

## ASSESSING MICROCREDIT EFFECT ON POVERTY ALLEVIATION AND WOMEN'S EMPOWERMENT: EMPIRICAL EVIDENCE OF PAKISTAN

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### Abstract:

*This study examines the impact of microcredit on poverty reduction and women's empowerment in Pakistan. Despite global efforts to alleviate poverty, it remains a pervasive issue, particularly in developing countries. Microcredit, recognized by the United Nations as a potent tool for poverty alleviation, has been implemented in Pakistan since 1976, specifically targeting women through group lending models. This approach leverages social collateral, reducing credit risks and enhancing financial inclusion. The study uses quantitative data collected via a Likert-scale questionnaire from 182 women entrepreneurs to assess the effects of microcredit on their economic and social status. Findings indicate that microcredit significantly enhances women's empowerment by increasing their financial independence, social standing, and household decision-making power. Additionally, microcredit contributes to poverty reduction, though its impact varies based on the context and implementation specifics. The study highlights the importance of integrating supplementary services such as business training and financial literacy programs to maximize the benefits of microcredit. Social and family traditions play a crucial role in shaping the outcomes of microcredit initiatives, suggesting the need for culturally sensitive approaches. The results suggest that while microcredit is effective in empowering women and reducing poverty, it should be part of broader economic development strategies. Policymakers and practitioners are encouraged to design microcredit schemes that incorporate social collateral and provide comprehensive support services. Future research should explore the long-term impacts of microcredit across different cultural and economic settings to better understand its potential and limitations.*

**Keywords: Microcredit, poverty reduction, women's empowerment, culture.**

### Introduction

Microfinance offers small-amount financial tangible products, aiming to address poverty reduction. Microfinance seeks to provide solutions for disadvantaged and vulnerable populations, addressing deficiencies in credit, banking, and insurance markets (Yin et al., 2023). The global focus on poverty eradication has increasingly drawn the attention of humanitarian organizations towards roles centered on development, prosperity, and public security. Consequently, governments and supporting organizations have worked together to combat poverty. Despite these efforts, poverty persists as a deeply rooted social issue that requires innovative approaches tailored to its social characteristics. Microfinance has played significant role in mitigating poverty, like developing countries Pakistan. These tools are today recognized as leading strategies to tackle poverty reduction (Masood & Javaria, 2020).

Microfinance as new and effective approach to fund to groups and to individuals also, has emerged in current financial capital market (Parvin et al., 2020). Consequently, governments

and supporting organizations have worked together to combat poverty. Despite these efforts, poverty persists as a deeply rooted social issue that requires innovative approaches tailored to its social characteristics. Among various poverty reduction strategies, microfinance has been recognized by the United Nations (UN) as one of the most effective methods for alleviating poverty. Another aspect that ties microfinance with women empowerment reduced the knowledge gap between banks and women entrepreneurs and minimized supervisory costs through accountability (Saad, 2021). For example, while it is widely believed that women may make empowerment difference and some studies showing that poor women, especially older ones, are not able to work outside, and therefore microfinance is not always a solution for women empowerment. Our research objective is to shed light on whether the type of microfinance would influence poverty reduction or women empowerment and also its impact on developing country like Pakistan.

As strengthened the microfinance trust expanded, the number of banking increase loan amounts, benefiting both women borrowers and the banks themselves. However, the impact of microfinance on poverty reduction and women's empowerment varies across different countries due to diverse financial and social factors. According to Hansen et al. (2021) microfinance that including women from traditional, patriarchal communities in financial services could enhance social standing, empowerment, and stability, and growth. Despite extensive research in Central and South Asia, Sub-Saharan Africa, and South America, there is a noticeable gap in studies examining the role of microfinance in Middle Eastern countries like Pakistan.

The current research provides three key contributions. Firstly, literature indicates that microfinance's impact on women's empowerment varies by country due to differing demographic and social factors and the microfinance institutions nature. This study offers new evidence on how microfinance affects various aspects of women's empowerment in Pakistan. Secondly, this research adds new insights into empowerment, showing how access to microfinance influences women's empowerment beyond just economic improvements. Thirdly, also play a significant role in shaping women's attributes and lifestyles, reflecting how communal and family rituals influence the impact of microfinance on women's empowerment and vice versa. Fourthly, Microcredit aims to help disadvantaged individuals escape poverty and promote sustainable development on a local scale. Lastly, in cultures with restrictive gender norms, women's contribution in microfinance might be limited, this study decreasing research gap.

## **Theoretical Background**

### **Microfinance**

According to Khan et al. (2021), microfinance is financial services for economically active low-income households, such as credit (loans), savings, microleasing, microinsurance, and payment transfers, to help them expand/grow small companies or engage in income-generating activities. Once more, the definition of microfinance is a type of financial intervention targeted at the

lower-class members of a certain society. Credit services make up the majority of the intervention, but savings, insurance on credits, and savings are also possible. Microfinance (MF) has developed into a strategy for economic development aimed at helping the underprivileged members of a community (male and female). The phrase refers to "provision of financial services" (including credit and savings) to "the poor," under the World Bank definition. According to Hameed (2019), microfinance banks are establishments designed to offer financial services to the economically engaged poor.

### **Women entrepreneurship:**

According to Agarwal et al. (2022) women entrepreneurs are people who actively participate in launching, operating, and expanding their own enterprises while identifying as women. Research in Pakistan revealed that WE boosting innovation, social change, and economic prosperity (Rashid & Ratten, 2020). Women entrepreneurs could also consider strong, independent people defy gender norms and overcome challenges to start profitable, influential companies. Data from Ghana research microfinance surely enhance investments among female borrowers (Ngonu, 2021). For example Parwez & Patel (2022) emphasized WE factors affecting microcredit and discovered WE as operational with little efficiency, also motivate loan control and, delayed payments harassment emanating.

### **Poverty:**

In contemporary world poverty reduction is one of priorities tackled at various capacities (Wietzke, 2020). Poverty is elucidated by individual circumstances and/or attributes associated with the impoverished, including but not limited to age, sex, disability, education, skills, experience, aptitude, and health. Poverty is state of affairs of being short of, and is often used synonymously with lack, hardship and scarcity in numerous aspects. Poverty additionally categorized 3 distinct factors: such several areas as income poverty, vulnerability, and empowerments (Susilowati & Mafruhah, 2023). Poverty in this context stated as capacity to afford life necessities (Khosla & Jena, 2023).

### **Microfinance & Poverty Reduction.**

Microfinance and poverty reduction have complex relationship (Tasos et al., 2020). Microfinance has touted powerful alleviating poverty tool for financial assistant (Chikwira et al., 2022). In Pakistani culture Latif et al. (2020) discovered micro-financing becomes significant factor for PR that manifested house expenditure. On other hand, prior research works provide microfinance critical viewpoint that illustrate poor microfinance as single poverty fighting weapon. Most researchers, policymakers, and practitioners agree poverty and poor money access linked. Dhrifi et al. (2020) discovered that microfinance participation is associated with PR. Numerous studies examined different MF procedure that could potentially PR (Setiawan et al., 2020). Therefore, proposed that:

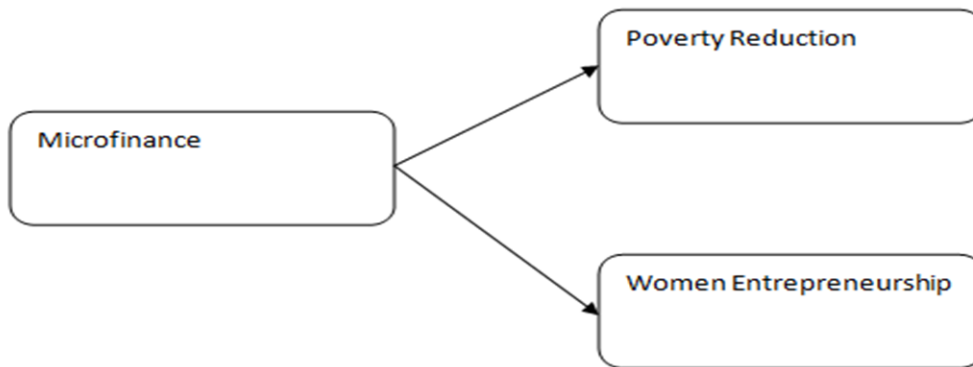
**H1: MF has positive significant effect link of PR.**

### **Microfinance and Women Entrepreneurs**

Microfinance has played a crucial role in empowering women entrepreneurs by granting them access to financial resources, enabling them to initiate and grow their own businesses (Khan et

al.,2022). Attaining financial independence not only boosts their economic welfare but also elevates their social standing and influence in their houses and communities(Abebe & Kegne, 2023;Nazir et al., 2024). In addition, microfinance institutions frequently provide supplementary support services, such as business training and mentorship programs, which enhance the capabilities of female entrepreneurs by giving them with the essential skills and information required for success in their endeavors. This comprehensive strategy facilitates dismantling of obstacles and fosters a more inclusive and equitable economic environment for women. Microfinance organizations contribute to the general economic progress of communities by dismantling financial obstacles and offering assistance services(Wondimu et al.,2023). Prior research described this inclusive strategy beneficial to WE and also enhances economy via promoting, generating employment opportunities, and alleviating poverty. Hence, proposed that:

**H2: MF services have positively impact concerning WE.**



**Figure 1: Conceptual-framework(Khan et al., 2020)**

**Methodology**

The appropriate method choice is one of most critical first steps needed adequate attention. In an effort for above mentioned main research, the cross-sectional research adopted for current research(Khan et al., 2024). Moreover, quantitative research approach utilized. Data collected through a survey. Self-administered questionnaires with five-point Likert scale employed. Surveys were conducted among micro-finance organizations female clients. The sample was selected by utilizing statistical research (Khan et al., 2020).The sample size 195 chooses and 195 questionnaires send, however, 182 were deemed accurate for study.

**Table 1: Demographic Table**

Variable	Frequency	%
Age		
<b>25 years old and lower</b>	54	28.72

<b>26-35</b>	64	34.04
<b>36-45</b>	52	27.66
<b>45 yeas and above</b>	18	9.57
Gender		
<b>Male</b>	59	31.38
<b>Female</b>	129	68.62
Marital Status		
<b>Married</b>	102	54.26
<b>Single</b>	86	45.74
Education		
<b>High School</b>	98	52.13
<b>University</b>	61	32.45
<b>Master</b>	29	15.43

**Table 2 Convergent Validity**

Construct	Item	F.L	CR	AVE	$\alpha$
Microfinance (Hameed et al., 2022)	MC1	0.75	0.85	0.6	0.82
	MC2	0.8			
	MC3	0.78			
	MC4	0.73			
	MC5	0.71			
	MC6	0.76			
	MC7	0.69			
Poverty-reduction (Naminse et al., 2019)	PR1	0.85	0.92	0.65	0.90
	PR2	0.87			
	PR3	0.83			
	PR4	0.78			
WE(Khan et al., 2021)	WE1	0.7	0.82	0.55	0.80
	WE2	0.68			
	WE3	0.72			
	WE4	0.82			
	WE5	0.79			
	WE5	0.81			
	WE6	0.75			
	WE7	0.73			
	WE8	0.78			
WE9	0.78				

### Measurement Scale:

Utilizing MC scale from previous study (Hameed et al., 2022). The adopted MC scale have 7-items, cronbach alpha of MC scale recorded 0.82. Sample items include: Microfinance aids our firm's business activities; the Microfinance repayment period is sufficient. A construct measuring PR dimensions was taken from(Naminse et al., 2019) study, while 0.90 cronbach alpha recorded. Sample items include: MC resources have contributed to reducing poverty in my area; MC income from has significantly improved household's economic situation. WE scale adopted from (Khan et al., 2021), cronbach alpha recorded 0.80, sample item include: I have the skills necessary to overcome challenges in my entrepreneurial activities; I face fewer barriers in accessing financial resources for my business compared to other women entrepreneurs.

### Convergent Validity

Convergent validity-related data was examined in this phase of the investigation. Accordingly, the variables loadings, Cronbach's alpha, composite reliability (CR), and average variance extraction (AVE) valued for poverty alleviation, women's entrepreneurship, microfinance were determined. All of the factor loadings in Table 2 were higher than 0.60, which is what (Henseler & Schuberth, 2020) advises for advanced research. In addition, all scale variables had CR values higher than the 0.70 threshold suggested by (Henseler & Schuberth, 2020). Furthermore, all of the variables' AVE values were higher than 0.50, indicating that these findings should be further investigated. Consequently, it is evident from the results that this study has convergent validity.

### Discriminant Validity

The findings of discriminant validity checks, which were performed to determine differences between the scale items used for each variable in this study, are presented in this portion of the report. Table 2 shows that the discriminant validity values were below 0.90, as suggested by (Hair Jr et al., 2021) study using the HTMT approach. All of this indicates that the scale items utilized for each variable in this study have certain discriminant validity.

### Results

Table 3 shows the descriptive statistics of study variables, i.e., the poverty reduction, Microfinance, and women's entrepreneurship. The data indicates that average microfinance 1,649loan amount; notable variation & slight positive skew, indicating some larger loans presence. However PR has 44.77 mean & S.D 5.2Also, Women's entrepreneurship mean of 3.15, S.D 0.90. Overall, these metrics demonstrate moderate positivity and variability across these areas.

**Table 3 Descriptive analysis**

Variable	Mean	S.D	Skewness	Kurtosis	Min	Max
MC	1649	9685	0.30	-0.10	371.99	5211
PR	44.77	5.2	-0.40	-0.80	12.8	55.9
WE	3.15	0.90	-0.30	-0.60	1	5



### Hypothesis Analysis:

This section of the study has the results related to hypotheses (see Table 4). H1 was tested to check its significance and according to the results MC has a significant effect on WE ( $\beta = 0.432$ ,  $t = 7.699$ ,  $p = 0.000$ ) and H1 proposition supported. H2 was tested to check its significance and according to the results MC has a significant effect on PR ( $\beta = 0.144$ ,  $t = 3.235$ ,  $p = 0.001$ ), and H2 proposition supported.

**Table 4 Hypothesis-testing**

	Hypothesis	$\beta$	t	P	Results
<b>H1</b>	MC - WE	0.432	7.699	0.000	Supported
<b>H2</b>	MC - PR	0.144	3.235	0.001	Supported

### Discussion

Hypothesis 1 results also indicate significant but more modest effect of microcredit on poverty reduction (PR), consistent with prior study (Tasos, et al., 2020). While microcredit has been effective in improving household income and economic stability, its impact on poverty alleviation is nuanced. The positive correlation between microcredit and poverty reduction aligns with the findings of studies in other developing regions (Asghar et al., 2023). However, the magnitude of this impact can vary due to several factors, including the terms of microcredit, the borrowers' business acumen, and the availability of support services such as training and mentorship. The study also affirms H-2 significant microcredit (MC) impact on women's empowerment (WE) in Pakistan, particularly in Sargodha division. The quantitative analysis reveals strong positive relationship between access to microcredit and improvements in women's economic and social standing. This is consistent with prior research suggesting that microcredit enables women to start and expand their businesses, leading to increased income and greater control over household financial decisions. Women who gain financial independence through microcredit are often more empowered participate in community decision-making and challenge traditional gender norms. However, empowerment is not limited to economic benefits but extends to enhance social status and influence within families. The study's results corroborate earlier findings from other regions, such as work of Hameed (2019), which highlighted the transformative potential of women's entrepreneurship supported by microfinance. However, the impact of microcredit on women's empowerment could be context-specific, influenced via local cultural, social, and economic conditions. In Pakistan, the group lending model that relies on social collateral among women has been particularly effective. This model reduces risks associated individual borrowing and fosters collective accountability and mutual support, thereby enhancing empowerment outcomes. However, prior study mixed results, such as social consequences adverse observed, highlight microcredit complexity as poverty reduction tool. Moreover, microcredit could deliver more debt accumulation without significant income improvement; particularly loans are not invested in productive activities. This study's findings suggest that while microcredit could contribute to poverty alleviation, not a panacea and would more integrate with broader economic development strategies efficiency.

### Implications for Policy and Practice

The study has several implications for policymakers and practitioners. First, designing microcredit schemes incorporate social collateral & group lending could enhance. Second, providing supplementary services i.e. business training, financial-literacy programs, and mentorship could help borrowers make more loans productive use and, avoid debt traps. Third, addressing social cultural barriers for women's financial activities participation is also crucial. Policies and programs that engage men and community leaders in supporting women's economic activities can facilitate more significant empowerment and poverty reduction impacts.

### Limitations

While this study provides valuable insights, it is important to acknowledge its limitations. First, focus on Pakistan specific region (Sargodha) might limit generalizability to other contexts. Future research should explore microcredit impact in different cultural and economic settings needed. Second, existing study utilized quantitative research; however qualitative studies exploring women borrowers' personal experiences could provide deeper insights into social dynamics and challenges. Future research should investigating qualitative research on microcredit on women's empowerment and poverty reduction, beyond immediate economic outcomes, would also be beneficial (Soomro et al., 2023). Thirdly, small sample size that not represents population, Future studies on larger scale is needed for validating findings. Fourthly, study focusing MC efficiency only, future research could be carried via other welfare indicators.

### Conclusion

In conclusion, this study reaffirms microfinance industry aims to provide more women's empowerment and poverty reduction in Pakistan. However, its effectiveness depends on various factors, including microcredit programs effective design, the supplementary support services provision, & broader socio-cultural context. Overall, integrating these elements could enhance microcredit positive impacts and contribute more sustainable economic development.

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