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Analytical study on the socio-economic impact of microfinance loan on Sri Lankan rural household context (With reference to Polonnaruwa district, Sri Lanka)

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Abstract
The main characteristic of rural households is that it is not fully subject to the modern economic laws, being rather governed by a series of less quantifiable principles (traditions, customs, traditional cultural patterns, etc.), which protected it in times of crisis, of transition, yet hindered it from technological, informational, economic and social progress. Micro Finance Institutions (MFIs) provide financial and non-financial services to the poor people in developing countries for their income generating activities as well as in Sri Lanka. An MFI could be a Non-Government Organization (NGO), a credit cooperative or a non-bank financial institution and Community Based Organizations (CBOs).Socio- economic impact expected from the provision of MFLs was as follows; availability of credit for food, cloths, medicine, spending social ceramonies, engadging in efforts for earning extra-income, investment in productive assests & micro entreprenuership or micro-bussiness however as per the findings of this study following advers socio-economic impacts were noted; impact of MFLs on family ties (Children and parents, with spouses), MFLs caused problems in marriages, caused to entangle in a chain of loans, consumes whole or most of the income of the household, caused the auction /pawning of valuable belongings etc. Sample of this study is composed of 130 households that have obtained micro-finance loans. Sample selection method was snowball sampling method. Field of study- Segala G.N. division of Elahera D.S division, Polonnaruwa district, Sri Lanka. Data was collected through both primary sources like interviews, questionnaires and secondary sources such as journals and newspapers etc. Data analysis tool was SPSS both qualitative and quantitative analyses were done to obtain optimum research findings.

Keywords: rural household, micro-finance loan, socio-economic impact

1. Introduction

The rural household is the main actor in the rural space, owner of the main (natural, human, economic, cultural) resources, which it uses at its own discretion and whose behavior is very important for the society where it belongs. There is no unanimously accepted definition of the rural space, as it is an extremely complex concept, with a great diversity of opinions on its definition, scope and components (Dona 2015) [2]. There are a series of differences from country to country depending on the particularities of each state. However, there are a series of defining characteristics for the rural space: low population density, small and medium-sized human settlements, the main economic activities being agriculture, forestry, fisheries, and the primary processing of raw products from the agricultural, forestry and fisheries sector.

The rural household There is no uniformity in defining the household in the world (necessary for data comparability in different European and world surveys), even though all definitions imply a certain form of life and consumption in common. Certain definitions incorporate pooling and sharing incomes within the household. In the European Union, the most frequently used criteria in defining a household are the following: co-residence (living together in the same house), pooling and sharing the incomes and resources, sharing the expenses and ultimately, existence of family or emotional ties. “The rural households are complex (social, economic, spiritual) living systems, integrated into a specific environment, the rural environment”. “A household is a production workshop, based on the work of a family group, aiming at meeting its own consumption needs”.

Heterogeneity of poverty levels in Sri Lanka differs widely between provinces and districts. At the two extremes is Colombo District with 6% of the population living in poverty and Moneragala District which registers 37% of the population living in poverty. A sectorally disaggregated view shows the highest levels of poverty occurring in the South (Southern, Uva and Sabaragamuwa Provinces). Overall, rural areas are poorest - 90% of the poor live in rural areas, but this statistic must be understood in the context of urban/rural classification in Sri Lanka which classes the vast majority of the population as rural… In terms of income inequality, the relative position of the poor has fallen over the past few decades. Statistics from 2002 reveal that the lowest decile earned only 1.7% of total income, whereas the highest decile earned 37.4%. Less than 1/3 of the population earned around 2/3 of total income, whereas more than 2/3 earned around a 1/3 of the total income. Therefore, while GDP may be rising in Sri Lanka, this growth is not being converted into poverty reduction as the poor's share of that growth is not large enough, and falling (Atapattu, 2009) [1].

Micro Finance Institutions (MFIs) provide financial and non-financial services to the poor people in developing countries for their income generating activities as well as in Sri Lanka. It can be divided into different legal categories depending on the country in which the institution is based. An MFI could be a Non-Government Organization (NGO), a credit cooperative or a non-bank financial institution and Community Based Organizations (CBOs). It has dual objectives which are both social and financial.

1. The social objectives mean that the MFI contributes to improvement and alleviating poverty.
2. The financial objectives focus that the MFI must keep enough profit for their sustainability (Yogendrarajah, 2014) [5].

In Sri Lanka, there are many models being practiced by MFIs. Historically credit Cooperatives, Village Societies also called community based organizations (CBOs) and Village Revolving Funds were the most popular till 1990‘s. Credit co-operatives were introduced in early part of the century but were largely confined to middle class salaried employees till it was taken to rural masses in 1980‘s. Village society model was adopted by SEEDS in 1986 and majority of NGOs followed suit with this model, whilst government with its Samurdhi banks also followed a modified village society model. In the 1980‘s and even in 1990‘s many INGOs such as CARE International commenced village revolving funds and this is still popular in conflict areas where UNHCR is also supporting such autonomous village funds. Based on limitations in those modelsnew organisations such as Lakyaya, Ceylinco Grameen and BMI adopted methods of direct lending to clients and collections done at the village itself in a more structured manner such as on a specific data and time and within a very short period of time like 1 hour for a group.

Microfinance in Sri Lanka has a long history and MFIs are established in all forms and dimensions and it can differ in size, practice, legal act, strategy and budget. The reliability is important to the microfinance system and it determines how smoothly an MFI operates (Yogendrarajah, 2014) [5].

ROSCA‘s (Seettu) Rotating Savings and Credit Associations (ROSCAs) also known as ―Seettu‖ are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. For example, a group of 12 persons may contribute Rs.100/= per month for 12 months. The Rs.1, 200/= collected each month is given to one member. Thus, a member will 'lend' money to other members through his regular monthly contributions. After having received the lump sum amount when it is his turn (i.e. 'borrow' from the group), he then pays back the amount in regular/further monthly contributions.

Microfinance services in Sri Lanka have a wide geographical outreach but the extent of outreach of private operators including NGOs and commercial banks in rural areas is rather limited. Although the poor and the poorest groups have been reached by Microfinance Institutions (MFIs), a significant proportion of their clientele seems to be from the non-poor groups. Microfinance has helped households in middle quintiles to increase their income and assets; helped the very poor to increase consumption expenditure; has inculcated savings habits among the poor; has worked as an instrument of consumption smoothing among almost all income groups; and has helped women to increase their social status and improve the economic conditions (Tilakaratna & Wickramasinghe, 2005).

Before the creation of Microfinance Institutions (MFI), bank loans were unavailable for poor people, and moneylenders exploited many of the underbanked especially in developing countries. Today, microfinance facilitates financial inclusion and linkage (Ashta, 2009; Karmakar, 2008) and expands financing channels for vulnerable groups such as the members of the base of the pyramid. Hence microfinance can be called economic innovation that has the goal to fight poverty (Waber, 2009).

2. Objectives

Main Objective

- Identifying the socio-economic impact of micro-finance loans on rural household.

Specific Objectives

- Identifying the rural households
- Identifying the micro-finance institutions operating in the field of study
- Identifying the possible outcomes of microfinance loans on rural households

3. Research Methodology

3.1. Field of study and sample

As the field of research were used Polonnaruwa district in Sri Lanka. Sample of this study is composed of 130 households that have obtained microfinance loans under Snowball sample method.

3.2 Data Collection

The research is fundamentally based on,

a. Primary sources

Information was collected partly by interviewing and also using a pre-determined questionnaire to obtain information from the sample consisted of single mothers.

b. Secondary Sources

Required secondary information was gathered from relevant books, thesis, statutes, reports, internet, newspaper articles, magazines and periodicals.

3.3. Data analysis

This study utilized both qualitative and qualitative methods to analyze the data.

4. Results

When the overall condition of the country is considered with respect to MFL customers the number tolls up to 28, 98000 out of which 84% are women. Moreover among the reported suicide cases related to MFLs, which is 169 all of them are women. In this study out of the 130 respondents in the sample 91.7% were female which the majority was and the rest constituted of 8.3% of males. Through the observations it was evident that due to 3 major causal factors the significant ratio of loan customers is resulted.

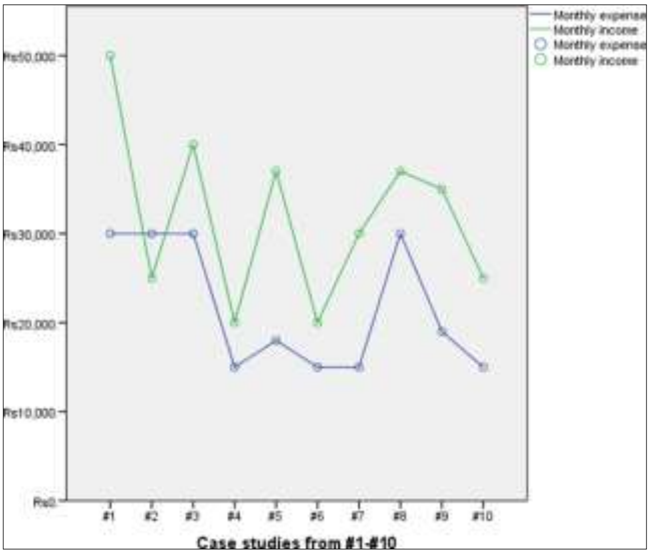
1. Majority of the husbands of these households were cooley / blue color labours and were stationed in urban areas and major cities of the country such as Colombo were constructions are more available, and stayed away from their homes for longer periods of time. This has resulted women wheeling the steering wheel of the household.
2. Women becoming responsible of taking care of the household chores and expenses while their men are out have provided them with more drive or capacity over economy of the household. Also since they manage the

economy (expenses for children, medical, food and clothing needs of family and sometimes they do engage in small scale business such as rag weaving, selling short eats and chena cultivation. This economical exposure provokes them to obtain loans from microfinance institutions.

3. Micro-Finance institutions that provide MF loans are typically characterized of lesser requirements either in document requirement wise or minimal and simple procedure encourages women in rural context who relatively lack the above necessities. These 3 causal factors which are also linked to one another and trigger the consecutive factor are the obvious reason for the gender ratio in MFL obtaining.

36.4% of the houses were made of brick, 27.3% of houses were made of clay and 36.4% of the houses were made of cement stones. In comparison walls made out of brick and cement stones were better owing to the fact that walls made of clay were highly unstable and less likely to be seen except in poverty stricken rural areas. Therefore if overall analysis regarding this is considered as beyond poverty parameters and above percentages would be as follows; Permanent structures= Walls made of brick + Walls made of cement stones = 36.4% + 36.4% = 72.8%

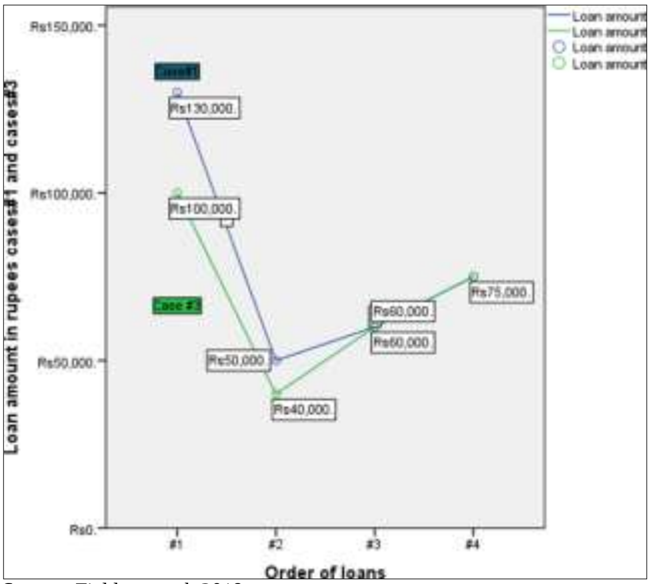
Material of roofing on the other hand provides evidence to the fact mentioned above about the influence of MFLs. Out of the sample only 9.1% households were roofed with weaved coconut leaves or had thatched roofs. This means considerable portion, i.e. 18.2% out of the houses with clay walls have also been roofed by asbestos sheets. 90.9% of the houses were roofed with asbestos sheeting.



***Source*:** Field research 2019

Fig 1: Income Vs. expenses in rural households (expenses excluding the loan interests)

The term and the concept of expense' is being used in the sense that the total or sum of money spent on foods, medicine, school requisites and clothing. This means that the additional expenses on family occasions, and housing constructions are excluded in the expense category. The term income is used in the sense the total gain of money per month by all means of income to the particular household. Statistics related to case ID #1- #10 are depicted in the above graph to support the finding in a more precise manner. When the graph is observed it becomes evident neither two households have the same income nor the same expense. This becomes more evident when compared as follows; Most significantly it is noted that the household with case id #2 is in a marginal situation where the expenses exceeds the income of the household.



***Source*:** Field research 2019

Fig 2: Loan amount Vs. order of loans

based on the amounts of loans being taken or else the number of loans being taken so far, there is a loose link between the amount of loan taken and the order of the loans being taken for instance loan number 1, 2. When it was depicted as in the above diagram in relation to each other, 2 categories of loan chains could be identified based on the immediate reason for obtaining loans. These groups were named as category 1 and category 2. In the above line graph Case #1 and Case #3 are examples for category 1 whereas category 2 is being depicted by Cases with id #5 and #10.In the 1st category of loans the first loan is of a greater amount/sum and when the householders failed to settle the monthly installments they apply for another loan barely enough to pay the prior loan (sometimes from the same MFI and sometimes from another House or the household is also a key word in this study. Apart from that it is being considered as a basic necessity of the human kind, following the hierarchy of needs model by Abraham Maslow. Therefore the physical structure of the household which provides shelter; the house and its nature exhibits more data about the household beginning with their income, life style, social status, class and in some cases though very rarely caste.The data and statistics related to this segment of data analysis are mentioned in the prior pages in advance to bring out the picture of the field of study and population.

However 27.3% strongly agreed and another 27.3% agreed to the fact that microfinance loans contributed towards the house renovations which combined together provides a percentage of 54.6%. Where the percentages of respondents disagreed and strongly disagreed are 27.3% and 9.1% respectively. It makes a combine percentage of 36.4%.

Fact that MFL's contributed towards becoming economically independent was rated by the respondents according to the Lickert's scale as follows. Percentages of strongly agreed and agreed respondents are respectively

18.2% and 9.1% that sum up for a percentage of 27.3%. Whereas majority were uncertain about whether MFL did contribute towards becoming economically independent. Percentage of these respondents was 36.4%.Percentages relevant to the respondents who disagreed and strongly disagreed are 9.1% and 27.3% with a combine percentage of 36.4%. Though the percentages of those who are indifferent and disagree are equal it is yet higher than the percentage of those respondents who agreed to the fact. Therefore it is reasonable to conclude that MFL‘s did not contribute towards being economically independent.

Family is the very first social institution that humans as social beings get to integrate with. Moreover family as a social institution is responsible for socializing, providing protection, nurturing, emotional support and basically act as the pillar of social life. Within the Sri Lankan context as Asian countries familial ties or bonds are more persevered and cherished with respect to industrial countries in Europe or western countries. In fact household structure has evolved in its social facet for over thousands of years based on different social phenomena, yet, retaining its true form of belonging.

In this study from the statistics it was showcased /exhibited that MFL‘s impact on the family ties were more distancing than improving. 0% percentage of sample population respondents choose the responses of strongly agree and agree on the statement that MFL‘s contribute towards improving household relationships. In contrast 90.9 % strongly disagree while 0% chose disagree and 9.1% on indifferent. From the case studies a more elaborate depiction on the acute reasons that made them choose strongly disagree‘on Lickert‘s scale were obtained. Following are the reasons / causal factors provides by the respondents.

1. Depletion of the income over MFLs.
2. When agents from MFI‘s visit often and demand to stay until the due installments are being recovered.
3. Less focus on children‘s education and even misses to cook and provide meals due to being on the run to find a way out of the MFLs.
4. Having to organize or form up protests and organizations to face the threats of MFI‘s and constant visits out from the area of household and sometimes out of the village to cities to meet up with the responsible authorities and to take part and convene press meets.
5. Conflicts among members of the household members due to the stress and pressure exerted by the thought having a burden of loans.

Marriage is considered to be the foremost and initial step of forming a household or family. Marriage keeps the household together. Therefore it is a vital in keeping the order within the household. Therefore in order to measure the impact on households marriage is a must to consider. Only 9.1% disagreed on the fact MFL caused problems in the household specially in marriage and a combined percentage of 81.8% constituted of 54.5% percentage of strongly agreed and 27.3% percentage of agreed on it.

5. Discussion and suggestions

From the above data analysis it brought certain grey areas regarding microfinance institutions specially, its impact on rural households into light. Majority of the rural households are deprived of many facilities and access to education.

For instance majority of the population are with (percentages of educational qualification) of formal education. They just not lack access to credit, which is the prominent factor recognized by the MFI‘s and the responsible authorities. They also lack the knowledge on managing the gained credit in an effective manner; in a manner of investing on a profitable mean/ business.

Though the state established responsible authorities have allowed the establishment and continuation of micro finance institutions (MFI‘s), provision of or equipping of the community members who have applied for the MFLs on how to manage the credit once it is gained and how should it be invested has long been ignored.

For instance conducting of workshops regulated by the state and the responsible authorities on how to choose a field to entrepreneur in: be it flower gardening and boutiques, be it animal husbandry, be it small scale tailoring and garment production sectors (ex; batiks) etc. Most importantly on how to be professionally involved with the monetary institutions such as banks leasing companies, focusing on their legal framework.

On the other hand deprivation from the basic facilities to maintain favorable living conditions has directly impact on the unexpected negative impacts of the micro finance loans. It was mentioned in the above data analysis section that the majority of this particular rural householders did not possess complete house with all the basic structures that satisfy the essential necessities beforehand and it was quite evident from the direct

observations that the MFL‘s obtained has been utilized as the monetary resource for gaining the structures. This could also be supported from the statistical data from the data analysis too.

Therefore if by any mean a mechanism was developed or introduced to provide the infrastructure to the household, alongside with the provision of MFL‘s it could be probably expected that the entrepreneurship of the rural householders enhance along parallel to the advancement s in the household structure.

When the regulatory mechanism regarding the MFIs & MFLs are been taken into consideration up until 2016 there have been 6 acts enacted specifically on it. The MFL act enacted under 2016 number 6 act ensures the compulsory registration of MFIs however inly 3 MFIs are being registered yet though there are records of 54 MFIs within the country. On the other hand lack of regulations in harnessing the activities of the MFI‘s should be provided with immediate attention, for, lack in regulations through several years has resulted in the establishment of a monopoly of MFIs.

For instance, the registered micro finance institutes in Sri Lanka are but the number of microfinance institutions operating within the country are which means (percentage) are not registered under the central bank of the country thus is immune to the rules, regulations and principles that are being enforced by the authorities. Especially this has become an issue of greater concern where the minimum interest rate per month is fixed by the central bank to be below than 35% (as per the order by central bank on 03rd December 2018) though there were instances where the interest rates differed and varied from 20%-220%.

Other than that the procedures and codes of ethics related to recovering the loans from the customers i.e. the rural householders in this particular case were rarely practiced or followed. In most of the respondent‘s interviews they admitted the fact that the recovery officers/agents from the MFI tend to remain within the household premise until the loan installments is settled somehow. As it is already evident it is a clear instance of trespassing and harassment for this type of procedures are not included in any of the loan agreement especially in the field of MF.

Further as per the general procedure in banking and issuing loans, once when a customer/individual fails to settle the loan amount as due he/she is included into a special list/report called as the CRIB preventing his/her access to obtaining further loans from that particular bank from which the initial loan was obtained or from any other monetary institute. However in the case of micro financing once a customer fail to settle the first loan he tends to move for a second and a third and so on, causing a chain a loans that with time becomes impossible to break out.

The state of the country has encouraged the Micro-Financing system as a mechanism for the eradication of rural poverty. However the end results appear to be contrasting. Instead of reaching for a sustainable rural development rural poverty has become intense than ever in the history. Within the traditional context the rural dwellers or the villagers were self-sufficient and possessed dignity but within the present context he is indebted and the dignity is long lost. As per the findings of the research, the researcher is obliged to accept that the poor policy formation and implementation by the responsible authorities on how the rural poverty should be eradicated and sustainable rural development should be achieved, the rural householders are fallen to greater misery than they were. Therefor it should be considered as an issue that needs to be addressed immediately.

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