

**EFFECTS OF MICROFINANCE LOAN ON INCOME
AND WELFARE OF A RURAL BANK'S
MICROFINANCE CLIENTS**

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ABSTRACT

This study examined the effect of microfinance loan on the income and household welfare of microfinance clients.

As a descriptive study, it combined qualitative and quantitative approaches in data analysis. Through statistical techniques (i.e. probit analysis, chi-square, analysis of variance), income was analyzed in relation to some variables (e.g., loan cycles, education of clients, amount of loan, type of microenterprise). Through qualitative data analysis, the effect of access to microfinance loan on household welfare was also examined. The respondents of this study are the 100 microfinance clients of a rural bank in Cavite.

The study results showed that access to microfinance loan had positive social effect on clients' household as indicated by increase in income and the benefits clients have on household welfare.

The factors that influence income are (1) loan cycles and, (2) the combination of education and loan cycles.

The statistical analysis (e.g., probit analysis) showed that (i) In the short run, as loan cycles increase, household income decreases. In the long run, however, household income increases; (ii) As years spent in education and loan cycles increase, the probability of an increase in

income increases. However, in the long run, the diminishing effect of education and loan cycles on the probability sets in.

The analysis of variance and chi-square tests indicated that there is no significant difference in income increase by the type of microenterprise. There is a significant relationship between increase in income and respondents' satisfaction rating on the microfinance loan program.

The major conclusions that can be drawn from this study are: (1) For clients to maximize the benefit of microfinance, they have to stay long in the program so that the effect of capital accumulation can strengthen microenterprise; (2) Microfinance contribute to livelihood security and enhancement of household welfare. This study affirms previous studies on the positive impact of microfinance on livelihood and household levels (Hossain & Diaz, 1997; Pisani & Yoskowitz, Tilakaratna et al., 2005; Todd, 2000); (2) To sustain clients' participation in the program, microfinance institutions can adapt the "credit plus" approach to improve clients' productivity by providing them some training skills on exploring more profitable business enterprises. In the long run, the "credit-plus" approach in microfinance can have more lasting positive social impact as people's capacity are enhanced.

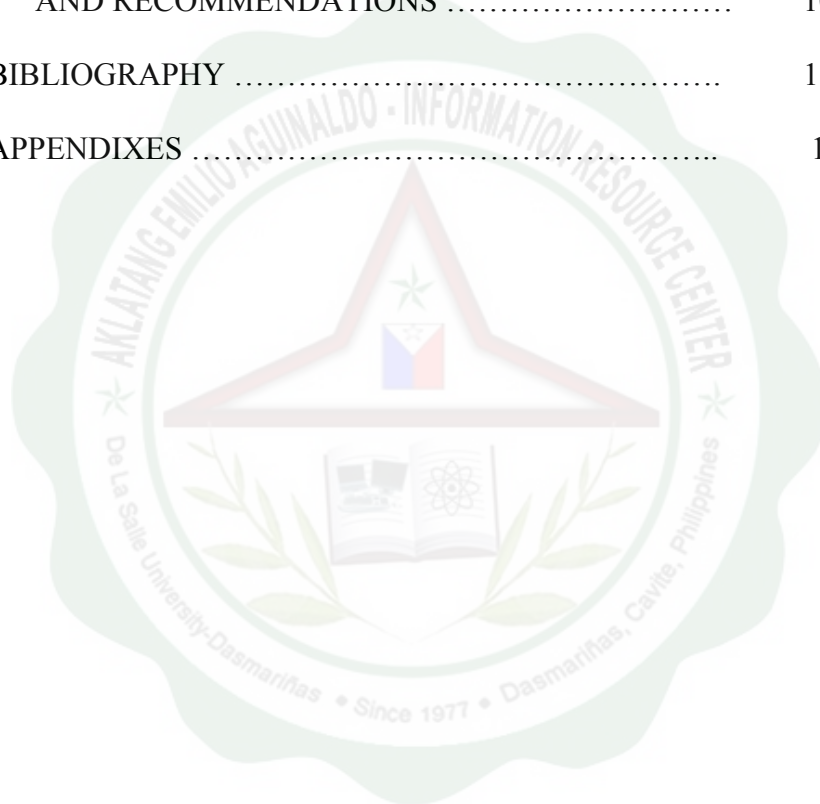
TABLE OF CONTENTS

	Page
BIOGRAPHICAL SKETCH	iv
ACKNOWLEDGMENT	vi
ABSTRACT	viii
LIST OF TABLES	viii
LIST OF FIGURES	x
LIST OF APPENDICES	xi
INTRODUCTION	1
Statement of the Problem	5
Objectives of the Study	5
Significance of the Study	6
Scope and Limitations of the Study	7
Hypotheses of the Study	9
Definition of Terms	9
REVIEW OF RELATED LITERATURE	12
Studies on Microfinance	13
Indicators of Social Impact	20
Key Debates on Impact Studies	22

Role of Rural Banks in Microfinance	26
CONCEPTUAL FRAMEWORK OF THE STUDY	28
METHODOLOGY	36
Locale of the Study	36
Research Design	38
Sampling Procedure	39
Data Collection	41
Method of Analysis	42
RESULTS AND DISCUSSION	46
An Overview of the Microfinance Program	46
Sociodemographic Profile of Respondents	48
Gender	48
Civil status	48
Age	50
Education	50
Occupation	52
Number of children	52
Respondents with school dependents	52
Microenterprise Profile of Respondents	53
Source of income	53
Household income	54

Type of microenterprise	57
Duration of business	60
Initial capital investment in microenterprise	60
Participation in Microfinance Loan Program	62
Duration of participation in microfinance program ..	63
Number of loan cycles	64
Total loans	66
Effect of Microfinance Loan on Income	67
Increase in income	69
Improved welfare	70
Benefits derived from microfinance	72
Negative effects of respondents involvement in the microfinance loan program	74
Respondents' View on the Microfinance Loan Program	76
On interest rate	76
On default and penalty	78
Client satisfaction rating	79
Strengths and weaknesses of the microfinance loan program	80
Suggestions on the microfinance loan program .	84
Factors Influencing the Effect of the Microfinance Loan on Income and Household Welfare	86

Loan cycle behavior of clients	91
Type of microenterprise and effect on income	95
Increase in income and client satisfaction rating ...	96
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	100
BIBLIOGRAPHY	113
APPENDIXES	118



LIST OF TABLES

Table		Page
1	Sociodemographic Profile of Respondents	49
2	Source of Income of Respondents	53
3	Household Income of Respondents	56
4	Type of Microenterprise	59
5	Duration of Microenterprise	60
6	Initial Capital Investment in Microenterprise	62
7	Duration of Participation in Microfinance	63
8	Number of Loan Cycles	64
9	Total Amount of Loan	66
10	Estimated Increase of Income	69
11	On Improved Welfare	72
12	Benefits Derived from Microfinance	73
13	Negative Effects of Microfinance	74
14	View on Interest Rate	77
15	View on Amount of Loan	78
16	View on Penalty for Default	79
17	Client Satisfaction Rating	80
18	Strength of Microfinance Loan Program	82

19	Weakness of the Microfinance Program	83
20	Suggestion on the Microfinance Program	85
21	Parameter Estimates for Probit Model	87
22	Probit Regression on Results on Household Income	89
23	Loan Cycle Indicators (Average Loan & Standard Deviation)	92
24	Cross Tabulation of Variations in Household Income and Average Amounts Loaned	92
25	Analysis of Variance Test Results on Increase in Income Vs. Types of Microenterprise	95
26	Pearson Chi-Square Test Results on Increase on Income Vs. Types of Microenterprise	96
27	Cross Tabulation of Clients' Income and Satisfaction Rating	97
28	Result of Pearson Chi-Square Test on Income and Clients' Satisfaction Level	97

LIST OF FIGURES

Figure		Page
1	Perspective for analyzing Microfinance Loan Program of a Rural Bank in Cavite	29
2	Conceptual framework of the study	32
3	Map of Cavite	37
4	Gender profile of respondents	51
5	Household income of respondents	58
6	Type of Microenterprise	61
7	Number of loan cycles availed by respondents	65
8	Total amount of loan availed by respondents	68
9	Increase in income of respondents after access to the microfinance loan program	71
10	Clients' satisfaction rating	81
11	Loan cycle behavior of clients	94

LIST OF APPENDIXES

Appendix		Page
A	Interview Schedule	119
B	Distribution of Respondents by Locality...	122
C	Data Set 1 (Interview Results)	123
C-1	Definition of Codes in Data Set 1	129
C-2	Data Set 2 (Socioeconomic Data)	133
C-3	Definition of Codes, (Socioeconomic Data)	139
D	Probit Results on Income as Dependent Variable and Independent Variables (Cycles, Married, Years in Microfinance Program, and Respondents' Education Level)	140
E	Results of Probit Regression on Income and Loan Cycles, Education and Years	141
F	Summary of Cross Tabulation Chi-Square Test Results	142
G	One-Way ANOVA Test Results	143
H	T-Test Result on Income Before and After Availment of Microfinance Loan	161