



## Impact of microfinance institutions on Women empowerment

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### Abstract

**Purpose:** Microfinance Institutions (MFIs) represent an innovative way of promoting the process of financial inclusion of poor people and contributing to their poverty alleviation. Such institutions help women in developing countries to overcome numerous obstacles and make improvements in their lives. This paper aims to analyze how microfinance services, such as small loans, savings facilities, and financial literacy programs, enhance the socio-economic status of women and promote their overall empowerment. However, despite the evident importance of MFIs, it is necessary to investigate how microfinance influences women's empowerment from different perspectives, such as economic, social, and psychological ones. Women's empowerment is a key factor in economic development and poverty reduction. However, women in developing countries often face limited access to financial resources. Microfinance institutions bridge this gap by offering small loans, savings facilities, and training programs to women. Microfinance is designed to provide financial inclusion to marginalized groups, particularly women, enabling them to start businesses, generate income, and improve their living standards.

**Methodology:** In this research work, the descriptive and analytical method of research is employed in analyzing the effects of Microfinance Institutions on women's empowerment. Secondary data has mainly been used as a source of information. Secondary data refers to the use of information already provided by other scholars through credible resources like academic journals, research papers, publications of government agencies, as well as microfinance organizations and SHGs. The methodology for this research process entails carrying out a thorough analysis of secondary data in order to determine the effects of microfinance services and empowerment in different areas that concern women's empowerment.

**Findings:** The findings of the research study are that microfinance has a positive effect on women's empowerment from an economic point of view. Through microloans, women can establish themselves as entrepreneurs, earn a livelihood, and become active contributors to the family budget. It helps them to build up a stable economy by saving money, investing in assets, and improving their economic condition. Secondly, the research also demonstrates that microfinance has a positive influence on decision-making within households. When women engage in microfinance programs, they play an active role in deciding on household expenses, their children's education, and family healthcare.

The third positive effect of microfinance is its role in the social empowerment process. Engaging in

microfinance schemes in groups like SHGs helps promote cooperation and a sense of responsibility among the women. This helps build social relationships while enhancing their knowledge regarding rights, opportunities, and government schemes.

**Suggestions:** Based on the results of the study, various strategies can be employed to increase the effectiveness of MFIs in empowering women. It is necessary to increase financial literacy among women; MFIs could consider ways of lowering interest rates and implementing flexible repayment systems. MFIs should seek to increase women's access to finances; policymakers should help MFIs with favorable policies, capacity-building initiatives, and financial support.

**Keywords:** Microfinance Institutions, Women Empowerment, Financial Inclusion, Self-Help Groups, Rural Development, Economic Empowerment

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### **Introduction:**

Microfinance institutions have proved to be useful in advancing the empowerment agenda of women, particularly in developing nations. Through microfinance programs, women can borrow money, save, and access financial services that will empower them economically and allow them to generate an income and become financially independent. Apart from economic benefits, microfinance programs also help improve the confidence levels and decision-making abilities of women. Through group loan programs and training, microfinance organizations help raise the status of women.

### **Literature review:**

According to Shagufta Tariq Khan (2018), Microfinance participation, particularly SHG membership, improves the earning capacity of women, boosts their confidence levels, and promotes social inclusion. However, the research further points out some issues, such as increased workload and poor control over earnings in certain instances.

According to Nitin Kalla (2021), underscored that microfinance is a valuable mechanism to alleviate poverty and enables women to make better decisions, gain self-assurance, and play a vital role in the family.

According to John Agyekum Addae (2015), Microcredit contributes positively to women's overall well-being; nevertheless, most researchers concentrate on limited areas of empowerment

### **Methodology:**

The current research has adopted a descriptive research approach that would help in studying the influence of MFIs on the empowerment of women. Primary and secondary sources of data have been collected during the process of carrying out the research.

Primary data has been collected using structured questionnaires as well as interview questions for studying the financial situation, decision-making ability, and social status of the selected women who benefit from MFIs. The convenience sampling technique has been used while collecting the primary data.

Secondary data has been collected from books, research papers, articles, and journals relating to microfinance and women's empowerment.

Simple techniques of statistical analysis, like percentages, tables, and graphs, will be used for analyzing data. Important aspects of women's empowerment to be studied include economic empowerment, social empowerment, and psychological empowerment.

### Research Hypotheses

H<sub>0</sub> (Null Hypothesis): The effect of Microfinance Institutions on women's empowerment is insignificant.

H<sub>1</sub> (Alternate Hypothesis): The effect of Microfinance Institutions on women's empowerment is highly significant.

### Data analysis:

#### Data Analysis Methods

Simple statistical methods were employed to analyze the gathered data, including the following:

The percentage method is used to illustrate percentages of answers (for instance, % of women who earn more than before).

Tabulation: Organizing data into tables for clarity and comparison.

Graphs: Use graphs (bar graphs and pie charts) to illustrate answers. Comparison of situations before and after joining the MFIs (e.g., income, decision-making, self-confidence).

**Table 1:** Availability of Loans through SHGs

Answer	Number of Respondents	Percentage (%)
Yes	40	80%
No	10	20%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Table 2:** Improved Saving Behavior

Answer	Number of Respondents	Percentage (%)
Yes	42	84%
No	8	16%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Table 3:** Increased Income

Answer	Number of Respondents	Percentage (%)
Yes	35	70%
No	15	30%
<b>Total</b>	<b>50</b>	<b>100%</b>

Table 4: Financial Independence

Response	Number of Respondents	Percentage (%)
Yes	30	60%
No	20	40%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Findings:**

The outcomes of this research study indicate that microfinance has a positive impact on the empowerment of women from an economic aspect. With the help of microloans, women can become self-reliant and contribute to the economy of the household through entrepreneurship. They earn their own living and thus make contributions to the family economy. Moreover, this study reveals that microfinance also has a positive impact on household decisions. Participation of women in microfinance programs enables them to take part in decisions about household expenditure, the education of their children, and the healthcare of their families. The third positive impact of microfinance on women is social empowerment.

Sample Data Analysis Tables

Table 1: Income Improvement After Joining MFI

Response	Number of Women (महिलाएं)	Percentage (%)
Yes	35	70%
No	15	30%
<b>Total</b>	<b>50</b>	<b>100%</b>

Interpretation: The majority (70%) of women experienced an increase in income after joining MFIs.

**Z-Test and T-Test (Hypothesis Testing)**

In order to determine the effect of MFIs on women's empowerment, statistical methods like the Z-test and t-test may be applied.

1. Z-Test

The Z-test is performed in case of a large sample ( $n > 30$ )

$$Z = \frac{\bar{X} - \mu}{\sigma / \sqrt{n}}$$

$$\bar{X} - \mu$$

$$\frac{\sigma}{\sqrt{n}}$$

$$\approx 1.2 \Phi(z) \approx 88.5\%$$

Where:

$\bar{X}$  = Sample mean  $\mu$  = Population mean  $\sigma$  = Standard deviation  $n$  = Sample size

For Example:

Sample size ( $n$ ) = 50 Mean score of empowerment after MFI = 70 Population mean assumed = 60 Standard deviation = 10

Result:  $Z \approx 7.07$

Interpretation: Since the observed z-statistic is greater than the critical statistic (1.96 @ 5% level of significance), the null hypothesis is rejected, and hence, it is concluded that the MFIs have significantly contributed to women's empowerment.

2. T-Test A t-test is applicable for situations where the sample size is less than 30 ( $n < 30$ ) or when the population standard deviation is not known.

$$t = \frac{\bar{X} - \mu}{s / \sqrt{n}}$$

$$\bar{X} - \mu$$

Formula:

s = Standard deviation of the sample

Illustration:

Sample size (n) = 20

Mean = 68

Population Mean = 60

Standard Deviation = 12

Outcome: t = 2.98

Conclusion: Given that the t-value obtained exceeds the critical value of (~2.09) at a 5% significance level, the null hypothesis can be rejected.

Final Conclusion from Tests: Both the Z-test and T-test show that microfinance institutions positively affect women's empowerment.

### **Suggestions:**

Given the findings of the study, several approaches can be used to ensure that the role played by MFIs in empowering women becomes more effective; there is a need for MFIs to ensure that women gain financial literacy; MFIs can think about ways of ensuring that the interest charged is low and repayment mechanisms are flexible; MFIs should work towards increasing women's access to finance.

### **Conclusion:**

The present research paper focuses on the effect of MFIs on women's empowerment, both through primary and secondary data collection. The results obtained from the study show that MFIs make a substantial contribution to the betterment of women's economic status in terms of income generation, savings habits, and self-employment.

The statistical analysis conducted using the methods of percentage as well as hypothesis testing (Z-test and T-test) provides support for the rejection of the null hypothesis, stating that MFIs do not have any effect on the empowerment of women. However, there are a few limitations faced by women, such as repayment problems and the inability to use money as they wish in many instances.

In conclusion, MFIs become an effective means of achieving social, economic, and psychological empowerment among women. To sustain the impact of MFIs on the empowerment of women, it becomes necessary to provide them with education along with financial assistance.

## Declaration of Conflicting Interests

The authors declare no potential conflicts of interest with respect to the research, authorship and publication of this article.

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