

Financial Literacy in Women Empowerment

Fina Dian Arini

Department of Public Policy and Management, Faculty of Social and Political Sciences,
Universitas Gadjah Mada
fd_arini@yahoo.com

Abstract. This study aims to examine financial literacy in women empowerment as awareness of this issue initially emerged due to the global economic crisis which occurred between 2007 and 2010. One of the causes of the financial crisis, in addition to overlapping policies and greed, was the prevalence of financial illiteracy that had ultimately led some to wrong decision making in financial matters. The impact of making wrong decisions will affect the future state (situation) of national economy. Through financial literacy, individuals included within the poorest category in economic terms, are expected to be given proper guidance and financial information so that they become empowered, meaning that they will use the guidance and information they have to improve their financial situation. Financial literacy can be a tool for achieving social justice through empowerment, which subsequently relates to women empowerment. The empowerment of women has been conducted expansively across the globe, and one of the attempts is through microfinance. This study uses literature study as its methodology and it concludes that financial literacy can also be considered as a reference to participate in supporting the success of empowering women through microfinance activities.

Keywords: Financial literacy, women empowerment, microfinance

Introduction

The aim of this study is to examine financial literacy in the women empowerment. The global economic crisis that occurred between 2007 and 2010 had raised awareness of the importance of financial literacy. One of the causes of the financial crisis at the time, in addition to overlapping policies and greed, was financial illiteracy that had ultimately steered some to wrong decision making in financial matters (Wolfe-hayes, 2010: 105). The impact of the wrong decision will, thus, have an effect on the future state (situation) of national economy (Oanea & Dornean, 2012: 113).

The term financial literacy has been largely known in the study of economics, especially in relation to the consumers' ability in selecting products they want to purchase (Kozup & Hogarth, 2008). Financial literacy can be considered merely as a series of literacy information and that it refers to an individual's ability to effectively assess and decide matters relating to the use and management of money (Wolfe-hayes, 2010: 106). This is financial literacy viewed from a narrow perspective as the ability of each individual as a person in relation to his own finances.

Financial literacy is considered to be a wider range of economic literacy as stated by Retzmann and Seeber in Aprea, Wuttke, & Greimel-fuhrmann (2016: 5-6), from this perspective, financial literacy involves several competencies (adopted from the current

competency debate on education): 1) individual decision making and rationality; 2) relationships and interactions with others; 3) order and overall system.

The first competence is only related to financial literacy in the narrow sense that it merely concerns the ability of individuals. The second competency has a wider scope in which the ability of financial literacy also extends to the ability to interact and connect with other individuals. Meanwhile, the third and final competency has a broader extent that includes the whole system and regularity which means combining the two previous competencies.

Moreover, financial literacy can also be viewed through a psychological perspective, which involves cognitive and metacognitive aspects, as stated by Antonietti, Borsetto and Ianello in Aprea et al. (2016: 63-64). These cognitive and metacognitive aspects arise when an individual has to make a financial decision that requires the individual to think. When conducting such thinking activities, the individual involves the cognitive and metacognitive aspects. This is also related to *financial education* as an effort to improve financial literacy. Subsequently, the term financial literacy is also defined as financial capability by Sherraden and Ansong in Aprea et al. (2016: 84). Understanding financial literacy as financial capability is to have a broader perception as it refers to a set of individual characteristics that include knowledge, abilities, attitudes, habits, motivations, and confidence that shape financial behavior (Atkinson, McKay, Collard, & Kempson, 2007: 34).

Financial literacy can be obtained through financial education, which is defined as follows:

"Financial education is the process by which the financial consumers / investors improve their understanding of financial products and concepts and, through information, instruction and / or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take effective actions to improve their financial well-being." (OECD, 2005: 26)

Financial education can be seen as a process wherein consumers or investors try to improve their comprehension about financial products and concepts, as well as enhance their ability and confidence, through the use of information, instructions or suggestions, to be more perceptive of financial opportunities and risks, to make choices based on reliable information, to know where to seek assistance, and to take action effectively in order to improve their financial welfare. Financial education can help low income individuals to do their best (OECD, 2005: 13). By having adequate financial knowledge, individuals with low income are able to avoid high cost financial transactions and avert themselves from being immersed in deeper financial misery which consequently leads to even worse financial conditions.

Concerning financial education, there is a correlation with the paradigm shift in observing the economic situation of poverty and debt (Aprea et al., 2016: 98), which is in accordance with the definition of financial literacy as described in Organization for Economic Co-operation and Development / OECD (2014: 33) as follows:

"Financial literacy is knowledge and understanding of financial concepts and risks, and skills, motivation and confidence to apply such knowledge and understanding in order

to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life."

Through financial literacy, individuals who are within the poorest category in economic terms, are expected to be given proper guidance and financial information so that they become empowered, meaning that the guidance and information they acquire will be used to improve their financial situation (OECD, 2005b). In line with the above, financial literacy can be a tool for achieving social justice (Henchoz in Aprea et al., 2016: 109) through empowerment.

Empowerment itself has long been considered as a subject of analysis in development studies and one of them relates to the empowerment of women. Women empowerment is an attempt to create an enabling environment in which they can make their own decisions for their own personal betterment and the progress of society in general (Srivastava, 2014). Women here are considered to be part of a society that has the ability to participate in development efforts. This is also in accordance with the development of the women empowerment concept that has been observed through the three dimensional women empowerment model in which women's empowerment may occur in three different dimensions, namely: micro-level, meso-level, and macro-level (Huis, Hansen, Otten, Lensink, & Adams, 2017: 5). At the micro level, personal empowerment can be observed because it refers to the beliefs and personal actions of an individual. Next is the meso-level which refers to beliefs and actions associated with others, at this level relational empowerment can be observed. Then, the macro level, which relates to the results that have wider social context wherein at this level empowerment could be socially observed.

In a number of developing countries, women's empowerment is still at the micro- and meso-levels, namely personal and relational empowerments. Countries at that level are observed to have a strong patriarchal system. In Indonesia, the empowerment of women can be said to be at the macro-level, because some of the women's empowerment activities found are no longer restricted to cultivating the ability to act personally and relationally. Despite having attained the macro-level, the ability to participate in activities related to the widespread progress of society has yet to be accompanied by awareness of the ability possessed.

The concept of women's empowerment, when associated with economic activity, contributes to consistent development (Chaturvedi, Singh, & Rai, 2016: 12), because women are an asset to a country. The Beijing Conference (1995) has directed the importance of women's involvement in development, demonstrated through the outcomes of the conference with the following objectives: 1) equally sharing power; 2) gaining complete access to development; 3) coping with poverty; 4) encouraging peace and protecting women's rights; 5) inspiring new generation women to cooperate in upholding equality and justice (Anal, 2013: 147). Involving women in development activities is also one of the efforts undertaken to fulfill one of the Sustainable Development Goals (SDGs), which is to achieve gender equality and empower all women and girls (UN, 2016). Now, with existing gender equality, the subsequent effort is to empower women to become involved in poverty reduction and development activities.

Many efforts have been carried out by several developing countries to empower women, one of them is by means of microfinance, whether it is facilitated by NGOs or the government. Empowering women through microfinance, which is also one of the efforts in reducing poverty, has been conducted in countries such as India (Lakshmi, Jampala, Kishore, & Dokku, 2013), (Mukherjee, 2015), Bangladesh (Dalal, Dahlström, & Timpka, 2013), Pakistan (Mahmood, Hussain, & Z. Matlay, 2014), Accra, Ghana (Korankye & Abada, 2017), Egypt (Drolet, 2010). The research results obtained in India, particularly in the Nilgiri region, indicate that poverty reduction by implementing microfinance is influenced by several factors such as age, marital status, education, employment, family type, timeframe for members of savings and loan groups, weekly contribution to groups, the amount of the loan received, the return schedule, the adequacy of capital, the timely receipt of the loan, the period of running the business, and monthly income of the business (Jeyarathnam M and Kamalaveni, 2013:43-44). Moreover, results and impact on women empowerment through microfinance depended on the cultural, social, economic and political circumstances of a region or country (Mayoux, 2005), as observed to have happened in India (Sengupta, 2013), (Kumar, 2013), (Maity & Sarania, 2017), Guatemala (Beck, 2017), and Bangladesh (Nawaz, 2015). In addition to some of the issues mentioned earlier regarding factors that influence women's empowerment through microfinance, financial literacy is also to be considered (Bay, Catasús, & Johed, 2014: 43). Financial literacy is simply deemed to have an impact on the financial capacity of a society. When it comes to microfinance, it can be a considerable factor in the success of microfinance (Nawaz, 2015: 1102).

Methodology

This research is a literature study wherein data is collected and obtained from primary and secondary sources. The information obtained from primary and secondary sources relates to research results, articles, journals pertaining to financial literacy in women empowerment.

Results and Discussion

The Concept of Financial Literacy

Financial literacy can be obtained through financial education. Financial education is “the process by which the financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities in order to make informed choices, and it will help them to know where to go for help, and to take effective actions to improve their financial well-being” (OECD, 2005: 26).

Speaking of financial education, there is a correlation with the paradigm shift in observing the economic situation of poverty and debt (Aprea et al., 2016: 98), which is in accordance with the definition of financial literacy as described in Organization for Economic Cooperation and Development / OECD (2014 : 33) that financial literacy is related to the knowledge and understanding of financial concepts and risks, and skills, motivation and confidence to apply such knowledge and understanding in

order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life.

Definition and Development of Empowerment Concepts

Empowerment is the process of enhancing individual or group ability to make choices and turn them into actions and produce something that is in accordance with their wishes (World Bank, 2007). The process of improving people's ability must undoubtedly begin by having "ability" in the first place. "Ability" in the concept of empowerment is associated with "power" that an individual wields (Kabeer, 1999). These capabilities are related to resources as pre conditions, the agent as processes and outcomes as achievements. Efforts to measure empowerment have been carried out in the various aspects such as economic empowerment, social empowerment, family empowerment, and individual empowerment (Sharma, 2015:23).

Women Empowerment

There are several concepts concerning the empowerment of women, for example Srivastava defined it as an attempt to create an environment in which they can make their own decisions for their own progress and the progress of society in general (Srivastava, 2014). The empowerment of women here is conducted in an attempt to create a situation in which women can determine what is good for their survival as well as those around them. When it comes to economic development, women empowerment is a process whereby women gain the ability to make strategic life choices that they did not previously have (Kabeer, 1999). There are three interrelated elements in relation to empowerment which comprise of resources, the agent, and achievement. Resources refer to material, human, and social expectations and allocations. Agencies are the ability to set goals a person aspires to, how to achieve them and decide on strategic outcomes for themselves. While achievements include various results ranging from increased welfare to equal representation for women in politics.

Dimension in Women Empowerment

Empowerment of women is inseparable from existing dimensions. Women's empowerment may occur in three different dimensions, i.e. micro-, meso- and macro-levels (Huis et al., 2017). Empowerment is considered to be at a micro-level when personal empowerment can be observed and refers to individual beliefs and actions as individuals. Whereas meso-level empowerment is evident when there are beliefs and actions relating to others, in which relational empowerment can be observed. Ultimately, the macro-level of empowerment is deemed apparent when it refers to results that have a wider social context and social empowerment can be observed to take place.

Women Empowerment through Microfinance

Researches on the empowerment of women in developing countries have been substantially carried out, wherein most of them relate to microfinance. Microfinance itself in particular targets people with low income or those deprived of access to formal lending systems (Rehman, Moazzam, and Ansari, 2015). This is in line with what Nader (2008)

revealed, that the term microfinance is the provision of financial services to low-income users.

The use of microfinance for empowering women began in the early 1970s (Kumar, 2013) through women's movements in numerous countries that had increased emphasis on access to credit programs focusing on poverty and credit cooperation.

One of the approaches used in the study of women empowerment especially in regards to microfinance is the instrumentalist and minimalist approach (Mukherjee, 2015). The instrumentalist approach states that access to credit for women should be accompanied by other components such as awareness raising in social and political fields, literacy training, and skills development. In contrast, the minimalist approach states that credit access without too many requirements is exactly what women need to empower them. In addition to these two approaches, financial literacy can also be considered as a reference to participate in supporting the success of microfinance activities (Nawaz, 2015). Through financial literacy, individuals are expected to have a broader understanding of the use of money (from family income and microfinance) for productive purposes, to be self-sufficient in making money effectively and efficiently, to store their savings, to advise husbands and other family members concerning economic activities, and also to provide advice on the overall state of family finance.

Conclusion

Based on the description and explanation mentioned in the above passages, it may be concluded that financial literacy may also be considered as a reference that contributes to the success of empowering women through microfinance activities.

References

- Anal, SK (2013). Micro-Finance and Women Empowerment - An Analysis. *I & Li*, V (I), 142-148.
- Apra, C., Wuttke, E., & Greimel-fuhrmann, GDP (2016). *International Handbook of Financial Literacy*. <https://doi.org/10.1007/978-981-10-0360-8>
- Atkinson, A., McKay, S., Collard, S., & Kempson, E. (2007). Levels of financial capability in the UK. *Public Money and Management*, 27 (1), 29-36. <https://doi.org/10.1111/j.1467-9302.2007.00552.x>
- Bay, C., Catasús, B., & Johed, G. (2014). Situating financial literacy. *Critical Perspectives on Accounting*, 25 (1), 36-45. <https://doi.org/10.1016/j.cpa.2012.11.011>
- Beck, E. (2017). Reconsidering Women's Empowerment: the Contradictory Effects of Microfinance for Guatemalan Women. *Studies in Comparative International Development*, 52 (2), 217-241. <https://doi.org/10.1007/s12116-017-9247-9>

- Chaturvedi, S., Singh, G., & Rai, P. (2016). Progress towards Millennium Development Goals with women empowerment. *INDIAN JOURNAL OF COMMUNITY HEALTH Indian J Comm Health*, 28 (1), 10-13.
- Dalal, K., Dahlström, Ö., & Timpka, T. (2013). Interactions between microfinance programs and non-economic empowerment of women associated with intimate partner violence in Bangladesh: a cross-sectional study. *BMJ Open*, 3 (12), e002941. <https://doi.org/10.1136/bmjopen-2013-002941>
- Drolet, J. (2010). Women, micro credit and empowerment in Cairo, Egypt, 54 (5), 629-645. <https://doi.org/10.1177/0020872810382681>
- Hardjomidjojo, H., Saleh, A., Sambas, PT, Technology, D., Agriculture, I., Agriculture, FT, & Human, FE (2013). Women's Special Savings and Savings Activities in Semparuk Sub-district, Sambas, 8 (2), 155-169.
- Huis, MA, Hansen, N., Otten, S., Lensink, R., & Adams, G. (2017). A Three-Dimensional Model of Women's Empowerment: Implications in the Field of Microfinance and Future Directions, 8 (September), 1-14. <https://doi.org/10.3389/fpsyg.2017.01678>
- Jeyarathnam, M and Kamalaveni, S. (2013). Empowerment of Women through Microfinance - A Study in Nilgiri District, Tamilnadu. *Independent Business Review*, 6 , 38-47.
- Kabeer, N. (1999). Resources, Agency, Achievements: Reflections on the Measurement of Women's Empowerment, 30 (May), 435-465.
- Korankye, AA, & Abada, A. (2017). Microfinance and Women Empowerment in Madina in Accra, Ghana. *Asian Economic and Financial Review*, 7 (3), 222-231. <https://doi.org/10.18488/journal.aefr/2017.7.3/102.3.222.231>
- Kozup, J., & Hogarth, JM (2008). Financial Literacy, Public Policy, and Consumers' Self-Protection-More Questions ... *Journal of Consumer Affairs*, 42 (2), 127-136.
- Kumar, S. (2013). Role of Microfinance in Empowerment of Women. *Anusandhanika*, V (I & II), 231-236.
- Lakshmi, A., Jampala, RC, Kishore, OAR, & Dokku, SR (2013). The role of Micro Finance in the Empowerment of Women - An Empirical Study with Special reference to Krishna District, Andhra Pradesh, 8 (3).
- Mahmood, S., Hussain, J., & Z. Matlay, H. (2014). Optimal microfinance loan size and poverty reduction amongst female entrepreneurs in Pakistan. *Journal of Small Business and Enterprise Development*, 21 (2), 231-249. <https://doi.org/10.1108/JSBED-03-2014-0043>

- Maity, S., & Sarania, R. (2017). Development in Practice Does microfinance alleviate poverty and inequality? Studying self-help groups in Bodoland, Assam, 4524 (December). <https://doi.org/10.1080/09614524.2017.1355353>
- Mukherjee, AK (2015). Empowerment through government subsidized microfinance program. *International Journal of Social Economics*, 42 (1), 2-18. <https://doi.org/10.1108/IJSE-02-2013-0036>
- Nawaz, F. (2015). Power Configuration in Rural Bangladesh: An Empirical Study on Some Credit Borrowers. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 26 (4), 1082-1103. <https://doi.org/10.1007/s11266-015-9585-z>
- Oanea, D.-C., & Dornean, A. (2012). Defining and Measuring Financial Literacy. New Evidence from Romanian 'Students of the Master in Finance. *Annals of the Alexandru Ioan Cuza University - Economics*, 59 (2), 113-129. <https://doi.org/10.2478/v10316-012-0036-3>
- OECD. (2005). *Improving Financial Literacy: Analysis of Issues and Policies*. *Oecd.org*. <https://doi.org/10.1787/fmt-v2005-art11-en>
- OECD. (2014). *PISA 2012 Results: Students and Money* (Vol. VI)
- Rural, M. (2014). Operational Technical Guidance of the National Program for Empowerment of Self-Rural Community, 1-79.
- Rehman, H., Moazzam, A., & Ansari, N. (2015). Microfinance in Women Empowerment: A Case Study of Akhuwat, Pakistan. *A Research Journal of South Asian Studies*, 30 (1), 2015.
- Safuridar. (2017). The Effectiveness of PNPM Mandiri Rural Revolving Fund Loan Against Underprivileged Communities (Case Study of Paya Bedi Village, Rantau District, Aceh Tamiang Regency), 1 (2), 151-164.
- Sengupta, N. (2013). Poor Women's Empowerment: The Discursive Space of Microfinance. *Indian Journal of Gender Studies*, 20 (2), 279-304. <https://doi.org/10.1177/0971521513482220>
- Sharma, LK (2015). a Study on Women Empowerment Through Micro Enterprises Development in India, 22-29.
- Wolfe-hayes, MA (2010). Financial literacy and education: An environmental scan. *International Information & Library Review*, 42 (2), 105-110. <https://doi.org/10.1016/j.iilr.2010.04.006>

Srivastava, Namita. (2014). Education: A Path to Women Empowerment (Issues and Challenges). *International Journal of Management Research & Review*, 4 (10), 1007-1013.

World Bank. (2007). *World bank report on poverty*. New York: Oxford University Press.