



Role of Islamic Microfinance Towards Achievement of Sustainable Development Goals: An Empirical Study of Women Enterprises in South Punjab, Pakistan

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ABSTRACT

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Globally, gender discrimination is the major problem faced by women, it's important to empower women for uplifting their status as recognized by Sustainable Development Goals. Microfinance is playing an important role in economic development and as a policy tool that allows greater financial autonomy for women. Islamic Microfinance institutions (MFIs) have mostly attentiveness to women beneficiaries and to reduce their level of poverty and to improve social status. This study explored the impact of Islamic microfinancing and women's empowerment. Data was collected through a questionnaire by using the purposive sampling technique, 265 women were clients of Islamic-MFIs Akhuwat in South Punjab, Pakistan. The correlation and regression analysis were employed to examine the relationship through SPSS and Smart PLS-4 software. The result indicates that Islamic microfinance and human capital are playing an important role to improve the decision-making, living standard, household condition, family wellbeing and social status of women. This study captures limited responses from respondents due to COVID-19 and further study can be extended by incorporating more dimensions of women empowerment with increasing the sample size to get more significant results. This research suggests to the government, education institutes, NGOs, and policymakers that they emphasize women's welfare through the provision of interest-free loans, human capital and encourage them to participate in economic activities.

1. Introduction

The Brundtland Commission defined sustainable development: "the ability to make the development of sustainable goal is ensuring that to meet the present needs without negotiating the aptitude of future generations to fulfill own needs". The idea of viable development goal indicates some limits, according to earth's ability to absorb the effects of activities of humans (Kates et al., 2016).

United Nations (UN) (2000) declared human development framework upon eight millennium development goals (MDGs) and twenty one targets. The 189 states settled to work with MDGs to be chased in developed and developing countries in 2015. By 2015, UN defined seventeen new sustainable development goals (SDGs) with 169 targets for the next fifteen years of development

program from 2015 to 2030 with further amendments in MDGs. The SDGs had been defined and designed around 3-perspective social, economic, and environmental development. (Ahmed et al., 2015).

It required the participation of various stakeholders. Islamic Finance prevents interest and excessive risk and promotes equity and justice. State Bank of Pakistan (SBP) described 21% of people fully performing their operations through banks, approximately 75% of banks clients want to perform their banking and financial activities according to shariah principles, 93% of unbaked peoples have their faith about interest forbidden to Muslims and not participated in conventional banking (Siddique and Junaid, 2020).

1.1 Background of the Study

Worldly, the handful people occupies immense wealth of nation and leading world population have a small amount of wealth and are deprived of basic needs of life. To overcome the problem of inequality MFIs provides financial facilities to needy and poor people. Many initiatives are taken by every government of a country and different organizations for financial assistance of poor people (Jalilian and Kirkpatrick, 2009).

During 1970s, market analyst of Bangladesh, Muhammad Yunus gave voluntarily free advance to needy women entrepreneurs from his pocket, which convert their businesses more profitable. Then he built Grameen Bank with limited funds and a comprehensive financial framework for the development of poor (Newman et al., 2017). Globally, enormous numbers of MFIs developed after the accomplishment of Grameen model and honoring the efforts to absolve poverty Muhammad Yunus received the Nobel peace Award 2006 (Bruton et al., 2011).

Likewise, BBC News (2010) referred to an administrative report that assurances that a 40-year-old woodworker had endured a cardiovascular failure "because of weight put by the microfinance establishments for reimbursement". India's MFIs Network declared that "numerous loaning, over-obligation, coercive recuperation rehearses and inappropriate improvement by advertisers furthermore, senior chiefs had prompted this circumstance" (Soutik, 2010). The provision of charity base financial amounts makes prosperous people for just a day but the provision of interest-free loans to people consider a liability, that urges them to invest this amount in productive and innovative activities to timely reimburse (Zaidi, 2017).

Pakistan is an Islamic country; its 96.28 % population Muslim and resist interest base conventional financing. Pakistan area wise 33th largest and 5th biggest populous country in the world with 65.5 million labor force. The $\frac{1}{4}$ of the total population lives below the poverty line and 55% of women are concerned about this poor population (Pakistan Bureau of Statistics, 2020).

Islamic microfinance appropriated instrument for the welfare of poor peoples and women empowerment in Pakistan. The interest-free loan an excellent opportunity for those people who have insufficient financial resources to start or improve their business. Entrepreneurial behavior, vocational training and skills development are important to use microloans in productive activities. This study emphasizes the contribution of Islamic microfinance towards women empowerment of South Punjab, Pakistan and took responses from women who avail the financial and non-financial facilities of Islamic microfinance. Their level of poverty, the living standard of life, access to basic facilities of society, involvement in social events is lower than women of upper Punjab.

A significant literature available of microfinance for poverty reduction and women empowerment. However, the relationship between Islamic microfinance and women empowerment with the mediating effect of human capital needs to elaborate. Which enhanced the literature for the

importance of a MFI, bring out need of finance and human capital for poor entrepreneur, provide better understanding for policy making to women empowerment and motivate philanthropist who works for women welfare.

2. Literature Review

The objective of study is to examine the role of Islamic Microfinance facilities towards the development of women empowerment, examine the human capital effect on women's empowerment and measure Islamic microfinance effect on women empowerment through mediating role of human capital. Literature review provides the importance of sustainable development goals with a special focus on different aspects of women empowerment through microfinance facilities encircle in past studies, conduct in the various context of the world.

According to literature, the meaning of empowerment word is “to give somebody the power or authority to do something or to give somebody more control over their life or the situation they are in” (Rehman et al., 2015).

Hulme and Shepherd, (2003) illustrated dissimilar aspects of poverty and the identity of poor people in the world as lack of financial resources and social obstacles are major issues behind poverty and eradication of poverty in developing countries. Buera et al., (2009) recommended extraordinary need for finance for developing infrastructure, investment in business and social welfare of developing countries from suitable sources.

World Bank (2002) elaborated women empowerment in the poverty framework as “the process of increasing the capacity of individuals or groups to make choices, and to transform those choices into desired actions and outcomes.” UNIFEM (2000) described women empowerment comprises “gaining the ability to generate choices, exercise bargaining power, developing a sense of self-worth, a belief in one’s ability to secure desired changes, and the right to control one’s life.” The empowerment senses are context-based behind the social values (Ali & Hatta, 2012).

Human Development Report (2015) classifies two methods to measure women empowerment. Bruton et al., (2011) analysed that the methodologies are incomplete because of varied dimensions of empowerment.

Islam completely defines every aspect of life and partly permits women to contribute in dissimilar activities. Chaudhry et al., (2012) illustrated women's empowerment in Islam and their present status in Pakistan and found that ladies have a lack of support from their father, spouse, and other family individuals.

White (2010) investigated role of Islamic religion and women empowerment explained the women empowerment problem due to unaware of the true ideology of Islam. In this respect, Bhausal (2010) found that microcredit helps poor to become independent and to have ease from the state of poverty.

For the development of society should reduce the level of vulnerability, health care, access to economic activities, and gender equality are mainly dealt with to alleviate poverty and women empowerment. For improvement, these indicators require financial resources, which enhance the household income, welfare of ladies plus their family members, and also social & political autonomy, which can be assessed by different methods (Mayoux, 2005). Microfinance institutes provide advances to needy people without collateral to begin a business venture. The microloans provide to a group of 3 or more individuals known as Self Help Group and they guarantor of each other. Now

a day's microfinance offers various credit facilities to poor people according to modern rules and regulations (UNFPA, 2010).

For the process of global development, every human should have equal rights in society i.e., women empowerment. Which consists of women's physical and spiritual welfare through encourage them to participate in socio-economic activities.

Hadj et al., (2018) investigated the importance of the microfinance phenomenon to reduce poverty in developing economies. Results show that investing the micro loan in productive economic activities has a specific increase in income and increase in household consumption of individual clients for basic needs of life. Thanh & Andreoss-o'Callaghah (2020) analyzed that microfinance programs and women union's fiscal facilities playing a optimistic part in removing poverty. Rahman et al., (2015) claimed that IMFs wanted a communal instead of being dependent on donors.

Mahmud et al., (2017) and Yaumidin et al. (2017) identified positive effect of microfinancing on client's income with efficiency gain in income, education, food, assets and power to bargain.

2.1 Theoretical Framework

Interest-free financing exists in the world but in form of corporations starts at the end of the twenty centuries. Islamic law prohibits interest-based financing to reduce hoarding of money, encourage entrepreneurial activities, circulation of money in society, and provide an opportunity to poor people to change their living status by access to interest-free loans. Kabeer (1999) argued that women empowerment consists of the systematic process such as availability of resources, authority to consume where they desire and outcomes are their name. Microfinance establishments diminish gender separation and bring increment in women empowerment with the aid of capital in context of developing countries (Mayoux, 1998).

In the light of afore discussion, we develop a construct with the help of the literature and theoretical framework to conduct this study. Theoretical research model is given as;

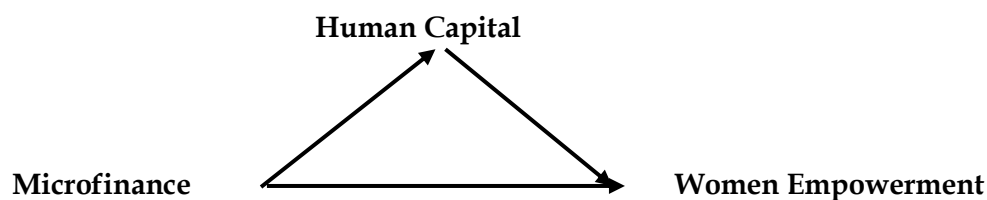


Figure 1 Research Model

Following are null hypotheses of study which are formulated in the boundary of above literature and theoretical discussion;

H1: There is a significant relationship of women empowerment & Islamic microfinance.

H2: There is a significant relationship of human capital & Islamic microfinance.

H3: There is a significant relationship of women empowerment & human capital.

H4: Human capital mediate the relationship between women empowerment & Islamic microfinance.

3. Research Methodology and Data

The present study explored Islamic microfinance's potential for sustainable development goals especially from the perspective of women empowerment in Pakistan. There are diverse facets of women empowerment in the literature, also many methods are available for measuring it. For analyses, the 265 questionnaires were filled up from women clients Akhuwat Islamic microfinance from District Multan and Muzaffargarh, South Punjab, Pakistan.

This study chooses nonrandom purposive sampling. The results are elaborated herewith;

4. Discussion of Results

Table-1 presents the information (demographic) about respondents who availed interest-free loans from Akhwat foundation (Islamic-MFIs). The result showed that majority (44.5%) of respondents receive loan belong to age group (31-40)year and remaining from other age groups. Almost 35.8% respondents were uneducated, 30.7% belongs to secondary education group and remaining from other groups. Finding indicated that mostly (50%) of respondents receive 20 to 40 thousand loans and 18% of clients take 40 thousand, which is not sufficient to start a business or to boost their business, women contribute more than loan amount to the capital through personal resources. Most respondents have already business and many start new business such as in beauty salon, boutiques, retail shops, school or academy development, tailoring/stitching, etc. Mostly, women's family status married having one or two children when they availed microfinance facility at a young age.

Table 1
Descriptive analysis

Respondent of Study	%	Cumulative (%)
Age of Respondent		
18 – 30 years	19.7	19.7
31 – 40 years	44.5	64.2
41 – 50 years	26.6	90.8
51 years and above	8.7	100.0
Education of Respondent		
No formal education	35.8	35.8
Primary education	28.4	64.2
Secondary education	30.7	95.0
Graduation and above	5.0	100.0
Marital Status of Respondent		
Single	4.6	4.6
Married	84.4	89.0
Separated	6.9	95.9
Widowed	4.1	100.0
Loan Amount		
Less than Rs. 20,000	32.1	32.1
Rs. 20,001 – Rs. 40, 000.	49.5	81.7
Rs 40,000 - Rs 70,000	18.3	100.0

Type of Business		
Beauty salon	7.3	7.3
Boutique	16.1	23.4
Retail Shop	18.3	41.7
School/ Academy	1.8	43.6
Tailoring/stitching	17.4	61.0
Other	39.0	100.0

Descriptive statistics presented in table 2 show that respondents were agreed with the research questionnaire statements and there's a limited deviation in women's responses, which supports research hypotheses. The correlation test results also shows that there is a positive significant relationship between women empowerment, human capital, and micro credit.

Table 2
Descriptive Statistics

Name of variable	Mean	Std. Deviation	MC	WE	HC
Micro Credit	4.404	0.476	1.000		
Women Empowerment	4.147	0.468	0.467**	1.000	
Human Capital	4.020	0.452	0.152*	0.590**	1.000

** . Correlation is significant at the 0.01. * is significance level at 0.05 level (2-tailed).

4.1 Construct Reliability and Validity

Cronbach's alpha as well as composite reliability analyses is incorporated to find the reliability of analyses. The results of the reliability test should be greater than 0.6 & 0.7 levels of results also acceptable (Pallant, 2010).

Table 3
Reliability of Model(s)

Scales	AVE	Composite reliability	Cronbach's alpha
Micro credit	0.424	0.721	0.727
Women empowerment	0.380	0.830	0.834
Human Capital	0.520	0.684	0.680

The Cronbach's alpha results for WEP and MC are 0.834 and 0.727. findings are indicated to be > 0.7, thus reliable. However, in case of HC, coefficient value of Cronbach's alpha and composite reliability is 0.68. Therefore, concluded that HC is weak in scale of measurement in comparison to MC and WEM, however, are acceptable.

The validity of a construct is elaborated in Table 4. The extracted value of average variance of HC is 0.520, which is appreciable in contrast to the other variables.

Table 4
Fornell-Lackers Criteria

Variable	Women Empowerment	Human Capital	Micro Credit
Women Empowerment	0.558	0.952	0.611
Human Capital		0.610	
Micro Credit		0.406	0.558

The value of discriminant validity of HC and MC is 0.61 and 0.55. It is > column value. However, of WEP, the case is opposite which is less apprehend able.

4.2 Collinearity Statistics

The concept of multicollinearity statistics represents the importance of construct predictors to individually explain the dependent variable. This shows in Smart PLS as VIF and it should be less than 0.50 for better acceptable research hypotheses. If the VIF value more than 0.50, it means there is a problem between an independent variable to justify the research objective (Snee, 1983). In this study the VIF value's less than 0.30 for all three variables Human capital, Microcredit, and Women empowerment with all research question, which is more preferable than acceptable results. This shows that HC and MC individually significant impact on WEP and support research hypotheses.

4.3 Regression Analysis

The regression analysis is performed in accordance with the objective of study, and results are given in table 5.

Table 5
Regression Analyses

Variable	Model 1	Model 2	Mode 3
<i>MC</i>	0.655 (5.145)		0.571 (12.580)
<i>HC</i>	0.215 (13.891)	0.773 (32.517)	
<i>Adjusted R square</i>	0.620	0.595	0.322
<i>Durbin Watson</i>	1.811	1.694	1.592
<i>F state</i>	155.728	332.414	61.361
<i>R square</i>	0.624	0.597	0.326

Note: Dep.Variable = Women empowerment (WEM) ; Independent Variable = Microcredit (MC); Human Capital (HC).

Table 5 explains the regression analyses. The value of R square shows 62.4% of significant effect of micro credit and human capital on women empowerment. About one percent increase in human capital leads to change women empowerment by about 21.5%. In case of the other model, human capital is found to significantly effect, i.e. 77.3%, women empowerment. Moreover, model of micro credit indicates that one percent change in micro credit enhances women empowerment by 57.1 percent.

4.4 Mediation Analysis Results

This study analyses mediating role of human capital for any of the effect of micro credit on women empowerment. The results are presented in Table 6.

Table 6
Analysis of Mediation

Effect Type	Coeff.	t-stat.
Indirect Effect: MC > HC > WEM	0.376	4.345
Direct Effect: MC > WEM	0.238	2.635
Total Effect: MC > WEM	0.614	8.108

The mediation results show significant total effect. The direct and indirect effects are also significant within MC and WEM in the presence of HC. Findings show partial mediation within MC & WEM in case of mediation with HC.

5. Conclusion

However, this study firstly focused on the role of Islamic microfinance towards women empowerment through interest-free microloans provided to women entrepreneurs for starting or boost up business. Secondly, the role of human capital mediates between Islamic microfinance and women empowerment in South Punjab, where the living standard of the majority of people is unsatisfactory.

Consequently, this study revealed that Islamic microfinance and human capital had individually and jointly significant effects on women's empowerment. Which indicated that women got more empowerment through financial and non-financial facilities of Islamic microfinance. The last hypothesis argues that human capital has a mediation role between Islamic microfinance and women empowerment, which is significantly confirmed by significant total effect, strong indirect effect, and weak direct effect between variables, stated as partial mediation.

Although, by availing the microloans from Islamic-microfinance women got empowered for taking different decisions in their economic social, and personal lives. They can decide to boost up or establish new businesses to increase their income, saving and living standards.

The results of the study revealed that Islamic microfinance may not completely empower women in male dominating society like in Pakistan, but overall it improves their social, economic, and living standards by enhancing their level of income and decision-making abilities and the welfare of the children, happiness of family, enhance bargaining power and reduce poverty.

Thus, for women empowerment with Islamic microfinance contribution of other factors such as education, public awareness, change in discerning approach, a campaign by role models, legal, political support, etc plays a significant role.

This study is most beneficial for the Government, Non-Governmental Organizations (NGOs), financial sector, policymakers, educational and vocational institutes to suggest an emphasis on women's welfare through the provision of interest-free loans, technical education, and skill development program.

The financial sectors should encourage women by providing special loans as they are deprived segments of society and have no access to financial facilities for several decades. As in backward areas, uneducated women have no awareness how to access finance. The special desk must be established for women with trained female employees to provide guidelines, basic business training, and supervision for entrepreneurial business activities to female clients.

Currently available Islamic-MFIs and their branches have insufficient funds to facilitate every poor woman. The government should establish new and provide finance to Islamic-MFIs to extend existing institutions. So that maximum women take advantage of financial facilities at minimum cost to initiate small scale businesses to meet self-expenses from personal income, create new employment opportunities for other women, and contribute to GDP.

The provision of microfinance reduces hurdles for women to start a new business or growth of the business, but they should also have specific vocational training, skill in a specific field to invest the finance in the relevant business. Therefore, the government should provide entrepreneurial education to students and create further institutes for skill development such as vocational training institutes, TEVTA, etc.

Further study can be conducted to measure the impact of interest-free microcredit on different dimensions of women's empowerment with the inclusion of social capital, which manifests the importance of social capital along with Islamic microfinance for women empowerment.

This study has not captured more information from a large number of respondents due to COVID-19 and mostly clients deny responding to the research questionnaire due to miss assumptions about the research survey. Future studies carried out with a larger sample and expansion in different districts so the results of the study can confidentially generalize to the same context areas.

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