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A STUDY OF THE RELATIONSHIP BETWEEN FINANCIAL INCLUSION AND POVERTY REDUCTION: WITH SPECIAL REFERENCE AT 114/D GRAMASEVA DIVISION, ILLUKTHANNA VILLAGE, KAGALLE

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ABSTRACT

Financial Inclusion is the easy access to safe savings, appropriately designed loans for poor and low – income households and small and medium enterprises, suitable insurance and payments services. FIs have been known to offer different services that include savings mobilization, loans, money transfers and insurance. The purpose of this research is to identify the Relationship between Financial inclusion and poverty reduction in Sri Lanka. The study employed a descriptive analysis and Disproportional stratified sample technique used to select the sample from, Illukthanna, 114/D Gramaseva Division, Kagalle. The Sample consisted of 100 families from Ilukthanna village. Data were collected through questionnaire cleaned, coded, and analyzed by using Statistical Package for Social Sciences (SPSS-16). Data have explained through the frequency distribution tables, bar charts and pie charts. The results of this study highlight the positive relationship between Poverty reduction and Household's total monthly income before financial inclusion, Age of the household's head, Number of years the financial services has been taken, Monthly savings amount, Credit amount, Rate of interest on savings. The study recommends the following: development of Deposit collection and lending strategies in the FIs; Minimize the financial regulation by Central bank of Sri Lanka: Development of Financial product and services which are gender sensitive and sensitive to low-income earners as well as Creation of awareness on financial services both in urban and rural areas.

Keywords: financial inclusion, poverty reduction, regulation, disproportion

INTRODUCTION

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. Financial refers to all types of financial services, including credit, savings, payments and credit, from all types of formal financial institutions. Sri Lanka has achieved a high level of financial inclusion compared to other South Asian countries. There is also evidence that a larger share of households in Sri Lanka accesses multiple financial institutions for their credit and savings needs. However, the use of insurance services, ATM facilities, e-payments, and mobile banking, is relatively

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low. Financial education is also ad hoc and lags behind financial innovation and new products. Moreover, there is much scope to improve financial inclusion, particularly with regard to cost and quality of financial services provided, and the sustainability of financial institutions. The study also stresses the need for strengthening the current regulatory framework for the microfinance sector and client protection.

Poverty reduction, or poverty alleviation, is a set of measures, both economic and humanitarian, that are intended to permanently lift people out of poverty. Measures, like those promoted by Henry George in his economics classic Progress and Poverty, are those that raise, or are intended to raise, ways of enabling the poor to create wealth for themselves as a means of ending poverty forever. In modern times, various economists within the Georgism movement propose measures like the land value tax to enhance access to the natural world for all. Poverty occurs in both developing countries and developed countries. While poverty is much more widespread in developing countries, both types of countries undertake poverty reduction measures. Access to finance especially by the poor and Financial Inclusion (FI) is considered to be one of the sources of poverty reduction included in the millennium goals Eradicate extreme poverty and hunger. This issue is not just related to charity marked opportunities among the poorest are underestimated and should be explored by multinational companies as there is an evidence that multinationals that provide services to the bottom of the pyramid are successfully doing business in developing countries.Vulnerable groups is prerequisite for poverty reduction. Further access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account to save and invest to insure their homes or partake of credit there by facilitating them to break the poverty chain.

Hence Financial Institution is use many strategy to address the institutionalized exclusive of the poor people such as Savings facilities, Credit facilities, Skills development program, Training, Insurance facilities, Educational activities, Marketing assistance, Supply of inputs and business development services to the poor people in addition to Formal Financial Systems. In this paper researcher mainly target Savings facilities' and Credit facilities.The stark reality is that most poor people in the world still lack access to sustainable financial services whether it is savings credit or insurance. The great challenge before us to address the constraints that exclude people from full participation in the financial sector. Together we can and must built include save financial sectors that help people improve their lives. Like in other Asian countries, Sri Lanka also has an excessive problem of poverty. After several decades of developments efforts, poverty remains as a major problem in Sri Lanka. According to the poverty indicators – 2012/2013 the report of Department of census and statistic Sri Lankan aggregate poverty is 6.7%, estate sector poverty is 10.9% and the rural sector is 7.6% and urban poverty is 2.1% reported in. Ilukthanna is a village, which is located in Kegalle district of Sabaragamuwa province. There are150 families live in here. Most of people are depending on paddy and vegetables cultivation, some of them are doing government jobs and private jobs and few of them live with daily income.Specifically past studies have also shown that financial development raises the incomes of the poor and reduces poverty. By doing this research researcher hope to study of the relationship between financial inclusion and poverty reduction as amain objective and sub objectives are, identify the factors affecting financial exclusion on poor families and to identify the financial service in rural sector as same as to identify the impact of financial service on poverty reduction by getting data from Ilukthanna Village.

REVIEW OF LITERATURE

This section attempts to review some previous researches done on Financial Inclusion and Poverty reduction. It concludes with a summary of the empirical studies conducted.The study showed that countries with better developed financial intermediaries experience faster declines in both poverty and income inequality. This outcome is supported by the work of Honohan (2004) who reported that financial development is negatively associated with headcount poverty. The study conducted by Chitokwindo, Mago and Hofisi (2014) examined financial inclusion in Zimbabwe. The study used a qualitative research methodology and exploratory approach. The results show that financial exclusion comes in different forms and it is responsible for poverty and inequality in rural areas. Hence, there is need for developing the rural banking sector for local resource mobilization and business development. An investigation by Nwankwo (2014) examined the sustainability of financial inclusion to rural dwellers in Nigeria using descriptive study and content analysis. The study observed that the sustainability of financial inclusion to rural householders in Nigeria remains the mainstream for economic growth in any country. This is because there has been an increase in the use of mobile phones in the Sub Saharan Africa which gives a foundation for the revolution of mobile money transfer systems.

Munyayi (2014) showed that mobile money transfers are significant promoter of financial inclusion in Zimbabwean rural communities as carried out in Chivi District. Using a cross sectional study of the study population, results showed that there is an increase in the access to financial services hence improved financial inclusion. The study of Tilakaratna (2012) Examine that Financial Inclusion, Regulation, and Education in Sri Lanka. The study evidence that a larger share of households in Sri Lanka accesses multiple financial institutions for their credit and savings needs. However,the use of insurance services, ATM facilities, e-payments, and mobile banking, is relatively low. Financial education is ad hoc and lags behind financial innovation and new products. The information technology (IT) literacy rate is only 35% in Sri Lanka, and with the growing IT–finance nexus, financial awareness and education have become all the more important. Strengthening the regulatory framework governing the microfinance sector and client protection is also crucial for improving financial inclusion in Sri Lanka. Much scope remains to improve financial inclusion, particularly related to cost and quality of financial services provided, and the sustainability of financial institutions. Overall, Sri Lanka has a wide network research of financial institutions providing households and individuals with access to a range of different financial services such as savings, loans, pawning facilities, leasing and finance services, insurance, money transfer, and remittance facilities. Despite the growth and expansion of financial institutions, there are a number of gaps in the current financial system that need to be addressed. These are related to the cost and quality of services provided, the sustainability of financial institutions , clients' knowledge of the characteristics and details of financial services and products, and repayment capacity.

METHODOLOGY

The study employed a Descriptive statistics design and Disproportional Stratified sample technique used to select the sample from Illukthanna Village. Descriptive statistics design is used to describe characteristic of a Sample. This study used primary data and secondary data sources. The primary data was collected using questionnaires. The questionnaires had both open and closed ended questions that sought to find the relationship between financial inclusion and poverty reduction. Data will collect by use of the questionnaire, code and analyze using Statistical Package for Social Scientists (SPSS-16). The study use Multiple Regression Model that involve analyze the relationship between the independent variables and dependent variable.

The adopt regression equations as followers.

$$\boldsymbol{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + U}$$

$\boldsymbol{Y}$ = Household's total monthly income after Financial inclusion

$\boldsymbol{X_1}$= Household's income level before Financial inclusion

$\boldsymbol{X_2}$= Gender of the household

$\boldsymbol{X_3}$= Number of family members in the household's

$\boldsymbol{X_4}$= Age of the household's head (in years)

$\boldsymbol{X_5}$ = Education level hade of the household's

$\boldsymbol{X_6}$ = Number of years the financial services has been taken

$\boldsymbol{X_7}$ = Distance to close Financial Institute

$\boldsymbol{X_8}$ = Monthly Savings amount

$\boldsymbol{X_9}$ = Rate of interest on Credit

X_{10}= Credit amount

X_{11}= Rate of interest on savings

U =other factors that can affect poverty reduction which are not accounted for in the study

β_0 =Intercept of the regression

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8 \beta_9, \beta_{10}, \beta_{11}$ =Coefficient of the above variables.

RESULTS AND DISCUSSION

General Information

Represent from the total sample responses are doing their work in five sectors. Most of them are famers. It taken 40 in the total sample. Private sector taken 10 responses, government sector taken 20 responses and 30 daily wage earners from sample. The study sought to establish the employment status of the respondent. The finding of the study revealed that all of the respondents were employed. This implies that majority of the respondents were in farmer's which was their key source of income.The study sought to determine the gender category of the respondent's from the research findings, majority of the respondents as shown by 88% were males where as 12% of respondents were females. This implies that both genders were fairly engaged in this research. And This research findings released that most of the respondents as shown by 52% were age between 46 – 55 years, 43% of the respondents were age between 36 – 45 years, and another 5% of the respondents were age between age 56 and above. These implies that respondents were fairly distributed in terms of their age.

Respondents were requested to indicate the highest level of education attained. From the research findings the study relevant that most of the respondents as shown by 61% had primary school certificate. 30% of the respondents had primary and Secondary school certificate, 05% of the respondents had diploma certificate and 04% of the respondents had degree certificate. This implies that majority of the respondents were literate. At the same time Respondents were requested to indicate their total monthly income in the after financial inclusion, The response revealed that majority of the respondents shows by 36% earned between RS.5,000 – RS. 10,000, 33% earned over 15,000, 27% earned RS. 10,000 – RS 15,000 while 4% earned below RS 5,000 per month. This implies that majority of the respondents had total monthly income after financial inclusion in the between 5,000 – 10,000 per month.

Respondents were requested to indicate the period which they had been a member of a financial institution. From the research findings, most of the respondents as shown by 57% indicate have been used financial services for period from 1 to 5 years, 25% indicated they have been used financial services for a period of over 10 years, 12% of the respondents indicated that they have been used financial services not more than one year, whereas 06% of the respondents indicated that they have been used financial services for a period of 6 to 10 years. This implies that majority of the respondents were in a position to give credible information relating to this study.

Reason for join financial institution

Purpose: The research requested respondents to indicate the reason for them joining the financial institution. The research findings indicate that majority of the respondents as shown by 45% joined financial institution with reason to saving money, 55% for reserving loans and no any one of the respondents indicated that they joined their financial institution with reasons of receiving other financial services.

Distance: Respondents were requested to indicate the distance of the financial institution and their houses. From the research findings the study revealed that most of the respondents as shown by 41% had agreed, 26% disagree, 20% neutral, 9% strongly agree and 4% strongly disagree of this statement. This implies that majority of the respondents agreed financial institution and their home have a high distance.

Deposits: The research sought to determine the level of institutional effectiveness in collecting the member's deposits. The research findings revealed that majority of the respondents as shown by 98% rated their financial institution as effective, 1% of the respondents rated them very effective, whereas 1% of the respondents rated them as weak. This implies that most of the financial institution were effective in collecting the member's deposit.

The study sought to establish how frequent members of deposit taking financial institution saved. Majority of the respondents as shown by 82% indicated that they saved on monthly basis, 11% of the respondents indicated that they saved on Quarterly basis, 4% of the respondents indicated that they saved on Yearly basis, 2% indicated that they haven't on the time basis for saved, and 1% of the respondents indicated that they saved on weekly basis. This implies that majority of the respondents saved on monthly basis.

Respondents were requested to indicate the average amount they deposited with financial institution per month. 56% indicated that they saved between 1,000 and 5,000, 21% indicated that they saved between 5,000 and 10,000 as well as below 1,000, while 2% of the respondents indicated that they saved over 10,000 per month. This implies that majority of the respondents saved between 1,000 and 5,000 per month.

Borrowing.: The study sought to establish whether the respondent had obtained any loan from the FI in the last five years. From the research findings majority of the respondents as shown by 100% indicated that they had obtained loan from FIs in the last five years. Most of the borrowers are engaging the Barendina credit program.

Type of Credit obtained: Respondents were requested to indicate the type of loan they obtained from their FIs. From the research findings, majority of the respondents as shown by 99% indicated that they had taken business loans, 1% indicated that he had taken loans for the build a new house. This implies that majority of the respondents had obtained business loan.

Other financial inclusion service: Respondents were requested to indicate whether they were using any other form of financial service from the FIs. 97% indicated that they did not use any other financial inclusion service from their FIs while 3% indicated that they used other financial inclusion service such as ATM, Mobile banking, Remittances, e-banking etc. This implies that majority did not access or utilize other services offered by the FIs.

Reasons for Financial Exclusion.

Many people across the globe excluded from mainstream financial sector. These range from people with low income to people with low information and accessibility to people with no social security or insurance cover. The study sought to find main reasons behind exclusion.

Table 1. Reasons for financial exclusion.

Reason			Percentage		
	Strongly	Agreed	Neutral	Disagree	Strongly
Lack of information	-	95%	5%	-	-
Insufficient documentation	-	95%	5%	-	-
High Distance to the FIs	-	-	4%	20%	76%
Problem of species	-	-	18%	39%	43%
Lack of awareness	18%	19%	12%	26%	25%
Lack of access	15%	20%	13%	33%	19%
No assets	57%	11%	24%	8%	-
Lack of safety	-	2%	25%	29%	44%
High transaction cost	-	2%	20%	37%	41%
No Time	-	2%	22%	35%	41%

Source : Computed by author, 2018

REGRESSION ANALYSIS

The regression equation was

$$Y^{a} = -0.364 + 0.280X_1 - 0.354X_2 - 0.408X_3 + 0.113X_4 + 0.129X_5 - 0.045X_6 + 0.236X_7 + 0.336X_8 - 0.46X_9 + 0.414X_{10} + 0.036X_{11} + U$$

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing,then the predictor variable was significant other wise it wasn't. An the prediction variable were significant in the model as then probability values were less than 0.05. The main objective of the study was to establish the study of the relationship between financial inclusion and poverty reduction in Sri Lanka. From the regression result above, Household's total monthly income before financial inclusion, Age of the household's head, Number of years the financial services has been taken, Monthly savings amount, Credit amount, Rate of interest on savings variables are statistically significant ($p < 0.05$) at 5% in causing the variation in Poverty reduction. Distance to close financial institution is negatively affect Poverty reduction. number of family members household's, Rate of interest on credit are statistically insignificant and negatively affect Poverty reduction.

From the result researcher discovered that positive relationship exists between financial inclusion and poverty reduction. Deposit, lending, Education level hade of the household's, Number of years the financial services has been taken, Gender of the household's head, Household's total monthly income before financial inclusion, Monthly savings amount, Credit amount, Rate of interest on savings and provision of other financial Services had a positive impact on poverty reduction as well as number of family members household's, Distance to close financial institution and Rate of interest on credit had a negative impact on poverty reduction. The increase in breadth and width of these services was found to increase the poverty reduction (increase the total income level). There was an increase in the number of clients and this translated to an increase in the number and amounts of deposits attracted and loans disbursed by FIs. This implies that the need for FIs services is the reusing steadily.

The study found that the Deposit, lending, Education level hade of the household's, Number of years the financial services has been taken, Gender of the household's head, Household's total monthly income before financial inclusion, Monthly savings amount, Credit amount, Rate of interest on savings was statistically significant determinants of poverty reduction. That was of used financial services in particular deposit, loans, and other financial services like Mobile banking, E-banking, ATM, Credit card males were more likely than females. This findings is an indication of gender disparities in the adoption of financial services where by males are quicker to adopt and use financial services than females. Head of the household's with higher education levels were more likely to use financial services than head of the household's with lower education levels. This findings reflects the possibility that educated head of the household's were also more likely to be financially literate. As a result such household's were able to understand the terms and conditions of the financial services as well as how such services were used.

Head of the household's with more income in before financial inclusion was more likely to use financial services than those with less income in before financial inclusion. This finding reflects disparities in the adoption of FIs among households with different income levels. It could also be as a result of the fact that household's with high incomes were more likely to save their money in a bank account than lower incomes were also less likely to have save their money than those high incomes. The study was found to be, the Number of years of the financial services has been taken positive impact on poverty reduction. The study established that an increase in number of years of the financial services has been taken on the other hand reduced the poverty level. Lastly, the study also found that reasons of the affect financial exclusion. In particular Lack of information, Insufficient documentation, Lack of awareness, High transaction charges, Lack of access, Illiteracy, Distance to close financial institution , Rate of interest on credit .If the interest rate on credit increase head of the household's were more likely to reduce their borrowed. Similarly the distances also affect negatively for the poverty reduction.

RECOMMENDATION

The study sought to find out the relationship between financial inclusion and poverty reduction. The researcher recommends that similar researchers be done on other districts in Sri Lanka to help policy makers and other players to address relationship between financial inclusion and poverty reduction. Further studies may also be done the effectiveness of the financial inclusion in the country.

The study is however limited by the fact that it only focused on the Ilukthanna village in Kagalle district. Therefore the findings cannot be generalized to the entire population of Sri Lanka. Future similar studies should be carried out with samples drawn from other regions of the country. Including both urban and rural populations as well as different professions.

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