

Does Microfinance Affect Women Empowerment? Evidence From Rautahat District of Nepal

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Abstract

The issue of women empowerment is a significant focus in developing countries as it has a high potential for poverty reduction and overall development. Microfinance institutions (MFIs) have emerged as potential instruments for addressing both poverty and women's empowerment. This study investigated the connection between microfinance and women's empowerment in rural Nepal. Through a survey among 150 women clients of MFIs in Rautahat district, the study analyzed how social empowerment of women changes after participation in microfinance programs. Employing hypotheses testing with statistical tests like the Wilcoxon Signed Rank Test and One-sample t-test, the study found compelling evidence of a positive influence of microfinance on women's empowerment. After participation in microfinance programs, women's status was found significantly increased in terms of ownership in assets, decision-making autonomy, freedom of mobility and social recognition. These findings suggest that microfinance can be a valuable tool for empowering women in developing countries, potentially leading to improved social well-being, and increased participation in community decision-making. However, further research is needed to understand the long-term sustainability of these impacts and address potential challenges such as debt burden and social stigma associated with borrowing.

Keywords: microfinance, women empowerment, MFIs, poverty, Nepal

Introduction

Microfinance institutions provide financial services to a group of people who otherwise do not have access to banks. Microfinance is all about providing a diverse range of financial services to individuals in poverty through market-oriented and business-based approaches (Christen, 2006). In addition to loan products, MFIs offer a wide range of financial services including insurance, savings accounts, payment solutions, and money transfers. Empowering women through poverty alleviation and enhancing their control over family finances is the goal of MFIs that seek to include those who are currently

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unbanked (Yunus, 2003). In the global landscape of microfinance, most of the borrowers of microfinance institutions are women. In South Asia, MFIs target female borrowers (Memon et al., 2022), and aim at enhancing socio-economic status of clients along with financial sustainability. Likewise, almost all clients of microfinance institutions in Nepal are poor women who do not have access to commercial banks. The main idea revolves around women who receive a loan having authority over its utilization. Obtaining the loan may lead to women achieving self-reliance, as well as gaining social and economic influence, along with control over resources.

The ability of a woman to direct her own future is at the heart of empowerment. This indicates that for the empowerment of women, it is essential for them to possess not only equal capabilities and equal access to resources and opportunities but also the autonomy to utilize those rights, capabilities, resources, and opportunities in strategic decision-making processes. Exploring the concept of women's empowerment through microfinance, Mayoux (2000) delineated three distinct approaches. Firstly, the financial sustainability approach views empowerment through economic lenses, positing that it occurs when the income of women rises. Secondly, the integrated community development approach defines empowerment in terms of community self-reliance and reduced vulnerability, emphasizing microfinance's role in poverty alleviation through community mobilization. Lastly, the feminist empowerment approach sees women's empowerment as the transformation of gender and class relations, with the objective of microfinance being the mobilization of women to bridge gender gaps. Empowerment indicators commonly comprise factors such as resource control, involvement in household and community decision-making, public mobility, self-esteem, efficacy, and improved treatment at home and in the community (Kabeer, 2001; Noponen, 2003).

One of the main purposes of microfinance is to empower women and bring gender inequality (Abdullah & Quayes 2016). However, the impact of microfinance on women's empowerment varies across the countries and women's group (Swain & Wallentin, 2014). Thapa and Chowdhary (2022) found positive changes in the business and personal lives of women entrepreneurs after involving in microfinance programs in Rupendehi district of Nepal. Nevertheless, in an experiment, Karlan and Zinman (2009) did not find evidence of women empowerment but appreciated ability to cope with risk, strengthen community ties, and increase access to informal credit for microfinance clients. In the existing body of empirical literature, there is an ongoing debate regarding the extent to which the microfinance empowers women, with mixed and inconclusive evidence (Kivalya & Caballero-Montes, 2023). However, recent studies do not support the argument that microfinance has positive impact on women's decision making power (Banerjee et al., 2015; Crépon et al., 2015; Tarozzi et al., 2015). A study conducted in

India by Banerjee et al. (2015) explored the effects of an urban microcredit program in South India. They revealed an increase in small business investments and profits for existing businesses; however, there was no notable impact on the average household consumption. Moreover, the study did not identify significant effects on health, education, or women's empowerment. Additionally, Garikipati (2008) and Johnson (2004) argued that access to microfinance may have negative effect on women's empowerment if loans are used for items over which women do not have control.

To this end, this paper aims to test empirically the impact of microfinance addressing the following question: Do microfinance programs help in enhancing women's decision-making autonomy and social status, or women empowerment? Even though there are several empirical studies in the area of microfinance and women empowerment, this study is unique in terms of the selection of study field where microfinance institutions are quite new, and the level of poverty and gender inequality is very high. The rest of the paper is organized as follows. The second section presents the literature review and conceptual framework. The third section is about materials and methods. The fourth section presents the analysis and results. The fifth section provides the conclusion and highlights implications of the study.

Literature Review

The causal relationship between microfinance and the empowerment of women has undergone extensive examination over the past four decades (Cull & Morduch, 2017; Kivalya & Caballero-Montes, 2023). However, there is lack of consensus about the impact of microfinance on women empowerment, which is attributed to variations in impact observed across different countries, microfinance institutions, and client demographics (Angelucci et al., 2013).

The link between microfinance and women's empowerment rests on the premise that loan access equips women with authority over resource allocation. This economic empowerment translates to social self-reliance, as evidenced by increased influence in household decisions like business and mobility. Chakrabarti and Sanyal (2016) underlined how microfinance programs can foster social networks and amplify women's voices, potentially making them crucial vehicles for economic development and empowerment within impoverished households. The alternative viewpoint emphasizes that women's empowerment develops as a result of cultural, economic, and other changes, including the accessibility of new technologies in their lives (such as mobile phones and satellite televisions), as well as women's current opportunities and constraints, as well as a process over time and across generations (Cornwall et al., 2000).

By empowering women through microfinance, families reap additional benefits due to women's prioritization of children's well-being. Additionally, these programs contribute to a more equitable status for women, granting them greater political agency, rights, confidence, and a strong voice in their communities (Cheston & Kuhn, 2002). As noted by Armendariz and Labie (2011), enhancing women's access to financial services, specifically through microfinance, is perceived as a means not only to alleviate poverty and ensure financial viability but also to initiate a cascade of positive effects. These include economic empowerment, improved well-being, and heightened social and political influence for women. In this way, the endeavor aligns with the objectives of gender equality and empowerment.

In an early microfinance impact studies, Pitt and Khandker (1998) investigated whether women's participation in credit programs affected household decision-making differently than men. They examined various outcomes like women's asset ownership, family work hours, fertility, child education, and total spending. Ultimately, they found that loan-receiving households fared better overall, and specifically, that women's loan access shifted household decision-making patterns, suggesting their preferences held greater weight in such cases. In another study, Pitt et al. (2006) argued that microfinance empowers households by enhancing autonomy and decision-making power. Through a comprehensive survey spanning 87 villages in rural Bangladesh (1991/92 and 1998/99), they found that microfinance, particularly for women, led to increased involvement in decision-making, greater access to financial resources, expanded social networks, heightened bargaining power, and enhanced mobility. Notably, the study revealed that male-focused microcredit programs had a negative impact on the overall empowerment measure.

Field et al. (2013) examined female clients in Ahmedabad, India, who had gained access to credit through SEWA Bank, one of the earliest microfinance institutions globally. Notably, the study revealed that access to credit is linked with a noteworthy decline in fertility rates and a substantial increase in the marriage age of daughters. This suggests that enhancing women's earning potential has a positive impact on their influence and negotiation power within the household. Over time, the societal and economic advantages arising from a decrease in unwanted births may lead to considerable enhancements in the well-being of impoverished communities. Along the same line, Haile et al. (2012) found that microcredit allowed women to generate extra income and improve their asset base. These studies suggest that microfinance helped women to be

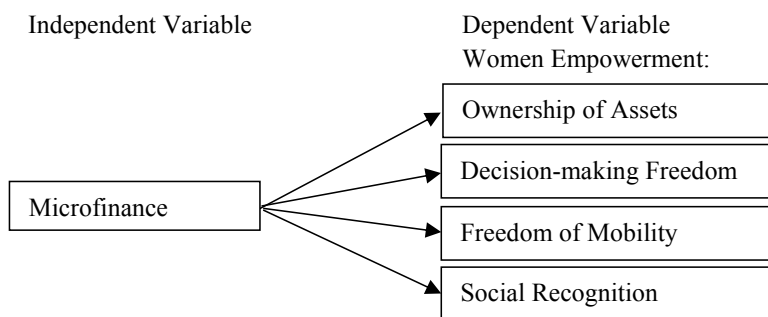
more in control of their own lives through increased decision-making power and involvement in income generating activities. Nevertheless, microfinance's capacity to facilitate gender empowerment is strongly debated. For example, Goetz and Gupta (1996) reported that 21.7% of women borrowers have no control of the loans they take in Bangladesh, while another 17% have very limited opportunities to handle borrowed money. Because of these reasons, even if women were to have access to loans use, it does not necessarily empower them. It will be improved only if women have the skills to engage in productive activities prior to and during the loans period (Ngo & Wahhaj, 2012).

In the context of Nepal, Aoki and Pradhan (2013) contended that microfinance programs have notably contributed to positive transformations in gender equality and women's empowerment in Nepal. Their research suggests that facilitating increased access to lending services enables socially disadvantaged women in rural Nepal to explore new employment opportunities and bring positive changes in women's involvement in community activities, healthcare and children's education. Dhakal (2004) demonstrated that microfinance plays a pivotal role in empowering women, fostering increased contributions to household income, boosting the value of their assets, and enhancing their decision-making authority. Recently, Thapa (2021) also observed positive impact of microfinance in the living standard of program participants. In comparison to non-participants, women empowerment index for microfinance participants was improved by 75 percent. While numerous studies have delved into specific dimensions of the socio-economic status of microfinance clients, the establishment of a definitive causal link between microfinance and the socio-economic development of clients remains a complex challenge.

The theory of change, as elucidated by Loiseau and Walsh (2015), offers the most comprehensive explanation for the microfinance system. According to this framework, Microfinance Institutions (MFIs) are tasked with developing a range of financial products, including credit, savings, insurance, payments, and remittances. As clients engage with these services, they channel resources into their businesses, fostering growth or even initiating new ventures. Such investments have the potential to generate additional income, enhance overall life satisfaction, and possibly elevate the decision-making autonomy and social standing of the borrowers. Microfinance participants are required to form groups and collectively act as collateral for one another's loans. In this context, individuals hold responsibility not only for repaying their own loans to the microfinance institution but also for supporting each other's loan obligations.

Hence, microfinance can have tremendous potential to improve women's situation. With this underlying idea, we proposed a conceptual framework which is shown in Figure 1. The figure illustrates the relationship between microfinance and the social empowerment of women clients of MFIs. Major products and services offered by Nepalese MFIs are microcredit, micro-savings and training. Likewise, key indicators of women empowerment selected for this study are ownership of assets, decision-making, freedom to mobility, and social recognition.

Figure 1
Conceptual Framework of the Study



The Hypotheses

Based on a conceptual framework, to check the effect of microfinance on various dimensions of women empowerment, the following specific hypotheses have been formulated:

- H1: Women's ownership of assets significantly increases after participation in microfinance.
- H2: Microfinance leads to greater freedom in decision-making among women.
- H3: Women's freedom of mobility significantly increases after involving in microfinance programs.
- H4: Social recognition and status of women is significantly increased after participation in microfinance programs.

Methods

This paper follows a survey research design. The study took place in Rautahat district, situated in Madhesh province of Nepal within the Terai region. Nepal Rastra Bank

reports as of mid-July 2023, 54 retail MFIs operating their microfinance programs in Nepal. Four major MFIs, namely Deprosc, Grameen Bikash, Nirdhan Utthan, and Chhimek, along with 31 others offer their services in the district. These MFIs follow a joint liability group lending model called Grameen Model. All loan clients having completed three years of membership with any of microfinance institutions operating in Rautaht district were taken as a population of the study. Among them, 200 clients were selected randomly from five villages of the district. A structured questionnaire survey was conducted among members of microfinance institutions in the Rautahat district of Nepal, exclusively relying on primary data. The questionnaire comprised three sections: (a) demographic information of respondents, (b) loan information, and (c) evaluation of women empowerment. Respondents were approached for the survey only if they willingly expressed their readiness to provide information, as participation in the survey was optional. The sample size was determined as 150, as only respondents who provided complete information in interviews were included. Information on key study factors was collected both before and after participants engaged in microfinance programs, enabling an assessment of changes in variables related to women empowerment. The data were analyzed using tables, frequency and percentage distributions, descriptive statistics, and hypothesis testing. To test the hypotheses, statistical tests such as one-sample t-tests for metric data and Wilcoxon tests for non-metric data were employed.

Results

For this study, a total of 150 women who had received microfinance loans for business purposes were personally interviewed.

Table 1
Respondents' Profile

Dimension and Group	N	Percent	Dimension and Group	N	Percent
Age			Family Size		
36-40	40	26.7	4	1	0.7
41-45	85	56.7	5	3	2
46-50	25	16.7	6	19	12.7
Education			7	43	28.7
Illiterate	22	14.7	8	36	24
Primary	59	39.3	9	39	26
Under SLC	53	35.3	10	8	5.3
SLC	16	10.7	12	1	0.7

Note. N = 150

Table 1 presented the background information of respondents; such as age, education, and family size. It indicates that the predominant demographic profile among respondents pertains to the age group of 41-45 years, characterized by individuals possessing primary education and residing in families with an average size of seven members. Notably, a substantial majority of respondents fall within the family size range of seven to nine individuals.

Regarding the loan information of the respondents, Table 2 delineates the distribution of loan amounts and their associated frequencies, as well as the diverse utilization patterns across distinct categories. The tabulation reveals that a predominant majority of respondents (53.3%) procured loans below Rs. 200,000, while a minimal proportion (6.0%) accessed loans surpassing the threshold of Rs. 800,000. Concerning loan utilization, the preeminent utilization category was agriculture, encompassing 81.3% of respondents. Additionally, foreign employment emerged as a notable utilization category, with 9.3% of respondents directing the funds towards this objective. The comprehensive presentation of loan amounts and their varied applications yields valuable insights into the financial inclinations and priorities of the respondents in the context of this study.

Table 2

Loan Information

Range	Frequency	Percent
Loan Amount		
Below 200,000	80	53.3
200,000 to 399,999	40	26.7
400,000 to 599,999	19	12.7
600,000 to 799,999	2	1.3
Above 800,000	9	6
Utilization of loan		
Trading and service	6	4
Purchase land /house	4	2.7
Manufacturing business	4	2.7
Foreign employment	14	9.3
Agriculture	122	81.3

Microfinance and Ownership of Assets

The hypothesis posits that microfinance engenders increased asset ownership among female participants. This study systematically gathered data on the asset ownership composition before and after women's engagement in microfinance. The Wilcoxon Signed Rank Test was employed to assess the change in the ownership of household assets pre- and post-individuals' association with Microfinance Institutions (MFIs). The findings, as presented in Table 3, reveal a P value for Z statistics below 5 percent. Consequently, the results signify a statistically significant increase in women's ownership of household assets following their participation in microfinance programs. Prior to involvement in microfinance programs, household assets were predominantly owned by either the husband or jointly by both spouses. Subsequent to gaining access to microfinance initiatives, a noteworthy shift in this pattern occurred, with a majority of assets now being owned by women. This transformation serves as a robust indicator of women's empowerment.

Table 3
Wilcoxon Signed Ranks Test (Ownership of Assets)

	Ranks	N	Mean Rank	Sum of Ranks
Ownership of household assets	Negative Ranks	0	0	0
	Positive Ranks	32	16.5	528
	Ties	118		
Z-Statistics (P-Value)	-5.657 (0.000)		Based on negative ranks	

Microfinance and Decision-making Freedom

The study analyzed changes in the respondents' freedom of decision-making through a frequency and percentage test, as shown in Table 4. The findings indicate that a significant proportion of the respondents feel moderately empowered in family decision-making. According to Panel A of Table 4, it is evident that women's freedom to make decisions had a positive impact. In all five decision criteria, a majority of women were actively involved and took equal part as their husbands. Moreover, women made more decisions regarding household and business matters compared to their husbands, as indicated by the higher number of positive ranks compared to negative ranks. This suggests an increase in women's decision-making power after obtaining loans from microfinance institutions.

Table 4*Wilcoxon Signed Ranks Test (Women's Freedom to make decisions)*

Panel A: Ranks for freedom to decide

Decision criteria	Ranks	N	Mean Rank
Purchase of basic household needs	Negative	12	24.08
	Positive	74	46.65
	Ties	64	
Purchase of basic household assets	Negative	6	47.67
	Positive	53	28
	Ties	91	
Purchase of Land/House	Negative	0	0
	Positive	50	25.5
	Ties	100	
Children education decision	Negative	0	0
	Positive	46	23.5
	Ties	104	
Health/Medical decision	Negative	0	0
	Positive	46	23.5
	Ties	104	
Use of loan amount	Negative	0	0
	Positive	50	25.5
	Ties	100	

Panel B: Test statistic for decision making based on negative ranks

Test Statistics	Purchase of basic household needs	Purchase of basic household assets	Purchase of Land/House	Children education decision	Health/Medical decision	Use of loan amount
Z value	-7.032	-5.047	-7.071	-6.782	-6782	-7.071
P value	0	0	0	0	0	0

In Panel B, results indicate a statistically significant enhancement in women's autonomy to make decisions regarding household matters as p-value is less than 5% level of significance across all dimensions of decision-making. This result substantiates the hypothesis that the provision of microfinance services substantially contributes to an improvement in women's empowerment concerning decision-making.

Microfinance and Freedom of Mobility

Freedom of mobility is measured in terms of ‘self-decision’ regarding going outside home for personal and professional purposes. Panel A of Table 5 presents four areas of mobility namely visiting places, visiting markets, attending programs, and attending cultural ceremonies. It can be observed that significant positive changes have been made in majority of women clients of microfinance regarding mobility decisions. This indicates that women's involvement in microfinance has had a positive impact on various aspects of mobility.

Table 5
Results of Wilcoxon Signed Ranks Test (freedom of mobility)

Panel A: Ranks for freedom to mobility

Areas of Mobility	Ranks	N	Mean Rank
Visiting places	Negative	1	12.5
	Positive	32	17.14
	Ties	117	
Visiting market for household/business purchase	Negative	1	15
	Positive	35	18.6
	Ties	114	
Attending seminars/programs related to business	Negative	1	14
	Positive	26	14
	Ties	123	
Attending ceremonies and gatherings	Negative	2	15
	Positive	27	15
	Ties	121	

Panel B: Test statistic for freedom of mobility based on negative ranks

Wilcoxon	Visiting places	Visiting market for household/business purchase	Attending seminars/programs related to business	Attending ceremonies and gatherings
Z	-5.038	-5.347	-4.811	-4.642
P value	0	0	0	0

Similarly, as observed in Panel B of the table, there is a notable improvement in women's freedom of mobility, with p-values consistently below the 5% level of significance in all instances. This provides empirical support for the hypothesis positing that women undergo a substantial enhancement in their freedom of movement following the receipt

of microfinance services. Their capacity to visit different locations, engage in market activities, and participate in various programs and ceremonies has markedly expanded.

Microfinance and Social Recognition

In this dimension, women were asked to respond to questions on a person's standing in society in terms of respect, esteem, and prominence. The study utilized a five-point Likert scale to analyze the changes in social and family relationships after obtaining a loan from microfinance. The results presented in Panel A of Table 6 indicate that out of the total 150 respondents, the mean value of family and social relationships was 4.0478 with a standard deviation of 0.47899, suggesting an improvement in these relationships. The statistical analysis confirms the significance of this change, as the p-value is less than 0.05. Therefore, it can be concluded that taking a loan from microfinance had a positive impact on the family and social relationships of women, enhancing their overall well-being.

Table 6

Results of One Sample Test (Women's family and social relationship)

Panel A: Descriptive statistics of family and social relationship of women

One sample statistic	N	Mean	Std. Deviation	Std. Error mean
Family and social relationship	150	4.0478	0.47899	0.03911

Panel B: One sample t-test for the level of significance with test value 3

	T	P value	Mean Difference	Lower	Upper
Family and social relationship	26.791	0.000	1.04778	0.9705	1.1251

Discussion

The main purpose of this paper was to assess the impact of microfinance on women empowerment with special reference to Rautahat District of Nepal. All four hypotheses set in the paper were accepted meaning that microfinance leads to women empowerment. More specifically, participating in microfinance programs increases women's ownership of assets, improves decision-making power at home, increases mobility freedom, and enhances their social reputation. Women with access to microfinance services gained greater control over their lives, participated in decision-making, and increased their financial independence. Microfinance programs have also facilitated women's access to

resources and improved their social standing. These findings are consistent with Dhakal (2004), Pitt et al. (2006), Field et al. (2014), and Thapa and Chowdhary (2022). Overall, the study highlights the importance of expanding and enhancing microfinance programs to further support women's empowerment and social advancement. Moreover, the findings of this study are highly practical to the public policymakers in achieving sustainable development goals (SDGs) like gender equality, and women empowerment. Female participation in microfinance enhances their social role. Finally, it is imperative to acknowledge that the study's focus solely on microfinance in Rautahat District limits its generalizability. Conducting randomized controlled trials with larger sample size would increase nationwide generalization and minimize potential selection biases.

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