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INFLUENCE OF MICROFINANCE SERVICES ON ECONOMIC EMPOWERMENT OF WOMEN IN OLKALOU CONSTITUENCY, KENYA

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ABSTRACT

Microfinance plays a major role in many gender and development strategies because of its direct relationship to both poverty alleviation and to the empowerment of women. In Kenya and elsewhere, microfinance institutions have been on the rise with microfinance having been portrayed as a way to reach poor people in the development process, meet the UN Millennium Development Goals, and as a new innovative strategy for alleviating poverty. Studies on microfinance services and women empowerment in Kenya remain scanty with global empirical evidence providing contradicting information. The study sought to find out the effect of microfinance services on women empowerment in Olkalou Constituency, Kenya. A descriptive research design was used for this study. The target population comprised of women who had been using microfinance services in the constituency. Data was collected using closed-ended questionnaires which yielded quantitative data. The sample size in this study was 120 women chosen at random where 30 respondents were allocated to each of the microfinance institutions. The collected data was analyzed using SPSS Version 21 and the findings presented in tables. The study found that microfinance services have positive and significant effect on women empowerment in Kenya. The study established that microfinance services provided financial access which provided women with start-up and working capital, training, savings leading to women engagement in income generating activities and hence positive outcome on empowerment and women role in society and decision making. There was a strong positive significant correlation between income generation and Women economic empowerment ($r=0.704$, $p<0.05$) and financial literacy and Women economic empowerment($r=0.777$, $p<0.05$). Credit access had an insignificant effect on economic empowerment. The study recommends that MFIs to enhance women training mostly in rural areas to enhance their skills on viable and sustainable investment ventures. Further, the government should formulate and review the existing policies on microfinance and financial empowerment to women in Kenya to incorporate the emerging issues due to volatility of the banking industry and the changes in the needs of the poor.

KEYWORDS: Microfinance, Economic Empowerment, Financial Literacy

INTRODUCTION

The concept of microfinance arose out of the need to provide to the low-income earners who were left out by formal financial institutions. Microfinance has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh were starting and shaping the modern industry of microfinance (Mwangi, 2011). In Kenya, microfinance movement gained momentum in the late 1980s as a result of exclusion of large proportion of the population from the formal financial institution mainly banks. Microfinance emerged with the aim of filling the gap left by banks in providing credit to individuals, micro, small and medium enterprises which were on the rise during this period (Ogindo, 2006).

According to Robinson (1998) microfinance is a development tool that grants or provides financial services and products such as very small loans, savings, micro leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where small businesses do not have access to other sources of financial assistance. Financial services generally include savings and credit; however some finance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self confidence and training in financial literacy and management capabilities among members of a group (Ledgerwood, 1999).

The services provided to microfinance clients can be categorized into four different categories. These are financial intermediation, or provision of financial products and services such as savings, credit, insurance, credit cards and payment system which should not require ongoing subsidies. Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology. Social services that focus on advancing the welfare of micro entrepreneurs include education, health, nutrition, and literacy training. These services require ongoing subsidies which are always provided by nongovernmental organizations (NGOs) or the state. According to Kato & Kratze (2013) women in developing countries are denied access to credit facilities from conventional banks because they lack quality education. As a result of this, they do not have the specific skills to manage their work. In addition, most conventional banks in Africa deny women loans because of lack of collateral. It also argued that because of the profit motives of some of the micro-finance institutions they deny women who do not have the collateral for loans. In the 1990s, micro-finance institutions intensified their patronizing of women clients because of the insinuation that women are prudent with their resources and they hardly default in loan repayment compared to the men. Furthermore, the United Nations (UN) in 2005 initiated the international year for microfinance for the promoting of financial inclusion for women (Awojobi, 2013). The hypothesis that microfinance reduces poverty and empowers women has been a contentious issue in the academic and the public domain. The validity of the claim that microfinance empowers women through poverty reduction has been questioned. The contentious debate on the validity of microfinance impacting women therefore calls for further critical interrogation. Although, there have been some studies that have investigated the correlation between microfinance services and women’s economic empowerment in Kenya, none of these studies have been able to validate the positive impact of microfinance on Kenyan women. The limitation of these studies calls for empirical investigation by this study to examine the influence of microfinance and women’s economic empowerment.

STATEMENT OF THE PROBLEM

It has been estimated that about 40 million low-income entrepreneurs, mainly in the developing countries, have access to microfinance. The lack of control over credit does not negate all benefits for women’s role and status in the community. Microfinance has become a very important tool used internationally to combat poverty and enhance the social and economic wellbeing of its recipients particularly women. Women normally have bulk of responsibilities for managing and budgeting for household consumption especially for basic needs in good and bad times. But the main constraints on women involved in micro-enterprises include interference by men, women’s raiding of cash to meet domestic expenditures, fragmentation of profits, lack of infrastructure, appropriate inputs and technical services along the entire production and marketing chain, lack of appropriate managerial skills, competition with formal enterprises and the most important lack of access to credit and financial services. In developing countries like Kenya social and cultural norms hinder the participation of women in activities outside the home. But the changing social and economic conditions throughout the world require an appraisal for the role, which women can play in their environment. Economic development in Kenya as envisaged in Vision 2030 will be greatly supported if women become an equal part in all national activities. There is therefore the need to investigate the effect of microfinance services on the economic empowerment of women in developing countries such as Kenya. This study sought to investigate the influence of microfinance services on the economic empowerment of women.

RESEARCH OBJECTIVES

The general objective of the study is to establish the influence of microfinance services on economic empowerment of women in Olkalou Constituency, Kenya. Specifically, the study sought:

- To determine the influence of access to credit on economic empowerment of women.
- To establish the influence of income generation on economic empowerment of women.
- To evaluate the influence of financial literacy on economic empowerment of women.

LITERATURE REVIEW

Microfinance services are used as a tool to empower women in low-income countries in their households and communities, by making them self-employed. For the purpose of this study we present the influence of income generation, access to credit and financial literacy on economic empowerment of women.

Influence of Access to Credit on Economic Empowerment of Women

According to Ondoro and Omena (2012), the micro-financing revolution effectively demonstrates that when poor households have access to financial services, not only do they save, but, they also have high repayment rates when they borrow. They noted that microfinance institutions have made financial services available to millions of poor households worldwide but this still represents a tiny fraction of the population in developing countries where the majority lack access to formal financial services. The assumption that credit facilities for women from microfinance institutions lead to women economic empowerment has been a controversial issue. However, empirical evidence from Awojobi (2013) subscribed to the affirmative of microfinance impacting women economic empowerment positively. Few studies have examined the women participatory technique in microfinance programs, but they did not elaborate on women's economic empowerment (Mayoux, 2009). Other studies lay emphasis on loans and savings (Mayoux (1999). Some scholars have investigated the impact of women's participation in microfinance programs while others have attempted to explain the reason why women are leaving microfinance programs. This may have been as a result of the profit motives and exploitation of women by some of the microfinance institutions. Nonetheless, studies across the continents indicate a positive correlation between access to credit and economic empowerment of women. The scenario is that when women started saving in microfinance institutions, they access to loans which they use the loans to support their business which increases their profits. However, not all who use their loans for their business can make profits. The savings and profits from their business act as income to the women which empowered them economically. In some cases, they use the profit and savings to expand their business. In remote areas, mobilization and intermediation of member savings may be crucial first steps before accessing external loan funds. Access to microfinance has the potential to assist the poor in earning income from microenterprises, smooth their income and consumption and help households diversify their income sources (Anand et al., 2005). According to Mayoux (2005) microfinance makes a considerable contribution to the reduction of poverty. It helps increase income earning and asset building opportunities which make households less reliant on a single asset type and consequently deal with disasters. Furthermore, a study on the effect of microfinance on women economic empowerment revealed that 60% and 50% of the recipients had their sales and incomes increase respectively one year after receipt of credit for working capital (Hassan, 2002). A similar study in India reported an increase in income from 76% of activities. There is therefore reason to believe that access to credit arising from microfinance services in its entirety should report effect on savings, income and investments alongside non financial effect such as change in skills through training. This study was specific in investigating these aspects.

Influence of Income Generation on Economic Empowerment of Women

The impact of microfinance on empowerment of women is hindered by the fact that they mostly do not have control over the credit. This assertion is consistent with the observation made by Goetz and Gupta (1996) that though women may gain access to microfinance, they may not have control on its use because they may handover the control of loans or invest such loans in a family enterprise. This is further supported by Beck et al., (2009) who noted that much of microfinance is not used for investment as a substantial part of it is used in meeting the consumption needs of borrowers. This according to Makina and Malobola (2004) is particularly the case among the poor who are highly likely to use credit for consumption rather than for investment. Unfortunately, most impact assessment studies do not take into consideration the control and utilization of the credit by beneficiaries. For a very long time, microfinance impact assessment studies have always been undertaken to ensure continuous funding from donors and not to determine the actual impact on beneficiaries. It is however, not always true that, financial performance can measure change in people's lives as indebted clients may repay their loans even when their businesses have failed because of complex social factors. Therefore using such market proxies will not give a true reflection of the impact of microfinance in income generation (Makina & Malobola, 2004). The impact of microfinance in income generation has thus been controversial and inconclusive with different arguments advanced by different researchers. There seem not to be consensus on the impact of microfinance on borrowers. Whereas proponents of microfinance as an income generation tool argue that microfinance has beneficial and positive economic impacts, opponents on the other hand argue that caution must be taken not to be too optimistic about the impact of microfinance as there are some negative impacts (Rogaly, 1996). The conflicting empirical views on the impact of microfinance on income generation according to Makina and Malobola (2004) are as a result of definitional problems; conflicting objectives of microfinance schemes; and the different methodological approaches to microfinance. Microfinance services that have targeted women have been found to be effective as it ensures that the net benefits that accrue from increased income does not only help the women but that, the welfare of the family and particularly children are improved reducing the overall poverty of beneficiary families (Newaz, 2003). Other critics have also pointed out that, though microfinance enhances income generation which then can reduce vulnerability. Many other studies draw attention to the negative impact of microfinance suggesting that, it only helps in smoothing consumption and welfare of the family without necessarily making women better-off (Hossain & Asfar, 1988). The gap in the empirical literature that this study sought to bridge is the seemingly little or no evidence on the effectiveness and impact of microfinance services on the income generation capacity of women.

Influence of Financial Literacy on Economic Empowerment of Women

The emphasis on financial literacy stems from evidence on the pervasiveness of financial mistakes made by consumers some of which have detrimental consequences. These mistakes can prove to be devastating for low income and disadvantaged consumers. For example, Rugh and Douglas (2010) found that black residential dissimilarity and spatial isolation were powerful predictors of foreclosures across U.S. cities. In the context of developing countries such as India, consumers of microfinance, have high volatility in incomes, often come from disadvantaged backgrounds, do not have adequate resources to deal with emergencies, and are denied credit by the mainstream banking sector. Thus, they are less likely to be financially savvy, more likely to overlook the costs of borrowing and often end up in financial distress. While financial literacy holds much promise in theory, evidence on the effectiveness of such training remains inconclusive. Research suggests that financial illiteracy is an important contributory cause of low savings levels and poor financial management. Financially illiterate households tend not to plan for future or unexpected events, borrow at high interest rates, acquire few assets and conduct non-optimal mortgage equity withdrawals (Duca & Kumar, 2014). Several recent papers have evaluated the effect of financial literacy training on individual outcomes such as savings, remittances, entrepreneurial activities and asset accumulation (Cole & Shastry, 2009). The focus on low-income households and women who may benefit the most is, however, limited (Collins, 2013). Agarwal et al., (2010) also showed that participants in a voluntary financial education program are less likely to fall behind on their mortgage payments indicating that increased financial literacy leads to lower delinquency rates. In Burkina Faso, microfinance groups that received loan literacy training had higher repayment performance, confirming the positive effect of financial literacy (Paxton et al., 2000). It would thus be important to interrogate the influence of financial literacy on economic empowerment of women from a Kenyan perspective.

RESEARCH METHODOLOGY

The study employed a descriptive research design using quantitative approaches. The design was appropriate as it entails the collection of data on more than one case and at a single point in time (Bryman, 2012). The target population of the study comprised all women who use microfinance services in Olkalou Constituency in Nyandarua County, Kenya. The sample of the study was therefore constituted 120 respondents. To enhance the randomness of the sample, the study allocated 30 of the respondents proportionately in each of the microfinance. Simple random sampling technique was adopted in this research study to select respondents from the various individual women users in the microfinance providers. This study used questionnaires in collecting data from the target group. The questionnaire consisted of close-ended items that aimed at obtaining data from the respondents. The collected data was analyzed quantitatively by first coding and then analyzing them using Statistical Package for Social Science (SPSS) Version 21. For the purpose of analyzing the relationships of each of the independent variable on the dependent variable, the study used both correlation and regression analysis. Out of 120 questionnaires that were issued to the sampled respondents, 96 of them were filled and returned. Of the returned questionnaires, 8 were incorrectly filled and thus were not used in the final analysis. Therefore, 88 were correctly filled and hence were used for analysis representing a response rate of 73.3%.

RESEARCH FINDINGS AND DISCUSSIONS

The researcher sought to find out the distribution of the respondents according to their age bracket, education level, marital status and the duration they have been with microfinance. The aim was to deduce any trend from the respondent's profile that was directly linked to the variables of the study. The findings indicate that a majority of the respondents in the region were of the age group 41 - 50 years (38.6%) while the least age group was below 21 years (2.3%). This shows that the sample used by the study was well distributed in terms of age and could therefore give reliable information on microfinance and economic empowerment to women in Kenya as different generations are affected by the various factors differently. The study found that 5.6% of the respondents had a certificate and below qualification which was attributed to the generational gap amongst the respondents. Further, over 94% of the respondents had a diploma, a bachelors or a master degree further indicating that the respondents were of high level knowledgeable enough to give valid and reliable information based on their high level of understanding of various issues appertaining to microfinance and economic empowerment to women in Kenya. From the findings, it was established that most respondents (46.6%) were married which could be attributed to the general marriage demographics in a semi-rural environment such as those in Olkalou Constituency, Kenya. Finally, in terms of duration with microfinance, most of the respondents (38.6%) had stayed between 2 – 5 years with their microfinance. Cumulatively, more than 71% had stayed more than 2 years while only 28.5% had stayed less than 2 years with microfinance. This shows that majority of the respondents had enough experience with the organization products and services to give credible information with regard to microfinance and its economic empowerment.

Influence of Access to Credit on Economic Empowerment

The study sought to establish the influence of access to credit on economic empowerment of women in Olkalou Constituency, Kenya. The results are shown in Table 1.

Table 1: Access to Credit and Economic Empowerment

	N	Mean	Std. Dev.
Access to Credit has increased the quality and standards of living	88	4.15	.766
Access to Credit has continuously improved my business ventures	88	4.13	.755
Access to loans has influenced on my financial abilities positively	88	4.18	.736
Access to Credit has created more business opportunities for me	88	4.08	.805
Access to Credit has increased my credit worthiness when borrowing	88	4.09	.783
With access to Credit I feel have a voice in my family and the society	88	3.00	.802

As depicted in Table 1, the results show respondents agree closely that access to credit has really improved their quality of living (M=4.15, S.D=0.766), their business ventures (M=4.13, S.D=0.755), their financial abilities (M=4.18, S.D=0.736), and their credit worthiness (M=4.09, S.D=0.783). However the respondents are unsure whether access to credit has given them a voice in their families and the society in general (M=3.00, S.D=0.802). This may mean that access to credit has indeed brought positive change in the businesses and livelihood of women in Olkalou, however it may not be the only factor that can give a woman more voice in the family or in the society. It may also suggest that loan repayment is high shown by the high credit worthiness.

Influence of Income Generation on Economic Empowerment

The study sought to establish the influence of income generation on economic empowerment of women and the results are shown in Table 2.

Table 2: Income Generation and Economic Empowerment

	N	Mean	Std. Dev.
My personal income status has increased from microfinance funded business	88	3.48	1.039
I have an ability to create new jobs due to more income generated	88	3.14	.819
I have seen my savings grow since I was funded by microfinance	88	3.17	.925
My decision making on financial issues is enhanced due to more income from microfinance schemes	88	3.35	.995
My working capital has increased due to more income from microfinance services	88	3.23	.991
I have expanded business due to more income arising from microfinance services	88	3.61	.915

As depicted in Table 2, the results show respondents are unsure whether income generated from microfinance funded businesses has grown their personal income, has led to creation of new jobs, has enhanced their decisions on financial issues or even increased their working capital with means ranging between 3.14 and 3.48. However the respondents agree closely that it has provided them with more income to expand their businesses (M=3.61, S.D=0.915). This may be interpreted to mean that indeed the provision of financial leverage is one of the necessary factors needed for business growth.

Influence of Financial Literacy on Economic Empowerment

The study sought to establish the influence of financial literacy on economic empowerment of women. The results are shown in Table 3.

Table 3: Financial Literacy and Economic Empowerment

	N	Mean	Std. Dev.
Microfinance services has enhanced my awareness about my financial wealth	88	3.40	.989
My knowledge of investments options is enhanced due to microfinance services	88	3.50	.994
Microfinance services has expanded my business knowledge	88	3.42	1.101
I carefully consider whether I can afford something before buying	88	3.35	1.040
I find it more satisfying to spend money than to save it for the long term	88	3.52	1.050
I pay my bills on time	88	3.41	.990
I am prepared to risk some of my own money when saving or making an investment	88	3.23	.931
I set long term financial goals and strive to achieve them	88	3.49	.959

As depicted in Table 3, the results show that respondents agree closely that Microfinance services has increased their knowledge of investment options, (M=3.50, S.D=0.994), to the extent that they find utility in spending rather than saving for long term (M=3.52, S.D=1.050), which they fell may have some little risk. This was interpreted to mean that awareness and knowledge about financial matters especially investment options had made the respondents make informed decisions about their financial endeavors and take calculated risks in their investment decisions.

Economic Empowerment

The study sought to establish the level of economic empowerment of women in Olkalou Constituency, Kenya. The results are shown in Table 4.

Table 4: Economic Empowerment

	N	Mean	Std. Dev.
Microfinance services has increased my participation in development activities	88	3.18	1.034
Microfinance services has increased self-efficacy and ability to make decisions	88	3.55	.958
Microfinance services has increased my bargaining power	88	3.26	.988
Microfinance services has increased my control of household resources	88	3.25	.913
Microfinance services has enhanced Increased financial independence	88	3.40	1.067
Microfinance services has given me new skills, changes in business practice	88	3.31	.889
Microfinance services has increased Access to new markets, profits and improved my livelihood	88	3.34	.869

As depicted in Table 4, the results show that respondents are unsure whether they have really been empowered in terms of both participation in development and increased power generally with means ranging between 3.18 and 3.40. However they agree solidly that indeed their self efficacy and ability to make decisions has been improved (M=3.55, S.D=0.958). These results suggest that the problem of women economic empowerment needs to be addressed not only from the financial perspectives but also from other aspects as well. Correlation analysis was employed using SPSS version 21 to examine the relationship between microfinance services variables and women economic empowerment. As depicted in Table 5, the correlation results show that there is a strong positive significant correlation between income generation and Women economic empowerment ($r=0.704$, $p<0.05$), a strong positive significant correlation between financial literacy and Women economic empowerment($r=0.777$, $p<0.05$) and a strong positive significant correlation between income generation and financial literacy($r=0.808$, $p<0.05$).

Table 5: Correlation Analysis

		Credit Access	Income Generation	Financial Literacy
Financial Literacy	Pearson Correlation	-.090	.808*	1
Economic Empowerment	Pearson Correlation	-.011	.704*	.777*
	N	88	88	88

These results suggests that indeed income generated from microcredit can aid in empowering women economically specially if financial literacy is provided alongside since it helps to grow income and also to empower women economically as well. Multiple regression analysis was employed to determine if microfinance services variables predicted economic empowerment and the output is depicted in Table 6.

Table 6: Multiple Regression Model Summaries

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.791a	.626	.612	.6226
a. Predictors: (Constant), Financial Literacy, Credit Access, Income Generation				

The summary output, Table 6 shows the multiple coefficient of correlation, R, for the relationship between the set of independent variables and the dependent variable is 0.791, which would be characterized as a strong positive correlation using the rule of thumb for rating correlation values. The value of R-square (Multiple Coefficient of Determination) = 0.626. Thus 62.8 % of the variation in women economic empowerment is explained by the set of Microfinance services variables.

Table 7: Coefficients of Estimates

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.11	.066		.000	1.000
	Credit Access	.073	.067	.073	1.089	.279
	Income Generation	.232	.114	.232	2.043	.044
	Financial Literacy	.596	.113	.596	5.263	.000
a. Dependent Variable: Women economic Empowerment						

As depicted in Table 7, credit access is not a predictor of women economic empowerment. Since p-value (0.279) > 0.05 level of significance, we fail to reject the null hypothesis and affirm that there is enough evidence to conclude that credit access is not useful as a predictor of women economic empowerment in Olkalou Constituency. The second hypothesis predicted that there is no significant influence of income generation on women economic empowerment. The results show that income generation predicts women economic empowerment. Since p-value (0.044) < 0.05 level of significance, we reject the null hypothesis and affirm that there is enough evidence to conclude that income generation is useful as a predictor of women economic empowerment. The third hypothesis predicted that there is no significant influence of financial literacy on women economic empowerment. The results indicate that financial literacy predicts women economic empowerment. Since p-value (0.000) < 0.05 level of significance, we reject the null hypothesis and affirm that there is enough evidence to conclude that financial literacy is a predictor of women economic empowerment.

CONCLUSIONS

The study concludes that access to credit alone does not mean that credit will be used wisely nor does it empower women on its own since other factors such as financial literacy also influences empowerment. Economic empowerment is a sustainable concept that requires use of financial skills to put into proper use and hence convert credit accessed into economic gain for women. The findings are in agreement to those of Ondoro and Omena (2012) who established a similar trend in their study on youth groups. Further, it is concluded that income generated from microfinance funded business is seen as a necessary factor for venture growth and therefore income generation is concluded to be one of the key factors influencing economic empowerment. . Finally, it is concluded that financial literacy correlates very strongly with income generation implying that women who are financially literate would make informed investment decisions and thereby enhance their income generation capabilities which is key in economic empowerment Finally the research recommends that the government to formulate and review the existing policies on microfinance and financial empowerment to women in Kenya to incorporate the emerging issues due to volatility of the banking industry and the changes in the needs of the poor.

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