Impact of microcredit on living standard of farmers in Anuradhapura district of Sri Lanka

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Introduction

Microfinance, in recent years, has been considered as an effective tool for eradicating poverty mainly by governments and international organizations around the world (Thilakarathna & Wickramasinghe, 2005). Microfinance is a bunch of financial facilities such as micro loans, micro savings, micro leasing and micro insurance to the poor to thrive them in the economy by their own legs through expanding their SMEs (Robinson & Margurite, 1995). Basically, it provides variety of financial services focusing poor specially who are incapable and represent very low-income household category (Asian Development Bank, 2000). Microcredit as a branch of micro finance represents the micro loan facility that mostly popular strategy in the developing countries for the generating income for the poor within last few years. (Anderson & Laura, 2002). The concept has much been popular among the nation in the past witnessed that the declaration of year 2005 by the United Nation as the year of Microfinance.

Microfinance itself has more attractive features than that of formal bank loan. Ledgerwood, (1999) stated that the flexibility of loan repayment policy and interest rate of microfinance are critical factors that differentiate microfinance preciously from the borrowing of formal financial market. However, the lenders in the informal sector are often encouraged to charge higher rates of interest. So, it is argued that microfinance, by accommodating financial services to individuals, households, and micro-entrepreneurs, upgrade income and employment generation opportunities for the poor people (Thilakarathna & Wickramasinghe, 2005).

In the national development process, Sri Lanka as a country has greatly welcomed microfinance initiatives as one of the strategies that well suits to eradicate burning issue of poverty among the regional peoples. Later it was deliberately popularized among regional peoples by private banks and micro finance institutes with profit motives and it was firmly welcomed by the poor people also. However, according to the poverty headcount index, around 7.6percent of the people in the rural area is living under the poverty line still in Sri Lanka. At the province level, head count index of North Central Province is 7.3 percent, which represents 89,000 poor people in the North Central province were under the poverty national poverty line

(Departmet of Census and Statistics, 2006). Thus, the purpose of this study is to investigate the impact of microfinance initiatives on the living standard of farmers in Sri Lanka with special reference to Anuradhapura District.

Methodology

This study of the impact of microcredit on the living standard of farmers in Sri Lanka with special reference to Anuradhapura District is a quantitative type deductive study. A literature-based conceptual framework was used here with four directional hypotheses. Accordingly, loan interest rate, easiness of getting the loan, payment schedule, level of awareness about the microfinance and loan repayment are considered as the independent variables and the living standard of farmers is identified as the dependent variable.

The target population of the study was all microfinance beneficiaries in Anuradhapura District and 96 micro loan holders were selected as the sample for the study based on random sampling method. The primary data were collected through a questionnaire which consisted two sections. The first section gathered information about demographic characteristics of the respondents and the section two contained a series of five-point Likert scale statements related to the dependent and independent variables. Data were collected from microloan holders in Mahakumbukwewa, Kadurugaskada, and Rathmalgahawewa villages. The data were analyzed through SPSS software deploying different statistical tools such as descriptive statistics, correlation and regression analysis.

Result and discussion

At the beginning, Cranach's Alpha value was calculated to measure the internal consistency of the constructs. According to the reliability test, the Alpha coefficients of loan interest rate, easiness of getting the loan, awareness about micro loans and living standard were above the standard level 0.7. However, the Alpha value of payment schedule 0.589, So as to enhance the reliability one item was removed from the construct.

As per the demographic analysis, there were 96 microloan respondents attached with the study and out of that 52 percent were male farmers and 83.3 percent belong to age 21-40 category. Moreover, in the sample, it was noticed through the education analysis that 36.5 percent respondents had only primary education, 11.5 percent studies up to Grade 09, 33.3 percent schooled up to O/L and 18.8 percent had higher education. As per the descriptive statistics, the mean values of loan interest rate, easiness of getting a loan, payment schedule and level of awareness about the finance were 3.36, 3.77, 3.29 and 3.55 respectively. However, mean value of living standard of the respondent was at a low level (mean 2.817).

Correlation analysis was conducted to test the relationships among the variables and results are presented in Table 1.

Table 1 Results of correlation analysis

Variable	LS	LIR	EGL	PS
Living Standard [LS]	-			
Loan Interest Rate [LIR]	.407*	-		
Easiness of Getting a Loan [EGL]	.316	.203	-	
Payment Schedule [PS]	.527*	.406*	.072	-
Level of Awareness about Micro Finance	.441*	.240*	.309*	.225*

**. Correlation is significant at the 0.05 level (2-tailed).*

According to the correlation result, the correlation coefficient of loan interest rate, payment schedule, awareness about microloans were 0.407, 0.527, .441 respectively and significant at 0.05. Accordingly, loan interest rates, payment schedule, awareness about microloan are positively correlated with the living standard of microloan holders. However, as per the test, the relationship between easiness of getting loans and living standard of microloan recipients is not statistically significant.

Regression analysis was performed to test the effect of independent variables on the dependent variable. Its results are presented in Table 2. The regression reported Adjusted R^2 squared value 0.34 which confirms the predictive power of the model.

Table 2 Results of regression analysis

Variables	Coefficient	Std. Error	Sig.
(Constant)	.423	.529	.426
Loan interest rate	.370	.119	.003*
Level of awareness about the microfinance	.008	.146	.959
Payment Schedule	.339	.098	.001*

*Dependent variable: Living Standard, *Significant at 0.05 level*

The regression coefficients of loan interest rate and payment schedule were 0.370 and 0.339 respectively and significant at 0.05. Hence, loan interest rate and payment schedule have significant effect on the living standard of the microloan respondents at Anuradhapura District. However, level of awareness does not make any significant effect on increasing the living standard of the microloan holders.

Conclusion and recommendations

The study examined the impact of microcredit on the living standards of microloan holders in Sri Lanka with reference to the microloan holders in Anuradhapura district. The results reveal loan interest rate and payment schedule

are the key factors that farmers consider in demanding for microcredit which is found to have a positive effect on living standard of the beneficiaries. Thus, well focused microcredit programs would help to enhance the living condition of the farmers in the region. In particular, microcredit institutions should pay their increasing attention on the interest rate and payments schedule to make them more convenient for the farmers. More especially, payment schedule should be determined by taking repayment ability of the loan holders and their level of income, the return on the investment they gain through the loans. Further, unexpected environment conditions such as drought, flood should be considered in deal with nonperforming loans.

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