SHORT COMMUNICATION

Dilemma of Micro Credit Programme and Rural Beneficiary Expectations

S.P Dissanayaka*[1], A.P.S. Fernando[1] , R.P.S. Rajapaksha[2]

[1]*Department of Agricultural Systems, Faculty of Agriculture, Rajarata University of Sri Lanka,*
[2]*Bank of Ceylon, Provincial Office, Anuradhapura*

*Corresponding author: *disasampa@yahoo.com*

Abstract

It is assumed that provision of micro credits, enabling poor households to access credit and helping to begin micro entrepreneurship would increase their living standards. The main objective of this study was to assess the performance and beneficiary expectations of *"DiviMaga"* micro credit programme under the service area of Bank of Ceylon, Doramadalawa branch. Fifty loan recipients were selected randomly for the study. Field data were collected by conducting a questionnaire survey. Both qualitative and quantitative techniques were employed in analyzing data. Of all loan recipients, 82% were female, 48% had primary education, 80% were married, 52% were permanently employed either in private or in public sector while, 58% had no training in entrepreneurship. Loan recipients belonged to 35-55 age category (average 44 years) who consisted of 4 household members on average. Results revealed a gap between utilization of credit and the purpose of obtaining micro credits. It was found that 87% of loan recipients disbursed their loans for domestic purposes rather than credit objectives. It was attributed to lack of regular monitoring and evaluation system, lack of real business opportunities for which the credit was obtained and poor financial literacy of loan recipients. The socio economic attributes such as age, gender, household size, education level, marital status, income and type of training received by loan recipients had contributed to participation in micro credit programme. Regression results revealed positive and significant (p<0.05) impacts of age of loan recipient, education level, household income, availability of paid employment and group stability on expected loan amount. Based on the results, though it can be concluded that the project has produced positive benefits, evidences are not strong enough to conclude whether it has helped to achieve stated project objectives and credit expectations of beneficiaries.

Keywords: Loan recipients, Microcredit, Microfinance, Poverty

Introduction

Over 3 billion people live on less than US$ 2.50 a day. The Gross Domestic Product(GDP)of 41 heavily indebted poor Countries (567 million people) is less than the wealth of the world's 7 richest people combined. Less than one percent of what the world spent every year on weapons was needed to put every child into school by the year 2000 and yet it did not materialize. One billion children live in poverty (1 in 2 children in the world). 640 million live without adequate shelter, 400 million have no access to safe water and 270 million have no access to health services. About 10.6 million died in 2003 before they reached the age of 5[1].

In Sri Lankan context poverty continues to be a large problem. Sri Lanka though being a developing country, its life expectancy, literacy rate and other social indicators are nearly on par with those of developed countries. Sri Lanka has been experiencing moderate growth in its GDP averaging 7.3% per annum in 2013. The Sri Lankan government has been successful in reducing poverty from 15.2% in 2006 to 6.7% in 2013, urban poverty was reduced from 6.7% to 2.1% while rural poverty was reduced from 15.7% to 7.6% and the nation is close to achieving Millennium Development Goals on eradicating extreme poverty hunger[2].

In this regard, microfinance is the form of financial development that has its primary aim to alleviate poverty[3].Microfinance has been widely accepted as a viable policy option for poverty reduction by the donor community, international organizations, governments and nongovernmental organizations[4].Chesten and Kuhn[5], defined microfinance as the means of providing a variety of financial services to the poor, based on market-driven and commercial approaches. Impact is about understanding how financial services affect the living standards of poor people. Today, most impact assessments have focused on microcredit programs rather than looking at a range of financial services. Impact of microfinance include multiple dimensions of poverty, overall household income, social improvements in health and education and empowerment of loan recipients. Access to financial services enablesclient to build and change their mix of assets. In the global arena there is an impression that microfinance is successful in reducing poverty. Many policy makers are therefore engaged on how to make microfinance sustainable and available to many poor households in the future. However the credits from microfinance programs help self-employment activities. It is generating new jobs for others and success has been especially limited in regions with highly seasonal income patterns and low population densities[6].The microfinance programs have a positive impact on the richer households but the impact is insignificant to the other poorer households. Microfinance tends to indebt poor women too leaving them more vulnerable and exposed[7].

It is within this background, this study was conducted. Specially, the study focused on the performance of the "*DiviMaga*" microcredit programme on participants by considering the households' credit (cash) allocation, group formation and consistency and improvement of living standards. The objectives of the study were; to elicit the socioeconomic attributes of "*DiviMaga*" micro credit programme participants, (ii) to determine the factors affecting on the expected size of the loan disbursed and (iii) to examine the reasons for deviating from credit objectives by loan recipients.

Methodology

The overall study was designed as an experimental case study. To address the empirical objectives of the study, primary data were collected in service area of Bank of Ceylon (BOC)Doramadalawa branch in Mihintale Secretariat Division using structured questionnaires. Of 94 loan recipients, a randomized sample of 50 loan recipients was selected for the analysis. Data was analyzed using both qualitative and quantitative techniques. The data obtained from the questionnaires were grouped based on the research questions and analyzed using descriptive statistical methods such as percentages (Likert scale) and frequencies. Multiple regression was the quantitative technique used in data analysis. To achieve a more accurate data about the performance of the loan scheme there were few vocal interviews with convenient facilitators in village and leaders of BOC small groups. The Econometric model used in this study was;

$$Y = \beta_0 + \beta_1X_1+\beta_2X_2 \ldots\ldots\ldots + \epsilon$$

Where the expected long size (Y) as a function of individual and house hold characteristics (X) of long recipient. βare the respective coefficient of vectors. The variables used in the Econometric model are shown in Table 1.

Table 1. Variables used in regression model

Variables	Definition
exptdlnsiz(Y)	Expected loan size
age	Age of loan recipient
hhsize	Size of household
gndr	Gender of loan recipient
edu	Education level of loan recipient
inc	Household income
employ	Paid employment
busityp	Business type
grpstb	Group stability

Results and Discussion

The general descriptive statistics for microcredit pogramme participants are shown in Table 2.

Table 2. Household socioeconomics statistics of participant

Mean age of loan recipient	44 years
Average household size	4 members
Average household income per month	Rs: 20,050.00

In this study 82 % of the total borrowers were females while 18% were males. In the study area many females tend to be economically disadvantaged. Therefore *'DiviMaga'* microcredit programme targeted more females than male. Females were the dominant in participants in the of credit progeamme. They were fairly educated and most of them were entrepreneurs who were engaged in manufacturing sweets, tailoring, saloons, retail business and even brick making. About 30% of women utilized the loans for agriculture while less number (12%) maintained small scale livestock farms and 62% were engaged in business. Importantly 65% of these women had comparative advantage in participation in credit programme than the other 35% because they acquired a regular income as the spouse was in paid employment. Hence it was not a big issue in repaying their loans.

Overall, 92% of respondents had attended school and of this 48% had primary education while had 44% secondary education. It was a good indicator of literacy rate in the area. Because of that all members were able to understand the rules and regulations of *'DiviMaga'* micro credit scheme and procedures of BOC small groups. Of the participants a considerable number (nearly 80%) were married. Of this, loan recipients55% were having regular income from paid employment either in government sector like the defense services, and police department, permanent government laborers, government teachers or in private sector. Of there spondents 16% were either single and widowed.

Results revealed that the main occupation of about 74% of loan recipients'was agriculture. Hence majority of households were expected to be relying on farming as their main occupation. But this arid and semiarid region had suffered a prolonged drought for long period and many peasant farmers had therefore looked for other opportunities like entrepreneurship to earn a living. On the contrary 52% of the total loan recipients said that there was a regular income from other sources as mentioned earlier. When some person acquired technical and professional skills through any particular training programme it makes his success in that particular field. But the most of respondents (58%) in this study were not received any sort of training to support their self-employment and micro enterprises. Most importantly 42% of respondents were received occasional and professional trainings. Out of this 42%, nearly 62% of loan recipients were able to received occasional trainings through BOC small group programmes and even village farmers' societies as well as women societies. It was helpful in sustaining their business and small enterprises.

Rural areas were characterized by low household incomes. This implies a low demand for goods and services and therefore limited markets for rural micro entrepreneurs. With this situation, micro-entrepreneurs must make difficult decisions in terms of loans usage. More often most of micro entrepreneurs faced the question of whether to invest all the loan money in the enterprises or to use some of it to settle immediate domestic needs. The use of micro credit loans by households are shown in Table 3.

Table 3. Use of micro credit loans by households

Respondent %	Domestic uses(% of total loan)	Entrepreneurship uses(% of total loan)
15	100	0
20	75	25
33	50	50
19	25	75
13	0	100

This study revile that majority of loan recipients disbursed their micro credits for domestics purposes such as debt repayments, expenditure for medication and school fees while only a few recipients used the loan for the purpose for which the loan was requested.

Informal discussion with BOC small group members and key informants were used to identify the reasons for deviation from the credit purpose. Most of loan recipients disbursed their loans for immediate survival of the households and were unable to invest

full amount of credit for credit purpose. The other reasons in the order of priority being purchasing of properties (motor bike, three wheel or any other assets), instability of BOC small group, absence of close monitoring, evaluation and inspection system by the banker, spending for immigration of the spouse (visa and passport) and other eventualities like births, marriages and funerals of households .
The next question that raised with this was how the participants were repaying the loans. Repayment by means of business profits meant that the respondents were able to invest and reap returns and were therefore able to repay from business profits. If they were unable to credit on entrepreneurship, then they come up with repayment problems and tend to sell or have to mortgage their domestic animals (cows, goats chicken etc.), house furniture, electronic goods or sometimes even clothing to repay the loans. So they are vulnerable to poverty.

The size of loan that the poor households expected to acquire through micro credit progrmme was a very important determinant on the household welfare improvement. It was argued that if the loan size was too small, it was difficult to make any significant difference in household welfare. Some times the size of loans even prompted some females to leave the microfinance programs, arguing that the loans were too small for any meaningful income generating activity. So the households determined the size of the loan they would like to acquire in terms of prevailing socio economics conditions and the purpose for which they needed to invest the money in.

The invisible characteristics of household like managerial skills, entrepreneurship skills and risk taking capabilities were also affected on acquisition of a particular loan size. But they were difficult to be observed and measured accurately. The results of regression analysis are summarized in Table 4.

Table 4: Factors affecting the expected loan size (regression model) of loan recipients in Mihintale secretariat division.

Variable	Parameter estimate	Pr> F
intercept	-884,720	0.0021*
age	6,310	0.0274*
hhsize	13,857	0.5599
edu	217,866	0.0007**
inc	9	<0.0001**
employ	101,326	0.0515*
busityp	75,680	0.129
grpstb	53,497	0.025*

R- Square = 0.5641 C(p) = 7.0079F value 7.77 Pr< F, <0.0001
* Significant at 5% **significant at 1%

The results indicate that the age of loan recipients has a significant positive relationship with loan size. Younger loan recipients were better off than older recipients. Also education level of respondents has positive significant relationship with loan size. When people were more educated they tend to expect large loan size. Household income also has a positive significant relationship with loan sizes in that wealthier households are also likely to access larger loans. Households that have extra regular incomes from paid employment are likely to participate in micro credit programme. This is because each time a household repays a loan successfully, they stand to acquire a larger loan the next time they borrow. Group stability or consistency of BOC small groups also has a significant positive relationship on acquired large loan size. It is because when their groups become more stable they have saved more in their personal and group saving accounts at BOC. As suchthey are used to utilize that accounts as collateral securities. They thus expected large loan size through micro credit programme.

Conclusion

In conclusion it could be said that there is a role for microfinance as a poverty reduction policy tool. More than 85% of loan recipients misused their credits and their ability to begin micro entrepreneurships should not be assumed to be adequate for the improvement of household income. Though the loan scheme has produced positive benefits there is no strong evidence to conclude that it has helped to achieve stated project objectives and credit expectations of beneficiaries.

If microfinance is chosen as an intervention policy for poverty reduction it needs to create a policy framework for growth in the enterprises as well as the rural economy through the creation of employment opportunities and an increment in the agricultural output. To achieve such objectives with respect to 'DiviMaga' micro credit programme, it may need to revised the existing credit programme to increase access and credit ceiling. Further as developing of effective monitoring and evaluation system is recommended (pre and post inspection of projects).

References

1. UNDP. Human Development Report, (2013).Available fromhttp://hdr.undp.org/en/2013-report (Accessed on 16/8/2015)

2. Department of Census and Statistics. Poverty Indicators Report,(2012/2013).Available from: http://www.statistics.gov.lk(Accessed on 16/8/2015).

3. Joy Kiiru M. The impact of microfinance on rural poor households' income and vulnerability to poverty (2007). Available from http://hss.ulb.uni-bonn.de/2007/1181/1181.pdf (Accessed on 16/8/2015).

4. Helmsing AHJ, KnorringaP. Enterprise development interventions by Dutch development NGOs. *The Netherlands Yearbook on International Cooperation* 2008;105-128.

5. Cheston S, Kuhn L. Empowering women through microfinance. In:Daley Harris S. (Ed).Pathways out of poverty.*Innovations in microfinancefor the poorest families*. USA: Kumarian Press, 2002.

6. Morduch, J. The microfinance promise.*Journal of Economic Literature*.1999; 37.

7. Kiriti-Nganga TW, Poverty Alleviation Programs For Women's Empowerment in Kenya Through State and Private Sector Governance. In: Roy KC, Biman Prasad (Eds.) *Governance and Development in Developing Countries*, NOVA Science Publishers, 2007.