

## **THE IMPACT OF MICROFINANCE ON WOMEN'S EMPOWERMENT IN BENCH MAJI ZONE**

**Aregu Asmare**\*

**Aster Ketema**\*\*

**Mesert Taddesse**\*\*

---

### Abstract

Microfinance program is a key strategy in promoting women's empowerment. Microfinance and women's empowerment is a debatable issue. Besides, no empirical studies have been conducted in Omo Microfinance institution in Bench Maji Zone on this issue to the best knowledge of the researchers. Thus, this study examines the impact of microfinance on women's empowerment in the case of Omo Microfinance Institution in Bench Maji Zone. The study adopts mixed research approach to test the hypotheses and address research questions. The data was collected from 371 Omo Microfinance Institution in Bench Maji Zone clients and the collected data was analyzed by using Logit regression Model. The findings of the study shows that level of education, marital status, duration of involvement in OMFI, loan size, involvement in income generating activities, household income and saving habit has statistically significant impact on women's empowerment. In contrast age of respondent is not statistically significant. Finally the study suggests that microfinance institution as much as possible increase the loan size given to the clients so as to enable them to expand and diversify their investment opportunities and reduce the interest rates charged on loans, to reduce the debt burden of clients.

**Key words: Microfinance, women's empowerment, loan size, interest rate.**

---

\* Lecturer @ Department of Management, Mizan Tepi University

\*\* Lecturer @ Department of Accounting and Finance, Mizan Tepi University

## 1. Introduction

Financial resource is a vital input in any country's development. Improving access to financial services is an important development tool to create employment opportunities and reduce poverty. However, in many countries, poor people those engaged in micro and small enterprises are not usually beneficiaries of formal financial institutions (Banks). Microfinance is considered a major development tool in most developing countries. Specifically, its interventions have been targeted towards women as an empowerment tool. Microfinance programs allow women's to take a greater role in household decision making; to have greater access to financial and economic resources; to have greater social networks and more bargaining power vis-à-vis their husbands; and to have greater freedom of mobility (Mayoux, 1997).

According to Moser (1999) the main objective of microfinance scheme is to provide opportunity for the poor to access financial services in order to engage in income generating activities, this leads to economic empowerment of the poor women. There are different studies that have been undertaken regarding impact evaluation of microfinance on women's empowerment, for instance (Morduch and Haley (2001), Vonderlack & Schreiner (2001), Mayoux, (2002), Skarlatos, (2004), Kabeer (2005), Armendáriz and Morduch, (2010) and Arora, (2011)).the findings of these studies shows a positive impact of microfinance on women's empowerment. In contrary (Rogaly 1996), Copestake (2002), and Bareman and Chang (2009) argued that there is an inverse relationship between microfinance and women's empowerment, due high interest rate charged by microfinance institutions. Thus, on the basis of these empirical studies, we can conclude the impact of microfinance on women's empowerment is debatable.

While we see in Ethiopia few studies have been made to establish the link between microfinance and women's empowerment these are (Tsehay and Mengistu (2002) ,Meron (2007), Haimanot (2007), Befikadu (2011), Ahmed (2013) and Zelalem et.al (2014)). The findings of these studies confirmed that microfinance service has positive impacts on women's empowerment. Generally the previous studies conducted in Ethiopia adopt a quantitative research approach only and also the level of significance of variables were not tested statistically except (Haimanot (2007) and Ahmed (2013)). Therefore, further empirical evidence could provide additional insight about the impact of microfinance on women's empowerment by using

recent dataset, mixed research approach and it needs further investigation in Bench maji zone context.

The remaining part of this study was organized as follows: section two provides the empirical review of the study. This is followed by section three which encompasses the research methodology and section four, which embodies the analysis of the data and its findings. Lastly, section five deduces conclusions and recommendation of the study.

## **2. Literature Review**

Different studies in different countries have been conducted to examine whether microfinance can really empower women's or not. In the following section the researchers review different empirical studies based on chorological orders.

Morduch and Haley, (2001) analyzed the impact of micro credit on women's empowerment in Ottawa. The result confirms that access to micro credit has a positive economic impact. The impact becomes larger for those closer to the poverty line and it also increases with the duration of membership or intensity of loans as members begin to invest in assets rather than consumption. Vonderlack & Schreiner (2001) examined the investigated the impact of micro credit on women's empowerment in USA. The finding confirms that the success of microfinance has been to supply production loans to women who run tiny business enterprises thereby decreasing their disadvantage in the market and increasing their bargaining power in the household.

Skarlatos, (2004), investigated the impact of micro credit on women's empowerment. The study confirms that micro credit delivery in various points of the world has improved the economic position of households, enhancing the asset base and diversification in to higher return occupations among members. However, there are also a number of issues within the women's empowerment framework that impede the poverty reduction capacity of micro credit.

Kabeer (2005) investigated the impact of micro credit on women's empowerment in South Asia. The result indicated that access to financial services improved the economic position of

women's. The improvement involves; improving asset base and diversification into higher return occupation, promoting the adoption of new agricultural practices, increasing ownership of livestock and levels of savings and reducing reliance on money lenders.

Armendáriz and Morduch, (2010) examined the impact of micro credit on women's economic empowerment. The finding of the study indicated that microfinance empower women's economically through changes in household choices, and bargaining power, by increasing overall resources, affecting the returns on human capital.

According to Arora, (2011) analyzed the impact of micro credit on women's empowerment in India. The study indicated that microfinance has been effectively contributing to women empowerment significantly to their family development for getting credit for housing repairs, education and marriage of their children and also for consumption purpose. This study revealed that good saving habit among females as maximum number of the respondents was having savings but still there are so many barriers in the way of financial inclusion of women such as lack of awareness regarding micro financing services being provided by the banks.

### **Studies on Microfinance and its impacts on women's empowerment in Ethiopia**

Tsehay and Mengistu (2002) conducted the research on the impact of microfinance among poor women in Ethiopia Addis Aaba. The result confirmed that the microfinance interventions have brought positive impacts in the improvement of economic status and empowerment of micro finance programs beneficiaries. Haimanot (2007) analyzed the Impact of Micro-finance on Women's Economic Empowerment a Case-Study of Amhara Credit and Saving Institution (ACSI), Kobo Woreda, Amhara National Regional State, Ethiopia. The results of the study indicate that the micro-financing scheme has a positive impact on women's economic empowerment (improved their household incomes, asset possession levels, and savings habit) thereby positively affecting their ability to fully participate in household decision-making.

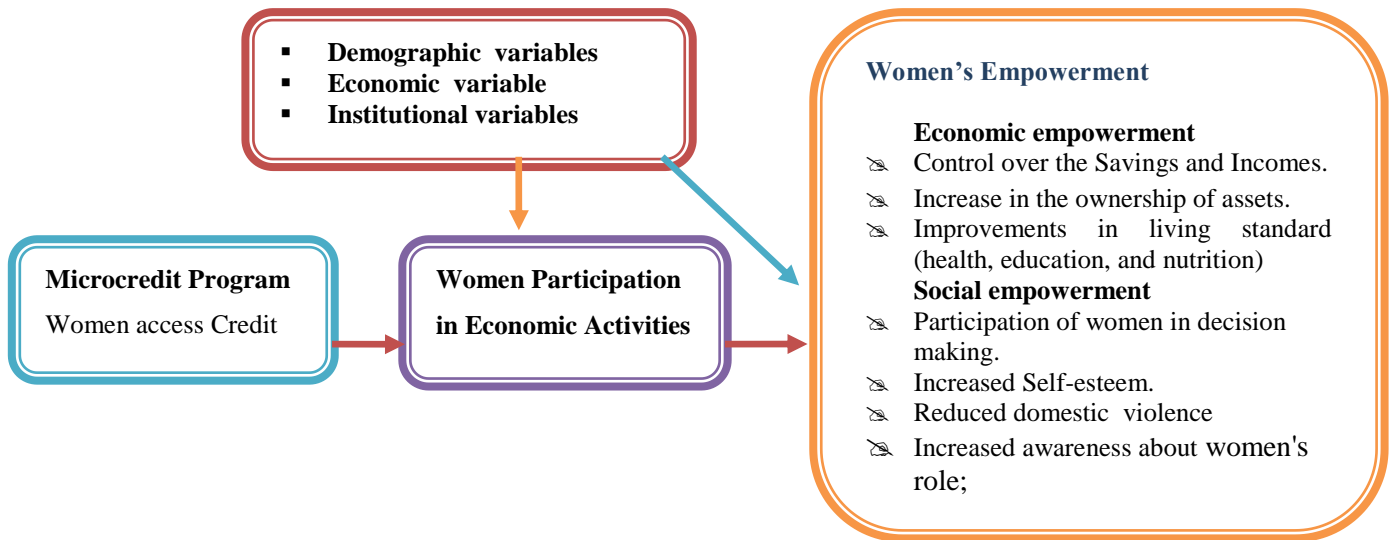
Meron (2007) examined the role of microfinance in empowering women in Addis Ababa. The result confirmed that access to microfinance has been able to empower women economically by increasing income and saving level of clients. Befikadu (2011) investigated the impact of

microfinance in the case of OMO micro finance programs in Arba Minch town, southern region. The result revealed that women participation in OMFIs; improve the economic condition of the participants particularly increased clients' personal saving account and enhancement in the household income level. On the other hand, it can be said that women involvement in OMFI and improvements in clients' household conditions in terms of improved access to health services and nutrition were positively correlated.

Ahmed (2013) examined the impact of microfinance on rural women's empowerment evidence from rural woreda's of Harari Region, The result of econometrics analysis by using binary logistic regression model also shows that, variables like age of women's respondents, age at marriage, marital status, education level of women's, duration of women's in the institution, income of their family, and non-formal education are the variables which can significantly affecting women's empowerment. Whereas, variables like religion of the respondents, form of marriage, access to media, head of family, and paid work variables are insignificant in affecting women's empowerment.

Zelalem et.al (2014) examined the impact of microfinance and credit service for women socio-economic development in the case of Yirgalem town. The finding of the study confirmed that the provisions of microfinance service to the poor women would have impacts on their livelihoods. The study identified that they use this loan as a working capital and /or purchase household needs and assets. Thus microfinance service brought changes on livelihood of the participants (women clients).

In the following figure the relationship between dependent and independent variable is presented as follows.

**Figure 2.1: Conceptual framework of the study Dependent variable**

**Source:** adapted from microfinance impact model developed by Sebstad *et al.*, 1995

### 3. Material and methods

The study adopts mixed research approach to test the hypotheses and address research questions. The data was collected from 371 Omo Microfinance Institution clients through questionnaire out of a total population of 9,460 based on (Krejcie and Morgan, 1970) table. Besides, in-depth interview were conducted with 24 clients and 27 officials of the institution. The collected data was analyzed by using descriptive statistics and Logit regression Model.

#### Model specification

To investigate the impact of micro-financing on women's empowerment in Bench Maji Zone, the researcher adopted the Logit regression model. It is discrete choice models the used to deal with dichotomous dependent variables. The Logit model was applied in determining women's empowerment since the empowerment indicator, i.e., the dependent variable (women's empowerment) is dichotomous.

$$WE = \beta_0 + \beta_1 Age + \beta_2 LeEdn - \beta_3 MS + \beta_4 DI + \beta_5 IIGA + \beta_6 LS + \beta_7 HINC + \beta_7 SAV - \beta_7 INTR \mu \dots (2)$$

Where: the dependent variable “WE” represented for women’s empowerment (Economic and social). The coefficient  $\beta_1$ - $\beta_9$  represents explanatory (independent) variables. Here negative and positive signs of the coefficients  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$  ,..  $\beta_9$  will reveal that they increase and decrease women’s empowerment. AGE (Age of respondents), LeEdn (Level of education), MS (Marital status), DI (Duration of involvement), IIGA (Involvement in income generating activities), LS (Loan size), HINC ( Income- Household income) SAV (Saving) and INTR ( Interest rate ).

#### 4. Results and discussion

##### Result of Logistic regression model

Prior to see the result of logit regression output it is better to check the model specification test, goodness of fit of the model, the problem of hetroskdestacity and multicollinearity. Accordingly, specification error on model tested by using link test , goodness of fit of the model tested by using Hosmer and Lemeshow's test, the problem of multicollinearity and hetroskdestacity was tested by using VIF and robust tests respectively and the result of all tests satisfy the basic assumptions of logistic regression model. The logit model output is presented as follows:

##### Logistic regression model output

Logistic regression	Number of obs = 371
	LR chi2(9) = 269.88
	Prob > chi2 = 0.0000
Log likelihood = -104.73223	Pseudo R2 = 0.5630

WE	Odds Ratio	Std. Err.	z	P> z	[95%Conf.Interval]	
Age	1.148773	.2485162	0.64	0.521	.7517823	1.755401
LeEdn	2.585828	.885978	2.77	0.006	1.321155	5.061106
MS	.5574939	.1437014	2.27	0.023	.3363812	.9239502
YI	5.793204	2.506714	4.06	0.000	2.480874	13.52798

IIGA	5.892571	2.369243	4.41	0.000	2.679537	12.95836
LS	3.25996	.9486698	4.06	0.000	1.842922	5.766569
Inc	10.01142	3.030962	7.61	0.000	.3094904	1.079746
Sav	53.26469	23.32259	9.08	0.000	22.58034	125.6459
INT	.5506011	.1592614	-2.06	0.039	.3123396	.9706153
cons	2.490019	2.826781	0.80	0.422	.2690793	23.04225

As indicated in the above table, the pseudo  $R^2$  value of the model used to measure to what extent the independent variables explained the dependent variable is 56.3%. This implies that 56.3 % of the variability of women's empowerment is explained by Age, Marital status, level of education, years of involvement in the microfinance program, involvement in income generating activities, loan size, households' income, saving and interest rate collectively explain 56.3 of changes in women's empowerment. Thus, these variables collectively are good explanatory power.

The result of logit model indicates that level of education years of involvement in the microfinance program, involvement in income generating activities, loan size, and households' income and saving have positive and statistically significant impact on women's empowerment at 1% level of significance. Conversely, marital status and interest rate have negative and statistically significant impact on women's empowerment at 5% level of significance. In contrast age of respondent is not statistically significant.

## 5. Conclusions and Recommendations

### Conclusion

Improving access to financial services is an important development tool, because it helps in creating employment opportunities for the unemployed and increases their income and consumption, which would in the final analysis reduce poverty and leads to economic empowerment. Microfinance program is a key strategy in promoting women's empowerment. To this end, this study aimed at examining the impact of microfinance on women's empowerment. To address the research questions, test hypotheses and achieve the broad research objective, the study used mixed research approach. More specifically, the analyses were performed using data



collected from women clients of OMFI Bench Maji zone. Logit regression model was used to estimate the regression equation, descriptive statistics was also used to assess the impact of microfinance on women's empowerment. In the study age, level of education marital status, duration of involvement in OMFI, loan size, and involvement in income generating activities, household income, and availability of saving account were considered as independent variables while women's empowerment was considered as dependent variable.

Based on empirical findings of the study the researcher draws the following conclusions.

✎ The result of descriptive statistics shows that access to loan helped women to get self-employment opportunities to be engaged in diverse income generating activities, increase in profits from their business this contributed them to have personal saving account out of their businesses profits. Increasing women's income levels and control over income leads to greater levels of economic independence. Thus, the contribution made by these women towards increasing the overall household income enables them to participate in household decision making about expenditure and other issues. It is an indication of women's economic empowerment.

✎ Improvement in saving habit is an indicator for the well functioning of the microfinance institution. Accordingly, the result confirms that after involvement in the OMFI credit program women's engaged in diverse income generating activities, increase in profits from their business the amount of saving is increased.

✎ Decision making power of women's regarding household issues such as education of children, household expenditure and decision on use of credit and business profit is significantly improved after joining the OMFI credit program. Earning an independent income is an important base of negotiation and for building of self-esteem which ultimately improve their decision making role in household issues.

✎ Living standard (education, health and nutrition) of clients and their families are improved due to involvement in OMFI credit program. This is evidenced by the fact that the loan

provided by the institution strengthened women financial capacity to cover the necessary educational, health and nutrition expenditures of families compared to the conditions before.

✎ Improvement in levels of education has positive and statistically significant impact on women's empowerment. This implies that the women's years of education increases they become bargain in the household, participate on issues of large purchase of the household and they become empowered.

✎ Marital status of women has negative influence on women's empowerment. This is due to the fact that married women's have less power in the household as compared to single, widow and divorced women counterpart, have less mobile and less decision in large household purchases and sales than the widowed and divorced women's. Thus the result of the model reveals that, married women's are less likely empowered than the widowed and divorced women's keeping other variables constant.

✎ Duration of women's involvement in OMFI has positive and statistically significant impact on women's empowerment, This implies that the longer the duration of involvement in the OMFI, they gain more experiences in running business and their ability to make independent decisions will be greatly enhanced not only with regards to their business, but also with regards to decisions and control on their life affairs in general.

✎ Involvement in income generating activities has positive and statistically significant impact on women's empowerment. This implies that those women which involve in income generating activities need to make tough management decisions regarding the type of economic activities (investment) to be involved in and managing and controlling the business in general. Thus, women that involve in income generating activities are more empowered as compared to those did not involve in income generating activities.

✎ Loan size provided by the institution has positive and statistically significant impact on women's empowerment. This implies that the larger the size of the loan, the more it helps women to get involved with more risky, but possibly more profitable economic activities.

Consequently, this requires them to make more and bigger decisions to take control and manage the business compared to those women who get the smaller size of loan.

✎ Household income of clients has positive and statistically significant impact on women's empowerment. This implies that those women's whose household is having more income have more power in bargaining in the household decisions and have the ability to participate in income generating activities more than those who have less income.

✎ Saving habit of clients has positive and statistically significant impact on women's empowerment. This implies that if the saving habit of women's improved the bargaining power and decision-making capabilities within the household, which could allow her to accumulate individual wealth, invest in her children's education.

✎ The interest rate charged on loans has negative and statistically significant impact on women's empowerment. This implies that high lending rate creates high debt burden and this ultimately leads to a considerable hurdle to the expansion and development of their business.

### **Recommendations**

Based on the findings of the study the following possible recommendations were forwarded:

➡ Majority of microfinance clients confirmed that the loan size given to the clients is too small with a short repayment period. Thus, the institution should increase the loan size in order to facilitate women entrepreneurs to execute big projects which can have substantial impact to their life and community by diversifying its investment portfolio, mobilizing more saving and reducing operating costs.

➡ The interest rate charged on loan has negative and statistically significant impact on women's empowerment, it create debt burden to clients so the institution should review its policy in order to reduce the lending rate by making diversified investment portfolios and expand the scope of their services such as providing micro insurance to increase the share of noninterest income.

➡ The finding of the study confirmed that default risk is major challenge of the institution so to reduce default risk the institution should strive to improve their inspection techniques and loan application methodologies in screening potential borrowers.

➡ The finding reveals that microfinance service has positive impacts on women's empowerment. So, the institution should expand its service coverage (outreach) in order to participate poor, but economically active women's while one of strategic goal of the institution is giving special emphasis to women.

### **Acknowledgement**

We would like to thank Mizan Tepi University for funding this study.

### **Reference**

- Ahmed (2013) Microfinance and Rural Women's Empowerment: A Cross-Sectional level Analysis (Evidence from Rural Woreda's of Harari Region) Master Thesis Mekele University, Mekelle, Ethiopia.
- Armendáriz, B. and Morduch, J. (2010) The economics of microfinance. Cambridge, MA: MIT Press.
- Arora, S., (2011), Women Empowerment through Micro finance Intervention in the commercial Banks: An empirical Study in the Rural India with special reference to the state of Punjab, Meenu, et. al., int. J. Eco. Res, IJER / Mar – Apr 2011.
- Bareman, M., and Chang, H. 2009. The Micro Finance Illusion <http://www.econ.cam.ac.microfianance> pdf (Accessed on October 22, 2010).
- Befikadu E. (2011) Women empowerment through micro finance: the case of OMO micro finance programs in ARBA MINCH Town, Southern Region. Master Thesis AAU. Addis Ababa, Ethiopia
- Copestake, J. 2002. Inequality and the polarising impact of micro credit: Evidence from Zambia's copper belt. Journal of International Development 14(6):743-755.
- Haimanot Eshetu (2007). Impact of Micro-finance on women's economic Empowerment. A case-study of Amhara Credit and Saving Institution (ACSI), Kobo Woreda, Amhara National Regional State, Ethiopia. Master Thesis AAU. Addis Ababa, Ethiopia.

- Kabeer, N.2005. *Is Micro Finance a Magic Bullet for Women Empowerment? Political and Economic*. Week 29th October, 2005.
- Kavitha V, Jiji RS (2008). Perception of empowerment by the members of women Self-Help Groups in goat farming. *J. Dairying Foods*. H. S. 27(3/4):181-185.
- Krejcie & Morgan (1970) sample size determination.
- Mayoux, L. 1997. *The Magic Ingredient? Micro Finance and Women's Empowerment*. Washington D.C: A Briefing Paper prepared for the Micro Credit Summit.
- Mayoux, L. (2002) *Women's Empowerment and Microfinance*. A concept paper for the Microfinance field. Paper presented to the Micro-credit Summit +5. New York.
- Meron Hailelassie.2007. *The Role of Micro Finance in Empowering Women in Addis Ababa*. Master Thesis, Institute of Gender Studies, AAU. Addis Ababa, Ethiopia.
- Morduch, J and B, Haley. (2001) *Analysis of the effects of microfinance on Poverty reduction*. Ottawa: CIDA. Moser (1999)
- Rogaly, B.(1996) *Microfinance evangelism, destitute women and the hard selling of a new anti-poverty formula*. *Development in Practice* 6(2):100-112.
- Skarlatos, k. (2004). *Microfinance and women's Economic Empowerment. Bridging the Gap, Redesigning the Future*. Wisconsin Coordinating Council in Nicaragua. Working paper Series No 1.
- Tsehay T.and Mengistu B. (2002) , *The impact of microfinance services among the poor women in Ethiopia* Occasional paper No.6, AEMFI , Addis Ababa.
- Vonderlack, RM & Schreiner, M. 2001. *Women, microfinance and savings: lessons and proposals*. Centre for Social Development: Washington University in St. Louis. USA.
- Zelalem et.al (2014) *The importance of microfinance and credit service for women economic development case study in Yirgalem* *Basic Research Journal of Business Management and* ISSN 2315-6899 Vol. 3(5) pp. 75-79