

## **Constraints of Rural Women to Utilize Microfinance Institutions: the case of Members of Microfinance Institutions in Rural Districts of Dire Dawa Administration, Ethiopia**

Dereje Kifle \*, Yenenesh Tadesse , Jemal Yousuf

Department of Rural development and Agricultural Extension, Haramaya University, Ethiopia

\* E-mail of the corresponding author: [d\\_kifle@yahoo.com](mailto:d_kifle@yahoo.com)

### **Abstract**

In countries like Ethiopia where the per capita income is 370 USD (which is below regional average of USD 1,257) and more than 30% of the people live under poverty, the significance of microfinance institutions is unquestionable. It becomes more important when it has been given to rural women who do not have access to various resources. In spite of the contribution of microfinance institutions to members, there have been also constraints that challenged them from effective utilization of the services given by these institutions. Thus, the study was conducted in order to find out the major constraints that members faced to utilize the services of microfinance institutions in rural part of Dire Dawa Administrative Region, Ethiopia. Two districts (Halo Busa and Hula Hulul) were selected randomly. From these districts, 48 members of microfinance institutions were chosen purposefully. Focus group discussion and interview schedule were employed to collect the data. The data were analyzed qualitatively. The result of study showed that insufficient loan amount, lack of training and follow up, unavailability of nearby market, high cost of inputs and animal diseases were the major constraints of members. Thus, the study concluded that the microfinance institutions have to pay attention to the loan size that it should be sufficient to run a business sustainably. Training should also be properly given and clients have to be followed so that they can engage in businesses that they can run easily and make profit out of them.

**Key words:** Rural women, Microfinance institutions, Dire Dawa, Constraint

### **1. Introduction**

Ethiopia is one of the least developed countries. The per capita income of the country, though it showed improvement in recent years, is USD 370 which is lower than the regional average of US\$1,257 (World Bank 2013). The study conducted by Ministry of Finance and Economic Development of Ethiopia (2012) shows that the proportion of poor people (poverty head count index) in the country is estimated to be 29.6% in 2010/11. The proportion of the population below the poverty line stood at 30.4% in rural areas, according to the study. The poverty that prevails in the country has been caused due to various reasons. Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business (Jean-Luc 2006). The government of Ethiopia has been taking various measures to alleviate poverty in which expanding microfinance institutions is among them. It is indicated that although the development of microfinance institutions in Ethiopia started very recently, the industry has shown a remarkable growth in terms of outreach particularly in number of clients (Wolday 2007).

Among the poor the focus of microfinance institutions in the developing countries has been mainly women. There are good reasons to target women. The World Bank (2001) reports that societies that discriminate on the basis of gender have greater poverty, slower economic growth, weaker governance and lower standard of living. It has also been indicated that gender inequalities in developing societies inhibit economic growth and development (Cheston and Kuhn 2002). Moreover, they stated that as women spend much of their income on their household, when women are supported to increase their incomes, the welfare of the whole family is improved.

Women in Ethiopia had not been exposed to the economic opportunities that would enable them practice alternative income-generating activities. But recently, many scholars, policy-makers and development planners have started advocating the important role of the emerging new phenomenon, microfinance program, for the advantage of poor Ethiopian women. Microfinance institutions in the country are formed with major objectives of poverty alleviation and women empowerment to mention few (Haimanot, 2007)

In spite of the benefits that women especially those who live in rural areas got, there have been constraints that hindered them to effectively utilize the services offered by the microfinance institutions. Thus, the objective of this study was to investigate the various constraints that members of microfinance institutions had faced in order to perform their businesses effectively.

## 2. Literature Review

Various studies indicated that lack of financial resources is the major impediment in extricating the rural poor from poverty. It is strongly believed that the availability of loan help the rural poor people in entering a new income generating venture to the betterment of their socioeconomic status. In line with this premises microfinance institutions are enjoying widespread acceptance as an antipoverty strategy in general and women empowerment in particular.

The origin of microfinance lies in the numerous traditional and informal systems of credit that have existed in developing economies. Many of the current micro finance practices derive from community-based mutual credit transactions that were based on trust, peer-based non collateral borrowing and repayment. Microfinance institutions are defined as institutions in which the major task is the provision of microfinance services (Oyunjargal and Nyamaa, 2002). It is the provision of a broad range of financial services such as deposits (savings), loans, payment services, money transfers and insurance to poor and low-income households and their micro enterprises (Putzeys, 2002).

Up until the early 1990s, the sources of finance for rural and urban poor and micro and small enterprise operators in Ethiopia were confined only to informal sources of finance like moneylenders, friends and relatives (Itana et al 2004). It was further noted that, starting in the mid-1990s, following the drought of 1984/85, some Non-Government Organizations (NGOs) introduced the idea of saving and credit among poor people as a strategy for rehabilitation and development. Later on, special government programs operated mainly in collaboration with international financial institutions came into the picture. However, both types of programs were operated in a scattered manner and lacked sustainability until 1996.

The origin of microfinance institutions in Ethiopia was largely rooted in the NGO with a clearly defined mission of rural poverty eradication (Pitt, & Khandker, 2003). Since the takeover of the present government in 1991, considerable attempt has been made to liberalize the financial sector. To this effect, Proclamation No. 84/94 was issued, which allows private domestic investors to participate in banking and insurance activities, which were previously monopolized by the government. However, the issuance of this proclamation alone did not totally solve the financial problem of the economically active poor people in rural and urban areas (Seifu 2002). Another Proclamation, No. 40/96 was issued to solve the problem of the delivery of financial services to the poor. Following the issuance of this proclamation the microfinance industry of Ethiopia showed a remarkable growth in terms of outreach and sustainability.

A study conducted on the Dedebit Credit and Saving Institution (DECS) in Ethiopia indicated that microfinance program has had a positive impact on the livelihoods of its clients. Their situation has improved in terms of income, consumption and assets. They also seem to be more food secure and less vulnerable to shocks and have a greater diversification in terms of income sources.

Though microfinance institutions have been playing a key role in poverty eradication and women empowerment, there have been constraints that hindered them to fully satisfy the need of their clients. It is indicated that, 'Although microfinance has the ability to empower women, the connection is not straightforward or easy to make' (Kulkarni 2011).

## 3. Methodology

The study was conducted in two rural districts of Dire Dawa Administration. Two microfinance institutions (Halo Busa and Hula Hulul) one from each district were selected randomly for the study. Forty eight members (women) were selected purposefully based on their active engagement in their activities. Focus group discussion and interview schedule were employed to gather information from the members. The members were divided in to six groups in which each group comprised of eight members for the focus group discussion. As the data of the study was qualitative, the collected data was coded so that various themes were emerged. Thus, generalizations were made by interpreting those various themes from the point of view of the members of microfinance institutions. Available literatures were also consulted to analyze the data. In order to show the real feelings of the informants, direct statements of them were also taken.

## 4. Result and Discussion

### Constraints of Members to Utilize Microfinance Institutions

The contribution of credit and saving services offered by microfinance institution to the economic empowerment of rural women is an undeniable fact. Despite this fact, members of microfinance institutions were facing various challenges. The major constraints that came out of the focus group discussion and interview of members of microfinance institutions in rural districts of Dire Dawa Administration are discussed below.

#### Insufficient loan amount (loan size)

The amount of loan that had been given to members was not sufficient enough to engage in business that could help to change ones livelihood, according to the information obtained from the focus group discussion with

members of the microfinance institution. In spite of the fact that the loan brought some changes, for most of them the amount of loan was not enough. It is clear that in order to bring sustainable change the rural women should be engaged in an activity that have impact in their lives. Thus, the amount of money they got from the microfinance institutions therefore matter.

The insufficiency of the loan was repeatedly mentioned in the focus group discussions held with members. A 37 year old woman indicated that, 'The amount of loan we got from the institution was so small that we could buy one or two goats'. Among the discussants another woman also said that 'The amount of loan is not compatible with the current market'. Muleta (2008) came across such problem in the study conducted in Arsi zone of Ethiopia that small loan size limited engagement of members in business activities. This situations also went with the study conducted in Ghana by Asamoah in which majority of women who took part in microfinance recommended that the size of the loan should be increased so that they could expand their business well. Thus, the impact of microcredit could be seen.

The discussants in all group discussions held were using various expressions to indicate the loan size that was given to them. A woman, aged 41, mentioned that the amount of money should be reasonable. This indicated that the money they took from the microfinance institutions was not sufficient. There were also discussants who took the small size of the loan as an obstacle not to bring significant change in their lives. It was also stated by a member that, 'The change is not that much because the amount of loan we got was small' and in support of this another woman in the group said that since the money was small so that she did not bring significant changes.

Even though the group discussants mentioned that the small size of the loan as a problem, they did not deny the significance of the saving and credit service on their lives. A woman stated that

*I benefited because I am the member of microfinance institution. It enabled me to get money so that I did not request my husband for minor expenses. However, if the loan size was bigger, I could have been changed better.*

#### **Lack of training and follow up**

In order to effectively implement what the members of microfinance planned, training and follow up play a significant role. The informants, however, indicated that they were having two days training when they got the money, but after that nobody came to them to give any kind of support including training. There were also discussants (members) in a focus group discussion that indicated they were given training once. It was stated that 'They [officials of microfinance institutions] gave us training once at the beginning, after that nobody appeared to see what we have done'. In support of this other participant in a discussion said that, 'At the beginning we were promised to get continuous training and support, but nothing was done'. Studies also showed that paying less attention to training was taken as one of the drawbacks of microfinance institutions. Jaffari et al indicated that low attention given to client's skill development as a weakness of microfinance institutions (2011).

Lack of follow up was also among the reasons that became obstacle to the performance of members of microfinance institutions. The members in group discussion shared the same idea that at the beginning of their project, they [those in charge of giving the loan] started following them but immediately stopped it. The discussants argued that it was one of the limitations that led them not to be effective as expected. A woman who was member of MFI stated that, 'There is nobody that followed us to see the improvements we made or the problems we faced'. In support of this the other discussant also said that, 'Let alone giving support, they did not ask us how we used the money'.

A 35 year old woman who was a member explaining the situation as,

*Giving loan does not have any meaning unless they follow, encourage and support us when we need. This situation makes us feel that the money is simply given as a gift.*

The lack of follow up of microfinance institutions were also manifested in a way that debts were not collected from members regularly and they did not have enforcing mechanisms of collecting the money lent. There were discussants who said that they were never requested to repay the debt so that they spent the money they prepared for other purposes.

'My life has been changed for better. However, I am not happy because I wanted to repay my debt and take more but nobody requested me to repay' as mentioned by a woman from a microfinance institution in the study area. A participant in a focus group discussion also indicated that she did not pay because she felt that as there was no interest so that it did not matter whether she paid it or not, but she was paying the saving money. Most informants mentioned that they were not requested to settle their debt, but nevertheless some members had already repaid their debts. This showed that the microfinance institutions in the study area did not have organized schedule to collect the debt from the clients. Moreover, from the information collected it could be concluded that as continuous training was not given to clients so that they were constrained to effectively run their business.

### **Unavailability of nearby market**

Access to market is an important aspect for those who are engaged in businesses so that they can sell what they produce and make profit out of it. If rural women get market easily, they are not exploited by brokers and they could benefit more. This situation does not always exist especially in rural areas. Access to market has been blocked because of poor infrastructure and during rainy season rural markets are inaccessible (Getaneh, 2007). This argument holds true in rural areas of Dire Dawa especially those far from the city.

As the rural women in the study area were engaged in businesses such as goat rearing and fattening, they need market. However, unavailability of market in their village hindered the women's desire to increase their income which is among the dimensions of empowerment. It was indicated by a woman that, 'The market is far from us to sell what we produce even sometimes if we did not sell, we took back which is tiresome and other times we sell in a small price'. The other constraint, as mentioned in a focus group discussion was, being unaware of the time when the rural women take their products to market.

### **High cost of inputs and animal diseases**

In societies where their livelihood depends on agriculture, inputs play an important role. In the study area, most of the microfinance clients had been engaged in activities they had good knowledge of. The data collected from members indicated that most of them used the money in activities related to agriculture mainly rearing and fattening of livestock. In order to fatten, fodder is an important input. It is however, based on the information obtained in the focus group discussion, scarcity of fodder especially in dry seasons was a challenge. An informant indicated that, 'When there is no rainfall, there is scarcity of fodder so that the price of it goes up. Since we could not afford to buy the fodder we are enforced to sell in low prices'.

The other problem was sickness and death of livestock that the clients were rearing or fattening. A member when she was asked why she did not pay her debt she responded that, 'I could not pay because the ox I was fattening was sick that I could not sale and earn money'. Sometimes the animals (goats or oxen) bought for fattening died and this created a great problem among the women in order to pay the debt and continue their business.

## **5. Conclusion**

Microfinance institutions mainly give services to those who are very poor especially women. This is because it has been a means that poor people have in their own businesses so that their livelihood can be improved. There were microfinance institutions that were working in rural districts of Dire Dawa Administration. The study conducted in these areas identified that microfinance members have been changed for better. It was, however, there were constraints that became a bottle neck that challenged them not to utilize the services effectively. Insufficient loan amount, lack of training and follow up, unavailability of nearby market and high cost of inputs and animal diseases were the major constraints of members. Thus, the study concluded that the microfinance institutions have to consider the loan size, training and follow up. The microfinance institutions have also to look for ways that the members could get market for what they produce and have to schedule programs on the time that debts are collected and the clients should be aware of it.

### **Acknowledgements**

We would like to thank Haramaya University, Office of Vice President for Research Affairs for funding this study and paying the publication fee.

### **References**

- Asamoah M. *Empowering Women Economically through Microcredit- Prospect and Challenges: the case of Some Selected Credit Schemes in the eastern region of Ghana*  
<http://www.cepa.org.gh/researchpapers/Empowering72.pdf>
- Cheston, S. and L. Kuhn, (2002). *Empowering Women through Microfinance*.  
<http://www.ifad.org/operations/projects/regions/pi/paper/13.pdf>
- Getaneh, G. (2007). *Successes in Expanding Microfinance Opportunities in Rural Ethiopia – Where There is Little Entrepreneurship?* Paper submitted for the International Finance Corporation & Financial Times
- Haimanot E, (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*.
- Itana A., Tsheay T., Eshetu E. and Wolday A. (2004) *Governance and Ownership Structure of Microfinance Institutions in Ethiopia*. *Microfinance development Review*, 3(2).
- Jaffari, S, S. Saleem, Z. Abideen, M. M. Kaleem, N. Malik and M. Raza (2011). *An Examination of Challenges and Prospects of Microfinance Sector of Pakistan*, *European Journal of Economics, Finance and Administrative Sciences Issue 31* (2011)

- Jean-Luc C. (2006). *Micro and Small Enterprises and Micro finance in Africa, the support to dynamic enterprises: an effective weapon for poverty alleviation*. in Birritu No. 95, quarterly bulletin of National Bank of Ethiopia, Nov.2005-Jun. 2006.
- Kulkarni, V. S. (2011). *Challenges to empowerment through microfinance: An Asian perspective Study*, International Fund for Agricultural Development (IFAD)
- Ministry of Finance and Economic Development (2012). *Ethiopia's Progress Towards Eradicating Poverty: An Interim Report on Poverty Analysis Study (2010/11)*, Addis Ababa
- Muleta S. (2008). *The Implication of Microfinance on Empowering Women and sustainable livelihood: a case Study at Oromia Credit and saving share Company in Hitosa Woreda, Arsi Zone*, MA Thesis, Addis Ababa University, Addis Ababa
- Oyunjargal, T. and Nyamaa T. (2002). *Sub-Sector Review of Micro-finance in Mongolia*. United Nations Capital Development Fund (UNCDF)
- Pitt, M. and Khandker S. (2003). *Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh*: International Economic Review, Vol. 44, No. 1
- Putzeys, R., (2002). *Micro Finance in Vietnam: Three Case Studies*, Belgian Technical Cooperation, Hanoi
- Seifu A. (2002). *The Demand for Micro Credit Services in the Afar National Regional State. The Case of Gewane Woreda*. MSC. Thesis,, Addis Ababa University
- Wolday Amha (2007). *Managing Growth of Microfinance Institutions (MFIs): Balancing Sustainability and Reaching Large Number of Clients in Ethiopia*. Occasional Paper No. 18.
- World Bank (2001). *Engendering Development: Through Gender Equality in Rights, Resources, and Voice—Summary* Washington, D.C [www.worldbank.org/gender/prr/engendersummary.pdf](http://www.worldbank.org/gender/prr/engendersummary.pdf)
- World Bank (2013). *Ethiopia Overview* <http://www.worldbank.org/en/country/ethiopia/overview>

This academic article was published by The International Institute for Science, Technology and Education (IISTE). The IISTE is a pioneer in the Open Access Publishing service based in the U.S. and Europe. The aim of the institute is Accelerating Global Knowledge Sharing.

More information about the publisher can be found in the IISTE's homepage:

<http://www.iiste.org>

## CALL FOR PAPERS

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. There's no deadline for submission. **Prospective authors of IISTE journals can find the submission instruction on the following page:** <http://www.iiste.org/Journals/>

The IISTE editorial team promises to review and publish all the qualified submissions in a **fast** manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request of readers and authors.

### IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

