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Original Article

Daily Collection Loans on the Living Standard of the Clients: An Evidence from Sri Lanka

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Abstract -
This study intended to examine the impact of microfinance daily collection loans on the living standards of clients in North Central Province in Sri Lanka by using a deductive approach backed by explanatory research design. The study was conducted in a non- contrived setting, and the unit of analysis was individual level as the study collected data from daily collection loan borrowers in North Central Province. The sample size of this study was 245 daily collection loan borrowers in NCP, and the sample was selected using a stratified sampling method based on district basement as Anuradhapura district and Polonnaruwa district. Data analysis was performed by using descriptive statistics, correlation and regression analysis by using Statistical Package for Social Sciences (SPSS) 21.0 version. According to the findings, there was a significant positive impact of daily collection loan operations on the living standard of the clients, with an R squared value of 51.1%. Further, according to the findings, the implications, recommendations and future research areas are to be discussed.

Keywords – *Microcredit, Daily collection Loans, Living Standards, North Central Province*

I. INTRODUCTION

The poverty of people is one of the world's major issues, which is intended to develop a variety of strategies to reduce the poverty line. According to the recent estimates of the World Bank in 2013, 10.7% of the world's population live on less than US$1.90 a day (World Bank, 2016). Poverty reduction can be defined as a process of increasing income and economic stability, which leads to improved fulfilment of basic needs and services (Simanowitz and Walter, 2002). Thus, in the process of poverty alleviation, the influence of microfinance is undeniably permissible. Indeed, microfinance has a greater role in poverty reduction without restriction to any gender, which facilitates for both men and women. In the process of poverty alleviation, providing credit has a greater impact that results in the improvement of the poor individuals and households out of poverty (Basu, 2008).

Microfinance as a form of credit can be identified as an anti-poverty program that is directly facilitated to alleviate poverty and empowerment with the ultimate goal of economic growth. As of 2013, 211 million people around the world had ever borrowed from a microcredit institution, of whom 114 million were living in extreme poverty (Microcredit Summit Campaign, 2015). The history of microfinancing can be traced back to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way of getting people out of poverty. But, in the 1970s, the currently practising concept of microfinance pioneered by Mohammad Yunus as a form of Grameen Bank of Bangladesh was starting and shaping the modern industry of micro-financing. Accordingly, microfinance can be defined as a form of financial development that is primarily focused on alleviating poverty through providing financial services to the poor. Moreover, microfinance is also included insurance, transactional services, and savings that intended to cover broader scope (Barr, 2005). When it is focused on the Sri Lankan context, microfinance has been used for decades widely that recognized as a tool for the eradication of poverty around the world. Even though Sri Lanka's microfinance services are widespread throughout geographical locations, there is limited distribution of private operators.

However, in the current context, there is a controversy on the real impact of credit activities on people because researchers have come up with different conclusions on its real impact. Several recent impact evaluations have emphasized that there is no uniform distribution of benefits. Even though most households take advantage of microfinance, income impacts diverge in extent and durability, and a sizeable proportion of clients find that their post-credit incomes stagnate or fall (Copestake, Bhalotra, & Johnson, 2001; Mosley, 2001; Todd, 2000). By lying on these grounds, the study accentuated to discover the precise impact of microfinance daily collection loan operations on the livelihood of the clients. As there is a number of studies focused on microcredit loans, there is a research gap in the research directed at daily collection loans. Thus, this study depicts the real representation in the daily collection credit activities. Therefore, it is mainly intended to examine the impact of daily collection loans on the living standards of people in North Central Province in Sri Lanka by answering the question of "What is the impact of daily collection loans on the living standards of people in North Central Province in Sri Lanka?

II. LITERATURE REVIEW

Microfinance is a system of financial development that has principally attentive on alleviating poverty through providing financial services to the poor (Barr, 2005) because low-income households have traditionally had restricted access to financial services such as credit, savings, and insurance products that could lead to increased investments (Microcredit Summit Campaign, 2015). When it comes to focusing on a definition of microfinance, different scholars and institutions have provided several definitions on it. Some of these definitions have focused on the living standards of the poor as the core consideration, whereas others focus on developing the enterprises of an economy. According to Robinson (2001) Microfinance is "small-scale financial services for both credits and deposits– that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas". Asian Development Bank (ADB) defines microfinance as "the provision of a broad range of financial services such as deposits, loans, money transfers, and insurance to small enterprise and households." On the other hand CGAP (2003) defines microfinance as "a credit methodology that employs effective collateral substitutes to deliver and recover short-term working capital loans to micro entrepreneurs." NABARD (2000) defined micro finance as the "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural semi – urban or urban areas enabling them to raise their income levels and improve living standards".

The existing empirical literature about the impact of microcredit is somewhat mixed where there is empirical evidence in both the positive and negative side of microfinance of the people as evident by prevailing literature that has been conducted on measuring the impact of microfinance on poverty (Crépon et al., 2015; Banerjee et al., 2015; Tarozzi et al., 2013; Karlan and Zinman, 2011). All these studies found that the presence of microfinance institutions had a positive and significant impact on access to credit, durable spending, and the yield of income-generating activities. As suggested by the literature, microfinance provides enormous socio-economic benefits, including, but are not limited to, income generation capability and helplessness reduction of clients (McCulloch and Baulch, 2000). Moreover, the impact of microcredit facilitates poor households to access formal or semi-formal financial services that may have the potential to empower their clients in forming revenue-generating openings (Microcredit Summit Campaign Report,2006). Further, Thilakarathne et al. (2005) have also argued that microcredit has had a significant positive impact on a household's socio-economic conditions. Likewise, Meller and Zeller (2002) concluded that microcredit has an overall positive effect on income, though results differ substantially across countries and programs both in magnitude and statistical significance. Moreover, Datar et al. (2008) stated that microfinance had positive impacts on livelihoods and welfare when income increased, and Sayasene et al. (2007) shows that micro-credit also helped to provide the woman with jobs women empowerment and providing educational opportunities for children.

On the other side, many scholars disparage the positive benefits provided by microcredit, therefore, form an opposite argument of its impact (Snodgrass & Sebstad, 2002; Coleman, 2002). Oommen (2008) specified the negative impact created by Microfinance over positive ones. The view of Fernandez (2005) claimed that even though microfinance activities have some benefits on poverty, they do not really help the poor.

III. METHODOLOGY

This study used the deductive approach as the research approach, which is backed by an explanatory research design. The study was conducted in non-contrived settings, and the unit of analysis was individual level as the study collected data from daily collection loan borrowers in North Central Province. The sample size of this study was 245 daily collection loan borrowers in NCP, and the sample was selected using a stratified sampling method based on the distract basement as Anuradhapura district and Polonnaruwa district. Data was gathered in both primary and secondary sources, whereas the secondary sources the study used were journal articles, internet and e-books etc. As the main data source, the study collected data from respondents by using structured questionnaires. The questionnaires were originally developed in English, and then translated into the Sinhala language before distributing among the respondents. The first part of the questionnaire was developed for gathering demographical details of the respondents, and the second part of the questionnaire was developed to measure the dependent and independent variable in five-point Likert Scale by rating the questionnaire with a value of 5 represents strongly agree and value 1 represents strongly disagree. Data analysis was performed by using Descriptive statistics, correlation and regression analysis by using Statistical Package for Social Sciences (SPSS) 21.0 version.

IV. RESULTS & DISCUSSION

A. Sample Profile

The researcher has selected a sample which consists of 245 daily collection loan borrowers in NCP, and the sample was selected using a stratified sampling method based on the distract basement as Anuradhapura district and Polonnaruwa district. As per the sample, respondents' demographic analysis and other important information are to be discussed in the following session. Accordingly, Table 01 presents the sample profile of the study.

Table 1: Sample Profile

Item		Frequency	Percent
Gender	Male	192	78.4
	Female	53	21.6
Education	No formal education	154	62.9
	Primary education	67	27.3
	Secondary education	8	3.3
	Other	16	6.5
Sources of Finance	Through banks	72	29.4
	Through daily collection sources	155	63.3
	Other	18	7.3
Reason for taking Loan	Business Matters	235	95.9
	Other	10	4.1
Providing required amount of Money	Yes	167	68.2
	No	78	31.8

According to gender composition, 78.4% of male respondents were engaged in daily collection loan activities, whereas the rest of the percentage (21.6%) represented the female category of the sample. The gender classification highlights that male respondents are highly engaged in microcredit daily collection activities than female respondents, where all engaged in small and medium scale business activities in North Central Province in Sri Lanka. Even though it was evident that woman participation is high in micro-credit as suggested by the literature, because this study mainly focused on businessmen & women who were engaged in small businesses, the majority of the sample respondents consisted of men.

Education was identified as one of the demographic variables considered in the study, which was divided into no formal education, primary education, secondary education and degree/diploma. According to the sample, 62.9% have no formal education, 27.3% have completed primary education, 3.3% of the respondents have completed their secondary education, and 6.5% of the respondents have completed other courses. These results comply with the study conducted by Makunyi (2017), as the majority of the respondents had low levels of education. Sources of finance is another important variable that was included in the study to have information on whether people take loans from daily collection loan sources. According to the data, as a percentage, 63.3% of respondents have taken loans in daily collection loans, 29.4% of respondents take loans through banks, and 7.3% take loans from other sources. Microcredit was designed to overcome credit market failures and help low-income borrowers take advantage of investment opportunities. It expanded access to credit around the world, typically in the form of small business loans with relatively high-interest rates and immediate loan repayments (Microcredit Summit Campaign. 2015).

The reason for taking a loan is another important variable that was included in the study to have information on whether on why people are taking loans. These reasons were divided into several aspects as business matters, education, and clear previous loan and for daily consumption. According to the data, as a percentage of 95.9% of respondents have taken loans info business matters, 9.4% of respondents take loans for other matters. According to the data, it was evident that most of the clients take loans for business matters that complies with prevailing literature. Other than that, according to the data, respondents were highlighted that there is a 68.2% of the tendency to receive the required amount of money through daily collection loans, and 31.8% of respondents highlighted that they did not receive the required amount of money through daily collection loans.

B. Descriptive statistics

In order to identify the nature of the data gathered, the study used mean and standard deviation under the descriptive statistics as follows.

Table 2: Descriptive Statistics

	Mean	Std. Deviation
Daily Collection Loan Operations	3.8546	.40612

Living Standard	3.9783	.42986

Daily collection loan operations, the independent variable of the study, was measured in terms of duration to receive the loan, interest rate, loan size, chances for repeat loans, loan disbursement, loan repayment, no collateral, minimum documentation and responsiveness of loan recovery officers. As per the descriptive analysis, the mean value for daily collection loan operations was 3.854, which shows a moderately high level of favourable view regarding the daily collection loan operations by the clients. Further, consistent with the detailed analysis of the individual dimension of the construct of daily collection loans, it was evident that a daily collection loan can be approved with a duration of a week with a minimum level of documents. At the same time, the majority of the clients have valued the loans provided with no collateral. Moreover, the clients have valued the service provided by daily collection loan agents for creating opportunities for taking the next loan immediately after clearing the prevailing loan. Nevertheless, there was some disagreement of some of the loan operations, such as interest rate and late charges charged by daily collection loans. As suggested by Glazer (2010), borrowers have been burdened with multiple loans at excessive rates of interest, often having to borrow from more than one MFI to make their microcredit payments.

The overall living standards of clients, the dependent variable of the study, were measured in terms of income level, assets ownership, savings, investment in business activities, level of consumption, health and safety facilities and electricity, water, telephone and other facilities. According to that, the mean value for overall Living Standard was received as 3.978, which indicates the people are living a better life moderately.

C. Correlation Analysis

According to the main objective of this study, it was intended to examine the impact of daily collection loan operations on the living standards of clients in North Central Province in Sri Lanka. Accordingly, the study conducted a Pearson correlation analysis in order to investigate the relationship between daily collection loan operations and the living standards of people.

Table 3: Correlation Analysis

	Living Standard
Daily Collection Loan	0.715
Sig. Value	0.000

As per the findings, there is a positive correlation between daily collection loans and the living standard of people with an R-value of 0.715. It shows a strong positive correlation between daily collection loan operations and the living standards of the clients of North Central Province in Sri Lanka.

D. Regression Analysis

The study has used multiple regression to test the impact of daily collection loans and the living standards of people. The results of the Regression Analysis are presented in the following tables. Table 4 presents the model summary of the regression analysis where the R squared value is 51.1% which explains the variation of living standards explained by daily collection loan operations.

Table 4: Model summary

R	R Square	Adjusted R Square	Std. The error of the Estimate
.715ᵃ	.511	.509	.45076

Table 5: ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.592	1	51.592	253.914	.000ᵇ
Residual	49.375	243	.203		
Total	100.967	244			

Table 05 indicates the statistical significance of the regression model developed for the study. In an overall manner, the regression model statistically significantly predicts the living standards of the clients where the significant value of F value (F = 253.914) is less than 0.05 level of significance.

Finally, it was intended to examine the impact of daily collection loans on people, as presented in table 6.

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.275	.235		1.173	.242
Daily Collection Loan Operations	1.120	.070	.715	15.935	.000

a. Dependent Variable: Living Standard

According to the result of the regression coefficient analysis, it can be observed that Daily Collection Loans have a significant impact on the living standard of clients (β= 1.12, $p < 0.05$), which can be denoted as a positive one. Thus, it can be concluded that daily collection loan operations have a significant impact on the living standards of the clients of daily collection loan operations in North Central Province.

Accordingly, the findings of the study comply with several studies that follow the same findings (e.g.: Meller and Zeller 2002; Thilakarathne et al., 2005; Khan & Rahaman, 2007; Sayasene et al., 2007; Makunyi, 2017;).

V. CONCLUSION AND RECOMMENDATIONS

This study was mainly intended to examine the impact of microfinance daily collection loans on the living standards of the poor in North Central Province in Sri Lanka by collecting the data from 245 daily collection loan borrowers in North Central Province. According to the results, there was a significant positive impact of daily collection loan operations on the living standards of the clients. The study findings also comply with the several studies that follow the same findings (e.g.: Thilakarathne et al., 2005; Khan & Rahaman, 2007; Makunyi, 2017). Moreover, the findings of this study have several policy implications. The significant impact of daily collection loan operations shows a positive one on the living standard of clients, which can be directed towards improving the quality of living by providing them more access to loan facilities with fair interest rates. As the majority of the clients in the sample represent the category of no formal education, there should be a mechanism to provide loans with the minimum number of processing documentation. Moreover, the clients should provide knowledge and awareness to effectively utilize the loans amounts in self-employment and business opportunities that would generate proper income sources for them. Further, the interest rates and the other charges charged by these loan schemes should be minimized as they help to promote the profitability of the business activities as the borrowers of these daily collection loans.

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