

## **Factors Affecting Microfinance Saving Mobilization in Ingapu Township at Ayeyarwady Region**

U Banyar Aung\*  
Department of Commerce  
Yangon University of Economics  
\*Corresponding author: [phoetharr288@gmail.com](mailto:phoetharr288@gmail.com)

### **Abstract**

The main purpose of this study is to analyse the influencing factors affecting microfinance saving mobilisation in Ingapu Township at Ayeyarwady Region. The population studied is 700 clients who have their savings in three microfinance institutions such as Pact, Mybell and Sulatan. The sample was selected by using the random sampling method. The primary data was collected by interviewing with the sample of 150 clients with the use of structured questionnaires. The saving mobilization of clients are measured by seven independent variables such as microfinance services, awareness of society, saving interest rate, culture, income level, financial literacy, and inflation. Descriptive research and multiple regression were employed to assess the relationship between dependent and independent variables. In the descriptive analysis, the main reason for saving in microfinance were for future needs; the second reason is that save for the education of the children; the third reason is that save for starting a business; the fourth reason is to save for buying land/house; and the fifth reason is that save for better life for future and the last reason is that save for donation. Multiple regressions results indicated that income level among others had the strong effect on saving mobilization of microfinance institutions. The findings and discussions of this study can contribute the responsible persons of microfinance institutions in Ingapu township getting basic knowledge and idea of the facts if they taking necessary steps to do so.

Keywords: Microfinance Institutions, Income Level, Financial Literacy, Saving Interest Rate, Awareness of Society

### **Introduction**

Microfinance intervention has been received with enthusiasm by governments, foundations, community development groups, non-governmental organisations and even for-profit private firms (Carr & Zhong, 2002). Thus, it has been replicated (from the Grameen Bank model) in countries such as the United States, hence disproving the notion that developed countries cannot learn from the developing ones, where the movement was started. Developed countries such as the US have realised the potential embedded in the provision of microfinance to the poor (Carr & Zhong, 2002). According to Carr and Zhong (2002), the developed country (i.e., the USA) also learnt from a developing country (i.e., Bangladesh) about microfinance. Magner (2007) observes that from

previous studies and research, it is clear that microfinance is an important catalyst for the alleviation of poverty. Poverty alleviation has been the main target of development projects worldwide. However, only a few ideas have stirred so much attention in the last two decades as that of the provision of microfinance through specialised institutions. With 900 million households in the less developed countries remaining without any access to formal financial services, this might just be the key to address market failures in the financial landscape. Since the 1980s, microfinance has become an important component for development, poverty reduction and economic regeneration strategies around the world. By the beginning of the 21<sup>st</sup> century, tens of millions of people in more than 100 countries were accessing services from formal and semi-formal microfinance institutions (Arun & Hulme, 2009). It has become a vast global industry involving large numbers of governments and consultancy firms and directly employing hundreds of thousands of branch-level staff.

Microfinance is a facility that makes it possible for the poor to get a small loan to start a business, pay for school fees, procure housing, or receive health care. Such an initiative is instrumental in changing the poverty patterns in view of improved facilities to lessen the challenge posed by startup capital. Microfinance has been changing people's lives and revitalising communities. With a population of 60.98 million according to the 2014 census, Myanmar is gifted with rich endowments of land, water, and favourable climates for agriculture.

Moreover, it is also well-known for its natural resources especially its precious ruby, jade, minerals and teak, and it is also known as the Land of pagoda. With eight major ethnic groups, there are 135 different ethnic groups and it is placed as the second largest country in Southeast Asia after Indonesia. However, the country is categorised as one of the world's least-developed states, ranking 149 out of 187 countries in the 2012 UNDP Human Development Index ranking (May & Smart, 2015). Access to adequate and nutritionally balanced food in Myanmar remains a major challenge for the poorest and most vulnerable segments of the population. Twenty-six percent of the population is below the poverty line and close to three million people are considered food poor. According to international standards, the nationwide prevalence of stunting among children under the age of five is 35%, indicating a high burden public health problem. As part of its efforts to alleviate poverty, Myanmar is striving to improve its socio-economic development. The survey of the livelihood of households jointly conducted by Myanmar's Ministry of National Planning and Economic Development and the United Nations Development Program (UNDP) showed that the poverty rate of the country decreased from 32% in 2005 to 26% in 2010. The targeted poverty rate is down to 16% in 2015 in order to meet the UN Millennium Development Goals. Myanmar is now in transition, at a turning point of its history and at the center of political and economic interest in the region. Despite the number of changes being witnessed lately, visual and tangible progress in the areas of economic and social development and the provision of basic services like health, education. Water, and sanitation to the needy population throughout the country is vital. Recently, the government has embraced a series of reforms to improve the business and investment climate, facilitate financial sector development, and further liberalize trade and foreign direct investment. However the banking sector is severely constrained in its outreach to the unbanked, with some industry estimates and recent research suggesting that less than 20 percent of the population has access to formal financial services (LIFT 2012). Microfinance is one of the effective development tools for poverty alleviation and livelihood improvement for the grass root people and it is also powerful tool to promote financial sector which is still underdeveloped in Myanmar. However, research like factors affecting microfinance Savings mobilisation has not been found yet in Myanmar. Therefore, in order to improve saving mobilization in Myanmar, this

research attempts to fill this gap. In this study, the reason for choosing Microfinance institutions in Ingapu Township in the Ayeyarwady Region is based on their rural operational scope. The objectives of the study are as follows: (i) to identify the microfinance saving mobilisation of Ingapu Township at Ay eyarwady Region; and (ii) to analyze the influencing factors of microfinance saving mobilization in Ingapu Township at Ayeyarwady Region.

#### *Scope and Method of the Study*

The study only focuses on the influencing factors affecting microfinance saving mobilisation in Ingabu Township in the Ayeyarwady Region. Target respondents were the clients of three microfinance institutions, such as Pact, Mybella, and Sulatan. Total population is 700 clients in these three microfinance institutions. The sample size is 20% of the total population in these three firms. The sample clients, 150 are randomly selected from the total population 700, and a personal interview method is applied to collect from them. Structured questionnaire is developed for personal interviews by using simple random sampling method. Secondary data is acquired from the relevant books and internet websites. Descriptive analysis and multiple regression analysis were used to analyse data in this study.

### **Literature Reviews**

#### *Theoretical Framework*

Ledgerwood (2013) discusses that microfinance institutions use many performance indicators (portfolio quality, productivity, efficiency, financial viability, profitability, productivity, leverage, capital adequacy, scale, outreach, and growth”) to evaluate sustainability. However, none of these indicators can guarantee clients’ viability. Social visionaries argue that the move towards institutional sustainability has overshadowed MFIs’ social objectives (Charitonenko & Rahman, 2002). They dispute the plethora of ‘profit’ and ‘commercial’ orientations. With such orientation, MFIs tend to confine to clients with good repayment potential, reach areas relatively cheaper and unserved the poorest of the poor (Karlan & Morduch, 2010). On top of that, MFIs would charge a high interest rate to achieve operational and financial sustainability. More recently, commercialization in combination with excessive profit-orientation has been cited as the main cause of the problems in microfinance. Excessive profit-orientation is made responsible for driving interest rates up, transferring wealth from the poor to MFI managers and owners, as well as for an increasing share of over indebted borrowers among MFI clients. More commercialization in microfinance lead to opportunities as well as threats.

#### *Factors affecting Microfinance saving mobilization*

#### *Theories of saving*

Fundamentally, savings is about choosing between present and future consumption. Savings theories usually forecast that present consumption is connected not to present income, but to a longer -term estimate of income. The life-cycle hypothesis (Modigliani, 1966) forecasts that individuals hold their spending steady over their lifetime; they save during their working years and draw down their savings in retirement. The permanent income hypothesis (Friedman, 1957) indicates that spending is proportional to a consumer’s estimate of lasting income. These theories of savings were created with developed countries in mind. Deaton (1989) indicates four reasons why these two theories might be of incomplete use in developing economies. First,

families in developing nations are larger than in developed nations and are more possible to have several generations. As a result, there is less need to save for intergenerational transfers or for retirement. Second, wages in many of these nations are uncertain and cyclical, making the view of longer-term income flows hard. Third, individuals are probable to be credit constrained, so borrowing in early years will not be easy. Finally, these collective factors imply that savings in developing nations often play a significant role in buffering between income and spending. Individuals often save small amounts at regular intervals to smooth income, rather than build up or save for retirement.

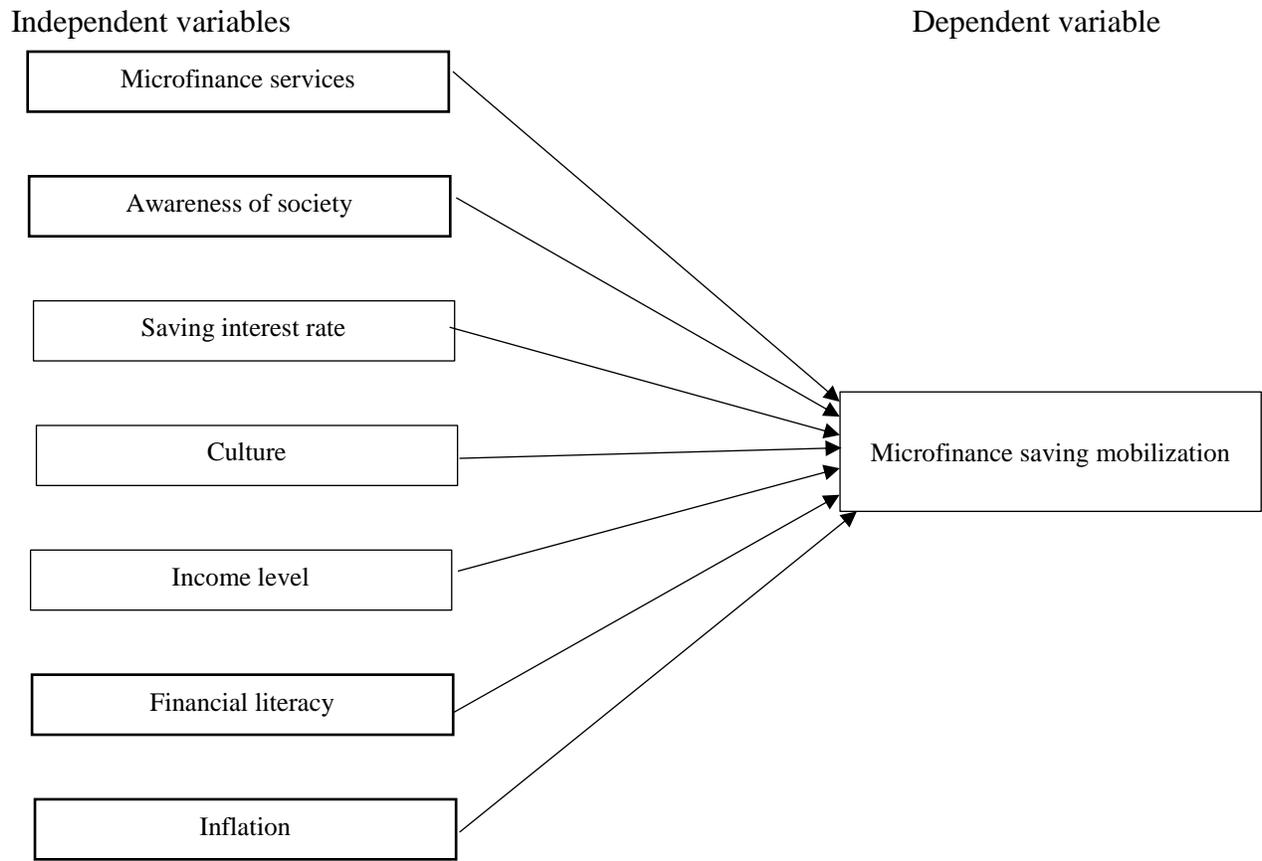
Economic theories of inter-temporal choice usually believe in exponential discounting that entails a steady marginal rate of substitution between future periods. In other words, choosing between consumption in one month versus two months from now should be no different than choosing between consumption in 20 months versus 21 months, all else equal. However, a long literature indicates that several individuals suffer from a time discrepancy difficulty and do not discount the future exponentially (O'Donahue & Rabin, 1999).

#### *Previous Studies*

According to Quarshie (2011), the increase in saving interest rate is essential to help improve the efficiency of saving mobilization. Asamoah and Nkrumah (2008) conducted a regression analysis between saving interest rate found that there is a positive relationship between saving and interest rate in Ghanaians economy from January 2000 to January 2003. They conclude that other things equal, affecting higher return (interest rate) would be expected to attract a greater amount of funds. According to Mohammad and Mahdi, 2010, during inflation people try to change their cash and savings into more reliable and stable forms such as land, jewelry, antiques, art collections, and foreign currencies that causes to definite decrease in commercial bank's total deposit. According to Baqui et al (1987), some analysts argue that demand for deposits is influenced by education level which in turn increases the awareness of the rural people about banking services. According to Bhatt (1970), services in the deposit taking institutions or bank should be attractive enough for the depositors so as to mobilize saving. If the banks could offer these services, the savers would be inclined to keep a part of their savings in the form of deposits. According to the paper by Cohen and Kaufman (1965), economic theory relates the volume and composition of liquid assets to the income and wealth of the holders. It is said that deposit is among liquid assets. Therefore, as banks' deposits are one of liquid asset and liquid assets are affected by the income and wealth of the holders, banks' deposits can be affected by the income and wealth of the society. The issue of culture attracted many questions and discussions in the economic debate. However, in poor developing countries (such as in Sub-Saharan Africa), cultural aspects are important in the decision to save. (Granato et al., 1996). In the study of Quarsihe (2011), the financial literacy level of the savers is mentioned and claimed to have an effect on microfinance saving.

#### *Conceptual Framework of the Study*

As presented in literature review, many researchers analyzed the factors influencing factors affecting microfinance saving mobilization. This paper analyzed the saving mobilization of microfinance institutions and its influencing factors which are Microfinance service, Awareness of society, saving interest rate, culture, income level, financial literacy and inflation.



**Figure (1) Factors of Microfinance Saving Mobilization**

Source: Author (2022)

### **Research Design**

In this study, the sample size is 20% of total population in these three firms. The sample clients 150 are randomly selected from total population of 700, and personal interview method is applied to collect from them. Structured questionnaire is developed for personal interviews by using simple random sampling method. Secondary data is acquired from the relevant books and internet websites. Descriptive analysis and multiple regression analysis were used to analyse the data in this study.

This study used a set of survey questionnaires for the interview with the members of the Pact, Sulatan, and Mybella microfinance institutions. The survey data are collected from three town such Ingabu, Htoo Gyi, and Mezaligon which are located in the Ingabu Township. The rationale behind choosing these clients is that these cities are far from banking services and many people in these areas are heavily rely on microfinance institutions if they want to save. The survey questionnaires consist of six portions; first portion is profile of microfinance clients; the second portion mentions respondent's purpose of saving, and the third portion includes seven factors such as microfinance service, Awareness of society, saving interest rate, culture, income level, financial literacy, and inflation, which effect on saving mobilization. They include 35 statements, which are rated by the microfinance clients to mention their opinions that effects upon saving mobilization. Each item is rated on a five-point Likert scale, ranging from strongly disagree, disagree, neither

agree nor disagree, agree, and strongly agree. As the sampling method, random sampling was used and 150 respondents were collected who are members of three microfinance Institutions in this study. After collecting the required data, the data was analysed by using SPSS software and generating with Microsoft Excel.

## Data Analysis

### *Demographic Characteristics of Respondents*

A total of 150 employees are included in this survey to explore the factors effecting microfinance saving mobilization. All of the microfinance clients were informed about the objectives of the study and proposed to participate in this survey. All participants were explained that all the surveyed data would be kept confidential and used only for academic papers. This section describes the demographic characteristics of the respondents such as age, gender, educational level, occupation level, and income level. Table 1 presents the demographic data of the respondents

**Table 1: Demographic Characteristic of Respondents**

| <b>Gender</b>         | <b>Number of Respondents</b> | <b>Percent</b> |
|-----------------------|------------------------------|----------------|
| Male                  | 50                           | 33.33          |
| Female                | 100                          | 66.67          |
| <b>Age(Years)</b>     | <b>Number of Respondents</b> | <b>Percent</b> |
| 21 - 30 years         | 30                           | 20             |
| 31- 40 years          | 70                           | 46.67          |
| 41- 50 years          | 30                           | 20             |
| Over 50 years         | 20                           | 13.33          |
| <b>Occupation</b>     | <b>Number of Respondents</b> | <b>Percent</b> |
| Government Staff      | 15                           | 10             |
| Merchant              | 50                           | 33.33          |
| Farmer                | 15                           | 10             |
| Shopkeeper            | 20                           | 13.33          |
| Housewife             | 50                           | 33.33          |
| <b>Income (Kyats)</b> | <b>Number of Respondents</b> | <b>Percent</b> |
| Less than 200000      | 50                           | 33.33          |
| 200000-500000         | 70                           | 46.67          |
| Above 500001-1000000  | 30                           | 20             |
| <b>Education</b>      | <b>Number of Respondents</b> | <b>Percent</b> |
| High school           | 50                           | 33.33          |
| Graduate              | 85                           | 56.67          |
| Master                | 15                           | 10             |

Source: Author (2020)

A sample involving 50 male customers and 100 female customers showed that the male customers were the lowest with 33.33 percent, while the remaining respondents were female with 66.67%. The age of respondents is classified into four groups, such as those aged 21-30, 31-40,

41-50, and above 50 years old. The age level between 31 and 40 years old is the largest share (46.67%), while employees with above 50 years old share have the smallest share (13.33%).

Clients' occupations are divided into five groups. Merchant and housewife are the largest with 33.33 percent, followed by shopkeepers are the second largest with 10 percent, and the smallest with Government staff and farmers at 10%. The income level is classified into three groups. The survey includes customers who have an income of 200000-500000 kyats for 46.67 percent (the largest), and customers with incomes exceeding 500000 Kyats for 20 percent (the smallest). Education levels of customers are divided into three groups: high school, graduate, and master. The customers who graduate level is 56.67% (largest), the second largest 33.33% is high school level, and the lowest level is master level (10%).

**Table 2: Distribution of respondent's purpose of saving**

|                                   | Frequency | Percent |
|-----------------------------------|-----------|---------|
| For Future need                   | 50        | 33.33   |
| For better life in Future         | 20        | 13.33   |
| For buying land/ house            | 20        | 13.33   |
| For starting a business           | 25        | 16.67   |
| For the education of the children | 30        | 20      |
| For donation                      | 5         | 3.33    |
| Total                             | 150       | 100     |

Source: Author (2020)

Table 2 presents the distribution of respondents' purpose of saving. The main reason for saving were "for future need" (33.33%) and 20% saved "for the education of the children", 16.67% saved "for starting a business", 13.33 % "saved for buying land/house", and 13.33% saved "for better life in future", and 3.33% saved "for donation".

### *Regression Analysis*

Multiple regression analysis is used to predict the unknown value of a variable using relationship between two or more variables with known values (Hair, et al; 2006). This study used a 95% confidence interval in which P- value is less than 0.05 level of significant in order to avoid error (Field, 2005).

### *Influencing factors towards microfinance saving mobilization*

Multiple regression analysis is used to find out the relationship between independent variables (Microfinance service, Awareness of society, saving interest rate, culture, income level, financial literacy and inflation) and dependent variable (saving mobilization). Table 3 shows the influencing factors towards microfinance saving mobilization.

**Table 3: Influencing factors towards microfinance saving mobilization**

| Variable             | Unstandardized Coefficients |            | Beta  | T      | Sig. |
|----------------------|-----------------------------|------------|-------|--------|------|
|                      | B                           | Std. Error |       |        |      |
| (Constant)           | 4.620                       | .160       |       | 28.944 | .000 |
| Microfinance service | -.004                       | .025       | -.012 | -.152  | .879 |
| Awareness of society | .011                        | .026       | .037  | .431   | .667 |
| Saving interest rate | -.014                       | .027       | -.039 | -.502  | .616 |
| Culture              | -.039                       | .034       | -.097 | -1.157 | .249 |
| Income level         | .110                        | .024       | .340  | 4.682  | .000 |
| Financial literacy   | .009                        | .032       | .021  | .266   | .791 |
| Inflation            | .003                        | .028       | .010  | .120   | .905 |
| R Square             | 0.1197                      |            |       |        |      |
| Adjusted R Square    | 0.086                       |            |       |        |      |
| F Value              | 3.592*                      |            |       |        |      |

Notes: \*\*\* Significant at 1% level, \*\* Significant at 5% level, \* Significant at 10% level

According to Table 3, the specified model could explain well about the variation of saving mobilization of microfinance since the value of  $R^2$  is 0.1197 percent. The model can explain 8.6 percent about the variance of the independent variable and dependent variable because adjusted R square is .086. The value of F test, the overall significance of the model, is highly significant at 1 percent level. This specified model can be said valid.

Income level variable has the expected positive sign and highly significant coefficient value at 1 percent level. The positive relationship indicates that the increase in income level factor leads to saving mobilization in microfinance institutions. An increase in income level factor by 1 unit will also raise the effect on saving mobilization by .110 units.

The standardized coefficient (Beta) of income level has the largest value (.340) among seven variables indicating that income level factor has the greatest contribution to the effect on saving mobilization when the variance explained by other variables is controlled for. The increase of the income level has significant and positive effect on saving mobilization. Microfinance services, Awareness of society, saving interest rate, culture, financial literacy and inflation did not impose any significant on saving mobilization.

### Findings

This paper has put more of an emphasis on what factors influence the saving mobilisation of microfinance institutions. According to the demographic factors, female respondents have a larger domain than male respondents. The age group of 31-40 years is heavily dominated among them, with 46.67 percent of respondents falling into this category. As the income level of respondent in the survey, it can be said that pattern of saving was varied according to different monthly income distribution, with the highest in income, over Kyats 200000-500000, accounting for 46.67 percent of respondents. In this study, it was assumed that middle level income would save in microfinance institutions. Among Clients' occupation, Merchant and housewife are the largely domain among others. The customers who graduated level is largest dominant.

The distribution of respondent's purpose of saving are for Future need, for better life in Future, for buying land, for starting a business, for the education of the children and for donation.

The main reason for saving were “For Future need” 33.33% and 20% save “for the education of the children”, 16.67% save “for starting a business”, 13.33 % “save for buying land/ house” and for better life in future. 3.33% save “for donation”.

Moreover, the results of multiple regression analysis provide that income level is significant and positively relationship with microfinance saving mobilization. From the regression analysis, the significant of income level was .000 is less than 0.05. The result found that the other factors were not significant relationship.

### **Recommendations for Future Studies**

The study recommends the microfinance institutions at Ingabu Township. The study found that female with middle-income level prefer to save in microfinance institutions. These groups have the potential as major intention saving groups and can be identified as target clients. Thus, the responsible persons of microfinance institutions should introduce new microfinance products to middle-level income earners. Thus, microfinance institutions should provide service hours that are compatible with the schedules of savers in the local market and should offer service on weekends, extend evening hours, or open service windows to provide minimal services when the lobby is closed. Microfinances should control the customers’ preference and compete with other financial institutions to attract more savers, in turn to mobilise more savings through controlling the market or expanding their market share. Since microfinance service has an impact on saving mobilization, the institution should increase the service quality if their plan is to mobilize more saving than before. For literature, it proves that when income levels rise, people in rural areas emphasise microfinance saving. Thus, microfinance saving can increase nation investment in part. And then, the result of the research also indicates that Income level has a positive impact on the saving mobilisation of microfinance institutions by the results of multiple regression. The bigger income sources are, the bigger saving is. It can be found that there is a certain hierarchy in the analysed factors. Besides, a lot of job opportunities should be created to save more. Only if the income level covers the basic needs and the people who have disposable income are able to do saving and then the other factors impact on the ways how people save and how much they save. During the COVID-19 situation, people in Myanmar are fulfilling their basic needs rather than savings due to economic situations. So, microfinance institutions should borrow short-term and long-term loans with low interest rates to SME businesses in order to improve the liquidity of SME businesses. If SME businesses obtain the required amount of capital, they will invest in this area. Consequently, people will get job opportunities and raise their income level. If people get job opportunities and increased their income level, they will save money in microfinance institutions. Understanding sociological in Myanmar, more job opportunities should be created to save more.

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