



Women Entrepreneurship and Financial Literacy: The Case of Female Borrowers in Pakistan

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Abstract

Access to finance through financial institutions is highly dependent on financial literacy. The basic purpose of this paper is to examine the women's financial literacy level in Pakistan, especially, among women entrepreneurs. This study also tries to determine the effect of the financial literacy of women entrepreneurs on their access to finance and subsequent financial decision-making about their businesses. Current research conducted in this study used semi-structured questionnaires, selected interviews, and focus groups. Findings show that women entrepreneurs lack proper knowledge of financial terminologies, mechanisms of financial access, and government initiatives for women entrepreneurs. It is suggested in the light of these findings, that all the relevant stakeholders should work together to enhance financial literacy among current and prospective women entrepreneurs of Pakistan. Strengthening women's entrepreneurship may play a significant role to alleviate poverty among the female population of the country.

Keywords: Feminist Empowerment, Financial access, Gender Discrimination, Micro Finance.

JEL Classification: L26, G21, J16, I22.

Introduction

Women play a vital role in the economic development of a country due to being an integral part of every society (Ekpe et al., 2010). Each year in the United States of America, women entrepreneurs contribute 50% of the GDP. In this way, they contribute about 54.1% of job opportunities. Similarly, women in Indonesia contribute 55% of GDP and created 74% of employment opportunities. On the other hand, in Malaysia, 44% of GDP is contributed by women and they have created opportunities for employment up to 56% (Evbuomwan et al., 2012; Hameed et al., 2018).

In Pakistan, women can play a significant and emerging role in the development of entrepreneurship. As compared to the numerous developed and developing countries, the contribution of Pakistani women is quite limited. Their contribution is only 25%-30% of GDP and towards the country's economy and employment is only 24% (Derera et al., 2014). Women's empowerment is also directly associated with the rate of poverty in Pakistan. About 40% of women are facing the poverty crisis in Pakistan (Rehman et al., 2015). Moreover, the success of any enterprise is dependent on finance. Access to finance through financial institutions is highly dependent on financial literacy and business know-how (Walczak and Pieńkowska-Kamieniecka, 2018). Despite the growth in the entrepreneurial activities of

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women enterprises in Pakistan, the financial literacy of women is still lacking. All these factors indicate that in Pakistan women entrepreneurship is not so developed.

The basic purpose of this paper is to examine women's financial literacy level in Pakistan, especially among women entrepreneurs. This paper critically points out the application and the impact of greater access to finance to women in Pakistan alongside the opportunities and constraints faced by them. In addition to financial and nonfinancial recommendations, the research also provides suggestions for steps to be taken at the government level for increasing women's access to finance for their social and economic empowerment. This study also focuses on non-financial assistance namely; social capital development and skill development/training programs.

Literature Review

Women in Pakistan – A Brief Overview

In 2019, the United Nations Development Program (UNDP) reported that in Pakistan, the ratio of the population living below the poverty line is 22.59%. Most of the Human Development Indexes reported that among 169 countries Pakistan always ranked extremely low. The major attributes of HDI to measure the achievements of human development in the country are healthy life, being knowledgeable, and a decent lifestyle. As the percentage of HDI, Pakistan's gender-related development index is more than 90% which indicates the inequality in achievements among women and men. Similarly, most of the time, Pakistan's ranked at around 100 (out of 109) in the gender empowerment index.

Pakistani women, especially in rural areas, are found to have low self-esteem, low confidence, low self-image, low status and they even don't rely on their abilities (Panahwar, 2004). Also, the working women in Pakistan are overburdened since they must look after household activities other than their job/business. Additionally, women are restricted by social and cultural constraints when taking part in formal work outside their homes. The latest statistics show that there was only 21.8% of the women labor force. Pakistan Federal Bureau of Statistics reported that there are only 0.1% women employers as compared to 1.6% men employers.

Women in developing countries like Pakistan are also affected by the feudal, tribal, and capitalist structure of society besides economic and cultural constraints (Roomi and Harrison, 2010). As compared to urban women, rural women are more bounded because of a lack of education, basic health, and financial resources that result in restricting their potential growth (Goheer, 1999; Afza and Rashid, 2009). All these above indicators are quite enough to place Pakistan among the less developed countries which are having greater gender inequalities (Mahmood, 2011). United Nations Human Poverty Index reported that compared to 41% of men, the women who are living below the poverty line is 55.8%.

According to Financial Inclusion Insights (FII) bank accounts in Pakistan are owned 12% by men and 6.4% by women. Another survey conducted in Pakistan shows that only 34% of women and 50% of men are maintaining a bank account. Due to limited banking options in rural areas, the FII report observed only 7.4% of rural and 13.4% of urban areas with higher bank accounts ownership. Based on gender differences, it was found that owning bank accounts in urban areas comprises 19% of men and 8.6% of women as compared to 9.3% of men and 5% of women in rural areas. FII data shows that in Pakistan, transactions made by men and women are 98% and 77% respectively. On the other hand, 23% of women are dependent on someone else to help them.

A study conducted by IFC found that in Pakistan, there are small numbers of women who are running their businesses. Most of the women entrepreneurs opted for small and similar

micro-businesses such as bakeries, handicrafts, aesthetics, apparel, jewelry, and boutiques. "United Nation's Convention on the Elimination of All Forms of Discrimination Against Women in Pakistan", reported that the number of those women who self-employed was 11.7% but this percentage was increased and reached up to 15.7% in recent years (Niethammer et al., 2007).

Women Empowerment in General

Women empowerment is known as the procedure of making women economically independent, self-sustained, having positive recognition, which allows them to face a challenging position and to play their vital role in different development activities (Kapila et al., 2016). In this procedure, women can get more command over different resources (Jamal et al., 2016).

Women empowerment is low in developing countries like Pakistan. Gender discrimination is one of the main factors of low women empowerment. One of the dilemmas in developing countries is that men are more influential in social and economic decision-making. Hence the developing countries are facing major problems of gender discrimination (Derera et al., 2014). Gender discrimination arises due to cultural issues which include partially or wholly unequal distribution of education and wealth among men and women (Siringi, 2011; Waring and Brierton, 2011). In developing countries, culture is the root cause of developing this discrimination. There are many additional barriers for women entrepreneurs in developing countries such as lack of investment, resources, and business sites because mainly assets are owned by male members of society (Roomi, 2005). For a new start-up, women require small loans. Since these loans are less cost-effective, banks are quite reluctant to consider them (Jalbert, 2000). Women may have the only experience of running their own business. They do not have financial histories of paying back or borrowing loans. In Pakistan, for women's entrepreneurship, the major obstacle is biasedness towards gender. An essential tool for the development and empowerment of women is their access to finance, both at political and social levels (Goheer, 2003). It has been observed that when there is an increase in women's income, there is a valuable change within their households in terms of comfort and power as they found it empowerment equipment to strengthen themselves. A survey conducted by Kashf Foundation, Pakistan on empowerment concluded that for the improvement in living status, there must be an increase in income as well (Hussein and Hussain, 2003).

Microfinancing for Women Empowerment

Microfinance institutions help enhance women's empowerment and to diminish poverty. The objective of microfinance institutes is to reinforce women micro-enterprise through social capital development, skill development, training programs, and provision of financial assistance via easy credit facilities (Hameed et al., 2017).

According to "Mayoux's Feminist Empowerment Theory", microfinance institutes have a significant contribution in decreasing gender discrimination and enhancing women empowerment. This is a prominent theory that formally cataloged institutes of empowerment and microfinance for women. (Mayoux, 1998). This establishes a relationship between empowering women and institutes for microfinance. Microfinance amplifies both economic and social empowerment according to this theory (Mayoux, 2005). This idea is mainly focused on developed countries to raise the empowerment rate of their women's population. According to Mayoux (2005), among the female entrepreneurs who intended to improve their status, 85% of women proposed that the improvement in their status must be due to their income, 70% responded that they must have the freedom to move and 92% said that they must have equal rights in decision making as of men.

Various Microfinance Institutions (MFIs) are trying their level best to resolve these issues (Osman et al., 2011). MFIs are supporting females in developing economies by providing loans on soft terms to overcome social and economic barriers. Thus MFIs seem to be a definite solution for women entrepreneurs (Morrison et al., 2007). According to Kevane and Wydick (2001), since MFI's have a strong ambition to build up women's empowerment so they facilitate women entrepreneurs by providing the credit. Provision of credit to women enhances their social participation and has a great impact on their family welfare (Khandker et al., 2008; Mawa, 2008; Sanyang and Huang, 2008; Zapalska et al., 2007). MFIs are endeavoring their best to diminish poverty level through different financial and non-financial assistance (Al-shami et al., 2018). Financial assistances consist of credit as well as saving and insurance opportunities. On the other hand, non-financial assistances comprise social capital development and skill development/training programs. However, some researchers like Roy et al. (2018) contented that microfinance has not done enough to change the status of women in households. Men can misuse the microfinance obtained. Being dominant, they have control over household earnings. According to a survey conducted in 2019 by Pakistan Microfinance Network, the number of MFIs working in Pakistan is more than 3000. The survey reported that about 2.8 million poor people including 1.6 million women are being served by MFIs in 2019. In Pakistan, the number of women in entrepreneurs is increasing progressively. Hussein and Hussain (2003), explained that credit demand by women increased as compared to men.

Microfinance institutions play the main role in providing financial services. The financial sustainability schemes applied to microfinance are mainly focused on women, their time, and their resources which are required for the efficiency of any program as well as for community development, irrespective of the familial gender fact (Mayoux, 2006). But the microfinance sector has not been able to achieve as much success in Pakistan as compared to other countries. Still, women are in minority to avail themselves of the credit facilities from these institutions. Microfinance performance indicator reported that, globally, Pakistan has the lowest ratio of female to male borrowers (Khan and Noreen, 2012). Safavian and Haq (2013), researched Pakistan and found that 50% to 70% of Pakistani females who obtained microcredit, handed over their loans to male relatives. Whenever men are not able to pay back the number of loans, they started forcing their wives/women to borrow more loans on their behalf. It was also observed that in a male-dominated society, it is very difficult for the microfinance institutes to serve women properly (Zulfiqar, 2017).

Financial Literacy among Women

Financial literacy means the ability to make choices on the use and management of money (Beal and Delpachitra, 2003). Financial literacy is also considered a valuable tool for creative businesses and helps entrepreneurs to prevent losses caused by poor financial management (Berryman, 1983). Financial literacy can also be described as a sort of fundamental knowledge that people in a modern society need to survive (Kim, 2001). Financial literacy affects the ability of a person to understand the financial terminologies/jargon and their effective usage (Servon and Kaestner, 2008). Generally, women have less knowledge of specific behavior in the financial market as compared to men. Their knowledge of personal finance is also quite low. Researchers explained that while studying the knowledge of individual finance and behavior among the two different genders, it has been found that women possess comparatively low knowledge than men (Fonsca et al., 2012, Lusardi and Mitchell, 2008; Lusardi and Tufano, 2015). Studies conducted by the "Global Entrepreneurship Monitor" (GEM) 2010 reveal that somehow the lack of financial literacy has become one of the major shortcomings among the owners of small businesses that lead to the high rate of small business failure (Purnomo, 2019). No doubt every entrepreneur has to

face challenges generally in accessing finance but women-owned businesses come across more restrictions than male-owned businesses (Constantinidis et al., 2007). Women have less knowledge of investment and personal finance as compared to men. Taking this contemplation, decision-making about financial planning of women is affected (Walczak and Pieńkowska-Kamieniecka, 2018). Also, women's knowledge of financial products is less, and they are more risk-averse than men. As women are more visionary, they do want to invest with increased risk (Walczak and Pieńkowska-Kamieniecka, 2018). Likewise in a survey conducted by Agha Khan Rural Support Program members, the majority of men and women contented that most of the domestic, financial and other issues can be sorted out by an increase in joint decision making (Hussein and Hussain, 2003). Another study conducted by Kashf's Foundation in 1988 has shown that 40% of respondents were in favor of the fact that upon an increase in income, there is a drastic reduction in domestic fights.

Research Methodology

Research methodology is the most pivotal part of any research and the selection of methodology is based on the nature of the study. This research is a cross-sectional study and a mixed-method sampling technique is used. The role of microfinance assistance is explored that plays an important role in women's financial empowerment. Financial literacy is carefully examined because it influences the relationship between microfinance assistance and women empowerment. Primary data is collected from the female clients of microfinance banks. Those respondents are selected that were already using microfinance assistance and involved in social capital development activities and training/skill development programs. The research conducted in this study used 120 semi-structured questionnaires from women borrowers financed by different microfinance banks of Pakistan during the period 2016-2020.

Measures used in the questionnaire are adapted from previous studies. In this questionnaire, the number of items related to "women empowerment" is based on economic and social empowerment. Skill development/training programs are measured by because how useful this training is, how frequently these programs are used and how these activities affect social status, improvement in family life, and personal attributes. Social capital is measured by considering the social network of people among their households, clients, providers, and shareholders (Appendix A).

SPSS and excel are used for descriptive statistics. For secondary data, the information was collected through published academic articles, government reports and statistics, news reports, and other relevant websites. The results of this study are supported by selected interviews and focus group discussions with women entrepreneurs who obtained finance from financial institutions. The effect of gender, economic and socio-cultural conditions on authority, availability and access to finance are analyzed.

Findings

The findings of this study are based on an analysis of questionnaires, interviews, and group discussions about women empowerment, their entrepreneurial activities, financial terminologies, and access to finance in Pakistan. 64% of women respondents were from urban areas whereas 36% of women respondents were from rural areas.

Pakistan is mostly considered to be a male dominant society. The gender gap in Pakistan indicates that men use and manage their assets more effectively as compared to women. 40% of respondents said that "lack of opportunities (due to gender discrimination, culture, beliefs) for social and economic decision-making affects my ability to prepare and recover from hazards/disasters". It is a general belief in society that men have more ability to understand

issues, hence, women mostly consult them to solve their (women) financial or technological problems. In this regard, only 9% of the respondents said that “discussions with my family members and relatives help me to develop and expand my enterprise”. 11% of respondents said that “my connections with potential or existing customers and stakeholders help me to develop and expand my enterprise”. However, this study did observe some variations in women-specific decision-making. Women must rely on others even if finances are available to them because they are not allowed to leave their homes and to move freely in society. 31% of the respondents said that “I have been given the authority to go outside the home alone”. Mostly, women are only allowed to go to their workplace. In a nutshell, problems faced by women cannot be addressed by infrastructure alone unless they could make their own decisions.

In Pakistan, men are the primary earners. This indicates their significant role in terms of finances and authority as compared to women. 23% of the respondents said that “I am involved in decision making related to household expenses”, 14% said that “I am involved in decision making related to large purchases” whereas 17% said that “I am involved in decision making related to improvement in the home”. In most cases, women do not have control even over their earnings. 27% of the respondents said that “I can buy clothes or other essentials for myself without permission of my family”. Some of them cannot even save money without informing their male relatives. During an interview, some of the respondents said that they would never be told their male relatives about the savings, otherwise they will ask to give all the money to them. Only 7% of the respondents said that “I am confident to face a financial crisis”. So, male family members are assuming to be the head of households. None of our respondents claimed to be the head of the household. Father, brother, husband, or any other elder male was usually the head of household.

In Pakistan, women's entrepreneurship is on the rise. According to a UN report, the percentage of self-employed women has increased to 17% in Pakistan. However, women entrepreneurs are facing serious difficulties in accessing finance (both seed money and working capital) through financial institutions due to various reasons including lack of personal guarantees, lack proper knowledge/awareness of financial terminologies, and financial documentation. Interestingly in Pakistan, the default rate for women entrepreneurs is much lower than their male counterparts. Government initiatives for women entrepreneurs are not up to the mark and fail to cater to a large portion of prospective women entrepreneurs. Only 15% of the respondents said that “training and skills development programs organized by the government are useful in helping me in running my business”. 10% of the respondents said that “training and skill development programs organized by the government are useful in improving my business status”. These training and development programs help those women entrepreneurs who are running their small businesses. We have also found that 11% of respondents said that “Training and skill development programs organized by the government are useful in helping me to develop my attributes/qualities”.

Because of the foregoing discussion, it is found that these perceived gender roles and socio-cultural conditions are barriers faced by women. Lacking proper knowledge of financial terminology is not less than any barrier. It is the need of the hour to design such opportunities that can be utilized by women to avail these financial services and adapt them according to their needs.

Research Implications and Policy Suggestions

The research findings of this study will help the researchers to understand women's entrepreneurial issues. Lack of finance, lack of guidance, and gender discrimination are identified as the main blockades for women's entrepreneurship in Pakistan. Following are the suggestions in this regard:

- Federal, provincial, local governments, and other development partners should adopt

strategies to enhance financial literacy to support women entrepreneurs in the country.

- A developed financial sector is a powerful tool to diminish women's poverty and to enhance women's role in a formal economy. The government of Pakistan should play a vital role in strengthening the financial sector to meet women's demand for financial assistance. Financial institutions can help female clients through a well-developed borrowing process. In this regard, the following steps are significant:
 - Women-specific financial products should be available through micro-financial institutions and banks.
 - A certain portion of the loan portfolio should also be dedicated to women entrepreneurs only.
 - Financial Services Desk for women should be established in all financial institutions to guide prospective female borrowers.
 - Financial documentation should be simplified to enhance the borrowing application and to reduce late payments.
- Women's ability to access institutional finance can be considerably enhanced by their property rights and control of possessions. In India, the bank named "Mann Deshi Mahila Sah Bank Ltd" assures that women's names should be mentioned on property papers so that the right to own their household properties could be recognized. In Pakistan, women's right to purchase their land and other tangible assets should be made convenient that may prove helpful to meet collateral requirements for obtaining finance.
- Microfinancing is another important area for successful women's entrepreneurship. Most of the women borrowers should be facilitated by microfinance so that they could start their new business projects using the borrowing facility. Urban women are already availing microfinance facilities for their well-established businesses. Now, it's time to expand this facility to rural areas. Microfinance can play a vital role for women based in rural and remote areas of Pakistan and may prove helpful to establish any result-oriented business. Rural women may avail of the microfinance facility to repay their existing loan or to facilitate consumption. Women only enterprise clusters should be established in rural areas
- Pieces of training play an important role and have a positive effect on women's micro-enterprise success (Hameed et al., 2017). Training is a significant characteristic that offers familiarity as well as skills to the women entrepreneur (Akanji, 2006; Khan and Noreen, 2012). For women, free of cost short courses, seminars and training should be conducted frequently. As the education level of women in developing countries is quite low, this procedure can help in teaching various skills to women (Harrison and Mason, 2007). Donor agencies can prove very helpful in this regard.

In a nutshell, women face multiple constraints to become successful in the entrepreneurial field or to sustain or grow. If the barriers of gender discrimination, gender biases, educational constraints are removed and opportunities are given to the women entrepreneurs on a fairness and equality basis, the outcomes will be completely different compared to the current statistical records of entrepreneurs in Pakistan. One may also suggest that because of the dedicated and hardworking attitude of women and with proper opportunities, they can surely lead the entrepreneurial track in a much better way compared to the men. These steps can also introduce new disciplines of women entrepreneurship in Pakistan. Moreover, the financial industry especially the microfinance sector shall be more profitable makes if women play their potential role in the economic activities of Pakistan.

This article is a limited study about the investigation of microfinance and Pakistani women entrepreneurs. In the future, studies may be conducted to understand the impact and effects of microfinance on women regarding their empowerment and entrepreneurship in Pakistan and other developing countries.

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Appendix

Scale Items for Women-Empowerment

1. I am confident to face a financial crisis.
2. I am involved in decision-making related to improvement in the home.
3. I am involved in decision-making related to household expenses.
4. I am involved in decision-making related to large purchases.
5. I can buy clothes or other essentials for myself without the permission of my family.
6. I have been given the authority to go outside the home alone.

Scale Items for Training/Skill Development

1. Training and Skills development programs organized by the government are useful in helping me in running my business.
2. Training and skill development programs organized by the government are useful in improving my business status.
3. Training and skill development programs organized by the government are useful in helping me to develop my attributes/qualities.

Scale Items for Social Capital

1. Discussions with my family members and relatives help me to develop and expand my enterprise.
2. My connections with potential or existing customers and stakeholders help me to develop and expand my enterprise.
3. My enterprise's social and professional networks help me to develop and expand my enterprise to receive updated business information.

Scale Items for Social, Economic, Political, Environmental

1. Insufficient income affects my ability to prepare and recover from hazards/disasters.
2. The lack of opportunities (due to gender discrimination, culture, beliefs) to be involved in resource (e.g. social, economic) decision-making affects my ability to prepare and recover from hazards/disasters.
3. Lack of economic development activities affects my capacity to prepare and recover from hazards/disasters.



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