The importance of microfinance and credit service for women economic development case study in Yirgalem Town, Ethiopia

Zelalem Muluneh and Chalchissa Amentie (lecturer)

Ethiopia, Addis Ababa

Ethiopia, Jimma University, College of Business and Economics, Department of Management.

Corresponding author email; chalchissa@yahoo.com

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Microfinance has been evolved as an economic development approach intended to benefit low income people. The term refers to the provision of financial service to low income clients including the self-employed. Therefore, the main objective of this research paper was to investigate the role of microfinance and credit service to women economic development. In the study, cross-sectional, descriptive and inferential designs were used. As findings of the study shows; (P< 0.05) as cash saving has significant difference between regular and new clients in amounting of average saving. From the result of the test, microfinance service didn’t bring positive impact on saving of the clients. In addition (P<0.05), indicating that there is significant difference for frequent clients engagement in income generating activates found significant greater than that of new clients. The mean difference of income earned by regular clients is significantly different from that of new clients. Hence, the micro – finance, repeated access to micro – credit finance, has impact on women client’s income. This shows that repeated access to micro – credit increases household’s cash income earned in the year.

Keywords: Micro- finance, credit, women and economic development

INTRODUCTION

Ethiopian women who constitute about 50% of the population, and comprise the majority of the unemployed segment of the population are hit by the hardest poverty. Such women have potential and energy to contribute to economic development. Yet their potential too often goes undeveloped and under –utilized. This aim to empower women in Ethiopia. Microfinance has evolved as an economic development approach intended to benefit low income people in the context of women particularly poor women there in and conditions become even more vulnerable due to unequal distribution of resources within and outside the domain of the household even though they have significant number in the society based on this fact it is impractical to eradicate poverty without empowering and participating them.

In Ethiopia, the poor are growing in number and studies show that 44% of the Ethiopian population survives by less than one dollar a day (Mo FED, 1999). In the SNNPR 45.5% of the population survives by less than one dollar a day (Regional Income Accounting Bo FED 2003).

Thus poverty is crucial social academic and policy issue of concern in Ethiopia in national and local levels Different interventions were made to alleviate the
problem of the poor and micro – credit schemes are seen as some of the instruments in Ethiopia microfinance program gained a worldwide acceptance and popularity since 1980s. Thus the government and donor agencies are funding an increasing number of microfinance program in low income countries (Heg and Marguerite 1999). In Ethiopia this scheme was widely practiced in providing financial services to the poor this was assumed to solve the constraints of stating capital for the poor. The poor will thus resume productive activity, improve income and increasing welfare. Poor people engaged in the informal sector have limited access to credit from the formal financial institutions. As a result, the government involved in supporting the informal sector operators and has taken micro financing as one of the possible means to reach the poorest section of the society. On this regard women’s are the most vulnerable due to different cultural and social influences of the society.

But the problem of MFIs especially in Ethiopia in dealing with the poor women is not easy due to collateral requirements less organized or un institutionalized way of living, illiteracy of the poor, etc. as result their performance in terms of area and client out each, recovery rate, loan size, saving mobilization and community participation might be restricted or very low and hence their sustainability might be questionable. The purpose of this study is to examine the effect of micro financing on women’s economic empowerment taken Yirgalem town beneficiary for survey.

The main study of this paper was to investigate the role of microfinance and credit service to women economic development in Yirgalem town Ethiopia. Specifically:
I. To investigate whether repeated access to micro – credit brought changes; on improving income and saving of clients.
II. To explore the constraints faced by my in implementing the credit delivery.

Literature review

Microfinance is the provision of savings accounts, loans, insurance, money transfers and other banking services to customers that lack access to traditional financial services, usually because of poverty. Making small loans to individuals who lack the necessary resources to secure traditional credit is known as microcredit.

Microfinance has been evolved as an economic development approach intended to benefit low income people. The term refers to the provision of financial service to low income clients including the self-employed. Financial service generally include saving and credit. However, some micro finance organization also provide insurance and payment service in addition to financial Intermediation such as group formation, development of self confidence and training in financial Literacy and management capabilities among members of a group. Thus both financial intermediation and social intermediation involve. (UNDP 1997).

Contributions of Microfinance for poverty Reduction and Women Empowerment

According wolday, micro-finance benefits the poor by increasing disposable income, increase assets ownership and cushion consumption in food-deficit period (Wolday, 2002). It is a way out to the poor who are normally excluded by conventional financial institutions (Ibid). Microfinance institutions function at the grassroots level. They reach micro-level development constraints of the poor. They are capable of involving large segment of the population. They likely build both human and productive capacity of the poor (Shannon etc. Al 2005:80). Microfinance strategy may deliver inclusive financial service to the poor if augmented by sound financial sector policy (wolday, 2005). In the last two decade, governments, NGOs, donors and other development actors have given due attention to establish expand the provide microfinance services to the poor in rural and urban areas. Thus this study situations its argument in this context of augmenting the poor women by microfinance.

The effect of microfinance in this study is perceived to mean qualitative and quantitative changes associated with the intervention of micro-credit as conceptualized. According to Hege and Marguerite (1999), MFIs can be a means to improve livelihoods of the clients. However, the same authors argue the measuring the effect of microfinance intervention and performance on client’s livelihood remains difficult, changing, and complex. The first challenge is the fungible of household expenditure and assets mobilization patterns and the heterogeneity of urban households (Susan and Ben, 2002). This assumes that the effect of the microfinance could hardly be isolated from the contributions of various interventions (Hailu and Wlisa 2004; Susan and Benn 2002/2003). Clients may have multiple income source and the MFI credit may be fungible (Anton 2001; Susan and Ben, 2002) Thus combining a range of tools, triangulating and learning lessons form different perspectives and approaches of micro-credit provision is useful to control rigors (Anton 2001). This it is Important to Know by how much, by what and for whom impact was brought by micro-finance intervention (Susan and Ben, 2002)

Kabee(2005) presented empirical evidence on the impact of microfinance with respect to poverty reduction and the empowerment of poor women is South Asia. It becomes apparent that while access to financial service can and does vital contribution to the economic
Table 1. Total branch beneficiary data

<table>
<thead>
<tr>
<th>Branch Name</th>
<th>Number of Women clients</th>
<th>Number of Male clients</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yirgalem Branch</td>
<td>1945</td>
<td>1337</td>
<td>3282</td>
</tr>
</tbody>
</table>

productivity and social well-being of poor women and their households, it does not automatically empower team. Like other development interventions such as education, political quotas, etc, that seek to bring about the radical structural transformation that true empowerment entails, microfinance presents arrange of possibilities rather that a predetermined set of outcomes. Which of these possibilities are realized in practice will be influenced by a host of factors, including the extent to which the programs are tailored to the needs and interests of those they are intended to reach, the nature of the relationship which governs their delivery, and the caliber and commitment of the people involved.

Research Methodology

Research design

The research was conducted in Ethiopia Yirgalem Town. The cross-sectional survey design was used in the study. Population in this research were all female beneficiary of Microfinance Yirgalem Town.

Sampling method and sampling size.

Stratified random was used to categorize the respondents into two (Frequent clients and new clients) based on repetition. Respondents in this study were 3 to 2 rations of regular clients to new clients and the sample covers 20% of the total population which holds 102 representative clients. All respondents from both stratuses were chosen using simple random sampling method. The sources of data used were both primary and secondary data.

Primary data

For the purposes of this research, survey, interview and focus group discussion were used to gather the necessary information.

Secondary data

These include all types of published and unpublished, public or private documents and other such types of information. Such as books, documents, Journals, articles, different past researches, reports of the company and online material (Internets).

Data collection procedures

A well-structured questionnaire for survey, individual interview and focus group discussion were used as tools of data collections.

Data analysis procedure

Both descriptive and inferential statistical analyses were employed. The processed data was analyzed by using Excel and statistical package for social sciences (SPSS) Version 16. Analysis of descriptive statistic and chisquare conducted to investigate statistically significant difference between men and women's responses.

RESULT AND DISCUSSION

This part covers the analysis and the interpretation of the various data collected through the use of questionnaires, focus group discussion and interviews. As the below table 1 implies the proportion of women and men beneficiaries on the selected branch. Even thought, the population size of women beneficiary as a criteria for sample selection, the total branch beneficiary proportion, similarly shows similar result. Which is the number of women beneficiary is somewhat greater than male but this mightn't mean that they have got special attention on the program because studies show that the propensity of women to get in to poverty trap is likely higher than those of male counter parts, therefore even if it is a good beginning, a lot to be done to address the problem of the main target group (women) and the most vulnerable group in the society. Studies show that in the development process, the way women (women headed households) are included is often a matter of concern.

Micro-finance program are expected to generate income by availing liquid cash to invest in different investment form so as to create more wealth. This assumes that households with more income have more choice to meet their basic needs and enjoy more opportunities. Thus frequent clients likely generate more
Table 2. Impacts of Credit on Monthly Income of Clients

<table>
<thead>
<tr>
<th>Household chosen</th>
<th>percent</th>
<th>No.</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative value of new clients</td>
<td>30</td>
<td>191</td>
<td>235.312</td>
<td>30.13</td>
<td></td>
</tr>
<tr>
<td>Frequent client</td>
<td>70</td>
<td>358</td>
<td>492.65</td>
<td>47.41</td>
<td></td>
</tr>
</tbody>
</table>

Table 3. chi – Square Tests for engagement of households in income generating activity

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp Sig. (2-sided)</th>
<th>Exact Sig. sided (2 – Exact Sig (1-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>22</td>
<td>1</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Continuity Correction</td>
<td>21</td>
<td>1</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>23</td>
<td>1</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Fisher’s Exact Test</td>
<td>23</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>N of Valid cases</td>
<td>169</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4. Result of Average Saving of the clients

<table>
<thead>
<tr>
<th>Household chosen</th>
<th>No</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash saving New client</td>
<td>30</td>
<td>50</td>
<td>276</td>
<td>41</td>
</tr>
<tr>
<td>Regular client</td>
<td>70</td>
<td>251</td>
<td>211</td>
<td>23</td>
</tr>
</tbody>
</table>

Table 5. Independent Samples t-test about saving.

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig. df</th>
<th>Sig. Mean Std Error</th>
<th>95% confidence (2 – difference Interval of the tailed) Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Saving</td>
<td>3-</td>
<td>125</td>
<td>1 -5</td>
<td>44 -42</td>
</tr>
<tr>
<td>Equal variances</td>
<td>115</td>
<td>-73</td>
<td>1 -5</td>
<td>47 -100</td>
</tr>
<tr>
<td>Assumed</td>
<td>106</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Wealth and higher income than the new clients. From (Table 2), the average monthly income for new and frequent client found 191 Birr and 358, respectively. There was around 167 Birr difference one average between the two groups. Table 3.

To test whether frequent clients were engaged in income generating activities more than new clients or not, a test of null and alternative hypothesis was made as the following.

HO = There is no significant difference between the frequent and new clients in engagement in income generating activities.

H1 = The engagement of frequent clients income generating activities significantly higher than new clients;

The chi-square test result indicated that the value of alpha for the test is less than 0.05. Thus the null hypothesis is rejected and the alternative hypothesis is accepted, indicating that there is significant difference for frequent clients engagement in income generating activities found significant greater than that of new clients.

Table 4. In order to test whether there existed statistical difference on average saving of regular and new clients an independent sample t-test of was made. Accordingly, a null and alternative hypothesis was formulated as follows:

HO = There is no significant difference between regular and new clients in amount of average saving.

H1 = the amount of average saving is significantly greater for regular clients then new clients.

The independent sampling t-test result has shown that the value of alpha is greater than 0.05. Thus the null hypothesis is accepted. Therefore, there is cash saving significant difference between regular and new clients in amounting of average saving. From the result of the test microfinance service didn’t bring positive impact on saving of the clients.
CONCLUSION

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, the result of this study demonstrates that microfinance service brought changes on livelihood of the participants. Change were seen for regular clients in the areas of saving, and income. From the study we can conclude that microfinance service is useful.

The approach of the study did not focus on time dimension as well as institutional sustainability. It focused exactly on the outcome if MFI in regular and few clients. To augment this approach, the study employed quantitative and qualitative data sets. The quantities data was generated by household survey of borrowers in order to triangulate the findings and data sets, the research employed qualitative data gathering methods (focus group discussion, key information interview and personal observations). Thus, detailed understanding of the effect of the MFI was adequately learnt and the result of the study is like viable. This methodological undertaking enabled there searcher to arrive are reasonable conclusion. It likely minimize the limitation like fungibility and the issue of time in comparing the two groups.

The finding of this research paper has great relevance to different organizations who are engaged themselves in improving the living standard of women’s in different localities of the region. Now a day’s unemployment is serious drawback which hinders the economic development of a given nation. Hence different NGO’s and governmental organizations which are interested in improving the living standard of those who have low economic status should exert effort in making the situation conductive for this unemployed women’s to provide training on different activities and organize them in group and provide them loan.

REFERENCES


