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EFFECT OF MICROFINANCE LOAN UTILIZATION ON EMPOWERING WOMEN ENTREPRENEURS: A CASE OF VISION FUND TANZANIA MFB IN IRINGA MUNICIPALITY

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ABSTRACT :

The purpose of this study was to examine the effect of microfinance loan utilization on empowering women entrepreneurs in Iringa Municipality, with a focus on Vision Fund Tanzania MFB. The study specifically explored how women's use of loans for business purposes influences their entrepreneurial growth and economic empowerment. A mixed-methods approach using an Explanatory Sequential Design was adopted. Data were collected from 353 women entrepreneurs through structured questionnaires and from five selected participants via semi-structured interviews, employing purposive and simple random sampling techniques. Quantitative data were analyzed using SPSS version 20 with descriptive statistics, while qualitative data were analyzed thematically. Findings revealed that effective loan utilization positively impacted business performance and income generation among women entrepreneurs. Respondents who allocated loans primarily to business activities reported improved business operations, increased earnings and enhanced economic autonomy. However, some women diverted portions of their loans to household consumption or emergencies, which reduced the overall empowerment benefits. The study concluded that loan utilization plays a critical role in determining the effectiveness of microfinance in empowering women, with proper use leading to greater entrepreneurial growth and partial diversion limiting potential outcomes. Based on these findings, it is recommended that microfinance institutions provide guidance on optimal loan utilization, integrate financial literacy and business management training for women entrepreneurs and design loan products that accommodate both business and household needs. Further research should explore the long-term effects of loan utilization across different sectors and regions to understand its broader impact on women's economic empowerment.

Keywords: Microfinance Loan Utilization, Women Entrepreneurs, Economic Empowerment, Business Growth, Vision Fund Tanzania, Microfinance bank (MFB)

Introduction

Women's entrepreneurship plays a vital role in economic growth and family welfare, yet many women continue to face barriers such as limited access to capital, business skills and financial decision-making opportunities (Kabeer, 2017; UN Women, 2021). Microfinance institutions (MFIs) were established to bridge these gaps by offering small loans and savings opportunities to low-income individuals, especially women excluded from formal banking systems (CGAP, 2021). Access to these financial services has enabled many women to start or expand small businesses, contributing to improved household income and community development (Ledgerwood et al., 2022; ILO, 2020).

However, access to credit alone does not automatically lead to empowerment. A critical determinant of empowerment is how loans are utilized once accessed. Effective loan utilization, where borrowed funds are directed toward productive investments, can lead to business growth, financial stability and greater decision-making power for women entrepreneurs (Njoroge, 2017; Maru, 2021). Conversely, when loans are diverted to non-productive uses such as household consumption or social obligations, their long-term empowerment benefits are weakened (Owino, 2019).

In East Africa, microfinance programs have shown mixed outcomes in this regard. While many women report improved livelihoods after investing loans in businesses, others continue to struggle due to misallocation of funds, high repayment burdens and limited financial literacy (EASSI, 2019; UNDP, 2022). In Tanzania, MFIs such as VisionFund Tanzania Microfinance Bank (VFT MFB) have introduced programs specifically targeting women entrepreneurs in Iringa Municipality. These initiatives have expanded access to loans and encouraged women's participation in entrepreneurial activities (Maghina et al., 2023). Yet, the degree to which these loans are effectively utilized for business growth and empowerment remains uncertain.

Loan utilization is therefore a critical lens through which the impact of microfinance on women's empowerment must be assessed. Understanding how women in Iringa Municipality use their loans whether primarily for business development or diverted toward other needs—can provide insights into why empowerment outcomes vary. Addressing challenges such as inadequate financial training, loan diversion and repayment pressures may enhance the transformative potential of microfinance.

Statement of the Problem

Microfinance institutions, including VisionFund Tanzania MFB, were established to empower women entrepreneurs by providing loans intended for business development. However, despite increased access to loans, many women in Iringa Municipality still struggle to expand their businesses, improve household welfare, or achieve financial independence (Maleko, 2022). Reports indicate that only 38% of women borrowers in the region reported consistent business growth after receiving microfinance loans (NBS, 2024). This suggests that the challenge may not only be access to credit, but also how these loans are utilized once disbursed (Lugembe, 2023).

The key problem is that while women are receiving loans, their utilization patterns are often unclear. Some women channel the loans into productive business activities, leading to empowerment, while others divert them into household expenses, school fees, or emergencies, which undermines the intended empowerment outcomes (Mchome, 2022; Komba, 2024). Current microfinance reports mainly emphasize repayment rates and loan distribution but provide little evidence on whether the loans are being used effectively for entrepreneurial purposes (Ng'ong'ola, 2023).

Without clear knowledge of loan utilization practices, it is difficult for microfinance institutions, policymakers and community stakeholders to determine whether microfinance is achieving its goal of empowering women entrepreneurs. If this issue remains unaddressed, women may continue to cycle through borrowing without experiencing meaningful improvements in their businesses or livelihoods, limiting the overall impact of financial inclusion programs in the region (Mahenge, 2023).

This study therefore sought to specifically examine microfinance loan utilization among women entrepreneurs in Iringa Municipality under VisionFund Tanzania MFB. By identifying how loans are allocated and the outcomes associated with different utilization patterns, the study aimed to provide evidence that can guide better financial literacy programs, product design and policy interventions to enhance women's empowerment.

Methodology

Area of the Study

This study was conducted in Iringa Municipality, located in the Southern Highlands of Tanzania. Iringa is known for its active entrepreneurial activities, many of which were run by women engaged in retail trade, food vending, tailoring and agriculture-related businesses. The area had a strong presence of microfinance institutions, including Vision Fund Tanzania, which provided financial services specifically targeted at women entrepreneurs. Despite the availability of these services, the level of empowerment among women remained inconsistent, with many facing financial decision-making barriers and limited control over business income. This made Iringa Municipality a suitable location to assess how microfinance services influenced women's empowerment.

Research Design

A research design is the overall strategy that a researcher chooses to integrate the different components of a study in a coherent and logical way, ensuring the research problem is effectively addressed (Kothari, 2014). This study adopted an Explanatory Sequential Design because it allowed the researcher to first quantify the relationship between microfinance variables (such as access to credit, loan utilization and microfinance decision-participation) and women empowerment. After analyzing the quantitative data, qualitative interviews were used to explain the reasons behind the trends observed.

Population and Sampling

Population

A population refers to the entire group of individuals or elements that share common characteristics and from which a sample can be drawn for research purposes (Saunders et al., 2019). The target population comprised women entrepreneurs who were clients of Vision Fund Tanzania MFB in Iringa Municipality. According to data provided by Vision Fund Tanzania MFB (2025), there were 2,985 active women entrepreneurs served by this microfinance institution at the time of the study. These women operated small and medium businesses in sectors such as retail, agriculture, food vending, tailoring and services.

Sampling technique

Sampling technique refers to the process of selecting a subset of individuals from a population to represent the whole group (Etikan *et al.,* 2016). It helps ensure that the sample reflects the characteristics of the population and improves the accuracy and validity of the study results (Saunders et al., 2019). This study used a combination of purposive sampling and simple random sampling. Purposive sampling was applied to select five women entrepreneurs who met specific criteria: they had at least three years of experience, were clients of Vision Fund Tanzania MFB and had received multiple loans. Their businesses held a minimum capital of TZS 5,000,000. Meanwhile, simple random sampling was used to select 353 other respondents from the remaining population of women entrepreneurs. This technique gave each eligible woman an equal chance of being selected, reducing selection bias and ensuring the results were generalizable (Kumar, 2019).

Data Collection Instruments

A structured questionnaire was a tool that used a set of standardized questions to gather quantitative data from respondents (Kothari, 2014). In this study, structured questionnaires were used to collect data from 348 women entrepreneurs who were selected through simple random sampling. Semi-structured interviews were qualitative data collection methods that combined a set of prepared open-ended questions with the flexibility to explore responses in more depth (Gill *et al.,* 2008). In this study, semi-structured interviews were conducted with five purposively selected women entrepreneurs who had at least three years of experience, had received multiple loans and managed businesses valued above TZS 5,000,000. The interviews focused on capturing their personal experiences, involvement in financial decision-making and the actual impact of microfinance services on their empowerment.

Data Analysis

Data analysis was the process of organizing, examining and interpreting the collected data to draw useful conclusions (Creswell, 2018). This study applied both quantitative and qualitative analysis methods due to its mixed research approach. Quantitative data gathered through structured questionnaires were analyzed using descriptive statistics with the help of SPSS Version 20. Descriptive tools such as frequencies, percentages and mode were used to summarize the findings. Qualitative data from semi-structured interviews were analyzed using thematic analysis. Interview responses were transcribed, coded and sorted into major themes based on recurring ideas and patterns.

Ethical Considerations

The study adhered to ethical principles to protect participants' rights and dignity. Informed consent was obtained and participation was voluntary with freedom to withdraw at any stage. Anonymity and confidentiality were ensured by excluding personal identifiers and securing all data, which was used solely for academic purposes. Participants were also offered feedback on the study's findings, reinforcing transparency, accountability and respect throughout the research process.

Results and Discussions

This section presents and discusses the findings on the effect of microfinance institutions in empowering women entrepreneurs, focusing on Vision Fund Tanzania MFB in Iringa Municipality. The results are organized around the study objectives, highlighting loan utilization how these factors influence women's entrepreneurial empowerment.

Effect of Microfinance loan utilization on empowering women entrepreneurs

The study at this was to examine effect of loan utilization on empowering women entrepreneurs at Vision Fund Tanzania MFB in Iringa Municipality. This part aims to answer the research question: "What is the effect of loan utilization on empowerment of women entrepreneurs at Vision Fund Tanzania MFB in Iringa Municipality?"

Table 1: Microfinance loan utilization on empowering women entrepreneurs

Question/Sub-variable	Response	Frequency(n=353)	Percent (%)	Mode (Code)
% of loan used for business purposes	Less than 25%	94	26.6	2.00
	25%–50%	144	40.8	
	51%–75%	68	19.3	
	Over 75%	47	13.3	
Loan investment area for better results	Business Stock	154	43.6	1.00
	Equipment	114	32.3	
	Marketing	47	13.3	
	No area invested, money were lost	38	10.8	
Maintain clear loan spending records	Not at all true	115	32.6	2.00
	Rarely true	144	40.8	
	Sometimes true	50	14.2	
	Mostly true	40	11.3	

	Always true	4	1.1

Source: Field data (2025)

Percentage of Loan Used for Business Purposes

Findings in Table 1 show that a majority of the respondents used less than half of their loan amounts for business purposes. Specifically, 144 respondents (40.8%) used between 25% and 50% of their loans in their businesses, while 94 respondents (26.6%) used less than 25%. Only 68 respondents (19.3%) spent between 51% and 75% of the loan for business and just 47 respondents (13.3%) used more than 75% of the loan for their business operations. The mode value of 2.00 shows that most women fell in the 25%–50% utilization category. This trend indicates that a significant number of women entrepreneurs did not invest the full loan amount into their businesses, potentially affecting business growth and empowerment outcomes. Such distribution shows a partial commitment to business reinvestment.

These results show that while women received loans, many diverted the funds to other uses beyond business needs. This may reflect competing financial responsibilities such as household expenses, school fees, or health-related costs, which overshadow entrepreneurial goals. Failure to prioritize business investment weakens the intended impact of the loans and may delay or limit empowerment through economic growth. It also signals a possible gap in financial literacy or loan management skills. This behavior could result in slow business growth or even failure to repay, especially when the business does not generate enough return due to low investment. Empowerment through microfinance depends heavily on how the funds are applied. If only a small portion is used for income-generating purposes, the overall empowerment outcomes remain minimal.

One participant admitted,

“I used some money to pay school fees first before I could buy items for my shop. I had no choice because my children had already been sent home” Another woman shared, “The loan helped me, but not all of it went to my business. Part of it was used for medical bills. Life brings other problems too” (Interview with respondent 3, .4/6/2025, 10:05 a.m.).

These stories reflect a common challenge faced by women entrepreneurs balancing business development with urgent family needs, which often forces them to divide loan funds. This mismatch between loan intention and usage reduces the ability of microfinance to create meaningful impact. If most beneficiaries spend less than 50% of loan funds in business, then growth and independence are delayed. Empowerment through credit requires that loans are treated as business tools, not emergency support. Quantitative data shows that few women reach the 75%+ investment threshold, showing that better planning and follow-up are needed to improve financial outcomes. Unless more of the loan is directed toward productive use, the full empowerment potential remains out of reach.

Studies like Singh (2022) and Tunde (2023) support these findings, where improper loan use was shown to reduce women’s economic gains. Singh emphasized that loan misuse for personal obligations weakened financial autonomy and slowed down entrepreneurial growth. Similarly, Tunde noted that diversion of funds resulted in limited business success and reduced empowerment impact. These align with the current study’s data, confirming that how loans are spent directly influences the empowerment outcomes for women entrepreneurs.

Loan Investment Area

According to the findings presented in Table 1, a significant number of respondents, 154 (43.6%), invested their loans in business stock. Another 114 (32.3%) used the loan for purchasing equipment, while 47 (13.3%) allocated funds to marketing activities. A smaller group, 38 (10.8%), reported that they did not invest in any specific area and ended up losing the money. The modal response in this category was “Business Stock,” indicating it was the most common investment choice. These results show that while most women attempted to invest the loan in core business components, a notable percentage struggled to make productive use of the funds. Strategic allocation particularly toward inventory and tools appears to be associated with better chances of business stability.

The results indicate that women prioritize restocking over promotion or asset acquisition, likely due to the need to quickly resell goods and generate returns. Stock investment offers immediate turnover and income flow, which is vital for small businesses operating on daily profits. Equipment purchases, while important for operational efficiency, might require larger capital and take longer to yield profit. On the other hand, marketing although it boosts visibility is underutilized, possibly because it’s seen as non-essential or unfamiliar to some entrepreneurs. The 10.8% who admitted to misusing or losing the money raise concerns over business planning and loan management skills. When loans are poorly allocated, the business may stagnate or collapse, delaying empowerment goals.

One woman described her experience by saying:

“When I got the loan, I used it mostly to restock my shop with items like rice, cooking oil and soaps. These are things my customers buy every day. I saw a quick increase in sales and that helped me to repay the loan. I thought about using some of the money to advertise on the radio, but I wasn’t sure if it would work. I preferred buying goods that I knew would sell” (Interview with respondent 3, .2/6/2025, 11:15 a.m.)

Her words demonstrate a cautious, profit-oriented strategy, prioritizing tangible returns over long-term branding or promotional investment. This account supports the pattern observed in the quantitative data, where most women chose stock as their main investment area. The urgency to secure fast returns likely shaped these decisions. While this approach helps with short-term cash flow, it may limit long-term growth if areas like marketing or innovation are continually neglected. Microfinance institutions may need to offer guidance on balanced investment planning to improve long-term outcomes. Even profitable businesses can plateau if they fail to diversify spending in areas like visibility or production capacity.

These findings are consistent with Nabwire (2021), who noted that women who allocated loans into specific business operations such as inventory and tools saw marked improvements in financial independence and household welfare. Similarly, Kavishe (2024) emphasized that effective loan use especially in stock and equipment directly led to improved microfinance decision-participation and profit growth. Both studies highlight the same trend seen in Iringa Municipality: empowerment is closely tied to how loans are deployed within the business structure.

Loan Spending Records

Findings from Table 1 show that a significant number of women entrepreneurs do not maintain clear records of how their loans are spent. Out of the 353 respondents, 115 (32.6%) indicated that it was "not at all true" that they kept spending records and 144 (40.8%) said it was "rarely true" Only a small portion, 40 (11.3%), reported "mostly true," and an even smaller number just 4 respondents (1.1%) said it was "always true" The modal category was "rarely true," indicating that most women either lacked the practice or the tools to track their loan expenditures accurately. These figures show a serious gap in financial documentation among women borrowers, which has implications for both accountability and empowerment.

Keeping clear financial records is critical to managing a business and using loans effectively. Without records, it becomes difficult to assess profit, track inventory, or make informed decisions about reinvestment. Poor documentation can lead to confusion, misuse of funds, or missed repayment deadlines. This in turn weakens the loan's impact on empowerment, as financial control is undermined. The inability to track spending reduces transparency in business operations and may also create dependency on guesswork. These challenges reveal a need for training in basic bookkeeping as part of microfinance support services. Reliable records are not only a tool for better management but also a foundation for strategic planning and sustainable growth.

One respondent explained her situation in detail:

"I didn't write down how I spent the money. I just remembered what I bought in my head. Sometimes I would forget and wonder where the money went. When the loan officer asked how I used the loan, I couldn't give the exact amounts. I think I would have used the money better if I had written everything down, but I've never learned how to do that" (Interview with respondent 4, .22/6/2025, 8:30 a.m.)

Her words illustrate a common reality among many informal entrepreneurs lack of financial literacy leading to weak financial control, which in turn limits the effectiveness of the credit received. This response reflects and reinforces the quantitative data, which showed that over 70% of the women either did not keep records at all or did so only rarely. Without written records, even those with good intentions might misplace or misuse funds, diminishing the empowerment effect of the loan. The connection between record-keeping and loan success highlights the importance of supporting not just access to credit but also post-loan education. Empowerment involves more than giving money it includes the tools and skills to manage that money effectively and independently.

These findings align with Singh (2022), who found that poor loan documentation was strongly correlated with reduced empowerment outcomes. Similarly, Tunde (2023) emphasized that financial planning and record-keeping are crucial for loan utilization to result in meaningful economic progress. Both scholars highlight that sustainable empowerment depends not only on receiving credit but on managing it effectively through structured financial habits like record maintenance.

Conclusion and Recommendations

The study concludes that women's empowerment through microfinance depends less on loan access and more on effective utilization, particularly when funds are invested in business growth rather than household needs. To strengthen empowerment, microfinance institutions should offer larger, flexible loans and provide financial literacy training. Policymakers are advised to support gender-sensitive financial policies, while women entrepreneurs are encouraged to adopt proper record-keeping and strategic planning for sustainable business growth.

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