

THE REAL EFFICACY OF MICROFINANCE SECTOR IN ADDRESSING WOMEN EMPOWERMENT & POVERTY ALLEVIATION ISSUES IN PAKISTAN

Syed Shabib ul Hasan

Assistant Professor, Department of Public Administration

University of Karachi, Karachi - 75270,

Pakistan, sshassan@uok.edu.pk

Bushra Shahzad

Research Student, Department of Public Administration

University of Karachi, Karachi - 75270, Pakistan

Abstract

Women empowerment and poverty alleviation requires unprecedented efforts to serve the underprivileged segment of the society. Several interventions have been made across the world and provision of microfinance facilities is one of those kinds. Globally, microfinance has played a crucial role in cultivating the livelihoods of the underprivileged stratum of society. In Pakistan, the emergence of microfinance could be considered as a positive development towards resolving the issues of women empowerment and poverty alleviation as many players are entering into the market and the outreach of credit has increased manifold. The focus of this study is to lay emphasis on microfinance sector and to examine its challenges in eradicating poverty and empowering women. Though microfinance includes a broad range of services but this paper will specifically discuss the role of microcredit services and its impact.

Keywords:

Microfinance, Emergence of Microfinance, Challenges of Microfinance, Women Empowerment, Poverty Alleviation

Introduction

Microfinance is a buzzword today, defined as the provision of broad range of demand oriented services, including remittances, savings (deposits), credit/ loan and insurance to the poor households. Microfinance (MF) is a business with social objective i.e. credit generally been granted to the marginalized section of society by the institutions involve. The objective behind microfinance services is providing credits, savings and financial services to those deprived borrowers who lack sufficient collateral and cannot be served by conventional banks on easy terms. As a matter of fact, conventional banks are established for the people who have money and not for those who possess inadequate resources Gertvan (2004). Nobody can deny the fact that MF sector in Pakistan since the promulgation of Microfinance Ordinance - 2001 has seen phenomenal growth in the country. Opportunities have been extended on

behalf of State Bank of Pakistan to issue licenses to several Microfinance Banks and flexibility has been drawn as far as prudential regulations are concerned. The quantitative measures derived from official reports have been impressive but the qualitative aspects do not reflect positivity. The vulnerability of poor people all over the country is not a hidden fact, with women being the severe victims in our society. Despite many Microfinance institutions and NGOs working to safeguard their interests, women in Pakistan, still stand at a dismal state.

Poverty and Women Empowerment:

Poverty alleviation and women empowerment go side by side as women especially in developing economies reflect the weaker section of the society and empowering them means going long distance in eradicating poverty. It is very difficult to define poverty as it is a subjective matter and therefore there isn't

any objective definition of poverty available. Despite being difficult to delineate, the World Bank has defined it in monetary terms as those who earn one-dollar a day lies under poverty line. As mentioned earlier, the term is a complex phenomenon and according to social scientists; nonmonetary dimensions of poverty have been increasingly recognized in recent days.

Based on the strong interconnection between poverty and economic empowerment, it is imperative to understand the term empowerment to get assistance in developing a theoretical background of the notion of women's empowerment. In the social sciences, empowerment is defined as the process of obtaining or giving power in such a society where certain sections are more powerful than others. This notion asserts that the people who are in power have control on maximum number of resources and the weaker ones are exploited by the so-called superiors. Robbins, Chatterjee, & Canda, (1998) defined empowerment as a "process by which individuals and groups gain power, get access to resources and acquire control over their own lives. This is how they could gain the ability to achieve their highest personal and collective aspirations". According to Rappoport, J. (1984) empowerment is "The framework by which people, organizations, and communities gain mastery over their lives. The stakeholders need to participate in such activities affecting their well-being. It is the antithesis of paternalism." Kieffer (1984) offers the definition of empowerment, "In becoming empowered, individuals not only acquire new practical skills; but they also reconstruct and reorient their deeply engrained personal/ traditional systems of social relations." Kabeer, (2001) focused on women empowerment and defined it as the "process by which women should be allowed to lead their own lives through expansion of choices. They are permitted to take their strategic life choices and fully

aware of their rights and self-esteem." The major elements that are mandatory to consider for women empowerment are economic transformation, social change, cultural and political shift.

The Two Facets of Microfinance

Poverty alleviation and women empowerment are the two core issues of the contemporary era. Their respective challenges can be addressed through Microfinance which has brought positive changes worldwide in the lives of underprivileged people and its benefits include:

- *Economic independence* is enjoyed by the impecunious specifically, the *poorest of the poor* i.e. women; because their income levels rise to a certain extent.
- *Market independence* is created and clients enjoy the wider access to markets and could build social networks in order to disseminate the knowledge.
- *Social independence* is being provided by the microfinance mechanism as it allows weaker sections to have the confidence of expressing their entrepreneurial abilities thus uplift their self respect and self belief.

The significance of microfinance can also be gauged by the fact that UNO has celebrated year 2005 as the International Year of Microcredit and the General Assembly adopted a resolution (A/60/210) giving special emphasis to eradicate extreme poverty and hunger and also to promote gender equality and empower women Swaminathan (2007). These developments require for analyzing the role of microfinance sector in facilitating small scale entrepreneurs to help achieving above mentioned goals.

It could be argued that microfinance is the best way of reaching out to the marginalized section of society and minimize the gap between have and have not. However the reality is not a hidden

phenomenon, things have not changed to such an extent which could be appreciated. Kumar Anand (2010) pointed out that Andhra Pradesh, which has the highest proportion of micro credit institutions in the world, has found more than 30 farmers committing suicide in 2010, because they could no longer meet cash repayments. Burki, Shahid (2011) pointed out that in Bangladesh, M. Yunus, founder of Grameen Bank and the Noble Prize winner, was sacked from his own organization as his theories have been questioned for being considered as a mean for trapping poor people and evading taxes. Such issues highlight the significance of reevaluating the matter from its core depth in order to understand the widening the knowledge and clearing ambiguities regarding microfinance is the silver bullet for solving all sorts of issues.

Micro Finance Performance in Pakistan:

Microfinance is emerging in Pakistan and the outreach of credit has been increasing. It should be noted here that small and medium scale entrepreneurs contribute nearly 30% to the Pakistan's GDP. However their growth is linked with the performance of the microfinance sector which guarantees the availability of cheap and easier source of money. Initial perceptions about microfinance reflect it as the magic ingredient for solving women's empowerment & poverty alleviation issues. However, a shift has been emerged in the recent years and critical questions are being raised about the access to microfinance as a main source for solving aforementioned problems. The factors governing the performance of micro finance sector in Pakistan include:

Women Suppression

Women's active participation in the development of a country is hindered due to multiple reasons including; low female literacy, limited and subdued participation in the workforce, physical immobility, domestic pressures, gender disparity in

remuneration, lack of decision taking opportunities, and last but not the least, the unavailability of access to credit. The social and cultural pressure in Pakistan provides a very little margin for women to have access to startup capital and work towards their economic independence. Even though it requires minimum effort to unearth the fact that male members, especially in developing economies, do not spend their whole income at home and sharing the financial burden compared to women who tend to spend their income on fulfilling family needs and save nothing for their own sake, they hardly get appreciation. Chant, S. (1997)

Low Literacy Rate

It requires little imagination to figure out that majority of the people in Pakistan haven't got the intellectual capacity and mindset to comprehend the products and services that are being provided to them based on being uneducated. By and large people are not literate enough to understand the terms and conditions on which they are taking money, especially in rural areas. The documents are usually stated in English and usually have clauses having very serious repercussions upon the borrowers. Sometimes the pressures of such clauses affects the ability of the entrepreneur so much that the performance of the business declines and ultimately results in the failure of the business. Ahmed, R. (2009)

Lack of Access to Financial Services (Documentation & Paper work)

The potential market in Pakistan is estimated to be 25 to 30 million and only around 2 million borrowers have been served to date. The predicament in Pakistan is that average household remains outside the formal financial system, saving at home and borrowing from family or friends in cases of dire need. Only 14% have access to formal financial product or service and of the remaining 86% only 50 % have access to informal source of funding. It is further mentioned that about

40% of the financially excluded population reported lack of understanding of financial products as the main reason for financial exclusion Tatiana et.al (2009). The existing situation is the repercussions of people failing to understand the documentation requirements and paper work. Most of the times people do not possess basic identity proves which confines them from availing the microcredit services.

Interest Rate Structure

The World Bank reported that 90 million people all around the world have become poor. In Pakistan, 70% of the entire population lives below the poverty line (Aijaz A. Khuwaja, 2009). In such a situation, where the borrowers are already over burdened by their expenses and the interest rate structure, an increase in the interest rate can be more harmful to borrowers. Consequently, the demand for microcredit is reducing day by day. Moreover microfinance faces a religious hurdle too because majority of the population in Pakistan is Muslims and the payment or acceptance of interest (riba) is considered illegal in Islam. However in order to overcome this problem some microfinance entities have started calling interest as an administrative or service charge.

Informal means of Savings

The people in Pakistan are mostly fond of saving through informal means known as committees or ROSCAS (Rotating Credit and Savings Association). The statistics shown by Tatiana *et al* (2009) reflects that only 14 percent of savers go to formal financial institutions, about 63.6 percent of savers save at home and 25.7 percent use committee system. Although Kashf Foundation has introduced Savings Kiosk to provide the poor people safe means for depositing their money but such stance is criticized on the ground that instead of taking money as deposits from poor class, money should have been channelized into productive means intended for the poor.

Informal Source of Finance

Very few in Pakistan have access to formal means of financial services as majority is compelled to seek informal means of financing. Informal access can either occur through the organized sector like committees, shopkeepers, moneylenders, *hawala/hundi* money transfers or informally through friends and family.” In many cases, formal sources usually require collateral and are highly bureaucratic which push poor households out of the formal financial sector. As a result, the people have to rely on informal sources of credit- the moneylenders. Though credit is provided without the need of collateral but high interest rates are charged and the clients are ultimately trapped in a “vicious circle of debt” which continues for generations.

Managerial Abilities

Poor performances of small and medium enterprises are usually criticized under the perception of inefficient managerial skills of the entrepreneurs. The female proprietors especially in rural areas are generally not equipped with the current knowledge and state-of-the art technology. Their deficiency in terms of bookkeeping, marketing, cost accounting, stock management, production scheduling and quality control undermine their performance. Furthermore owners’ traditional style of management results in low economic efficiencies which restrict their ability to repay micro credit.

Parallel Borrowing

Borrowers are found engaged in the activity of taking parallel loans from multiple MFPs. The research conducted by Hussan-Bano Burki (2009) estimated that 40% to 70% borrowers are indulged in multiple borrowing. It is also observed that the microfinance entities in order to increase their target market are selling huge number of loans. The negligence displayed by the lenders can be gauged by the fact that loans are repeatedly extended to borrowers without keeping the track of

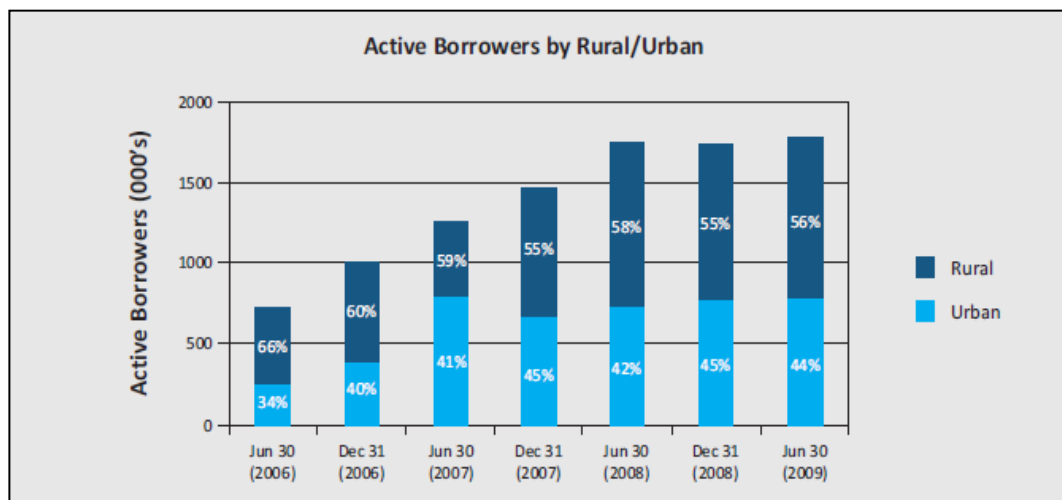
the past records. Furthermore, the borrowers are also found engage in seeking loans mainly to cope with high economic instability in terms of high food prices, transport cost, education and health care expenses and sometime also for repaying loans of other micro finance institutions.

Outreach of MF Sector

A cut-throat competition has curtailed the expansion of the sector, microfinance entities are vying for the same clients, and the branches are being opened in the selected pockets where the rivals have already set-up their operations. The rapid

expansion has taken place in the growth of MF sector but without much formal analysis of the potential market. The rural population comprising of 56% is the basic target market for microcredit services but an increasing trend has been seen to pursue urban clients. The matter become more serious on examining the fact that 87 percent of the entire rural outreach is accounted for by just four microfinance institutions. The rural-urban divide is further accentuated because only 33% of all branches are in the rural areas where 67% of the population resides. (Microfinance Network 2009)

Rural Outreach of Microfinance in Pakistan



Despite of all of the above mentioned issues microfinance could still to be thought as an arrangement having the potential to deliver women empowerment and poverty alleviation for Pakistan. However whether microfinance has actually delivered any significant progress in terms of women empowerment and poverty alleviation requires further discussion.

Money, not Enough for Women:

The endorsers of microfinance sector claim that women in Pakistan have not only raised their social status but have also become self-reliant with the passage of time but this assertion needs to be

examined cautiously. In order to evaluate the true contribution of microfinance towards women empowerment, it is imperative to review the circumstances in which women entrepreneur usually have to work. The overriding question remains “do the women really exercise the control over their loans or the male members are the ultimate beneficiaries of credit?”

Meenu et.al. (2011) pointed out that female micro credit clients are mainly centered to the activities where they find it easier to balance the work and family both. Women, in Pakistan, are generally been treated as a commodity who cannot think and therefore cannot actively participate in decision-making process, even not allowed

to raise voice on the matters relating to their lives. Women by virtue of what nature has given to them, like to be associated in activities that require creativity and aesthetic reflections. However because of being in a male dominated society, most of the time they find it difficult to decide what they have to choose from the options, life has offered them.

Irony of the fact is that even the financing facility they avail usually been decided by male members of the family and they find it difficult to decide the handling issues of the amount they receive or generate out of the business. This is despite the fact that women spend almost all of their income on raising their children, meeting household expenses and keep nothing back for themselves whereas men's typical contribution as a percentage of their salaries to the collective household fund is generally on the lower side. Chant, Sylvia (1997)

Furthermore, in society like Pakistan which has the issues of inadequate resources, compels the women entrepreneurs to employ their daughters and daughters-in-law as unpaid laborers to meet the increased workload of family and business. By going this way the problem of resource arrangement could be met however this is earned at the cost of illiteracy. The female lots of the family do not left with ample time to study in schools and one wonders how women could be considered as empowered if they are not being equipped with the basics of reading, writing, calculating and speaking.

Women's increased economic independence may lead to social problems as well. In a male dominant society there is always a possibility that economically independent woman can challenge the man's preeminence. It could result in a situation where man may withdraw his support once his wife starts bringing more amounts to home and ultimately the loan will not be invested to overcome the

business hurdles but rather be utilizing to fulfill consumption needs.

Despite all these concerns it could be argued that microfinance has the potential to uplift the self respect and confidence of the women by providing them entrepreneurial opportunities. The matter of fact is that microfinance alone cannot empower women but the social structure of the society needs to be redefined.

Dilemma of Poverty Reduction Measures

SBP's has devised a program titled Strategic Framework for Sustainable Microfinance 2010 to 2015 but this product though in nascent stages is considered a question mark because the small and medium enterprises have received a massive hit due to power failures, economic crunch and poor law and order situation of the country. Moreover, SBP in its report issued in February 2011 declared that MF sector in Pakistan as per the strategy "Expanding Microfinance Outreach" has been failed to achieve its target of reaching three million borrowers by the end of 2010 and the current outreach (2 million borrowers) is only 7% of the potential market. The critics are of the view that MFBs reflecting higher target base and also displaying great number of outreach by recording the inflated figures in the official documents in order to get more support from the State Bank of Pakistan.

A study by SBP (2009) on the performance of micro-finance in Pakistan reflects 43% per annum rise was observed in the year 2007 and 2008 but the growth decelerated in 2009 and 2010. Although many players including the government are serving the MF sector but thousands of poor people are still living at subsistence level. The record hike in the prices of commodities has made the living miserable. Nasir Jamal (2011) argued that rising prices have compelled the borrowers to utilize the money for consumption

rather than investment. Furthermore, the Planning Commission Report (2009) illustrated that Pakistan's poverty rate had jumped from 23.9 percent over the last three years to a staggering 37.5 percent. In other words, more than 60 million Pakistani hardly earn enough money to feed them and such programs are clearly raising the poorest members of society instead of narrowing the gap between rich and poor.

Since the inception in 2001, the role of donor agencies has been crucial in developing microfinance. USAID in its report "Microfinance Performance in Pakistan 1999-2005: Growth - But a Structural Flaw Persists" suggested to increase the interests rates, as low rates would impede the progress of the sector and microfinance institutions. This raises few ambiguities on the part of donor agency and the point to ponder is that the borrowers are currently unable to pay the interests rates, the question is: would it possible for the clients to pay the higher interests rates?

Positive Developments

Despite of all the above mentioned drawbacks, the microfinance sector in Pakistan has been successful in achieving international praise for facilitating the regulatory framework and overall business environment.¹ The entrants of many new players in the markets indicates that times are changing; women are being provided the platform where they can speak their minds, they are engaged in community services and the mobility is increased to some extent. It can also be observed that by and large female clients have been successful in increasing their self-confidence and enforced reduction in domestic abuse by being engaged in constructive activities. Council on Foreign Relations (2003)

State Bank of Pakistan is trying to play a decisive role in developing a strategic framework for micro finance to have an

environment to prosper and contribute in the betterment of economy. In order to overcome the literacy barrier the SBP has initiated a pilot projects where clients will be informed about financial products, saving criteria, branchless banking, budgeting, basic math skills and consumer rights.

Saeed Ahmed (2010) disclosed that Kashf Micro Finance Bank has set-up a saving kiosk in order to provide alternate safe means for saving cash flows against saving informally. The product provides its clients decent profit returns, ease of withdrawing amount and minimum amount of deposit terms. Furthermore Pakistan micro finance network has launched credit information bureau to prevent clients from being engage in multiple borrowings. Thus, the system is based on transparency and impartial structures need to be developed to serve the clients in the best possible manner. Sarah Farooq (2011)

Recommendations

- Financial products should be tailored according to the clients' requirements especially keeping in focus the rural women's needs.
- Microfinance entities should focus on managing risk and achieving operational and financial self-sustainability.
- Majority of the population residing in Pakistan is Muslim and interest (riba) is not acceptable by many people so Islamic Microfinance system should be introduced. Such kind of model is already initiated by AlHuda-CIBE and an Islamic Microfinance Helpdesk has been set-up to strengthen Islamic microfinance globally. The same mechanism can be applied in our society to increase the outreach of microfinance services.
- Microfinance entities should make a shift away from the single-product-driven strategy to new products like

micro saving, micro insurance, micro credit and remittances should be added to the portfolio.

- A cap on interest rates should be fixed as the poor people are unable to pay the exorbitant prices.
- Microfinance entities should prepare the paper work/ documentation in the regional languages and proper training and business skills should be inculcated among the borrowers.

Conclusion

Microfinance interventions have the potential to play a crucial role in increasing the economic base of a country. Invariable development in the sector can make the reach of the poor households easy and women, who used to be excluded in the past due to some cultural constraints, could become major beneficiary of microcredit products. Catering this weakest stratum of society poses many benefits. The strengthening of microfinance institutions could bring results like empowering women, alleviating poverty, enhanced employment opportunities and elevated social standards. Thus, this paper studied three aspects altogether microfinance intervention, women empowerment and poverty reduction and their strong bond explore new dimensions of research. Though set targets have not been achieved and the endorsers of microfinance interventions are of the viewpoint that it can bring lasting socio-economic change in the society.

The experience of successes and failures of programs over the last one decade proved that despite given its shortcomings, microfinance has been widely accepted as a major instrument of development. It is believe that Microfinance has not gained the expected success but it is yet in the process of establishment and it would deliver the desired outcomes. This notion is still embryonic and people involved are still in the process of learning. The experts

in this field are endeavoring to identify the gaps and are trying to modifying the old-school practices through making changes.

References and Bibliography

- i. Ahmad Rafay A, (2009) Failure of Microfinance? [Online] Available: <http://archive.wn.com/2009/03/21/1400/pakistanfinancial/>
- ii. Aijaz A. Khuwaja, (2009) Is microcredit working, or is something missing? [Online] Available: <http://archives.dawn.com/archives/15353>
- iii. Brau, James C, Woller Gary M, (2004), "Microfinance: A Comprehensive Review of the Existing Literature", Journal of Entrepreneurial Finance and Business Ventures, Academy of Entrepreneurial Finance: Syracuse, NY, pp. 1-26
- iv. Burki Shahid Javed, (2011) Flawed micro financing a trap for the poor. [Online] Available: <http://www.dawn.com/2011/01/10/flawed-microfinancing-a-trap-for-the-poor-2>
- v. Burki, Hussan-Bano. (2009) "Unraveling the Delinquency Problem (2008/2009) in Punjab –Pakistan", Pakistan Microfinance Network, MicroNote, Volume No: 10 October 2009 [Online] Available: <http://www.microfinancegateway.org/gm/document-1.9.40294/30.pdf>
- vi. Chant, Sylvia (1997) "Women-Headed Households: Poorest of the Poor? Perspectives from Mexico, Costa Rica and the Philippines" IDS Bulletin 28(3): 39.
- vii. Chen, M. et.al. (2005). Progress of the World's Women: Women, Work and Poverty. New York: UNIFEM
- viii. Council on Foreign Relations, (Nov 2003), "Microfinance in Pakistan: A Silver Bullet for Development", Roundtable on Economic and Political Development in the Middle East research project.
- ix. Gertvan M. (2004), Microcredit: Sound Business or Development Instrument, Oikocredit: Amersfoort, The Netherlands
- x. International Labor Office; State Bank of Pakistan (2009) "Towards achieving social and financial sustainability: a study on the performance of microfinance in Pakistan" Islamabad: ILO.
- xi. Kabeer, Naila (2001) 'Reflections on the Measurement of Women's

- Empowerment.' In: Discussing Women's Empowerment: Theory and Practice. SIDA: Swedish International Development Cooperation Agency.
- xii. Keiffer, C. (1984) Citizen Empowerment: A Developmental Perspective. Prevention in Human Services, Taylor & Francis: London 3(16), 9-35.
- xiii. Kumar Anand, (2010) Microfinance industry under stress. [Online] Available: <http://www.dawn.com/2010/11/22/microfinance-industry-under-stress/>
- xiv. Meenu, et.al. (2011), Women Empowerment through Microfinance Intervention in the Commercial Banks; An empirical study in the Rural India with special reference to the state of Punjab; International Journal of Economics and Research Vol 02 Issue: 02: 35-45
- xv. Microfinance faces hurdles in empowering Afghan women; The Dawn; 28th December, 2010 <http://dawn.com/2010/12/28/microfinance-faces-hurdles-in-empowering-afghan-women/>
- xvi. Nasir Jamal, (2011) "Hamstrung banking for the poor", Dawn, 29 August 2011, P-EBR-I
- xvii. Pakistan Microfinance Network, (2009) Profiling Pakistan's Rural Economy for Microfinance, [Online] Available: http://www.microfinanceconnect.info/download.php?f=46_rural
- xviii. Rappaport, J. (1984) Studies in Empowerment: Introduction to the Issue. Prevention in Human Services, Taylor & Francis: London 3, 1-7.
- xix. Saeed Ahmed, (2010), Only 6pc potential of microfinance market tapped; The Nation; May 21, 2010
- xx. Sarah Farooq, (2011), Microfinance for enterprise development, The Dawn, 25th November, 2011
- xxi. Swaminathan, M. (2007), The Microcredit Alternative, Economic and Political Weekly, Sameeksha Trust: Mumbai xlii (13) 1171-1174.
- xxii. Tatiana N., Cecile T. N., Ahmad, A. (2009), "Bringing Finance to Pakistan's Poor: A Study on Access to Finance for the Underserved and Small Enterprises", The International Bank for Reconstruction and Development / The World Bank: Washington DC 20433