

The effect of microfinance on living standard of poor people; A case study of Mingohn Model Village

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Abstract

This paper is concerned with the effect of microfinance on living standards in Mingohn model Village. The main objective of this paper is to explore the conditions of living standard of the poor people after obtaining a microfinance loan and to assess the relationship between the living standard and influencing factors on it. The required data is obtained from the respondents who are participating of microfinance institutions in Mingohn model Village. Microfinance institutions (MFIs) operations in Mingohn model Village that does not make significant effect in the standards of living of poor people who access their services. Although some of the clients have benefited, most of clients have not benefited. Finally, Microfinance institutions (MFIs) should restructure their training contents to include improving their client's business skills. A sufficient amount of money should be available in the Microfinance institutions (MFIs) for providing loans to users. Repayment of installment amount once in every week should be reviewed by MFIs. Microfinance institutions (MFIs) should pay their increasing attention on the interest rate to make them more convenient for the clients.

1. INTRODUCTION

Microfinance is a growing industry that impacts on the people all over the world. It is extremely prominent in South Asia, East Asia and Latin America. Microfinance institutions provide an alternative source of credit of poor people, who are not able to get bank loans because they don't have any collateral for their loans. Furthermore, microfinance institutions give loans on subsidized interest unlike moneylenders who charge extremely high interest rates.

If people have the opportunity to work and earn money then they have the capability to provide for themselves. Getting access to credit is a useful and quick way for the poor to have the means to pay for food and shelter. Poor individuals often require the basic necessities of life, such as food, shelter, education and healthcare.

Most of rural people cannot available banking services. Also banks generally do not pay out loans because of the high administrative costs. Microfinance provides the poor people with a way to build saving and work toward becoming part of a country's official financial system. Many people use microfinance as a tool for social improvement. The idea behind microfinance is to empower borrowers by building a business that increases their income. The specific objective of this study is about the effect of microfinance activities on the poor people in Mingohn model village.

1.1 Rationale of the Study

In current situation, the poor people in Myanmar has been unable to get credit and savings and there has been some restrictions for rural development and capacity to improve the economic situation of poor households. The poor source of traditional loan is their informal lenders who charge interest rates between 15-20% per month without any collateral, or some forms of collateral are required but with lower interest rate, charged at 5 to 10 percent per month. Due to the lack of financial institutions and unavailability to obtain a collateral loan, the development organizations emphasize financial sustainability of the households.

The microfinance institutions have created more job opportunities, more household incomes and improving household education and family welfare. But microfinance is also a huge responsibility for people too. When people use financial services, they can easily increase their household income and buy more household's assets, and improve their living standards. In particular the poor households use microfinance loan to change their daily livelihood such as household investment and income, building and fixing their houses, improving family welfare and education. Therefore, the study aims to find out whether MFIs in Mingohn model village affect living standard of poor people, who access their services, or not.

1.2 Scope and limitations of the study

The scope and limitations of the study focuses on the conditions of living standard of households in Mingohn Model Village, Hlegu Township. The village comprises six wards which are composed of 1153 households. Among of them, there are 905 households who are participating in microfinance institutions. In this study, 282 respondents from Mingohn Model Village who participate in microfinance institutions were collected as the sample size.

1.3 Method of the study

Descriptive analysis method and simple random sampling method were applied in the study. Not only primary data but also secondary data is used in this study. Primary data is collected from the respondents who participates microfinance institutions in Mingohn Model Village and structured questionnaires are used. Secondary data is obtained from reference books, different researchers and library and internet websites. The data analysis is carried out with the use by multiple regressions. The data is calculated by using the Statistical Package for the Social Sciences (SPSS).

1.4 Objective of the study

This study is done with the following objectives;

- (1) to explore the conditions of living standard of the poor people after obtaining a microfinance loan.
- (2) to assess the relationship between the living standard and influencing factors on it.

1.5 Research Questions

In the light of the problem, the research question is developed as follows; what is the effect of microfinance on living standards of the poor people in Mingohn Village?

2. Literature review of the study

Microfinance emerged in the 1970s as social innovators began to offer financial services to the working poor those who were previously considered un-bankable because of their lack of collateral. Microfinance has become one of the most sustainable and effective tools in the fight against global poverty. The poor people are actually difficult to get financial support from the formal financial sector. Therefore, those people have to rely on commercial and non-commercial money-lenders who stand in informal financial sectors and as a consequence, they suffer from a very high interest rate as borrowers. The traditional banking system requires that a borrower should have collateral to receive a loan. The world's poorest people do not have such collateral.

“Microfinance refers to the provision of financial services to low-income poor and very poor self-employed people” (Otero 2000). According to Robinson (2001), microfinance refers to ‘small-scale financial services—primarily credit and savings—provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled,

repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban'. Schreiner and Colombet (2001) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks”.

Oikocredit (2005) regards microfinance to be a wide concept that has microcredit as one component. It also has provision of additional non-credit financial services such as savings, insurance, pensions and payment services, as its other components (Oikocredit 2005). Microfinance institutions exist in many forms; credit unions, and most commercial banks and often, NGOs. Many MFIs use social collateral in the form of peer groups to ensure loan repayment. Borrowers take out loans in groups of five to eight individuals. If a borrower defaults on her loan, the entire group typically is penalized and sometimes barred altogether from taking further loans. This peer pressure encourages borrowers to be very selective about their peer group members and to repay loans in full and on time, resulting in the higher than 95 percent repayment rates industry-wide.

2.1 Profile of Mingohn Model Village

Mingohn Village was established in 1881. It was named about the hidden of a king (Min Yan Kan) is called Min Pone. Gradually, it is called Mingohn from Min Pone. There were 5-6 house during the establishment of village in 1881. Later, it become a village and then it promoted as the model village. Mingohn model village is situated 21 miles way from Hlegu Township. The Village has the population of 4967, in 1153 households. There are six wards in Mingohn Village. Total area of village is 653 acres; the residential area is 500 acres, 150 acres firms and garden, 2 acres for the village common ground and sport ground is 1 acre.

There are six microfinance institutions that provide loan in Mingohn model village. Lending method of microfinance institutions in Mingohn model village offer and provide credit to the practically- business-member on solidarity group lending basis without collateral. The size of the group can vary but most groups have between five to ten members. The group has to be formed by using self-selection methods among the members before acquiring a loan. And the borrowers have firstly to save any percentage of the loan, which is imposed by the MFIs, in advance, and this savings later becomes collateral of their loans while marking their regular payments. After that, every group members have to take the responsibility of the settlement of

each other's loan by collecting the repayment periodically e.g weekly, etc. To ensure repayment, peer pressure and joint liability works very well. Even if one member of the group becomes a defaulter, the group will not be eligible for further loans. The loan starts with only small amount and after repaying this amount the clients can apply for next higher amount.

3. Data Analysis and Interpretation

This chapter provides the empirical findings gleaned from the collected data. It provides the information of the respondents demographically and the information is statistically analyzed interpreted and discussed.

3.1 Demographic information of the respondents

With regard to the demographic characteristics of the respondents, table (1) shows that 83.7% of the respondents were female and 16.3 % were male. The majority of the respondents were women. There are good reasons for identifying from women by MFI, because gender discrimination is one of the main causes of poverty, women are poorer and more disadvantaged than men. However, women contribute significantly more to the well-being of their family than do men.

In the term of age, 9.6 % of the respondents were in the age group of under 20 years.19.1% and 41.8% were in the age groups of 21 to 30 years and 31 to 40 years. 22.3% were in the age groups of 41 to 50 years and remaining 7.1% were 51 years and above.

The respondents also classified in terms of their educational experience which could affect the way of managing their daily lives, their household and business. From this survey, many of the respondents had secondary education, which represents 45.4% of the respondents, however 21.6% had high educational experiences and only 18.1% had more than primary education. Rest of the 10.6% and 4.3% had university students and graduate of educational experience.

With regard to their numbers of families, the analysis that 31.1% of respondents had less than three members in the family and 56% of respondents had 4 to 6 members. Rest of the 12.8% had more than 6 members.

Table 1: Demographic characteristics of respondents

Variables	Measuring Group	Frequency	Percentage (%)
Gender	Male	46	16.3
	Female	236	83.7
	Total	282	100
Age (year)	Under 20	27	9.6
	21 to 30	54	19.1
	31 to 40	118	41.8
	41 to 50	63	22.3
	51 above	20	7.1
	Total	282	100
Educational level (in year)	Primary level	51	18.1
	Secondary level	128	45.4
	High School	61	21.6
	University students	30	10.6
	Graduate	12	4.3
	Total	282	100
No. of family member	Under 3	88	31.2
	4 to 6	158	56
	6 to above	36	12.8
	Total	282	100

Source: Survey data

3.2 Business experience before joining MFI of the respondents

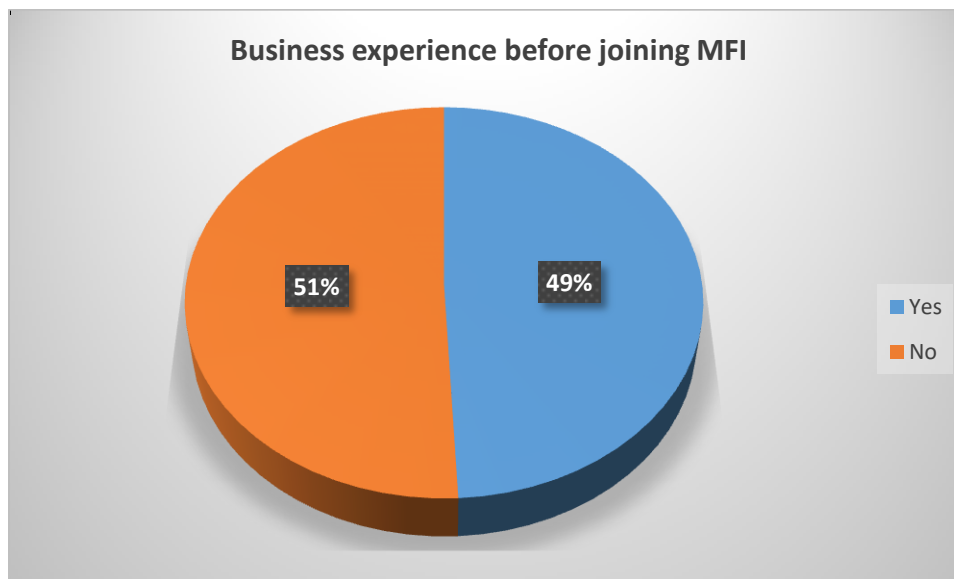
The respondents were asked if there were any business activities and their own sources of income that increase their income and create job opportunity before joining the MFI. As shown in chart 1, only 49.2% of the respondents had their own business ownership and income sources that they had previously generate income and creating job opportunity before joining the MFI and rest of 50.8% had no previous business experiences. It indicated that MFIs has been very helpful in starting small businesses and expanding old business. Therefore it can be see that more than 50% of the respondents were from large families, and at the same time higher proportion of those kinds of people did not have any business experience before joining MFI.

Table 2: Business experience before joining MFI

Variables	Measuring Group	Frequency	Percentage (%)
Business experience before joining MFI	Yes	139	49.2
	No	143	50.8
	Total	282	100

Source: Survey data

Chart 1: Business experience before joining MFI



Source: Survey data

3.3 Sources of Startup Capital of the respondents

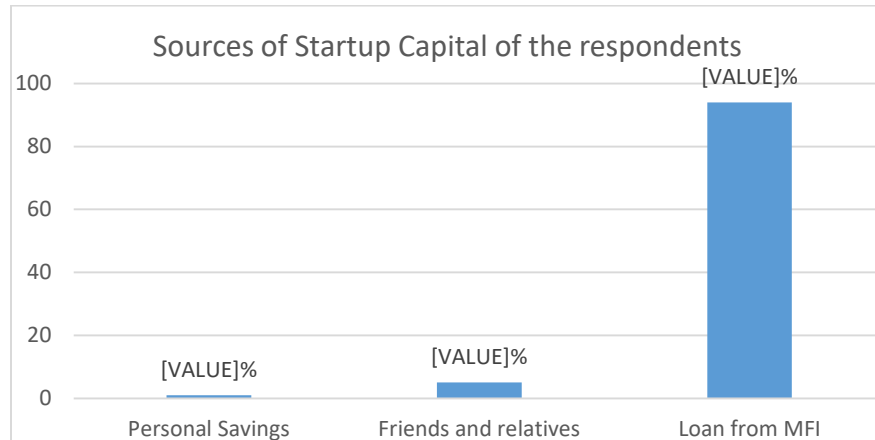
Table 3 and figure 1, show the sources of start-up capital of the respondents. 94% of total respondents take their loan from MFIs. Rest of them have already started their own business from friends and relatives or from their personal savings. It shows that MFIs plays a significant role in helping poor people to start their own business as the major sources of initial capital.

Table 3: Sources of Startup Capital of the respondents

Variables	Measuring groups	frequency	Percentage (%)
Sources of startup capital	Personal Savings	3	1
	Friends and relatives	14	5
	Loan from MFI	265	94
	Total	282	100

Source: Survey data

Figure 1 : Sources of Startup Capital of the respondents



Source: Survey data

3.4 Amount of loan taken from MFIs

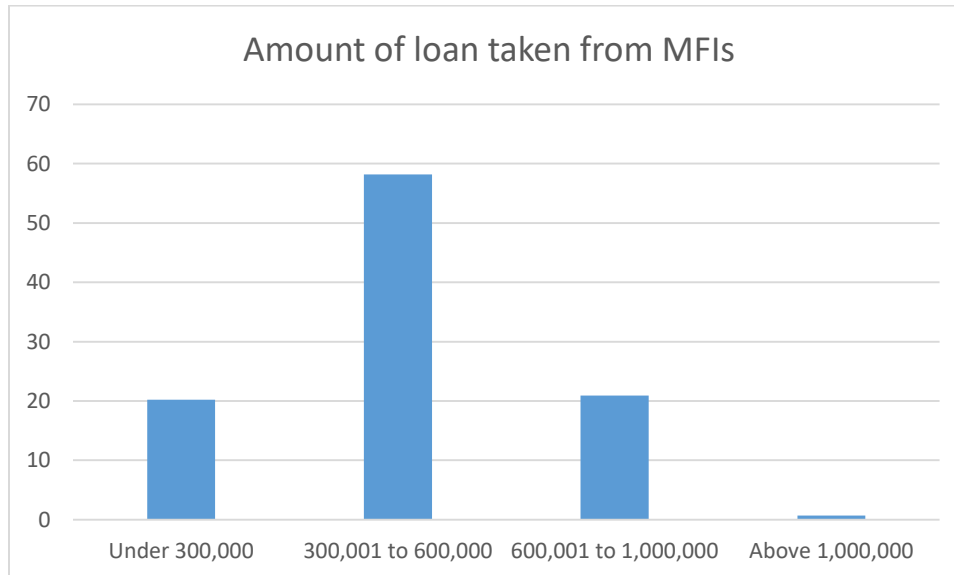
In the table 4 and figure 2, the survey team collected the data analyzed the loans granted to individuals on four different scales, less than 300,000 kyats, 300,001 to 600,000 kyats, 600,001 to 1,000,000 kyats and more than 1,000,001 kyats. Majority of granted loans, from nearly 90% of the respondents are within 300,001 to 600,000 kyats which implies that MFIs basically focus on micro-credit. Few of respondents also got loan above 600,001 to 1,000,000 kyats, which goes into another criteria of loan offered by MFIs. The result shows that the small amount of loan offered by MFIs is not sufficient capital to start- up a medium scale enterprise.

Table 4: Amount of loan taken from MFIs

Variables	Measuring groups	frequency	Percentage (%)
Amount of loan taken from MFIs (in Kyats)	Under 300,000	57	20.2
	300,001 to 600,000	164	58.2
	600,001 to 1,000,000	59	20.9
	Above 1,000,000	2	0.7
	Total	282	100

Source: Survey data

Figure 2: Amount of loan taken from MFIs



Source: Survey data

3.5 Utilization of Loan by clients

In the follows Table 5 shows that 39.4%% of the clients who are participating in MFIs use the loan for expanding the existing business or for starting a new business. And then 10.3% and 8.9% of the clients use the loan for their children education and healthcare. In addition,8.2% of them take loan for repayment of an existing loan. However, 33.3% of the respondents take loan to buy the households utilities eg. T.V, Motor cycle, refrigerator and other case. It was found that most of clients used their loan in the business follow by the households' utilities.

Table 5: Utilization of Loan by clients

Characteristics	Frequency	Percentage(%)
Business	111	39.4%
Education	29	10.2 %
Health care	25	8.9 %
Repayment	23	8.2 %
Household use	94	33.3 %
Total	282	100 %

Source: Survey data

3.6 Loan amount sufficient and loan repayment period of MFIs

The following table (6) displays loan payment schedules convenient of MFIs and loan amount sufficient. Regarding the loan period about 38.6% of the respondents have accepted the loan period as satisfactory. On the other hand, about 61.4% of the respondents reported that the loan period is too short. Loan amount of MFIs is sufficient or not, 39.4% of the respondents reported that they received enough amount of loan to meet their demand. However, 60.6% of the respondents complained that the loan was not enough to fulfill their purpose. In general, most of the respondents were not satisfied with financial services delivery of MFIs.

Table 6: Loan amount sufficient and loan repayment period of MFIs

Variables	Measuring groups	frequency	Percentage (%)
Loan amount sufficient of MFIs	Yes	111	39.4
	No	171	60.6
	Total	282	100
Loan payment schedules convenient of MFIs	Yes	109	38.6
	No	173	61.4
	Total	282	100

Source: Survey data

3.7 Relationship among the variables

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 the procedure of obtaining loan from MFI, level of advisory, loan interest rate, micro-saving and household's income increase were above the standard level 0.7. As per the correlation analysis was conducted to test relationship among the variables and results are presented in Table 6.

Table 6 : Results of correlation analysis

		Living Standard	Procedure of obtaining loan from MFIs	Level of advisory	Loan interest rate	Micro-saving	Household's income increase
Living Standard	Pearson correlation Sig.(2tailed)	1					
Procedure of obtaining loan from MFIs	Pearson correlation Sig.(2tailed)	0.263** 0.000	1				
Level of advisory	Pearson correlation Sig.(2tailed)	0.078 0.192	0.080 0.182	1			
Loan interest rate	Pearson correlation Sig.(2tailed)	-0.009 0.886	0.057 0.338	0.088 0.139	1		
Micro-saving	Pearson correlation Sig.(2tailed)	0.039 0.512	0.196 0.001	0.004 0.953	0.116 0.052	1	
Household's income increase	Pearson correlation Sig.(2tailed)	0.743** 0.000	0.259** 0.000	0.088 0.139	-0.030 0.616	-0.033 0.583	1

** Correlation is significant at the 0.01 level (2-tailed).

According to the correlation result, the correlation coefficient of level of advisory and micro-saving were 0.078 and 0.039 respectively and is not relation at 95 percent confident interval. Loan interest rate of MFIs is negative relation with the living standard of clients because the lending interest rate of MFIs is high as compared to the objective of the institution. However, as per the test, the relationship between the procedure of obtaining loan from MFI, household's incomes increase are positive relation with the living standard of clients. Accordingly the procedure of obtaining loan from MFIs and household's incomes increase are positively correlated with the living standard of clients because the loan taking procedures from MFIs is easier than conventional banking.

3.8 Multiple Regression analysis between Different variables related to living standard

Regression analysis was performed to test the effect of independent variables on the dependent variable. The mean of the variables in the regression analysis is shown in the following table by using descriptive statistics. Its results are shown in the Table 7. The regression reported Adjusted R squared value 0.553 which confirms the predictive power of the model. In the Multiple Linear Regressions Model with five independent variables, β represents the change in the mean of Y per unit change in X1, taken into account the effect of X2, X3, X4 and X5. Equation defines the regression equation for a multiple regression model with independent variables.

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Y = living standard of client

X_1 = the procedure of obtaining loan from MFIs

X_2 = Level of advisory

X_3 = Loan interest rate

X_4 = Micro-saving

X_5 = Households Income increase

And $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are coefficients to estimate, and e is the error term.

Table 7: Results of regression analysis

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VFI
(Constant)	-0.563	.377		-1.495	0.136		
Procedure of obtaining loan from MFIs	0.80	.053	0.064	1.508	0.133	0.886	1.128
Level of advisory	0.010	.049	0.008	0.200	0.842	0.981	1.019
Loan interest rate	0.003	.044	0.003	0.075	0.940	0.976	1.024
Micro-saving	0.107	.088	0.050	1.220	0.224	0.944	1.060
Households Income increase	0.777	.044	0.727	17.466	0.000	0.919	1.088

Dependent variable; Living standard,* Significant at 0.05 level.

According to coefficient analysis, procedure of obtaining loan from MFIs, level of advisory about the MFIs, loan interest rate and micro-saving variables were 0.133, 0.842, 0.940 and 0.224 respectively. Hence, procedure of obtaining loan from MFIs, level of advisory about the MFIs, loan interest rate and micro-saving variables does not make any significant effect on increasing the living standard of the clients. However, household's income increase have significant effect on increasing the living standard of the clients in Mingohn Model Village. The reason for the increase in households' income may be due to MFIs and the existing businesses.

4. Conclusion

Microfinance programs extend small loans to poor people in order to generate income to improve the living conditions of the poor and alleviate poverty by enhancing self-employment. Myanmar as part of the developing countries has adopted microfinance programs where many MFIs are delivering the credit services to the poor in order to mitigate the effects of poverty among the poor sections of the society. Thus, the aim of this paper is to explore the effect of microfinance on living standards the poor people in Mingohn Village as a case.

The analysis of data demonstrates that 83.7% respondents of MFIs are women and most of them had secondary education. The majority of the women started their business by taking loan from MFIs as compared to other sources. It can be found that 49.2% of the respondents had

their own business ownership and income sources previously from which they generate income and create employment opportunity before joining the MFIs.

In addition, the study indicates that the amount of loan provided by MFIs were not enough for those people to fulfill their purpose. In addition, it can be found that only 39.4%% of the clients can be used the loan for business purpose. Rest of the clients use the loan for their children education, healthcare and to buy the households utilities. The correlation result the procedure of obtaining loan from MFI and the living standard of clients are positive relation because the procedure of obtaining loans from MFIs is easier than conventional banking. Any collateral is not require to take the loan from MFIs. Yet, microfinance is becoming popular day by day among the poor people for a few reasons. Firstly, all poor people can get loan from MFIs no-collateral. Secondly the loan taking procedure is smaller amount complex than that of commercial banks. According to analysis, it is found that the level of advisory and micro-saving are not related independents variables. The level of advisory affects to run the business successfully. It can support about management of loan, start business, practice of savings and prepare business plan of the poor people. Although MFIs educate households on the practice of savings, there is a tendency for households to withdraw their savings a year later. It can be found that loan interest rate of MFIs is a negative relation with the living standard of clients. The significant portion of the respondents deem that the interest rate of MFIs is not reasonable and it is than that of commercial banks. Household's incomes increases are positively correlated with the living standard of clients because the increase in households' income may be due to MFIs and the existing businesses.

To sum up, MFIs operation in Mingohn model Village does not make significant effect on the standards of living of poor people who access their services. Although some of the clients have benefits, while most of clients do not. But MFIs is one of the poverty reduction guidelines. MFIs should exist in the community. However we make the following recommendations for the sustainability of MFIs.

Recommendations

The study recommends that the MFIs should consider the possibility of extending the grace period and reducing the frequency of repayment to support long term clients and they should be determined by taking repayment ability of the clients and their level of income. MFIs should be reviewed on a weekly basis to repay the installment. MFIs should provide adequate education

and training for clients to increase savings, improve business skills and enhance the quality of production and quick supply. They should be regular business training for clients and qualified training institutions should do this. MFIs should provide the loan holders with the advices how to utilize money effectively for essential needs. A sufficient amount of money should be available in the MFIs for providing loans to users. Interest rate on MFIs should be reduced. MFIs should pay more attention on the interest rate so that the clients are well-off. It can found that the respondents borrow loan from three or four microfinance institutions. Therefore, the loan repayment is not accelerated quickly, and moneylenders are loaned back to the microfinance institutions (MFIs).As a result, the respondents are no longer able to get out of the cycle of debt. Finally, they did not improve standard of living and sank into the wild. Even moneylenders and people who really do business are getting better conditions. Therefore, if microfinance institutions (MFIs) are lending to clients, it is necessary to verify that the loans are more favorable to the village authorities and relevant authorities.

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