



## MICROFINANCE SERVICES ON LIVING STANDARD OF SRI LANKAN COMMUNITY; WITH SPECIAL REFERENCE TO KURUNEGALA, ANURADHAPURA AND BADULLA DISTRICT

*U.D.I.C. Udawaththa<sup>1\*</sup>, R.K.M.H.T. Rajakarunananayake<sup>2</sup>*

<sup>1</sup>*Uva Wellassa University of Sri Lanka*

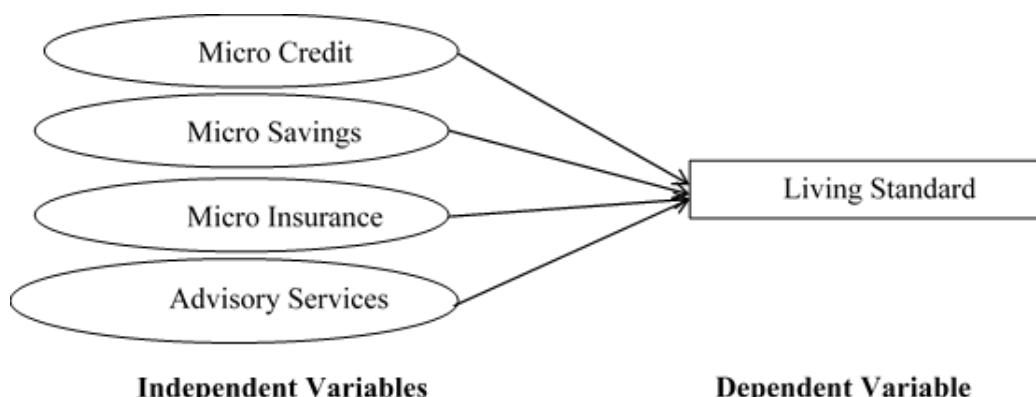
<sup>2</sup>*Wayamba University of Sri Lanka*

### INTRODUCTION

Unfortunately, underprivileged people in most countries have virtually lacked access to formal financial services because of the high interest rates, collateral requirements, complicated application procedures, etc. (Khan & Rahaman, 2007). Therefore, microfinance institutions play a major role in providing financial services even for low-income people in society. Many institutions provide microfinance services in Sri Lanka, such as licensed banks, licensed finance companies, co-operative rural banks, thrift and credit co-operatives societies, divinaguma (Samurdhi) banks and other community-based organizations, microfinance companies, non-governmental organizations that engage in microfinance business (Central Bank of Sri Lanka, 2018). According to the view of Bateman (2011), microcredit is the provision of tiny loans to the poor people to help them to establish or expand an income generating activity and thereby escape from poverty. In today's context, some of the financial service beneficiaries revealed that the structure of micro finance as a development strategy of the country failed to achieve the establishment target such as the alleviation of poverty while negatively effect on socio-economic circumstances of the nation (Addae-Korankye 2012). The fluctuations in the micro finance industry dramatically affect the living standard of Sri Lankan poor people and highlighted the need of researching the microfinance service on the living standard of the Sri Lankan community. Therefore, this research is designed with the objective of identifying whether microfinance services such as micro credit, micro savings, micro insurance, and advisory services are associated with the living standard of low-income people in Kurunegala, Badulla, and Anuradhapura District.

Financial services are highly influential factors in deprived communities' living standards to empower them and analysis of existing literature confirms the nonappearance of rigorous management framework to measure the impact of micro financial services on living standards in the Sri Lankan community. Further less studies on micro financial service and living standard creates the high essence of this research field.= Accordingly, the study has designed the model to determine how microfinance services impact the living standard among Sri Lankan underprivileged people and thereby fill the literature gap.

### Conceptual Framework





## METHODOLOGY

This research is quantitative research and is descriptive in nature. This study can be considered as a one-shot or cross-sectional study since the study took two weeks for the data collection distributing 180 structured five-point Likert scale questionnaires and face-to-face interviews among microfinance customers who are the members of the Samurdhi bank societies in Kurunegala, Badulla, and Anuradhapura district. The study used the Convenience sampling technique which comes under a non-probability sampling design that refers to the collection of information from members of the population who are conveniently available to provide information. Convenience sampling provides us with easy access to collect data from populations with more reliable data. The population of this study comprised with the microfinance customers in Kurunegala, Badulla and Anuradhapura district who are the members of the Samurdhi bank. Out of 180 questioners, 173 customers returned the questioners and recorded a 96.1 % response rate. The collected data has been analyzed by using the computer software of IBM SPSS Statistics 20. The demographic factors in the first part of the questionnaire have been analyzed by using frequency test. Further correlation analysis, regression analysis has been used to find the association between independent variables and dependent variables.

### Hypotheses of the Study

**H1:** There is a positive significant relationship between Micro credit and living standard of low-income people in Kurunegala, Badulla and Anuradhapura district.

**H2:** There is a positive significant relationship between Micro savings and living standard of low-income people in Kurunegala, Badulla and Anuradhapura district.

**H3:** There is a positive significant relationship between Micro Insurance and living standard of low-income people in Kurunegala, Badulla and Anuradhapura district.

**H4:** There is a positive significant relationship between Advisory service and living standard of low-income people in Kurunegala, Badulla and Anuradhapura district.

### Research Model

$$LS = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where LS equals Living Standard of low-income people, X<sub>1</sub> is denoted by Micro credit, X<sub>2</sub> is stood for Micro savings, X<sub>3</sub> equals to Micro insurance, X<sub>4</sub> is denoted by Advisory services, β<sub>0</sub>, β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>, β<sub>4</sub> are Coefficients of the variables and finally ε is for Error term.

## DATA ANALYSIS

### Reliability Analysis

Cronbach's Alpha coefficient identifies the reliability of each question which was used to measure the research variables. A total of 17 items which measures the independent and dependent variables are used for statistical analysis. Cronbach's alpha values of each variable are ranged between 0.715 – 0.815. (Micro credit 0.743, Micro savings 0.765, Micro insurance 0.742, Advisory services 0.815, Living standard 0.715). Therefore, it can be identified that all five variables have higher reliability and there is a strong relationship between the questionnaire and the research.

### Descriptive Analysis

Descriptive statistical insights have summarized the composition and the structure of the data obtained. According to the results, it is found that 62.4% of the sample is female and the rest represents the male respondents. According to the analyzed data, most of the respondents belong to the age limit of 41-50 years and it is 42.8% of the sample. Hence, the sample is consisted with relatively elder users. From the sample obtained, the majority (48.6%) of the respondents have studied up to Ordinary level examination and 30.1% of the microfinance customers have completed only their primary education. The majority of the respondents (37.0%) engage in agricultural activities.



## Correlation Analysis

When analyzing the correlation between independent and dependent variables, there is a strong positive significant relationship between micro credit, micro insurance, advisory services and living standards while micro savings indicate a weak positive significant correlation with living standard of community at 5% level of significance. Micro credit has positive significant relationships with micro savings, micro insurance and advisory services at 5% level of significance. Then, micro savings also has moderate correlation with the micro credit and it is statistically significant. But micro saving has weak positive relationships with micro insurance and advisory services. The correlation between micro savings and micro insurance is insignificant because p value is higher than 5% level of significance. According to the findings, micro insurance has weak positive correlation with advisory services ( $r=0.384$ ) and since its p value is 0.000 the relationship is statistically significant.

**Table 01: Correlation Coefficients**

		Micro credit	Micro savings	Micro insurance	Advisory services	Living standard
<b>Micro credit</b>	Pearson correlation	1				
	Sig. (2-tailed)					
	N	173				
<b>Micro savings</b>	Pearson correlation	.426**	1			
	Sig. (2-tailed)		.000			
	N	173	173			
<b>Micro insurance</b>	Pearson correlation	.395**	.142	1		
	Sig. (2-tailed)		.000	.062		
	N	173	173	173		
<b>Advisory services</b>	Pearson correlation	.515**	.203**	.384**	1	
	Sig. (2-tailed)		.000	.007	.000	
	N	173	173	173	173	
<b>Living standard</b>	Pearson correlation	<b>.641**</b>	<b>.348**</b>	<b>.431**</b>	<b>.735**</b>	1
	Sig. (2-tailed)		<b>.000</b>	<b>.000</b>	<b>.000</b>	
	N	173	173	173	173	173

## Regression Analysis

Table 02 exhibits the results of coefficient estimates of the dependent variables with their p values and t-statistics.

**Table 02: Model Summary**

Mode	R	R Square	Adjusted R Square	R	Std. Error of the Estimate	Durbi
<b>1</b>	.807 <sup>a</sup>	.651	.643		.32245	1.948

Source: Author's data analysis output



The correlation coefficient is 0.807 and it indicates that there is a strong positive correlation between the microfinance and living standard. The table of model summary shows that R square value of this study as 0.651. It means that 65.1% variation of the living standard is explained by the independent variables of advisory services, micro savings, micro insurance and micro credit. Durbin-Watson statistic as per the test was 1.948 and very close to 2. It indicates the absence of the heteroscedasticity problem in the data set.

**Table 03: ANOVA Table**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	32.587	4	8.147	78.353	.000 <sup>b</sup>
Residual	17.468	168	.104		
Total	50.055	172			

Source: Author's data analysis output

In this study, F statistics is 78.353 (see Table 03) and p value of F statistics is 0.000. Therefore, it can be concluded that the overall model is statistically significant and valid in explaining the outcome of the dependent variable.

**Table 04: Regression Output**

	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant)	-.618	.321		1.924	.056		
Micro credit	.385	.081	.283	4.771	.000	.590	1.694
Micro savings	.154	.074	.106	2.093	.038	.818	1.223
Micro insurance	.094	.047	.101	1.989	.048	.799	1.252
Advisory services	.518	.053	.529	9.692	.000	.696	1.436

The VIF values are ranged from 1.223 to 1.694, which are below the critical value of 10 (value that indicates the possibility of a multi collinearity problem). According to the results in regression table 03, the estimated regression model can be developed as follows.

$$LS = -0.618 + 0.385X_1 + 0.154X_2 + 0.094X_3 + 0.518X_4$$

### Hypotheses Testing

The impact of micro credit on the borrower households has been positive Shirazi & Khan (2009), our findings show that there is a positive relationship between micro credit and Living standard and the relationship is significant. Therefore, the study accepts the first hypothesis one (H1). Regression results have found that there is a positive and significant relationship between Micro savings and Living standard. Accordingly, the second hypothesis two (H2) is accepted because the results are in line with the findings of Morobe (2015). According to the study of Shirazi & Khan (2009), Micro insurance can be considered as a policy to cover up low-income people against perils and it is a mechanism to protect poor people against risk.



Accordingly, our research results are also point out that the relationship between Micro insurance and Living standard is positive and significant but weak relationship. So, the study accepts third hypothesis also (H3). Since there is a positive significant relationship between Advisory service and living standard, the study accepts hypothesis four and findings are similar to Yogendarajah & Semasinghe (2015).

## CONCLUSION & RECOMMENDATIONS

The study reveals that the low-income people who are empowered through the access of several microfinance facilities will be able to increase their living standard level more than before and develop their entrepreneur skills as well as provide formal education for their children. The results of the study are similar to a few past studies such as Addae-Korankye (2012), Mawa (2018), Khan & Rahaman (2007), and Makunyi & Rotich (2017). The study recommends the institution to provide more advisory and consultancy services about the effective usage of loans, start new businesses and develop existing ones further, and identify and enhance entrepreneur skills of customers. Further, since there is a positive relationship between micro credit and living standards, the study recommends that to grant micro loans within a short period and arranging repayment schedules. The process of obtaining a loan should be simple and easier for the borrowers and it must encourage even a less educated person to access this facility. Furthermore, the study recommends enhancing the saving habits among low-income people by providing reasonable interest on savings and provide attractive savings options for different age levels. The study recommends covering more risks under the insurance policy of the institution and compensations must be provided within a very short period and thereby restore the life of the customer. Future researchers can focus on the special consumer categories by increasing the sample size and dependent variable to some other aspects of poverty alleviation such as reduction of vulnerability, self-employment etc.

## REFERENCES

- Addae-Korankye, A. (2012, October). Microfinance: a tool for poverty reduction in developing countries. *Journal of Business and Retail Management Research (JBRMR)*, 7(1), 138-149.
- Bateman, M. (2011). Microfinance as a development and poverty reduction policy: is it everything it's cracked up to be? Overseas Development Institute.
- Central Bank of Sri Lanka. (2018). [Http://www.cbsl.gov.lk](http://www.cbsl.gov.lk)
- Khan, M. A., & Rahaman, M. A. (2007). *Impact of Microfinance on Living Standards , Empowerment and Poverty Alleviation of Poor People: A Case Study on Microfinance in the Chittagong District of Bangladesh*.
- Makunyi, D. G., & Rotich, D. (2017). Impact of Micro Finance Institutions on Poverty Eradication in Meru South Sub-County, Kenya. *American Journal of Finance*, 1(5), 14. [Https://doi.org/10.47672/ajf.173](https://doi.org/10.47672/ajf.173)
- Mawa, B. (2018). *Impact of Microfinance: Towards Achieving Poverty Alleviation ? January 2008*.
- Morobe, D. M. (2015). *The Effect of Micro Finance Loans on the Financial Performance of Small Medium Enterprises in Nairobi County*. 1–80.
- Khan, M. A., & Rahaman, M. A. (2007). *Impact of Microfinance on Living Standards , Empowerment and Poverty Alleviation of Poor People: A Case Study on Microfinance in the Chittagong District of Bangladesh*.
- Shirazi, N. S., & Khan, A. U. (2009). ROLE OF PAKISTAN POVERTY ALLEVIATION FUND 'S MICRO CREDIT IN POVERTY ALLEVIATION A Case of Pakistan. *Pakistan Economic and Social Review*, 47(2), 215–228. [Http://www.jstor.org/stable/25825353](http://www.jstor.org/stable/25825353)
- Yogendarajah, R., & Semasinghe, S. . (2015). Micro Credit is a Tool for Women Entrepreneurship Development. *Journal of Mathematics and System Science*, 5(9), 385–390.