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Empowerment Through Microfinance: The Relation Between Loan Cycle and Level of Empowerment

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Summary. — Does microfinance support the empowerment of female borrowers? Results of studies analyzing microfinance and empowerment delivered mixed results. In order to explore whether microfinance influences empowerment, the paper compares women in higher loan cycles of a Pakistani microfinance institution with those in the first loan cycle regarding their empowerment. Using a survey and multivariate statistical methods, such as propensity score matching, the study found that women in higher loan cycles were on a higher level of empowerment. We conclude that microfinance has an impact on the empowerment of female borrowers.

Key words — microfinance, empowerment, Bangladesh, women, multivariate analysis, propensity score matching

1. BACKGROUND

Empowerment is not only discussed in the context of microfinance but generally in a development context (Charmes & Wieringa, 2003; Mosedale, 2005) and especially in relation to women empowerment. Some scholars and practitioners argue that microfinance leads to empowerment of whole nations or of marginalized groups. Though microfinance and empowerment are intensively discussed in the academic literature, however, the connection is still unclear and need further empirical analysis. Consequently, this paper will focus on women empowerment and microfinance based on a study conducted in Pakistan.

Therefore, we describe the current status of rural women in Pakistan, policies regarding women empowerment, and the role of microfinance program.

(a) *Status of women in Pakistan*

Roomi and Parrott (2008) mention the status of women in Pakistan as a major barrier for the development of female entrepreneurs. They identified a lack of access for women to capital, land, business premises, information technology, training, and agency assistance in addition to missing encouragement by male family members in a patriarchal society, limited spatial mobility, and a dearth of social capital in Pakistan. Hausmann, Tyson, and Zahidi (2008) rank Pakistan on the 134th position out of 135 countries with respect to gender gap. Pakistan's economy is based on agriculture and 51% of women live in rural areas (Muhammad, Shaheen, Naqvi, & Zehra, 2012) working on household farms or within the household (Sathar & Kazi, 2000). Though officially women have the right to own land, it is mostly inherited by male children and thus the access to land for women is often restricted (Agarwal, 1994).

The labor force participation of women in Pakistan in 2012 was 24% (World Bank, 2014), putting the country on rank 172 out of 183 globally. According to the Economic Survey of Pakistan 2012–2013 (Ministry of Finance of the Government of Pakistan, 2013) the overall rural female literacy rate is 35% with a male literacy rate of 64%. Rural literacy is also lower than the average female literacy in Pakistan (47%). Still, class influences access to education and employment in rural settings. The combination of a generally low accessibility to health care and gender inequality leads to a low access to health care for women (Society of Obstetricians & Gynaecologists of Pakistan, 2009) resulting in a relatively high female mortality rate. Furthermore, active participation of rural women in Pakistan is hindered due to limited participation in the workforce, immobility, domestic pressure, income disparity, and the lack of decision-making opportunities (Shabib ul Hasan, 2012). Hence, studies suggest that women's mobility is limited in Pakistan. Mumtaz and Salway (2005), for instance found that only 18% of their interviewees have traveled alone during four weeks before being interviewed. A further indicator of the status of women in Pakistan is violence against women, an enormous problem in South Asian countries and in Pakistan (Niaz, 2003).

(b) *Policies regarding women empowerment in Pakistan*

The Pakistani government follows the millennium development goals. With regard to women empowerment policies with respect to education are important. Consequently, government policies strive to ensure that by 2015 all children, independent of gender, will be able to complete primary schooling. Secondly, the National Education Policy plans to eliminate gender disparity in education at all levels until 2015 (Ministry of Finance of the Government of Pakistan, 2013) and therefore established a ministry for education and training.

Other policies to strengthen women and empowerment are an initiative to provide state land to landless women (The Daily Times, 2012), an income support program that combines financial products such as microfinance, insurance and grants (see http://www.bisp.gov.pk/), training of women in rural jobs, and assisting them in marketing their products.

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(c) *Microfinance in Pakistan*

Microfinance and women empowerment in Pakistan were first promoted in the 1990s and is regulated by the State Bank of Pakistan. In 2012–13 the microfinance platform mixmarket counted 28 microfinance institutions in Pakistan. As of October 2013 they served 2.7 million borrowers with a total loan sum of $483 million (www.mixmarket.org). The biggest microfinance institutions in Pakistan with loan portfolios higher than $35 million are Kushhali Bank, TMFB, NRSP, FMFB Pakistan and Kashf Foundation. The average percentage of female borrowers in the loan portfolios of Pakistani microfinance institutions in 2012–13 was 63%. At least eight of the Pakistani microfinance institutions only lend to women. According to mixmarket.org, the biggest among them is Kashf Foundation.

(d) *Problem statement and objective of the study*

Above, the paper described the current status of women in Pakistan and the means to improve their situation. In addition to educational policies, microfinance is meant to play an important role to support women empowerment in Pakistan, because it may offer access to finance that is not available particularly for those without any collateral. Though the problem exists in many developing and also developed countries and is rather gender neutral, in Pakistan the situation of women is even worse than of men (Roomi & Parrott, 2008). Women often do not have access to finance by conventional banks and either depend on private lenders or on microfinance institutions Lack of access may appear because women do not know how to access formal finance, they cannot offer the necessary collateral or track record, or because of cultural barriers with respect to interacting with male bank officers (Niethammer, Saeed, Mohamed, & Charafi, 2007). Therefore, microfinance is a reliable way for women to receive financial capital for starting or maintaining a business. It is still unclear, however, how and whether microfinance has a positive effect on women empowerment and it is crucial to analyze the connection between microloans and empowerment. Consequently, the objective of the study is to explore the impact of microfinance in Pakistan on women empowerment. The study focuses on three research questions:

1. Are women in higher loan cycles, and consequently provided with more loans, more empowered than those in the first loan cycle?
2. Do other factors, such as age, marital status, and rural *vs*. urban environment, influence empowerment and the effect of microfinance on empowerment?
3. Which specific empowerment indicators are affected by microfinance?

2. LITERATURE REVIEW

The following review presents an overview about the literature on empowerment, on the connection between microfinance and empowerment, and on impact measurement in microfinance.

(a) *Empowerment*

Empowerment is a complex construct used in management and in other social sciences such as development research and community psychology (Fetterman, 1994). Generally, empowerment can be seen in a relational way, defining empowerment as perceived control over others or over oneself and mainly as subjective perception. A second way of defining empowerment is a motivational construct. It focuses on what people expect with regard to their power and whether they are satisfied with their current state of power (Conger & Kanungo, 1988). In a broader organizational context, empowerment is defined as *enabling* rather than delegating. Empowering a person means enabling them to achieve certain goals, such as earning enough income to make a living, or for a woman to be able to decide about her children's education.

Generally empowerment is seen as a multidimensional concept that consists of more than one variable (Ali & Hatta, 2012). Narayan (2005, p. 5) defines empowerment as "…the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives". In addition to Narayan's definition, it should be mentioned that families, neighbors, or other groups are usually subsumed under institutions as well, since empowerment is often discussed with respect to the relation to these groups.

Indicators of empowerment often include control over resources, participation in household and community decision-making, mobility in the public sphere, feelings of self-worth and efficacy, and better treatment at home and in the community (Kabeer, 2001; Noponen, 2003). Khan and Noree (2012) use a five-factor model of empowerment including child health, education, selection of spouse of children, purchase of basic goods, and decision of household savings. This model is similar to that of Nader (2008), who analyzed children's education, income, assets, health improvement, and harmony in the family. These multidimensional concepts mainly focus on the *social* dimension of empowerment. Other authors, though, concentrate on the financial dimension of empowerment.

Bhuiyan, Siwar, Ismail, and Bin Hossain (2013), for instance, use growth of income and consumption, the reduction of vulnerability to and alleviation of poverty, health, safety, and children's schooling as factors defining empowerment.

In contrast to the concepts above focusing on individual empowerment, Muhammad *et al.* (2012) use a three-factor model that equally weights the factor proportion of women's share in total assets, proportion of women in jobs, and proportion of women in higher education. Because the authors do not focus on individuals but on the situation of women in the society, they use publically available data for their research.

Other studies, however, especially those in regions with significant power differences between women and men, concentrate on intra-household relationships as the main variable for measuring empowerment (Kabeer, 2001). Studies of this kind usually analyze the relation between wife and husband or women in smaller groups or villages.

With Leach and Sitaram (2002) it should be emphasized that women empowerment does not mean the exclusion of men. Some studies demonstrated that the inclusion of men in the entrepreneurial activities of women may be positive for both women's empowerment and their income, because it does not create conflicts between wives and husbands (Khan & Noree, 2012; Rai & Ravi, 2011).

Based on the literature on empowerment presented above, the study splits the concept into two main parts, financial and non-financial empowerment. Financial empowerment indicators are the utilization of the loan (Khan & Noree, 2012), the contribution to household expenditure (Kabeer, 2001; Schuler & Rottach, 2010), income and income decision (Bhuiyan *et al.*, 2013), equal participation in resource