Microfinance and Poverty Alleviation: A Comparative Analysis in Sri Lanka

DilekaChathurani *a, N. M. A. Jayasinghe b

a St.John Girls School, Panadura

b Department of Economics, University of Sri Jayewardenepura, Nugegoda

rasuni.1991cha@gmail.com

Introduction and Research Problem:

A person may face poverty due to the lack of facilities to maintain a minimum standard of living and his inability to invest the resources necessary to achieve these facilities. We must move beyond indices to properly understand poverty and the standard of living. Although, microfinance is a form of financial development that has mainly focused on alleviating poverty by providing financial services to the poor. Mohammad Yuns in 1976, set up with a new concept and model which is called "The Grameen Model." Sri Lankan administrations have carried out a number of poverty alleviation initiatives, microfinance schemes were a relatively new introduction. The Grameen model was experimented in the 1980's by the Sri Lankan financial sector to alleviate poverty because poverty had become a major issue in that society and had not a critical solution. However, microfinance is not available to all citizens state that microfinance does not assist the poor because for the most part they use the loans for consumption instead of investing the funds in businesses. Therefore, this study is important to fill the literature gap which can alleviate poverty through borrowing microfinance from the sub-urban divisions. Although This is a study on the relationship between microfinance and poverty and the objective of the study is to determine whether microfinance can reduce poverty. Moreover, the indebtedness of the beneficiaries, as well as the feasibility of regulating the loan process, are also considered.

Methodology:

The study is focused on semi-urban areas 100 households from Homagama Divisional Secretariat area, Colombo district were chosen as a sample based on simple probability using the voters' registry. Data was collected through a structured questionnaire and interviews. The data analysis was elaborated as two parts: descriptive and statistical analysis. To build the

Multidimensional Assets Poverty Index, questionnaires with unique questions were used and it was the dependent variable in the study. To create the Index, quintile analysis was used on data collected by 29 questions on human capital, material capital, financial capital and natural capital was created on the principal component method. Moreover, data entry was made in computer and analysis was done using the concerned software SPSS 16.0. Tabular and statistical analyses were used to achieve the objectives. The data collected through the questionnaire was analysed in three stages. Multidimensional Assets Poverty Index was built first. Next, the variables that impact the Multidimensional Assets Poverty Index was described using descriptive statistics. Finally, an econometric model was created using the Multidimensional Assets Poverty Index.

Discussion, Results and Conclusions:

According to the table No: 01 the highest income bracket, those who make over Rs 69 000, have populations that are spread into two categories, i.e. the rich and those who are vulnerable. On the other hand, most of those who make over Rs 47 000 a month is placed, between 38% to 100%, in the 'rich' category. The RS 15 000 - 25 000 income category is represented by 45% of extremely poor, 30% of somewhat poor and 25% those who are vulnerable. There were some people suffering from extreme poverty in the Rs 36 000 - 47 000 category, 12.9%, however, most of the households, 32.3%, who make that income belong to the rich category. In the income category of Rs 15 000 - 25 000, has 45% of the extremely poor people. There is a diversity of monthly income of individuals from the poorer than the richer.

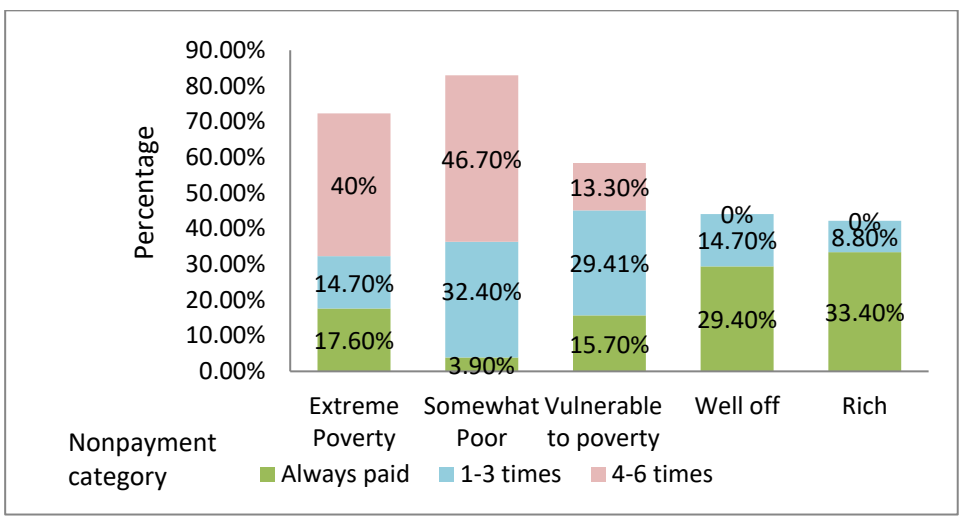
Table 01: Poverty level and monthly income of the household

	Extreme poverty	somewhat poor	Vulnerable to poverty	well off	Rich	Total
15000–25 000	45%	30%	25%	0%	0%	100%
25000–36 000	29.2%	25%	12.5%	25%	8.3%	100%
36000–47 000	12.9%	19.3%	12.9%	32.3%	22.6%	100%
47000–58 000	0%	9.5%	33.3%	19.1%	38.1%	100%

58000–69 000	0%	0%	0%	0%	100%	100%
Over 69 000	0%	0%	50%	0%	50%	100%

Source: Survey data, Jan. 2017

Figure 01: poverty level and the frequency of non-payment



Source: Survey data, Jan. 2017

According to the figure 01, those who have not paid instalments of loans have been divided into three categories based on the number of times they have not paid. These categories are those who have always paid the loan instalments, those who have missed between 1- 3 loan payments and those who have missed between 4- 6 loan payments. Among the well-off and rich income categories, a significant amount of borrowers have always paid their loan instalments. The figure is 33.4% in the 'rich' category and 29.41% in the 'well off' category. None from the well-off and rich income categories have ever missed 4-6 loan instalments. 46.7% of those from the somewhat poor category have missed paying 4-6 loan instalments, which is the highest in this category, and only 3.9% from this income category have always paid their loan instalments. Compared to 14.7% of those in the 'extremely poor' income category, 32.4% in the 'somewhat poor' income category have missed between 1- 3 of their loan instalment payments. It implies the data that the poorer have not paid instalments of loans on time.

Table 02: Poverty level and number of times loans have been taken

No of times	Extreme Poverty	Somewhat Poor	Vulnerable to poverty	Well off	Rich	Total
1	2.2%	2.2%	24.5%	40%	31.1%	100%
2-3	14.3%	21.4%	7.1%	14.3%	42.9%	100%
Over 3	41.5%	39%	19.5%	0%	0%	100%

Source: Survey data, Jan. 2017

As a part of the descriptive statistical analysis, the link between the poverty level and the number of times microfinance loans have been taken has been considered. When families don't have sufficient funds to meet their daily expenses, they tend to take one or more microfinance loans for consumption. The amount which is borrowed has a significant impact on poverty levels. According to the table, these categories are that 41.5 % of those living in extreme poverty has taken more than three loans. However, not a single person that belongs to 'well-off' and 'rich' categories' have taken more than three loans. Most people from these categories have taken only one loan, 40% and 31% respectively. But ‘extreme poverty', 'somewhat poor' and 'vulnerable' categories have taken more than three loans 41.5%, 39%, 19.5% respectively. However, it can be identified that other categories without the 'well-off' and 'rich' ' have taken more loans and as the result of that, they faced to indebtedness.

The Regression line for poverty, according to the estimated regression coefficient of the results of the Poverty Regression Model, is MDPI = - 0.280 + 0.388 (no of times loans were taken) - 1.978 (expected monthly income) Criteria coefficient of the multiple stepwise regression model or R-squared value, a statistical measure of how close the data are to the fitted regression line, is 0.760 and this is a good fit for the model.

According to the results of the study, Microcredit is not an effective tool for poverty alleviation especially for the poor people with previous indebtedness. Therefore, the study suggested between no: of loan terms and the value of the loan should be compared before giving the loan. Further, the poorest cannot repay their loan on time

Table 03: Household poverty model

Model	Unstandardized coefficient		t value	P value
	coefficient	Standard error		
Constant	- 0.280	0.230	- 1.216	.227
No of times loans were taken	0.388	0.031	12.553	.000
Expected monthly income	- 1.978	0.000	- 4.382	.000

Source: Survey data, Jan. 2017

Dependent variable: poverty

as the study recommends the borrowers income level should be categorized and after that selecting the borrowers who have good credit history before issuing the loan. The study proposed most poor people do not know that how to allocate their credit. Hence, a special monitoring campaign should be created after giving the credit. Furthermore, the re-payback period should be increased or payment of loan instalment should be fortnightly if possible monthly. Also proposed a regulation procedure should be made to manage the credit risk.

Keywords: extremely poor, microcredit, Multidimensional Assets Poverty Index

References

Gunapalan, S., Ummah M.A.C.S.(2013), A Study on Microfinance as a tool in Developing Enterpreneurship*Special Reference to Ampara District of Sri Lanka*. Available from: http://www.seu.ac.lk/researchandpublications/symposium/international/2013/Management/A%20Study%20on%20Microfinance.pdf

Haque, M.S., Yamao, M. (2008), Can Microcredit Alleviate Rural Poverty? *A Case Study of Bangladesh*. Available from: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.193.4690&rep=rep1&type=pdf

Kirru, J.M,(2007), The impact of microfinance on rural poor household's Income and Vulnerability to poverty *[case study of Makueni]Kenya*. Available from:http://scholar.google.com/scholar?q=the+impact+of+microfinance+on+rural+poverty+in+kenya&hl=en&as_sdt=0%2C5&as_ylo=2007&as_yhi=

Jayasundera, N.S., (2005), Urban Poverty in Colombo-PEP, Available from:http://www.pepnet.org/fileadmin/medias/pdf/files_events/4th_colombo/proceed/shantha.pdf

Thilakarathna, G.M., Wickramasinghe, U. (2005), Microfinance in Sri Lanka: A Household Level Analysis of outreach and impact on poverty. Availablefromhttp://www.pepnet.org/sites/pepnet.org/files/typo3doc/pdf/files_events/4th_colombo/Ganga.pdf