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Impact of Micro Finance Activities to Living Standard of People in a Selected Area in Sri Lanka

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ABSTRACT

Many of the developing countries have improved their people living standard by practicing micro finance. It helps to improve their economic development too. In the present context Sri Lanka also practicing this concept and has successful result from micro financing. RDB had plays a remarkable role in practicing micro financing in Sri Lanka. Based on the selected sample data it was observed that there is an impact of micro finance activities to living standard of people in a selected area in Badulla. 100 Regional Development Bank customers are selected for this study. Main objective of the study is to identify the impact of the RDB micro finance activities to improvement in living standard of people. From the data collected, Regression model was run to find the impact of the micro finance loan and living standard indicators. According to the result of the analysis that implies when improving living standard people micro finance activities not plays a major role because there is very low impact on the micro finance activities affect to improve living standard of the people. Other than the micro finance loan there are some other factors affect to advance living standard of people.

***Keywords*—** Economic development, Living standard, Micro Finance, Regional Development Bank

I. INTRODUCTION

Improving living standard of people in rural area has been an important development challenge over decades. One of the recognized constraints is facing the poor is lack of admission to formal sector funds to allow them to take advantage of economic opportunities to upsurge their level of output, hence improve living standard of people. Informal financial services are widely used in rural areas in Sri Lanka. They can be named as Seettu system, money taken for high rate of interest, personal loan, money takers by pawn something and some other informal ways. Most of people in those rural areas widely used these types of informal financial systems for their financial needs. But from these types of systems what happened is increasing credibility of the person who has taken money. Living standard of particular people decreases while not being improved. This creates many problems to the society. Traditional aid has not helped in solving this problem. As cited in Momoh (2005), mention that an effective and efficient microfinance system operating in rural areas of developing countries, joined with other enabling factors such as legal and policy framework, good governance and adequate physical infrastructure, the poor rural people will undertake diversified business activities, and also be able to adopt more appropriate modern farming technologies. This, it is assumed, will lead to the reduction of rural poverty and an increased overall standard of living of the rural poor in developing countries in general, and the Least Developed Countries like those in Sub-Saharan Africa and South Asia, in particular. Several studies have been published on microfinance and poverty reduction. In some of these studies, microfinance has brought positive impact to the life of clients, encourage the ability of poor individuals to improve their living standards. And others have showed that poor people have taken benefit of increased earnings to improve their consumption level, health and build assets. But, some studies have revealed that microfinance is said to play unimportant role towards poverty reduction.

The term Micro Finance change attitude of the people for helping low income holders of the country. From this system help low income holders to stand on their own. Not to increase credibility but to improve living standard of the person. This is not the concept of only financing but to give support to improve the living standard on psychological side too. One kind of development work, which upholds financial sustainability for poor persons in the society, is micro finance (Lindvert, 2006). Micro finance covers not only credit but also savings and other financial services such as insurance. Mainly government and private sector financial institute and banks actively participate in micro finance field. Their main objective is to attract people in rural areas to micro finance activities. With providing financing services those institute provide some extra activities such as advices for their business, encouraging, recognizing problems the facing such as that. From those things Micro Finance is created. It is projected to improve living standard of particular person completely. Valuation of poverty levels in Sri Lanka differs according to the indicators or benchmarks used. Earnings of less than US$1 a day is a common benchmark, while others are based on the purchasing power of a currency relative to a „basket‟ of essential food items. Poverty estimates thus range between one quarter and one third of the population. On the demand side microfinance institutions can mobilize poor peoples savings and enable them to accumulate interests on their deposits. People in Uva province have agricultural base life style. Their income sources diversified in to many areas. They do not have fixed income generation areas. According to the Central Bank of Sri Lanka Uva province earns low income than other provinces. Their income is fluctuating time to time. This causes to low living standard of people in this area. For fulfilling financial needs people attends to informal financial services. But due to that only thing happened is increasing credibility of the person. Therefore micro finance activities are very important in this situation. The Regional Development Bank is one of the main financial institutions that actively work in Micro finance field. Their main purpose is providing micro finance services to low income holders. Regional Development Bank (RDBs), set-up by the government in 1986, as it was felt that the two main state-owned banks were not effectively reaching the remote rural areas or the smallest customers. Their vision is „to take Sri Lanka towards prosperity by empowering people through regional economic development‟. The RDBs Banks were under Central Bank management and financed entirely by the government. A total of 22 Banks were established in all districts, excluding the North & East region. Badulla Regional Development Bank plays major role because that is located in an agricultural area. Their credit portfolio creates with SME sector specialized loans, loans for self-employment, saubhagya, agricultural specialized loans, loans for techno industries, isuru, commercial and business loans. Specialized saving and other financial assistance services provide to the customers of the Badulla. In such scenario it is necessary to study on the area regarding impact of micro finance activities to living standard of people in Badulla area.

II. METHODOLOGY

For data collection purpose questioners provides to the sample selected by the researcher. According to the main objective of the study main dimension of this study is Micro Finance activities. Also the researcher provides eight indicators to measure whether the living standard is improved or not.

The study was carried out in Uva province, Badulla district. This area life style is mainly depends on agriculture and some of others move into the self-employment by doing many things to generate income such as livestock, trading, sawing garments etc. Both secondary and primary data were used in generating information on the effectiveness of microfinance services of Regional Development Bank for improving living standard of people in selected villages. A stratified sampling method was used in the selection of the customers that expressed their viewed on the effectiveness microfinance services of RDB in alleviating poverty in Badulla area. One Hundred questionnaires (100) were randomly distributed to customers of the Regional Development Bank in the area. They have their own business and they are customers of the RDB. Questioner is developed to recognize the impact from those seven loan facilities. For 23 measuring the living standard of the household some criteria has been recognized from the previous studies. Micro Finance and Poverty Alleviation in Sri Lanka (Kaluarachi &Jahfer 2011) is the one study that identified the living standard measuring factors. Regression analysis was used to analyses the data.

III. PRIOR APPROACH

Poverty remains a substance of growing concern in many developing countries of the world. Poverty has been defined on its nature, place and volume. It is a multifaceted idea being perceived by different people while using different criteria to allocate a meaning to it, and therefore, this makes it hard to give a concise meaning to the term (Kurfi, 2009). The scholar citied as records of United Nations Development Program, around 2.7 billion people are considered to be living in poverty. These people have a consumption level of less than 2 US Dollars per day. Extreme poverty is defined as living in less than 1 US Dollar per day. Nearby 1.1 billion of the poor live in extreme poverty. People living in extreme poverty often lack opportunities to have their basic needs met, meaning access to food, clean water, clothes and decent shelter. Most lack education and are vulnerable to diseases (Lindsert, 2006). There are different kinds of poverty such as income poverty, absolute poverty, relative poverty and consistent poverty. Income poverty is kind of poverty that is a result of lack of money or limited. Absolute poverty is poverty where people stay starved, living without proper housing, clothing or medical care- people who fight to stay alive. Relative poverty is where people are considered to be living substantially less than the general standard of living in the society. Consistent poverty is the mixture of income poverty and deprivation (Momoh, 2005). On the other hand, poverty is identify as a multi-dimensional phenomenon related to the inadequacy or lack of social, economic, cultural, and political entitlements. The concept of micro finance recently practicing specially in developing countries for poverty alleviation from the country. Because they are mostly suffer from this problem. The Asian Development Bank has defined microfinance as: "The provision of a broad range of financial services that includes services such as deposits, loans, payment services and insurance to poor and low income households and their micro enterprises." As well as Schreiner and Colombet (2001) also identify microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks. Hence, microfinance contains the provision of financial services such as savings, loans and insurance to poor persons living in urban and rural areas who are unable to get such services from the formal financial sector". However the microfinance is a main component in such programs whether those microfinance programs have actually contributed to poverty mitigation is an important question to be answered. Every day novel families do start their livelihood as new households and a part of them would fail to cross the poverty line. Same time, some of the current households get their livelihood better crossing the poverty line effectively. While another group of households that walked out of the poverty trap return to the pool of poor people on a coming day. For an example, children of poor families who started their livelihood as separate households amidst of financial difficulties could enter in to the poverty cycle on a future day. Though it is the reality, the level of attention paid to this phenomenon is insufficient. Not only that, but also some families that are not poor at present may become poor in future due to various reasons. (kumari.P. W. N. A. & kumarasinghe.P.J) From the concept of micro finance it is expect to poverty alleviation from the country. If the concept is successful, people may improve their current living standard. Standard of living can be thought of as a measure of the quality of life or level of material prosperity enjoyed by individuals, a specific demographic group, or a geographic region such as a country. In economics, the standard of living is usually used to determine the relative prosperity of the population of an entire country and is often compared to the standard of living that populations of other countries enjoy As citied in Chambers and Conway (1992), a livelihood is defined as comprising the capabilities, assets required for a means of living citing (Carney, 1998,:4). On the other hand the researcher cited Rakodi (2002:11) articulates the following household livelihood assets, namely human, social, political, physical, financial and natural capital. At house, community and societal levels, the assets available are said to constitute a stock of capital. These include human capital, social capital (networks, membership of groups, relationships of trust and reciprocity, access to wider institutions of society), physical capital which includes productive and household assets, including tools, equipment, housing and household goods, as well as stocks and natural capital. By improving standard of living poverty can be alleviation from the country. Poverty alleviation can identify in several ways. The investigation of Mboho, and Ibok (2009) mention that poverty alleviation strategies are approaches designed to tackle underdevelopment. These strategies adopted depend on the developer, individuals, groups and institutions. They also argue that poverty alleviation strategies are approaches designed to tackle underdevelopment. These strategies adopted depend on the developer, individuals, groups and institutions. Several empirical studies have shown that micro finance support to reduce the poverty. According to the study of Okezie, Bankoli & Ebomuche (2004) they attempt to provide a critical evaluation of the argument on the effectiveness of microfinance as an effective tool for poverty alleviation and also they investigate the history of microfinance banks in Nigeria. Micro finance impact on poverty reduction in Imo state was studied by a stratified sampling method in the selection of the customers. The finding of their study appears to support the predication regarding Economics theory of savings which argues that saving is a function of the level of income. The findings of this study is that the federal government of Nigeria and financial institutions in the country should take up the responsibility of establishing bank branches in the rural areas or make necessary arrangement for supplying more financial support to the rural people.

On the other hand Thankom, Katsushi & Frances drawing conclusion upon the data in 2001, the present analyses the effect of Micro Finance Institutions (MFIs) on poverty of households in India. The academics also show that households in rural areas require loans from MFIs for productive purposes to reduce poverty, while simply accessing to MFIs is sufficient for urban households to reduce it. Athambawa & Hansiya.(2011) study regarding the area of Economic Impact of Microfinance Programs through Self Help Groups in Sri Lanka. The microfinance is a instrument for empowerment of poor persons which can give for the development of the economy. The aim of their paper is to investigate whether the micro finance through Self Help Groups would improve economic and social empowerment of the poor people in Sri Lanka. The data were collected among Self Help Group members during the period 2009 and 2010. The results of their study revealed that no group members were involved in any economic activities in the pre- Self Help Groups; rather they are involving only in household affairs. But, after SHG programme almost all members involved either in business or production activities in small scale. Although there is high inequality in income distribution among the selected Self Help Groups economically empowered in the post –SHG from no income level. It is also observed, financial institutions are encouraged to micro financing through SHGs since the repayment rate is very high. In the study of Green, Kirkpatrick and Murinde (2006) sample consider as a secondary source of case studies and empirical work. The causal linkages among financial policy, enterprise development and poverty reduction remain a key challenge given the commitment to achieve their goals.

On the other hand to the Ebimobowei, Sophia & Wisdom (2012) argues National Poverty Alleviation Programme (NAPEP) should be well strengthened to reduce the level of political manipulation by political leaders in the country; and a decrease in the interest rate for microfinance institutions and other stringent issues about microfinance model of poverty reduction must be adequately and seriously applied to reduce the level of poverty in Nigeria. Though the poverty alleviation tool micro finance plays an important role in Sri Lanka there are few studies in this area to Sri Lankan context. As a developing country it is important to identify the importance of this concept. Hence the researcher identifies the research area as impact of micro finance to improve living standard of people.

IV. OUR APPROACH

Descriptive Statistic

Table 1 presents the descriptive statistics of the collected variable of micro finance activities of RDB and indicators of living standard of household.

Variable	Mean	StDev	Variance
Living Standard	3.6138	0.1386	0.0192
Micro Finance Activities	3.345	1.367	1.867

Source: Survey Data

According to the table mean value of dependent variable is 3.6138. The value of the variance takes 0.0192. The independent variable mean value takes 3.345 and the variance of the independent variable takes 1.867.

Researcher used 5 point liker scale questions to collect data. According to the results of the dependent variable (living standard) mean value very closer to 4. It implies that the majority of the sample agreed to the point that their living standard is improving. When considering the independent variable (micro finance activities) value it is very close to 3. But it takes 3.345 and researcher predicts response of the people regarding micro finance activities has influence on the improving living standard.

According to the result of the table 4.6 standard deviation value takes high amount. It implies that the data can be deviate from the mean value. It also can be predicts as have accuracy of the mean value due to it is very close to 1.

A variance value of independent and dependent value of the table implies that both of them have small values. Independent value has 0.0192 and this implies that the responses for that are identical. Dependent variable takes the value as 1.867 and this implies that the responses are far away from the mean value.

Normality Test

Table 2 Normality test

	AD value	P value
Living Standard	0.600	0.116
Micro Finance Activities	3.195	<0.005

Source: Survey Data

According to the table 2 normality test result dependent variable (living standard) takes normal distribution because the value is greater than 0.05. When considering independent variable (micro finance activities) it is not normally distributed. Because P value of independent variable takes less than 0.05. According to Anderson Darling Test P value (0.088) when P value is greater than 0.05, Data are normally distributed for Dependent Variable.

Test of Correlation

Table 3 Correlation

	Statistic
Pearson correlation of living standard and Micro finance activities	-0.282
P-Value	0.009

Source: Survey Data

According to this study correlation coefficient takes -0.282. It shows the moderate level coefficient. This shows the negative relationship between variables. According to the test P value is 0.009. While correlation coefficient takes very lower amount P value the model is accepted due to P value is significance. Hence the correlation is accepted regression run for the model. This implies that there is 28% relationship between the variables. Regression is run hence the model significance.

Regression Analysis

Table 4 Regression Model

Predictor	Coefficient	SE Coef	T	P
Constant	3.70938	0.03881	95.57	0.000
X	-0.02856	0.01075	-2.66	0.009

Source: Survey Data

According to the table 4 P values of the independent and dependent variable takes values less than to 0.05. Hence researcher concludes as the model is significance.

Table 5 Model summary

Model	R square	Adjusted R square	S
1	7.9%	6.8%	0.133

Source: Survey Data

According to the DW statistic of as on table 4, it closed to the 1. It implies that an error of the model takes some kind of pattern. Thus other than the micro finance loans to improve living standard some other factors are affect.

Micro finance is an important concept for poverty alleviation from the country. It is widely practiced in developing countries like Sri Lanka. As a micro finance institution Regional Development Bank play major role in practicing this concept in Sri Lanka.

Based on the selected sample data it was observed that there is an impact of micro finance activities to living standard of people in a selected area in Badulla.

The result of the demographic variables implies that those demographic variables influence people to obtaining micro finance loan. As example more percentage of the sample obtaining to micro finance loan is young generation and the married persons. They have to generate income for the family. Due to some circumstance most of people are not highly educated in this area. This also reason for obtaining micro finance loan for their enterprises. Married person has more responsible toward their family. To generate income for the family people in this are states business in their own. Therefore they turn into micro finance activities to take financial support to their business.

According to the result of the correlation analysis researcher recognized there is low relationship between micro finance activities and living standard indicators. Hence the model is significance regression model run and found the relationship between two variables. Researcher then found that there is negative relationship between independent and dependent variable. That implies when improving living standard people micro finance activities not plays a major role. According to the Shreinner (2001) microfinance as efforts to advance the admission to loans and to savings services for poor people. It is presently being promoted as a main development strategy for promoting poverty reduction / eradication and economic empowerment. It has the possible to effectively address material poverty, the physical deprivation of goods and services and the income to attain them by granting financial services to households who are not helped by the formal banking sector. It is an effective development instrument for promoting pro-poor growth and poverty reduction. Financial services allow poor and low income households to take advantage of economic opportunities, build assets, and reduce vulnerability to external shocks that unfavorably affect their living standards.

As well as Asemelash (2003) summarized the microfinance provided to the poor has brought a positive impact on the life of the clients as compared to those who do not get access to these microfinance services. it showed that microfinance has brought a positive impact on income, asset building, and access to schools and medical facilities in the study area.

According to Imai, Arun and Annim (2010) loans for productive purposes were extra important for poverty reduction in rural than urban areas and significant positive effect of Microfinance Institution productive loans on multi-dimensional welfare indicator.

As a micro finance activities researcher recognized the portfolio of loans that consist of 8 loans. High percentage of sample takes Saubahgaya loan because most of them are self-employment. Mainly micro finance activities of the RDB consider only providing financial support to low income holders. Thus RDB consider only providing financial assistance it causes to less achievement in bank objectives.

According to the demographic variable factors peoples are highly obtaining to micro finance loan facilities. By offering negotiable installment and interest facilities bank tries to be part of financial success of the customers. Therefore researcher comes to conclusion that RDB micro finance activities support to financial success of the customers as first research question. Then researcher expects to investigate regarding weather RDB micro finance activities help to improve living standard. But as output results of the model implies that there is no relationship between micro finance activities and living standard. As this result second research question can be answered as there is no relationship between these variables.

Hence according to the above discussion, other than the micro finance loan there are some other factors affect to improve living standard of people. Regional Development Bank should more consider regarding improving their micro finance activities widely other than the providing financial support to the people.

V. CONCLUSION

As a poverty alleviation tool recently world is accepted micro financing activities. It implies that providing financial assistance and gives professional and physiological assistance to the low income holders to improve their living standard.

Researcher concluded some main points from the current study. Firstly, both researcher and practitioners accept the Micro finance is important concept in poverty alleviation. Researcher concluded that Micro finance gives impact in improving living standard of low income holders. Hence, it confirm as research problem.

The main objective of the study is to identify weather there is an impact of micro finance activities to living standard of people in selected area in Badulla.

The descriptive statistic method, correlation analysis and regression analysis was used to achieve the research objectives of this study and those analysis proved that there is a significant impact of micro finance activities to improve living standard of people in Badulla area. In this study Loan portfolio offered by the RDB considered as micro finance activities of the bank.

Descriptive statistic confirms that there is less probability to relationship between independent and dependent variable. That implies micro finance activities of the RDB have no influence to improve living standard of people.

In the correlation analysis micro finance activities and living standard shows negative relationship. It shows relationship nearly 28% between variables. P value is significant as 0.009 and therefore researcher go further analyzing the factors without considering low relationship. According to the regression analysis, the model is not significant. The model is significant in very low amount and also model is fit in very low amount. Therefore researcher concluded that there is very low impact on micro finance activities of RDB to improve living standard of people in Badulla area. Therefore H1 hypothesis is rejected and accept the null hypothesis that is there is no significance relationship between micro finance activities and living standard of people. There is very low impact on the micro finance activities affect to improve living standard of the people.

According to these results the bank should more consider regarding their micro financial activities. Due to micro finance activities the main objective of the bank not accomplished.

From the analysis other than the micro finance loan other external factors affect to the improving living standard of the household.

Hence researcher recommended to the Regional Development Bank it is better to expand the concept of micro financing to improve living standard of people as well as to accomplish bank objectives.

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