Microfinance and Women’s Empowerment

The Impact of Loan Ownership on Women’s Empowerment in Microfinance Households in Sri Lanka

Ramani Gunatilaka
Dulan de Silva

Dec 2010
Background

• Jury is still out on whether there is mission drift in microfinance.
• Men certainly stand to gain more from the commercialization process: bigger enterprises, more potential to expand, offer higher returns.
• Goals such as poverty reduction and women’s empowerment may cease to be tenable.
• Investigating the impact of microfinance on women’s empowerment can inform the policy debate on microfinance practice and gender equality.
• This is the study’s aim.
Outline

1. Objectives
2. Data
3. Methodology and variables
4. Results
5. Conclusions and policy recommendations
Objectives

• Focus attention on the social benefits - in terms of their empowerment - of women owning microfinance loans.

• Inform the discussion about whether it is justifiable to provide some subsidy for microfinance programmes that aim to enhance women’s access to credit.

• Construct a loan-assisted project control index and an empowerment index appropriate to the Sri Lankan context.

• Evaluate the association of the project control index with the empowerment index, and assesses the impact of women’s ownership of the loan on both.
Data

- Random survey of 600 households in Kurunegala district which had borrowed enterprise loans not exceeding Rs. 250,000 from SEEDS or Agro Microfinance in 2007.
- Survey was carried out between May and July of 2009.
- Structured questionnaire administered to the principal female member of the household of each borrower.
- Sample included three types of households:
  (a) households where males borrow the loans and own and manage the business;
  (b) households where females borrow the loans and own and manage the business; and,
  (c) households where females borrow the loans but males own and manage the business.
Methodology and Variables

Two dependent variables

1. Loan-assisted project control index
   - Hunt and Kasynathan’s (2002) framework:
     (a) who controls decision-making regarding use of credit?
     (b) who manages enterprises supported by credit?
     (c) whose paid or unpaid labour is used?
     (d) who controls the purchasing of inputs for the enterprises and marketing of products?; and,
     (e) who keeps, makes decisions about, and uses, any income generated?
     We added a sixth, (f) who makes decisions about the future of the business?
   - Constructed a system of scores for each of the six components based on the answers to a series of questions.
   - Introduced weights to reflect the relative importance of these components given the objectives of the study.
2. **Empowerment Index**

- Inspired by Hashemi et al. (1996).
- Composite index based on following components:
  (a) economic power based on the share of household income and expenditure that the principal female respondent has control over;
  (b) economic security in terms of ownership of, and ability to dispose of, assets;
  (c) mobility;
  (d) involvement in major economic decisions of the household;
  (e) involvement in major family decisions of the household;
  (f) relative freedom from domination within the family; and,
  (g) access to information and membership of organizations.
- These were constructed as scale variables with different weights.
- Composite empowerment index was defined as a continuous variable for the purpose of this study.
Explanatory variables

Seven categories of explanatory variables:

1. Demographic - age
2. Education and training-related – schooling, occupation, training in farming, non-farming
3. Employment-related – industrial sector, job status
4. Respondent's natal family – parents' education, occupation, whether migrant
5. Household characteristics – per capita household income, household composition (age sex), whether mother, mother-in-law lives with respondent, sector, connectivity, infrastructure.
6. Respondent's husband – education gap, training, occupation, parents’ education, occupation
7. Loan-assisted project – whether respondent’s main occupation, husband’s main occupation, years of experience at project occupation, number of loans, whether respondent is the loanee.
Limitations

• Coefficients of the project control and empowerment functions represent associations and not necessarily causal relationships.

• Coefficients can reflect influence of unobserved variables on both the dependent (project control index, empowerment index) and the independent variable (loan ownership, demographic factors, etc), or reverse causation.

• Where the interpretation of the results is important to our story, as in the case of loan ownership, we attempt to isolate the effect of exogenous variation of the independent variable by means of instrumenting.
Sample overview

- Of the total sample of 600 project loans investigated, 74 per cent had been taken by women, and only a fourth by men.
- Of the total number of projects, 70 per cent was ongoing.
- Of the failed projects a little more than two thirds had been financed through loans taken by women.
- A little less than two thirds of the women who have taken loans and whose loan-projects are ongoing, manage the projects themselves (Bangladesh 37%).
- Women take loans to finance their husband’s businesses because they look on the business with a sense of ownership as being family-owned, or else because the husband’s business required the capital.
## Average Scores on Components of Project Control

<table>
<thead>
<tr>
<th>Respondent’s relationship with loanee</th>
<th>Decision-making about use of credit</th>
<th>Managing project</th>
<th>Providing labour</th>
<th>Control of purchases, marketing</th>
<th>Retaining income and making decisions about project income</th>
<th>Decision-making about future of business</th>
<th>Average composite score</th>
<th>Total (number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herself</td>
<td>2.34</td>
<td>3.71</td>
<td>2.36</td>
<td>2.26</td>
<td>4.12</td>
<td>3.13</td>
<td>17.91</td>
<td>312</td>
</tr>
<tr>
<td>His wife</td>
<td>0.77</td>
<td>0.75</td>
<td>1.46</td>
<td>0.55</td>
<td>1.50</td>
<td>0.90</td>
<td>5.93</td>
<td>80</td>
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<tr>
<td>Average (weighted score)</td>
<td>1.93</td>
<td>2.97</td>
<td>2.11</td>
<td>1.82</td>
<td>3.45</td>
<td>2.55</td>
<td>14.84</td>
<td>419</td>
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<tr>
<td>Maximum (weighted score)</td>
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<td>6.00</td>
<td>3.00</td>
<td>4.00</td>
<td>6.00</td>
<td>5.00</td>
<td>27.00</td>
<td></td>
</tr>
</tbody>
</table>
# Average Scores on Components of Empowerment

<table>
<thead>
<tr>
<th>Respondent’s relationship with loanee</th>
<th>Economic power</th>
<th>Economic security</th>
<th>Mobility</th>
<th>Involvement in major economic decisions</th>
<th>Involvement in major family decisions</th>
<th>Freedom from domination</th>
<th>Social empowerment</th>
<th>Average composite score</th>
<th>Total (number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herself</td>
<td>5.36</td>
<td>6.23</td>
<td>9.97</td>
<td>8.29</td>
<td>8.74</td>
<td>7.63</td>
<td>8.56</td>
<td>54.77</td>
<td>441</td>
</tr>
<tr>
<td>His wife</td>
<td>3.28</td>
<td>5.35</td>
<td>9.77</td>
<td>7.01</td>
<td>7.85</td>
<td>7.49</td>
<td>7.57</td>
<td>48.32</td>
<td>112</td>
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<tr>
<td>Average (weighted) score</td>
<td>4.78</td>
<td>5.94</td>
<td>9.91</td>
<td>7.92</td>
<td>8.49</td>
<td>7.64</td>
<td>8.30</td>
<td>54.11</td>
<td></td>
</tr>
<tr>
<td>Maximum (weighted) score</td>
<td>20.00</td>
<td>20.00</td>
<td>10.00</td>
<td>15.00</td>
<td>15.00</td>
<td>10.00</td>
<td>10.00</td>
<td>100.00</td>
<td>600</td>
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</table>
Loan Ownership and Project Control

Loan ownership by respondent associated with a higher level of control over the project (by four points).

Loan ownership was positively and significantly associated with,

- her ability to take decisions about the use of credit,
- her management of the project,
- her control of purchases of inputs and marketing of final products,
- her ability to retain income
- Her ability to make decisions about project income, and
- her ability to contribute to making decisions about the future of the business.
Other factors associated with a higher level of project control (although the magnitude less than that of ownership of the loan) were:

• her natal family’s experience in farming
• her occupation skill level
• employment in the manufacturing or services sectors as opposed to agriculture
• her husband being trained in farming,
• her mother-in-law’s years of education,
• the importance of the project in terms of occupation for the respondent, and
• her years of experience in the project occupation
Factors associated with a lower level of respondent’s control over the project:

• graduate-level education probably working against her self-employment;
• her father’s occupation skill level, presumably signifying social status;
• the woman being an unpaid family worker;
• her father-in-law’s occupational skill level
• the importance of the project in terms of her husband’s occupation
• husband’s years of experience in this type of work
Loan Ownership and Empowerment

• The project control index was positively and significantly associated with greater levels of economic power and respondent’s involvement in major family decisions.
• This result held even when adjusted for the possibility of endogeneity – that is, the level of empowerment influencing the project control index.
• A woman’s ownership of the loan appeared to be significantly and positively associated with higher levels of empowerment through its effect on the project control index.
Other factors associated with higher levels of empowerment:

• education levels – higher educational attainment associated with greater empowerment;

• father’s occupation skill level, perhaps proxying social status;

• employment in the services sector;

• the respondent’s mother living with her; and,

• the number of loans taken from the microfinance organization
Factors associated with lower levels of empowerment:

- migrant status, presumably through the impact on social networks;
- employment as an unpaid family worker;
- the presence in the household of working age females;
- distance in terms of time from the nearest market signaling lack of physical accessibility and connectivity.
- access to a telephone - more external demands can be made on the woman’s time?
- rural residence – appears to work against the respondent’s economic power and involvement in making major economic decisions; its association with the empowerment index was not significant.
- The more educated the respondent’s parents-in-law were, and the more skilled in terms of occupation her mother-in-law was, the less involved the respondent appeared to be in taking major economic and family decisions.
Conclusions and policy directions

- There appear to be important social benefits that access to credit offers female borrowers of microfinance organizations.
- Policy makers should focus attention on women’s empowerment as a part of the social mission of microfinance.
- Design of the research and limitations of data means associations rather than causality between the dependent variables and explanatory variables were established.
- But study provides some interesting avenues for investigation using more sophisticated, state-of-the-art econometric methods.
The End