

Women empowerment and microfinance in pakistan



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Micro Finance Institutions are gateways that provide the poor and vulnerable people access to such credit. Lack of education and financial knowledge, poor socioeconomic conditions, family restrictions for females are some reasons why MFI fails to meet its goals. For such growth and development to take place, the role of females and particularly the involvement of females in the economic activity are very important. Access to money and women empowerment is important factors that contribute to the development of a country. In Pakistan the concept of borrowing from proper financial institutions is very low and in most cases restricted to large corporations. The usage of micro credit by the majority, particularly people living in rural areas is very low as still majority tends to save or borrow from their friends and family members. According to World Bank statistics around 14% of the people are taking use of services from a formal financial institution and when informal sector is taken into account 50.5% have access to finance. Of them nearly 50% don't engage in any kind of formal or informal financial system and around " 19 percent have voluntarily excluded themselves through lack of understanding, awareness, or need, due to poverty, or for religious reasons. This research paper will discuss how microfinance has aided women empowerment in Pakistan and the factors that contributed to the success of MFIs. The paper will also focus on the drawbacks of MFIs and the hindrance caused by some of their policies for women willing to raise capital for their future ventures.

Literature Review

Niethammer, Tania Saeed, Shaheen Sidi Mohamed, and Yasser Charafi

(2007) states in the article that women's lack of access to finance is one of

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the key constraints for economic growth and that economic development and women empowerment are interrelated. the authors then answer the question of why is important and it is important because of the following reasons

Poverty alleviation and improved social wellbeing

55. 8% of women as compared to 41% of men are living below poverty line. Programs give access to savings and helps in smoothing the incomes of the poor and ensures predictable revenue streams. Majority of the women view the increase in their income as a vehicle for improving their status within the household. The women aimed to improve their status through having their own income(85%), freedom of mobility(70%), and equal decision making power with men (92%).

Female employment generation

Female labor force participation rate is the lowest at 15. 9%. Women entrepreneurs in the SME sector provide greater employment to women.

The economic justification for providing women access to finance

Women entrepreneurship is on the rise. Women are a minority f the borrowers of the Ngo credit-the Pakistan's microfinance sector has not been able to scale up as successfully as other countries. Increase in economic activity of women in Pakistan can represent a potentially profitable market niche for the financial sector.

Obstacles to women's access to finance-demand side issues

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There is lack of access to FI to fund their startups and business expansions. Women don't know how to access formal finance and hence remain undercapitalized as they often do not meet minimum borrowing requirement. Women faced difficulties in mobilizing start-up capital, credit guarantees, investment capital, and experienced discrimination from bankers.

Obstacles to women's access to finance-supply side issues

Rural financial market study shows that men have over three and a half times greater access to finance as compared to women in rural areas. Men borrowed 91% of large loans. Some do not have products and services that meet the need of women-small service sector business hence higher risk. Biasness caused by social and cultural prejudices-ignore economic participation

The author offers a few Recommendations to improve the situation and these include: develop financial products that cater to women entrepreneurs; help women become more bankable clients through nonfinancial services; promote financial sector outreach to women; promote women's access to microfinance; and implement sound policies.

Sylvain Dessy and Jacques Ewoudou(2006) in their study focuses on how loans and training through MFI create female entrepreneurs particularly in the developing countries and terms it as an " opportunity to earn independent income". They conduct a " game theoretical model of activity" under which they conclude that giving loans to women would not be enough in order to make them successful entrepreneurs, " condition for MFIs to <https://assignbuster.com/women-empowerment-and-microfinance-in-pakistan/>

succeed in nurturing female empowerment is that access to women's credit be conditioned to their adoption of high-productive informal activities". The game-theoretic model highlights coordination failure that hinders the emergence of networks of female entrepreneurs necessary to overcome patriarchal business practices that limit female entrepreneurs' access to high-productivity informal activities. Two pure-strategy Nash-equilibria: a high-income equilibrium where all of them operate high-productivity informal activities and a low-income equilibrium where they all remain confined into low-productivity ones, despite access to credit. Therefore, when the low-income Nash-equilibrium obtains despite women's improved access to credit, it must be that microfinance assistance to female entrepreneurship has failed to act as a coordination mechanism for the emergence of large enough networks of female entrepreneurs operating high-productivity activities. wherever microfinance has failed to empower women-in the sense of enhancing their involvement in high-productivity activities-, we concluded that it may be because of coordination failure that prevents women from creating business networks large enough to mitigate patriarchal forms of business regulations that put them at a comparative disadvantage, relative to men, at managing high-productivity business ventures. We found that a sufficient condition for MFIs to succeed in nurturing female empowerment is that women's access to credit be conditioned to their adoption of high-productivity informal activities. Such conditionality will act as a coordination mechanism, allowing female entrepreneurs to organize in large enough networks that raise women's gains from operating high-productivity activities in the informal economy.

Cheston Susy and Kuhn Lisa(2001) placed emphasis on various channels through which Microfinance works. They include MFIs, banks, NGOs and other non banking financial institutions. Most of these financial institutions target women as they are the most vulnerable and “ poorest of the poor” part of the society and without empowering them, development couldn’t be achieved.

Mohammad D. Sulaiman defines microfinance in his article as ” a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers” according to the oxford dictionary. Microfinance helps in pulling people out of the vicious circle of poverty by providing access to finance at their doorsteps at very easy terms and conditions. Microfinance has the following key function according to Wikipedia:

1. Deprived segment of the society need a diversity of financial services, not only loans
2. It is powerful instrument to fight against the poverty
3. It is a source to build financial systems may be useful to serve poor.
4. It must pay for itself to accomplish large numbers of poor people.
5. It is about building perpetual domestic financial institutions.
6. Micro credit is not the suitable instrument for everyone or in every situation.

7. Mark up ceilings making it difficult for poor people to get credit.

8. the task of government is to enable financial services, not to provide them.

9. The funds of the donor should be supported to private capital not to compete with private Capital.

10. shortage of organized institutions and managers are the main obstacles are Microfinance.

Also there is a difference between charity and microfinance, charity is given to fulfill needs whereas microfinance is given to poor people to start their own business and find a way to earn livelihood. The ratio of women making use of microfinance loans is high compared to previous years but very low when compared to that of the neighboring countries. It needs to be increased if women empowerment is to be pursued as an objective of microfinance. However the recovery rate of the loans is higher amongst women and they're the preferred consumer of these loans.

Herani, Gobind M(2010) says that microcredit has been initiated with an initiative with an objective of providing credit to poor people without collateral. The criteria of providing credit, discipline and harmony of group members, collection of repayments, supervision of borrower's activities in micro credit system has played a major role in replacing the collateral. This has encouraged women to take up more loans as they can go in groups to get finance for their projects and then pay off the loan collectively.

microfinance gives women a chance to diversify their portfolio of assets-

social, human, financial, natural and physical capital. The success of microfinance schemes rely on the following questions: whether all the donated/allocated funds are properly utilized? Whether these allocated funds are distributed among the rightful hands? Whether these transactions of funds are observable by donor? Whether deposits can be got from targeted population.

Swain Bali Ranjula and Wallentin Yang Fan (2007) in their article state that women empowerment depends on the norms and culture of the society they live in. Microfinance helps in empowering those women who are amongst the poorest and the most vulnerable. It also presents an increase in women's resources which helps them achieve improve earnings and well being. It also discusses the women's traditional role in society and how they promote gender equality.

Jamal Haroon(2008) evaluates the impact of microfinance programs on income, expenditure, child education and women empowerment. According to the author, The beginnings of the Microfinance sector in Pakistan has its roots in the rural development projects that were funded by donors like The Aga Khan Rural Support Programs. The GOP and various rural support programs feel that microfinance can be used as an important tool for women empowerment. He has done sample study based on various range of sizes, ownership patterns, sources of funding, lending methodology, program area, organizational structure, borrowers and communities . The variables used in the study were Income and Expenditure (Household Expenditure (Per Capita), Household Income (Per Capita), Respondent Income, Household Asset Score, Household Expenditure on Education, Household Expenditure on <https://assignbuster.com/women-empowerment-and-microfinance-in-pakistan/>

Health) Child Education (Percentage of School Going Children (6-15 Years), Percentage of School Going Girls (6-15 Years) and Women Empowerment (Economic Aspects, Income and Expenditure, Asset Transactions, Education and Health. He reached the conclusion that microfinance helps in smoothing consumptions and generating incomes. However the econometrical results regarding women empowerment are mixed, contradictory and in many cases, unexpected. Therefore the microfinance interventions do not seem to have a significant positive impact on the different aspects of women empowerment.

Linda Mayoux(2006) defines women empowerment as the participatory process through which women, who are currently most discriminated against, achieve gender equality and equity. Where the extent of women's disadvantage means that they are unable to fully promote their own interests, this will require support by development agencies at household, community and macro levels. This will include support for men to change those aspects of their behavior, roles and privileges which currently discriminate against women. An essential element for women empowerment is the change in men's attitude towards women. If men don't have a liberal approach towards it than microfinance cant help women in anyway as in our society the men are most dominant. An urban poverty Alleviation project (UPAP) imitated by the national rural support programme (NRSP) shares this drawback. In order to receive a loan from this project women have to be accompanied by any one male of the family. If such restrictions are played on women than they can't be independent. Also usually the loans taken up by women are used by the male heads of the family and they leave the

women after they receive the finance to repay the loan. It should be made compulsory for women to use the loan themselves and put their skills to use. Also they should take training of skills that can help them in setting up their own business rather than relying on the males of the family.

She also talks about the paradigms' on micro-finance and gender which are Financial self-sustainability paradigm , Poverty alleviation paradigm and the feminist empowerment paradigm. The Financial Self-sustainability paradigm is currently dominant within most donor agencies and in the models of micro-finance promoted in publications by USAID, World Bank, UNDP, CGAP and the Micro-credit Summit Campaign. Here the main consideration in programme design is provision of financially self-sustainable micro-finance services to large numbers of poor people, particularly micro- and small entrepreneurs. In this paradigm, it is assumed that increasing women's access to micro-finance services will in itself lead to individual economic empowerment, well-being and social and political empowerment. The Poverty alleviation paradigm underlies poverty-targeted programmes. Here the main considerations are poverty reduction among the poorest, increased well-being and community development. The focus is on small savings and loan provision for consumption and production, group formation, etc. Gender lobbies in this context have argued for targeting women, because of higher levels of female poverty and because of women's responsibility for household well-being. Poverty alleviation and women's empowerment are seen as two sides of the same coin. The feminist empowerment paradigm underlies the gender policies of many NGOs and the perspectives of some of the consultants and researchers looking at gender impact of microfinance

programmes (eg Johnson, 1997). Micro-finance is promoted as an entry point in the context of a wider strategy for women's economic and socio-political empowerment. The focus here is on gender awareness and feminist organization. Some programmes have developed very effective means for integrating gender awareness into programmes and for organizing women and men to challenge and change gender discrimination. Some also have legal rights support for women and engage in gender advocacy. The paper concludes that women's empowerment needs to be an integral part of policies. Empowerment cannot be assumed to be an automatic outcome of micro-finance programmes, whether designed for financial sustainability or poverty targeting. More research and innovation on conditions of micro-finance delivery is needed. The paper finds that cost-effective ways of integrating micro-finance with other empowerment interventions, including group development and complementary services are still lacking. Unless empowerment is an integral part of the planning process, the rapid expansion of micro-finance is unlikely to make more than a limited contribution to empowerment.

Mumtaz Soofia(2000) in this paper examines the gender component of the Urban Poverty Alleviation Project (UPAP) initiated by the National Rural Support Programme(NRSP) in Rawalpindi and Islamabad. UPAP gives loans to self-constituted groups of women who would be considered uncreditworthy by normal banking standards. Micro finance schemes target women as clients because they constitute the poorer half of the most disadvantaged section of the population. Concentrating on women is expected to move the household out of poverty, because women contribute their incomes to

household welfare. The status of the borrower receives a boost because the value of women within the home is known to increase with the generation and management of monetary income. Efforts at mainstreaming women thus seek to increase their independence within and outside the home.

Empowering women, and enabling them to use the loan themselves, will 'boost' the household economy. Expecting the borrower to contribute all her income to the household, without empowering her, is tantamount to exploiting her disadvantaged position, and perpetuating her subordination.

Economic Development

Government development projects

Role of MFI's & their policies

Increase in income generating ability