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Impact of Micro Finance on Living Standard With Reference to Microfinance Holders in Kurunegala District

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Abstract: This research was conducted to investigate the impact of microfinance on living standard of poor in Kurunegala District, Sri Lanka touching three main fillers of microfinance as Micro credit, Advisory services and Micro saving. All micro loan holders in the District were population of the study in which 152 respondents were selected as sample on random sampling method. Data were collected through research administrated questionnaires and analyzed using SPSS package. The result of this study indicated statistically significant associations between micro credit, advisory support, saving and living standard of poor people.Similarly, regression result also indicated significant impacts of micro loan, advisory support and micro saving on living standard of the poor in the area. Based on the findings study recommends micro finance institutions to provide more micro loan options with advisory support about management of loan, start business, prepare business plan, identify customer requirement through continuous training program to enhance living standard and entrepreneurial skills of the poor people. Further, study recommends microfinance institutes to attract poor around companies proving attractive saving options to enhance standard of living of poor in the area.
Key Words: Micro Finance, Living Standard, Micro Credit, Saving, Advisory Support.

I. 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. Resulting United Nations Organization (UNO) declared the millennium development goals, aimed to eradicate the poverty by 2015 (Barr, Michael S, 2005).Microfinance is identified and emerged as a noble substitute for informal creditand a powerful instrument for poverty reduction among people, who are economically active but financially constrained and vulnerable in various countries (Mittal & Srivastava, 2014). More than 80 percent of poor households in many developing countries do not have access to institutional banking services mainly due to lack of collateral and a fixed income source (Olusanya & Oyebo, 2012). Microfinance institutions have shown a significant contribution towards the poor in rural, semi urban or urban areas for enabling them to raise their income level and living standards in various countries especially developing countries like India, Bangladesh and Sri Lanka (Mittal & Srivastava, 2014).Microfinance is a good tool to fill the existing gap of conventional banks' limitations in reaching the poor and the vulnerable non-poor with banking services (Chirkos, 2014) because through the microfinance the poor are able to access financial services such as credit, savings and micro insurance, which previously were exclusively available to the upper-income population, which help them to enhance the living standard (Chirkos, 2014).Rural people needs support from a third party especially about finance, in making their life successful otherwise they would be subject to exploitation in the credit market through high interest rates with rigid conditions, because people need credit to finance their working capital on a day-to-day basis as well as a long term basic.

Currently, in Sri Lanka, Co-operative Rural Banks, Regional Development Banks, financial Non-Government Organizations are active in finance sector and nearly 14,000 financial institutions in the country directly or indirectly provide microcredit products (Kongovi & Sinha, 2015). In 2015, the Central Bank further continued to engage in activities promoting access to finance with a view to enhancing financial inclusiveness and balanced growth in the economy(Central Bank of Sri Lanka, 2015). In this process, 13 credit schemes were operated through Participating Financial Institutions (PFIs) to provide credits for needy business ventures and people in the Agriculture, Livestock and Micro, Small and Medium scale enterprises (MSMEs) sectors. Resulting central bank disbursed Rs. 2134.8 million for microfinance sector (Central Bank of Sri Lanka, 2015). Further in 2015, Sri Lankan government tabled the Micro Finance Regulatory Act in the parliament, allowing private sector financial institutions to take part with the government development process through financing poor needs with simple regulations. With this formal background microfinance institutes pledge array of schemes to address the financial requirements of poor to enhance the standard of living eradiation chronic poverty of the country. Hence, the study examine extend to which these microfinance initiatives of Sri Lanka lead to enhance the living standard of poor people.

II. Review of the Literature

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor (Barr, Michael S, 2005). People think of microfinance as lending small amounts of money to the poor. It is not only that, but it has a broader perspective which includes insurance, transactional services, and importantly, savings. Schreiner and Colombet (2001) identified microfinance as an attempt to improve access of poor who are neglected by banks, to small deposits and small loans. Accordingly microfinance is a provision of financial products targeted at low-income groups. These financial services include normally credit, savings and insurance products (Kirkpatrik et al 2002). Microfinance is the provision of a broad range of financial services, including savings and loans, insurance, leasing and money transfer, to low-income microenterprises and households (Cornford 2002). Accordingly, microfinance stands on three strong fillers such as Micro credit, Micro saving and Micro insurance in providing services to the poor.

Microcredit is more narrowly focused one filler which facilitates credit services to low-income clients, usually for microenterprises (Barr & Michael S, 2005). Microcredit is characterized by short loan durations, small loan sizes, strict supervision and direct or indirect client screening to reduce default risks. Micro savings alsohas recently been recognized as a major filler in microfinance which train poor people to save money for minimizing future financial hardness. Microenterprise plays a significant role for foster savings among the poor populations, with would ultimately benefit both for the savings and for the programs (Khan & Rahaman, 2007). Domestic Savings provide the assets for the economy's investmentin future production, without savings, the economy cannot grow unless there are alternative sources of investment(Barr & Michael S, 2005).Resulting, the importance of savings and its mobilization have been highlighted in last few years in microfinance literatures. Not only micro saving but also micro consultancy plays determinant role in enhancing standard of living of poor. Khan & Rahaman, (2007) opined that microfinance interventions promote living condition of poor people by offering supportive service which is important as similar as micro credit and saving. These supportive services are important indicators of the human development too. Micro consultancy can be considered as an important tool of poverty alleviation strategy (Chirkos, 2014). Because it makes microloan holders aware about smooth consumption, better manage their risks, gradually build their assets, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

Khan & Rahaman, (2007) investigated impact of microfinance on living standards, empowerment and poverty alleviation of poor people in the Bangladesh. From analysis of data, the study found that microfinance has a positive impact on the standard of living of the poor people and on their life style. Study further indicated that microfinance has not only helped the poor people to come over the poverty line, but has also helped them to empower themselvesin the Bangladesh. The impacts of microfinance institutions on eradication of poverty in Meru South Sub County were examined by Makunyi & Rotich, (2017). The target population for this study comprised of all beneficiary households of MFIs in Meru South Sub County and sample was 30% of the target population. Findings of the study highlighted microfinance institutions as a very strong tool in poverty alleviation process at household level. In this process micro credit empowers the poor, enables them to cope with and overcome many of problems that they face. Further, microfinance loans were found to have led to establishment and expansion of businesses, acquisition of shelter, education, access to health care and opening up of opportunities for the poor to improve their living standarddowu & Salami, (2011)also examined impact of microfinance bank has on standard of living of hairdressers in Oyo State. A total of 49 hairdressers who registered with Ogbomoso North LGA were used as study sample. The findings of the study indicated that there is a significant relationship between Microfinance bank efforts and standard of living of hairdressers in Ogbomoso North LGA. Similarly a positive impact of microfinance on living standard was found in Nigerian context by Imoisi, et al., (2014). According to findings of Sayed et al (2015) microfinance reduces level of poverty in Malaysia.

Abel, Grace, Willie (2014) investigated factors influencing poverty alleviation amongst microfinance adopting households in Zambia. Findings specified 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 factors that affect successful graduation of microfinance clients from microfinance programs in Philippines.A study was conducted by Teng, et al., (2011) also investigate impact of micro-credit has on local household economics in PrekNorin Commune. The result of this study revealed that those using micro-credit have better living standards than before because of income and asset growth. In addition, using micro-credit also creates more job opportunities and variety of economic activities, provides more jobs for women, and improves household education, women's status, and family welfare. Further, it reduces income inequality in the villages. However, micro-credit has negative impacts on people's feeling because most people are more concerned about paying back the loan.

D.G.P. Kaluarachchi and A.Jahfer (2014) investigated micro finance and poverty alleviation in Sri Lanka using selected microfinance beneficiaries from PolonnaruwaDistrict. 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 identified as significant factors that lead to reduce poverty among people. Finding further indicated that microfinance initiatives of the area had significantly uplifted lives of the poor. Jayasuriya (2007) investigated the impact of microfinance on poverty alleviation in Sri Lanka through the impact of Samurdhi saving and credit programme for uplifting living condition of the poor. The study collected data from five Samurdhi bank and 20 Samurdhi holders randomly from KegalleDistrict. Findings of the study indicated that Samurdhi credit scheme helps poor people to sustaining their current survives. 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.

III. Material and Methodology

The study of impact of microfinance on improving living standard of microfinance holders in Kurunegala District is qualitative type research. According to the developed conceptual framework, micro credit, advisory support and macro saving were working as independent variables and living standard was treated as dependent variables of the study. Based on the framework and empirical findings presented at literature review, following three directional hypotheses were developed to address the research question.

H1: Micro credit has an impact on enhancing living standard of microfinance beneficiaries in Kurunegala District.

H2: Advisory support has an impact on enhancing living standard of microfinance beneficiaries in Kurunegala District.

H3: Micro saving has an impact on enhancing living standard of microfinance beneficiaries in Kurunegala District.

The population of the study was all microfinance beneficiaries in Kurunegala district in which 152 microfinance holders were selected as sample based on simple random sampling method as many previous studies done. Data was collected through researched administered close ended questionnaires which consisted with two parts and 19 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. The questionnaire consists multiple questions, dichotomous questions and 'Likert Scale' questions. Likert scale questions included one to five points. One represents lowest level and five represents highest level. The questionnaires were analyzed through SPSS software and employed descriptive, correlations and regression analysis to derive accurate findings.

IV. Result and Discussion

Researcher distributed 170 questionnaires among micro finance beneficiaries to collect 152 completed questionnaires for the analysis. Study checked face and content validity of the questionnaire at the beginning through the literaturesurvey. In data analysis process a confirmatory factor analysis is used to ensure the construct validity of the test. According to the confirmatory factor analysis, estimates of items were greater than 0.7. It indicated that an item explains more than 70% variation ofthe 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 (Hair, 1998). Other hand, discriminant validity of the study is also ensured through the confirmatory factor analysis, according to thefactor table presented at table 1, component extraction values of the 19 items are grouped under four identified variables. It evident the discriminant validity of the test.

Table 1: Discriminant validity

Items	Components			
	1	**2**	**3**	**4**
Received applied amount				.512
Received within short period				.526
Low interest rate				.832
Used less document				.824
No collateral				.711
Advised to use loan effectively	.844			
Advisory and consultancy services	.749			
Advised manage loan activates	.719			
Saving amount		.918		
Interest rate		.921		
Any time withdraw		.858		
Saving based loan		.735		
Convenient to save		.803		
Increase in income			.803	
Increase of self esteem			.852	
Increase property ownership			.916	
Increase consumption			.926	
Reduce dependency on other parties			.749	
Develop entrepreneur skills			.817	
Extraction Method: Principal Component Analysis / Rotation Method: Varimax with Kaiser Normalization.				

Finally, to check the reliability of the result, Cronbach Alpha test was conducted. 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 variables.

Table 2: Descriptive Statistics Table

Factors	**Percentage**
Gender	**100%**
Male	28.2%
Female	71.8%
Education Level	**100%**
Below Ordinary Level	26.9%
Up to Advanced Level	67.1%
Above Advanced Level	6.0%
Main Income Source	**100%**
Agriculture	70.4%
Business	18.0%
Other	11.6%

As per the descriptive statistics presented at table 02, majority ofrespondents are female (71.8%) and rest (28.2%) ismale. It indicates that female candidate has higher intention to engage in micro finance activities than men in the Kurunegala District. 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. When analyzing the education structure of the respondents, it is found that majority of respondents (67.1%)had studied up to Advanced Level. Only 6.0% respondents had engaged in any kind of higher studies and rest 26.6% had not studied up to Ordinary Level. It is interesting to highlight here that majority of microfinance holders engaging agricultural activities as their main occupation. It is about 70.4% of total sample. Further, 18% of sample engage in business activities and others earn money from different sources.

V. Descriptive Statistics of the Study

Table 3: General Descriptive Statistic

Independent Variable	Mean	Std. Deviation
Micro Credit	3.98	0.74
Advisory Support	3.65	0.75
Micro Saving	3.81	0.61
Living standard	3.36	0.61

The first independent variable "Micro Credit"was measured using five items. According to the descriptive statistics, mean value of micro credit is 3.98. It indicates that respondents of the study, agreed about the micro credit facilities provided by institutes. When analyzing the construct in detail, it was found that respondent were able to get the loan at once within two weeks period of time from applied date using simple documents such as loan application and photocopy of national identity card, without getting a government employee's as a collateral. However, respondents disagree about the loan amount they received and interest rate because majority has been approved less amount than they applied,under comparatively high interest rate than market.In India, it has been observed in various states especially in Andhra Pradesh where the MFIs using unhealthy practice and charging higher rates of interests in the various microfinance schemes(Mittal & Srivastava, 2014).

As per the descriptive statistics, overall mean value of "Advisory Support" is 3.65. It indicates that respondents of the study agreed about advisory support given to the respondents by institutes. When analyzing the concept furthermore it is found that microfinance institutes provide better advises to loan holders about way of utilizing money effectively among essential needs. Further institutes is always ready to advise loan holders about preparing business plan, financial statements, marker identification and basic business process. In addition to that peoples are acknowledged about scheduling their loan period, repayment date, amount and process. Resulting a candidate has ability to decide his or her loan repayment schedule based on income receivable. Resulting, respondent has agreed with the advisory services provide by the institutes.

Micro saving the final independent variable of the study is measured using fiveitems. According to the descriptive statistics, overall mean of "Micro Saving" is 3.81. It indicates that respondents agree about saving facilities of microfinance institutes. Microfinance institutes maintain two types of saving as compulsory and non-compulsory. Being a loan holder, candidate is required to save a compulsory amount every month in a personal saving account sideline to loan account is called compulsory saving. In addition to that, respondents has ability to save money in a fixed or normal saving account. Further, candidates are granted authority to withdraw money from saving accounts at any time, and to apply for a loan keeping saving as a collateral.Moreover, relatively higher interest rate is paid for the saving. Further, daily collection, weekly collection saving habits train people to save without a hard berating.As per the descriptive statistics, overall living standard of respondents is 3.36. It indicates that respondents somewhat happy about current standard of living. Many respondents have mentioned that their level of income, property ownership, entrepreneur skills, and even consumption have increased after joining with a microfinance institutes. In addition to that, microloans significantly lower external financial dependency of the respondents.

VI. Correlation Analysis

Table 4: Correlation Analysis

Variables	Micro credit	Advisory Support	Saving
Micro Credit	**1**		
Advisory Support	.327*	1	
Micro Saving	.128*	.213**	1
Living Standard	.415*	.397*	.428*

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

According to the table 04, correlation coefficient of micro credit, advisory support and micro saving were .415, .397 and .428 respectively and all were statistically significant at 0.05 percent level. Accordingly,micro credit, advisory support and micro saving have statistically significant associations with standard of living of microfinance beneficiaries in Kurunegala District.

To check for multicollinearity, the study estimated the variance inflation factors (VIF) and found that they ranged from 3.230 to 1.698, 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 1.871 and 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 0.28, suggesting that the model explains 28% of variance of standard of living.

Table 5: Regression Coefficient Analysis

Model	Regression Coefficients	T Statistics	Sig Value
(Constant)	2.305	9.541	0.000*
Micro loan	0.364	2.872	0.000*
Advisory Support	0.293	2.217	0.003*
Saving	0.381	3.195	0.000*
R^2 0.28Durbin-Watson 1.871* Significant at .05 percent level			

According to the table 5, regression coefficient of Micro loan is 0.364 and sig value is 0.000. It indicates that micro loan has a statistically significant positive impact on living standard of microfinance beneficiaries in Kurunegala District. Accordingly study accepts the hypothesis onethat micro credit has an impact on living standard of microfinance beneficiaries in Kurunegala District. Resulting, when changing micro loan amount by one percent it will lead to change standard of living by .36 percent, this is because increasing micro loan enhance poor's purchasing capacity, investment ability and income generating power. Resulting poor people will be able to save, invest and grow their income sources upon micro loans. That will increase access to good education, health, consumption, property ownership, entrepreneur skills then to standard of living.Makunyi& Rotich, (2017) alsoindicates that providing access to credit lead to start small businesses, to enhance community and to local and national development. Further it significantly increases household income and provide avenues for people to save (Makunyi & Rotich, 2017).

As per the regression test result, regression coefficient of advisory support is 0.293 and sig is less than the standard level (0.05). It indicates that advisory support has a statistically significant impact on living standard of microfinance beneficiaries in Kurunegala District. Resulting study accepts hypothesis two: advisory support has an impact on living standard of microfinance beneficiaries in Kurunegala District. Accordingly, when changing advisory support by 1% it will change standard of living by 0.293%. Financial Illiteracy is one of the major hindrances in the growth of Microfinance sector (Mittal & Srivastava, 2014).As micro loan holders are armed with required knowledge to utilize money, manage a business and repay loans without hindering, they will be able to effectively utilize the loan to enhance standard of their living.

Finally, regression tests the impact of micro saving on living standard of microfinance beneficiaries in Kurunegala District under the third hypothesis. According to the test result, regression coefficient of micro saving is 0.381 and sig value is 0.000. It indicates that saving has a statistically significant positive impact on living standard of microfinance beneficiaries in Kurunegala District. Accordingly study accepts the hypothesis three. Resulting, when increasing saving by one percent it will lead to increase living standard by .381 percent.People face problem more confidently and even get risks if they hold money as savings. Saving makes people happy through enjoying its returns, because saving is the base of investment and consumption. People have more saving means they can enjoy life more with higher standard of living. Finally, the process of saving on a regular basis can be an empowering experience for people used to living at the margin, and can contribute to an improvement in the quality of their lives (Khan & Rahaman, 2007).

VII. Conclusion and Recommendations

The purpose of the study was to examine the impacts of micro loan, advisory support and saving on enhancing living standard of microfinance beneficiaries in Kurunegala District. According to the correlation result, micro loan, advisory support and micro saving have statistically significant associations with living standard of microfinance beneficiaries in Kurunegala District. As per the regression test all three independent variables have statistically significant impacts on living standard of microfinance beneficiaries in Kurunegala District at 0.05 percent level. The findings are similar with few past studies such as (Robinson & Marguerite, 2002; Jayasuriya, 2007; Khan & Rahaman, 2007; Thilepan & Thiruchelvam, 2011; Teng, et al., 2011; Thilepan&Thiruchelvam, 2011; Idowu & Salami, 2011; D.P.J. Kaluarachchi, 2014; Imoisi, et al., 2014;Abel, Grace, Willie, 2014; Oguejiofor, Uzoamaka, 2014;Sayed et al, 2015; Sayed, et al., 2015; Makunyi & Rotich, 2017).Based on the findings study recommends microfinance institute to increase the amount of loans to the poor in KurunegalaDistrictwith transparent and easily accessible loan schemes. This loan scheme should have simple administrative structures and encourage even the less educated to easily access it. Further study recommends institutions to provides people more advisory support about management of loan, start business, prepare business plan, identify customer requirement continuously to enhance entrepreneurial skills of the people. Further, study recommends microfinance institutes to use saving options to enhance saving habit of the poor people. In this process, daily saving and weekly saving can be usedand attractive interest rates should be offered with non- financial gifts for saving such as bicycles, TV, Fans….etc.So, microfinance provides capital to the poor and marginalized who have been excluded from the main stream of financial system. It creates self-employment by augmentation of income generation activities. Resulting, microfinance has contributed to increase disposal income of the poor which has improved nutritional level, shelter, clothes, school enrollment and health of the participating families then by standard of living.

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