

IMPACT OF MICRO FINANCE ON WOMEN’S EMPOWERMENT EVIDENCE: FROM ANURADHAPURA DISTRICT IN SRI LANKA

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Abstract

The present study aims to analyse the impact of microfinance on women’s empowerment in the Anuradhapura District of Sri Lanka. For the analysis purpose, microcredit, micro savings, and microinsurance are the measures of microfinance that serve as independent variables influencing women's empowerment, which is measured by decision-making power, income generation, education, health, and well-being. Guided by Empowerment Theory, the research employs a quantitative approach, utilizing a structured questionnaire administered to 150 women beneficiaries selected through stratified random sampling across three divisional secretariats: Madawachchiya, Mihinthale, and Rambewa. The data were analysed using Partial Least Squares–Structural Equation Modelling (PLS-SEM) to examine the structural relationships between microfinance services and empowerment dimensions. A structured questionnaire was used to gather data from the women beneficiaries of the microfinance program across three divisional secretariats: Madawachchiya, Mihinthale, and Rambewa. The study's findings reveal that microfinance plays a significant and positive role in improving women’s empowerment. Among the microfinance components, microcredit and micro savings emerged as the key drivers, enhancing financial independence and household decision-making. The findings emphasise that while microfinance facilitates economic empowerment, persistent socio-cultural and institutional barriers limit women’s full autonomy. The study highlights the importance of integrating financial services with financial literacy and social inclusion programs to ensure sustainable empowerment outcomes. The results provide valuable insights for policymakers, financial institutions, and development agencies seeking to strengthen gender-responsive microfinance frameworks in Sri Lanka.

Keywords: Micro credit, micro finance, micro insurance, micro savings, women empowerment

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Introduction

Microfinance and the empowerment of women studies have emerged as a critical area of inquiry due to its potential to alleviate poverty and promote gender equality globally (Devaraju et al., 2024; Mandal, 2024). In the 1970s, the Grameen Bank was a pioneering effort in microfinance evaluation, aiming to empower women, especially in developing countries (Rahman, 2013). The development of Microfinance institution services is not only linked to their income generation, but also to their participation in asset ownership and household decision-making (Mengstie, 2022). Microfinance has gained significant social and theoretical implications, as women constitute a majority of the poor and face systemic barriers to financial inclusion (Zhang & Posso, 2017). For instance, almost 80% of microfinance institutions' clients around the world are women, highlighting the sector's focus on women's empowerment (Rahman, 2013). Therefore, Shrestha (2024) said that the effectiveness of microfinance in transforming women's socio-economic status. Even though the widespread adoption of microfinance as a tool for women's empowerment, the literature reveals a complex and contested landscape (Datta & Sahu, 2022). While some studies report positive outcomes such as increased income, asset ownership, and autonomy (Akhter & Cheng, 2020), Others focus on the boundaries, including male control over loans, increased domestic burdens, and persistent patriarchal norms that constrain empowerment (Gautam & Kumar, 2019). The knowledge gap lies in understanding the multidimensional nature of empowerment and the contextual factors that influence the effectiveness of microfinance (Rao & Devi, 2023). Moreover, debates persist regarding whether microfinance alone is sufficient to empower women or if complementary interventions are necessary (Ahmed, 2013). The consequences of this gap are profound, as ineffective empowerment strategies may perpetuate gender inequalities and limit poverty reduction efforts (Swain & Wallentin, 2014). Studies report positive effects of Microfinance, such as improvement in income, improved decision-making power, and enhanced social status. However, some limitations highlighted include loan misuse, persistent male-controlled control, and limited influence on women's autonomy (Shohel et al., 2021; Ali & Hatta, 2012). Participation in microfinance contributes to improvement in income and savings, which potentially have significant impacts on the women's economic empowerment (Devaraju et al., 2024; Dumbuya & Munu, 2024; Ramazani & Irechukwu, 2024). Moreover, studies highlight the role of microfinance institutions in promoting entrepreneurship and enlightening household financial strength (Shrestha, 2024; Amoakohene et al., 2023). Even though these findings are not unanimous, due to the lack of significant improvement in income, microcredit is limited by the small amount of loans, repayment challenges, or loan mismanagement (Thapa & Amit, 2024; Hossain & Wadood, 2019; Al-Amin et al., 2013). Beyond financial outcomes, microfinance develops women's decision-making independence in household and business settings (Devaraju et al., 2024; Dumbuya & Munu, 2024; Thapa & Amit, 2024). Nonetheless, the extent of empowerment varies; while some women gain greater control over economic decisions, political empowerment, and community-level participation remain limited (Wulandari & Kassim, 2024; Nawaz, 2019). In patriarchal settings, male family members often control loan usage, thereby limiting women's autonomy and sovereignty despite their access to financial resources (Shohel et al., 2021; Ali & Hatta, 2012). In terms of social empowerment, microfinance fosters women's collaboration with their social environment, connection with peer groups, and political participation (Shrestha, 2024; Maghina et al., 2023; Nawaz, 2019). However, this social gain is often limited by cultural factors, particularly in contexts where rigid gender norms prevail, resulting in mixed or negligible impacts (Wulandari & Kassim, 2024; Shohel et al., 2021).

Lakmali and Mallika (2019) examined the impact of microcredit on women's empowerment in the Anuradhapura district. Perera (2020) examined the association between microfinance and women's empowerment by evaluating its impact on self-employment opportunities for rural women, as well as the effects of microcredit, savings, skill training, and education on women's empowerment. According to studies conducted in this area, it is not sufficient to merely identify actual performance regarding the relationship between microfinance and women's empowerment. Various microfinance programs are operating within the Anuradhapura District of Sri Lanka that focus on empowering women economically. Yet, there is still an immense requirement to conduct an in-depth impact analysis of such initiatives on women's empowerment within the district. This study aims to bridge the research gap in evaluating the extent to which microfinance interventions impact women's empowerment within the district of Anuradhapura. Specifically, it aims to illustrate the multidimensional aspects of women's empowerment, encompassing economic security, decision-making, education, health status, and overall well-being, through participation in microfinance activities. This study aims to provide policymakers, practitioners, and stakeholders with valuable insights on ensuring that microfinance programs are effectively designed and implemented to maximise their positive impact on the lives of women in the Anuradhapura district. The main objective of the study is *'To investigate the impact of microfinance on women's empowerment in Anuradhapura district'*

Literature Review

The studies in microfinance and women’s empowerment present a multidimensional consideration, addressing income, social, political, and psychological aspects. Studies have documented an increase in income, asset ownership, decision-making autonomy, social networking, and self-confidence following participation in microfinance (Nawaz, 2019; Gautam, 2024; Amoakohene et al., 2023; Mengstie, 2022). Based on empowerment theory frameworks, which have enhanced conceptual clarity, offering structured explanations for empowerment pathways. Although studies often focus on economic empowerment, they frequently overlook the social, political, and psychological dimensions, resulting in an incomplete picture (Al-Amin et al., 2013; Chandradasa, 2019; Ali & Hatta, 2012). Further, the sustainability of women's empowerment over time is rarely examined, highlighting a critical research gap.

Another important and Related factor is cultural. The cultural factors significantly influence the results of women's empowerment, as socio-cultural norms, patriarchal power structures, and institutional contexts shape women’s capability to benefit from microfinance (Shohel et al., 2021; Gadekar, 2023). While few studies demonstrate that microfinance could challenge gender norms, even though some studies' findings reinforce existing inequalities. Regional variations in microfinance program effectiveness emphasise the need for specific program designs (Swain & Wallentin, 2014; Zhang & Posso, 2017). Yet, inadequate empirical work examines how deeply ingrained patriarchal norms, male household dominance, and community power structures pressure women’s agency (Shohel et al., 2021). Moreover, research often fails to capture the heterogeneity of women’s experiences across socioeconomic and geographic contexts (Tiwari et al., 2024).

Microfinance also facilitates entrepreneurship and self-employment, firming up women’s economic independence. Moreover, outcomes remain uneven; loan diversion to non-productive uses, high interest rates, and limited access to larger credit facilities undermine potential benefits (Hossain & Wadood, 2019). Importantly, economic expansions do not automatically translate into greater control over financial resources or decision-making. While numerous studies report improved decision-making power within households and communities (Thapa & Amit, 2024; Dhungana et al., 2023; Gautam, 2024), empowerment often remains partial. Similarly, microfinance programs promote social empowerment by enhancing women’s community engagement, social connections, and awareness of political issues (Nawaz, 2019; Vishwakarma & Mujoo, 2023; Habib & Jubb, 2012). Group-based lending models foster solidarity, communal action, and peer support (Holvoet, 2006), although political empowerment remains underexplored and inconsistently achieved (Al-Amin et al., 2013). Structural barriers, cultural restrictions, and weak policy frameworks limit women’s involvement in decision-making at broader community and institutional levels (Gadekar, 2023; Nawaz, 2019).

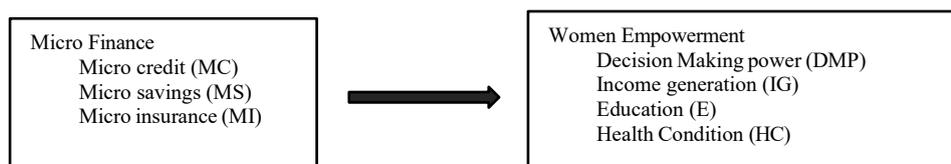
Collectively, the evidence suggests that while microfinance has significantly empowered women’s economic, social, and psychological well-being, its effectiveness is highly context-dependent and constrained by cultural, institutional, and structural barriers. These findings underscore the need for integrated, comprehensive, and context-sensitive microfinance models that strike a balance between financial sustainability and long-term empowerment outcomes.

H1: *Microfinance significantly influences women's empowerment*

Methodology

The present study utilised a quantitative, positive approach, aligning to test relationships between Microfinance and Women's Empowerment. The study uses the three Divisional Secretariats in Anuradhapura District: Madawachchiya, Mihinthale, and Rambewa. Using a stratified sampling method, 50 women from each division who are benefiting from the Microfinance program were selected, ensuring equal representation. A total of 150 participants took part in the research.

Figure 1
Conceptual framework



(Source: Developed by authors based on literature (2025))

The data were analysed using SmartPLS (v4) through PLS-SEM. This method was selected due to its appropriateness for small to medium-sized samples, complex hierarchical models, and reflective-reflective measurement structures. The adoption of SEM permits simultaneous estimation of multiple relationships among constructs, providing a robust test of the hypothesised model and its predictive relevance

Findings and Discussion

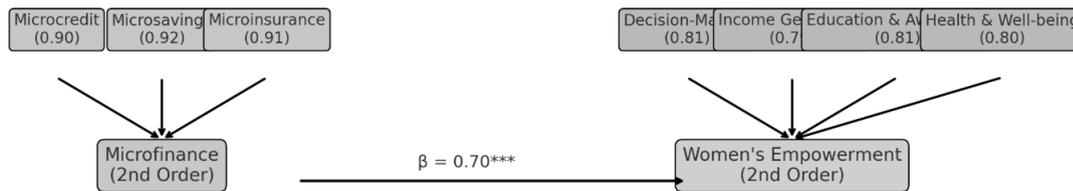
Table 1 expresses the measurement model of the assessment. All variable Composite Reliability (CR) and Average Variance Extracted (AVE) values ($CR > 0.70$ and $AVE > 0.50$) meet the reliability and validity thresholds. However, the initial HTMT analysis indicated overlap among the three microfinance components and, to a minor extent, among empowerment dimensions; this was addressed by adopting a second-order specification. After refinement (eliminating IG2 & E1), the reliability of IG and E improved significantly.

Table 1
Measurement model assessment

Constructs	Indicators	Loadings	CR	AVE
MC	MC1–MC3	≥ 0.70	0.812	0.519
MS	MS1–MS3	≥ 0.70	0.820	0.534
MI	MI1–MI3	≥ 0.70	0.817	0.530
DMP	DMP1–DMP3	≥ 0.70	0.795	0.564
IG	IG1, IG3	≥ 0.70	0.850	0.745
E	E2, E3	≥ 0.70	0.890	0.810
HC	HC1–HC3	≥ 0.70	0.761	0.516
Second-order Microfinance	MC, MS, MI	0.90–0.92	—	—
Second-order Empowerment	DMP, IG, E, HC	0.79–0.81	—	—

(Source: Authors, based on survey results)

Figure 2
SEM



(Source: Authors, based on survey results)

Table 2
Structural model results

Paths	β	t-value	p-value
Microfinance → Women's Empowerment	0.70	15.8	<0.001
R ² (Women's Empowerment)	0.64	—	—
Q ² (Predictive Relevance)	0.31–0.46	—	—
VIF (Collinearity)	<3.3	—	—

(Source: Authors, based on survey results)

Table 2 expresses the structural model results, indicating a significant positive effect of microfinance on women's empowerment ($\beta = 0.70$, $t = 15.8$, $p < 0.001$). This indicates that increased access to MC, MS, and MI substantially enhances women's empowerment across various dimensions, including DMP, IG, E, and HC. Sixty-four per cent of the variance is explained by the effect of microfinance on women's empowerment ($R^2 = 0.64$). Furthermore, the predictive relevance ($Q^2 = 0.31–0.46$) explains the model's robustness, while acceptable collinearity levels ($VIF < 3.3$) indicate no multicollinearity among the residuals. Therefore, the study's hypothesis, H1, is supported.

The findings confirm that MF has a significant impact on WE in the Anuradhapura District. MC and MS emerged as key factors, enabling women to achieve economic and social empowerment. These results are consistent with those of Devaraju et al. (2024) and Nawaz (2019), who found that gaining access to financial services enhances women's income and self-confidence. The study also supports Empowerment Theory, indicating that access to financial resources allows individuals to exercise agency and control over their decisions. Through participation in MF programs, women increased their ability to manage household finances and business operations, which aligns with the findings of Gautam (2024) and Amoakohene et al. (2023). However, despite profit, empowerment

remains partial due to socio-cultural constraints, such as male dominance and traditional gender norms, findings consistent with those of Ali & Hatta (2012) and Shohel et al. (2021). This suggests that financial inclusion alone cannot guarantee autonomy unless it is complemented by social and institutional transformation. Furthermore, MS increased financial discipline and resilience, while MI contributed to psychological security by protecting households from unexpected health or income shocks. This result mirrors Mengstie (2022) and Ramazani & Irechukwu (2024), who emphasised the stabilising role of savings and insurance in sustaining empowerment. In comparison, earlier Sri Lankan studies (Lakmali & Mallika, 2019; Perera, 2020) examined microcredit alone, whereas this study integrates multiple MF components and employs SEM to evaluate their combined effect. This multidimensional approach provides stronger empirical evidence for the holistic nature of empowerment.

Conclusion

The present study is an attempt to analyse the impact of microfinance on women's empowerment in the Anuradhapura District by examining three core services provided to the users of microfinance, especially women microcredit, micro savings, and microinsurance, and their impact on four empowerment dimensions: decision-making power, income generation, education and awareness, and health and well-being. The hypothesis of the study is tested using Structural Equation Modelling. The findings reveal that microfinance has a strong positive effect on women's empowerment, demonstrating its effectiveness as a tool for enhancing economic and social gains. These results are consistent with previous studies highlighting that access to financial assets contributes to improved household welfare, increased participation in community activities, and greater confidence in decision-making (Nawaz, 2019; Gautam, 2024; Mengstie, 2022).

Among the microfinance components, MS and MC emerged as the most powerful drivers of empowerment, fostering financial freedom, improving access to income-generating opportunities, and enhancing women's decision-making power within their households and communities. However, the analysis also shows that while economic empowerment is significantly reinforced, it does not automatically lead to full autonomy over resources due to persistent socio-cultural and institutional blockades, which is consistent with prior evidence that empowerment remains multidimensional and context-dependent (Ali & Hatta, 2012). Furthermore, these findings underscore the importance of designing microfinance interventions that extend beyond financial access. To sustain and improve empowerment gains, microfinance institutions provide financial literacy and capacity-building programs, enabling women to make informed financial decisions, manage borrowing effectively, and maximise the benefits of credit and savings. Furthermore, policymakers should develop inclusive and gender-sensitive policies to enlarge outreach to marginalised women and address structural inequalities that limit their participation in financial programs. Diversifying microfinance products, particularly by strengthening micro-insurance schemes, can further enhance women's safekeeping against economic and health-related vulnerabilities. Additionally, fostering community-based lending models and promoting self-help groups can enhance harmony, increase negotiation power, and facilitate collective decision-making, thereby creating stronger social capital and leadership prospects for women. To prevent loan diversion, excessive debt, and the exclusion of the most vulnerable groups, it is essential to conduct thorough impact assessments, continuously monitor empowerment outcomes, and adjust programs accordingly to the specific context. However, this study is limited to three DS divisions in Anuradhapura, which may affect the generalizability of the results to other regions. The cross-sectional design restricts the ability to capture long-term empowerment effects. Self-reported data may also be subject to perception bias. By integrating financial services with educational, social, and institutional reforms, MF can move beyond short-term financial relief to become a sustainable pathway for gender equality and inclusive economic development in Sri Lanka.

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