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# MICROFINANCE AND THE MULTIDIMENSIONAL EMPOWERMENT OF RURAL WOMEN: EVIDENCE FROM KAILALI DISTRICT, NEPAL

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**Abstract**
The current research paper focuses on evaluating the effects of microfinance involvement on rural women in Nepal, Kailali District, in terms of economic, socio-cultural and household welfare. The study is based on a quantitative cross-sectional design and is based on a primary survey data of 400 women beneficiaries in four rural municipalities, namely, Bardagoriya, Janaki, Joshipur, and Kailali, in the year 2025 to evaluate multidimensional outcomes of microfinance participation in a systematic manner. To compare the change in income, savings, household expenditure, and women empowerment before and after attending microfinance programmes, the analysis uses descriptive statistics, paired sample t -tests, Wilcoxon signed -rank tests, chi -square analysis, correlation analysis, and binary logistic regression.
The findings indicate statistically significant increases in household income and savings, as well as expenditure on health and education, which means a better financial stability and welfare outcomes. Additional discussion indicates that there is significant increase in the female decision-making power and social-cultural empowerment, especially when it comes to making joint household financial decisions. The regression results point to the length of membership, successful use of productive loans, education, and general empowerment rates as high predictors of income growth, highlighting the accumulative and capability-enhancing character of the microfinance participation. However, the paper equally reports the continuity of structural obstacles such as financial illiteracy, institutional constraints, and enshrined socio-cultural standard, which still dampen the full achievement of microfinance advantages. These institutional barriers prevent the optimum role of financial services on the welfare and empowerment of the women.
In general, it can be concluded in the paper that microfinance can be used as a successful tool of women economic and social empowerment when it is integrated into an integrated development program that includes financial services together with education, capacity building and enabling policy interventions. The paper provides context-specific empirical data of western Nepal to the existing discussions on the transformative possibilities of microfinance on gender-inclusive rural development.
**Key Words**: Microfinance, Women Empowerment, Rural Development, Household welfare, Nepal.

## INTRODUCTION

Microfinance has been popularly advocated as a key development intervention strategy related to poverty reduction, financial inclusion, and empowering the marginalized people and more so rural women in the developing economies. Microfinance institutions (MFIs) are likely to improve income-generating potentials, facilitate consumption, and minimize economic risks of low-income households by offering them access to credit, savings, insurance, and other financial services that were previously not available to them due to their exclusion in the formal banking sector (Yunus, 2007; Armendariz and Morduch, 2010). The strategic placement of women in the centre of microfinance programs has been informed by solid empirical evidence that women have a high level of repayment discipline, high social accountability, and propensity to spend financial assets on household welfare, education of children and health outcomes, which has led to intergenerational development benefits (Pitt and Khandker,1998; Kabeer,1999).
Another context in which one can find a particularly salient platform to discuss the empowerment potential of microfinance is the Nepalese context in which one can discuss gendered development framework. Despite the remarkable achievements in reducing poverty levels in the nation within the last two decades, rural areas are still faced with structural constraints such as a lack of non-farm jobs, gendered division of labour markets and disparate access to formal financial institutions. According to recent statistics provided by the Central Bureau of Statistics, it has been found that an impressive percentage of rural women are still in subsistence farming and unpaid household labour, and that they are also noted to have low levels of educational attainment and limited labour market access (CBS, 2022). Supplementary reports of the Nepal Rastra Bank indicate that, although the financial

literacy, collateral mandates, and access to institutions for women have been expanding at an alarming rate, women in geographically remote regions like Kailali still face considerable amounts of limitations in accessing financial services due to financial literacy, collateral requirements, and institutional accessibility (NRB, 2023).
These economic and institutional constraints are further aggravated by strongly held patriarchal values, little ownership of productive resources and heavy reliance on seasonal agricultural incomes in the case of such districts as Kailali. Collectively, these influences constrain the economic agency of women, undermine intra-household bargaining power, and reduce the prospects of sustainable livelihood diversification. It is within this context that microfinance programmes are nowadays being conceived not just as credit-delivery models but also as a possible tool to promote women economic empowerment, expand choice decision-making and overall family wellbeing by investing more in health, education, and nutrition (Sen, 1999; Government of Nepal, 2022). Nevertheless, the degree to which these transformative results are realised is conditional upon other complementary factors like education, length of participation, and favourable institutional settings.
In this framework, this research paper is based on the following research question: What is the role of microfinance services in economic status of rural women, socio-cultural empowerment and household welfare of rural Kailali District of Nepal? This paper is a contribution to the current academic discourse on the existence of microfinance as a tool of financial inclusion or as a transformative process to enable rural development that is gender-inclusive and capability-enhancing, through the incorporation of objective economic measures and multidimensional measures of empowerment and welfare.

## REVIEW OF LITERATURE

Microfinance refers to the provision of financial intermediaries such as credit, savings, insurance and remittance facilities to low-income populations systemically locked out of the formal banking sectors because of inadequate collateral, uneven income, and remote location. Having been initially theorised as a poverty-reduction tool, microfinance has also increasingly become a multidimensional development tool that prefigures financial inclusion, social empowerment, and livelihood sustainability (Ledgerwood, 1999; Armendariz and Morduch, 2010). This development portrays a wider appreciation that access to finance is not sufficient unless it is associated with institutional inclusion and capacity strengthening. Microfinance in South Asia has been hand in hand with women-centred development strategies based on evidence that women are more repayment disciplined and more likely to spend financial resources on household consumption, children education, food and health, and create the benefits of intergenerational development.

- **Women Economic outcomes and microfinance.**

The body of empirical evidence regarding microfinance and its impact on the economic achievement of women is a complex and sometimes contradicting picture. Initial impact analysis showed that there was great increment of incomes, assets as well as participation in the labour-market by female borrowers especially in Bangladesh and India (Pitt and Khandker, 1998; Khandker, 2005). There is long-term evidence to suggest that long-term involvement in microfinance programmes can lead to poverty alleviation due to expansion of enterprises and income diversification. But the recent randomized assessments are proving more difficult to the generalizability of these results. Banerjee et al. (2015) suggest that microfinance can trigger growth in business and self-employment, but its impact on income gains and poverty decreases is often small and heterogeneous. Such conflicting outcomes emphasise the role of contextual factors such as the loan size, the duration of involvement, the use of credit across the sector and conditions of local economies in determining outcomes.

- **Empowerment, Agency and Gender Relations.**

Modern developmental scholarship is moving towards the understanding of empowerment as a multidimensional process that involves access to resources, agency and accomplishments as opposed to income gain only (Kabeer, 1999). In this context, microfinance is being perceived as a possible driver towards the improvements of the self-efficacy, mobility, autonomy of decision-making, and involvement of women, both in the public and in the personal domain. Mayoux (2001) believes that the results of empowerment are most effective when financial services are incorporated within community institutions, training programmes, and the social networks, which would challenge the established gender hierarchies. The situation in Nepal has also shown that workplace involvement in microfinance has led to a rise in confidence, mobility and intra-household bargaining power among women; however, it has been found that the gains of microfinance are often limited by deeply ingrained patriarchal norms, equal ownership of assets and social expectations (Acharya and Bennett, 1983). Therefore, the microfinance-based empowerment does not occur automatically and without any differences but depends on the context of the general socio-cultural and institutional factors.

- **Household Welfare and Formation of Human Capital.**

In addition to personal economic benefits, microfinance is often considered through the prism of its effects on the welfare of the household and human capital. Many studies relate the microfinance involvement with the enhanced household spending in the food, health care, residences, and education, thus, indicating that the living standards and the prospective of development are improved (Morduch, 1999; Duflo, 2012). The ability of households to have risk management and income shock coping ability is further enhanced through increased savings behaviour. However, critics warn that welfare gains can become lopsided and, in certain cases, compensated by repayment obligations, consumption ironing out of borrowing, or the diversion of borrowing to non-productive activities. These issues indicate that empirical studies are required to determine the difference between the short-term consumption impacts and sustainable welfare.

**Research Gap**

Although the world and Nepal in particular has a large stock of empirical studies, nonetheless, there is an apparent scarcity of empirical studies at the district level especially those that look at economic performances, socio cultural empowerment, and systemic barriers on a common analytical platform. The current research tends to be very limited in scope having concentrated on income or credit performance without taking into consideration the interaction between the length of stay, loan utilisation patterns, empowerment processes, and institutional constraints. The proposed research aims to fill that gap by offering a detailed, micro-level examination of the experiences of women receiving microfinance in Kailali District along with a set of economic indicators and multidimensional measurements of empowerment and an evaluation of structural limitations predetermining the success of the condition programme.

## THEORETICAL FRAMEWORK

The current study is rooted in four theoretical perspectives that are complementary and mutually reinforcing which give a sound analytical framework on the economic, social, and empowerment impacts of taking part in microfinance among the rural women in Kailali District.

**To begin with**, the concept of development as defined by the Capability Approach (Sen, 1999) is the extension of the substantive freedoms and capabilities of individuals, and not just the increase of income. In this sense, microfinance helps in development by improving women ability to attain significant functioning's including safe livelihood, access to education and health care, and significant role in household and community decision-making. Growths in income, savings and spending on health and education that has been seen among the participants in microfinance are thus viewed as a growth in capabilities and better well being as opposed to just financial performance.

**Second,** the Empowerment Theory offers a gender-specific approach to comprehending the conversion of access to resources into agency and success. The process of empowerment is considered as a dynamic process whereby women are enabled to make strategic decisions in life at the time when they had limited choices in life (Kabeer, 1999). In the context of microfinance programmes, the bargaining power of women in the household and the community can be enhanced by the combination of access to financial resources and the development of confidence and the opportunity to participate in a group and decision-making. This framework is especially applicable to the analysis of the shift of the socio-cultural empowerment, mobility and joint household decision-making, which were found in the research.

**Third,** Cumulative Participation Models note that the effects of microfinance are time-dependent and iterative. Such models assume that microfinance is not beneficial in the short-term, but that those benefits increase with long-term involvement, i.e. learning effects, acquisition of skills, development of a business, and asset building. Extensive membership increases the capacity of women to handle credit, diversify sources of income, and translate financial accessibility to long-term economic profits. This viewpoint forms the direct basis of the research interest in the membership time as an important factor in determining the outcome of income improvement and empowerment.

**Lastly,** Social Capital Theory explains the role of social network, trust and collective action on economic behaviour and developmental outcomes. The microfinance relies on group-based lending mechanisms that enable the development of peer monitoring, mutual support, and norms of accountability, leading to the minimization of transaction costs and improved debt repayment performance. In the case of women, participation in microfinance organizations too enhances social connectedness, self-confidence, and group voice, which produces economic collaboration as well as socio-cultural empowerment. These social-capital prism can be used to explain the prevalence of joint-decision making and high degree of group interaction that is observed.

Combined, these four theoretical viewpoints lead to a synthesized approach that connects financial access with increased possibilities, increased agency, compounding economic benefits, and reinforced social relations. This multidimensional strategy makes it easy to understand the conditions under which microfinance performs its operations in a subtle manner as a creative tool of modifying gender-based rural transformation and development to a systematic intervention.

## RESEARCH METHODOLOGY

**Research Design and Sample**

The research design followed in the study is quantitative cross sectional research design to analyse the economic, socio cultural and welfare effects of participating in microfinance with regards to rural women at a particular time. The cross-sectional design is especially appropriate with regards to the appreciation of the variation in the results amongst the participants who have varying lengths of participation, pattern of loan exploitation, and socio-

economic backgrounds and, hence, enables sound statistical comparison of pre and post conditions of participation.
Primary data were gathered throughout 2025 of 400 women beneficiaries of microfinance programmes that run in four rural municipalities in the Kailali District namely, Bardagoriya, Janaki, Joshipur and Kailali. The use of a multistage random sampling process with proportional distribution helped in getting enough representation of the beneficiaries of a given municipality. At the first tier, the rural municipalities chosen were determined on the grounds of the microfinance concentration. At the next step, the beneficiary households were chosen randomly among the membership lists based on the microfinance institutions working in the area of the study. This sampling design not only increased representativeness but also reduced bias in selection thus boosting internal validity of the results.

**The study will use both primary and secondary data collection methods and research instruments.**
Primary data was gathered using structured face-to-face interviews, which is specifically suitable in rural settings with a different level of literacy. All respondents were given a pre-tested and standardised questionnaire so that their response could be consistent and reliable. The questionnaire was structured to include the objective economic measurements as well as subjective dimensions of empowerment, and was sub-divided into five large sections:

1. Socio -demographic factors;
2. Economic indicators such as income, savings and expenditure prior to and after participation in microfinance;
3. Variables that are related to loans like purpose, size, repaying behaviour, and utilising services;
4. Indicators of household decision-making and socio-cultural empowerment; and
5. Institutional and systemic factors that impact on women participation and performance.

To ensure the questionnaire is refined in contextual relevance, minimise bias of responses and refine the wording of questions, the questionnaire was pre-tested during the pilot survey. During the data collection, principles of ethics such as informed consent and privacy of answers were upheld to the latter.

**Techniques of Analysis and Statistical Processes.**
Python based statistical packages, such as pandas, SciPy and stats models were used to perform data analysis hence providing transparency, reproducibility and analytical rigor. Descriptive and inferential statistical methods were used to cover the research objectives in a comprehensive manner.
The **socio-demographic characteristics** of respondents and the summary of key economic variables were profiled and summarised by descriptive statistics (frequencies, percentages, means, median, and standard deviations). Paired -sample t -tests were used to determine difference in income, savings and household spending before and after microfinance involvement. As some of the paired differences deviate from the normal distribution, Wilcoxon signed-rank tests were also used as a non-parametric robustness test.
**Cross-tabulations and chi-square tests** were used to examine associations between categorical variables, i.e. level of education, period of membership, purpose of loan and category of empowerment. Pearson correlation analysis was done to investigate the strength and direction of relationships among continuous variables which included duration of membership, changes in income and savings and scores of empowerments.
In order to establish the important determinants of income improvement, a **binary logistic regression equation** was estimated where the dependent variable is income improvement and the explanatory variables include education level, loan size, length of membership, and total score on empowerment. Multicollinearity test and goodness of fit tests were used to verify the soundness and applicability of the regression outcomes.
Lastly, the **internal consistency and reliability of multi-item empowerment** scales were measured by the use of Cronbach alpha where the values were found to be above the accepted values, implying that the measurement instruments were very reliable.

## RESULTS AND ANALYSIS

**1. Socio-Demographic profile of the respondents.**
The socio-demographic profile of the interviewees provides important contextual information of the population the microfinance programmes serve in the Kailali District. The sample consisted mostly of middle-aged women, the average age of 41.64 (SD = 10.01), which suggests that microfinance is used most by the economically active age groups. A large proportion of the respondents were married (90.5%).
The education level of respondents was low and 73.1% of the total respondents were illiterate or had primary education only. Such limited educational attainment highlights formal restrictions on women in rural areas to access skilled jobs and formal financial services. Most of the respondents were involved in subsistence agriculture (57%) or were unemployed/homemakers (25.5%), which points to a lack of livelihood diversification and reliance on informal or unpaid work before joining microfinance programmes. Such features are familiar to rural gendered labour experiences in Nepal and other South Asian situations (Acharya & Bennett, 1983; Kabeer, 1999).

**Table .1: Demographic Profile of Respondents (N = 400)**

| Variable | Category | Frequency | Percentage (%) |
|---|---|---|---|
| **Age Group (years)** | 20–29 | 56 | 14.0 |
| | 30–39 | 119 | 29.8 |
| | 40–49 | 120 | 30.0 |
| | 50 and above | 105 | 26.2 |
| **Mean = 41.64 years; SD = 10.01** | | | |
| **Marital Status** | Married | 362 | 90.5 |
| | Widow | 21 | 5.3 |
| | Unmarried | 11 | 2.8 |
| | Divorced | 6 | 1.5 |
| **Education Level** | Illiterate | 149 | 37.3 |
| | Primary | 143 | 35.8 |
| | Secondary | 51 | 12.8 |
| | Higher Secondary | 37 | 9.3 |
| | University & above | 20 | 5.0 |
| **Occupation (Before Joining Microfinance)** | Farmer | 228 | 57.0 |
| | Business | 44 | 11.0 |
| | Unemployed/Homemaker | 102 | 25.5 |
| | Laborer/Other | 26 | 6.5 |
| **Occupation (Current)** | Farmer | 237 | 59.3 |
| | Business | 64 | 16.0 |
| | Unemployed/Homemaker | 66 | 16.5 |
| | Laborer/Other | 33 | 8.3 |
| **Household Size** | Up to 4 members | 175 | 43.8 |
| | 5–7 members | 176 | 44.0 |
| | 8 and above | 49 | 12.3 |

**Source: Primary Survey 2025**

**2. Economic Effect of Microfinance Participation.**

The economic contribution of the participation in the microfinance was evaluated and compared by the key financial indicators which were measured before the involvement in the programmes and after the involvement by applying paired-sample statistical methods. The findings indicate statistically significant increase of all the key economic indicators.

The mean monthly household income rose before the participation 28,052.79 to after-participation 8,994.95, which is a 39% rise. This was significant change (paired $t = -8.636$, $p < 0.0001$), which means that there was improved income-generating ability of the beneficiaries. Better still, the savings behaviour was enhanced, which increased average monthly savings, 3,511.50 to 6,715.00, 91% increase ($p < 0.0001$). This high increment in savings implies better financial discipline, liquidity management, and financial shock resilience.

The monthly household spending also rose to 35% in line with the growth in incomes, and consumption capacity. These results are consistent with the other studies that have found microfinance as an income diversification and financial stabilization tool in cases where loans are utilized productively and participation over a long period is maintained (Pitt and Khandker, 1998). Wilcoxon signed-rank tests of robustness also confirmed the statistical significance of these changes, which improved the confidence in the effects of these changes observed on the economy.

**Table .2: Household Economic Characteristics Before and After Joining Microfinance**

| **Variable** | **Before Joining (Mean ₹)** | **After Joining (Mean ₹)** | **Change (%)** |
|---|---|---|---|
| **Monthly Income** | 28,052.79 | 38,994.95 | +39% |
| **Monthly Saving** | 3,511.50 | 6,715.00 | +91% |
| **Monthly Expenditure** | 23,564.22 | 31,935.28 | +35% |
| **Loan Amount (Mean)** | ₹ 1,77,284.09 | — | — |
| **Membership Duration (Years)** | Mean = 5.03 | — | — |

**Source: Primary Survey 2025**

**3. Household Welfare Outcomes**

In addition to income and savings, the participation by microfinance has been quantifiable regarding its effect on the household welfare and standard of living. Expenditure analysis indicates statistically significant growths in all categories of major welfare-that are significant such as food, housing, health, education, and miscellaneous consumption.

The growth of food spending was by 20.2% that indicates that diet and nutrition uptake were improved. Significant increases were noted in spending on housing (59%) and spending on clothing (55.4%), which showed improved material well-being and investment in improved living conditions. The health (28%) and education (26.8%) expenditure also increased markedly, which attests to the growing focus on human capital formation and health.

These trends are in line with the welfare improving impacts of microfinance which are evidenced in the literature, whereby more access to both credit and income allows households to spend resources on long term developmental services as opposed to subsistence consumption alone (Morduch, 1999; Duflo, 2012). The statistically significant outcomes of paired-sample tests ($p < 0.0001$ across all expenditure categories) give good empirical evidence of the role played by microfinance to enhance household welfare.

**Table .3: Comparison of Major Expenditure Heads (Mean Values in ₹)**

| **Category** | Before | After | % Change |
|---|---|---|---|
| **Food** | 6,882 | 8,270 | +20.2 |
| **Clothing** | 3,697 | 5,746 | +55.4 |
| **Housing** | 1,948 | 3,098 | +59.0 |
| **Health** | 3,018 | 3,864 | +28.0 |
| **Education** | 3,277 | 4,152 | +26.8 |
| **Miscellaneous** | 5,082 | 7,720 | +52.0 |

**Source: Primary Survey 2025**

**4. Outcomes of Women Empowerment.**

The measurement of women empowerment was multidimensional in nature as it was measured in terms of economic empowerment, socio-cultural empowerment, loan use and repayment behaviour and education and health empowerment. The reliability test produced high values of Cronbach's alpha 0.868 to 0.986 signifying the great internal consistency and strength of the measurement tools.

Mean scores in the various empowerment dimensions were all homogeneous with the greatest mean score being in socio-cultural empowerment (4.27), education and health empowerment (4.21) and economic empowerment (4.01). These results indicate high returns on the confidence, mobility, decision-making capacity and involvement in family and community matters by the women.

These findings are also reinforced by household decision-making behaviour where 66.3%. of the respondents indicated that they made joint decisions with their spouses as a sign of movement towards more inclusive and participatory gender relationships. Growing agency is also expressed by independent decision making by women (15.8%). The results are echoed in the empowerment theory that focuses on incremental changes in the intra-household bargaining as opposed to the sudden change in the power relations (Kabeer, 1999; Mayoux, 2001).

**Table .4: Scale summary (means and reliability)**

| **Scale (items)** | **No. items** | **Cronbach's α** | **Mean score (scale mean)** | **SD** | **N** |
|---|---|---|---|---|---|
| **Economic Empowerment** | 11 | 0.876 | 4.01 | 0.58 | 400 |
| **Loan Use & Repayment** | 6 | 0.868 | 4.08 | 0.64 | 396 |
| **Socio-cultural Empowerment** | 8 | 0.904 | 4.27 | 0.64 | 396 |
| **Education & Health Empowerment** | 5 | 0.986 | 4.21 | 0.62 | 396 |
| **Systemic Barriers** | 8 | 0.886 | 2.70 | 0.93 | 396 |

**Source: Primary Survey 2025**

**5. Income Improvement Determinants.**

In order to determine the most important factors affecting income improvement among the participants in microfinance, a binary logistic regression model was estimated where income improvement was the dependent variable. The findings suggest that the length of membership, the total score of empowerments, size of loan and education level are the significant predictors of income improvement.

The length of years of membership was found to be one of the most powerful predictors showing that there is a significant likelihood of income growth with the long-term participation in the microfinance programmes. This is in favour of the cumulative participation models which argue that the benefits accrue with time due to learning effects, expansion of the enterprise and accumulation of assets. Income improvement was also positively related to higher scores in empowerment, which implies that those women with higher decision-making power and confidence can more easily use the available financial access to material economic advantages.

There was a positive impact by size of loans, which means that the larger the loan acquired, the more it can be invested in productive activities like agriculture and microenterprise. There was a gradient effect on education and more educated women exhibited more prospects of income gain though gains were also evident among less educated respondents. These results are consistent with the available literatures that financial access, when compounded with human and social capital, can increase the efficacy of the interventions of microfinance (Sen, 1999; Armendariz and Morduch, 2010).

**Overall Interpretation**

Collectively, the findings indicate good empirical data that participation by microfinance in Kailali District has played a critical role in bringing about great economic developments, improvement in household welfare, and substantial empowerment of women. The results have indicated the significance of long-term participation, effective use of loans and mechanisms that help in strengthening empowerment in ensuring that microfinance programmes have the maximum developmental impact.

## DISCUSSION

**The empirical results of this study strongly support the argument that participation in microfinance programmes significantly enhances the economic status, empowerment status and household welfare of the rural women in the Kailali District**. The significant increase in both income and savings levels of beneficiaries is consistent with previous empirical studies in South Asia that have recorded that long-term access to financial services increases livelihood stability, smoothing consumption, and economic resilience of low-income households (Khandker, 2005; Armendariz and Morduch, 2010). In turn, the results confirm the hypothesis that microfinance, placed in the context of the stable institutional backdrop, is a powerful tool in facilitating economic inclusion.

**Cumulative participation models are empirically substantiated by an unequivocal statistically significant relationship between the period of microfinance membership and the income gains, which argue that microfinance gains will accumulate over time, and not immediately.** Long-term involvement also equips the women with financial-management skills, helps in the growth of productive activities, asset-building, and strengthening social networks, hence, transforming financial access into long-term economic payoffs. This dynamic development explains the finding that long-term participants within the research demonstrate better income growth and empowerment when compared to the newly integrated participants hence the importance of continuity of programmes and retention of members.

**Table .5: Membership Duration × Empowerment Category**

| Membership duration | Low | Moderate | High | Total |
|---|---|---|---|---|
| **< 1 year (n=26)** | 8 (30.8%) | 15 (57.7%) | 3 (11.5%) | 26 |
| **1–3 years (n=63)** | 10 (15.9%) | 34 (54.0%) | 19 (30.1%) | 63 |
| **3–5 years (n=57)** | 6 (10.5%) | 29 (50.9%) | 22 (38.6%) | 57 |
| **>5 years (n=254)** | 17 (6.7%) | 98 (38.6%) | 139 (54.7%) | 254 |
| **Total** | 41 (10.3%) | 176 (44.0%) | 183 (45.8%) | 400 |

**Source: Primary Survey 2025**
Chi-square test: $\chi^2 = 35.25$, df = 6, $p < 0.001$ (significant)

**In the context of analysis of gender and empowerment, the prevalence of joint household decision-making is a crucial shift in the balance of power within the house.** Although the autonomy of choice is still limited in the case of women, the increased involvement in the financial decision-making process signifies a slow shift of the patriarchal power structure towards the more cooperative and egalitarian family setting. These incremental changes are echoed in the empirical perspective of the theory of empowerment that identifies empowerment as a social, procedural process as opposed to the delegation of authority that takes place in one instance (Kabeer, 1999; Mayoux, 2001).

**The huge correlation between educational attainment and empowerment further reinforces the role played by education as a decisive capability-enhancement variable.** Educated women are found to be more skilled in financial information interpretation, risk evaluation and resource allocation to productive and welfare improving activities, hence supporting the capability approach of development by Sen (1999), according to which development interventions should enlarge the ability of individuals and their agency, and not merely the production of income. Microfinance is, therefore, proving to be more effective in cases where the beneficiaries have complementary human capital that enables them to transform financial resources into meaningful social and economic results.

**Table .6: Education Level × Empowerment Category**
**(Empowerment categories: Low < 3.0; Moderate 3.0–4.0; High > 4.0)**

| Education | Low | Moderate | High | Total |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| **Illiterate** | 34 (22.8%) | 76 (50.7%) | 40 (26.7%) | 150 |
| **Primary** | 23 (16.1%) | 71 (49.7%) | 49 (34.3%) | 143 |
| **Secondary** | 6 (11.8%) | 20 (39.2%) | 25 (49.0%) | 51 |
| **Higher secondary & above** | 2 (5.4%) | 9 (24.3%) | 26 (70.3%) | 37 |
| **Total** | 65 (16.3%) | 176 (44.0%) | 140 (35.0%) | 400 |

**Source: Primary Survey 2025**

**Despite these positive results, the moderated but statistically significant systematic lead stones that continue to exist underscores the limitations to considering microfinance as a discrete development intervention**. Lack of financial literacy, institutional inflexibility, limited access to markets, and institutionalized socio-cultural beliefs are all barriers to the full utilisation of microfinance by women. These are observations that are consistent with critical discourses in the global microfinance literature, which advises against overstating the transformational promise of credit devoid of an enabling institutional, educational and policy environment (Bateman, 2010). Based on this, the paper highlights the necessity of integrated development policies that combine microfinance with capacity-building policies, gender-sensitive policies, and institutional changes aimed at achieving sustainable and inclusive empowerment responses.

**Policy Implications**

This study provides some empirical findings which translate into a number of salient policy implications that can be applied to the effectiveness and sustainability of microfinance interventions to empower rural women in Kailali District and comparable socio-economic contexts.

**First,** the marked association between the period of participation and positive economic and empowerment results requires the encouragement of perennial participations in microfinance programmes. By establishing long term provision systems like business mentoring, enterprise incubation, and post venture advisory services, policymakers and MFIs should move beyond short term loan provision to long term support. The mechanisms will assist in the gradual strengthening of financial-management skills of women, the growth of income-generating operations, and risks of nascent enterprises.

**Second,** the policy frameworks must promote and streamline the application of credit to income- generating projects due to the significantly greater income gains attached to productively directed credit, especially in the agricultural sector and the microenterprise case. This can be in the form of sector specific loan products, repayment time schedules that can be adjusted to agricultural calendars, technical support in contemporary agricultural agronomy, value addition and market connections. Microfinance will create a sustainable livelihood development, as opposed to consumption smoothing as it favours productive investment.

**Third,** the paper highlights the urgent requirement of the expansive financial literacy and gender-sensitive capacity-building programmes to ensure the full utilisation of the benefits of microfinance. Implementing financial education programs which include budgeting, record-keeping, risk management, and savings behaviour in the microfinance products can also improve the utilisation of the loan and repayment. At the same time, gender training of beneficiaries and MFI staff can challenge the limiting social constructs, reinforce the independence of women in decision making, as well as cultivate fair relationships both at home and in society.

**Fourth,** the relentless institutional and systemic barriers involve the need to have stronger integration between the micro-finance institutions and local development agencies. The enabling ecosystem that relies on more than credit provision of women entrepreneurs can be fostered by strengthening partnership with local governments, agricultural extension services, cooperatives, and skill-imparting programs. These synergies may reduce transaction costs, enhance access to markets and access to information, and direct microfinance interventions towards overall rural development and gender empowerment agendas.

To conclude, the policy implication is that microfinance is most effectively effective when it forms the part of an integrated development approach that combines financial services with education, institutional support and gender responsive policies.

## CONCLUSION

The study provides strong and contextually specific empirical data that show that the participation in microfinance has significantly improved economic status, empowerment and household status of rural women in Kailali District, Nepal. The statistics show high growth in earnings and savings, high spending on health and education, and meaningful improvements in the decision-making power of women and their socio-cultural activities. These results support the potential of microfinance to be much more than a tool of financial inclusion, but a holistic development intervention that enriches the agency and household well-being of women. However, the paper warns against viewing microfinance as a self-sufficing solution to poverty in the rural areas or gender inequality. Its effects are dependent on complementary determinants in terms of magnitude and endurance as within the range of educational attainment, length of participation, use of loans productively, and supportive institutional ecosystems. Persisting systemic impediments, including lack of financial literacy, deep-rooted socio-cultural and institutional inertia, and institutional rigidity, stand in the way of the full potential of microfinance to deliver its transformative impact.

It has been shown how microfinance can mean a lot to inclusive and sustainable rural development, when incorporated in a holistic policy that combines financial services with capacity building, gender sensitive programming and coordinated developmental support. The development of these complementary dimensions is crucial in ensuring that microfinance interventions bring about a lasting economic empowerment and help bring lasting positive changes on the welfare of women.

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