# Impact of Microfinance on Economic Empowerment and Self-Development of Women Entrepreneurs

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*Abstract-* **The thrust of the present study was to investigate the influence of micro-finance indicators upon the socio and economic development of the rural women entrepreneur in Ganjam and Gajapati districts of Odisha. To accomplish the study the Primary data were collected from 460 women entrepreneurs who are microfinance beneficiaries and analyzed through Factor Analysis and Structural Equation Modeling (SEM). The study found a significant relationship of microcredit indicators with the economic empowerment and self-development of women entrepreneurs. The study gives a deeper insights in exploring the various indicators concerned with microfinance and their significant association with the socio-economic status of the women entrepreneur. The findings of the study will be extremely useful in understanding the socio-economic status of the women entrepreneur in the state of Odisha.**

*Keywords***: Microcredit, microfinance, structural equation modelling, women entrepreneurship.**
**JEL Codes: G21, L26**

## INTRODUCTION

Entrepreneurship acts as a catalytic agent to generate employment opportunities for others. Women entrepreneurship is a recent phenomenon that boosts economic growth. Microfinance is an option for impoverished dreamers looking to create the brand and act as a critical development tool to boost women entrepreneurs. Working women contribute to the national income of the country and maintain a sustainable livelihood of the families and communities throughout the world (Pokhriyal, Rani &Uniyal, 2014). Since the late 1950s, women have actively participated in their local economies. Education and awareness among rural women are increased by rural credit. The involvement of women in income-generation activities changes their attitudes (Ahmed, Adams, Chowdhury, & Bhuiyan, 1997). Women in developing countries struggle to access finance, face socio-cultural biases and have a low level of entrepreneurial education (Goyal & Yadav, 2014). Microfinance plays a vital role in women empowerment by creating women entrepreneurs. SHG is promoting micro-enterprises that women undertake through microcredit intervention. Women empowerment can be possible through entrepreneurship development and income-generating activities. Women can improve their economic status, self-worth, self-confidence and create social status. Finance is the key challenge in start-ups and running the business. Work-life and family life imbalance problems are also faced by women entrepreneurs (Senapati & Ojha, 2019). The present study was undertaken to study the relationship between the microcredit indicator and empowerment indicators of women entrepreneurs in Ganjam and Gajapati district of Odisha.

## METHODOLOGY

The study was based on the data from 460 microfinance beneficiaries who are women entrepreneurs of the Gajapati and Ganjam districts. The sample size was determined using the formula Yamane (1967) suggested. The following formula was used to determine the sample size of the study: $n = N /( 1 + N (e)^2 )$, where n is the sample size, N is population, e the is margin of error.

Data analysis was done using a statistical package for social science (SPSS) version 20.0 for the data gathered through a structured questionnaire. AMOS software was used for structural equation modelling. Though the study was undertaken inGajapati and Ganjam districts of Odisha, the scope is limited to the same district.

Data were analyzed through Factor analysis and Structural Equation Modeling to analyze the relationships of the variables relating to the improvement of rural women entrepreneurship. The relationship of entrepreneurial factors with women entrepreneurship development is assessed using AMOS (Analysis of Moment Structures) to perform path analysis. Structural Equation Modeling (SEM) is the combination of factor analysis and multiple regression analysis that can be modelled pictorially for a clear conceptualization of the study. The relationships shown in SEM represent the hypotheses of the study. These relationships cannot be statistically tested for directionality. SEM is mainly used for the research study designed to confirm a study design rather than explore or explain a phenomenon. If the goodness-of-fit is adequate, the model argues for the plausibility of postulated relations among the variables.

This study adopted a process to evaluate the validity, reliability, factor structure, scales dimensionality, and validation of higher-order factors (Gerbing & Anderson, 1988). As per this method, the zero-order of the constructs was developed using the exploratory factor analysis (EFA) was performed with "principal component analysis" and varimax rotation. During the factor analysis, the items that have been deleted for a further analysis whose communalities value is less than 0.5.

## RESULTS AND DISCUSSION

The present study has major five constructs: microcredit indicator, decision empowerment, economic empowerment, empower indicator, and self-development indicator and their structured relationship is estimated with the structural equation modelling (SEM). The standardized structured relationship of the constructs is presented in Table 1.
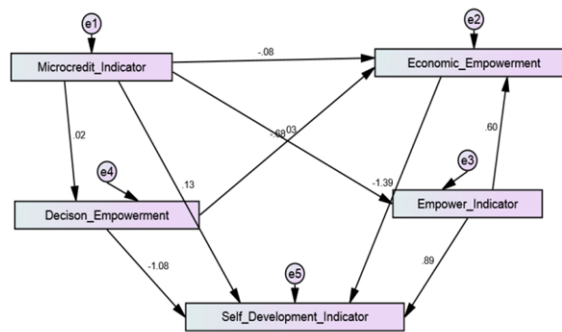
The model fitting process determines the goodness of fit between the hypothesized model and the sample data. Table 1 exhibited various goodness of fit indicators and badness of fit indicators. The goodness of fit indicator increases the precision of the model.

**Table 1. Comparison of goodness of fit indices in structure equation model (SEM)**

| Model Fit Indices | Criterion guidelines | SEM results | Literature |
|---|---|---|---|
| *(Goodness of Fit Indicator)* | | | |
| CMIN/DF | <3 | 2.208 | Hair, Black, Babin, & Anderson (2010) |
| Goodness of Fit Index(GFI) | >0.80 | 0.883 | MacCallum & Hong (1997) |
| Adjusted Goodness of Fit Index (AGFI) | >0.80 | 0.863 | MacCallum, & Hong (1997) |
| Normed Fit Index (NFI) | >0.80 | 0.816 | Forza & Filippini (1998) |
| Comparative Fit Index (CFI) | >0.90 | 0.903 | Gerbing, & Anderson (1992) |
| Tucker Lewis Index (TLI) | >0.90 | 0.894 | Forza & Filippini (1998) |
| Incremental Fit Index (IFI) | >0.90 | 0.905 | Bollen (1989) |
| *(Badness of Fit Indicator)* | | | |
| Root Mean Square Residual (RMR) | <0.08 | 0.063 | Kline (2005) |
| Root Mean Square Error Approximation (RMSEA) | <0.10 | 0.051 | Steiger (1990) |

The above Table 1 shows the SEM results where the CMIN/DF value was less than 3, which ensures the fitness of the model. Moreover, all the goodness of fit indicators is acceptable over their acceptable criteria value. The badness of indicators is also nearer as per the standard criteria. The model is fit enough to study the hypothesized structured relationship among the different constructs.

**Table 2. Structural relationships testing**

| Relationship of constructs | | | Estimate | S.E. | C.R. | Label |
|---|---|---|---|---|---|---|
| Decision empowerment | <--- | Microcredit indicator | $0.026^{NS}$ | 0.053 | 0.482 | Not supported |
| Empower indicator | <--- | Microcredit indicator | $0.060^{NS}$ | 0.085 | 0.704 | Not supported |
| Economic empowerment | <--- | Microcredit indicator | $-0.012^{***}$ | 0.003 | -3.940 | Supported |
| Economic empowerment | <--- | Empower indicator | $0.052^{***}$ | 0.002 | 31.082 | Supported |
| Economic empowerment | <--- | Decision empowerment | $-0.094^{***}$ | 0.003 | -35.445 | Supported |
| Self development indicator | <--- | Empower indicator | $0.548^{***}$ | 0.039 | 14.072 | Supported |
| Self Development indicator | <--- | Microcredit indicator | $0.143^{***}$ | 0.041 | 3.507 | Supported |
| Self-development indicator | <--- | Economic empowerment | $-9.808^{***}$ | 0.614 | -15.981 | Supported |
| Self-development indicator | <--- | Decision empowerment | $-1.052^{***}$ | 0.068 | -15.565 | Supported |

***** Significant at the 0.001 level.*
*NS: Non-significant.*

The results revealed that women entrepreneurship in rural areas empowers women and alleviate poverty. Microfinance facilities play a significant role in the development of women entrepreneurship in rural areas. This study reviewed the role of microfinance on economic empowerment and self-development of women entrepreneurs in some specific areas of Ganjam and Gajapati district of Odisha.

It could be observed that microcredit indicators have no relationship with decision empowerment and empowerment indicators. Solely microcredit will not benefit women's decision making power in the household. It might benefit them economically in the short-run (Desai, 2011). Microcredit indicators have no impact on the empowerment indicators (decision making, awareness, and psychological factors), not improving the lives of microfinance beneficiaries with decision making, awareness, and psychological factors (Samant, Singh, Misra, & Dwivedi, 2019).

Microcredit indicators have a positive association with women entrepreneurs' economic empowerment and self-development indicators. Microcredit indicators significantly influence socioeconomic position, decision-making power, knowledge, and self-worthiness (Aruna & Jyothirmayi, 2011). Microcredit affects women's social, psychological, and economic well-being and helps them gain control over the resources for development. Microcredit intervention increases self-confidence, develops skills, improves the awareness, and reduces poverty levels (Mohan & Sarumathi, 2011). The empowerment and decision empowerment indicators positively relate to economic empowerment indicators. Women's empowerment helped develop a home, society, and nation. The empowerment of women depends on their economic empowerment (Thanikaivel & Priya, 2018). The decision making of women increases economic empowerment (Paul &Chaitanya, 2016). Empowerment indicators and the self-development of women entrepreneurs have a significant relationship. (Francina & Joseph, 2013) stated in their study that psychological empowerment (self-confidence, self-esteem, etc.)is one of the crucial dimensions of empowerment and plays a pivotal role in women empowerment. The economic empowerment and decision empowerment indicators of women entrepreneurship have a significant relationship with self-development indicators. Mohan and Sarumathi (2011) used psychological, social, economic indicators to examine the role of microfinance in the empowerment of women in the Pondicherry region and found that microcredit indicators assisted women in gaining psychological and social empowerment than economic empowerment. Masi, Suarez, Cassey, Kinney and Piotrowski (2003) reported that psychological empowerment is an individual's ability to make decisions and control personal life.

### CONCLUSIONS

Generally, the microfinance program helped in the development of the socio-economic status of rural women in Odisha. It also encourages entrepreneurship. Women entrepreneurs are contributing a lot with the help of microfinance institutions in rural development and economic growth. Nevertheless, their potential is still now not considered in economic development. There is a positive relation between microfinance institutions and the overall economic development of women entrepreneurs in rural areas. A maximum number of women entrepreneurs accepted that microfinance has brought peace and happiness to families because they are socially and economically empowered through microfinance institutions, microfinance programs, and government awareness programs for women entrepreneurs. The main problem of women entrepreneurs is the maintenance of the business's financial accounts and making financial plans because of their illiteracy or low education level in rural areas of Odisha. So, microfinance providers should develop their skills and knowledge through various microfinance training programs.

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