THE IMPACT OF MICROFINANCE INVOLVEMENT ON UPLIFTING THE SOCIO-ECONOMIC CONDITIONS OF THE MARGINALIZED PEOPLE: SPECIAL REFERENCE TO BATTICALOA DISTRICT, SRI LANKA

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ABSTRACT

Microfinance is considered as a tool for socio-economic development used to mitigate several social and economic problems of poorest families due to poverty. The study was developed with the primary objective to find out the contribution of MFIs to the social and economic upliftment of beneficiaries in Batticaloa District, Sri Lanka. Household survey was conducted in the 14 DSDs in Batticaloa District in a stratified random sampling method with the total sample size of 200 households targeting the beneficiaries of MFIs from each DS Division. Key interviews were conducted from the selected MFIs functioning in Batticaloa District based on the questionnaire survey to analyse their role in financial and social responsibility in the society.

Women from the poorest of the poor families are the prime customers in the MF programme. Obtaining loan is the main reason to be a client in a MFI and beneficiaries primarily use the credit facility as a capital investment for self-employment opportunity. Results reveal that MF facility (after obtaining) has given a significant (p < 0.01) improvement (t-test) in the livelihood status of the beneficiaries' families in terms of overall wealth. Further, finding indicates that that there is a relationship (ANOVA, Chi-square test) between clients' satisfaction in MFIs role on their service, quality and attitude behaviours at significant level (p <0.01) and Pearson correlation reveals the Service, Attitude and Quality factors are positively highly correlated with the clients' satisfaction on MFIs role at significant level (p< 0.01). Role of MFIs in the district indicates that the outreach, social capital and social responsibility were identified as "Important objectives" to reach the social objectives while adaption of services considered as "Major objectives" to reach the social objectives by MFIs.

Results indicate that the customer satisfaction survey can be used as a tool to assess the economic and social impact of the MIFs in beneficiaries' livelihood improvement. The overall success of the MFIs services in alleviating the poverty and to reform the social structure in the poor community not only depend on the financial aspects such lending and recovering loans and other financial benefits, but also in the long-term sustainability of the benefits that have accrued to the borrowers. Thus, the study implies that MFIs should consider the importance of social reform of the families along with the economic uplifment.

Keywords: *Customer satisfaction, Livelihood, Microfinance, Microfinance institutions, Poverty*

INTRODUCTION

Microfinance is considered as a tool for socio-economic development. It is one way of fighting poverty in rural areas where the poorest of the poor live (Tilakaratna *et al.,* 2005). According to World bank IEG Working report (Beck, 2015), Microfinance can be defined as "Attempts to provide financial services to household and micro-enterprises with low-income, self-employed or informally employed individuals with no formalized ownership titles on their assets and with limited formal identification papers who are excluded from traditional and commercial banking services". Further, Microfinance is also often referred to as a concept comprising delivery techniques and products that differ from conventional banking and are designed specifically to overcome the barriers that prevent conventional banks from catering to the low-end of the market. MFIs put credit, savings, insurance and other basic services within the reach of poor people. Through MFIs, the poor can obtain small loans with minimum formalities.

In the recent past several research studies have been made on various aspects of MFIs and the services provided by them particularly in the South Asian countries including Sri Lanka (Tilakaratna *et al.,* 2005; Atapattu, 2009; Beck, 2015). However, no studies have yet been made with reference to the Batticaloa District. This study helps to identify the quality of services (both financial and social) needed to be provided by the MFIs for attaining sustainable growth in terms of beneficiaries' satisfaction of MFIs' services towards social and economic upliftment in their lives.

Research problem & Research questions

Studies show that, the microfinance is one of the effective instruments used to mitigate several social and economic problems of poorest families (Tilakaratna *et al.,* 2005; Atapattu, 2009; Ramanaiah and Gowri, 2011; Gundappa, 2014) due to poverty. However, still there is a gap between the targeted objectives and outcome of social upliftment. Therefore, a study was designed to investigate the following research problem.

Are the services of MFIs contributed to the social and economic upliftment of beneficiaries in Batticaloa District, Sri Lanka?

In order to investigate the above problem, the study mainly focuses on four research questions.
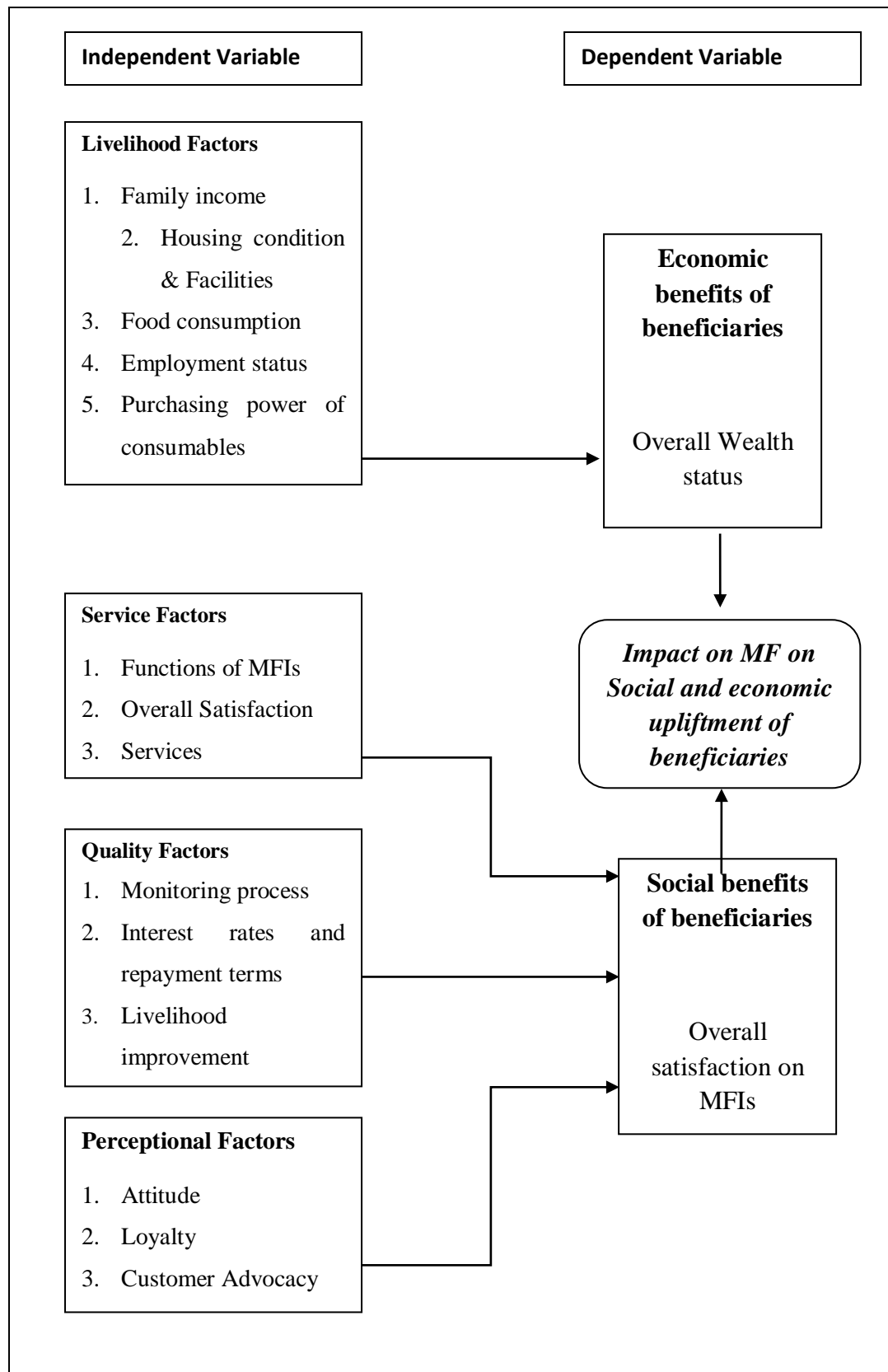
1. To what extent is the services of MFIs impact the overall wealth of the beneficiaries?
2. To what extent is there a relationship between functions of MFIs and beneficiaries' satisfaction?
3. To what extent is there a relationship between quality of services of MFIs and beneficiaries' satisfaction?

4. To what extent is there a relationship between beneficiaries' attitude towards the MFIs?

Conceptual Framework & Hypotheses

The following conceptual model (Figure 1) has been used for the study (Bihari *et al.*, 2010). The relationships between independent and dependent variables are assumed positive (+). Two types of dependent variables (Wealth status and Beneficiary's satisfaction on MFIs) are selected to analyze the outcome of the services of MFIs in beneficiaries' families.

Independent Variable	Dependent Variable

Livelihood Factors

1. Family income
   2. Housing condition & Facilities
3. Food consumption
4. Employment status
5. Purchasing power of consumables

Economic benefits of beneficiaries

Overall Wealth status

Impact on MF on Social and economic upliftment of beneficiaries

Service Factors

1. Functions of MFIs
2. Overall Satisfaction
3. Services

Quality Factors

1. Monitoring process
2. Interest rates and repayment terms
3. Livelihood improvement

Social benefits of beneficiaries

Overall satisfaction on MFIs

Perceptional Factors

1. Attitude
2. Loyalty
3. Customer Advocacy

Figure 1: Conceptual Model

Different livelihood factors have different degree of influence over peoples' wealth and economic benefits. In the context of the present study, the wealth is determined by the services and financial benefits provided by MFIs to the beneficiaries. Hence the following hypotheses were proposed in this study related to livelihood factors.

RQ 1: To what extent is the services of MFIs impact the overall wealth of the beneficiaries?

H 1: There is a relationship between Family income of beneficiaries and the overall wealth of the family

H 2: There is a relationship between Housing condition & Facilities of beneficiaries and the overall wealth of the family

H 3: There is a relationship between Food consumption pattern of beneficiaries and the overall wealth of the family

H 4: There is a relationship between Employment status of beneficiaries and the overall wealth of the family

H 5: There is a relationship between Purchasing power consumables of beneficiaries and the overall wealth of the family

Customer satisfaction has been widely used in the questionnaire based survey to evaluate the performances of financial institutions (Bihari *et al.*, 2010) which indicates the quality of the services to the beneficiaries. Many studies (Fornell *et al.*, 1996; Johnson *et al.*, 2001; Bihari *et al.*, 2010) have used the overall customer satisfaction concept. Thus, the following hypotheses were proposed according to the research questions:

RQ 2: To what extent is there a relationship between functions of MFIs and beneficiaries' satisfaction?

H 6: Functions of MFIs will have a positive impact on beneficiaries' overall satisfaction on MFIs

H 7: Satisfaction on services will have a positive impact on beneficiaries' overall satisfaction on MFIs

H 8: Types of services will have a positive impact on beneficiaries' overall satisfaction on MFIs

RQ 3: To what extent is there a relationship between quality of services of MFIs and beneficiaries' satisfaction?

H 9: Monitoring process will have a positive impact on beneficiaries' overall satisfaction on MFIs

H 10: Interest rates and repayment terms will have a positive impact on beneficiaries' overall satisfaction on MFIs

H 11: Livelihood improvement will have a positive impact on beneficiaries' overall satisfaction on MFIs

RQ 4: To what extent is there a relationship between beneficiaries' attitude towards the MFIs?

H 12: Attitude towards the MFI will have a positive impact on beneficiaries' overall satisfaction on MFIs

H 13: Loyalty of the MFI will have a positive impact on on beneficiaries' overall satisfaction on MFIs

H 14: Customer Advocacy of MFI will have a positive impact on on beneficiaries' overall satisfaction on MFIs
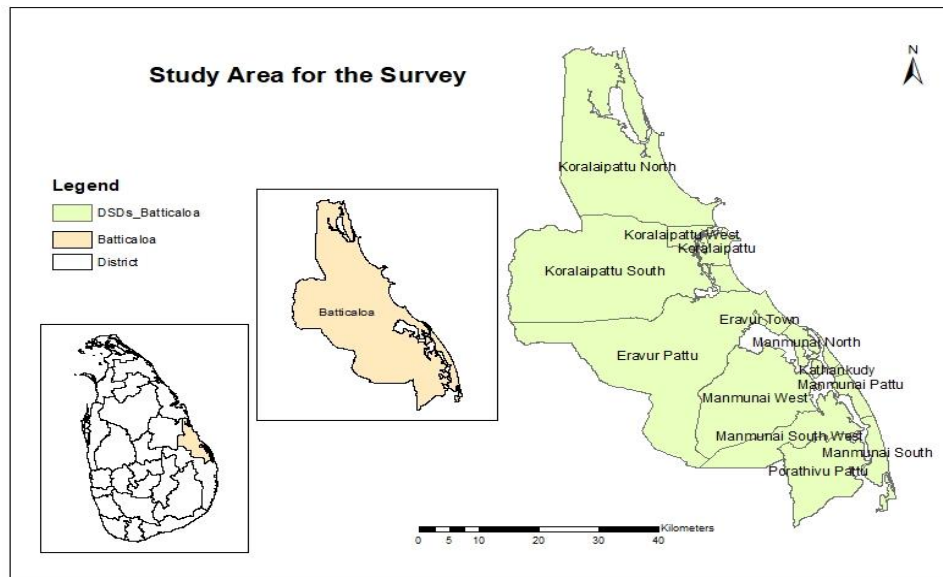
OBJECTIVES

Thus, the study was developed with the primary objective to find out the contribution of MFIs to the social and economic upliftment of beneficiaries in Batticaloa District, Sri Lanka. The primary objective was attained via analyzing the services utilized by the clients offered by MFIs, factors influencing the satisfactory of services and beneficiaries' attitudes towards the MFIs role in their livelihood status both social and economic point of view.

METHODOLOGY

Survey Design & Data Collection

The household survey was conducted in the 14 DSDs in Batticaloa District (Figure 2). The survey was carried out in a stratified random sampling method with the total sample size of 200 households targeting the beneficiaries of MFIs from each DS Division. A semi-structured questionnaire was designed based on five sections. The first section collects personal and demographic information such as Gender, Age, Education and Occupation of the beneficiaries. The second and third sections measure how the types and quality of MFIs' services satisfy the expectations of the beneficiaries. In the fourth section, the respondents were asked to rate the impacts caused by the role of MFIs in their lives both socially and economically based on Likert (1-5) scale. Two questions were asked to determine the income

level and wealth of the family before and after obtaining microfinance facilities. Key interviews were conducted from the selected MFIs functioning in Batticaloa District based on the questionnaire survey. Interviews were based on outreach and services rendered by the MFIs, how they manage the dropouts/inactive clients, how they contribute to the social capital and the social responsibility of the institution.

Figure 2. Selected DSDs for the Survey in Batticaloa District

Data Analysis

The collected data was statistically analysed in order to produce the study's main research questions and objectives. The data collected from the questionnaires are summarized and analysed by using SPSS (version 22.0). Frequencies and descriptive statistics were carried out to summarize main data of respondents to get an overview and to conduct further analysis. Associative analysis such as t-test, one way – ANOVA and Pearson Correlations were carried out among dependent and independent variables to identify the significance at 5% and 1% level. Non-parametric test- Chi square were conducted to check the acceptance of hypotheses in the study.

RESULTS AND DISCUSSION

The study was carried out to expose the efforts made by MFIs to satisfy and uplift the livelihood status of the poorest families in Batticaloa District in terms of demographic, service utilization, satisfactory level of beneficiaries towards the MFIs' role in uplifting their livelihood both social and economic point of view. Whereas, the negative socio – impacts also focused. The study also attempts to analyze the role of MFIs in the District in providing

services, handling the inactive clients, level of outreach and social responsibility of the institutions.

1. Demographic profile of MF Beneficiaries

Bihari *et al.* (2010) indicates that understanding the customers profile can be a valuable tool for the management of MFI's to identify the percentage of the total population involved in a particular type of usages of the MF loans.

The distribution of MF beneficiaries among the DSDs showed that 25 % of the clients fall into Manmunai South and Eruvil Pattu DSD followed by Manmunai North (19%) Manmunai West (16%) and Koralaipattu (13%) DSDs, respectively. Among the above 04 DSDs, Manmunai North is classified as urbanized and highly populated while others are categorized as agricultural divisions. Paddy is the large scale agricultural production in these places. Most of them are either paddy or vegetable farmers. They also involve in animal husbandry in addition to crop cultivation.

The descriptive statistics on demographic details show that 92% of the respondents are female around 40-45 years old category (50-75 %) and 87% of them are married. Generally, women are the key beneficiaries of MF projects (Ramanaiah and Gowri, 2011; Gundappa, 2014). Most of the MF services target women in the poorest of the poor families. Most of the services are designed to uplift them either economically or socially.

Educated beneficiaries are the assets to the MFIs. Majority of the beneficiaries have secondary education (56.1 %) and involved in self-employment (41.7 %) as small or medium level entrepreneurs. Sri Lanka has a comparatively high literacy rate and education is mandatory. It can be considered as an important requirement for poverty alleviation. However, Tilakaratna *et al.* (2005) indicates that the rural poor suffer from lack of access to education and opportunities for human capital improvement, partly because they live in places far away where such facilities are unavailable and makes them to not to have the skills, and vision to be true entrepreneurs. Thus, the survey results on education and occupation can be considered as good indicators of the beneficiaries' background where they can involve actively and make better decisions while utilizing the MF services. Gundappa (2014) mentions that giving women access to microcredit loans with good educational background gives a pathway to them to play a vital role in the society.

Household incomes determines the economic condition of the family. The income level is the main factor that determines the selection of the beneficiaries by MFIs. It also an indication to check whether the MFIs have reached the poor and the poorest groups of households (Tilakaratna *et al.,* 2005). Around 33.3% of the beneficiaries receive less than Rs. 10,000 as monthly incomes. It can be noticed that the respondents show well – diversified livelihood sources such as Business, Mason, Tailoring, Self-employment, Teacher, Husbands' income, Childrens' income, Agriculture, Labour and Gardening for their monthly income. Similar results were obtained from the findings of Microfinance Survey by IPS in 2004 in Sri Lanka in selected GN Divisions, where the average monthly income of the MF beneficiaries ranged

between Rs. 2500-7500. Further, 86% of the respondents reveal they depend only on one income and 13.2 % of them have the access to two incomes. These findings imply that MFIs have reached the poor as well as the poorest groups. However, it can be also observed that a significant proportion of microfinance clients are from the not-so-poor or the vulnerable non-poor categories.

Findings show that the average family size of the beneficiaries are seemed to be 04 (27.3 %) where it ranges from 1-9 nos, with Male: Female composition of 1:1. Schooling details indicate that higher number (43.2 %) of families only have single dropouts. Tilakaratna *et al.* (2005) mentions that obtaining access to the quality education is challengeable to the poorest of the poor families. Spending expenditure to the children's education is another hard task to the families obtaining MF benefits among other basic needs. However, the free education system in Sri Lanka helps the families to maintain the dropouts in the family in a minimum level. These demographic variables are continuous in nature and influence in obtaining the MF benefits and determine the socio-economic status of the family.

2. Nature of relationship with MFIs

The surveying results show that the respondents are attached to 30 MFIs in Batticaloa District. Among them, beneficiaries are highly involved with 03 MFIs; LOLC (18.7%), BRAC (17.3%) and Samurdhi (14%). Figure 3 shows the respondents distribution among the MFIs.

Figure 3. Respondents distribution among the MFIs

Majority of the beneficiaries (38%) mentioned that obtaining loan is the main reason to be a client in a MFI which is followed by Self-employment (29.3%) and housing loan (4.7%). Around 45.3% of the beneficiaries are attached to the MFI between 1- 2 years. Only 25.3% beneficiaries are the members in more than one MFIs. They are attached to them less than one-year period and mainly for obtaining loan when the previous loan amount obtained from primary MFI is inadequate.

Table 1 summarizes the utilization of the loan and other financial facilitates provided by MFIs by the beneficiaries.

Table 1. Summary of utilization of credit facility provided by MFIs

Utilization of the Facility	(%)
Savings, Self-employment	0.7
Self-employment	**48.6**
Self-employment, Children education, Medical purpose	0.7
Self-employment, Children education, Debt paying	1.4
Self-employment, Children education, Debt paying, Personal expenses	0.7
Self-employment, Debt paying	1.4
Self-employment, Medical purpose, Personal expenses	1.4
Self-employment, Personal expenses	2.2
Children education	5.8
Children education, Debt paying, Investment	0.7
Children education, Agriculture	0.7
Children education, Debt paying	0.7
Children education, Medical purpose, Debt paying, Personal expenses	0.7
Debt paying	6.5
Debt paying, Agriculture	0.7
Investment	2.2

Medical purpose	0.7
Medical purpose, Personal expenses	0.7
Business	7.2
Business, Agriculture	0.7
Personal expenses	3.6
Agriculture	8.7
Housing repair	2.9

Majority of the beneficiaries use the credit facility as a capital investment for self-employment opportunity. This indicates that the beneficiaries are concern in developing their financial status by using the credit facility and they choose this as a way of repaying their debts. Only 8.7 % of the beneficiaries are using the credit facility to the agriculture purpose. It is not a good indication as far as Batticaloa District is a place for agriculture and most of the MFIs beneficiaries are attached to DSDs related to agricultural sector, the input of credit facility into agriculture is inadequate.

3. Overall Livelihood status before and after obtaining MFI facility

Data were analyzed to identify the improvements of the overall wealth of the families in terms of Family income, Employment Status, Housing condition, Food Consumption pattern, Purchasing power of Consumables, Facilities, School dropouts and Level of Security in the family. Finally, Overall livelihood status was assessed from the above factors. The overall livelihood status indicates the level of wealth of the families due to the facilities obtained from the MFIs. The level of improvements was scored from Low to High (1-3) scale. Respondents were asked to mention the level of scale before and after obtaining the MF facility. Results show 17. 3 % of the respondents were in Low level, 68.7 % in medium level and 14.0 % in high level of livelihood status before obtaining the facility. However, Low and Medium level of livelihood status reduced to 3% and 36%, respectively while high level of livelihood status increased up to 34 % after obtaining the MF facility. Respondents of 27 % remain no change in their livelihood status. Table 2 indicates the livelihood improvement after obtaining the MF facility.

Table 2. Summary of Livelihood improvements after obtaining MF facility

	Score Level	Level	Respondents %
No change	1--1	Low-Low	4
	2--2	Medium - Medium	42
	3--3	High-High	10
Positive	1--2	Low- Medium	8.7
	1--3	Low – High	4.7
	2--3	Medium -High	25.3
Negative	2--1	Medium -Low	1.3
	3--1	High – Low	0
	3--2	High - Medium	4

Studies show that MF facility is mainly designed to uplift the wealth of the poorest of the poor (Tilakaratna *et al.,* 2005; Kereta, 2007; Gundappa, 2014). This can be highlighted with the positive changes occurred in the families after obtaining the MF facility. Table 2 shows that 8.7 % of the families improved their wealth status from low to medium, 4.7 % from low to high and 25.3 % from medium to high level. MF facility also help to maintain the family's wealth and livelihood condition without letting them down. This can be proved that 42 % and 10% of the beneficiaries' families maintain their wealth condition from medium and high level without any changes. Only few of beneficiaries didn't show any improvement in their livelihood conditions. These information gives a good indication that MF facilities are optimally used by majority of the beneficiaries.

Further, the data related to the improvements in the wealth of the families were subjected to Correlation and t-test (at 95 % confidence level) to identified the relationships with the overall improvements at significant level (1 % and 5%) (Table 3). Housing condition, Food Consumption pattern, Purchasing power of consumables, Facilities and Level of security in the family show significant positive correlations ($p < 0.01$) before and after obtaining the MF facilities. The t-test reveals that the improvement in the wealth of the families due to the MF facility is significant ($p < 0.01$). The above all 08 contributing factors to the overall improvement of wealth/livelihood of the beneficiaries showed significant difference after obtaining the MF facility. Even though, the family income level increases, the employment status of the families didn't show any difference. The beneficiaries continue the same

employment but with an improved level. MFI support the poorest of the poor to uplift the income level of the families. So, they can fulfill their financial needs and increase the purchasing power and housing facilities. School dropouts show negative correlation but not at significant level. Secured level income help the families to spend on children education (Tilakaratna *et al.*, 2005). The level of security of the families considered the security in income generation, food consumption and fulfilling other essential needs.

Table 3. Correlation & t-test in the Livelihood improvements of Beneficiaries in obtaining MF facility (p < 1%)

Livelihood Status		Before_MF Mean ± MSE	After_MF Mean ± MSE	Correlation	Sig.	Paired Samples T- Test				
						95% Confidence Interval of the Difference		t	df	Sig
						Lower	Upper			
Pair 1	Family income & Family income	1.65± 0.05	2.55±0.08	0.1	0.26	-1.085	-.712	-9.529	147	.000**
Pair 2	Employment Status & Employment Status	1.80±0.05	2.77±0.09	0.0	0.95	-1.166	-.763	-9.469	140	.000**
Pair 3	Housing condition (including well and latrines) & Housing condition (including well and latrines)	2.12±0.05	3.13±0.08	0.5	0.00**	-1.167	-.862	-13.182	137	.000**
Pair 4	Food Consumption pattern & Food Consumption pattern	2.13±0.05	2.88±0.09	0.3	0.00**	-.929	-.582	-8.621	134	.000**
Pair 5	Purchasing power of Consumable & Purchasing	1.92±0.06	2.61±0.10	0.4	0.00**	-.863	-.514	-7.791	137	.000**

	power of Consumable									
Pair 6	Facilities (Electricity, Telephone, TV, etc.) & Facilities (Electricity, Telephone, TV, etc.)	1.80±0.05	2.71±0.09	0.5	0.00**	-1.072	-.753	-11.324	136	.000**
Pair 7	School dropouts & School dropouts	1.38±0.07	2.39±0.14	-0.1	0.51	-1.337	-.683	-6.129	96	.000**
Pair 8	Security & Security	2.23±0.06	3.16±0.10	0.5	0.00**	-1.096	-.762	-10.991	126	.000**
Pair 9	Overall & Overall	1.97±0.05	2.84±0.07	0.3	0.00**	-1.018	-.728	-11.889	149	.000**

Table 4 compares the hypothesis testing results of Livelihood factors and Wealth of the families.

Table 4: Comparison of hypotheses of Livelihood factors and Wealth of the families

Type	Variable	Hypothesis	Test	Result	Sig. Value
Livelihood Factors	Family income	H 1: There is a relationship between Family income of beneficiaries and the overall wealth of the family	t-test	Accept H 1	t = -9.529/ p = .000**
	Housing condition & Facilities	H 2: There is a relationship between Housing condition & Facilities of beneficiaries and the overall wealth of the family	t-test	Accept H 2	t = -13.182 p = .000** t = -11.324 p = .000**
	Food consumption	H 3: There is a relationship between Food consumption pattern of beneficiaries and the overall wealth of the family	t-test	Accept H 3	t = -8.621 p = .000**
	Employment status	H 4: There is a relationship between Employment status of beneficiaries and the overall wealth of the family	t-test	Accept H 4	t = -9.469 p = .000**
	Purchasing power of consumables	H 5: There is a relationship between Purchasing power consumables of beneficiaries and the overall wealth of the family	t-test	Accept H 5	t = -7.791 p = .000**

Significant level p <0.01

Results of associative analysis (t-test) show the p-value (0.000) is significant at 1% level for the above 08 contributing factors indicates that there is a relationship between these 08 variables and wealth of the beneficiaries' families. Thus, hypotheses 1 – 5 are accepted. The study reveals MF facility shows a significant (p < 0.01) improvement in the livelihood status of the beneficiaries' families in terms of wealth.

4. Clients' satisfaction in the role of MFIs in uplifting their livelihood status

The study focused on the clients' satisfaction in the role of MFIs in uplifting their livelihood status. The level of satisfaction was analyzed in 09 categories with total of 43 variables to express their satisfaction level on the role of MFIs using Likert scale. The clients were exposed to both positive and some negative responses which decide the level of satisfaction towards their MFIs. The results revealed that the majority of the respondents gave their rank to Agree (score = 4) to the positive responses (31 statements) and Disagree (score = 2) to the negative responses (01 statement). Further, 08 statements were given Uncertain (score = 3) and 01 was given Strongly Agree (score = 1) among 43 criteria.

Based on the average ranking score of the above results (Table 5), the highest average score (4) has been given to the 'Functions of MFIs, Overall satisfaction, Services, Attitude, and Interest rates and payments. These were given the rank of "Agree" by the majority of the clients. The lowest average score (3) has been given to 'Loyalty, Monitoring process and Customer advocacy" which were given the rank of "Uncertain" by the majority of the clients. Almost equal number of respondents were given "Uncertain" (32.9 %) and "Agree" (32.2 %) to the Livelihood improvement.

Table 5. Summary of Clients' Satisfaction Level and Average score based on questionnaire survey

Statement No	Clients' satisfaction of the role of MFIs in uplifting their livelihood status	Strongly Disagree (%)	Disagree (%)	Uncertain (%)	Agree (%)	Strongly Agree (%)	Average score ± MSE
1	Functions of MFIs	-	4	39.6	**51.7**	4.7	4.0±0.05
2	Overall Satisfaction	3.4	15.4	16.1	**46.3**	18.8	4.0±0.09
3	Services	0.7	20.1	22.1	**39.6**	17.4	4.0±0.08
4	Attitude	1.3	11.4	29.5	**32.2**	25.5	4.0±0.08
5	Loyalty	9.4	12.8	**34.9**	30.2	12.8	3.0±0.09
6	Customer Advocacy	6	22.1	18.1	**32.9**	20.8	3.0±0.10
7	Monitoring process	-	8.1	**58.4**	24.8	8.7	3.0±0.06
8	Interest rates and repayment terms	-	2.7	43.6	**46.3**	7.4	4.0±0.06
9	Livelihood improvement	0.7	21.5	**32.9**	32.2	12.8	3.0±0.08
Clients' Satisfaction Level on MFIs							**4.0±0.06**

The results revealed as usual the clients are satisfied with the financial services conducted by the MFIs. These are highlighted by agreeing the statements which come under functions, services, overall satisfaction. The attitude of the clients towards the MFIs they attached was seemed to quietly satisfied. They prefer to continue with the same MFI mainly at the financial point of view. Whereas, still the clients are in an uncertainty when the role of MFIs come to the social aspects such Loyalty, Monitoring process and Livelihood improvement. Studies related to the customer satisfaction on services of MFIs also revealed that clients are satisfied with the financial services of the MFIs. Further Tilakaratna *et al.* (2005) revealed that MFIs in Sri Lanka mainly designed and focus on the economic point of view. The author further mentions that alleviating poverty is not only depend on economic aspect but also social aspect which is lacking in the functions of MFIs.

Based on the overall ranking score, the results revealed that the clients are satisfied with the role of MFIs where the financial aspects are considered as a major part of the livelihood improvement of the poorest of the poor. Studies show that uplifting the income and wealth lead the poor society to a recognized level to sustain in their society. The ANOVA test for the clients' satisfaction reveals that there is a significance relationship between overall clients' satisfaction and 09 criteria to the services of MFIs in uplifting the poor (p =0.000). This shows the 09 criteria are significantly contributing to the level of overall satisfaction of the customers to the role of MFIs. Thus, the MFIs should be able to balance the economic and social aspect of the services.

Pearson Correlational analysis revealed that each criterion moderately or highly inter - correlate as well as highly correlated at significant level (p<0.01). The results prove that the clients' satisfaction highly depends on function of MFIs, overall satisfaction, services, attitude, loyalty, monitoring process, customer advocacy, interest rates and repayment terms and livelihood improvement. Similar findings were observed from the study by Bihari *et al.* (2010), where customer satisfaction had significant positive relationships with tangibility, reliability and responsiveness and also positive impact of end-user satisfaction on their loyalty, attitude and advocacy behaviors.

Table 6 compares the hypothesis testing results of Service, Quality and Perceptional factors and Overall Satisfaction in MFIs.

Table 6. Comparison of hypotheses of Service, Quality and Perceptional factors and Overall Satisfaction in MFIs

Type	Variable	Hypothesis	Test	Result	Sig
Service Factors	Functions of MFIs	H 6: Functions of MFIs will have a positive impact on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H6	f = 20.441 p = .000**
	Overall Satisfaction	H 7: Satisfaction on services will have a positive impact on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H7	f = 22.852 p = .000**
	Services	H 8: Types of services will have a positive impact on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H8	f = 36.796 p = .000**
	Monitoring process	H 9: Monitoring process will have a positive impact on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H9	f = 8.740 p = .000**
Quality Factors	Interest rates and repayment terms	H 10: Interest rates and repayment terms will have a positive impact on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H10	f = 5.667 p = .000**
	Livelihood improvement	H 11: Livelihood improvement will have a positive impact on beneficiaries' overall	ANOVA	Accept H11	f = 19.052 p = .000**

satisfaction on MFIs

Perceptional Factors	Attitude	H 12: Attitude towards the MFI will have a positive impact on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H12	f = 30.261 p = .000**
	Loyalty	H 13: Loyalty of the MFI will have a positive impact on on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H13	f = 15.764 p = .000**
	Customer Advocacy	H 14: Customer Advocacy of MFI will have a positive impact on on beneficiaries' overall satisfaction on MFIs	ANOVA	Accept H14	f = 40.925 p = .000**

Significant level p <0.01

Results of statistical analysis (ANOVA) show the p-value (0.000) is significant at 1% level for the above 09 criteria indicates that there is a relationship between these 09 variables and clients' satisfaction MFIs role. Thus, hypotheses 10-14 are accepted. The Pearson correlation also reveal the Service, Attitude and Quality factors are positively highly correlated with the clients' satisfaction on MFIs role at significant level (p< 0.01). Further, Non parametric analysis (Chi-square test) for hypothesis testing also reveals that the 09 criteria are significantly related to the Clients' satisfaction on MFIs role. Kereta (2007), mentions that there is positive correlation between outreach and financial sustainability which can be used to reach more client to attain social mission and could make it profitable. Further, a positive correlation (r= 0.202) was obtained between income and loan amount from the study by Tilakaratna *et al.* (2005). So, the MFIs should consider the importance of social reform of the families along with the economic uplifment.

5. Negative socio impacts of MFIs

The study also tends to identify the negative socio-impacts caused by the MFIs in Batticaloa District. Several questions were asked from the beneficiaries related to the problems and issues faced due to the repayment or default of the loan. However, it is surprised to the results from the survey, that 77.1 % of the respondents indicated that they didn't have been defaulted on loan or any other facilities obtained from MFIs. Only 22.9 % were faced the above problem in the repayment. This shows that the beneficiaries are keen on the repayment in order to avoid unnecessary/unwanted issues or conflicts with the MFIs. Family situation, insufficient income, low income from agriculture and business, shortage of money during repayment and jobless family members especially husbands are some the pointed out reasons for the loan default by the respondents. Azad *et al.* (2004) mention that 62 % of the borrowers in their study did not use the loan for the purposes they have borrowed where it gives a negative impact on loan repayment. Further, from the study of Ramanaiah and Gowri (2011) indicates that women with husbands who are "lazy" and

gamble and waste money or are "bad", are generally considered "high risk" in case of repayment of the loans.

A question was asked from the defaulted beneficiaries how they were treated during default of the loans or any other facilities. Majority of the beneficiaries feel that they have been treated respectfully (38.8%) and politely (32%) and they are happy (66.9 %) with their conduct/behaviour in the way they handle default. Only 14% of the respondents faced unpleasant ways of behaviours (Threatening and Badly) from the staff of MFIs while, 13% of the beneficiaries face legal action. Threatening through guarantors, creating unpleasant situations, using hard and abusive words, scolds in the presence of group members, compelled to settle on due date and misbehaviour of lender until settlement are few mentioned unpleasant behaviours indicated by the respondents. Respondents feel that these ways of misbehaviors lead to negative social impacts.

Majority of the respondents feel disgrace in the society (43.8 %) while 20.3 % and 10.9 % feel fearfulness and disgrace with psychological disturbances, respectively. However, serious social impacts such as life threat, suicide attempts, abuses and losing of properties seemed to in minimal level (1-3%) as rare incidents. While considering the family support in these issues, 46% of the respondents get on Moderate level of support from their families, while 16% of the families provide high support to handle the situations and 18% of the beneficiaries do not involve their families in these situations. However, Kereta (2007) mentions these kinds of social impacts can become the challenges for MFIs especially in their activities.

Negotiation between MFIs and the beneficiaries is the highly recommended remedy by the respondents (45 %). However, 15 % of the respondents recommend the Legal action while 19 % of the respondent insist not to take actions during the default time. The study also focused the respondents' suggestions in improving the MFIs in the future. Reconsidering and increasing the grace period (25%), adjusting the loan amount or the financial facility (18%), considering the repayment schedule (18 %) and being transparency (18 %) with the beneficiaries are some of highly suggested improvements to be made in MFIs.

6. Role of MFIs in Batticaloa District

Based on the customer survey, 30 MFIs were identified in the district which have been established between 1956-2016. However, majority of the MFIs were established in the district after 2000. The branches range from 1-6 all over the district. Clients and Staff are the main stakeholders in the MFIs. Poverty reduction, Empowering people & transforming lives and help to set the industry standard in non-bank financial services by acting as a leading provider of unique financial solutions through sustainable financing are the unique vision and mission statement of the most of the MFIs which are fixed as a social interest of the institutions. These were shared among the stakeholders via creating rural development centers. These social missions were written in administrative rules which is clearly communicated to staff and clients and regularly checked by external people.

Key interviews were conducted to study about the outreach, services social capital and responsibility of the institution. Finally, these were ranked based on Likert (1-4) scale to find out whether these four dimensions have reached the social objectives. Management of inactive clients were also assed during the study.

i. Outreach to the poor and the left out

MFIs intervene in remote rural areas to select and operate based on poverty as criteria. However, 58% of the institutions use formal surveys to identify the poor areas. Around 42 % of the MFIs used indicators based on client conditions such as illiteracy, family size, housing index, assets and 33 % of the MFIs adopted the method of information used to screen out the rich or the select the poor for loan application to identify the depth of poverty outreach. Social collateral was initiated by 75 % MFIs and solidarity among groups was adopted to provide and secure the loans. Over the last 12 months MFIs were provided loan between Rs. 50,000-250,000 with the minimum installment payment of Rs. 2,500 with zero amount of savings opening. All the MFIs are providing loans to agriculture sector with the minimum rate of 55 % and maximum of 90 %. MFI identifies 20 % of their clients come among very poor category who live below country's poverty line.

ii. Adaptation of Services to the target clients

This section discusses the type of services provided to the clients the MFIs. According to the survey from MFIs, there are more than two types of loan products which also includes social/emergency loan. The loans are specifically designed above 12 months by considering the clients' social needs and the schedule is decided with the clients for repayment when receiving the loan. Most of the MFIs maintain voluntary saving products (58 %) within the MFI to fulfill the clients' social needs. Further, the loan officers of the MFIs visit more than 50 % of the clients for regular financial transactions. Also, MFIs insist that the client should know about each repayment, the capital and interest to be paid and the date of repayment which they receive in written statements of each of their financial transactions. Informal discussions with some clients/ formal analysis of the information collected for loan applications were conducted as market surveys to improve the quality of services to clients.

The study also tends to check the management system of the MFIs on dropouts and/or inactive clients. The dropouts/inactive clients are considered as the persons without transactions on credit ad savings for more than one year. According to the Key interviews with the selected MFIs, the results show that 52 % of the MFIs don't have conducted a study or don't have a clear idea for the departure. Only few, have conducted formal survey on departure reasons from the drop-outs which varies between 15-30 % over the last 12 months. Moreover,42 % of the MFIs proved non-financial services related to financial management such as business training, management of family budget, etc. for some clients under compulsory and voluntary basis related to their social needs.

iii. Improving clients' Social capital

MFIs mentioned that clients have access to the financial statement on request basis. Further, MFIs provide opportunities for the clients to meet the manager in case of conflicts or claims or complaints between them and employees of the institutions. The clients are allowed in decision making meeting in a rotation basis where the MFIs maintain the gender balance among the representatives. They (50 %) maintain a system of training for representatives to help them fulfill their mission on a regular basis, planned in the strategy and related to the rotation. However, strengthening the social capital of the clients is an indirect and minor objective for the MFIs (42 %) and 75 % of the MFIs facilitate the creation of skills for management or leadership which help them to resolve clients' problems beyond access to financial services. From the study by Tilakaratna *et al.* (2005) was found that credit has supported only income and employment generating activities among their clients.

iv. Social responsibility of the institution

Based on the interview carried out with the MFIs, the results show that the social responsibility of the institutions did not reach to the optimum level in the society and to the clients. MFIs indicated that they haven't conducted any sort of studies to assess the social and economic impact of the services and even when the identify the negative impacts on social cohesion or client welfare, they didn't try to make any changes. Even, 92 % of the MFIs didn't take any measures to study the level of indebtedness of its clients. Further, 67 % of the MFIs mentioned that they don't provide insurance that frees the family from the burden of debt in case of death of the borrower while 33 % of MFIs mentioned that they provide insurance only for some loans. However, 83 % of MFIs are keen on preserving harmony with local cultures and values, 58 % indicates they assist local community through financing the community projects and/or being an active participation in local social on an irregular basis and reserves funds to mitigate the collective disaster are some their functions in contributing the social responsibility.

The above four dimensions; outreach, adaptation of services, social capital and social responsibility of the institution are the main pillars of social objectives in the MF activity in the society. Sapovadia (2006) indicates that these pillars of microfinance
can fulfill the aspirations of those who are involved and more specifically of the
micro enterprises. The above four dimensions were scaled to 1-4 (Not an objective, Minor objective, Important objective and Major objective) to identify the importance given to the above to reach the social objectives. The results indicate that Outreach, Social capital and Social responsibility were identified as "important objective" to reach the social objectives while Adaption of services considered as Major objective to reach the social objectives by MFIs. Studies related to performances of MFIs (Tilakaratna *et al.* 2005; Sapovadia, 2007; Kereta, 2007) revealed that the MFIs are mainly oriented to uplift the financial benefits of the poor. Further, these studies indicate that economic point of view of the MF is not enough to eliminate the poverty and to reform the social structure in the poor community.

CONCLUSIONS

The paper examines the contribution of MFIs in relation to social and economic uplifment of beneficiaries in Batticaloa District, Sri Lanka. Results indicate that the customer satisfaction survey can be used as a tool to assess the economic and social impact of the MIFs in beneficiaries' livelihood improvement.

Women are the prime customers in the MF programme which targets the women in the poorest of the poor families with the monthly income less than Rs. 10,000. The surveying results indicates that the among 30 MFIs in Batticaloa District, beneficiaries are highly attached to 03 MFIs; LOLC (18.7%), BRAC (17.3%) and Samurdhi (14%).

Majority of the beneficiaries (38%) mentioned that obtaining loan is the main reason to be a client in a MFI which is followed by Self-employment (29.3%) and housing loan (4.7%). Further, survey reveals that beneficiaries primarily use the credit facility as a capital investment for self-employment opportunity. The study also found out, that the negative socio impacts by MFIs in beneficiaries' life is seemed to be in minimal level and mainly focus on the repayment issues on due date.

Results of associative analysis (t-test) reveals that MF facility (after obtaining) has given a significant (p < 0.01) improvement in the livelihood status of the beneficiaries' families in terms of overall wealth which can be assessed in relation to family income, employment status, housing condition, food consumption pattern, purchasing power of consumables, facilities, school dropouts and level of security in the family. Another important finding of the study indicates that that there is a relationship (ANOVA, Chi-square test) between clients' satisfaction in MFIs role on their service, quality and attitude behaviours at significant level (p <0.01). Further, Pearson correlation reveals the Service, Attitude and Quality factors are positively highly correlated with the clients' satisfaction on MFIs role at significant level (p< 0.01).

Role of MFIs in the district indicate that Outreach, Social capital and Social responsibility were identified as "important objective" to reach the social objectives while Adaption of services considered as Major objective to reach the social objectives by MFIs.

Thus, The overall success of the MFIs services in alleviating the poverty and to reform the social structure in the poor community not only depend on the financial aspects such lending and recovering loans and other financial benefits, but also in the long-term sustainability of the benefits that have accrued to the borrowers. Thus, the study implies that MFIs should consider the importance of social reform of the families along with the economic uplifment.

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