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**THE IMPACT OF MICROCREDIT FINANCING ON POVERTY ALLEVIATION AND
WOMEN EMPOWERMENT: AN EMPIRICAL STUDY ON AKHUWAT ISLAMIC
MICROFINANCE**

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Abstract

Microfinance credit has become significant in contemporary society in terms of letting people start their own business and create their reliable source of income, and engage women in various earning opportunities through providing them microfinance credits that could lead them towards becoming financially independent in Pakistan. Credit of micro finance plays a vital role in the alleviating poverty by providing credit to small business owners to build their businesses, earn their livelihood, improve their living standard and climb out of poverty. Akhuwat Islamic Microfinance is an organisation operating under the companies ordinance 1984 and section 42 that primarily aims to reduce poverty and promote women empowerment by offering interest-free microfinance credits to the poor. In order to get the effectiveness of Microcredit finance on alleviation of poverty and empowerment of women in the rural areas of Pakistan, quantitative research design has been employed. The sample size of this study has been based on 290 respondents living in the rural areas of Pakistan specifically women. The collected data from the surveys have been analysed using the technique of linear regression analysis. There is a significant impact of micro-credit financing on poverty alleviation and women empowerment. It has been discovered in the findings of the study that microfinance plays a crucial role in eradicating poverty and empowers women.

Introduction

There is a quick shift in the banking sector of Pakistan the conventional system of banking cannot reach the millions of deprived people who suffer from poverty for whom small loans could make significant differences. There are different reasons for this, the majority of the poor are rural people and they are widely common. Poor rural people have low education levels, and in conclusion, the administrative cost of providing finances to the poor population is very high. The other problem that makes it problematic to assist these customers across traditional banking is that the deprived people do not have any resources to use as collateral. As an outcome, the deprived people had access to loans only by domestic moneylenders at very high-interest rates (Daskalakis, Jarvis & Schizas, 2013). Microcredit financing starts with the assumption that the deprived people are eager to pay greater interest amounts to have access to finance. The significance of Microcredit financing is the good repayment rate, extending and supporting health and education along with the sustainability (Amin & Sheikh, 2011). Although micro-credit financing is deliberated as one the most influential technique for fighting poverty, but micro-credit financing still confronting numerous serious issues. Apart from the superior repayment rates, the operating cost of micro-credit financial institutions is much greater than their conventional commercial counterparts (Aitken, 2013).

Poverty Level in Pakistan

Pakistan is an under developed, deprived, and poor country. The major population of Pakistan survives in completely adverse conditions. Moreover, it has been revealed that more than 40 percent of the population of Pakistan lives below poverty line. It means that out of 10 Pakistani people 4 are surviving in severe poverty. In Pakistan, a huge number of people do not have an appropriate place to live. This depressing situation has given birth to the increasing amount of needy people and panhandlers who survive on the assistance and help of the rich people. The conditions related to the economy of an average person is very wretched. Unemployment, hunger, increasing the cost of goods, and poverty affects a large section of the population. The reasons for poverty are clear, known, and quite obvious. According to Ali & Erenstein (2017) poverty of Pakistan is that approximately every 3rd Pakistani is wedged in the bracket of poverty (Ali & Erenstein, 2017).

Estimates provide the impression that out of 180 million individuals, only 58.7 million live under poverty line. The statistics mentioned above further comprises more than half of the population in the incessantly remote areas such as Balochistan, 32% in Khyber Pakhtunkhwa (KPK) and 33% in Sindh province. These figures are much needed for planning mainly when the government seems too uncomfortable to announce data associated with poverty.

Importance of Microcredit financing in Reduction of Poverty

Microcredit finance can be defined as the micro credit, these both names are similar and both terms are also used in the micro-financing sector. Durrani et al. (2011), claims that micro finance plays a pivotal role in poverty alleviation. In light of a study conducted by Chib (2016), it has been illustrated that microfinance

performs a key role in poverty alleviation. It assists people to improve their lifestyle and living standard. The major problem in this is to find relevant information. Finding poor people with insufficient resources and supporting them is very troublesome. It needs a comprehensive evaluation to find the deprived people and benefits through micro finance. Along with the positive role microfinance also has a negative role, because microfinance just points out the sign, not the real reasons and real causes.

Overview of Akhuwat

Akhuwat Islamic microfinance (AIM) is the company established under the companies ordinance 1984 and section 42 with one the main objectives of offering without interest micro finance to underprivileged, disadvantaged, and penurious members of the society. The reason for interest-free microfinance is to boost poor people's living standards and allow them to develop their possibilities. Building upon the ideals of fraternity and social justice, AIM struggles to alleviate poverty by generating a system centered on supporting mutually in society (AIM, n.d.). According to a study conducted by Iqbal & Shafiq (2015), it has been defined that the central principles of Islam place significant focus on social justice, sharing of resources, inclusion amongst the have-nots and haves.

Overview of Women's Empowerment in Pakistan

The working women of Pakistan have continually strained to enhance the financial constancy of their particular households but miserably their work is always underrated. Empowering legally, politically, economically, educationally, and socially has always been a hard task to attain in an undersized and undeveloped country. The World Economic Forum (WEF) has located Pakistan as the second nastiest country on the basis of gender equality and stated in the Global Gender Gap Index (GGGI) 2017 (Asghar, 2018).

It is a right of every woman to use her generative rights and must be defended from harmful and violence practices in both the humanitarian and development context. The 2025 vision of Pakistan has entrenched five components related to the women's empowerment into its objectives, comprising activities that endorse self-respect of women, access to resources and opportunities, right to define their selections and choices, power and right to regulate their lives. The control of lives associated with both inside the home and outside the home and the capability to impact social change. However, these still endure outside the hold of women in Pakistan (USAID, 2018).

Furthermore, USAID is working in association to the United Nations Development Program (UNDP) and shareholders such as the political parties, society organization, and Election Commission of Pakistan (ECP) to enhance the insertion of women in the procedures of the election. USAID agreed with the modern established Disability and gender Electoral concept of ECP and that working group to assure that women are signified through the complete organization, comprising the roles of leadership as well. The training associated with the sensitivity of the gender is being delivered to the entire staff, and data gathered by the ECP are provided information on gender (USAID, 2018).

Role of Microcredit financing in Empowering Women in Pakistan

Research initiated by Idrees, Ilyas, and Cheema (2012) proposes that even though the world collectively and collaboratively has gained advancements, reach to globalization, as NGO's has also strived to develop ventures that would erase inequality between men and women but unfortunately it exists. The study evaluates women empowerment through micro-credit in Pakistan's rural area, study suggests that the concept and situation in Pakistan is still demoralized as it was decades ago. Rural still look towards NGO and various social organization that would provide them with donations so that they can sustain. However, Microcredit has played an incredible role to empower women in numerous aspects of life such as decision making and dominances in the household, possessing the hold over finances, increased social networking and freedom in terms of mobility.

Literature Review

Overview of micro-financing systems

Microfinance initiated in Bangladesh and portion of Latin America in the period of mid-1970s to offer credit to the deprived people who have problems and difficulties in living their lives. This concept related to microfinancing gained acceptance and popularity and also started to be implemented in high and low-level countries. Currently, it has been operated in the majority of countries to serve poor people to live a better life (FinDev Gateway, 2014). By the time, the companies that provide financial services have created an enhanced understanding of the broad range of financial requirements of people with lower net worth who live their life on a low income. (Mia, 2017).

Challenges faced by microfinance banks in alleviating poverty

This research is conducted to examine the effect of Microcredit financing on alleviation of poverty and empowerment for women which is the case study of the Akhuwat Islamic Microfinance. Therefore, the major challenges faced by microfinance is the increasing level of poverty in Pakistan. The aim of micro-financing is to reduce poverty hence the continuous increase in poverty in Pakistan is the bigger challenge for microcredit. According to Muhammad's study (2010), Pakistan's microfinance challenges and opportunities that since the last ten years are mentioned. The microfinance industry has a quick growth in the globe and specifically in Pakistan. The increasing competition amongst the different micro finance forums, profitability, inappropriate regulations, diversified and innovative products, stability along with the limited capacity of management related to the micro finance institutions (MFIs) are the major challenges for the microfinance banks in order to lessen poverty.

In a global perspective, major countries are confronting a lot of challenges related to the declination of poverty. These particular challenges related to the taxes and rules and regulations are resolved by the Pakistan Microfinance Network (PMN) which is the big network of different organizations involved in the micro-financing and committed to improving the sustainability and outreach of Pakistan's micro-financing. The main function of the PMN is to solve the problems related to the microfinance industry, which deviates micro-financing from attaining its actual

potential. Hence, with the help of PMN, the microfinance banks can effectively combat the challenges and attain the goals of the organisation (Guriro & Pathan, 2015).

Impact of Microcredit Financing on Financially Independent woman

There are many subjective stories related to the individual men and women employed to build chances and opportunities to develop and empower themselves despite the problematic circumstances and insufficient resources. Hence, from the above-mentioned statement, it has been observed the impact of microcredit financing on poverty alleviation is positive on the financially independent woman. Internationally, women are considered to be mediocre and more deprived when equated to men. The statistics are different from country to country and depends on the conditions of that particular country. It has been examined that women have no control over the credit which is the failure and problem of microcredit financing in relation to the women empowering. The larger financial freedom for the women who belong to rural areas enhances their capacity for bargaining, declines violence against the women, and permits them to attain an additional impact over the making of decisions in the family (Modi, Patel, & Patel, 2014).

Practices related to the microfinance and microcredit are very famous nowadays in the sense of domestic development. The practices of microfinance and microcredit mainly target the women who are motivate to build the support groups in direction to have a social foundation for financial services. As per the thinking and perspective of general public, microfinance and microcredit institutions impacts empowerment of women in a constructive manner. In consideration to the aforementioned points, effects and expansion, the role of microfinance institution in building and empowering the women has been justified (Khan & Noreen, 2012).

Factors of Micro-Credit Financing Affecting Poverty Alleviation and Women Empowerment

Yogendrarajah (2011) also keenly observes the effect of micro-finance in empowering the women residing in rural area study claims that there existed a positive relationship between micro-credit and women empowerment. Other dimensions such as education, household income, family support/encouragement, and individual personality also had an impact on women empowerment. However, the study was of the opinion that poverty cannot only be alleviated by empowering women's but factors such as healthcare facility can also play a significant role. Another significant element was the perception of women in rural areas as many thought that micro-credit loan was some sort of charity, which was utilized in meeting personal needs. Thus many of the micro-credit loans were blocked by CRB, as until the loan was not recovered. The study suggested that micro-finances addressed and empowered women but more concentration should be given to creating awareness and perception about the loan, building self-esteem and self-confidence that women can contribute to household income.

A study initiated by Rahman (2007) looks onto the micro-credits programs initiated in Bangladesh which mainly focuses on generating earnings and finances for the poor community. As specifically addressing micro-credit programs its

uniqueness lies in a collateral-free group-based lending strategy that allows anyone to gain access to instant capital. Findings suggest that it micro-credit loan initiated in Bangladesh achieved a full recovery of finance, the loans created a positive impact on livelihood and improved the generated income.

Furthermore, research initiated by Bent (2017) also focused on the alleviation of poverty by women empowering through micro-finance loans in Ethiopia. The objective of the study was to denote how Microcredit work for the betterment of the poor society and community its unique features were that it is effected living standard quantified in terms of income and saving. MFI played an incredible role by creating an opportunity for the people who were deprive and lived below the line of poverty, institutes particularly encouraged women of rural areas in order to alleviate poverty. All micro finances banks in Ethiopia played a major role collectively as thirty-one of micro-finance banks in Ethiopia are licensed and registered. The study suggests that focusing on the skills of women for poverty alleviation creates a positive impact in the development area however gender discrimination and intervention of social norms are factors impacting slower economic growth and lower living standards.

Factors Affecting Poverty Alleviation

Poverty is regarded as a critical social issue factor in developing countries, to counter poverty Sri Lankan institutions have taken numerous initiatives but none seem to be effective. For example, Poverty Head Count Ratio in rural regions was 29.4% in 1990 and 24.7% in 2012, only a 4.7% drop in 22 years. Anuradha and Fernando's (2017) study suggests the reason for unsuccessful poverty initiatives is weak imperative. By conducting an extensive literature review, the research study suggests that there are certain factors that influence successful implementation, which entail disposition, number of people involved, and past experiences in implementation and capabilities.

The study reached the conclusion that past experiences, disposition and the number of people involved in implementation, and capabilities have a positive significant impact on successful implementation. In a nutshell, the study encourages to develop a perception among the deprived region that it's required that they forget their past and strive to enhance their future. And it could be achieved by positioning the effected people to a path that support them in generating income which refers to disposition, forgetting past and rough experiences, the majority of people involved in poverty drive and their own capabilities to be drawn-out of poverty. The study further suggests that it's required by government officials to encourage change attitude and perception among implementing officers so that they come up with a "we" approach, recruit should be done on the bases of the educational capability, and ensuring officers are not over recruited and most importantly targeting the specific affected areas.

Factors Affecting Women Empowerment

According to Raudeliuniene, Dzemyda, and Kimpah's (2014) women's impact on enhancing organizational performance has been a consistent evolving factor, where women have dominated by showcasing an exceptional performance. The study emphases on functions and procedures that support women's empowerment and

enhances its effectiveness. The study evaluates women empowerment and its factors that influence quality organizational performance. By incorporating in-depth literature researchers have showcased the "how" definitions of women empowerment have evolved, as defined by United Nations in 1995 that women empowerment refers to women's self-respect, ability to cope to social change, and active participation in every aspect of life. Whereas more updated definition defines women's role at a national-level to support economy and politics. Additionally, also incorporate a different factor influencing women empowering in various context for instances quality of life can influence as Workplace flexibility, demand in labour market, and key competencies as per industrial requirement.

An empowered women can also be affected by Gender inequality found within the organizational culture, age, income eared, productivity, freedom in terms of decision making, experience, and women's personal perception of feeling safe at the workplace. Other contexts such as hold house factors can also impact women being empowered such as attitude, net salary, participation at work-life, and dominance in personal and family life. The findings of the study suggest that women empowerment is critical to shaping the social and economic development of country and region, as empowering women provides an instant and increased workforce. If women are empowered they can positively contribute to society if the organisation create viable economic and social conditions, factors such as values, norms, and rituals of a community also play an integral role in empowering women. The study closes up by concluding the women empowerment refers to a process where an individual enhances and uplifts its performance and capabilities. Factors of women empowerment are not just regarded as factors, but they are necessary measures that can help the implementation of women empowerment. The previous study considers women empowerment as a method of workforce enlargement, but it's more about the belief of society and community that supports women in contributing to the prosperity and economic value creation.

Theoretical/ Conceptual Framework

The conceptual framework of the study is given as under which defines the independent and dependent variables of the study. This also helps the researcher to make the relationship of the variables between each other and help to provide the results. There is one independent variable named Microcredit financing and two dependent variables named poverty alleviation and women empowerment. Hence, by changing Microcredit financing there is a significant change in poverty alleviation as well as women empowerment. The brief discussion about poverty in Pakistan, women empowerment, Microcredit financing and poverty alleviation is mentioned in the above literature

Empirical Review

The study by Ayuub (2013) analysed the influence of microfinance in the district of Bahawalpur. This study mentioned the support and benefits associated with the poor people of rural areas such as farmers. In such areas, credit or loan is not provided to the poor people who are enthusiastic about growth and development.

There are certain countries that have to try to develop and enhance the living standard of the people. The study by Ayuub (2013) analysed the influence of microfinance in the district of Bahawalpur. This study mentioned the support and benefits associated with the poor people of rural areas such as farmers. In such areas, the credit or loan is not provided to the poor people who are enthusiastic about the growth and development. There are certain countries that have to try to develop and enhance the living standard of the people, such countries are Pakistan, India, Sri Lanka and Bangladesh. These countries are trying to enhance the decline in poverty level by providing financial assistance through loans and credits. These countries are trying to enhance the decline in poverty level by providing financial assistance through loans and credits. In contrast to other countries, the major focus of the Pakistani microfinance is to provide support only on the loan and credit.

The interest rate charged by Pakistani microfinance institutions is high especially for the people who take credit and assistance for agricultural usage. The relation amongst poverty alleviation and institution or system of microfinance is significant and positive. Hence, the findings showed that the microfinance institutions provide significant support to people to do business and enhance the living standard, and eventually the economic conditions of the country are better (Ayuub, 2013). This also brings the awareness pertaining to equality and the empowerment of women to the people to avoid discrimination between the men and women.

The conceptual framework for the study is presented in Figure 1.

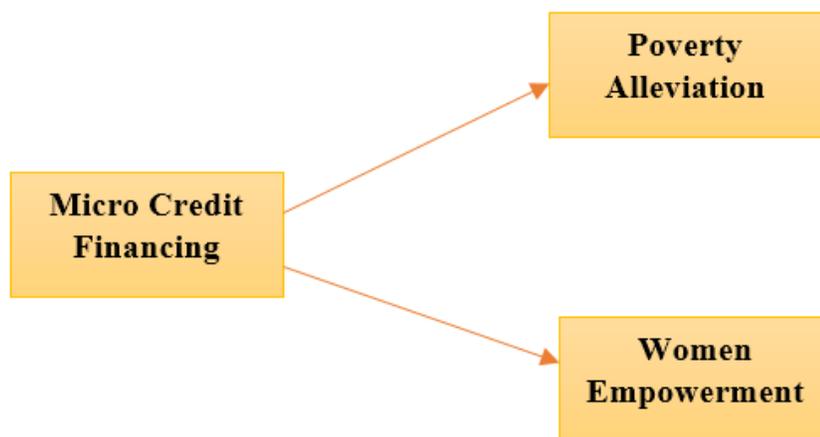


Figure 1: Conceptual Framework
Research Methodology
Research Philosophy

In order to get the effectiveness of Microcredit finance on alleviation of poverty and empowerment for women in Pakistan's rural areas, the research philosophy of positivism has been implemented as this philosophy allows the researcher to assess

the relationship between the variables affecting women empowerment and poverty alleviation through microfinance credit service provided by different organisations including the banking sector. Moreover, this philosophy could also be beneficial in determining the impact of microfinance on this phenomenon and its long-term impacts on poverty alleviation and provoking women empowerment in the Pakistani Society. The rationale behind selecting positivism philosophy is to assess the relationship of these variables that are impacting poverty alleviation and women empowerment and how microfinance credit can carter both of these aspects.

Research Design

In order to get the effectiveness of Microcredit finance on alleviation of poverty and empowerment of women in the rural areas of Pakistan, quantitative research design has been employed in terms of examining the relationship between the factors or variables that have a higher influence on poverty alleviation and women empowerment through microfinance credit that would help the researcher carry out relevant findings accordingly. Quantitative research design has led this study towards carrying out the findings that are quantifiable and could easily be explained towards analysing those factors that are highly impacting poverty alleviation and women empowerment.

Data Collection Methods

In this particular study, the primary data collection method has been used in order to gather data from the target respondents of the study. For the data collection method, survey questionnaires have been used to get the quantitative data from the respondents in order to get their feedback and opinions regarding the study topic. The questionnaire used for the surveys has been based on a 7-point Likert scale to record the responses of the respondents of the study.

Sampling Size and Sampling Technique

The sample size of this study has been based on 290 respondents that have been categorized into normal people living in the rural areas of Pakistan specifically women. The sampling technique of this study has been based on cluster sampling that falls under random sampling that has helped the researcher reduce the field costs and also save time to conduct the research.

Data Analysis Technique

The collected data from the surveys have been analysed using the technique of linear regression analysis that has been used to assess the impact of the independent variables on the dependent variables of this study. This technique has been adopted in order to get accurate findings based on the quantitative analysis in terms of the impact of microfinance on the women empowerment and poverty alleviation in Pakistan.

Analysis and Discussion

Correlation Analysis

Table 1: Correlations				
		WE	PA	MF
WE	Pearson Correlation	1	.847**	.865**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimates
1	.965 ^a	.748	.747	.48912
a. Predictors: (constant), MF				
	Sig. (2 tailed)		.000	.000
	N	290	290	290
PA	Pearson Correlation	.847**	1	.906**
	Sig. (2 tailed)	.000		.000
	N	290	290	290
MF	Pearson Correlation	.865**	.906**	1
	Sig. (2 tailed)	.000	.000	
	N	290	290	290
** Correlation is significant at the 0.01 level (2 tailed).				

There are three variables of the study; one is an independent variable which is micro-credit financing and two variables are dependent which are women empowerment and poverty alleviation. The relationship between microcredits financing with women empowerment is positive and significant having a value of 0.00 which is less than 0.05. The relationship is strong because the value is near 1 which is 0.865. Moreover, the relationship between microcredit financing and poverty alleviation is also strongly positive and significant which is 0.00 and the Pearson Correlation value is 0.847. It shows a positive and strong association among poverty alleviation and empowerment of women containing the correlation value 0.847 and sig value is 0.00 which is less than 1.

Regression Analysis

The regression analysis model summary table has the R-value of 0.865 which defines the significant relationship between the dependent and independent variables. The R-Squire value is 0.748 which defines that the regression model is a good fit because the value is nearer to 1. It means that the variance in microcredit financing is approximately 75% of the variance in women empowerment. This is because of the value of R-square which are analysed by the regression analysis.

Model		df	Mean Square	F	Sig.
1	Regression	1	204.099	853.106	.000 ^b
a. Dependent Variable: WE					
b. Predictors: (constant), MF					

The aforementioned table illustrates a significant relationship between microcredit financing and women empowerment. In relation to the above ANOVA

table, it can be recognised that between both variables the significant value is 0.00 which is less than 0.05. This depicts that the model of regression is fit for the purpose of finding out the impact.

Model		Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.052		4.802	.000
	MF	.029	.865	29.208	.000

a. Dependent Variable: WE

The above table provides information about the coefficients examined through the regression analysis. Therefore it has been evaluated that the constant related to the beta in the model of regression is 0.250. In similarity to this, the significant value of the constant is 0.00 which is less than 0.05. Therefore, it has a positive influence. On the other side, the beta value of microcredit financing is 0.847. This illustrates that the change of one unit in microfinance credit is outcomes in the 0.847 change in women empowerment. Similarly, the significant value of microcredit finance is 0.00 which is less than 0.05 it means that it is significant. Hence, from the coefficient table, it can be claimed that the impact of microcredit financing on women empowerment is significant.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimates
1	.906 ^a	.821	.820	.36730

a. Predictors: (constant), MF

Model		df	Mean Square	F	Sig.
1	Regression	1	178.155	1320.547	.000 ^b

a. Dependent Variable: PA

b. Predictors: (constant), MF

The above table gives the value of the R and R square which is examined through the regression analysis. The value of R square is 0.821 it means that the variance in microcredit financing defines 82% of the variance in poverty alleviation. The value of the adjusted R remained similar in the entire regression model which is 0.820.

The regression and residual values are given in the ANOVA table which is identified through the regression analysis. On the basis of the above figure, the impact of on variable on the other is significant because the significant value is 0.00 which is less than 0.05. Therefore, the model is fit for the purpose of regression analysis.

Table 7: Coefficients ^a						
Model		Coefficients	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.039			-2.726	.007
	MF	.022		.906	36.339	.000
a. Dependent Variable: PA						

The coefficient table also obtained through the regression analysis provides information about the constant of the regression model. The beta value of the microcredit financing is 0.792 which illustrate that one unit change in microcredit financing brings 0.792 unit change in poverty alleviation. Similarly, the significant value is 0.00 which is less than 0.05 which depicts the significance between poverty alleviation and microcredit financing. Therefore, there is a significant effect of microcredit financing on the alleviation of poverty.

The basic intent of our study was to analyse the impact of micro-credit financing on alleviation of poverty and empowerment of women: an empirical study on Akhuwat Islamic microfinance. It has been analyzed by the findings of the study through quantitative analysis by using correlation and regression that there is a significant impact of micro-credit financing on poverty alleviation and women empowerment. It has been discovered in the findings of the study that microfinance plays a crucial role in eradicating poverty and empowers women.

Conclusion

The key reason for this study has been to examine the impact of micro-credit financing among Akhuwat Islamic Microfinance on the empowerment of women and poverty alleviation. To attain the study's main purpose, the analysis of previous

literature was undertaken to gain a understanding of the research topic. The study through a survey questionnaire was conducted on 290 respondents from the rural areas of Pakistan particularly women. Overall results showed a significant impact on women's empowerment and poverty alleviation from micro-credit financing.

The overall results of this study also mirrored the results of most of the previous studies, in which there was a positive relationship between micro-credit financing with poverty alleviation and empowerment for women Al-Mamun *et al.*, (2014), Ayuub, (2013) and Shafique (2017). As stated in the study of Yogendrarajah (2011), micro-credit financing plays an important role in empowering women residing in rural areas, thus a positive association exists between micro-financing and empowerment for women. The same study highlights some important dimensions of micro-credit financing that can affect women empowerment, which includes household income, education, family encouragement/support, and individual personality. Moreover, the study carried out by Norwood (2014), has recognised micro-credit financing as the key remedy to eliminate poverty and empower women. Similarly, there are enough previous studies documenting significant impacts of micro-credit financing on poverty alleviation and women empowerment (Al-Mamun *et al.*, 2014; Ayuub, 2013), validating the findings of this research study. Conclusively, the significant impact of micro-credit financing on poverty alleviation and women empowerment is justified in the context of Akhuwat Islamic Finance.

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