

THE IMPACT OF MICROFINANCE ON DEVELOPMENT OF SMALL BUSINESS VENTURE BENEFICIARIES IN MANNAR DISTRICT

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ABSTRACT

This study basically attempts to analyze the impact of microfinance on development of small business venture beneficiaries in Mannar District. The study is also meant to obtain insights regarding factors developing small business venture beneficiaries through microfinance services and which factors influences most and what extent effect on economic, social and psychological development.

A total of 100 copies of questionnaires were administered to selected small business venture owners who joined with microfinance in Mannar District. This study made use of descriptive statistics such as frequencies, means and standard deviation to measure the impact of microfinance on small business venture beneficiaries.

The results indicate that there is a significant positive shift of all indicators of small business venture beneficiaries' development in Mannar District after joining in microfinance. According to findings of this research the overall small business venture beneficiaries' development has increased by 45.57% after joining in microfinance. Briefly, microfinance seems to be unique action oriented development strategy to tap the gesture for the upliftment in economic social and psychological point of view.

The findings of the study are likely to be important to microfinance institutions, govt. and NGOs in designing policy to develop small business owners economically, socially and psychologically. This study makes the valuable contribution by providing a base to the microfinance institutions for strengthening and expanding their support to small business owners.

INTRODUCTION

The experience has been disclosing that, the formal industrial sector and the state governments have failed to create sufficient jobs for existing labour force. Consequently, the people increasingly rely on informal activities including self-employment and micro and small-scale enterprises (Aheeyar, 2007). In spite of small and medium enterprises large contribution in countries' development and economic growth, their growth and development in developing countries were mainly inhibited by access of finance, poor managerial skills, and lack of training opportunities and high cost of inputs (Cook & Nixson, 2000). According to Prasansha Kumari (2014) an entrepreneur is defined as one who assumes the financial risk of the initiation, operation and management of a business or undertaking. The

SMEs requires investment in working capital at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans can help the poor to accumulate capital and investment in employment generating activities including small and medium enterprises (Momba, 2013).

According to Yunus (1999), self-employment which leads to microenterprises activities may be the only solution for poor people to realize their potentials and it will not only increase their economic security but also their social status. Therefore, any assistance given to microenterprises to overcome challenges faced by them would lead to create more successful enterprises. Microcredit has been identified as one of the most important factors in the growth and expansion of small and medium enterprises. It is believed that micro finance services including microcredit, saving, insurance, leasing, payment services, training and fund transfers to improves income levels, business expansion, competitiveness, increase sales volume and thereby more profits towards development of enterprises (Alhassan *et al.*, 2016).

In Mannar District, the people increasingly depend on informal activities including self-employment and micro and small-scale enterprises. As aforementioned, entrepreneurs who have been experiencing with lack of capital in order invest in and expand their small and medium enterprises as well. In this scenario, Micro finance institutions namely SEEDS, LOLC Micro Credit Company Ltd, Commercial Credit & Finance Ltd, HNB Grameen Finance Ltd, AFC Micro Finance, Vision Fund Lanka, Bimputh Finance PLC, LB Finance PLC, Nation Lanka Finance PLC, Sarvodaya Development Finance Ltd, Commercial Leasing & Finance PLC, People's Leasing & Finance PLC, Allianz have been increasing their financial services in Mannar district. Consequently, an increasing number of the small and medium entrepreneurs receive financial services including credit from those microfinance institutions. Despite, entrepreneurs access credit from microfinance institutions, it raises the suspicion that expansion of credit is enable them to obtain development corresponding to economic, social and psychological in Mannar District. Therefore, this study is conducted to identify impact of microfinance on the development of small business venture beneficiaries in Mannar District.

CONCEPTUAL FRAMEWORK

Independent variable

Dependent Variable



RESEARCH METHODOLOGY

This research concerned with descriptive statics because it is undertaken in order to describe and understand the impact of microfinance on development of small business venture beneficiaries economically, socially and psychologically. The microfinance is known as the independent variable and development of business venture beneficiaries is identified as dependent variable of the study. Small business venture beneficiary’s development has categorized as economic development, social development and psychological development.

The variable in the research model (social development and psychological development) have been measured through questionnaire with five point Likert scale and the characteristic of small business ventures and economic

development are measured by the nominal scales which have been completed by the respondents themselves appropriately as they perceived respondent to each and every questions.

Decision Criteria for Univariate Analysis

Range	Decision attributes
$1 \leq X_i \leq 2.5$	Low level
$2.5 \leq X_i \leq 3.5$	Moderate level
$3.5 \leq X_i \leq 5.0$	High level

RESULTS AND DISCUSSION OF FINDINGS

Cronbach's Alpha Coefficients

The inter item consistency reliability has been examined with Cronbach's Alpha test. The results of Cronbach's alpha test are given in the table, which suggest that the internal reliability of each instrument is satisfactory.

Instruments		Cronbach's Alpha	No. of statements
Small business venture beneficiaries development	Before	0.917	25
	After	0.825	25
Economic development	Before	0.829	6
	After	0.856	6
Social development	Before	0.873	10
	After	0.727	10
Psychological development	Before	0.837	9
	After	0.615	9

Age Level

Years	Frequency	Percent
Up to 25	5	5%
26-35	24	24%
36-45	53	53%
46-55	18	18%
Total	100	100%

The age of the respondents has been grouped into four levels ranging as up to 25, 26-35, 36-45 and above 46 years. As the table indicate, among the sample 5 respondents in the below 25 age and they represent 5% of research sample. 24 respondents are in the 26-35 age group. 53 respondents (53%) are 36-45 age group and highly involved. Rest of 18 respondents was in the above 46 age group.

Marital status

Marital status	Frequency	Percent
Unmarried	8	8%
Married	82	82%
Widower/Widow	10	10%
Total	100	100%

As the table shows, the majority of the respondents of small business venture beneficiaries who joined with microfinance are married, which is 82% and 8% of the respondents are unmarried and rest of 10% of the respondents are widower/widow.

Educational Level

Education Level	Frequency	Percentage
Non educated	3	3%
Primary (1-5)	8	8%
Secondary (6-11)	27	27%
Higher Secondary (12-13)	53	53%
Post Higher Secondary (>13)	9	9%
Total	100	100%

Distribution of respondents by level of education also revealed that 3% of them had no education, 8% of the members had primary school education (class 1-5), 27% of the members had secondary education (class 6-11), followed by 53% had higher secondary education (class 12-13), and 9% had post higher secondary education example for graduate, diploma, or followed other professional courses. The finding shows us the majority of the small business venture beneficiaries who joined with microfinance are at secondary and higher secondary education level. And also non educated small business venture beneficiaries have poor connection with microfinance.

Type of small business

Type of small business	Frequencies	Percentage
Retailing	36	36%
Agriculture	17	17%
Poultry farming	14	14%
Sewing	15	15%
Other services	18	18%
Total	100	100%

Among the sample, retailing is majority, it includes 36 respondents and they represent 36% of selected sample. 17 respondents are involved in agriculture and it represent 17% of the sample. Poultry farming, sewing and other services are 14, 15, 18 respondents respectively.

The finding shows, most of the venture beneficiaries deal with microfinance are involved in retailing and others involved in agriculture, poultry farming, sewing and other services approximately in a same level.

Family size

Members	Frequency	Percent
1	2	2%
2-3	47	47%
4-5	34	34%
>5	17	17%
Total	100	100%

In selected sample 2 respondents are live alone in their household and it is 2% of total sample. 47 respondents have families with 2 or 3 members and it is 47% and they are the majority of this research sample. 34 respondents have families with 4 or 5 members and it is 34%. Rest of the 17 respondents have big families with more than five members. 51 respondents of 100 sample have above 4 members' families. It is 51% of the total sample.

Annual Income

Income	Before		After	
	Frequency	Percent	Frequency	Percent
Low income (<25000/annum)	62	62%	9	9%
Medium (25000-50000/annum)	27	27%	58	58%
High income (>50000/annum)	11	11%	33	33%

		Annual Income After joining Micro finance			Total
Annual Income Before joining Microfinance		Low income	Medium income	High income	
	Low income	9	44	9	62
	Medium income	0	14	13	27
	High income	0	0	11	11
Total		9	58	33	100

The tables revealed that before joining microfinance 62 respondents belonged to low income group which was reduced to 9 after joining in microfinance. 44 respondents have shifted to medium level from low level and 9 respondents to high level from low level. 27 respondents belong to medium income level before joining in microfinance which was increased to 58 respondents after joining in microfinance. 13 respondents have shifted from medium level income to high level income after joining in microfinance. High level income earners have increased from 11 to 33 after joining in microfinance.

Employment

Employment	Before		After	
	Frequency	Percent	Frequency	Percent
Low (< 75 man days/year)	56	56%	11	11%
Medium (75 - 133 man days /year)	31	31%	53	53%
High (> 133man days/year)	13	13%	36	36%

		Annual Employment After joining Micro finance			Total
		Low	Medium	High	
Annual Employment Before joining Microfinance	Low	11	40	5	56
	Medium	0	13	18	31
	High	0	0	13	13
Total		11	53	36	100

In case of employment, the Tables revealed that members belonged to the high employment category (>133 man days/year) after joining the microfinance had increased from 13% to 36%. Members under the medium employment category

(75 to 133 man days/year) were increased from 31% to 53%, while member under lower employment category decreased from 56% to 11%. Majority of the members (89%) fell under the high and medium employment category after joining the microfinance. The table 5.10 cross tabulation shows the movement of respondents. So we can see 40 respondents were at low level has shifted to medium level and 5 respondents shifted to high level. 18 respondents were at medium level has shifted to high level after joining microfinance.

The reason might be the easy to access to credit provided the opportunities for undertaking income generating activities by the respondents. This could have resulted in the increase in the employment opportunities at the small business level. Therefore, microfinance institutions have assisted the members to generate more employment by availing of microfinance.

Productive Investment

Investment (Rs)	Before		After	
	Frequency	Percent	Frequency	Percent
Low (< 10000/year)	58	58%	11	11%
Medium (10000 - 20000 /year)	35	35%	51	51%
High (> 20000/year)	7	7%	38	38%

		Productive Investment After joining Micro finance			Total
Productive Investment Before joining Microfinance		Low	Medium	High	
	Low	11	38	9	58
	Medium	0	13	22	35
	High	0	0	7	7
Total		11	51	38	100

It was observed from the Tables that 7% of the members who were in high category before joining microfinance had increased sharply to 38% after joining the microfinance. 35% of the members who were in medium category before joining microfinance had increased to 51% after joining the microfinance. And there was a sharp decrease from 58% of the members in low category before joining the microfinance to 11% after joining microfinance.

The table 5.12 Cross tabulation shows 38 respondents were at low category has shifted to medium category and 9 respondents were shifted to high level category. Twenty-two respondents who were at medium category has shifted to high level category after joining microfinance.

The positive change in the investment was observed. The reason is because after joining microfinance the members had started income generating activities as they got opportunity through microfinance institutions to avail loan and to invest in income generating activities. The increased investment triggered the recycling of fund in productive form.

Consumption pattern

Consumption (Rs)	Before		After	
	Frequency	Percent	Frequency	Percent
Low (< 15000/year)	59	59%	16	16%
Medium (15000 - 30000 /year)	31	31%	43	43%
High (> 30000/year)	10	10%	41	41%

		Consumption pattern After joining Micro finance			Total
Consumption pattern Before joining Microfinance		Low	Medium	High	
	Low	16	36	7	59
	Medium	0	7	24	31
	High	0	0	10	10
Total		16	43	41	100

The tables exhibit that 59% respondents who were under low consumption category before joining microfinance had decrease to 16% after joining micro finance. And the members in medium consumption category increased from 31% to 43% and high consumption category also increased from 10% to 41% after joining microfinance. The table 5.14 cross tabulation shows 36 respondents were at low level at before joining microfinance has shifted to medium level and 7 respondents has shifted to high level. 24 respondents who were at medium level has shifted to high level after joining microfinance. The participation of small business venture beneficiaries in microfinance activities had

significantly contributed to the increase in their income and thereby raised their level of living and one of the important indicator of the level of living has been the consumption expenditure.

Savings

Savings (Rs.)	Before		After	
	Frequency	Percent	Frequency	Percent
Low (< 5000/year)	56	56%	11	11%
Medium (5000 - 10000 /year)	30	30%	35	35%
High (> 10000/year)	14	14%	54	54%

		Savings After joining Micro finance			Total
		Low	Medium	High	
Savings Before joining Microfinance	Low	11	32	13	56
	Medium	0	3	27	30
	High	0	0	14	14
Total		11	35	54	100

The tables showed that members in the high saving category had increased from 14% before joining microfinance to 54% after joining microfinance. The members in the medium level category had increased from 30% before joining to 35% after joining microfinance. The members in the low level category had decreased from 56% before joining microfinance to 11% after joining microfinance. The table 5.16 cross tabulation showed that 32 respondents were at low level has shifted to medium level and 13 respondents has shifted to high level. 27 respondents were at medium level has shifted to high level after joining in microfinance.

Assets ownership

Assets ownership (Rs.)	Before		After	
	Frequency	Percent	Frequency	Percent
Low (< 4000/year)	47	47%	10	10%
Medium (4000 - 10000 /year)	42	42%	49	49%
High (> 10000/year)	11	11%	41	41%

		Assets ownership After joining Micro finance			Total
		Low	Medium	High	
Assets ownership Before joining Microfinance	Low	10	34	3	47
	Medium	0	15	27	42

	High	0	0	11	11
Total		10	49	41	100

The tables showed that 47% of the members who were in the low assets category before joining microfinance had reduced to 10% after joining the microfinance. The members in the medium category had increased from 42% to 49% and high assets category has increased from 11% to 41% after joining the microfinance. The table 5.18 has showed 34 respondents were at low level before joining in microfinance has shifted to medium level and 3 respondents shifted to high level. 27 respondents were at medium level has shifted to high level after joining in microfinance. Before joining microfinance, they did not have opportunities to save money or either earn an additional income which kept their assets position low. But after joining microfinance they had opportunity to save, get additional income and through the saving and profit obtained they could afford to purchase some consumer durables, live stocks and small business assets.

Analysis of Social Development

Indicators	Before			After			G.R
	Mean	S.D	D.A	Mean	S.D	D.A	
Leadership qualities	2.54	.881	Moderate Level	3.99	.595	High Level	57.08%
Communication abilities	2.70	.772	Moderate Level	4.26	.676	High Level	57.77%
Leisure time use profitability	2.50	1.01	Low Level	3.70	.798	High Level	48%
Awareness to government policies	2.43	.956	Low Level	3.68	1.03	High Level	51.44%
Involvement in social issues	2.55	.978	Moderate Level	3.75	.783	High Level	47.05%
Role in decision making	2.78	.917	Moderate Level	4.21	.756	High Level	51.43%
Treatments of family	2.96	.887	Moderate Level	4.38	.663	High Level	47.97%
Participation of democratic institution	2.57	1.00	Moderate Level	3.54	.968	High Level	37.74%
Freedom to express	2.83	.911	Moderate Level	3.90	.823	High Level	37.80%
Independent movement	2.54	.744	Moderate Level	3.79	.537	High Level	49.21%
Overall social development	2.64	.621	Moderate Level	3.92	.418	High Level	48.48%

*S. D = Standard Deviation *G. R = Gaining Rate *D. A = Decision Attribute

This table shows that the participation of democratic institution has increased by 37.74% after joining in microfinance and freedom to express has increased by 37.80% after joining in microfinance. Those are the low contribution indicators to increase social development. Involvement in social issues, treatments of family, leisure time use profitability, independent movement have increased sharply by 47.05%, 47.97%, 48%, and 49.21%

respectively. Those are the moderate contribution indicators to increase social development. Rest of the indicators has increase highly as role in decision making by 51.43%, awareness to government policies by 51.44%, leadership qualities by 57.08% and communication abilities by 57.77%. Finally, this research has proved that leadership qualities and communication abilities of small business venture beneficiaries have grown more than other indicators of social development.

Psychological Development

Indicators	Before			After			G.R
	Mean	S.D	D.A	Mean	S.D	D.A	
Improvement in courage	2.84	.788	Moderate Level	3.83	.739	High Level	34.85%
Improvement in Self confidence	2.76	.793	Moderate Level	4.23	.664	High Level	53.26%
Improvement in Self worthiness	2.97	.784	Moderate Level	4.36	.644	High Level	46.80%
Improvement in Literacy level	2.88	.832	Moderate Level	3.60	.921	High Level	25%
Awareness on health and sanitation	2.94	.874	Moderate Level	4.11	.680	High Level	39.79%
Awareness on Children's education	2.91	.866	Moderate Level	4.27	.790	High Level	46.73%
Awareness on Food and Nutrition	2.87	.774	Moderate Level	4.09	.653	High Level	42.50%
Awareness about the Environment	2.88	.913	Moderate Level	4.25	.672	High Level	47.56%
Awareness about peace in family	3.07	1.00	Moderate Level	4.42	.699	High Level	43.97%
Overall psychological development	2.90	.560	Moderate Level	4.12	.357	High Level	42.06%

The table gives a picture of the impact of microfinance on the psychological development of the small business venture beneficiaries. The overall psychological development mean was 2.90 before joining in microfinance and it has increased to 4.12 after joining in microfinance. It has increased from moderate level to high level by 42.06%. The gaining rates of mean shows the contribution of indicators to increase overall psychological development.

This table shows that the improvement in literacy level, improvement in courage and awareness on health and sanitation has increased by 25%, 34.5% and 39.79% respectively after joining in microfinance. Those are the low contribution indicators to increase psychological development. Awareness on children's education, improvement in self worthiness, awareness about the environment and improvement in self confidence has increased by 46.73%, 46.80%, 47.56% and 53.26% respectively. Those are the high contribution indicators to increase psychological development. Rest of other indicators has increased moderately as awareness on food and nutrition by 42.50%, awareness about peace in family by 43.97%. Finally, this research has shown the awareness about the environment and improvement in self confidence contributed more to increase overall psychological development by 42.06%.

Conclusion

Descriptive statistics methods were formulated in order to come up with findings related to the research problem. The study was conducted with hundred small business venture beneficiaries who are involve with microfinance in Mannar District. Frequency analysis was used to understand the sample demographic factors and descriptive

statistics were used to investigate the development (economic, social and psychological) of small business venture beneficiaries who joined with microfinance.

This research study revealed that most of the small business owners joined with microfinance are retailers and they had at least high secondary education. And the majority of them have joined with microfinance at their maturity age level and most of them have families with above two members.

This study revealed a significant positive change in the economic variable in the areas of income, employment generation, productive investment, consumption, savings, assets building, which led the economic development of small business venture beneficiaries. There was a significant percentage change in social development after joining in microfinance. The percentage change was 48.48%. The psychological development of the small business owners also showed significant change which was 42.06%.

Finally, this research study shows, as a results of participation in microfinance through the microfinance programs there is observed a significant improvement of all the indicators of development of small business venture beneficiaries. It is recommended that the microfinance institutions may be granted legal status to enhance the performance.

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