

The Effectiveness of Microcredit Scheme on Women Empowerment

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ABSTRACT

Microcredit programs emphasized promoting changes at the individual level eradicates poverty and empowers women. It has become an effective tool for enhancing women's capacity and socioeconomic development around the globe. Nevertheless, the scope of women empowerment is generally restricted by inequalities, discrimination and also had some negative impact on women's empowerment. This paper will analyze the effectiveness of microcredit programs on women empowerment measured by three different basic indicators namely, economy, social, and psychology. This research paper will utilize a quantitative method; purposive sampling in which 183 women participate in a microcredit scheme in Selangor. They are currently running various types of small and medium scale businesses in Selangor. The result reveals that two social empowerment indicators and psychology has a positive significant impact on the effectiveness of the microcredit scheme. They are empowered through a microcredit scheme as they can improve their skills and fulfill their basic needs.

Keywords: Women empowerment, Microcredit, Economic development.

INTRODUCTION

Generally, the terms microcredit and microfinance have been widely used interchangeably by a plethora of researchers in explaining various issues in poverty alleviation and financial assistant among small scale businesses. Microcredit has taken the pace in most developing and under-developed countries, where the government of these countries implemented many financial and economic policies to further enhance microcredit and simultaneously empowering women and alleviating property (Addai, 2017). The idea of “The Grameen Model” was introduced by Professor Muhammad Yunus in 1976 where he lent a small amount of money during his field visit to a relatively poor area in Bangladesh. The small loan received by a group of women who were rural basket-weavers did not only support the poor women to survive but also stimulate their personal motivation, initiative, and innovation which led to pulling them out of the poverty level.

This model is still being considered as the most viable and successful model in the microcredit industry which originated the vision of empowering women. The main aim of microcredit is to alleviate poverty and empower its recipients, especially women. The rationale by extending financial services through microcredit scheme, saving, insurance, and training is that low-income earner will have the capability to involve in socio-economic activities, introduce new business activities, start-up their own business, or extending the existing business (Al-Shami et al., 2016). Studies conducted in several countries such as Bolivia, Ghana, India, Indonesia, Morocco, Peru, Thailand, and Sri Lanka discovered that microcredit has a positive influence on the development of business and profits, household welfare, child education, health awareness, household income and women empowerment (Pimhidzai et al., 2019). In India and Ghana, the microcredit scheme has been attested as an effective tool that contributed to the source of income among women. Despite the whole implementation took quite a long term investment, microcredit has contributed a lot to the social system and sustainable economy (Addai, 2017).

In Europe, the role of microcredit has become even more important due to the increased in self-employment and enterprise formation, up to 92% of the total number of European enterprises face many challenges and looking for financial support to overcome those obstacles (Microfinance Barometer, 2018). Figure 1.0 depicts the total number of microloans distributed has increased from 2015 until 2017. These figures indicate that the recent development in this sector addressing huge potential demand for microcredit facilities across Europe.

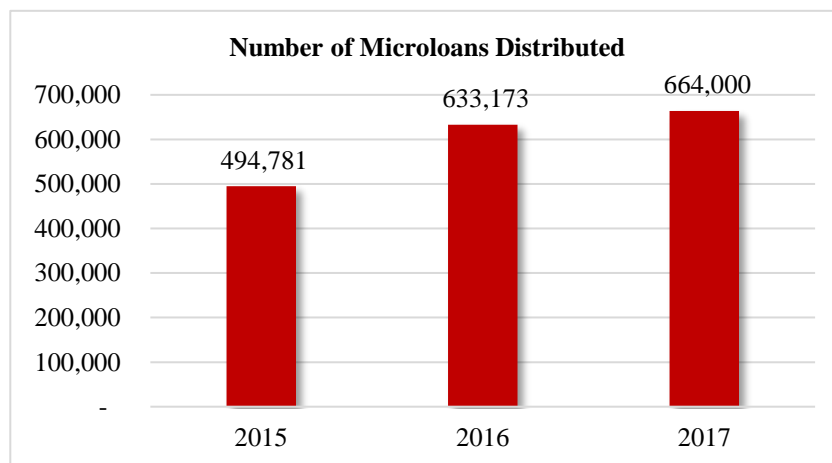


Figure 1: Number of Microloans Distributed During the Year

Source: Microfinance Barometer 2018

Women empowerment refers to the opportunity of preparing or equipping women to be economically independent, possess self-esteem, skills, and self-confidence which empower them to face any difficulties and participate in socio-economy activities. The previous study explains five types of women empowerment namely, political, legal, social, cultural, and economic. But the most significant indicator of empowerment is economic empowerment, which is associated with women's participation rate in economic activity as compared to male participation. This will lead to the development of women's skills and decision-making concerning any business activity (Singh, 2018). For the past few years, women in the developing countries are the main borrowers of many microcredit institutions including Malaysia because a large group of low-income households is located in this region and more than 70 percent of the worlds poor are women (Samer et al., 2017; Rahman, Khanam, & Nghiem, 2017)

At the national level, the Malaysian Government has implemented strategic planning on women empowerment through *Pelan Strategik Kementerian Pembangunan Wanita, Keluarga dan Masyarakat (KPWKM) 2013-2017* which embedded eight (8) Strategic Cores. The first Strategic Core is to empower women in increasing women's contribution to socio-economy. Thus, to attain this aspiration, the women participation rate in the labor market and entrepreneurship must be enhanced (KPWKM, 2014). With the clear guidelines, opportunities, and access given particularly in training programs and capital, microcredit can support women in increasing productivity, reduce the poverty gap, and optimizing output. Empowerment offers women opportunities to generate income through direct or indirect involvement and enhance self-potential in decision making. In fact, economic development and women empowerment are closely related in strengthening empowerment in various life dimensions not only for the household but also for the economy and social development of the nation. (Crépon, Devoto, Duflo, & Parienté, 2011)

Globally, women comprise half of the population in most countries, but the unemployment rate is more than men, in which women only contribute 37 percent of the Gross Domestic Product (GDP). Previous studies show that women who earn a salary and can generate a good income might reduce the poverty level (Baloch et al., 2018). In 2016, the women participation rate in the Malaysian labor market was 54 percent. This figure is relatively low compare to some other countries such as Thailand (70%), Australia (71%), Japan and Singapore are 66 percent respectively. The Statistic of Women Empowerment for Selected Domain, 2018 stated that male participation in the Malaysian labor market leads by 80.1 percent, while women are represented by only 54.7 percent. Based on the estimated income and salary, for each RM100 earned by men, women will only receive a salary of RM93.80 (Department of Statistics Malaysia, 2017).

Generally, women all over the globe are seen to be socially deficient in terms of social and economy including education level, income, participation in household decision making, and relatively limited employment opportunities. On that note, one of the effective mechanisms to diminish the gap is through the implementation of a microcredit scheme. Microcredit has a positive relationship and influences women's empowerment. Systematic and effective access to microcredit not only reduce the poverty level but also contributes to empowerment among women (Rathirane et al., 2015; K Swapna, 2017). Previous studies highlighted more on the roles and effectiveness of the microcredit scheme towards women and socio-economic development and also the effectiveness of microcredit institutions. On the other side, a plethora of previous researchers concentrated on the benefits of microcredit and entrepreneurship as tools to alleviate poverty among women. Studies associated with women and single mothers have been conducted in Pulau Pinang, Johor, and Peninsular of Malaysia.

Despite many studies related to the microcredit scheme, studies on women empowerment are limited in Selangor. Therefore, this study will examine the effectiveness of microcredit programs on women's empowerment specifically by analyzing three different empowerment indicators namely economy, social, and psychology.

LITERATURE REVIEW

Microcredit is part of the financial assistance to small businesses for them to reduce the poverty level and improve the standard of living (Rahman et al., 2017). In fact, it plays a crucial role in improving women decision-making for the household, family expenditure, children's education, and family financial planning. Contemporary research explained that women's involvement in microcredit would have a positive impact on empowerment through various dimensions namely economy, social, law, and psychology (Addai, 2017). Effective microcredit

will also contribute to women's empowerment in terms of generating good income. More than 65 million poor and women constitute around 75 percent of the world's poor (Duflo, 2012; Rathirane, 2015). Therefore, microcredit has been introduced to reduce the gap, improve income level, empower self-esteem, and decision making among women (Porter, 2016; Vinodhini & Vaijyanthi 2016).

Microcredit could also benefit from increasing business activities and stimulating economic growth, lowering the unemployment rate by increasing labor demand, increasing income, and reducing poverty (Sipahutar et al., 2016). On average, Fofana et al., (2015) found that microcredit borrowers have higher incomes, a higher value of the household asset and able to own a home, and involves in investment activities according to their capability and commitment. Particularly in saving amount, microcredit has a positive impact on the cash saving rate among the poor (Adjei et al, 2009; Ssewamala et al., 2010; Brannen, 1010; Dupas & Robinson, 2013).

The previous study in Kerala India, it was found that after participating in an organization specifically for women and receiving microcredits capital, their situation revealed a significant and positive improvement from the economic point of view of the women (Kumar, 2016). The effectiveness of the program has helped them generate income for the family as well as enabling them to play an important role in the family and community.

Empowerment has various dimensions and one of them is the process of women empowerment (Rahman et al., 2017). Former Prime Minister of India has rightly said, "When a woman moves forward, the family moves and the nation moves". Indeed, the women's contribution to the economic growth of a particular country is undeniable. In line with that, the level of women's empowerment level will always be molded as one of the main agendas in every process of strategy formation and policy implementation (Patel, 2017). The dimension of social empowerment is the process of freedom, self-confidence, and actions to change social relationships (Casey et al., 2010). Microcredit shows a positive impact on women, and therefore suggesting for further research by recommending that women's empowerment can be analyzed based on economic and social aspects (Ab-Rahim et al., 2018). Previous studies depict that women borrowers who have greater access to income generation will be more confident, actively participate in the decision-making process, develop a resilient network, reduce domestic violence and enjoy better social mobility (Van Rooyen et al., 2012). Sarumathi and Mohan (2011) utilized three indicators (psychology, economy, and social) in the previous study to identify the roles of microcredit in women empowerment. They found that women's participation in microcredit will strengthen women's empowerment in terms of psychology and social aspects as compared to the economy.

Psychology is one of the important indicators that contribute to women's empowerment in the microcredit program. *Pusat Rujukan Persuratan Melayu, Dewan Bahasa dan Pustaka* (DBP) defined psychology as the thought and behavior patterns of an individual or group. Psychological aspects can be classified into self-confidence, skills, education awareness, environment, and harmony. A plethora of researchers found that access and women's involvement in microcredit will influence the psychological aspect in a positive way. Increase self-esteem, more calm, increase capability, independence, and dare to voice out opinions (Salia et al., 2018; Francina & Mary, 2013). The right component in the microcredit access benefits not only the poor but also the poorest. Lack of capital, low self-confidence, and self-esteem are some of the reasons most women live in poverty. Thus, the microcredit program would be one of the effective mechanisms for any country to increase household income, improve the standard of living, and alleviate poverty among women. Microcredit (Vinodhini & Vaijyanthi, 2016; Porter, 2016).

The involvement of women in the microcredit program would also contribute to the improvement of well-being. Compared to the formal financial assistance through banking and financial institutions, the microcredit facility is more accessible in terms of eligibility and application. It is expected to be able to improve the level of psychological among women and generate additional income to meet daily obligations and improve quality of life (Rofikoh et al., 2016; Salia et al., 2018).

METHODOLOGY

This study utilized a quantitative approach using a questionnaires-based survey to obtain information distributed through Google form and purposive sampling as a dominant sampling method. The single mothers run various types of business located in three different zones in Selangor, Zone 1, Zone 2, and Zone 3. Based on this figure, the questionnaires have been distributed to 183 respondents. For the independent variable, this study uses three main indicators to measure empowerment namely, economy, social, and psychology. These three indicators are expected to influence the effectiveness of microcredit. The collected data was coded and analyzed to achieve research objectives using the Statistical Package for Social Science (SPSS) Programme, version 23. The analysis involved frequency analysis and descriptive analysis.

RESULTS AND DISCUSSION

Profile of the respondents

The profile of the respondents is presented in two sections which are, personal profile and business profile. The personal profile is presented in Table 1. The table shows that the majority of the respondents are between the age of 46 to 55 years old (39.9%) and most of them are divorced (50.3%). The greatest of the respondents (72.73%) obtained *Sijil Pelajaran Malaysia* (SPM) as their highest education level. Regarding the number of children, the majority of them have around 1 to 4 children (69.9%).

The respondents' business profile is shown in Table 2. Greatest of the respondents running their business a sole proprietorship located in Daerah Klang (31.7%), followed by Daerah Sabak Bernam (16.9%). Based on the data obtained, respondents tend to run business activities close to their residence. Also depicted in the table, the majority of the respondents are running food and beverages related business (56.3%), services (38.8%), and manufacture (2.9%). Some of them have a part-time job in their effort to generate more additional income for the household.

Table 1: Personal profile of the respondents

Items	Frequency	Percentage (%)
<i>Age</i>		
25-35	16	8.7
36-45	61	33.3
46-55	73	39.9
56 and above	33	18.0
<i>Marital Status</i>		
Widow	70	38.3
Divorced	92	50.3
Health problem (husband)	21	11.5
<i>Highest education obtained</i>		

No formal education	17	9.1
Primary	6.6	3.6
PMR/ SRP	13.4	7.3
SPM	133	72.73
STPM/ Certificate	0	0
Diploma/ Degree	7.3	4
<i>Number of children</i>		
No children	11	6.0
1-4	128	69.9
5-8	41	22.4
9-11	3	1.6

Table 2: Business profile of the respondents

Items	Frequency	Percentage (%)
<i>Business Location</i>		
Daerah Petaling	58	31.7
Daerah Klang	10	5.5
Daerah Gombak	5	2.7
Daerah Hulu Langat	22	12.0
Daerah Sepang	5	2.7
Daerah Kuala Langat	22	12.0
Daerah Kuala Selangor	2	1.1
Daerah Hulu Selangor	31	16.9
Daerah Sabak Bernam	28	15.3
<i>Types of Business</i>		
Services	71	38.8
Food and beverages	103	56.3
Agriculture		

Effectiveness of the microcredit

In this study, the effectiveness of microcredit on women empowerment is measured by income level and management practice of the microcredit institutions. Table 3 shows the distribution of respondent's income levels. Based on the four categories of income, respondents in the category of RM1001- RM5000 have shown a significant increase (19%) in income (55.7% to 74.3%) after joining microcredit programs. Microcredit affects positively women's monthly income, indicates better response and after one year of running a business under a microcredit scheme, respondents can own assets and property. In the category of RM5001 – RM10000, the level of income increased by 8.2 percent. But still, 15.3 percent of the respondents earned less than RM1000 a month, which can be categorized as poor. This is due to the insufficient capital to further expand the business and decrease in sales and revenue due to an increase in cost.

Table 3: Change in household income per month: "Before - After"

Income (RM)	Before		After	
	N	(%)	N	(%)
1000 and below	75	41.0	28	15.3
1001 - 5000	102	55.7	136	74.3
5001 - 10000	2	1.1	17	9.3
10000 and above	4	2.2	2	1.1

The internal factors are related to the microcredit institutions, in which the respondent agreed that the effectiveness of the management practices in microcredit institutions and appointed officers have been contributed a lot in terms of managing and monitoring the borrower's progress. One of the nine aspects measured related to the management practice in terms of management and monitoring where the services provided by the appointed officers without any discrimination scored the highest and has a significant impact (mean = 3.57) on the effectiveness of the microcredit scheme.

Women empowerment

As for the economic indicator, the result revealed that the effect of a microcredit program on women empowerment is at a moderate level (mean = 3.23), thus less effect on women empowerment. This might be due to the current economic situation throughout the data collection period of time. However, the result shows that the respondents are able and empowered to make their own household decision-making without other people's intervention (mean = 3.75). Social (mean = 3.47) and psychological (mean 3.64) indicators have the most significant influence on the effectiveness of microcredit on women empowerment.

CONCLUSION

The result shows that the borrowers of the microcredit scheme enjoyed significant benefits as these programs able to increase their income, lift them out from poverty, and improve household decision-making. The role of women particularly in the family decision-making process, household daily expenditure, children's education, self-esteem, quality of life, and motivation has improved a lot after joining microcredit. Microcredit also strengthens women's financial base and enhances economic contribution to their families and communities as well.

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