IMPACT OF MICROFINANCE ON POVERTY ALLEVIATION IN ANURADHAPURA DISTRICT

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ABSTRACT

Poverty has been recognized as a strategically important issue which contributes in achieving development targets universally besides strengthen the local government system for the overall development of the Sri Lanka. Meanwhile microfinance deemed to one of dominant concept which influenced on poverty alleviation in Sri Lanka recently. Therefore, main objective of current study is to develop a model to analyze the impact of microfinance on poverty alleviation in Anuradhapura district. Through a sound literature review; fulfillment of basic needs, living standard and self-employment have been considered as dependent variables which represents the poverty alleviation and microfinance activities treated as independent variable while age, gender and income levels considered as control variables. Self-administrated questionnaire based on five point Likert scale was used and it was able to collect data from 100 microfinance beneficiaries in Anuradhapura district according to convenient sampling method. Internal consistency of questionnaire measured from Cronbach's alpha on all variables indicated the values greater than 0.7 by implying a satisfactory level of reliability thus three models comprised on poverty alleviation showed more that 20% explanatory power of microfinance activities. The findings revealed that microfinance activities have significant impact on fulfillment of basic needs, living standard and self-employment on microfinance beneficiaries in Anuradhapura district. Therefore it can be concluded that microfinance deemed to be one of virtuous practice on poverty alleviation for rural areas in Anuradhapura District.

Keyword: - *Microfinance, Fulfillment of basic needs, Living standard, Self-employment.*

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1. INTRODUCTION

Poverty is in the sense of scarcity or the lack of a certain (variant) amount of material possessions or money. Therefore, it would be a multifaceted concept, which may include social, economic, and political elements that identified as one of major issue in the world at large. Hence many countries try to avoid poverty because it deemed to be one of most powerful barrier to achieve their development objectives. In Sri Lanka, poverty is a key issue even though as an exceptional country with life expectancy, literacy rate and social indicators than the other developing countries like India, China and Malaysia etc. Despite certain progress, it is still difficult to eradicate most of the factors causing poverty in Sri Lanka. Basically the dependency mentality that expecting everything from the government has been debilitated the level of self-esteem and discouraged optimistic attitudes for innovations as well as creativity of the nation. Poverty Headcount Ratio in Sri Lanka has significantly declined in the past years, while the spatial distribution of poverty, moderate poverty and income disparity remain as obstacles for inclusive economic development. According to the Household Income and Expenditure Survey, official poverty line showed 6.7 per cent in 2012/13 in comparison to 8.9 per cent recorded in 2009/10 and 15.2 per cent in 2006/07. As a poverty alleviation program in Sri Lanka, Sammurdhi Program plays a major role in national level under the government supervision. In spite of that Gramashakthi program which has been formed to strengthen, empower and formally organize Sri Lankan community actively towards the path to progress overcoming poverty also functioned. The program provides facilities for people to fulfill the basic needs and the growing needs individually and collectively by providing information, decision making power and resources by 2020 and contributing to reach the national sustainable development goal of eradicating extreme poverty and halving all forms of poverty by 2030 as a long term plan.

When considering the above programs by public sector, it generalized an argument of imposing effective mechanism to avoid poverty and enhance living standards of the people by financial institutions at large. The solution that they found to be is “Micro Finance”. It is not a modern concept, but it has new trends which engendered from the development of Grameen Bank concept introduced by micro finance pioneer Prof: Mohammad Yunus starting and shaping in Bangladesh. Shore Bank was the first micro finance and community development bank founded in 1974 in Chicago. Later on Iqbal.Z, Iqbal.S & Mushtaq (2015) stated that since last twenty years acceptability and demand of microfinance services are increased due to the introduction of variety of different services including micro insurance and customer oriented banking practices, services and product. Because of collateral requirement and other conditions that traditional banks usually impose, they failed to extend their service to the low income people in wide array. This difficulty have been addressed by the micro finance providers while operating model of micro finance institutions usually relies on delivery of service through a network of field office called as door-step banking. Besides with that, micro finance institutions maintain close links with their clients than the formal banks. Thus micro finance institutions play an important role on savings by improving their income, savings, health care, education, and physical asset acquisition as a way of providing uncollateralized loans to borrowers who have no constant income. In addition to that micro finance activities exhausted the functions of informal credit market while act as formal finance service provider in Sri Lanka.

According to the past studies, Iqbal.Z, Iqbal.S & Mushtaq (2015), Leikem,(2012) mainly indicated micro finance and poverty alleviation have positive relationship while Kasali, Ahamadi & Limi (2015) indicated micro finance has negligible effect on poverty alleviation. In addition to that Kumari (2016) identified poverty as a serious issue in Sri Lanka which coming under developing countries. During the period of last two-three decades worldwide micro finance institutions have operated in Sri Lanka. But there is a reasonable doubt about “whether these micro finance institutions effect on poverty alleviation in Sri Lanka”. As well as Shaw, (2004) indicated when comparing the other Asian developing countries, though micro finance loan schedule are rapidly practiced in Sri Lanka, there is no considerable research for investigating the impact of micro finance on poverty alleviation.

Consequently empirical evidences on this field reveled contradictions of findings while some studies showed positive relationship between the micro finance and poverty alleviation nevertheless some studies showed negative relationship between the micro finance and poverty alleviation. As a developing country, assessing the efficiency of micro finance practices towards the poor people in Sri Lanka would highly facilitate for the decision making needs of them as well. Therefore, it is identified that there is a question to be addressed as “Is there any impact of Microfinance on Poverty Alleviation in Anuradhapura District?” The aim of this study is to identify the impact of microfinance on poverty alleviation in Anuradhapura District. This study is mainly conducted on the areas of Anuradhapura District that few namely Kebithigollewa, Horowpothana and Eppawala which are significant in deriving rational conclusion for this study as the most appropriate places of rural areas in Sri Lanka. Hence all micro finance beneficiaries in Anuradhapura District are considered as the population of the study from which out of 125 sample space 100 respondents was qualified to the analysis due to data availability. This study would significantly identified beneficiaries of micro finance not only poor people but also people from all levels of income such as middle, lower and high level people. The low income peoples are generally neglected by formal financial institution due to their low income, inability to provide essential formal documents while rural people are highly exposed to informal financial sources. Because of that the possibility of poor people to easily access, deposit and withdraw savings, borrow loans in short period without wasting time and lack of needed document have been practiced through micro finance practices. Thus as an emerging concept within Sri Lanka, micro finance would help for economic development and it can be a society builder while confirming fulfillment of society needs. Though there are many scholars conducted studies on the impact of microfinance on poverty alleviation depend on various factors in global as well as local, there is a necessity to review the progress of micro finance activities for policy makers in public and private sector and in contrast for micro finance beneficiaries to assess whether they have uplift their fulfillment of basic needs, living standards plus with self-employment stages. The analysis was based on descriptive, correlation and regression analysis and conclusion was made on the results of correlation analysis.

2. LITREATURE REVIEW

Aheeyar, (2007) investigated that impact of micro finance on micro enterprises and poverty alleviation as a comparative analysis of Samurdhi and SEEDS micro entrepreneurs in Sri Lanka. The total sample size was 270 respondents who were from three districts namely Galle, Rathnapura and Kurunegala. Structured questionnaire survey was used to collect data and descriptive statistic and logistic regression model were used to analyze the collected data. Micro enterprise success was consider as a dependent variable and gender, marital status, education, family members, size of loan were consider as independent variable. Finally this study found that the financial grant provided for the selected Samurdhi clients was not properly implemented and equipment supplied under the grant was reported as substandard and unsuitable. Thus enterprise success rate between grant receivers and non-receivers shows no significant differences. According to the final result, it has been concluded that enterprises size and gender has no significant relationship between poor people and micro finance while customers are operating at subsistence level in a huge competitive market.

Leikem (2012) declared micro finance as an inspiring story that started by a poorest region's person to poor people who always try to out of poverty by themselves. Hussen, (2013) Indicated microfinance institution's objective is to alleviate poverty through provision of sustainable financial services to the poor people who do not have address to the financial services of other formal financial institutions. Ayuub, (2013) explained services of micro finance related to poor people who ignored by commercial banks and it help them to smooth their business work and make their own assets. Micro finance Act No.6 of 2016 described activities of Microfinance in Sri Lanka such as providing financial accommodation, financial services and accepting deposits while focusing low income persons and micro enterprises. Idowu, Abiola & Salami, (2011) indicated micro finance institutions always expected to serve small entrepreneurs whose income not beyond the minimum stage, not regular employment and between 18-60 years.

Ifelunini & Wosowei, (2012) examined the role of microfinance services on poverty reduction among women entrepreneur in South Nigeria and it was carried out Bayelsa and Delta states as case study which were randomly selected. A multistage random sampling technique was used for data collection while sample size consists with two hundred beneficiaries and two hundred non- beneficiaries of micro finance services. Propensity score matching and instruments variable methods were used to achieve the study objective. Propensity score matching techniques was used to evaluate the hypothesis of study and it is involves predicting the probability of treatment on the basis of observed covariates for both the treatment and the control group samples. The data used for the study were formed through primary sources and structured questionnaire was used to gathering information from respondents. This study carried out micro finance services as the dependent variable while the socio-economic characteristics of the women entrepreneurs were used as the independent variables such as location, education level, age, household size, nature of business. Regression analysis techniques have been used for data analysis. The study found a positive impact on the per capita expenditure of women entrepreneurs. Also places of residence as well as the size of households have negative impact on per capita expenditure while education level has positive impact on per capita expenditure. They concluded microcredit scheme has become a major plank in federal government policy for accelerated growth of the economy and micro finance program has dual intent as poverty reduction and economic growth. Thus researchers concluded as microfinance services can be promoted, more licenses can be granted to microfinance operators while government should improve the operating environment to ensure that operational costs are reduced while reduction on interest charged the customers. Moreover, the government should strengthen regulatory framework to ensure full compliance by microfinance operators on that microfinance institutions will contribute meaningfully to the fight against poverty.

Asghar (2012) investigated the impact of micro credit by Punjab Rural Support Program in the rural areas of Tehsile Gujrat through random sampling techniques with the sample space of 316 borrowers who had completely repaid all the loan installments one month before from the day of survey. Face to face interviews were conducted to collect the relevant information. Income of household is considered as dependent variable while independent variables were total borrowed amount of credit, education level and family size. Descriptive statistics and multiple linear regression models were used to analyze data. Through the descriptive results, it revealed the characteristics of the borrowers and the result of economic analysis as 1% increase in credit will bring 79% increase in the income of the borrowers, education. Multiple linear regression models showed that increase in 1 year of education will increase in 13 incomes by 26.8% of the borrowers while family size is found insignificant. The study does not detect the impact of micro financing but also gives some policy implications for the betterment of micro credit schemes. This study concluded that micro credit plays an important role in poverty alleviation while enhancing the income of the poor people and it enables the poor people to enhance and use their adequate skills in income generating activities. Finally this research concluded education has positive impact on income of the borrowers while family size has no any impact.

Ayuub (2013) experimented to measure the impact of microfinance on Bahawalpur district living standard. This study mainly indicated many developing countries like India, Sri Lanka, Pakistan and Bangladesh that are using microfinance as a tool of increasing living standard of their people. For that purpose, this study implemented an investigation to evaluate microfinance activities and living standard of Bahawalpur district people's in Pakistan. Sample was selected randomly both from male and female through currently active borrowers of loans. This descriptive research data has been collected through questionnaire and interviews from Microfinance Banks and some of their clients. The questionnaire consists of 20 items and the questions were close ended. That collected data was analyzed by using perceptual understanding and logical reasoning and also quantitative data was analyzed by using statistical technique. The findings showed that microfinance scheme help people to improve their living standard and provide them financial opportunity to expand their business and microfinance is the key strategy that leads to quick revival of economy, increase in living standards and empowerment. Finally, the researcher highlighted that there is a dearth of well-organized microfinance policies in developing counties like Pakistan, Sri Lanka and Bangladesh for economic development and all microfinance institutions adopt growth strategy while not concerning about the institution levels and customers.

In the study of Iqbal.Z, Iqbal.S & Mushtaq, (2015) examined the impact of microfinance on poverty alleviation in the view of factors that affect the poverty including to fulfillment of basic needs, living standard and self-employment. It used primary data by using structured questionnaire that comprising various aspects of micro finance and poverty alleviation. Conveyance sampling technique was used for sample selection from the customers of Khuhalli Bank Ltd, Kahaf Microfinance bank, Tameer Microfinance Bank Ltd and Akhovat Trust Bank which are basically located in Pakistan. Correlation analysis and three linear regressions model is used to determine the relationship among microfinance and variables to examine the impact of microfinance on poverty. The study found a positive impact of microfinance on poverty alleviation collaboratively significant relationship between independent variables and dependent variable including fulfillment of basic needs that leads to decrease in poverty. Finally they concluded poor people can fulfill their basic needs by using the financial services of microfinance institutions and can reduce their poverty level. Boateng.O, Boateng.A & Bampoe (2015) investigated microfinance and poverty reduction in Ghana. This study was descriptive research with case study method. Sample was selected based on purposeful sampling technique and also sample size consisted of 60 beneficiaries of microfinance products of two major micro finance institutions. Structured questionnaire was used to collect data while dependent variables have been considered fulfillment of beneficiaries' basic needs and it measured by using individual income, household growth, education, housing and participation variables. At the end the study found a positive relationship between the microfinance and dependent variables and it indicated microfinance and poverty have positive relationship and it ensure efficient of micro finance for beneficiaries. This investigation concluded that Ghana government should implements development policy frameworks to microfinance institutions and they should work together for help to poverty reduction in Ghana.

The scholars of Haneef, Amin & Muhammad (2015) observed the impact of Islamic microfinance on poverty reduction in Bangladesh. Currently Islamic micro finance institutions have been involved ethical and human capital with conventional financial institutions. This study mentioned that Islam's have been engage huge number of self-employments or small businesses. Thus Islamic micro finance institutions play central role in micro finance industry. This study has been used survey questionnaire for data collection and survey was included 381 respondents. This sample has been selected according to the non-probability techniques. Islamic micro finance activities have been consider as independent variable and also gender, marital status, age, family size, education level, years of schooling were considered as dependent variable. This study has been applied structural equation modeling and regression model for data analysis. According to the analyzed result, this study indicated micro finance and poverty alleviation have positive significant relationship and also self-employment and microfinance activities have positive significant relationship with the idea if poverty alleviation is possible through the integration of microfinance.

With the Sri Lankan perspective, Kumari (2016) investigated the impact of non-governmental microfinance program on poverty alleviation in Sri Lanka. This study is an ongoing research and its purpose is to analyze the impact of microfinance on reducing the poverty level with special reference to Sarvodaya Economic Entrepreneurships Services. Both primary and secondary data were used for this study while primary data have been collected through structured questioner and interviews from 200 beneficiaries in Kegalle district. Secondary data have been collected from annual reports, books, web sites and other relevant documents. Collected data were analyzed by using descriptive research methods. The findings reveled that relevant microfinance program impacted on creating small scale entrepreneurships and new job opportunities and also microfinance program effectively used by browsers to create new income generation project. Also that study found, microfinance services promoted to economic empowerment and it provide wide range of financial and non-financial services to grass roots level people. In

addition to that it found people's savings and investment amount had increased and microfinance institution's non-financial services were influenced to develop their soft skills and ability for economic empowering. So far observation, the research finally concluded microfinance program impacted on increasing the household income, saving, investment and consumption level while it providing different types of training programs and insurance scheme.
Kaluarachchi and Jahfer, (2016) examined micro finance and poverty alleviation in Sri Lanka by using structured questionnaire on Polonnaruwa District. Sample was consisted 300 micro finance beneficiaries while data analysis was carried through descriptive statistic and correlation analysis. Micro finance activities were used as independent variable such as loan amount, re-payment ability, accessibility for getting the loan and savings. Poverty alleviation has been considered as dependent variable which measured by using beneficiaries' income, savings and property. The findings of this study revealed that there was a significant relationship between micro finance and poverty alleviation at large.

3. METHODOLOGY

The study aims at identifying the impact of microfinance on poverty alleviation in Anuradhapura District. Accordingly 100 respondents were qualified to the sample and data were gathered through self-administrated questionnaire by having interviews with selected micro finance beneficiaries. Micro finance activities have been considered as an independent variable which comprised with group of elements such as micro finance interest rate, guarantee conditions, awareness of loan, beneficiary's satisfaction level and beneficiary's perception about micro finance institutions and dependent variable poverty alleviation have been measured by using fulfillment of basic needs, living standards and self-employment.
Hypotheses: Following the studies of Iqbal.Z, Iqbal.S & Mushtaq, (2015), Kasali, Ahamadi & Limi, (2015), Sayvaya, (2015) and many others assumed that there is a significant impact of microfinance on poverty alleviation. According to this study the hypotheses are;

H_1: There is a relationship between Microfinance and Poverty Alleviation in Anuradhapura District.
H_{1a}: There is a relationship between Microfinance and Fulfillment of Basic Needs.
H_{1b}: There is a relationship between Microfinance and Living Standards.
H_{1c}: There is a relationship between Microfinance and Self-Employment.

Data collection and Sampling: The study was mainly based on the primary data and the data were collected from 100 respondents through self-administrated questionnaire by having interviews with selected micro finance beneficiaries as the sample space which have been derived through convenience sampling technique.
Data Analysis: Following analysis tools were used to test the hypotheses of this study such as Descriptive Statistic, Correlation Coefficient and Regression Analysis. Correlation coefficient is used as the main tool to draw a better conclusion. To examine the effect of micro finance activities on poverty alleviation, it has been used three separate regression models by representing each component in dependent variable namely fulfillment of basic needs, living standards and self-employment.

4. DATA ANALYSIS

The study has been designed with the analysis tools of Descriptive Statistic, Correlation, Coefficients and Regression Analysis to test whether the created hypothesis which have been used to answer the research questions can be accepted or not. Meanwhile to measures the internal consistency of developed questionnaire based on the average inter-item correlation, reliability analysis have been conducted as follows:

Table 1 – ***Reliability Analysis***

Variable	Cronbach's alpha value
Microfinance Activities	0.840
Fulfillment of Basic Needs	0.785
Living Standards	0.816
Self-Employment	0.855

Source: Research Data

In each variable the internal consistency which measured through Cronbach's alpha value deemed to be greater than 0.7, implied that the reliability of the questionnaire was at satisfactory level.

Table 2 – ***Descriptive Analysis***

	MFA	FBN	LS	SE
Mean	3.7788	3.4181	3.5731	3.4830
Std. Deviation	.50683	.53574	.54963	.59444
Minimum	2.17	2.00	1.50	1.00
Maximum	4.75	4.60	4.80	5.00

Source: Research Data

The descriptive analysis Table 2 is showing the descriptive statistics of all the variables which consisting with the Mean, Standard Deviation and Minimum and Maximum values of the data set. The mean values of variables are indicating the average values consisting in the data set while standard deviation values imply whether those mean values are concentrated around the mean or scattered far and wide. As it pointed out, all the variables seemed to be scattered far with its mean values respectively.

Table 3 – ***Correlations***

	MFA	FBN	LS	SE
MFA	1			
FBN	.535**	1		
LS	.422**	.648**	1	
SE	.413**	.458**	.477**	1

**. Correlation is significant at the 0.01 level (2-tailed).
Source: Research Data

Table 3 shows the correlation of fulfillment of basic needs, living standards and self-employment as positive correlation and significant relationship with micro finance activities with the indication of that all considered micro finance activities in this study would highly impact on the dependent variable.

Table 4 **–** ***Model Summary of Regression Analysis***

Microfinance on Fulfillment of Basic Needs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535a	.286	.282	.45386

Microfinance on Living Standards

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.422a	.178	.173	.49977

Microfinance on Self-Employment

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.413a	.171	.166	.54287

*. Significant at 5%
Source: Research Data

The above table 4 is demonstrating the results of the multiple regression analysis which consisting the values of unstandardized coefficients, R Square and Adjusted R Square of the model for the purpose of exploring relationship between the dependent and independent variable. R represents that the correlation between the observed and predicted values of dependent variable and at R Square value it implies that the 28.6% of fulfillment of basic needs, 17.8% of living standards and 17.1% of self-employment variation can be explained by the microfinance activities which indicating the independent variables in this study respectively.

4.1 Results and Discussion

According to the findings of this study, it is found that micro finance activities were having significant impact on all three dependent variables namely fulfillment of basic needs, living standards and self-employment which have been used to measure the poverty alleviation in this study and it also covered the results of the study by Iqbal.Z, Iqbal.S & Mushtaq (2015) that examined the impact of microfinance on poverty alleviation by considering micro finance with identical variables; fulfillment of basic needs, self-employments and living standard as dependent variables. According to correlation and linear regression analysis results of 263 responses, this study found positive and significant relation between microfinance and poverty alleviation. Along with Sayvaya (2015) studied whether microfinance would be able to reduce poverty and or not by mainly focused on self-employments, living standard and income of micro finance beneficiaries. The multiple regression analysis results revealed that the microfinance has a positive impact on poverty reduction but impact is statistically insignificant.

The current study has been designed with the data from 100 that collected through self-administrated questionnaire. According to the statistical results, descriptive statistics indicate that all variables moderately agree with micro finance activities which impact on poverty alleviation since all mean values are on between 3 and 4. The correlation coefficient results showed positive and significant relationships between dependent variables and independent variables while regression model clarified R square and adjusted R square in relation with all dependent variables (FBN, SE, LS) with micro finance activities. The F statistics of ANOVA tables for dependent variables indicates the highly significant and the level of appropriateness to be used for investigating impact of micro finance on poverty alleviation in the study area. Overall, the study results showed that there is a significant relationship between micro finance and poverty alleviation in Anuradhapura District.

5. CONCLUSION

In Sri Lanka as a developing country, most of the people are middle and low income people who are extremely facing issues on poverty at day today lives. As a remedy, the concept of microfinance is blooming among rural areas in Sri Lanka to eradicate the poverty of people. Therefore, this study critically examined the impacts of microfinance on poverty alleviation in Anuradhapura District that are well served and facilitated micro finance services through micro finance institution. The study designed with Micro Finance Activities (MFA) as independent variables and poverty measure like Fulfillment of Basic Needs (FBN), Living Standards and Self- Employments (SE) as dependent variables. It basically used primary data by using questionnaire to identify the impact of micro finance on poverty alleviation in Anuradhapura District through interviews. The convenient sampling technique was applied to obtain the data from selected 125 beneficiaries in Anuradhapura District nevertheless 100 respondents were qualified to represent the sample space of this study. Descriptive Statistics, Pearson’s Correlation and Regression model are used to determine the relationship among microfinance and fulfillment of basic needs, living standards and self-employments. The study found a positive impact of microfinance on poverty alleviation as the significant relationship between independent variable microfinance and dependent variable including Fulfillment of Basic Needs (FBN), Living Standard (LS) and Self-Employments (SE). According to the findings of this study it can be concluded there is a significant relationship between microfinance and poverty alleviation in Anuradhapura District while concluding that microfinance can be used as a mechanism to eliminate the poverty in rural areas like Anuradhapura at large.

As a one of blooming concept in financial market, there are some recommendations that put forward to improve the operations of micro finance institutions by way of most micro finance institutions are having outstanding balances due for longer time. It can have a proper mechanism to monitor the usage of micro finance by people. Meanwhile microfinance institutions should enhance their management capacity and bring effort to reach the needy people in order to eradicate poverty and promote the welfare of the society. Therefore, more studies on this field are required in future with these changes and with new perspectives as well.

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