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A review of microfinance and women empowerment in Ethiopia

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Abstract

Microfinance has a positive impact on the living standard of the poor people in particular and alleviates poverty in their households in general. It is not only undermining poverty in the city but also empowering women through surviving and making their life prosperous with dignity and self-reliance by providing financial services. This study aims to provide information for a better understanding of the constraints of women to access microfinance institutions (MFIs) in Ethiopia and establishes a knowledge base that helps to make a sound decision by providing information for policymakers and identifying research gaps, MFIs, and other lending institutions, and stakeholders. The study uses the literature review methods. From the findings of the study, Ethiopian Microfinance is facing different challenges in empowerment such as lack of collateral assets, lack of information, work burden, production failures, verbal abuse, lack of infrastructure and low institutional capacity.

Keywords: Collateral, empowering women, microfinance, poverty eradication;

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1. Introduction

Microfinance was first established in Ethiopia in the late 1980s, with a range of NGO and government micro-credit programmes. However, these were not seen as well-organised or capable of operating on a continuous and sustainable basis (Wolday, 2012). Major criticism included the heavily subsidised nature of many NGO programmes, with low interest rates for credit, high rates of default and a lack of saving products. In response, the government introduced legislation regarding the licensing and supervision of banking businesses (Proclamation No. 84/1994, which allowed the establishment of private financial institutions, thus breaking the state monopoly in the banking sector (Gobezie, 2015). Shortly after, the first microfinance law was passed (Proclamation No. 40/1996) to protect small depositors, ensure stability and promote the efficient performance of microfinance institutions (MFIs). Moreover, it brought all MFIs into the monetary and financial system, enabling deposit-taking while placing the National Bank of Ethiopia (NBE) in charge of regulation and supervision.

Efficient financial markets are essential for economic development. They allow economic growth through resource mobilisation and investment, trade facilitation and risk diversification. Even poor people can benefit from efficient financial markets; with access to savings, credit, insurance and other financial services, they become more resilient and better able to cope with the everyday crises they face; access to financial services also translates into better nutrition, improved health, increased gender equity and a higher children schooling rate (ADB, 2019).

MFIs are found among the institutions which provide different financial services for the poor who are out of the conventional banking system, particularly in developing countries. MFIs provide financial services to poor clients, who in most cases have no access to formal financial institutions. During the last three decades, microfinance has captured the interest of both academics and policymakers. This is, among other things, due to the success of the industry (Yenkey & Hill, 2022).

Today, there are 31 MFIs registered with the NBE serving clients. The Ethiopian microfinance market is dominated by a few large MFIs, all of which are linked to regional state government ownership. The three largest institutions account for 65% of the market share in terms of borrowing clients and 74% by loan provision. These are Amhara Credit and Saving Institution (ACSI), Dedebit Credit and Saving Institution (DECSI) and Oromia (OCSSCO) Credit and Savings Institutions (Deribie et al., 2013).

According to the Federal Micro and Small Enterprise Development Agency, a total of 70,455.00 new micro- and small-scale enterprises were established in 2020/2021, employing 806,322.00 people. The total employment has grown by 23.8% compared to a year ago. The total amount of loan received from MFIs was more than Birr 1.088 billion under the review period, 9.5% higher than the last fiscal year. This shows that the role of MFIs is significant in many aspects. The loan given by MFIs for micro- and small-scale enterprises contributes to the acceleration of the development process of the country. Based on the proclamation on microfinance business, MFIs can be engaged in accepting both voluntary and compulsory savings, as well as demand and time deposits.

Ethiopia's development planning has always aimed at reducing poverty and removing inequalities in the process of development, recognising that women lag due to several socio-economic, cultural and political factors, recognising those and the like problems the current 5-year growth and transformation plan (GTP) gives due attention to women’s welfare, female education and their access to resource and empowerment (MoFED, 2010).

In turn, poverty analysis through empowerment, which has remained a silent approach, flourishes attention. Neglecting the empowerment aspect of poverty analysis, non-monetary face of the same coin, resulted from most of the rural development policies designed and implemented in many developing countries, handed down from one generation to the next, averting a concerted effort to engage individuals and communities towards eradicating poverty through active and prolific participation and the willingness to face up to the root causes of poverty.

This is often an outgrowth of historic and contemporary social divisions that cut the poor out of opportunities to share power, equal opportunities and, in the end, hope. But the empowerment approach requires changing beliefs and local institutions both formal and informal that retard the development or restrict it from benefiting the poor.

1.1. Purpose of the study

MFIs are important for poverty reduction and creating employment opportunities, especially in developing countries like Ethiopia. One of the key factors for the profitability and sustainability of MFIs is the presence of women utilising MFI services. Several socio-economic factors affect women's ability to utilise these services. Reviewing such factors and devising appropriate solutions are essential to sustainably expand the activities of MFIs. This study aims to provide information for a better understanding of the constraints of women to access MFIs in Ethiopia and establishes a knowledge base that helps to make a sound decision by providing information for policymakers and identifying research gaps between MFIs, other lending institutions and stakeholders.

1.2. Objectives of the study

The general objective of this study is to review the role of microfinance and empowering women in Ethiopia. The specific objectives are as follows:

1. To review and identify the MFI and its needs in Ethiopia.
2. To review the opportunities and challenges of poor women in microfinance in Ethiopia.
3. To review determinants of women's participation in microfinance in Ethiopia.

2. Materials and methods

This study uses the literature study method. The study discusses findings from previous studies and reviews resources from credible sources based on the objectives of the study. The study is conducted on Ethiopian women and hence the population of the study is Ethiopia.

3. Results

3.1. The theoretical overview of Microfinance in Ethiopia

Microfinance is the supply of loans, savings, money transfers, insurance and other financial services to low-income people. The concept of microfinance is not new in Ethiopia but, as an industry, it is a relatively new phenomenon. Traditionally, people have saved with and taken small loans from informal channels for unexpected events or from the so-called Iqub, i.e., an association of people halving common objective mobilising finance and distributing it to members through rotating and Idir, i.e., funeral insurance established and operated by the volunteer community (Emana, 2019).

The GTP makes explicit references to the role of MFIs. They are viewed as key to establishing an accessible, efficient and competitive financial system within the 5-year GTP period, to increase Gross Domestic Saving from 6% GDP in 2010 to 15% by 2015 (MoFED, 2010, p. 30). MFIs are also expected to play an important role in facilitating access to finance for Ethiopians, targeted to reach 67% by the end of the plan period from 20% in 2010 (MoFED, 2010, p. 34). This is a significantly more ambitious target than the commitment by the NBE at the Maya Declaration, 2013.

The second core policy area is the support for MFIs in the micro and small-scale enterprise development strategy (2010–2015), which recognises the importance of MFIs and their role in the development of SMEs. The strategy aims to address six major challenges that impede the growth of micro-enterprises, including skills development, technology transfer, market facilitation, access to finance, the reduction of entry barriers and improving information (World Bank, 2015). To address these challenges the government has introduced one-stop-shop facilities at the woreda (district) level providing a broad range of support services to MSEs (World Bank, 2013a). As one EI explained, at these 'one-stop-shops' people can access an MSE (micro and small enterprise) officer and an MFI officer all in one place. The office also provides oversight of local enterprises.

In Ethiopia, savings and credit programmes been operated for some years by NGOs, but microfinance operation in a regulated form is a relatively new phenomenon. The operation was for the first time undertaken by the market town programme of the World Bank. This programme was implemented jointly with the Development Bank of Ethiopia and the Bureaus of Trade and Industry in what was then called Market Towns in phase one, and then spread to all the major towns of the country. Most of the borrowers were women (Tesfay, 2003).

Microfinance services were introduced after the demise of the Derg regime, following the policy of economic liberalisation. Microfinance is taken as a shift from government and NGO subsidised credit programmes to financial services run by specialised financial institutions. With this shift, some NGOs and government microcredit programmes were transformed into MFIs (Degefe, 2016).

Saving and credit services through cooperatives in Ethiopia started in the 1950s (Wolday, 2020). The first saving and credit cooperative (SACCO) in Ethiopia was established by the employees of Ethiopian Airlines in 1956. The emergence and development of modern MFIs in Ethiopia is a recent phenomenon that happens because a formal financial system like the commercial banking system was very limited and could not address the financial need of poor households for the fact that they are not their ultimate target client.

By the end of 2012/13, as per the annual report of the NBE, 31 MFIs were registered with the NBE and operate under the auspices of proclamation no. 40/1996 in the country (rural and urban areas) and accordingly their total capital and total asset reached Birr 4.5 billion and Birr 17.7 billion, respectively. Deposit mobilisation and credit offering activity also revealed a remarkable increase.

The Ethiopian microfinance market is dominated by a few large players, all of which are closely linked to regional government ownership. The three largest institutions account for 65% of the market share in terms of borrowers and 74% by gross loan portfolio. These are ACSI, DECSI and Oromia (OCSSCO) Credit and Savings Institutions. In contrast to many other African countries, MFIs in Ethiopia reach relatively large numbers of clients, with ACSI reaching over 650,000 borrowers. Most institutions have over 20,000 clients. The average loan per borrower for the 11 Ethiopian MFIs reporting to the Mix Market as of June 2010 stood at 140 USD, below half of the country's GDP per capita (MF transparency, 2011).

MF Transparency launched the Transparent Pricing Initiative in 2011, in partnership with the association of Ethiopian MFIs (AEMFI, 2012). This provided standardised pricing data from 17 MFIs, representing an estimated 95% of micro-credit borrowers. As mentioned earlier, the following five MFIs dominate the market in Ethiopia:

ACSI (portfolio US$ 103.2 million, 694,993 active clients with loans), OCSSCO (portfolio US$ 69.6 million, 503,000 active clients with loans), DECSI (portfolio US$ 96.3 million, 397,000 active clients with loans), Omo Microfinance (portfolio US$ 31.4 million, 327,888 active clients with loans) and Addis Credit and Saving Institution (portfolio US$ 30.8 million, 165,464 active clients with loans).

Microfinance provides a small but significant and expanding role in Ethiopia's developing finance sector. According to the National Bank of Ethiopia (2018), the number of banks operating in the country reached 19 in December 2014, of which 16 are privately owned. The banks operated 2,502 branches, equating to a branch/population ratio of 1:35,957. Some 35% of all bank branches are located in Addis Ababa. The total capital in the banking system increased by 21% between 2013 and 2014, reaching Birr 30.2 billion 2. 17 insurance companies were operating in Ethiopia, of which 16 were privately owned. Of the 359 insurance company branches, 53% were located in Addis Ababa. The total capital of the insurance industry was Birr 30.2 billion.

There were 32 MFIs operating in the country, all of which are deposit-taking. These MFIs mobilised a total saving deposit of around Birr 13.0 billion. The five largest MFIs are regional institutions supported by the government (Amhara, Dedebit, Oromia, Omo and Addis Credit and Savings Institutes), which accounted for 93.6% of the savings and 90% of the credit of the MFI sector. A wide variety of organisations provide micro-savings and micro-credit services and these are categorised into three sub-sectors:

a. Informal providers [e.g.: money lenders, friends/relatives, Iddir, Iqqub (Ekub) and Meskel Aksiyon];
b. Community savings groups [VESAs (previously VSLAs) and Savings Groups] and semi-formal SACCOs;
c. Formal MFIs, such as formal banks.

3.2. Problems MFI identified in the Ethiopian context

According to Osabohien et al. (2018), food-deficit borrowers without opportunities to use credit or to market their output may have no choice but to eat their loans. This can, in turn, lead to humiliation and the diminishing of an already low level of self-confidence. Lenders to the extremely poor also face difficulty because low repayment rates caused by borrowers who cannot repay prevent the development of sustainable financial institutions.

This problem is also cited as a critical problem in Ethiopia (Asmelash, 2013; Bamlaku, 2004; Tesfay, 2003; Wassie et al., 2019). For example, Tesfay (2003) underlined that a significant number of clients consumed the loan they have taken or spent on non-productive activities. 64.7% of the rural clients and 11.7% of the urban clients used the loan for non-productive purposes.

In Ethiopia, since the launching of the MFIs, some studies were conducted on microfinance concerning the impact and effectiveness, success in expanding the opportunities of MFI and role of MFI in empowering women. For instance, studies conducted on ACSI by Gobezie (2017) and Deribie et al. (2013) found that microfinance is a good strategy to mitigate poverty and it creates an opportunity for the marginalised segment of the population in accessing to finance. On the other hand, Meron Hailesellassie (as cited in Kabeta, 2017) conducted research in Addis Ababa on the role of microfinance in empowering women which shows that, although women benefited in economic empowerment from MFI interventions, women’s workload increased as a result of MFI, spent income for family purpose and also it does not make a significant change for women in political empowerment.

Gobazie (2018) also added that cultural and environmental barriers, lack of marketable skills and workload are among the challenges for women in microfinance services.

3.3. Women's empowerment opportunity of poor women in the MFI

According to the UN, women empowerment is a process by which women gain the ability to generate choices, exercise bargaining power and develop a sense of self-worth (Mulema et al., 2021). It is also a belief in one's ability to secure preferred changes, enrichment of resources and capabilities of women. Empowerment is also defined as a process through which women can transform their self-perception and gender roles. Generally, empowerment involves transformation at three broad levels: within the household, within the community and at a broader institutional level (Cheston & Kuhn, 2002).

3.3.1. Women's economic empowerment by providing start-up capital

Women's empowerment is an underlying goal of MFIs, aiming to set the idle human assets and potential of every poor person to undertake responsibility and reclaim his/her human dignity (ILO, 2017). Moreover, microfinance attempt to modify the financial and social structure of society, whereby the poor, particularly women, can create job through self-employment. Access to financial services can add essential contributions to the economic productivity and social well-being of poor women and their households, but it does not routinely empower women in education and politics.

In Ethiopia, research done by Gobazie (2017) in Amhara Region and Tiruneh (2017) in Addis Ababa found that microfinance empowered women by providing start-up capital which intern helped them for self-employment.

3.3.2. Empowerment in income and consumption

Research conducted by the Consultative Group to Assist the Poor (CGAP, 2012) in Indonesia found that micro-credit borrowers increased their incomes by 12.9% compared to 3.0% of the incomes of non-clients. Kabeer (2015) in her contribution added that clients of MFI showed improvement in income and expenditure.

Moreover, as per Kusi et al. (2019), unless the social environment within which women's everyday lives are bounded is taken into consideration, intervention such as providing micro-credit loans to women may simply sustain women in their existing circumstances. Bongomin et al. (2020) concluded that 'microfinance raised household consumption, especially when lent to women'.

Similarly, according to research by Asian Development Bank (ADB, 2017), microfinance has a positive impact on the living standard of poor people and their livelihood. It has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves.

3.3.3. Improvement in the skills of saving

According to Mishra (2019), female clients in microfinance save more when compared with non-clients. When women participated in an income-generating activity like that of coffee production, their skill saving was enhanced (ILO, 2017). In the process of mobilising savings either in groups or individuals in MFIs, clients' skills of saving were enhanced for it helps poor women to have safety against loans taken, access more to credit services and also generate income.

On the other hand, in Ethiopia, Bekele (2012) and Wolday (2008) added that in microfinance women save not only money but also use all resources properly if they misuse loans, which will lead them further into debt. Gobezie (2017) also added that after participating in MFI women learn and began saving both in the MFI and other banks. Moreover, Meron Haileselassie (as cited in Kabeta, 2017) found that the study indicated that the income and saving levels of the majority of the clients have increased after the delivery of microfinance.

3.3.4. Reduced violence in household and community

As per Maitreesh and Guinnane (2019), the effects of microfinance go beyond influencing the lives of individuals alone, but also impact entire households, communities and the society at large. Research by Cheston and Kuhn (2012, p. 32) found that 40.9% of the microfinance clients that had experienced domestic violence before joining microfinance ceased it because of their economic empowerment through microfinance. Supplementary to the above, microfinance is also meant to escape from an abusive relationship and greater capacity to resist wife-beating and alcoholism. Kabeer (2015) also adds that improvement in wife and husband relations reduced abuse within the household as women had MFI opportunities.

Kabeer (2015) quoted the view of a SEDP client who was valued by her husband as follows: ‘He gives me more value since the loan. I know, because now he hands all his earnings to me. If I had not gone to the meeting, not taken a loan, not learned the work, I would not get the value I have, I would have to continue to ask my husband for every take I needed before, my husband used to beat me when I asked him for money, now, even if he does not earn enough every day, I can work, we do not have to suffer’.

3.3.5. Poverty eradication

According to Maitreesh and Guinnane (2019), microfinance services targets raising an individual’s income, creating employment opportunity and enhancing the family’s expenditure to eradicate poverty. Abera and Asfaw (2019) added that MFIs increase the income of the clients and reduce the circle of poverty when it considers the availability of other non-financial services either provided by the Government or NGOs. For example, the availability of education and health services greatly influences the capacity of micro-entrepreneurs to increase the client’s enterprise activities. Microfinance provides money to a neglected sector of the population. Thus, increased income can lead to better health, especially if it is linked to other social programmes. Parvin et al. (2016), using repeated household surveys carried out in rural Bangladesh, found poverty reduction among the borrowers due to microfinance of 1.6% points per year. Moreover, microfinance programmes have overflow effects on the non-borrowers and their poverty level goes down by 0.3% points a year.

In addition to this, in Ethiopia, some researchers argued that microfinance plays a great role in mitigating poverty; for instance, according to Lake (2017), microfinancing programmes contribute to poverty reduction. He found that after the credit programme was employed in the Tigray region; opportunities for the beneficiaries have been created which he identified as positive effects on the income and savings of the clients. In addition, he stated that the medical, education and nutrition access of the clients had been improved. Moti (2013) also found that the MFI intervention has enabled the clients to generate income which improves their living standards of clients. And he concluded that strengthening the MFIs operation is an appropriate socio-economic policy in the country. Finally, as per Shafaet-Uz-Zaman and Matin (2019), microfinance is no cure for all, does not provide all skills and also does not eliminate all poverty in any country.

3.3.6. Opportunities women gain as a result of microfinance intervention

According to Yirsaw (2018), the social and economic opportunities are gained while they are participating in specialised financial and promotional institutions at an individual level, family level and community level. Thus, some of them argue that SFPI microfinance helped them in various ways, for instance, detaching them from local money lenders, enhancing their skills of saving and improving time usage. Also, a few of the interviewees proudly speak that microfinance helped them in income increment, expanding enterprise, self-employment improvement in nutrition, education of children etc.

3.4. Challenges of women in microfinance intervention

This section deals with reviewing works in the literature related to the challenges of people who are participating in microfinance service interventions.

3.4.1. Interest rate

MFIs charge high administrative costs and higher charges for risk coverage, which is in addition to the market interest rates, taking advantage of the niche market for microloans. However, according to Khan and Rahman's (2016) study, although some individuals argue that the interest rate of MFIs is high, they found that most of the study participants did not have the same opinion on this issue and found it to be reasonable.

3.4.2. Diverting loans to urgent problems

According to Kabeta (2017), diverting loan money to urgent problems, especially for basic needs and for unexpected crises, is among the challenges individuals face in microfinance in repaying the credit. Thus, the potential of microfinance can be best exploited by recognising the lessons from careful impact evaluation studies. Alamirew (2014) also added that clients were using the loan for unintended purposes. The poor divert loans to their urgent problems because it is clear that not all borrowers benefit equally as it depends on their local economic environment, their entrepreneurial ability and the extent to which their income sources are diversified.

3.4.3. Gender difference

Studies show that microfinance does little to change gender inequities by limiting female control over loans (CGAP, 2013). Women’s choice of activity and the ability to increase their incomes are seriously challenged by gender inequalities. Kabeer (2015) also found that, although MFIs are striving to increase income and assets in a poor household, women are likely to spend income on household consumption and security related assets such as child clothing and feeding, whereas men borrowers are more likely to invest in further productive activities. Similarly, Parvin et al. (2016) stated because of inheritance most women continue to register land and productive assets in their husband's name laws assets will be inherited by sons if registered in the husband's name and by daughters if registered in the wife's name. Likewise, another study conducted in Pakistan found that 40%–70% of the loans disbursed to women were used by the husband and that tensions within the household increased and productive credit is of no use to such people without other inputs and women's empowerment in decision-making decreased.

3.4.4. Verbal abuse

Microfinance practitioners often are blamed for lending to women because they are obedient, submissive and easily bullied. Borrowers’ ‘husbands or brothers take the loan money and expect the wives or sisters to repay’. When women do not have the money to repay the loans, they are subject to verbal and physical abuse from both their husbands and bank workers regarding the repayment of loans (Padma & Ayele, 2014).

3.4.5. Absence of effective group collateral

Cheston and Kuhn (2012) stated that due to social and legal disadvantages, such as lower wage incomes or limitations in the ownership of property, women, in general, have less personal capital to start a business or to be used as collateral. In many countries, women cannot even hold land titles, thus they are effectively barred from formal sector credit. ILO (2009) added the requirement for the male spouse's co-signature and it is also often a requirement that women must obtain a guaranteed declaration from their husbands or fathers, which is a challenge for women.

Moreover, since women's enterprises are usually in the service sector and do not have tangible assets for collateral, such firms rely mainly on intangible assets which are difficult and costly to evaluate for MFIs (Kereta, 2017). On the other hand, although the advantage of group collateral is clear, it might also leave the clients in a disadvantageous manner when a group member fails to pay the debt, making the rest of the group settle on her behalf.

3.4.6. Work burden

In Ethiopia, women are responsible for almost all the household chores, in addition to the support they provide in agriculture and caring for livestock production (Bezabih, 2017). Women entrepreneurs normally combine their business activities with their family obligations (Levin, 2012). According to IFAD (2018), about 40% of the households in Ethiopia are headed by women, and credit is offered to women based on the assumption that rural women are familiar with non-farm income-generating activities and have sufficient time to start new income-generating activities. However, as per Gobazie (2017), practically most domestic tasks, such as grinding grain and food processing, and water and fuel wood collection, are known to be highly difficult, labour-intensive and time-consuming in sub-Saharan countries. Furthermore, in addition to this accountability for household subsistence expenditure, lack of time due to unpaid domestic work and others are among cultural barriers that challenge women in microfinance.

Meron Hailesellassie (as cited in Kabeta, 2017) also found out that the participation of women in microfinance increased their work burden. Women may also struggle with the heavier workload created by the responsibility for loan repayment (ILO, 2017).

3.5. Microfinance and women's participation in Ethiopia

A majority of microfinance programmes target women with the explicit goal of empowering them. However, their underlying premises are different. Some argue that women are among the poorest and the most vulnerable of the underprivileged. Others believe that investing in women's capabilities empowers them to make choices, which is valuable in it, and also contributes to greater economic growth and development. Empowerment as a strategic development approach for women involves two levels: intrinsic and extrinsic.

The extrinsic level refers to gaining greater access to and control over financial and physical resources. On the other hand, the intrinsic level involves changes within, such as the rise in self–reliance, confidence, motivation and positive hope for the future. It recognises women's multiple roles and seeks to meet strategic gender needs through bottom-up participation in resources and development issues that concern the life of women.

Economic exclusion reinforces and perpetuates social exclusion. In the context of women, particularly poor women, their conditions become even more vulnerable due to the unequal distribution of resources within and outside the household domain. Any mismatch between the minimum basic requirements and the resources available results in unfulfilled practical gender needs. In other words, poverty is the end state implying a lack of entitlement emerging from insufficient assets and capabilities for the fulfilment of basic livelihood needs.

This results in the social and economic exclusion of a certain class and category of people and their consequent disempowerment. Hence, the idea of empowerment has influenced development practitioners, development agencies (governmental and non-governmental), theoreticians and donor agencies in the last decade.

Another motivation is the evidence from the literature which shows that an increase in woman's resources results in a higher well-being of the family, especially children. Finally, an increasing number of microfinance institutions prefer women members as they believe that they are better and more reliable borrowers, thereby contributing to their financial viability. A more feminist point of view stresses that access to financial resources presents an opportunity for greater empowerment of women. Although many agree that women empowerment is an important development objective for microfinance programmes, it is still unclear what women empowerment means.

Women's economic empowerment is thus the process and the outcome of the process by which women gain greater control over material and intellectual resources, and becomes less dependent on external forces. Even so, a great debate tends to persist as to whether the provision of microfinance for poor women could change the social and economic equations, as this subset of the population lives in villages, and further tend to empowerment. There are four basic views on the link between microfinance and women's empowerment.

According to Wolday (2012), microfinance benefits the poor by increasing disposable income, increasing asset ownership and cushioning consumption during the food-deficit period (Wolday, 2012). It is a way out to the poor who are normally excluded by conventional financial institutions (Ibid). MFIs function at the grassroots level. They reach micro-level development constraints of the poor. They are capable of involving a large segment of the population. They likely build both the human and productive capacity of the poor. Microfinance strategy may deliver inclusive financial services to the poor if augmented by a sound financial sector policy (Wolday, 2020). In the last two decades, governments, NGOs, donors and other development actors have given due attention to establishing expand the providing microfinance services to the poor in rural and urban areas.

Chauhan and Dey’s (2020) research findings indicate that literate women are more willing (demand) to participate in MF programmes, take the loan for better production technologies, engage in off-farm activities, purchase agricultural inputs, purchase fixed household an asset, purchase houses, accept technical advice from extension workers and are aware of the opportunities and expectation for decision-making purposes and diversifying their sources of income than the illiterate ones. In addition to this, research conducted by Xu (2020) also shows the probability of taking a loan from formal as well as informal institutions becomes lower, as respondents have lower educational attainment. Thus, being a literate woman increases the probability of participating in the MFI’s loan programme.

3.6. Constraints to effective women’s economic role

Many constraints hinder the effective role of women in economic development. Among these obstacles, the most often and still unsolved problems are the traditional backward attitudes, beliefs and customs of society towards women, which are continued as a historical legacy across the country (Dooren, 2017). These traditional backward attitudes towards women (assuming women as a weaker sex, second citizens, dependent, passive and ignorant) do not only hinder and make the effective role of women invisible and unrecognised but also make and force women to internalise and accept their weakness and for a long period and even remain unconfident. Even though the government is trying to change the attitudes of the society through different mechanisms, it is not eradicated and remains difficult. In general, the following are considered common barriers and often make the role of women unrecognised and insignificant.

3.6.1. Low-level educational background

According to the women's and child's affairs office, the majority of women are not educated. From this, we can conclude that women's non-educational status hinders their expected role.

3.6.2. Lack of initial capital to start their own business

Despite the high interest and motivation of women to work, the lack of initial capital to start up and run the business hinders their economic activity.

3.6.3. Lack of business know-how

Women get involved in various economic activities, especially in the marketing process and trading activities, but they lack business know-how, i.e., how to run a business and cost–benefit analysis.

3.6.4. Lack of monitoring of women's cooperation activities

The government is trying to direct women to work in cooperation and solve their economic problems. However, there is no supervision and follow-up about the day-to-day activities of these women's cooperative work. According to the respondents, women's organised activities are run in the town even without better problem identification, problem-solving and technical support. However, various local government bodies and NGOs continue to assist women only financially (Xu, 2020).

3.6.5. Dependency of the family on women

Culturally, in some families, some members are dependent on the earnings of the women. In some cases, the husband remains dependent on his wife's income. Such dependency of family members on women makes their role invisible and unrecognised. However, women continue to play a role in various economic activities.

3.6.6. Lack of interest to work in a group (cooperation)

Women are fearful of cooperation and they are not well aware of the benefits of working together. Working in cooperation, especially for women, can make their role visible and it also increases their confidence.

3.6.7. Women’s dependency on men’s income

Despite the existence of family dependency on women, in some cases, there is also women's dependency on men's income. This is due to the influence exerted by their husbands. If this is developed, they do not make a decision on their own in their life. In this case, dependency on women can bring a lack of decision-making power, and this makes the role of women unrecognised.

3.6.8. Lack of confidence and inferiority

In this case, the most often difficult problem for the integration of women into the economic development and in various political offices is lack of confidence. Women's lack of confidence is mainly due to the culture of society and their inferiority assumptions. In addition, women are not highly committed and lack the interest to take full responsibility and accountability and they are afraid of challenges, especially in office positions (Haimanot, 2017). Despite, the existence of the above-mentioned barriers to women's effective role in economic development, they continue to play their role in economic development. Even though different problems hinder the participation of women, their roles in various economic activities are very significant.

MFIs are concentrating more on the very poor, especially women. It is because poor people do not have sufficient income to meet both ends (Firaxis et al., 2016). This enables the poor to start their own business or do something to improve their livelihood. In the study, the members of microfinance are changed for the better. It is due to some bottlenecks challenging them not to effectively utilise the services. Insufficient loan amount, lack of training for members, lack of follow-up, lack of proximity to the market, high cost of inputs, saving habits, saving purpose, experience and perceptions of borrowers on repayment period are the major constraints of members. It is suggested that these institutions should focus on improving the size of the loan, training members, following up, enhancing marketing facilities and time to repay the loans. MFIs mainly give services to rural and poor women to enhance their living standards. If these institutions can perform well by giving the best services to rural and poor women, the purpose of starting MFIs has been fulfilled.

4. Conclusion

Based on the reviews and reflections made in this paper, the following conclusions are made on the role of microfinance in poverty reduction and women's empowerment in Ethiopia. The provision of microfinance services to poor women would have an impact on their livelihoods. The study identified that they use this loan as working capital to purchase household needs and assets. From a public service point of view, MFI is doing well in terms of providing loans to micro-entrepreneurs.

In this respect, Ethiopia's MFI is successful and promising in helping poor people out of poverty in both rural and urban areas of the country by empowering women. It significantly increases its clients and it is possible to argue that it is reducing the migration of people to overseas countries.

Accessing loans at reasonable interest rates provides poor people an opportunity to start their own business. Poor households are using microfinance to move from hand-to-mouth survival to planning for the future in the sense that it invests in better nutrition, housing, health, and education. Microfinance helps to promote economic growth and development and plays a pivotal role in empowering women.

5. Recommendations

By reviewing the entire research study, I have seen different challenges of women’s empowerment through microfinance, such as high interest rates, lack of collateral, less access to MFIs, lack of infrastructure, low level of training for women about significance of microfinance, work burden etc. By taking the above challenges into account for policy intervention, the government or other concerned organisations should work on the following:

- As women's access is still insufficient, women's access to credit has to be supported.
- The country's microfinance should further create job opportunities.
- As the interest amount is an additional burden to the clients, microfinance would be sustainable when it would be decreased its interest rates more.
- It is better when the country's microfinance services are more diversified to include poor categories of women.

- Infrastructural facilities must be fulfilled for an MFI to empower women.
- Women must be trained on the importance of microfinance to be knowledgeable about its contributions to raising their incomes.

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