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# MICROFINANCE AND ENTREPRENEURIAL EMPOWERMENT OF WOMEN: THE UGANDAN CONTEXT

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**Abstract**

*This study examines the role of microfinance in the entrepreneurial empowerment of women by adopting an exploratory cross sectional research design involving 150 women in Eastern and Central Uganda. Findings revealed that access to credit is the major benefit from the microfinance services. The overriding benefit in the groups was observed to be social capital, networking superseding trust and reciprocity. Results reveal that microfinance and social capital have a significant relationship with entrepreneurial empowerment. This implies that Microfinance is an important tool towards the entrepreneurial empowerment of women in a resource perspective. Group lending, which has been heralded as an important tool in poverty alleviation benefits members through networking. If group lending is to work towards poverty alleviation through business sustenance, then authorities should encourage women to have centres of information exchange. There is more effort to redefine microfinance in consideration of the socio-cultural terrain of Sub-Saharan economies to suit the empowerment needs of women. The study presents empirical findings about microfinance and entrepreneurial empowerment of women in a developing country context thus contributing to the much needed contextual literature.*

*Keywords: Microfinance, Women, Entrepreneurial Empowerment, Poverty, Micro credit*

## INTRODUCTION

Poverty has become one of world's top threats to humanity. This has attracted global efforts in fighting the vice but it has persisted. In response, microfinance has been identified as a key relief strategy (Hassan, 2014; p.79). One of the salient features of microfinance ever since it was conceived in the 1970s has been the inclusion of women. The focus on the empowerment of women is based Al-Dajani and Marlow (2013; p.506) argument that; "To this extent, empowerment excludes men who generally occupy a favoured position in patriarchal contexts".

The emergence Microfinance movement is therefore not a new phenomenon but its prominence can be traced from the rise of the Grameen Bank by a renowned Nobel laureate Dr. Muhammad Yunus who promoted it through experimenting whether poor women in Jobra, Chittagong district in Bangladesh would be able to repay money lent to them. With USD.27 lent to the women in a group, it was observed that women were able to repay back, furthering their businesses, economic opportunities and in the process building resultant social relations.

Suzy and Cheston (2002) argue that there is gender based poverty especially among women and this is particularly due to lack of access to credit and other forms of formal financial services. Khandker (2003) provides evidence that lending to women yields greater social and economic impacts compared to men. Because of that, the Grameen Bank (GB) has helped to uplift the social position of women through micro financing socially. After all, "….The GB helps poor, rural women to become involved in an income-generating program to overcome their poverty, with the assumption that economic determination reduces abuse and violence to women and reduces the unequal relationship between men and women in the family" Rouf (2012; p. 288).

From a local context, since 1994 Microfinance in Uganda has demonstrated substantial growth in terms of outreach, specialisation and recognition serving over a million people in both urban and rural areas particularly the economically active poor with 70% of these being women. While literature (see Coleman, 1988; Zeller and Sharma, 1998) indicates that microfinance has a role to play in fostering socio-economic transformation through increased income and physical asset accumulation, some studies show that microfinance has a negative impact on women (Goet and Gupta, 1994; Buckley, 199). From an economic perspective, females have been excluded from the mainstream economic system and their activities have less and at times little economic regard (Nelson, 2005).

In the Ugandan viewpoint, poverty rates are still high compared to the regional averages. While Affandi and Astuti (2014) view the challenge of poverty to be so high within the Muslim communities, it is also seen to be higher among women in vulnerable communities in most of the developing countries (Halkias, Nwajiuba, Harkiolakis and Caracatsanis, 2011). In Uganda, a lot of effort has been deployed towards empowering women in business. Among other interventions, microfinance has taken a key role in the involvement of plans to boost women entrepreneurs. This has been manifested by some players such as Finca Uganda, Uganda Finance Trust and other microfinance support projects towards women in business.

Despite its socio-economic values, here are few studies that have been carried out to establish the effectiveness of microfinance towards entrepreneurial empowerment of women. Even those that are conducted are seldom put to public and policy consumption. Most of the studies that have focused on women and microfinance have been done in other countries such as Kenya (see Loice and Razia, 2013). It is noted that the effectiveness of microfinance depends on the nature of the economy and culture (Ashta and Fall, 2012 p.441). Thus, it may not be advisable to generalise what has been found out in other countries. This may explain why despite the efforts to alleviate poverty in most countries, it has persisted especially because of lack of a clear understanding of the specific needs of microfinance beneficiary needs. The main question in this paper is thus to examine the relationship and effect of microfinance on the entrepreneurial empowerment of women using evidence from the Central and Eastern regions of Uganda.

This paper is structured as follows. Section 2 discusses rural microfinance programs in the gender perspective and Section 3 focuses on the methodology of the study. Section 4 presents the findings of the study, Section 5 presents the discussions and lastly Section 6 draws the conclusions, implications and recommendations.

## MICROFINANCE

### The new mantra in rural finance

The rural finance policy pursued in most developing countries that began in 1950s was based on providing subsidised credit through state controlled or directed institutions to rural segments of the population. Expansion of credit coverage through state interventions was based on various theoretical assumptions. Seibel and Parhusip (1990) argue that this approach was based on the premise that rural micro-entrepreneurs especially women are; unable to organise themselves, need subsidised credit for increasing their incomes and are too poor to save. After all, the rural poor especially women not only benefit from entrepreneurial empowerment through increased participation in the socio-economic transformation of their communities but also in supplementing their husbands' earnings (Al-Dajani and Marlow, 2013).

The emergence of micro credit between late 1970s and early 1980s in the backdrop of growing world attention on deficiencies of earlier approach in rural finance explains much of its dominant theoretical underpinnings. The initial micro credit innovations in contrasting settings of

Bangladesh, Bolivia and Indonesia demonstrated the success of micro lending to the poor without collateral requirements (Amin, and Pebley, 1994). Rhyne (2001) observes that these interventions demonstrate techniques for lending to the poor with better outreach and cost recovery.

Despite the contextual differences, the unifying thread of these early innovations lay in their certain common principles like reliance on character or peer pressure rather than collateral as loan security, leveraging social capital, positive incentives for repayment and interest rates that covered cost (Hassan, 2014). These innovations acted as catalysts for replication across the globe and their underlying principles continue to form the bedrock of microfinance interventions to-date. It is claimed that this new paradigm of unsecured small scale financial service provision (micro financing) helps poor people to take seize economic opportunities, expand their incomes, smoothen their consumption requirement and reduce vulnerability (CGAP, 2003; ADB, 2004; Hassan, 2014).

Microfinance is defined in this study according to Robinson (2001) as small-scale financial services, primarily credit and savings provided to people who farm or fish or herd; who operate small enterprises or micro-enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. Hence, the provision of credit, entrepreneurship training and business advisory services.

**Gendering Microfinance**

From the 1980s, microfinance came to be seen as a window of hope by development agencies who largely trail economic development. Such zeal originates from the notion that microfinance can provide for *"killing two birds with one stone".* It can facilitate poverty reduction through improved quality of life on the one hand, and women's empowerment on the other. Accordingly, 14.2 million of the world's poorest women have access to financial services through specialised microfinance institutions (MFIs), banks, NGOs, and other non-bank financial institutions (State of the Micro credit Summit Campaign, 2001 Report). These women account for nearly 74 percent of the 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate. The vast majority of them have excellent repayment records, in spite of the daily hardships they face (ADB, 2004).

Arguments have been made for and against targeting women on the grounds of efficiency and sustainability. Proponents of targeting women on the grounds of sustainability cite women's repayment records and cooperativeness. A collective perception has emerged that women's repayment rates are typically far superior to those of men (Loice1 and Razia, 2013). This explains why many development programs have also found women to be more cooperative and prefer to work with them.

**Microfinance and women's economic empowerment**

It is believed that women in Africa have a sizeable potential for economic growth if they are supported (Halkias et al. 2011). Mayoux (2001) suggests that economic empowerment of women gives them the ability to create their own businesses and better employment opportunities for increased income. This increased income enables women to secure greater levels of decision-making power within the family units (UNCDF Report, 2002). Furthermore, increasing women's income also increases overall household income, allowing families to consume items and purchase services that they previously would not have been able to afford.

Economic empowerment concerns the expansion of access to productive assets, including physical and financial opportunities to pursue economic gains. Although this component of empowerment necessarily involves the distribution of capital and income generating opportunities, economic empowerment also entails ensuring that the market and relative prices can enhance the economic agency of citizens (Rhyne, 2001). The basic theory is that microfinance empowers women by putting capital in their hands and allowing them to earn an independent income and contribute financially to their households and communities. This economic empowerment is expected to generate increased self-esteem, respect and other forms of empowerment for women beneficiaries. Involvement in successful income-generating activities should translate into greater control and empowerment (Marlow, 2013).

Mayoux (2002) observes that literature and discourse of many international organisations promoting microfinance report tremendous growth in the industry and further argue that microfinance has been able to reach large numbers of women borrowers, contribute to global development and poverty alleviation strategies and promote women's empowerment across the globe. In "Microfinance and the Empowerment of Women," Mayoux (2001) identifies

three distinct models outlining why women are frequently targeted for microfinance initiatives; financial self-sustainability, poverty alleviation and the feminist empowerment.

In Financial self-sustainability, organizations work to increase financial and lending services to poor people particularly women with the goal of creating overall market growth. Women are considered to be ideal targets because of their proven high loan repayment rates compared to men. Ultimately, the goal of micro-financing is to ensure that women have the same access to opportunities as men, since economic empowerment provides the necessary access to resources to enable individuals make their own decisions and become self-reliant (Affandi and Astuti, 2014). The Financial Self- sustainability Model assumes that providing women with access to small loans will increase their economic empowerment.

For poverty alleviation, organisations promote microfinance as a means of alleviating poverty and fostering community development. The poverty alleviation model targets women because of their characteristically high levels of poverty and responsibility for maintaining and running the family unit (Loice1 and Razia, 2013; Al-Dajani and Marlow, 2013). Thus, entrepreneurial empowerment of women is viewed as a means of increasing well-being, social participation and poverty emancipation (Amin and Pebley, 1994; Loice1 and Razia, 2013).

In social terms, the Feminist Empowerment model promotes economic, social and political empowerment among women. Women are the primary target for this model among organisations that seek to create gender equality and promote human rights for women. This model considers empowerment to be the transformation of power relations throughout the society. The Feminist Empowerment Model assumes that the empowerment of women is the result of overall changes in the structure of society at the macro level as well as a redefinition of gender roles at the micro level.

## METHODOLOGY

This study adopted an exploratory cross sectional research design. This design was adopted due to scarcity of data regarding the study variables. The study also adopted a quantitative approach to enable generalisation of the findings.

Women operating an economic activity were selected and constituted of beneficiaries of FINCA (Foundation for International Community Assistance) and Uganda Women's Finance Trust (UWFT); microfinance institutions with an international repute targeting women as primary beneficiaries. A sample of 150 women was purposively selected in the Central and Eastern regions.

Reliability of the questionnaire was tested using the cronbach's alpha ($\alpha$) coefficients. The measurement of study variables was based on a five point likert scale as used by Schreiner (2001) and Bullen and Onyx (1998). Measurement of economic empowerment considered views of Malhotra and Schueler (2002).

Data was analysed multiple regression and correlations to establish relationship between the variables and to establish the influence of microfinance on women's entrepreneurial empowerment.

## FINDINGS

Majority of the respondents were between the age of 26-40 (55.6%) and the lowest was 56 and above (6.7%). 33.3% of the respondents had attained Secondary level education. On the other hand, 4.4% had not attained any formal education. 47.8% were married while the least category of respondents 11.1% had divorced. 47.8% were engaged in trading while 2.2% were engaged in forestry and service businesses.

Concerning duration in business operation, majority of the respondents (32.2%) had operated for a period of between 1-3 years and 3-6 years while the minority (8.9%) had operated for less than a year. 39.8% operated with family members as staff while 29.5% operated with hired staff. Cross tabulations revealed that most of the respondents (14.6%) had been in business for 1-3 years and had attained university education. 1.1% had been in business for 3-6 years and had not attained any education. Only 7.9% of the respondents had been in business for over 6 years and had attained secondary level education.

Nature of Microfinance services was analysed using factor analysis. It was observed that credit availability, business assistance, training and mentoring accounted for about 67 percent variation in explaining the role of microfinance services towards women's entrepreneurial empowerment. The components with the highest loadings were Credit Availability (27 percent) and Business Assistance (16 percent) explaining up to about 43 percent of Microfinance Services. Other components explained were training (9 percent) and mentoring (8 percent).

### Correlation analysis

Pearson's correlation was used to establish the direction and strength of relationships between microfinance support programs, social capital and microenterprise performance.

Table: Correlations

| | Credit | Training and Mentoring | Networking | Trust and reciprocity | Entrepreneurial Empowerment |
|---|---|---|---|---|---|
| Credit | 1.000 | | | | |
| Training and Mentoring | .641** | 1.000 | | | |
| Networking | .534** | .428* | 1.000 | | |
| Trust and reciprocity | .608** | .675* | .636** | 1.000 | |
| Entrepreneurial Empowerment | .583** | .485** | .490** | .596** | 1.000 |

**Correlation is significant at 0.01 level (2-tailed). *Correlation is significant at 0.05 level (2-tailed).

There was a significant correlation between the Micro-finance credit and entrepreneurial empowerment ($r = 0.583$, $p < 0.01$). This implies that when women access credit, they become more motivated to start businesses and those who already have feel they can even grow more. A significant relationship between social capital and women's entrepreneurial empowerment ($r = 0.568^{**}$, $p < 0.01$) was also observed. This implies that through social interaction, there are opportunities of peer learning through sharing experiences and inspiration. A detailed analysis of sub components of social capital showed that bridging (networking) and bonding (Trust and Reciprocity) have significant positive relationships with Entrepreneurial empowerment ($r = 0.490^{**}$, $p < 0.01$) and ($r= 0.596^{**}$, $p < 0.01$) respectively.

## DISCUSSIONS

Most of the beneficiaries and the economically active poor involved in the Microfinance services stressed the need for capital to be able to operate their businesses. Indeed, through group lending, beneficiaries of the support programmes highlighted that microfinance services enabled them to acquire some key ingredients that include; access to credit (small loans), increased credit assistance even when outstanding loan amounts are not paid, ability to split or partially pay off loans and ability to reschedule loan. This is consistent with the findings of Drury, Walsh and Strong (1994), Murdoch (2000), Affandi and Astuti (2014) who observed that micro loans are an important factor in business startups and that group lending is important because beneficiaries are able to rely on each other in repayment of the loans.

When members are able to offset the loan amounts and keep a clean record, they can be able to obtain more loans or credit assistance. Group lending has therefore been widely accepted by most economically active poor and has been viewed as a good poverty eradication strategy through bringing people together and being able to monitor projects.

For technical assistance in form of training and mentoring, majority of microfinance programs were credit-led with little emphasis on training hence the poor performance of some micro enterprises. As observed by Yawe (2002), majority of small business entrepreneurs in Uganda have complained about lack of training as an obstacle to performance of their businesses. Without substantive training and technical development, it becomes hard for women to utilise credit wisely. They thus need receive practical skills such as marketing, business planning, human resources management, use of basic ICT in small business and other specific skills. This form of empowerment is key because it is upon such technical skills that they can make sound financial decisions. Servon (1999) supports the idea of training as part of microfinancing because it contributes indirectly to economic development through providing economic literacy skills, which improves the human capital of the community. As reflected from the rotated factor matrix table, the training programs were designed to suit the needs of women entrepreneurs and were aimed at providing relevant skills. This is consistent with findings by Schreiner (2004) who observed that training was important as it enabled small business entrepreneurs with obtaining adequate business skills in accounting and management.

**Microfinance services and social capital**

A significant positive relationship between Microfinance services and social capital implies that these services have an impact in stimulating social capital. Microfinance services are aimed at enabling the economically active poor to be able to undertake productive activities through start-up of small businesses and there has been the perception that that having a combination of factors like; group lending mechanism, training and mentoring should contribute to evolvement of trust, reciprocity and networking amongst beneficiaries of the microenterprise support programs. The findings are in congruence with Akudugu, Egyir and Mensah-Bonsu (2009, p.290) who found that in a group lending setup, members of the group jointly guarantee each other. The social capital in a group setting also helps to emphasise accountability and collective responsibility which keeps the groups bonded together and subsequently minimise defaults (Estape´-Dubreuil and Torreguitart-Mirada, 2010).

Though it was observed that Microfinance services have an impact in stimulating social capital, the strength of association is weak. This is attributable to the fact that Microfinancing in Uganda is a relatively new phenomenon. The microfinance movement only gained prominence in Uganda during middle 1990s hence making it difficult to have the evolvement of social capital in the borrowing groups within a short period. This is consistent with the argument put forward by Putnam (1993) that the length of operation of Micro-enterprise movement in a nation or society could have an effect on the emergence of social capital within a society.

Results further show that microfinance services have a significant positive relationship with bridging social capital and bonding social capital. Though the Microfinance industry in Uganda is still in its infant stage, De-Weerdt (2002) contends that the poor are more susceptible to shocks because their networks are not as dense as those of the rich. Servon (1997) opines that Microfinance services foster the bridging social capital (networks) in communities that are disconnected. These networks represent relationships within communities. For microfinance to succeed in building social capital, there is need to nurture these relationships over time. Putnam (2000) highlighted that bridging social capital creates connectedness across diverse social groups while bonding social capital cemented relationship amongst homogeneous groups. This further explains the existence of a relationship between the Microfinance services and social capital as the groups formed are mainly of heterogeneous groups.

 

The presence of a significant association between performance of the Micro enterprises and bridging social capital (networking) can be attributed to members under group lending methodology having the willingness to share information about markets and new business opportunities thus being able to make profits and increase their net worth.

## CONCLUSIONS & RECOMMENDATIONS

Mentoring is an important feature within the microfinance service dimensions and it enables beneficiaries to access skills and share opportunities with others. This can be through networking and meetings held among borrowing groups. This accounts for the increased social bondage among the women who borrow from microfinance institutions. In a policy perspective, there is need to emphasise group lending and devise strategies to harness trust, networking and reciprocity among the group members.

Considering services received by women from the MFIs, there is need to support sensitisation and technical skills such as marketing and financial literacy in order to enable women entrepreneurs put the borrowed finances to good use. This can be done by sharing experiences and use of testimonies by successful women so as to inspire and motivate the beginners and the disgruntled to persist in business in anticipation for success.

Most of the beneficiaries and the economically active poor involved in the Microfinance services stressed the need for capital to be able to operate their businesses. Indeed, through group lending, beneficiaries of the support programs highlighted that the programs enabled them to acquire some of key ingredients such as access credit and ability to reschedule loan repayments. The role of government is highly required in harnessing the role of microfinance support programmes towards entrepreneurial empowerment of women. This raises a need to review the operations of the Uganda Microfinance Support Centre. The centre needs to improve the way MFIs are supported especially in terms of financial supplements on a timely basis.

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