

## Uncovering the Link between Micro Credit and Socio-Economic Empowerment of Women: A Case Study of Pakistan

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### Abstract

It was a cross-sectional study to measure the impact of micro credit on women's empowerment and was conducted in district Sargodha, Pakistan and a comprehensive questionnaire was used for the purpose of interview. Total sample size comprised of 250 observations, 125 observations were those women who were registered with kashf and had completed at least three loan cycles. And the remaining observations comprised of prospective clients of kashf i.e. those who had just applied for loan and their applications were yet under process. Binary logistic and ordered logistic regressions were used for the purpose of this analysis. This empirical study found a significant difference between the control and treatment groups. The results suggest that women have gained more say in decision making process due to participation in micro credit program, thus leading to higher levels of empowerment than before. Overall, the present study found a strong and significant impact of participation in micro credit program on women's empowerment level.

**Keywords:** Micro Credit, Socio Economic Growth,

### Introduction

Micro-credit has gained weight in development dialogue the world over as a means of poverty reduction and women empowerment. The process of micro credit includes efforts on the part of government and non government agencies for providing small loans to the poor. Poor people need small loans for consumption and production activities and if this need is fulfilled, it sometimes proves to be the surviving factor for them. Hence it turns out as if micro credit is required not only for fulfilling basic needs like food but also for economic activities for earning livelihoods. Women are seen as the most appropriate targeted beneficiaries among the real and potential clients of micro-credit as compared to men because the entire household benefits when the loans are given to women. Women repayment record is also more reliable than men in this case. It is further claimed that micro-credit adds to women empowerment by providing economic independence and instilling confidence by virtue of their participation in groups as well as their undertaking and expanding economic activities. Microfinance is being seen as one of the best solutions available for addressing poverty.

The core theme of the MFIs (Microfinance institutions) is women's empowerment i.e., reaching and empowering women. This theme can be further divided into two goals: of reaching women and of empowering them. Reaching the poorest households is more difficult than just reaching women. Most of the self-help groups (SHGs) that are formed under current micro-credit initiatives are those of women. People in favor of micro credit argue that the process of making SHGs is actually empowering people and resulting in improvement of living standards of people involved in it. Due to inspirational performance and achievements of Nobel Prize awarded Grameen Bank in Bangladesh; developing countries including Pakistan have also gone under a revolutionary change regarding growth of microfinance sector. Microfinance Ordinance was introduced in 2001 which brought more rapid development in microfinance sector in Pakistan and Kashaf foundation emerged as the first microfinance institution of the country. Before this ordinance, NGO.s and government funded rural support programs were the major sources of micro credit.

Table 1 gives a brief summary about the growth of microfinance sector in Punjab, Pakistan by showing respective year of starting business and nature of operations and objectives of those institutions. It is apparent from the table that most of the institutions that are basically NGOs are operating with a gender targeting strategy by focusing majorly on women. Table also shows that majority of these institutions are specialized for micro credit as compared with the rural support programs. By looking at the year of commencement, we can say that all of these institutions are well established and have spent enough time for assessing their impact. Our interest is focused towards assessing the performance of those particular institutions that are specifically targeting women for empowerment. As Punjab contains the majority of well recognized microfinance institutions, thus, this province was selected for assessment. Due to shortage of time and resources our attention is limited to Sargodha. Only Kashf Foundation is currently operating in Sargodha since a considerable time and there is no other reputed organization in its competition, hence it was selected as the study organization.

**Table 1: Micro Credit Institutions in Pakistan**

<i>Institution</i>	<i>Bank/NGO/RSPs</i>	<i>Focus on Women</i>	<i>Target Areas</i>	<i>Starting Year</i>	<i>Objectives</i>
<i>Khushali Bank</i>	Bank (Specialized)	No	Rural and Urban Slums (All Provinces)	2000	Operational and financial self sufficiency
<i>KASHF Foundation</i>	NGO (Specialized)	Yes	Urban slums (Punjab)	1996	Women empowerment and poverty alleviation
<i>ASASAH</i>	NGO (Specialized)	Yes	Urban slums (Punjab)	2003	Financial Sustainability and Poverty Alleviation
<i>DAMEN</i>	NGO (Specialized Microcredit Division)	Yes	Rural (Punjab)	1996	Microcredit for Poverty Alleviation
<i>AKHUWAT</i>	NGO (Specialized)	No	Urban slums (Punjab)	2001	Poverty Alleviation
<i>Community Support Concern</i>	NGO (Specialized Microcredit Division)	Yes	Urban slums (Punjab)	1999	Microcredit for Women
<i>Punjab Rural Support Program</i>	RSP	No	Rural (Punjab)	1998	Replication of NRSP at Provincial Level: Integrated
<i>First Microfinance Bank</i>	Agha Khan RSP transformed into a Bank	No	Urban and Rural (All Provinces)	2002	AKRSP Development Agenda: Sponsors' mandate
<i>Center for Women Cooperative Development</i>	NGO	Yes	Urban slums (Punjab)	1999	Economically Empower Poor Communities: Poverty Alleviation

**Literature Review:**

(Batliwala, 1994) was of the view that empowerment stands for an individual's boost up in authority where authority means that the individual obtains more access to philosophical and material resources and also gains the capacity to use them as according to his needs. Rowlands, (1995) and Mayoux's (2000) strengthened this idea by accepting that empowerment is actually an increase in the authority or power of an individual. Elaborating further, it means that a person experiences a new change in his thinking relating to his own independence and autonomy regarding the place where he lives and also experiencing a change over in his relation with the people residing in his locality.

Pitt et al. (2006) used several sets of questions as indicators of women empowerment to assess the impact of micro credit. These questions were related to making purchases, children related decisions, economic and health related decisions and other important household decisions. The results of the study showed that micro credit had a significant impact on the empowerment of women, as it increased their participation in the major household decisions that were taken as index of empowerment levels. Holvoet (2005) also used an identical kind of index in a study that was conducted in Kenya, Africa but results are totally different there. Results of her study showed that women were unable to find any benefits of participating in micro loan program individually. However, when women participated in the form of groups, it helped them in increasing their role at household level major decision making processes.

Salman Asim (2009) recently conducted a study in the urban areas of Lahore, Pakistan with an objective to assess the impact of micro credit on borrowing women. Author utilized data obtained from well established micro credit lending institutions of the area and used probit regression analysis in order to achieve his research objectives. The author could not find any significant difference between the borrowers and non borrowers.

### Data and Methodology

This cross-sectional study was carried out in Sargodha (conducted in both urban and rural areas) with an aim to analyze the effect of micro credit on women's empowerment. Interviews were conducted using a well structured comprehensive questionnaire which comprised of 5 segments; first segment was for collecting the information about socio-economic and demographic variables, second was used for obtaining the credit profile of the household, third segment was prepared for collecting economic information of the household, fourth segment was specifically for female enterprise or business and the final section contained information regarding empowerment and benefits of microcredit in the perception of respondents.

The population studied was divided into two groups. A treatment group contained the women who were receiving micro credit from kashf and had completed at least three loan cycles. And for the selection of control group, addresses of those kashf clients were noted who had just applied for loans and had not yet received loan. Half of both the groups comprised of urban clients and remaining half were interviewed from rural areas. Total sample size comprises of 250 observations, 125 observations are those women who are registered with kashf and have completed at least three loan cycles. And the remaining observations comprise of prospective clients of kashf i.e. those who have just applied for loan and their applications are yet under process. Client addresses were obtained from kashf and then 250 clients were selected randomly out of the obtained dataset out of which 125 were mature borrowers and the remaining 125 were recent applicants.

### Description of Variables

Independent variables include Treatment Dummy (Respondent), Age, Schooling, Location, Number of Children, Family System, Proportion of Adults Ever School, Age Difference with Husband, Years after Marriage and Working Female before Loan

While dependent variables were changed in each regression model and those include, Decision related to "Boy's Schooling", Decisions related to "Girl's Schooling", Decisions related to "self medical checkup", Decisions related to "taking child for a medical checkup", Decisions related to "Visiting own family", Decisions related to "visiting neighborhood", Decisions related to "visiting husband's family", Decisions related to "use of own earned income", Decisions related to "taking a loan", Decisions related to "purchasing household items", Decisions related to "house repair" and Decisions related to "sale or purchase of house".

The ordered logistic model for a single independent variable is given as,

$$\ln(\eta_j) = \alpha_j - \beta_x$$

Where, j goes from 1 to the number of categories minus 1. Right side of the above equation bears a negative sign which has been included to ensure that the coefficients with larger values show higher association level. A categorical variable with positive sign of coefficient means that first category has more score than all other categories. While, negative sign stands for lower scoring of the first category than all other categories.

Every logit comes with its own  $\eta_j$  expression but the  $\beta$  coefficient is always same which means that the independent variable has the same effect for each of the logit functions often called as the proportional odds assumption and this assumption needs to be checked. The  $\eta_j$  terms which are known as the cut points are not of much interest in such regression because their values are not affected by the values of the independent variables.

### Results and Discussion

Study basically focuses on evaluating indicators of women empowerment that are drawn from theoretical background. These indicators are incorporated in order to ascertain whether women's access to micro credit helps her in increasing their say in;

- i. Decisions related to children
- ii. Decisions regarding allocation of resources
- iii. Decisions regarding social mobilization
- iv. Economic and health related decisions

It is expected that if a woman has got an improved position after participation in the micro credit program, then it must be reflected in the categories of decisions mentioned above.

A dummy independent variable which is binary has been utilized in the study to incorporate the participation in micro credit program.

### Results for Ordered Logistic Regression:

#### Child Related Decisions

**Table 2: Estimated outcome of participation in micro credit program on women's empowerment regarding "Child's Schooling Decisions"**

2.Child's Schooling	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.114	0.892	.040	8.027	.005	-.193	-.035
NO.OF CHILDREN	-.271	0.762	.099	7.454	.006	-.466	-.077
PROP_ADULT_SCHOOL	.102	1.107	.453	.051	.821	-.786	.991
AGE_WIFE	-.038	0.962	.060	.389	.533	-.155	.080
AGE_DIFF	-.053	0.948	.057	.867	.352	-.165	.059
YEARS_AFTER_MARRIAGE	.022	1.022	.064	.116	.733	-.104	.148
PARTICIPANTS	-1.29	0.274	.307	17.66	.000	-1.894	-.689
LOCATION=1	-.563	0.569	.272	4.294	.038	-1.096	-.031
FAMILY_SYSTEM=1	.591	1.801	.269	4.845	.028	.065	1.118
WORKING_FEMALE_BFORE_LOAN=1	-.330	0.718	.270	1.497	.221	-.859	.199
Number of Observations	250						
Chi Square	66.80						

**Table 3: Estimated outcome of participation in micro credit program on women's empowerment regarding "Taking Child to Doctor"**

3. Children Checkup	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.094	0.910	.039	5.965	.015	-.170	-.019
NO.OF CHILDREN	-.230	0.794	.094	5.974	.015	-.415	-.046
PROP_ADULT_SCHOOL	-.169	0.844	.437	.150	.698	-1.025	.687
AGE_WIFE	-.003	0.997	.054	.003	.953	-.109	.102
AGE_DIFF	-.003	0.997	.052	.004	.950	-.104	.098
YEARS_AFTER_MARRIAGE	-.006	0.994	.058	.010	.921	-.120	.109
PARTICIPANTS	-1.019	0.360	.295	11.895	.001	-1.598	-.440
LOCATION=1	-.613	0.541	.260	5.545	.019	-1.123	-.103
FAMILY_SYSTEM=1	.487	1.630	.258	3.566	.059	-.018	.992
WORKING_FEMALE_BFORE_LOAN=1	-.364	0.694	.258	1.987	.159	-.869	.142
Number of Observations	250						
Chi Square	49.76						

Results for ordered logistic regression for evaluating the impact of participation in micro credit program on women's empowerment regarding her child related decisions are presented in three of the above tables. Table 2 presents the results of ordered logistic regression using "Child's Schooling" as dependent variable and table 3 shows the results of ordered logistic regression using "Children Checkup" as dependent variable. Independent variables include the variable of interest i.e. Participants which is a dummy variable. Other variables include education of the respondent, age of respondent, proportion of adults ever school in a specific household, age difference of respondent with husband, years after marriage for respondent, location of the respondent (urban or rural), family system of the respondent (joint or separate), number of children of the respondent and finally a dummy variable (whether a respondent was a working woman before taking a loan or otherwise) that has been introduced to address the issue of endogeneity.

Results show that participation in micro credit program has a highly significant impact on the decision making power of the respondent related to children in the household. And the odds that women's opinion is never taken into consideration while making decisions related to Child's schooling for those women who have taken loan from MFI are lesser by 0.274 as compared with women who haven't yet taken microcredit. And similarly, table 1.2 confirms that the odds that women's opinion is never taken into consideration while making

decisions related to boy's schooling for those women who have taken loan from MFI are lesser by 0.360 as compared with the control group women. So, we can say confidently that those women who participated in micro credit program have benefited from this participation, as their say has been increased in the decisions regarding boy's schooling, girl's Schooling and decisions to take a child to doctor at home. Other variable that are significant, include schooling, number of children, location and family system.

#### **Health and Economic Decisions**

**Table 4: Estimated outcome of participation in micro credit program on women's empowerment regarding "Own Medical Checkup"**

4. Own Checkup	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.095	0.909	.040	5.506	.019	-.174	-.016
NO.OF CHILDREN	-.254	0.775	.100	6.416	.011	-.450	-.057
PROP_ADULT_SCHOOL	-.038	0.962	.459	.007	.934	-.937	.861
AGE_WIFE	-.087	0.916	.065	1.765	.184	-.215	.041
AGE_DIFF	-.042	0.958	.057	.546	.460	-.153	.069
YEARS_AFTER_MARRIAGE	.068	1.071	.069	.978	.323	-.067	.202
<i>PARTICIPANTS</i>	<i>-1.520</i>	<i>0.218</i>	<i>.313</i>	<i>23.542</i>	<i>.000</i>	<i>-2.134</i>	<i>-.906</i>
LOCATION=1	-.510	0.600	.275	3.446	.063	-1.048	.028
FAMILY_SYSTEM=1	.477	1.611	.271	3.097	.078	-.054	1.007
WORKING_FEMALE_BFORE_LOAN=1	-.212	0.808	.272	.608	.436	-.744	.321
Number of Observations	250						
Chi Square	67.97						

**Table 5: Estimated outcome of participation in micro credit program on women's empowerment regarding "Use of Own Earned Income"**

5. Use of Own Income	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.113	0.893	.041	7.700	.006	-.193	-.033
NO.OF CHILDREN	-.260	0.771	.100	6.723	.010	-.457	-.063
PROP_ADULT_SCHOOL	.132	1.141	.458	.083	.773	-.765	1.030
AGE_WIFE	-.049	0.952	.062	.609	.435	-.171	.074
AGE_DIFF	-.054	0.947	.058	.881	.348	-.167	.059
YEARS_AFTER_MARRIAGE	.029	1.033	.066	.197	.657	-.100	.159
<i>PARTICIPANTS</i>	<i>-1.369</i>	<i>0.254</i>	<i>.311</i>	<i>19.392</i>	<i>.000</i>	<i>-1.979</i>	<i>-.760</i>
LOCATION=1	-.554	0.574	.275	4.066	.044	-1.093	-.016
FAMILY_SYSTEM=1	.680	1.970	.272	6.248	.012	.147	1.213
WORKING_FEMALE_BFORE_LOAN=1	-.247	0.781	.272	.821	.365	-.781	.287
Number of Observations	250						
Chi Square	69.63						

It is clear from the above regression that a women taking microcredit from MFI benefits from her participation as compared with the women who have not taken micro credit in the sense that she is now more independent in making economic and health related decisions at her own.

### Social Mobility Decisions

**Table 6: Estimated outcome of participation in micro credit program on women's empowerment regarding "Visiting Own Family"**

6. Visit Own Family	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.186	0.830	.043	18.561	.000	-.270	-.101
NO.OF CHILDREN	-.225	0.798	.101	4.925	.026	-.424	-.026
PROP_ADULT_SCHOOL	.143	1.151	.471	.093	.761	-.780	1.066
AGE_WIFE	-.021	0.979	.064	.107	.744	-.146	.104
AGE_DIFF	-.016	0.984	.058	.076	.782	-.130	.098
YEARS_AFTER_MARRIAGE	-.001	0.999	.068	.000	.983	-.135	.132
<i>PARTICIPANTS</i>	<i>-.114</i>	<i>0.328</i>	<i>.312</i>	<i>12.754</i>	<i>.000</i>	<i>-1.726</i>	<i>-.503</i>
LOCATION=1	-.218	0.804	.281	.603	.438	-.768	.332
FAMILY_SYSTEM=1	.812	2.252	.281	8.383	.004	.262	1.362
WORKING_FEMALE_BFORE_LOAN=1	-.246	0.781	.280	.771	.380	-.795	.303
Number of Observations	250						
Chi Square	77.74						

**Table 7: Estimated outcome of participation in micro credit program on women's empowerment regarding "Visiting Neighbourhood"**

7. Visiting Neighbourers	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.185	0.831	.043	18.407	.000	-.270	-.101
NO.OF CHILDREN	-.209	0.811	.104	4.023	.045	-.413	-.005
PROP_ADULT_SCHOOL	.266	1.301	.482	.304	.581	-.679	1.211
AGE_WIFE	-.003	0.997	.061	.002	.966	-.123	.118
AGE_DIFF	.006	1.011	.057	.012	.912	-.106	.119
YEARS_AFTER_MARRIAGE	-.016	0.984	.066	.061	.804	-.145	.113
<i>PARTICIPANTS</i>	<i>-1.583</i>	<i>0.205</i>	<i>.321</i>	<i>24.365</i>	<i>.000</i>	<i>-2.211</i>	<i>-.954</i>
LOCATION=1	-.859	0.423	.288	8.925	.003	-1.423	-.296
FAMILY_SYSTEM=1	.655	1.940	.285	5.273	.022	.096	1.214
WORKING_FEMALE_BFORE_LOAN=1	-.463	0.629	.285	2.636	.104	-1.021	.096
Number of Observations	250						
Chi Square	100.77						

This group of decisions is an attempt to check the effect of micro credit program on the social mobility of participant women as a whole. Results clearly indicate that when a woman borrows money from a lending institution, she becomes more independent in making decisions that are related to her social mobility. She is freer now in deciding when to visit her own family and when she should visit her neighbourers. So, women experience an increased say in their social mobility decisions as a result of participation in a micro credit program.

**Resource Allocation Decisions**

**Table 8: Estimated outcome of participation in micro credit program on women's empowerment regarding "Purchasing Household Items"**

8. To Purchase HH Assets	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.114	0.892	.040	8.027	.005	-.193	-.035
NO.OF CHILDREN	-.271	0.762	.099	7.454	.006	-.466	-.077
PROP_ADULT_SCHOOL	.102	1.107	.453	.051	.821	-.786	.991
AGE_WIFE	-.038	0.962	.060	.389	.533	-.155	.080
AGE_DIFF	-.053	0.948	.057	.867	.352	-.165	.059
YEARS_AFTER_MARRIAGE	.022	1.022	.064	.116	.733	-.104	.148
<i>PARTICIPANTS</i>	- 1.292	0.274	.307	17.66	.000	-1.894	-.689
LOCATION=1	-.563	0.569	.272	4.294	.038	-1.096	-.031
FAMILY_SYSTEM=1	.591	1.801	.269	4.845	.028	.065	1.118
WORKING_FEMALE_BFORE_LOAN=1	-.330	0.718	.270	1.497	.221	-.859	.199
Number of Observations	250						
Chi Square	66.80						

**Table 9: Estimated outcome of participation in micro credit program on women's empowerment regarding "Sale/Purchase of House"**

9. House Sale/Purchase	B	O.R	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SCHOOLING	-.087	0.916	.039	5.009	.025	-.164	-.011
NO.OF CHILDREN	-.106	0.899	.093	1.283	.257	-.289	.077
PROP_ADULT_SCHOOL	-.273	0.761	.436	.393	.531	-1.127	.581
AGE_WIFE	.047	1.04	.054	.771	.380	-.058	.153
AGE_DIFF	.008	1.008	.051	.022	.882	-.093	.108
YEARS_AFTER_MARRIAGE	-.080	0.923	.059	1.849	.174	-.196	.035
<i>PARTICIPANTS</i>	-.255	0.774	.294	.752	.386	-.832	.322
LOCATION=1	-.667	0.513	.262	6.479	.011	-1.180	-.153
FAMILY_SYSTEM=1	.495	1.640	.259	3.661	.056	-.012	1.003
WORKING_FEMALE_BFORE_LOAN=1	-.578	0.561	.261	4.909	.027	-1.090	-.067
Number of Observations	250						
Chi Square	39.19						

We expected that if a woman benefits from borrowed money than it must be reflected in some of the major household decisions leading to increase in her empowerment. In this group of tables we have regressed major household purchases and sale or purchase of house against the independent variables. Here we come up with some interesting results. Results show that as much as major household purchase is concerned, there is a significant difference existing between the control and treatment group i.e., a woman participating in some micro credit program gets benefited by enjoying a greater say in household decisions related to purchase of household assets and making repair to house.

But the last model that utilizes the sale and purchase of house as dependent variable shows us a somewhat different picture. This table shows that participation in micro credit makes no difference in this domain of household decisions. And if a woman is a participant of micro credit program, then her participation doesn't benefit her in getting more preference in decisions that are related to sale or purchase of house.

### **Conclusion and Policy Recommendation**

This empirical study finds a significant difference between the control and treatment groups. The results indicate that the women participating in micro credit program are benefiting in the sense that they are experiencing a greater say in the major household decisions as compared with the earlier situation and these decisions include decisions regarding children, health and economic decisions, social mobility decisions and decisions related to making major household purchases. In the context of the everlasting dependency hypothesis, this means that women have become more mature than before in their relation with their husbands. Thus, they have obtained the powers to take participation in the household decision making equal to their male counterparts.

However, there is still an aspect of women empowerment where she has not gained as much as other aspects regardless of the fact that every participant woman had completed at least three loan cycles with the MFI i.e., women are not enjoying an increased say in decisions relating to purchase and sale of houses at their own.

First, our results suggest that micro credit intervention has significant effect on the bargaining power of women within the household for a broad range of decisions including child related, health, and economic and social mobility decisions. Second, our results suggest that micro credit intervention is empowering women in the domains of household decisions where they are the least empowered to begin with. These include decisions relating to purchases of TV/Refrigerator, house repair etc. These decisions generally fall within the domain of 'male-only' decisions in male dominated societies.

Overall, the present study found a strong and significant impact of participation in microcredit program on women's socio-economic empowerment level.

As study found micro credit significantly beneficial for poor women and their families so the NGO's and donors should continue to facilitate these kinds of programs at local level of developing countries like Pakistan.

Education was found to be a significant contributing factor towards women's empowerment, therefore, promotion and provision of equal and cheaper educational opportunities for women and men must be ensured.

Microfinance programs should lend money for paying school fees without interest.

Sometimes it becomes very difficult for poor women to repay the loan along with interest amount, so, Government and NGO's must introduce interest free loans targeted at poorest women especially

In light of survey and interviews, it is suggested that the loan granting institute must focus on close supervision of the client to ensure that the credit is actually utilized by the client herself and if not so then at least credit must be contributing towards women empowerment.

Study revealed that only a handful of the respondents taking loan used it for business purposes, most of the loans were handed over to the husbands. Institutions providing credit must critically observe the purpose and use of loan to ensure compliance with their vision of providing credit for female enterprise.

Most of the women were not much sure about how and where to use their loans, hence, greater emphasis must be placed on training and capacity building of women involving in microcredit schemes.

Many women criticized the rate of interest charged, so, micro credit providing institutions and NGO's must also consider lowering the rates of interest on their loans which currently being 20% becomes sometimes difficult for poor women to manage.

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