Microfinance as an Instrument for Economic Empowerment of the Poor People in Sri Lanka

J. Krishanthi Mallika, and Wiraj Udara Wickramaarachchi

***Abstract*—The study attempts to assess the effectiveness of Microfinance (MF) services in enhancing the economic empowerment of poor beneficiary households in Sri Lanka. In theory, if the poor households invest the MF services (in terms of both the financial and social intermediationary functions) in the income generating livelihood activities, they could be easily crossed the poverty line through achieving economic empowerment. International evidence of the impact of MF on economic empowerment of beneficiary households (HHS) is however, remaining in contested. Research findings of most the studies on the MF sector in Sri Lanka are also not exception of this phenomena.**

The data and information for the study were collected from a sample survey of 250 households including 100 households (whose participating period with MF is less than three year) for comparison purpose. The impact variables include the change of income, savings, occupational development, development of new income sources, and development of the family economy. In analysis average treatment effect were calculated and mean differences of each of the impact variable were statically tested using T- Test, and binary logistic regression models. On the base of analysis, the study found that the economic empowerment of long-beneficiary households (HHS) have been positively significant and employability is not statistically significant.

***Index Terms*—Microfinance, Economic Empowerment, Beneficiary Households, Sri Lanka**

I. Introduction

The modern concept of microfinance emerged in the 1970s with the efforts of Professor Mohammad Yunus, who established Grameen Bank, a special kind of bank for the poor. Since its inception in the villages of Bangladesh in the 1970s, the modern Microfinance revolution is emerging in many countries of the world as a tool for poverty reduction [1]. The award of the Nobel Peace prize to Yunus and the acceptance of Microfinance as one of the primary tools to attack poverty seem to have galvanized its opponents. Over the years, the discourse has shifted from "microcredit" to "microfinance," Over the past years; the number of microfinance institutions has increased rapidly and therewith the number of borrowers and the total amount of outstanding loans [2].

Empowerment refers to increasing the spiritual, social and economic strength of individuals and communities. It often involves in developing confidence of the individual in his/her own capacities. It indicates the expression of self-strength, control, self-power, self-reliance, freedom of choice and life of dignity, in accordance with one's values, capable of fighting for one's rights, independence, own decision making, being free, awakening, and capability. Empowerment is relevant at the individual and collective level, and can be economic or social. As a consequence of economic empowerment, income, savings, employment, job opportunities, new income sources, fixed income sources and self-employment increases and thus reducing unemployment and indebtedness.

Empowering poor people in the side of economically is a key concern in any attempt of alleviating the poverty of a country. Poverty reduction is the prime objective of any developing economy. Microfinance programs play an important role in poverty reduction in many developing countries including Sri Lanka. There is consensus that Micro Finance Institutions extend financial services to the poor usually ignored by traditional financial intermediaries. Today there is broad awareness that poor people have many and diverse financial service needs, which are typically met by a variety of providers through multiple financial services [3].

Sri Lanka is an island country which is in Indian Ocean next to the southern part of India. The population is approximately 21Million in 2016 and 70% of its population living in the rural areas whose main income is agriculture. With a human development index of 73 out of 188 countries and a literacy rate of 93.2%. Sri Lanka recorded the highest growth rate after independence (in 1948), in 2011viz 8.3 percent. Further, the per capita income of the country had remarkably increased from $871 in 2000 to $3835 by 2015 [4]. Sri Lanka has become a popular country among the world due to the eradication of civil war in victorious way. Now Sri Lanka struggle with the development targets. At present Sri Lanka occupy various strategies to eradicate poverty.

The objective of this study is assessing the impact of MFIs on economic empowerment of poor people. The objective was derived from the significance of study and the research gap, identified by the scholars who have done significant contribution in the area of MFIs, impact on poverty alleviation research.

Economic empowerment indicators are the utilization of

Manuscript received December 08, 2017.

J. Krishanthi Mallika is a senior lecturer at Department of Business Management, Faculty of Management Studies, Rajarata University of Sri Lanka, Mihintale, Sri Lanka (phone: +94 ; e-mail: krishanthimallika@yahoo.com).

Wiraj Udara Wickramaarachchi was a Lecturer at Kurunegala Campus, Sri Lanka Institute of Information Technology, Kurunegala, Sri Lanka. He is now with the School of Computer Science and Technology, Wuhan University of Technology, Wuhan, Hubei, P.R. China (e-mail: wirajudara@gmail.com).

the loan [5], the contribution to household expenditure [6],[7], income and income decision [8], equal participation in resource allocation [9] and savings [5].

There has been substantial disagreement regarding the studies of impact of microfinance on economic empowerment, while some studies have found substantive impacts of microfinance on household income, consumption, and poverty reduction. Numerous literatures [13],[15]-[17],[21],[26] argued that microfinance has a positive effect in increasing of income of poor people.

In contrast, some other researchers pointed the negative impacts of microfinance on economic empowerment. The group mentioned bellow has presented through economic factors that microfinance affects relatively to the people. They are [19],[20] and [27].

Between these two extremes, there are some other writers [11],[28],[29] believe that even though, microfinance has several beneficial effects, it does not help the poorest, means that there is not clear consensus among researchers about the impact of microfinance on economic empowerment.

In reviewing these diverse views, it is questioned and important to assess the impact of microfinance on economic empowerment of beneficiary household.

II. Research Methodology

The study assessed the impact of microfinance institutions on economic empowerment of poor people. Empowering poor people is a key concern in any attempt of alleviating the poverty of a country. Economic empowerment mainly includes a positive change of income, savings, occupational development, generate of new income sources, development of the family economy.

The population of this study comprised of all clients of microfinance institutions in Sri Lanka. To select the sample, we have examined overall efficiency of 36 microfinance institutions and selected five financial efficiency MFIs and five social efficiency MFIs using a Data Envelopment Analysis (DEA) based on the secondary data which was collected from Microfinance information eXchange (MIX) and Lanka Microfinance Practitioners' Association (LMFPA).

Based on these ten financial and social efficiency institutions, the total sample comprised with 250 clients, 150 treatment groups, (greater than 3 years joined the microfinance) and 100 Control groups (less than 01 year with joining the microfinance).

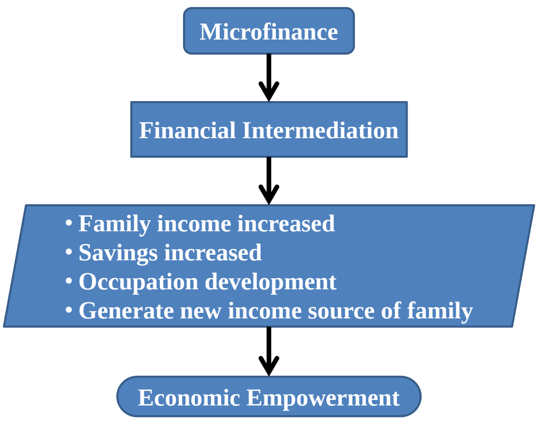

Fig. 1. Conceptual framework model

Most of the studies [10]-[12] used quasi- experimental design (treatment group and control group) to estimate the impact of micro finance. Quasi-experiments seek to compare the outcomes of an intervention with an imitation of what the outcomes would have been, had there been no intervention. The difference between the parameter estimates of treatment and control groups is the effect of intervention. Several studies measure the impact of microfinance by comparing recipients of microfinance with a control group.

A. *Conceptual Framework of the study*

The conceptual framework is established with the evidence available in the microfinance and economic empowerment literature. Fig. 1 shows the conceptual framework of the study.

According to the conceptual framework developed, microfinance (MF) is considered as the independent variable whereas Economic Empowerment (EE) is the dependent variable which is depends on Family income, savings, occupation, new income sources. It is clear that getting access to financial services helps the poor to improve their income to household, Savings, employment opportunities and generate new income sources.

B. *Profile of the Sample*

The initial analysis conducted to examine the descriptive statistics of demographic variables with frequencies and percentages.

Considering collected data set, most of the samples are women i.e.176 (73.3%). In addition, the percentage of women in the Comparison group is 76% while the Treatment group of it is 72% from the sample of 250.

The majority of respondents in the sample are between 36-45 years old, means that and it is 33.2% out of the total and the rest goes as 26 up to 35 years and 46 up to55 years of age group respectively. Those who are more than 56 years of age are 10%. The majority of this sample is married. It is because even the range of age limit shows that the majority is between 36-45 years who are believed to be in the marriageable age.

When the standard of the education is concerned as a whole in the sample it is reported to have a lower level. The above table proves that out of the total 52% have come only up to the level of O/L or below that level while 37.2% are reported as educated up to grade 8 or below that. Only one graduated is reported.

When the number of the dependent is concerned in the whole sample of 250 families there are only 202 families whose dependents are a limited range of the 3-6 members and it is 80.8% out of the total.

Out of 250 families, the school going children are in only 169 families and the rest of the families (81) majority has limited number as 1-2 children going to school. That is 59.6% the total. It is 7.2% of 3-4 of children going to school. The majority of the family members are engaged in a job. It is very clear that most of the families have one employer and he or she is the breadwinner of the family.

Considering the occupations of samples, the majority is the farmers (45%). 19% of respondents are engaged in micro

ISBN: 978-988-14048-5-5
ISSN: 2078-0958 (Print); ISSN: 2078-0966 (Online)

business. The 17% of the total is engaged in self-employment. The most important feature is that the permanent employees are limited to 3% and they are also lower grade workers. Some are engaged in mechanics, carpentry, fisheries, and labors. There is one entrepreneur and 6 responders are living without a job.

In this sample, there are 58 persons who are having some other earnings apart from the main occupation. 20 out of them are doing farming as a part-time earning while 10 people are doing micro business. In addition, there are some self-employers, labours according to the data. A summarized profile of the sample is shown in Table I.

As the data is gathered, it will be entered into the Statistical Package for the Social Sciences (SPSS) for analysis. Independent Sample t test and Binary logistic Regression used in analyzing data.

TABLE I
SAMPLE PROFILE

	Sample Profile	Percentage	Frequency
Gender	Male	6.8	17
	Female	93.2	233
Age	below 26 years	3.2	8
	26-35 years	32.8	82
	36-45 years	33.2	83
	46-55 years	20.8	52
	56 years or more	10.0	25
Marital Status	Single	4	10
	Married	95.2	238
	Widowed	0.8	2
Education	8 or below	37.2	93
	O/l	52.0	130
	A/L	10.4	26
	Degree	0.4	1
Dependents of the family	Less than 3	11.6	29
	3-6,	80.8	202
	Greater than > 6	7.6	19
No. of children going to school	No	32.4	81
	1-2	59.6	149
	3-4	7.2	18
	greater than 4	0.8	2
No. of Members searching job	No	70.4	176
	1-2	25.6	64
	3-4	4.0	10
No. of employers in the family	1	27.2	68
	2	62.8	157
	3>	10.0	25
	Total	100	240
Main production sector of the responders	None	2.4	6
	Agricultural	43.2	108
	Industrial	14.8	37
	Serving	39.6	99
	Total	100	250

III. RESULTS AND DISCUSSION

The study found that majority of the sample was middle aged, married and women with good level education. Livelihood diversification is relatively higher however, most of household earn their income from agricultural related activities, which are seasonal in nature.

Most of the clients earn less than Rs.15000 of monthly income and the average income of the majority of the respondents is low. The majority of the families spend in between Rs.10000-15000. Most of this has been spent on food of the family per month and found that expenditure of health was at a considerable level of beneficiary families.

Income is the major factor determining the economic empowerment of a family. The independent samples t-test was used to compare the mean monthly income of treatment group and comparison group.

According to Independent sample t-test, Table II, mean values and standard deviations have established a significant difference between the two groups. Mean monthly income of the treatment group is higher than the comparison group. Significant value (0.03) is less than 0.05 implies that there is a significant difference between mean values of comparison group and Treatment group. The family income is also taking a higher level and it is very vivid in the significance.

Savings is another important indicator to assess the economic empowerment of a MF beneficiary household, as the variable is one of the major components of financial intermediary functions of MFIs. During the field survey, researcher asked the respondents to rank their ability to save after involving with the MF.

According to Table II savings of the treatment group (More than three years) has significantly and same positive relationship with savings of the control group. To see distributional significance of the MF impact of economic empowerment in terms of Saving ability, an independent samples t - test was used on the ranking level for two groups (1=treatment and 0=control).

According to Table III the study shows the treatment group has 12.96 times higher development in income than the comparison group of microfinance. Develop economy of the family is 31.49 times higher for the group with treatment group than the comparison group.

Accordingly overall economic development of the family, it is also positively affected by microfinance and that positive impact is highly significant. Employability is another important economic dimension. However, this employment not been significantly affected by the Microfinance institution found by the study.

Financial and employment security of workers in future is positively affected by microfinance. Develop occupation of the people with treatment group has 15.30 times higher than the comparison group. Finally it can be concluded that microfinance root to economic empowerment of poor people in Sri Lanka.

ISBN: 978-988-14048-5-5
ISSN: 2078-0958 (Print); ISSN: 2078-0966 (Online)

TABLE II
IMPACT OF MICROFINANCE ON MONTHLY INCOME (INDEPENDENT SAMPLE T-TEST)

Income	Mean	SD	t-test	
			T value	Sig (2- tailed)
Comparison group	2.0303E4	8932.27	-2.183	.030
Treatment group	2.3106E4	10696.19		
MF-Saving ability	**Mean**	**SD**	**t-test**	
			T value	**Sig (2- tailed)**
Comparison group	2.80	0.455	10.667	0.000
Treatment group	2.11	0.499		

TABLE III
ECONOMIC EMPOWERMENT – BINARY LOGISTIC REGRESSION

Dependent variable	Explanatory variables	B	SE	Wald	Odds Ratio	Goodness of Fit	
Develop new income sources	Treatment Group (1) Comparison Group (0)	1.79	0.50	12.96	5.97	Nagelkerke R Square	0.08
	Constant	-2.83	0.46	37.91	0.06	Cox & Snell R Square	0.07
Developed fixed income sources	Treatment Group (1) Comparison Group (0)	0.77	0.81	0.89	2.16	Nagelkerke R Square	0.015
	Constant	-3.78	0.72	28.01	0.023	Cox & Snell R Square	0.004
Develop occupation/business	Treatment Group (1) Comparison Group (0)	2.12	0.54	15.30	8.36	Nagelkerke R Square	0.15
	Constant	-3.07	0.51	35.98	0.05	Cox & Snell R Square	0.09
Develop economy of my family	Treatment Group (1) Comparison Group (0)	3.42	0.61	31.49	30.59	Nagelkerke R Square	0.36
	Constant	-3.37	0.59	32.88	0.03	Cox & Snell R Square	0.26
Develop employability	Treatment Group (1) Comparison Group (0)	0.42	0.85	0.24	1.52	Nagelkerke R Square	0.00
	Constant	-3.78	0.72	28.00	0.02	Cox & Snell R Square	0.00

IV. CONCLUSIONS

This study has shown that MF has directly caused to increase the income of beneficiary families. There was a positive impact on the diversification of new income sources as well. According to the researches [13]-[18], microfinance has affected positively for the increase of income. However, [19],[20] said that the increasing of income has not been caused by the help of microfinance. According to the findings of this research microfinance has positively affected for the rising of income.

MF positively effect to increase of savings of the BHHs. In addition, their savings ability has been enhanced by engaging in MF institutions. Accordingly overall economic development of the family, it is also positively affected by microfinance and that positive impact is highly significant. According to [10],[21]-[23], microfinance has affected to increase the savings. But [12],[24],[25] found that microfinance has not positively affected on the increasement of savings. However, it is clear that according to the present study microfinance can effectively use to increase the savings.

Mohammad Ariffujman Khan and Mohammad A. Rahman [21] in Pakistan stated that microfinance has an impact on employability improvement but in this study, the researcher found that microfinance has not significant impact in the case of employability.

Therefore, the overall impact on the economic empowerment of people due to microfinance institution is positive. Therefore enhancing microfinance facilities further would help increase the living conditions of people through the economic empowerment.

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