

Ali et al., 2015

Volume 1 Issue 1, pp. 643-653

Year of Publication: 2015

DOI- <https://dx.doi.org/10.20319/pijss.2015.s21.643653>

This paper can be cited as: Ali, G., Yaseen, A., Bashir, M. K., Adil, S. A., & Hassan, S. (2015). Women Empowerment, Microfinance and Poverty Nexus: an Empirical Estimation Perspective. *PEOPLE: International Journal of Social Sciences*, 1(1), 643-653.

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## **WOMEN EMPOWERMENT, MICROFINANCE AND POVERTY NEXUS: AN EMPIRICAL ESTIMATION PERSPECTIVE**

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## Abstract

*Deprivation and poverty are worldwide challenges for poorer countries. Poor people especially women were excluded from financial services until microfinance institutions (MFIs) emerged. During the past few decades microcredit has enjoyed tremendous growth and women continue to be the major beneficiaries. The main objective of this study is to check weather microfinance helped women to attain decent work and strengthen their empowerment or not. This study is based on primary data and respondents were taken from First Microfinance Bank. A sample of 125 respondents was taken through simple random sampling. The study area was Faisalabad. SPSS 22 software was used for analysis. Logit model was applied to get and analyze results. Results showed significant positive relationship between women empowerment and different socio-economic independent variables i.e. income, investment, self-confidence, free movement. All the variables are statistically significant other than education. It is cleared that women enjoy more freedom, self-confidence and learn more skills to enhance their income. By investing in people and empowering individual women and men with education and generation of equal opportunities can create the conditions to allow the poor to break out of the poverty.*

### Keywords

Microfinance, Women Empowerment, Poverty Alleviation, Consumer Behavior, Empirical Analysis, Developing Countries.

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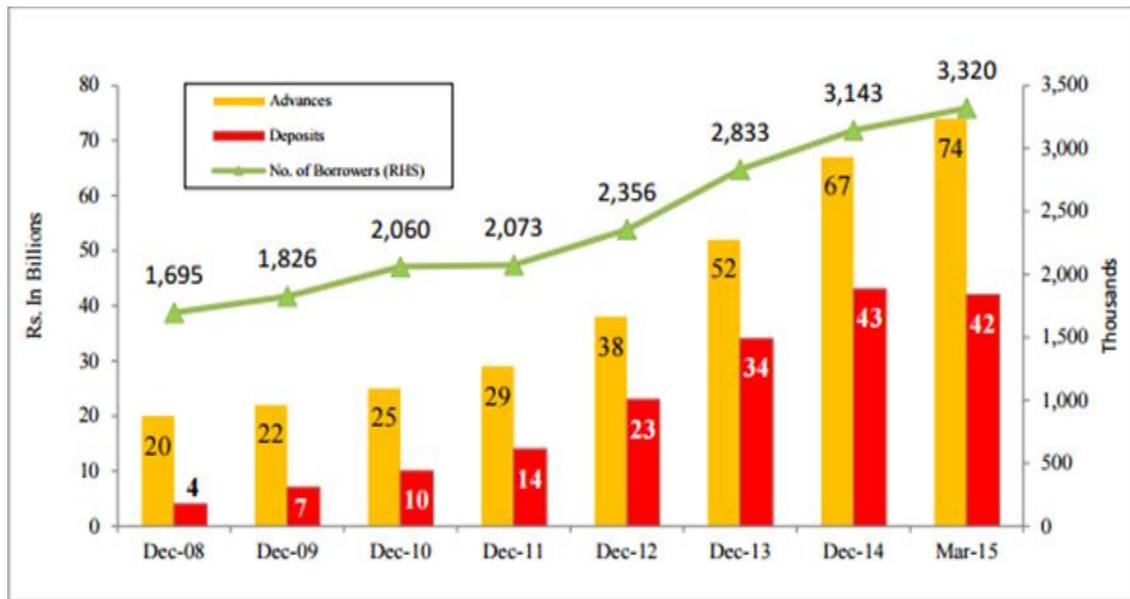
## 1. Introduction

In Pakistan, microfinance sector is at its initial stage. In the history of Pakistan, for the first time Microfinance Institutes (MFI) ordinance was formulated in 2001 for rationalization and performing the activities of microfinance and providing it legal protection. For the provision of microfinance services in Pakistan, a number of banks and Non-Governmental Organizations (NGO's) transformed into market. Two commercial banks i.e. Bank of Khyber and First Women Bank also began to provide their services for the poor and straight their lines of credit for microfinance sector. But, most of these institutions restricted their activities only to give microcredit and did not provide a full range of microfinance services. Majority of MFIs and NGOs have worked under the supervision of government. In Pakistan, the target of MFIs is estimated to be 25 to 30 million debtors (UNDP, 2011).

Government is determined and has set its objective to at least 3 million borrowers by the

end of 2010 and has further moved to 10 million by 2015. Total numbers of active borrowers in 2010 were 1.9 million. The Pakistan microfinance sector still has potential of 27 million borrowers (Microwatch, 2010). Through microcredit MFIs give funding to destitute people who lack resources to present as collateral to get loans from commercial bank (Yunzus, 1999). Microcredit gives opportunity to the poor people to make an investment in those activities that cause to create more income and they start a new business. It is also used to generate more income opportunities and thus they diversify their income for example people who have small farms can also start new business. It reduces vulnerability, because if income from one activity decreases the other business can secure the borrowers (Hermes & Lensink, 2011). Experience showed that advancement of enterprise creation, income generating activities and enterprise creation among women would change them from 'being alive' to 'living with dignity'. Availability of resources at local level on the basis of enterprise development has been thought an influential tool for empowerment of women (Samar & Raman, 2011; Sriraman, 2006). The main aim of this paper is to analyze whether microfinance strengthen women empowerment or not. The following hypothesis is to be tested: Provision of microfinance empowers women.

Figure 1 explains the growth of microfinance in Pakistan for the last few years. It is obvious to observe that growth is linear and constantly increasing with the increasing trend. The rate of advances was 20 billion rupees at the end of year 2008, however, it kept hiking with the increasing rate and now in the first quarter of this year it is reached to almost 74 billion rupees. 4 times higher than of 2008 that means it grew rapidly at higher rates. Therefore, it would be accurate to state that microfinance growth in Pakistan has been very positive since the last decade.



**Figure 1:** Growth of Microfinance in Pakistan over Years Source: Economic Survey, 2014-15.

## 2. Methodology

The present study was conducted in Faisalabad. First microfinance bank, Faisalabad branch is selected to execute the accurate results. A complete list of required clients of First microfinance bank is taken from the bank officials. The total number of women borrowers was 3000 while total clients were almost 6000. 35% of the total clients were considered to be a representative sample, i.e. 125 women borrowers that also fulfill the Hosmer & Lemeshow sample selection criteria. Hosmer & Lemeshow (2000) stated that sample should be selected on the basis of 20 to 1 it means the minimum number of cases per independent variable is 10 but preferred ratio is 20 to 1. For the purpose of quantitative analysis, data were collected through questionnaire consisted of both closed end and open ended questions regarding the research objectives. The questionnaire was pre-tested on fifteen respondents to ensure the content validity and reliability of interview schedule. Qualitative questionnaire was planned to study the socio economic characteristics of women in Faisalabad.

The survey was conducted during last week of June and first week of July 2015. The average time per interview was about 15 minutes. A few difficulties were faced as most of the respondents did not respond in a desired manner or they did not follow the nature of different questions and were hesitant to answer. For this study, data entry sheet was developed in SPSS Window Version 22.

The economists frequently encounter the research problem whereby the dependent

variable of the structural model is not directly observed (Sununtar & Sununtar, 2008). The actual observed variable may be dependent on the values of other variables or alternatively may observe a variable that takes on values related to the underlying unobserved dependent variables. For these models, or alternatively may observe a variable that takes on values related to the underlying unobserved dependent variables. For these models, ordinary least squares or standard economic estimators are not appropriate because of the limited or qualitative nature of the observed dependent variable.

The general equation is as follows.

$$Y=f(X_1, X_2 \dots X_n) \quad (1)$$

Where, Y denotes dummy variable (in 1 and 0 form).

$X_1, X_2, \dots, X_n$  represent various determining factors that contribute positively or negatively in the probability of dummy dependent variable. In this model, the dependent variable is only in dummy form i.e. if yes=1, otherwise=0

$$Y_i^* = \beta_1 + \beta_2 X + \epsilon_i \quad (2)$$

Where  $Y_i^*$  is not observed. It is a latent variable. What we observe is a dummy variable  $y_i$  defined by  $y_i^*$ .  $y_i$  is equal to 1 if yes and zero otherwise if not.  $\beta$  is a row vector of parameters and  $\epsilon_i$  is normally distributed with mean 0.

Binary logistic regression is formulated as

$$\text{Probability } \Pi(X) (=1) = 1/1+e^{-z} \quad (3)$$

Where

$$Z = \beta_1 + \beta_2 X_i + \dots + \beta_k X_i \quad (4)$$

As the dependent variable is in dummy form so the logit model was applied (Hafeez, 2013). This model tells the probability of an event to occur=1 and 0 otherwise (Ejaz, 2007; Sarahat, & Chowdhury, 2011). In the model, dependent variable is the probability of women empowerment=1 and 0 otherwise.

The change in independent variables will show an increase or decrease in the probability of women empowerment. The logit results and discussion are presented below.

The list of the selected explanatory variables finally included in the Legit Model according to their statistical significance is as under.

#### Description of Models' Variables

**i. Investment (in a year after getting credit)**

- 15000-25000
- 26000-35000
- 36000-45000
- 46000-55000

**ii. Income (per month)**

- No income
- 1000-10,000
- 10001-15000
- 15000>

**Education**

- Illiterate
- Primary
- Middle
- Matric
- Intermediate

The dummy variables were as follows.

**iii. Self-confidence: 1 if she gained confidence otherwise 0.**

**iv. Free movement: 1 if freely move outside for economic activities otherwise**

### **3. Results and Discussions**

The main purpose of this research was to explore the relationship among women empowerment, microfinance and poverty in the developing countries, taking Faisalabad city of Pakistan as case study. Moreover, a hypothesis was to be tested that states as“provision of microfinance empowers women.”Self-confidence and free movement variables show that women gained decent work because they can freely move outside the home with full confidence to engage in economic activities. All the variables jointly explained the socio-economic empowerment in methodology section. The present study shows that investment and income are highly significant at 1% significance level while self-confidence and free movement are significant at 5% significant level. Coefficient signs are positive this means investment, income, free movement and self-confidence are positively related to women empowerment whereas education is negatively related to women empowerment.

Touqeer & Butt, 2011 also shows same results that most of the females who availed the facility of microfinance finally got socioeconomic empowerment. Only 82 females had low level of socio-economic empowerment. Majority 174 respondents had medium level of socio-economic empowerment. Only 40 respondents argued that they have high level of socio-economic empowerment after getting microcredit facility. It can be concluded that most of the respondents got socio-economic empowerment through microcredit.

An increase in income is positively related to empowerment meaning that one unit increase in income might increase the log odds ratio by 1.688. As Waheed (2009) explained that the effect of small scale credit on groups in procurement of acknowledge advantages was noteworthy as 75% ladies showed that they claimed their organizations and 70% told that their income are more prominent than some time recently. It likewise had positive association with their month to month pay, increment in resources, dependable house set up, nourishment, wellbeing and instruction. Ladies, who earned autonomous pay, gave more and better nourishment to their families, especially to their youngsters. These results are also similar to Haile *et al.*, 2012.

An increase in investment is significant and positively related to empowerment. It means that one unit increase in investment might increase the log odds ratio by 2.552. Mula & Sarker, 2013 also result positive change in investment (66.25%) after engaging in microfinance activities.

**Table 1:** Empirical results of the statistical analysis

Variables	Coefficients	Standard errors
Log (investment)	2.552**	1.241
Log(income)	1.688**	0.622
Free movement	0.894*	0.060
Self-confidence	2.803*	1.536
Edu_cat	Reference category	-
Edu_cat (1)	-1.689	1.367
Edu_cat (2)	-1.053	0.327
Constant	5.059	1.470

Dependent variable: Women empowerment \*\* p<0.01, \* p<0.05

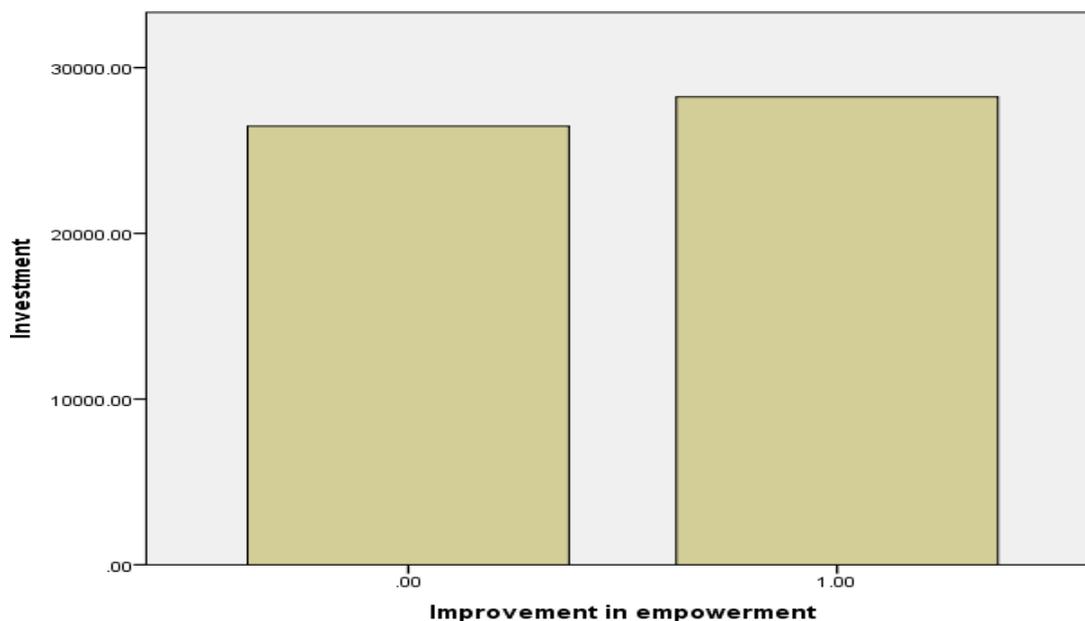
Free movement is significant and positively related to empowerment. It means that one time increase in free movement in and outside the home will cause to increase the log odds ratio

by 0.894. Our results are significantly parallel to Hashmi, *et al.*, 1996; Kato and Jan, 2013.

The coefficient of self-confidence is positive and statistically significant. It shows that one time increase in self-confidence will cause to increase log odds ratio by 2.803. Lakwo, 2006 results that self-confidence of women improved, they achieved a higher status and have taken up roles that previously were only assigned to men.

Results about education are not significant and positive. Education contributes to empowerment but in this study other variables are more significant to effect women empowerment.

Education is categorized in three groups illiterate, primary to middle and matric to intermediate. Third category of education is the reference category. The probability of lower education group category (1) of not being empowered from empowered women is -1.689 times of the reference category. The probability of middle education group category (2) of not being empowered from empowered women is -1.689 times of the reference category. Figure 2 explains the link between investment and women empowerment in the study area. This result was obtained on the basis of empirical analyst is extracted through primary data collected.



**Figure 2:** Empowerment level linked to the investment

#### 4. Conclusions

In Pakistan, the target of microfinance institutions is estimated to be 25 to 30 million debtors. Government is determined and set its objectives to at least 3 million borrowers by the

end of 2010 and have further moved to 10 million by 2015. Total numbers of active borrowers in 2010 were 1.9 million. The Pakistan microfinance sector still has potential of 27. Likewise, 407 million borrowers to whom microfinance market can provide its services. The government of Pakistan can boost up microfinance outreach by taking into account female entrepreneur that is about 51% of the country's total population.

The present study concluded that investment, income and free movement are highly significant at 1% significance level while self-confidence is significant at 5% significant level. This means investment, income, free movement and self-confidence are positively related to women empowerment whereas education is negatively related to women empowerment. Variables free movement and self-confidence show that women gained decent work because they can freely move outside the home with full confidence to engage in economic activities. About half of the respondents revealed that they did not face any problem regarding repayment of loan. Deprivation and poverty are worldwide challenges for poorer countries. In directly microfinance reduce poverty. To investigate the poverty reduction, change in income is analyzed by keeping investment, employment and assets as independent variables. Positive and significant results are found i.e. with the increase in investment, employment and assets, increase in income is seen which ultimately reduce poverty.

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