviation was identified as dependent variable. Finding of the study indicated that microfinance initiatives of the area had significantly uplifted lives of the poor, then it leaded for the poverty alleviation among the holders in Polonnaruwa District. Jayasuriya (2007). Investigated the Impact of the Micro Finance on Poverty Alleviation in Sri Lanka by studying the impact of Samurdhi saving and credit programme for uplifting living condition of poor.The study collected data from five Samurdhi bank and 20 Samurdhi holders randomly from Kegalle district. Findings of the study indicated that Samurdhi credit scheme helps poor people to sustaining their current survives, the majority of the clients have graduated to higher loans for the development of their projects, resulting employability also could increase in the area. Further in Sri Lankan context the Microfinance and Livelihood Development in Poor Coastal Communities in Eastern Sri Lanka was examined by Thilepan & Thiruchelvam in 2011. This study investigated the effectiveness of microfinance support for coastal communities’ livelihood development in Trincomalee District. The study found that there is a significant impact of microfinance on people’s income and saving level. Accordingly 39.5% respondents could increase their income level and 14.2% could increase their private savings through micro fiancé activities.

Phouphet Kyophilavong, (2015) investigated impact microfinance on income and expenditure of the members. Findings of the study indicated that microfinance program has a positive impact on household income and expenditure but the impact is statistically insignificant. Imoisi, et al., (2014) analysed Impact on Poverty Alleviation in Nigerian context. The finding of the study indicated that there is a positive relationship microfinance and standard of living in Nigeria. Study further declared that 78% of respondents had obtained micro credits to set up their small scale businesses out of them, 67% said that they used the loan to expand their business while 24% used the loan to invest on new technology for their business and the remaining 9% of the respondents obtained loans to facilitate the export of their products. Abel, Grace, Willie (2014) investigated factors influencing poverty alleviation amongst microfinance adopting households in Zambia. Findings indicated that majority of respondents could improve their well-being through microfinance initiatives. A study done by Oguejiofor, Uzoamaka(2014) identified interest rate, small size of loans, short loan repayment cycles, and very frequent group meeting as the enabling and disabling factors that affect successful graduation of microfinance clients from microfinance programs in Philippines.

Sayed et al (2015) investigated the Impact of Microfinance on Poverty Reduction in Malaysian. The findings of this study revealed that AIM has positive impact on household income of women borrowers who spent three years in the scheme as compared to new borrowers who have not received treatment. Abdul Rahim and Abdul Rahman (2010) examined "Islamic microfinance: an ethical alternative to poverty alleviation" The paper concludes that Islamic finance has an important role to contribute for furthering socio-economic development of the poor and small entrepreneurs without charging interest. The paper further discussed ethical perspective of Islamic view and microfinance principles according to their analysis they concluded than Islamic microfinance contribute ethically for economic and financial development of the poor and micro-entrepreneurs. Further, Haneef, et al (2015) examined the integration of waqf-Islamic microfinance model for poverty reduction in Bangladesh. The study analyzed data through AMOS software and findings indicated that there are significant relationships between Is MF and takaful waqf resources; takaful human resource and project financing. The results indicate that poverty alleviation is possible through the integration of these constructs. According to the above empirical studies most of researchers examined microfinance impact on poverty alleviation through primary data, which were highly supported to identify how to microfinance programs improve poor people living standard and whether they decrease their poverty level through microfinance.

4. Methodology

The study of impact of microfinance on poverty alleviation in Anuradhapura District is qualitative type research. The study developed a conceptual framework which is presented at figure 1, for the study based on extensive literature survey. According to the framework, loan amount, repayment ability, accessibility of getting loan and interest rate were working as independent variables and poverty alleviation was treated as dependent variables of the study. Based on the framework and empirical findings presented at literature review, following four hypotheses were developed to address the research question.

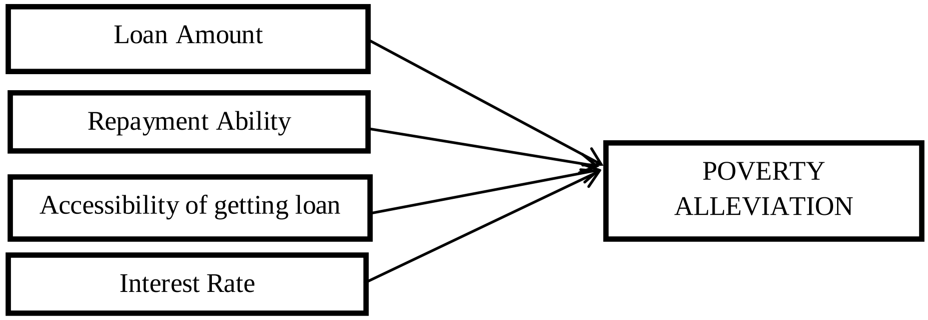

Figure 1: Conceptual Framework

H1: Loan amount has impact on poverty alleviation among micro fiancé loan holders in Anuradhapura District.

H2: Repayment ability has impact on poverty alleviation among micro fiancé loan holders in Anuradhapura District.

H3: Accessibility of getting loan has impact on poverty alleviation among micro fiancé loan holders in Anuradhapura District.

H4: Interest rate has impact on poverty alleviation among micro fiancé loan holders in Anuradhapura District.

The population of this study was all microfinance beneficiaries in Anuradhapura district in which 200 microfinance holders were selected as sample based on simple random sampling method as many previous studies had taken random sampling technique to select sample from the population such as (D.G.P.Kaluarachchi and A. Jahfer,2014; Jayasuriya, 2007; Thilepan& Thiruchelvam,2011). Data was collected through researched administered close ended structured questionnaires which consisted with two parts and 40 items. The first part of the questionnaire was used to collect data about demographic information and second part was used to collect data about independent and dependent variables on liker method. The questionnaire consist multiple questions, dichotomous questions and 'Likert Scale' questions. Likert scale questions included one to five points, one represent lowest level of satisfaction and five represent highest level of satisfaction. The questionnaires were analyzed through SPSS software and employed descriptive statistic, correlations and regression analysis according to the previous studies. (D.G.P. Kaluarachchi and A.Jahfer , 2014).

5. Data analysis and Discussion

Researcher distributed 200 questionnaires among micro finance beneficiaries however only 139 completed questionnaires could be collected for the analysis. The response rate was 69.5%. In the present study face and content validity were checked at the beginning through the literature and confirmatory factor analysis was used to meet the construct validity of the study. The estimate values of the items were greater than 0.7, and the lowest value was indicated (0.721). It indicated that an item explains more than 70% variation of its respective dimension. KMO values of all dimensions were greater than 0.5. Accordingly, both estimate and KMO values were above the standard level (Estimate 0.7 and KMO 0.5) of convergent validity of the test (Hair, 1998). Discriminant validity of the test is measured through the factor analysis, according to the test result, component extraction values of the 26 items are grouped under five identified variables however interest rate and poverty alleviation indicate a little discriminate validity problem as one item each are loaded reciprocally. Before removing the items from future analysis, reliabilities were tested. According to reliability test, the Cronbach's Alpha value of each item to variables was greater than 0.7. That indicates all respective items are internally consistent to the respective variable. Later, study tested overall reliability of variables, it also was at the accepted level.

5.1. Demographic Statistics of the Study

According to the demographic factor analysis majority of respondents are female (86%) and rest (14%) ismale respondents. It indicates that female candidate has higher intention to engage in micro finance activities than men in the North Central Province in Sri Lanka. The finding was matched with few previous studies such as D.G.P. Kaluarachchiand A.Jahfer (2014). According to them, there is a higher female participation in microfinance activities in Sri Lanka than males due to the economic condition of life. When analyzing the age structure of responders it is found that majority of respondents (68%) belong to age category of 35 to 45. However, few respondents (22%) represented below 35 age category and rest represented above 45 age category.

5.2. Descriptive Statistics of the Study

Table 1: General Descriptive Statistic

Independent Variable	Mean	Std. Error Mean	Std. Deviation
Loan Amount	3.68	0.062	0.74
Repayment Ability	3.65	0.064	0.75
Accessibility of getting loan	3.51	0.052	0.61
Interest Rate	2.86	0.052	0.61
Poverty Alleviation	3.18	0.066	0.63

The first independent variable "Loan Amount" was measured using four questions. According to the descriptive statistics, mean value of loan amount is 3.68. It indicates that respondents of the study, are agree about the loan amount they received as micro loans mainly because they have received the loan amount at once within less than one month period of time. However, respondents disagree about the loan amount they received mainly because they have been given less amount they applied.

As per the descriptive statistics, over all mean value of "Repayment ability" is 3.65. It indicates that respondents of the study agree about the loan repayment and its related services. When analyzing the concept furthermore it found that repayment regulations are much flexible than formal financing process. Resulting candidates has ability to decide his or her loan repayment schedule based upon income receivable. As well as, microfinance institutes come to customer door-spot to collect the loan installment on decided date. That makes poor more convenient to pay their installment on time without wasting time. Resulting, respondent has agreed with the loan repayment schedule and procedures.

Accessibility of getting loan is one of independent variables of the study measured using four items. According to the descriptive variable, overall mean of "Loan accessibility" is 3.51. It indicates that respondents are agree about ability of poor to access to micro loans. When analyzing the concept furthermore, it is found that people can obtain a micro loan presenting very basic documents such as loan application and copy of national identity card, as well as existing level of income is not a significant factor for applying to a micro loan. Further, respondents have highly valued supports given by institutes al the loan process. These facts may be the result of higher level of agreements about loan access process. Overall mean of loan interest rate is 2.86 which was measured through four items, indicates level of disagreement of respondents about loan interest rate. Further investigation about the variable indicates that majority of respondents had no any clear aide about loan interest rate, its calculation process, total interest amount payable. Resulting, respondent did not agree about loan interest rate of micro finance loans.

Finally study analyzed the poverty alleviation among micro loan holders through 8 items. According to the descriptive tables, overall mean of poverty alleviation is 3.18. It indicates that respondent have somewhat neutral view about level of poverty alleviation. Further investigation of the construct indicts that micro loan contribution to reduce the poverty level indicates that respondent have no clear idea about degrees of income increased, consumption expenses increased, education expenses increased, investment and property ownership increased, personal saving and lifestyle increased during the period. However, they straightforward expressed that level of income does not increased due to being microloan holder.

5.3. Correlation Analysis

Table 2: Correlation Analysis

	Loan Amount	Repayment Ability	Accessibility	Interest Rate	Poverty Alleviation
Loan Amount	**1**				
Repayment Ability	613	1			
Accessibility	.128	.318**	1		
Interest Rate	.050**	.134**	.145**	1	
Poverty Alleviation	.851**	.589**	.765**	-.503**	1

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

According to the table 02, correlation coefficient of loan amount and repayment ability, accessibility and interest rate with poverty alleviation a 0.05 percent level. As per the table, correlation coefficient of repayment ability and interest rate with poverty alleviation are statistically significant at 0.05 percent level. It indicates that loan amount, loan repayment ability and accessibility have statistically significant positive associations with the dependent variable, and however, the interest rate has statistically significant negative associations with dependent variable.

To check for multicollinearity, the study estimated the variance inflation factors (VIF) and found that they ranged from 2.190 to 1.300, which is well below the critical value of 10, the value that indicates the possibility of a multicollinearity problem (Hair, 1998). Durbin Watson statistic as per the test was 1.826 and was very close to 2, indicating the absence of a heteroscadasticity problem in the data set. The *F*-test indicates good model fit. Hence, the statistical properties are generally good and indicate that the estimation results are credible. The explanatory power of the model (R^2) is 0.31, suggesting that the model explains 31 per cent of the variance in the alleviating of poverty. The signs of the estimated coefficients are both positive and negative.

5.4. Coefficient Analysis

Table 3: Regression Coefficient Analysis

Model	Regression Coefficients	T Statistics	Sig Value
(Constant)	2.305	8.516	0.000*
Loan Amount	0.250	2.678	0.008*
Repayment Ability	0.268	2.917	0.004*
Accessibility of getting loan	0.120	1.278	0.203*
Interest Rate	-0.423	6.709	0.000*
R^2 0.316	Durbin-Watson 1.826	* Significant at .05 percent level	

According to the table 3, regression coefficient of loan amount is 0.250 and sig value is 0.008. It indicates that loan amount has statistically significant positive impact on alleviating poverty among micro fiance loan holders in Anuradhapura District. Accordingly study accepts the hypothesis one that emphasizes the significant impact of loan amount on poverty alleviation. Resulting, when increasing loan amount by one percent it will lead to increase level of poverty alleviation by .25 percent, this is because increasing loan leads poor purchasing capacity, investment ability and income generating power. Resulting poor people are able to save, invest and grow their income sources through micro loans. That will reduce the level of poverty among loan holders. As per the regression test result, regression coefficient of accessibility of getting loan is 0.120 and sig is 0.203. As loan accessibility has positive impact on poverty alleviation, it is not statistically significant at 0.05 percent level in Anuradhapura District. Resulting study do not accept hypothesis three: loan accessibility has impact on poverty alleviation. According to the regression table, regression coefficient of repayment ability is 0.268 and sig value is 0.004. It indicates that repayment ability has statistically significant positive impact on alleviating poverty among micro fiancé loan holders in Anuradhapura District. Accordingly study accepts the hypothesis two that emphasizes a significant impact of loan repayment ability has on poverty alleviation among micro fiancé loan holders. Resulting, when increasing repayment ability by one percent it will lead to increase level of poverty alleviation by .268 percent. Increasing repayment ability indicates that people have more money to repay the loans. Then people can settle their loans, save and invest more to get rid from the poverty. As per the regression table, regression coefficient of interest rate is -0.423 and sig value is 0.000. It indicates that interest rate has statistically significant negative impact on alleviating poverty among micro fiancé loan holders in Anuradhapura District. Accordingly study accepts the hypothesis four that emphasizes the significant impact of interest rate has on poverty alleviation. Resulting, when increasing interest by one percent it will lead to decrease level of poverty alleviation by .423 percent. When increasing interest rate, poor people are unable to access for microloans, that may slower level of investment and gather more unsolvable financial problem around poor. So that, higher interest rate will reduce the ability of microfinance to get rid poor from poverty.

6. Conclusion and 7. Recommendations

The purpose of the study was to examine the impact of microfinance on poverty alleviation across four independent variables naming loan amount, repayment ability, accessibility and interest rate. According to the correlation test result, loan amount, repayment ability, accessibility and interest rate have statistically significant associations with poverty alleviation among micro fiancé loan holders in Anuradhapura District. As per the regression test loan amount, repayment ability have a statistically significant positive impact on poverty alleviation among micro fiancé loan holders in Anuradhapura District, However, the impact of interest rate has on poverty alleviation is negative and statistically significant at 0.05 level. Interestingly, the impact of loan accessibility on poverty alleviation among micro fiancé loan holders in Anuradhapura District is statistically insignificant at 0.05 present level. According the study identified that microfinance has strong support to Anuradhapura area poor people to enhance their income and reduce the poverty level. The findings are similar with few past studies such as (D.P.J. Kaluarachchi, 2014;Jayasuriya, 2007; Robinson & Marguerite, 2002; Sayed, et al., 2015; Thilepan & Thiruchelvam, 2011).Based on the findings study recommends microfinance institute to increase the amount of loans to the poor in Anuradhapura area and reduce the loan interest rate as lower as possible to enhance the living standard of poor people in the area.

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