
Poverty Reduction through Microfinance Loans Assistance Program in Catarman, Northern Samar

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ABSTRACT

This study determined the effectiveness of Micro-Finance-Loans-Assistance Program in alleviating poverty in Catarman, Northern Samar. A total of 175 respondents from eight (8) microfinances were drawn through random sampling deploying t-test in evaluating the means gross income of respondents before and after availing the program.

Findings revealed that respondents were having household sizes mean of 6 household signifying that microfinance loans beneficiaries' were under the poverty. Majority of members were three to four (3-4) years as member and availed loans four times above. When income of the respondents was compared with their income before and after loans assistance, it prevailed that there was significant improvement of their income. An indication that micro-finance-loans assistance program relieved them from poverty. This was testified by identified beneficiaries of micro loans assisted individuals. One beneficiary testified that because of loans assistance family needs were addressed. Another case admitted that there was continuous production of products which sustained daily family needs. In general, micro loans assisted individual increased their income albeit in small way. Thus microfinance must continue to serve the poor which basically is an avenue created for income generation.

Key words: *Loans assistance, micro-finance, poverty reduction, gross income, testimonies.*

1. INTRODUCTION

Microfinance is a general term to describe financial services given to low-income individuals or to those who do not have access to typical banking services. It is one way of assisting the low-income individuals augment their income status. While some studies indicate that microfinance plays a role in the battle against poverty, but not always the appropriate method. It should never be the only tool for terminating poverty. Nevertheless, this study focuses on the effectiveness of micro-finance-loans assistance as a tool to poverty reduction in the area of the study. This study hoped to find out whether micro-finance assistance can address the needs of the poor for loans, saving, and other basic financial services. Borrowing from micro-finance institutions has been practiced by majority of the poor in the province for more than a decade now. However, there is a dearth of data which confirm that microfinance-loan assistance program is an effective tool in addressing poverty.

The province of Northern Samar was reported as one of the poorest provinces in Region 8. The unemployment among women was attributed to poverty in the province and resulted in unequal treatment of women at home and in the community.

This study was conceptualized to address the need of the poor or the marginalized sector to access microfinance-loan assistance as a way to augment their income, thereby improving the quality of life. With improved quality of living, the poor would become active, happy, confident and productive individuals.

2. OBJECTIVES OF THE STUDY:

The general objective of this study is to evaluate the microfinance-loan assistance program of the microfinance in Catarman, Northern Samar.

Specifically, it aimed to:

1. Draw the respondents' profile in terms of:
 - 1.1 household sizes,
 - 1.2 means gross incomes before and after membership,
 - 1.3 numbers of years as member, and
 - 1.4 number of times availed loans.
2. Calculate the significant difference of respondents' mean gross incomes before and after membership to the program; and
3. Present testimonies of the microfinance beneficiaries.

3. THEORETICAL/CONCEPTUAL FRAMEWORK

This study was anchored on the theories of Armendras and Morduch which contend that microfinance may make household wealthier in that it yields an "income effect" that pushes up total consumption levels and, holding all else the same increases the demand of children's, health, children education, and leisure. .

It was supported also by the theories of (Littlefield, et al.) that loan, savings and insurance help smooth out income fluctuations and maintain consumption levels even during the lean periods. The availability of financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps, or events such as flood or a death in the family that can push a poor family into desperation. Pitt and Khandker prominently reinforce three broad ideas about microfinance: "that it is effective in reducing poverty generally, that this is specially so when women do the borrowing and that the extremely poor benefit most" (Morduch and Roodman). Decisive statistical evidence in favour of these ideas is scarce.

Conceptually, microfinance yields an "income effect" of the clients who are poor, in that when total consumption levels increase, the demand for children's health, education and leisure also increase. Moreover, if the poor would have access to capital investment, they are able to generate income through self-employment, thus move them out from poverty. Considering that women are the clients of the microfinance in this study, they are given the chance to reduce the financial burden at home extremely benefiting them most.

4. RELATED LITERATURE

Microfinance institution

Microfinance institution (MFI) is an organization that provides microfinance services. MFIs range from small non-profit organizations to large commercial banks. Historical context can help explain how specialized MFIs developed over the last few decades. Between the 1950s and 1970s, government and donor focused on providing subsidized agricultural credit to small and marginal farmers with the hope of raising productivity and incomes.

During the 1980s, micro-enterprise credit institutions concentrated on providing loans to poor women to invest in tiny business, enabling them to accumulate assets and raise household income and welfare. The experiments resulted in the emergence of nongovernmental organizations (NGOs) that provided financial services for the poor. In the 1990s, many of these institutions transformed themselves into formal financial institutions in order to access and on-lend client saving, thus enhancing their outreach.” (<http://cgap.org>)

Targeting

The literature has shown that the poorest are least likely to benefit from microfinance. Since microfinance participants number in the hundreds of thousands, it is important to analyze the benefits and/or consequences of participation. For example, (Kocha 2011 p. 278) finds that a government program in India with the goal of increasing the availability of capital to the poorest regions of India “had a larger effect on the per capita expenditure of the non-poor than on the poor”

Microfinance and its impact in development

Microfinance has a very important role to play in development. Studies shows that microfinance plays three key roles in development (UNCDF, 2004); to wit: it helps very poor households meet basic needs and protects against risks; it improves of household economic welfare; and helps to empower women by supporting women’s economic participation and to promote gender equity.

Microfinance Impact and outcomes

Comprehensive impact studies have demonstrated that microfinance helps very poor households meet basic needs and protect against risks. The use of financial services by low – income households is associated with improvements in household economic welfare and enterprise stability or growth. By supporting women’s economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being. The magnitude of impact is positively related to the length of time that clients have been in the program (UNCDF Microfinance) in that they become more resilient and better able to cope with the everyday crises they face. Even the most rigorous econometric studies have proven that microfinance can smooth consumption levels and significantly reduce the need to sell assets to meet basic needs. With access to microfinance, poor people can cope with sudden experience associated with death, serious illness, and loss of assets.

Access to credit allows poor people to take advantage of economic opportunities. While increased earnings are by no means automatic, clients have overwhelmingly demonstrated that reliable sources of credit provide a fundamental basis for planning and expanding business activities. Many studies show that clients who join and stay in programs have better

economic conditions than non-clients, suggesting that programs contribute to these improvements. A few studies have also shown that over a long period of time many clients do actually graduate out of poverty.

By reducing vulnerability and increasing earnings and savings, financial services allow poor households to make transformation from “every-day survival” to “planning for the future.” Households are able to send more children to school for longer periods and to make greater investments in their children’s education. Increased earnings from financial services lead to better nutrition and better living conditions, which translates into a lower incidence of illness. Increased earnings also mean that clients may seek out and pay for health care services when needed, rather than go without or wait until their health seriously deteriorates. (<http://www.cgap.org/about/faq>)

Empirical evidence shows that among the poor, those participating in microfinance programs who had access to financial services were able to improve their well-being - both at the individual and household level - much more than those who did not have access to financial services.

Bangladesh Rural Advancement committee (BRAC) clients increased household expenditures by 28 percent and assets by 112 percent. The incomes of Grameen members were 43 per cent higher than incomes in non-program villages.

In El Salvador, the weekly income of FINCA clients increased on average by 145 per cent. In India, 80 percent of clients of Freedom from Hunger had secondary income sources, compared to 50% for non-clients. In Lombok, Indonesia, the average income of Bank Rakyat Indonesia (BRI) borrowers increased by 112 percent, and 90 percent of households graduated out of poverty. In Vietnam, Save the Children clients reduced food deficits from three months to one month.”(<http://cgap.org>)

5. METHODOLOGY

The study was conducted in Catarman, province of Northern Samar. Eight (8) microfinance institutions were the subjects of this study, namely: NWTF (DUNGANON), SACRED, SAMICO, NSDWCC, FGP (NSCAP), CARD, TAYTAY SA KAUSWAGAN INC. and AKMA. Random sampling was used in selecting the subjects, There were a total respondents of 175 respondents distributed as follows: 25 from SAMECO, 27 from NSDWCC, 23 from SACRED, 19 from DUNGANON, 16 from CARD, 20 from TAYTAY, 15 from AKMA, and 30 from FGP (NSCAP).

A survey questionnaire with interview schedule was used in the data gathering from the respondents.

Frequency counts, percentages, and mean were used in data analysis.

The t-test was used in determining the significant difference between the mean gross incomes of the two independent sample respondents before and after membership of the microfinance program.

6. RESULTS AND DISCUSSIONS

Respondents' Profile as Indicative of the Availability of Microfinance Loans for the Poor and Vulnerable

Household Size

Table 1 shows that most of the respondents were composed of 4-6 household members. The mean household size was 5.96 or 6 members. It is beyond the standard Filipino family household size of 5.2 members, as indicated in the 2012 data from the Bureau of Statistics. It is evident that the microfinance beneficiaries were below the poverty threshold.

Table 1. Respondents' Profile in terms of Household size

| H-Size | SAME CO | | NSDW CC | | SACRE D | | DUNG ANON | | CARD | | TAYT AY | | AKMA | | FGP | | GT | |
|--------|---------|----|---------|-----|---------|-----|-----------|-----|------|----|---------|----|------|----|-----|----|-----|----|
| | F | % | F | % | F | % | F | % | F | % | F | % | F | % | F | % | F | % |
| 1-3 | 5 | 20 | 5 | 19 | 2 | 10 | 2 | 10 | 4 | 27 | 4 | 20 | 2 | 15 | 8 | 27 | 32 | 18 |
| 4-6 | 1 | 52 | 1 | 52 | 7 | 30 | 6 | 30 | 4 | 23 | 8 | 40 | 5 | 30 | 1 | 33 | 67 | 38 |
| | 3 | | 4 | | | | | | | | | | | 0 | | | | |
| 7-9 | 6 | 24 | 6 | 22 | 12 | 52 | 1 | 52 | 7 | 43 | 6 | 30 | 7 | 45 | 1 | 33 | 64 | 37 |
| | | | | | | | 0 | | | | | | | | 0 | | | |
| 10-12 | 1 | 4 | 2 | 7 | 2 | 8 | 1 | 8 | 1 | 7 | 2 | 10 | 1 | 10 | 2 | 7 | 12 | 7 |
| Total | 2 | 10 | 2 | 100 | 23 | 100 | 1 | 100 | 1 | 10 | 2 | 10 | 15 | 10 | 3 | 10 | 175 | 10 |
| | 5 | 0 | 7 | | | | 9 | | 6 | 0 | 0 | 0 | | 0 | 0 | 0 | | 0 |
| X=6 | | | | | | | | | | | | | | | | | | |

Daily Mean Gross Income before and after membership

Table 2 shows that majority earned a daily mean income on level 100-199 pesos and none of the respondents earned a daily main income of 500-599 on this level as evidently shown before membership. Nevertheless after membership of the loan program respondents earned a daily mean income of 500-599 pesos. Implying that there is an improvement on the daily mean income though only few however it indicates movement of income after availing loan services assistance from the program.

Table2. Respondents' Distribution of Daily Mean gross Income Before and After Membership of the Program

| BEFORE | | | AFTER | | |
|--------------|------------|------------|--------------|------------|------------|
| X (2009) | F | % | X (2012) | F | % |
| 100-199 | 72 | 41 | 100-199 | 61 | 35 |
| 200-299 | 53 | 30 | 200-299 | 56 | 32 |
| 300-399 | 35 | 20 | 300-399 | 35 | 20 |
| 400-499 | 15 | 9 | 400-499 | 15 | 9 |
| 500-599 | 0 | | 500-599 | 8 | 4 |
| Total | 175 | 100 | Total | 175 | 100 |
| X (2010) | F | % | X (2013) | F | % |
| 100-199 | 60 | 34 | 100-199 | 65 | 37 |
| 200-299 | 61 | 35 | 200-299 | 52 | 30 |
| 300-399 | 35 | 20 | 300-399 | 32 | 18 |
| 400-499 | 19 | 11 | 400-499 | 17 | 10 |
| 500-599 | 0 | | 500-599 | 9 | 5 |
| Total | 175 | 100 | Total | 175 | 100 |
| X (2011) | F | % | X (2014) | F | % |
| 100-199 | 54 | 31 | 100-199 | 51 | 29 |
| 200-299 | 50 | 29 | 200-299 | 49 | 28 |
| 300-399 | 48 | 27 | 300-399 | 50 | 29 |
| 400-499 | 23 | 13 | 400-499 | 18 | 10 |
| 500-599 | 0 | | 500-599 | 7 | 4 |
| Total | 175 | 100 | Total | 175 | 100 |

Number of Years as Member

In terms of the number of years as member of the micro finance, as shown on table 3 the greater number has been members for 3-4 years and few for 6 or more years. The mean number of years of membership is 2.44 years which shows that most of them have been into micro financing for only a couple of years. This is because some of them dropped their membership but later returned after they realized that being a member is beneficial to them.

Table 3. Respondents' Years of membership

| Years of M | SAME CO | | NSDW CC | | SACRE D | | DUNG ANON | | CARD | | TAYT AY | | AKMA | | FGP | | Grand T | |
|-------------------|---------|-----|---------|------|---------|-----|-----------|-----|------|------|---------|-----|------|-----|-----|-----|---------|-----|
| | F | % | F | % | F | % | F | % | F | % | F | % | F | % | F | % | F | % |
| Less than a year | 7 | 28 | 7 | 26 | 5 | 22 | 2 | 11 | 4 | 25 | 5 | 25 | 5 | 33 | 8 | 27 | 43 | 24 |
| 1-2 | 4 | 16 | 5 | 18.5 | 3 | 13 | 3 | 16 | 3 | 18.5 | 3 | 15 | 3 | 20 | 6 | 19 | 30 | 17 |
| 3-4 | 7 | 28 | 8 | 30 | 7 | 30 | 5 | 26 | 4 | 25 | 6 | 30 | 4 | 27 | 9 | 31 | 50 | 28 |
| 5-6 | 4 | 16 | 5 | 18.5 | 5 | 22 | 4 | 21 | 3 | 18.5 | 3 | 15 | 2 | 13 | 5 | 18 | 31 | 18 |
| More than 6 years | 3 | 12 | 2 | 7 | 3 | 13 | 5 | 26 | 2 | 13 | 3 | 15 | 1 | 7 | 2 | 5 | 21 | 12 |
| T | 25 | 100 | 27 | 100 | 23 | 100 | 19 | 100 | 16 | 100 | 20 | 100 | 10 | 100 | 30 | 100 | 175 | 100 |

Loans availed

Most of the respondents availed of the loan services of the microfinance institution 3 or 4 times. This signifies that the loan service is accessible to the respondents who needs to borrow in order to support the daily basic needs of their families.

Table 4. Respondents' Loans availed

| No. of loans availed | SAMECO | | NSDWCC | | SACRED | | DUNGANON | | CARD | | TAYTAY | | AKMA | | FGP | | Grand T | |
|----------------------|--------|-----|--------|-----|--------|-----|----------|-----|------|-----|--------|-----|------|-----|-----|-----|---------|-----|
| | F | % | F | % | F | % | F | % | F | % | F | % | F | % | F | % | F | % |
| Once | 3 | 52 | 1 | 4 | 3 | 13 | 3 | 1 | 2 | 12 | 3 | 15 | 2 | 13 | 5 | 17 | 22 | 13 |
| Twice | 5 | 20 | 3 | 11 | 4 | 17 | 4 | 21 | 3 | 19 | 4 | 20 | 3 | 20 | 6 | 20 | 32 | 18 |
| Trice | 7 | 28 | 11 | 41 | 8 | 35 | 5 | 26 | 5 | 31 | 6 | 30 | 4 | 33 | 9 | 30 | 55 | 31 |
| Four times above | 10 | 40 | 12 | 44 | 8 | 35 | 7 | 37 | 6 | 38 | 7 | 35 | 6 | 40 | 10 | 33 | 66 | 38 |
| Total | 25 | 100 | 27 | 100 | 23 | 100 | 19 | 100 | 16 | 100 | 22 | 100 | 15 | 100 | 30 | 100 | 175 | 100 |

Calculation of the Significant Difference of Gross Income

Mean gross income computations before and after membership of the program are shown in Table 5. The calculation of the respondents' daily mean gross income before membership of the program was from 2009 to 2011. The calculated daily mean incomes before membership were compared with the calculated daily mean incomes for 2012 to 2014 after membership of the program. Using the t-test technique it was confirmed that there was a significant difference between the means since the computed t-value of -2.794 is greater than the critical t-value of -1.761. This was further supported by 14 degrees of freedom at 0.05 level of significance. This indicates that there is a significant difference in the daily mean gross incomes of the respondents before and after membership on the program. This implies that the microfinance assistance to the members had brought changes in the income of the members. This may be attributed to the easy access to microfinance loans of the poor and marginalized beneficiaries which provided them the opportunity to augment their income. It can be said, therefore, that through microfinance, the beneficiaries were able to ease their day-to-day financial difficulties.

Table5. Respondents’ Daily Mean gross Income Before and After Membership of the Program

| Before | | After | |
|----------|----|----------|----|
| X (2009) | F | X (2012) | F |
| 100-199 | 72 | 100-199 | 61 |
| 200-299 | 53 | 200-299 | 56 |
| 300-399 | 35 | 300-399 | 35 |
| 400-499 | 15 | 400-499 | 15 |
| 500-599 | 0 | 500-599 | 8 |
| X (2010) | | X (2013) | |
| 100-199 | 60 | 100-199 | 65 |
| 200-299 | 61 | 200-299 | 52 |
| 300-399 | 35 | 300-399 | 32 |
| 400-499 | 19 | 400-499 | 17 |
| 500-599 | 0 | 500-599 | 9 |
| X (2011) | | X (2014) | |
| 100-199 | 54 | 100-199 | 51 |
| 200-299 | 50 | 200-299 | 49 |
| 300-399 | 48 | 300-399 | 50 |
| 400-499 | 23 | 400-499 | 18 |
| 500-599 | 0 | 500-599 | 7 |

Level of significance

$\alpha = .05$

df= 14

$t_{.05} = -1.761$

Significant

Testimonies of Some Beneficiaries

Case 1. She produces Sawali. She has become a regular borrower because of the low interest. She says: “I was able to address the needs of my children especially their education. I have learned to manage very well the capital borrowed from microfinance. Production of Sawali was continuous and it provides for the daily sustenance of my family.”

Case 2. Testifies: “Habalahabal” (single motor) is our current source of income. The first loan that I have availed was utilized in buying a sewing machine. The capital I have borrowed through microfinance helped improved the living conditions of my family especially in providing the basic needs of my children.”

Case 3. Sell tuba from Libjo. She claims that “the vending activity improved her livelihood. Buying and selling of the different products such as charcoal, banana, and some processed foods were made possible from the capital provided by the microfinance.”

Case 4. A third-year Agricultural Education student, is a beneficiary of the Higher Education Loan program (HELP). She says: “My parents are just an ordinary farmers. We have a big family so they find it hard to make both ends meet. My school needs were addressed by the microfinance program and helped me continue my studies.”

Case 5. A fourth-year BSEED student testifies: “I am glad that I was able to avail of HELP program. Through patience and perseverance and with the help of the loan program, I hope to graduate soon.”

7. CONCLUSIONS AND IMPLICATIONS

In the light of the findings the following conclusions were drawn:

1. It may be concluded that the microfinance beneficiaries are generally poor and is below the poverty threshold. They are in need of financial assistance since their income is so inadequate to sustain the basic needs of their big families which require high expenses for basic necessities. The beneficiaries have availed of the microfinance services more than once because of their dire need.
2. The change in the income of the beneficiaries when compared before and after membership points out that there was improvement of the members’ income. This shows that the microfinance services in the area are accessible to the poor and marginalized members. It can be said, therefore, that the financial loans assistance of the microfinance institutions have also improved the economic condition of the beneficiaries, albeit in a small way.
3. Summing up some of the testimonies of the micro-finance beneficiaries would directly connote improvement of the living condition of the beneficiaries which may be attributed to the values possess like patience, perseverance and hope for a better future and strong determination to improve their ways of living.

8. RECOMMENDATIONS

On the basis of the conclusion, the following recommendations are presented:

1. Microfinance should continue to extend loan services particularly to the poor and the marginalized to be able to address the needs of the beneficiaries and continuously help alleviate the plight of the poor.
2. The livelihood projects of members who have availed of the loan program should be monitored closely to assure that they are generating income for the sustainability and profitability of the project.
3. Another study which is focus on the improvement of health condition and food security of members as a result of their availment of the services of microfinance institutions is recommended

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ACKNOWLEDGEMENT

God is always kind. Whenever you pray for His wisdom he is always there to guide you. The researcher humbly expressed her profound thanks to the people involved in her endeavour. Dr. Rolando A. Delorino the University President, for his continuous support to the research activities of the faculty. Ma'am Lita Calonge for being always available for consultation, Ma'am Ondet Olmedo for editing, John Fred and John Paul for being always good and loving, and to the faculty and staff of the College of Business Administration who made me laugh in the midst of burdens, for the snacks you shared during working time in the office. Thank you very much!