

Utilization of Microfinance by Different Enterprises, Sri Lanka

Thilini Kumari, Yapa Wickramasinghe and Dinum Herath

Abstract—Microfinance became popular after the introduction of the Grameen model. This study explored the relationship between successful utilization of microfinance and factors influence. Data were gathered from a random sample of 200 microfinance beneficiaries in three divisional secretariats of Kandy district Sri Lanka. The success and the failure of enterprises were determined based on an index. Descriptive statistics were used in data analysis. Results revealed that, there is a positive relationship between socio economic factors and successful utilization of microfinance. Gender and Education level of beneficiary, Family size and Entrepreneurial experience of the beneficiary prior to the receipt of MF could contribute to successful utilization of MF. Moreover, factors considered have influenced the successful utilization of microfinance in the same manner on old agricultural, new agricultural and new non-agriculture enterprises while the influence of those factors on successful utilization of microfinance in old non-agricultural enterprises was relatively low.

Keywords—Microfinance, Success Factors, Utilization of micro finance.

I. INTRODUCTION

THREE are about three billion people (half of the world's population) is living with an income less than two U.S. dollars a day; in these communities, one child out of five does not live to see his / her fifth birthday (Michael, 2005). This indicates the cruelty of poverty and thus taking steps to mitigate poverty is of paramount importance.

Because poor's ability to meet the basic needs in their lives is being deprived by low income provision of outside capital has become mandatory to push them out of the vicious cycle of poverty. There are two sources of outside finances namely the formal sector and the informal sector.

Though the formal financial institutions such as banks do provide credit at a relatively lower interest rate the poor is reluctant to go to formal financial institutions due to the complex procedures adopted by these institutions, the requirement of producing collaterals as securities and long delays. This situation has created a situation where another form of credit provision to be introduced. Thus, microfinance has been viewed as one way of in providing financial services quickly to the poor with less complex procedures. Therefore

people thought about micro finance as a suitable tool that could be used in reducing rural poverty.

The founder of microfinance, Muhammad Yunus, promoted the concept of microfinance (MF) through the Grameen Bank and it became highly popular mean of poverty alleviation (Miller, 2010). Some developed as well as developing countries (particularly in Asia) have long histories of microfinance.

In number of European countries, microfinance was evolved as a form of informal banking service for the poor during the 18th and 19th centuries. Ireland also commenced her microfinance activities in 18th century and it is a history of how self-help led to financial innovation, legal backing and adopt regulations creating a mass microfinance movement. Nevertheless, the unpleasant regulations prompted by the commercial banks brought it down (Khan and Rahaman, 2007).

Until the global financial crisis erupted in late 2007, available information suggests that, there was a weak relationship between the performance indicators of the microfinance industry and the international capital market developments as well as domestic macroeconomic conditions. The global financial crisis changed all of these and with the commencement of the financial crisis relatively high interest rates were charged by the micro finance institutions (MFIs) becoming less transparent and attracting more concentration (Stauffenberg, 2013).

Though micro financing was confined to issuance of small loans to the poor, overtime, its scope was expanded incorporating insurance, transactional services, and importantly savings (Michael, 2005). This development has enhanced the poor's access to financial as well as non financial services through micro finance institutions.

After 55 years, strongly conflicting views on the importance and the role of Microfinance Institutions (MFIs) and their aspects were emerged. According to one view, MF has adopted well to the changing global environment with perhaps the need of some reforms to the international architecture (Gregorio, 1999). The other view says that, it's useful time has passed in the environment of exchange rate flexibility and open capital markets (Schwartz, 1998). These radically conflicting views indicates the requirement of a balanced perspective on the role and performance of the MFIs within the context of its historical evolution. Having briefly discussed about the utilization of MF in different countries around the globe, the following section describes the MF sector in Sri Lanka.

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Microfinance in Sri Lanka has a long history and is viewed as an effective instrument in reducing poverty through the creation of jobs for the poor and restoration of their livelihood. At present, many institutions such as the government ministries, commercial banks, specialized banks, registered finance companies and informal lenders are engaged actively in providing microfinance.

In 1911, the British government first began to provide micro finance as an economic tool and introduced legislations to create an enabling environment and credit co-operatives were formed. Factors such as lack of access to education and the control exerted by the proprietors and the village headmen on rural people fuelled the expansion of these credit societies in large numbers. Though entrepreneurs running small and medium enterprises (SMEs) and other microenterprises (MEs) need access to financial services, mere provision of credit is not sufficient because some entrepreneurs need training in areas of business management, getting access market information and utilization of market information. As such that, micro financing coupled with above stated services would expand the capacity of the poor to reach the benefit of both domestic and international markets while creating decent jobs.

The state has an important role to play in this regard as the majority of the owners of SMEs and MEs are neither financially strong enough to afford the market-determined fees for such training nor market information. Available information indicates that, MF interventions in Sri Lanka have produced mixed results (Gant, de Silva, Atapattu, and Durrant. 2002). Hence, understanding causes for failures as well as successes in utilization of microfinance is of paramount importance because such information could be utilized by the state, MF providers, policy makers and MF beneficiaries. Though several studies were done in Sri Lanka on utilization of MF and its role in poverty alleviation further generation of similar information is necessary. Therefore, this study attempted to assess the impact of socio economic factors, institutional factors and nature of the enterprise on successful utilization of microfinance

II. MATERIAL AND METHODS

A. Study area and sampling

As the number of MF recipients in Kandy district is large this study was confined to three divisional secretariat (DS) divisions namely; Harispattuwa, Kundasale and Pathadumbara.

Sampling was done in several steps; during the first step lists of microfinance recipients were obtained from respective micro finance providers and those lists were split into two based on the nature of the enterprise as agricultural and non-agricultural and during the second step, enterprises in each group were divided again into two categories as new enterprises and existed ones. A random Sample of 200 beneficiaries from three DS Divisions was selected in a way to represent all four categories of enterprises. Out of 200 beneficiaries 50 were Agricultural New enterprises, 50 were

Agricultural old enterprises, 50 were Non-Agricultural New enterprises and 50 were Non-Agricultural Old enterprises.

Primary data were collected through a field survey. A Pre-tested and structured questionnaire was used for this purpose. In additions to the survey, key informant surveys, group discussions and case studies were conducted to fill the gaps in available information

B. Data and data analysis

Both secondary and primary data were used during this study and primary data were gathered through a field survey. Both qualitative and quantitative methods were used in data analysis. Data were arranged and grouped according to research questions. Data obtained from the questionnaires were grouped based on the research questions and analyzed using descriptive statistical methods such as percentages, mean scores and standard deviations. Rank Correlation analysis, Descriptive statistics, Mood's Median Test, Kruskal-Wallis Test, Mann-Whitney Tests and goodness of fit tests. The Minitab statistical package was utilized in data analysis.

Coding of responses was done to simplify the analysis. A score was developed to determine whether an enterprise is a successful one or a failed one incorporating several factors and weighting them according to their importance. This score was computed separately for each enterprise and if the score of an enterprise was greater than 50 the enterprise was considered as a successful one and if the score was lower than 50 the enterprise was considered as a failure. The validity of the index was tested.

Data were arranged and grouped according to particular research questions. Coding of categories was developed for organizing and analyzing qualitative data collected according to research questions. Success and the failure of the enterprise were determined using a score of an index developed for this purpose. Several factors were used in constructing the index like, increase of income (Rs), Labor (MD/month), Ratio between family and hired, Amount of raw material used /month, Types of raw material used, Number of business trips /month, Number of people engaged in marketing, Total distance travelled per month, Number of vehicles used in marketing, Value of capital items purchase, increase of savings, Living standards improved, Product attribute / Characters added. And weights were assigned to different factors according to their priority in a way that the sum of weights is 100. Each score of the enterprises were calculated, an enterprise having a score equal to or more than 57.5 was considered as having a successful one while an enterprise with score less than 57.5 was conceded as an unsuccessful one. Validity testing for the index was done.

Results were effectively described using numbers (counts), figures, narratives and descriptive statistics such as percentages, mean scores and standard deviations. Rank correlation analysis, Mood's median test, Kruskal-wallis test, Mann-whitney test and Goodness of fit test were also used in data analysis.

III. RESULTS AND DISCUSSION

A. Impact of Socio Demographic factors on successful utilization of MF

It was assumed that, gender and education level of beneficiary, family size and entrepreneurial experience of the beneficiary prior to the receipt of MF could contribute to successful utilization of MF and were tested during the study. Majority of the respondents were females and some of them were failed while the others were successful, thus, it implies that neither the success nor the failure of the enterprise is associated with the gender of the beneficiary. So it is possible to state that the successful utilizing of MF is gender neutral (Table 1).

TABLE I
SOCIO DEMOGRAPHIC FACTORS AND SUCCESSFUL UTILIZATION OF MF

Factors	Success	Failure
Reasonable of Interest rate	Agree (4.0)	Indifferent agree(3.0)
Procedure adopted in releasing loans are simple	Agree(4.0)	Indifferent agree(3.0)
Operational Assistance are beneficial	Indifferent (3.0)	Indifferent (3.0)

Source: Field survey (2014)

The leading age category of the MF recipients was 25-50 years and is the economically active age category. The people of this age category are comparatively good in negotiating terms and conditions of loans with the loans providers. Results revealed that the average age of successful beneficiaries was similar to that of the failed beneficiaries and thus, age has influenced neither on success nor the failure in utilizing MF (Table 1).

Because an educated person can understand the loan process easily and training such a person on activities such as business development, effective use of credit and terms of loan repayment are also relatively easy those aspects were examined during the study. Results revealed that, level of education of the failed ones was comparatively lower than that of the successful ones. Therefore, it is possible to conclude that, level of education of MF recipient has influenced the successful utilization of MF (Table 1).

In a small family enterprise, family member can be a substitute to hired labor. Therefore, it was assumed that the family size could influence the successful utilization of MF and that aspect was examined during the study. Results revealed that, there was no association between family size (average family size was 3-4 members) and the successful utilization of MF (Table 1).

It was assumed that, business experience that a person possessed prior to the receipt of MF could influences the effective use of MF and that was investigated. It was found that, none of the beneficiaries had prior exposure to business management and thus, results are inconclusive (Table 1).

In summary, gender, age, family size and prior entrepreneurial experience have no influence on successful utilization of

microfinance while level of education has a positive impact on successful utilization of microfinance.

B. Impact of Institutional factors on utilization of MF

It was assumed that, interest rate; simplicity of procedures adopted in processing loan applications and releasing loans; operational assistance provided by the MFIs as institutional factors that could contribute to the demand for MF. In order to understand their impact beneficiaries' opinions were recorded on a five point scale from 1 (totally disagree) to 5 (totally agree).

Results revealed that, in general, MF recipients are with the opinion that, interest rate charged by the MFIs is reasonable and they are satisfied about procedures adopted by the MFIs in granting loans but, they have not paid attention to operational assistance provided by the MFIs in choosing a MFI. Successful ones are with the opinion that, low interest rates charged by the MFIs and simple procedures adopted by the MFIs have contributed to their success while the unsuccessful ones are indifferent. Neither successful nor failed ones are not in a position to state whether the operational assistance provided through the MFIs were beneficial (Table 2).

As MFIs had not assessed beneficiary's capacity to utilize micro funds effectively and efficiently prior to releasing loans, it is not unrealistic to assume that, the recipients who had utilized MFs with a certainty have utilized credit successfully while the recipients who have utilized funds with relatively low certainty have failed, and that could be the reasons for the observed difference in opinions between two categories of beneficiaries.

TABLE II
IMPACT OF INSTITUTIONAL FACTORS ON SUCCESSFUL UTILIZATION OF MF

Factors	Success	Failure
Reasonable of Interest rate	Agree (4.0)	Indifferent agree(3.0)
Procedure adopted in releasing loans are simple	Agree(4.0)	Indifferent agree(3.0)
Operational Assistance are beneficial	Indifferent (3.0)	Indifferent (3.0)

Source: Field survey (2014)

This is a weakness of the system and due attention should be paid to that aspect when evaluating loan applications. If it is not practically possible to assess the capacity of the loan applicant to utilize the loan effectively at the time of granting loans, at least, a mechanism to receive a feedback from beneficiaries should be introduced in order to assure whether the credit recipient utilizes the funds for the intended purpose. Finally, it is realistic to state that the interest rate and procedure adopted by MFIs in releasing loans have influenced the successful utilization of MF. However, Operational assistance provided from MFIs has not influenced the successful utilization of MF.

This study assumed that, documentation procedures adopted by the MFIs, legal requirements to be satisfied in obtaining micro credit, credit limits imposed by the MFIs, have constrained their ability to received and utilize micro credit successfully. Results revealed that, such institutional factors have not constrained the receipt as well as the utilization of

micro credit. Based on these evidence it is possible to conclude that, institutional factors have not influenced the successful utilization of micro credit. However, interest rate and simple procedures followed by the MFIs have influence the successful utilization of the funds.

C. Impact of nature of enterprise and successful utilization of MF

This is a weakness of the system and due attention should be paid to that aspect when evaluating loan applications. If it is not practically possible to assess the capacity of the loan applicant to utilize the loan effectively at the time of granting loans, at least, a mechanism to receive a feedback from beneficiaries should be introduced in order to assure whether the credit recipient utilizes the funds for the intended purpose. Finally, it is realistic to state that the interest rate and procedure adopted by MFIs in releasing loans have influenced the successful utilization of MF. However, Operational assistance provided from MFIs has not influenced the successful utilization of MF.

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For this analysis enterprises were grouped as Agriculture and Non-Agriculture in order to assess whether the nature of enterprise has contributed to the successful utilization of MF. The Mann-Whitney and Kruskal-Wallis tests were used for this purpose and it was hypothesized that there is no significant difference in successful utilization of MF between agriculture and non-agricultural enterprises.

As the z-value is negative, mean rank of agricultural project is lower than that of non-agricultural projects, test statistic (H) has a p-value of 0.000, both unadjusted and adjusted for the null hypothesis can be rejected in favor of the alternative hypothesis (Table 3).

TABLE III
KRUSKAL-WALLIS TEST APPLIED TO AGRICULTURE AND NON AGRICULTURE ENTERPRISES

Variables	n	Median Score	Average rank	Z Value	H Value	P Value
Agriculture	100	52	85.7	-3.62	13.09	0.000
Non-Agriculture	100	60	115.3	3.62	13.19	0.000

Source: Developed by authors (2014)

That is, there is a significant difference in successful utilization of MF between agricultural and non-agricultural enterprises. Agricultural enterprises are more prone to failure than non-agricultural enterprises and it could be due to specific feature of agriculture such as exposure to uncertainty, biological nature, time lag associated with agricultural production and the frequent fluctuation in agricultural prices.

Another null hypothesis tested was that, there is no association between successful utilization of MF in old agricultural, new agricultural, old non-agricultural and new non-agricultural enterprises.

Results are significant ($p < 0.05$), indicating that, there is a significant difference between the median score of success index of new agricultural, old agricultural, new non-agricultural and old non-agricultural enterprises. (Table 4). According to the median score, new agricultural enterprises, old agricultural enterprises, new non-agricultural enterprises are less successful than old non-agricultural enterprises. Observe success of old non-agricultural enterprises could be due the relatively larger investments done in these enterprises because there is an assured demand for those products.

TABLE IV
KRUSKAL-WALLIS TESTS APPLIED TO NEW AND OLD AGRICULTURE AND NEW AND NON AGRICULTURE ENTERPRISES

Variables	N	Median Score	Average Rank	P Value
New Agricultural	50	53.5	80.4	0.000
Old Agricultural	50	52	91.4	0.000
New Non Agricultural	50	52	89.1	0.000
Old Non Agricultural	50	65	141.5	0.000

Source: Developed by authors (2014)

IV. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Socio-economic factors, gender, distribution, family size, possession of business experience prior to receiving micro credit have influenced neither the success nor the failure in utilizing micro finance. However, educational level of the entrepreneur and the successful fund utilization are positively related. Simple procedures adopted by the MFIs in granting loans have motivated people to obtain micro credit. Furthermore, a significant portion of the respondents with the opinion that, interest rate of micro-credit was reasonable; loan-releasing procedures of MFIs were acceptable to them. Factors contributing to successful utilization of MF have influenced the same manner on old agricultural, new agricultural and non-agriculture new enterprises. Successful utilization of MF in old non-agricultural enterprises is relatively high.

Recommendations

Mechanism to guide and monitor activities of MFIs should be introduced.

A program to train and research in MF field must be developed

A program is required to increase efficiency and effectiveness of the activities of MFIs.

Monitor the rural development programs implemented by the MFIs and check whether those programs are in harmony with the national development strategies and priorities.

The government is urged to get involved in determining the interest rate, centralize the interest rates such that the rate is uniform for the MFIs and monitor the services of the MFIs.

The government needs to protect the borrowers from the MFIs and provide community sensitization and train the public on the access and utilization of MFI services.

In order to maintain better relationship between institutions and the beneficiaries, it is needed to enhance the facilities provided from MFIs. So, state intervention in this area is suggested.

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