

Sustainable Development and Women's Empowerment: The Role of Microfinance Institutions in Birendranagar, Surkhet

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DOI: <https://doi.org/10.47772/IJRISS.2026.100400364>

Received: 09 April 2026; Accepted: 15 April 2026; Published: 09 May 2026

ABSTRACT

This paper analyze the multidimensional effects of microfinance on the empowerment of women in five dimensions, namely, economic, political, social/cultural, personal, and psychological. A quantitative research design was used to conduct a study on 180 women who are actively involved in microfinance programs in Birendranagar, Surkhet, through the use of structured questionnaires. The data were to be collected in the period between September- December 2025 and the instrument was pre-tested using a pilot study involving 20 respondents to ascertain validity and reliability. IBM SPSS 25 was used to perform correlation and multiple regression analyses. The findings show that microfinance plays a significant role in empowering women in all the five dimensions. The strongest predictor was personal empowerment ($\beta = 0.569$, $p < 0.001$), then political ($\beta = 0.260$) and economic empowerment ($\beta = 0.242$). The five predictors combined to account 90.6 percent of the overall women empowerment (Adjusted $R^2 = 0.906$), which shows the high transformative power of microfinance. The effects of social/cultural and psychological empowerment were relatively smaller, which indicates the continuation of socio-cultural norms and the necessity of additional psychosocial interventions. The correlation analysis also established that there were strong positive inter-relationships between all empowerment dimensions. These results highlight the significance of integrative microfinance approaches that can tackle structural and psychosocial obstacles to comprehensive women empowerment. The research has practical implications to policymakers, program designers and practitioners who want to maximise the transformative effects of microfinance in Nepalese context.

Keywords: Economic Empowerment, Microfinance Institutions, Personal Empowerment, Political Empowerment, Sustainable Development, Women's Empowerment.

INTRODUCTION

The ongoing gender inequality and economic marginalisation remain to be the obstacles to sustainable development in most parts of the Global South. The empowerment of women is broadly acknowledged as a key contributor to equitable development, poverty alleviation, and community stability, which are enshrined in the United Nations Sustainable Development Goals (SDGs), Goal 5 (Gender Equality) and Goal 1 (No Poverty) (Huis et al., 2017; Leonisou et al., 2024; Nahar, Microfinance institutions (MFIs) have taken a leading role in this agenda, providing financial services to marginalised populations and theoretically enabling economic independence and social agency (Khursheed, 2022; Sinha et al., 2019; Wondimu et al., 2023). Nevertheless, the effectiveness of MFIs is still debated, and the results differ significantly depending on the geographical, cultural, and institutional settings (Huis et al., 2017; Oberhauser and Aladuwaka, 2020; Swain and Wallentin, 2009).

Such tensions are especially acute in Nepal, where socio-cultural norms and male-dominated institutional frameworks are deeply rooted and women are disproportionately disadvantaged. The administrative headquarters of Surkhet district in western Nepal, Birendranagar, is an example of such challenges: the lack of access to formal credit, the lack of mobility of women, and the presence of gendered differences in economic opportunities (Mwirigi et al., 2024; Basnet, 2023; Tiwari, 2023). Basnet (2023) discovered that MFI membership in Surkhet was linked to greater economic agency and household decision-making by women, but political voice and community mobility gains were minimal. On the same note, Tiwari (2023) observed that

although women entrepreneurs in Kanchanpur were using microloans to start small businesses, discriminatory lending policies still limited the growth of businesses. These results underscore the importance of place-based, contextualised studies on the role of MFIs in responding to empowerment in the heterogeneous socio-economic context of Nepal.

There is a large amount of empirical evidence that supports the multi-pathway character of the empowerment potential of microfinance. It has been indicated that MFI membership leads to economic agency by diversifying incomes and accumulating assets (Khursheed, 2022; Sinha et al., 2019); to social leverage by decreasing domestic violence and increasing self-confidence (Abdul-Razak et al., 2015; Dadun et al., 2019); and to political participation by becoming a community leader. As an example, Wondimu et al. (2023) discovered that women who were members of the Amhara Credit and Savings Institution (ACSI) in Ethiopia reported more control over household income distribution, whereas Lee and Huruta (2022) found that financial literacy was a mediator between green microfinance programs and socio-ecological resilience in women in Southeast Asia.

But feminist scholars warn of blind optimism. Oberhauser and Aladuwaka (2020) state that MFIs often focus on repayment indicators rather than transformative gender outcomes, and the danger of increasing the debt burden of women without breaking the patriarchal system. These criticisms are particularly relevant in Nepal, where the participation of women in the labour force remains at about 26.2 percent nationally - and even less in rural municipalities like Surkhet - and where the country is ranked 106th out of 146 in the Global Gender Gap Index (2023) despite the constitutional provisions of gender equality (Mwirigi et al., 2024; Bas). The systematic review of South Asian microfinance by Bandara (2024) reveals that the lack of sufficient loan sizes and high interest rates are structural limitations that have remained constant, particularly in Nepal hill areas. Further participatory research in peri-urban Ghana shows that women appreciate MFI networks as a source of solidarity, but they do not tend to question discriminatory inheritance and property norms (Abdul-Razak et al., 2015). These findings indicate the significance of local power relations, such as caste, ethnicity, and rural-urban differences, in determining microfinance performance in particular localities like Birendranagar.

Although this evidence is growing, the current literature on microfinance in Nepal has been more concerned with financial performance and outreach indicators (Guvaju and Sherpa, 2020; Sharma, 2000), rather than the intersection of microfinance, multidimensional women empowerment, and sustainable development in particular socio-cultural contexts (Chaudhary et al., 2020). Most importantly, the majority of Nepal-based research considers empowerment as a one-dimensional outcome, which overlooks the relative roles of personal, psychological, and political aspects and the more traditionally quantifiable economic benefits. Moreover, the environmental and social sustainability of microfinance activities are not well researched. Despite being an international focus, researchers have highlighted the transformative potential of microfinance (Armendariz and Morduch, 2010; Ledgerwood, 2013), yet a gap in contextualised, multi-dimensional empirical research that considers the socio-cultural and economic peculiarities of the mid-western region of Nepal can be identified.

This paper fills that gap by looking at the multidimensional effects of microfinance on the empowerment of women in Birendranagar, Surkhet, and considering economic, political, social/cultural, personal, and psychological empowerment as separate but interconnected aspects of a larger empowerment model. The multiple regression analysis is used to determine the relative predictive power of each dimension. Notably, the study preempts the centrality of personal empowerment in developing confidence, autonomy, and decision-making ability in women, as well as critically addresses the socio-cultural and psychological limitations that influence the success of microfinance.

LITERATURE REVIEW

The connection between microfinance institutions and women empowerment has been a subject of long-term scholarly interest as a means of sustainable development. This review is a synthesis of empirical evidence on five dimensions of economic, political, social/cultural, personal, and psychological empowerment as the independent variables in the current study, and overall women empowerment as the dependent variable. Instead of describing the findings in a descriptive manner, this review critically analyzes the theoretical

tensions, outlines the limitations of the existing literature, and explains the conceptual gaps that the current study aims to fill.

Theoretical Foundations

The theoretical basis of the current research is based on the confirmatory framework of women empowerment by Williams (2005) that recognizes resources, agency, and achievements as three interdependent elements. This is very much in line with the formulation of Kabeer (1999) where empowerment is the resources that women possess, their ability to act on their dreams and the results that they get. The operational definition of the World Bank also bases empowerment on personal agency in enabling institutional settings (Dhungana et al., 2024). Together, these frameworks highlight that financial access is not enough, but the conversion of financial resources into independent decision-making and meaningful social engagement is what makes true empowerment.

One of the most important weaknesses of the current theorisations, however, is the lack of focus on the possible overlap of personal and psychological empowerment. Both constructs are associated with internal conditions like self-efficacy, confidence, and autonomous decision-making, which casts doubt on conceptual differentiation. The present study acknowledges this potential overlap and discusses it in the context of the regression results; future instrument development should aim to more sharply differentiate these dimensions.

Economic Empowerment Through Microfinance

Empirical research has always reported a positive correlation between microfinance involvement and economic empowerment of women. Khurshed (2022) discovered that microcredit leads to income independence, asset accumulation, and increased economic decision-making. Similarly, Dhungana et al. (2024) show that microcredit boosts confidence and self-esteem in women, allowing them to establish businesses and have more influence in the household. Shrestha et al. (2025) in the Sindhuli district of Nepal affirm that micro-saving, micro-credit, micro-insurance, and training services have a significant positive impact on the economic empowerment of women, and that bundled financial services are more effective than credit services.

However, there are no limitations to economic empowerment by microfinance. Dhungana et al. (2023) observe that the high-interest rates and limited loan amounts can limit the ability of women to grow businesses, which can replicate economic precarity instead of changing it. A systematic review of South Asian microfinance by Bandara (2024) also warns that structural limitations, especially in Nepal hill areas, dilute the economic effects of MFI programs. These findings indicate that the beneficial impacts of economic empowerment are context-specific and mediated by program design, lending terms, and resource bases of women.

H_{A1}: Economic empowerment through microfinance has a significant positive impact on women's empowerment.

Social and Cultural Empowerment

The involvement in microfinance is linked to significant changes in the social status and cultural agency of women. Thapa and Yadav (2024), studying 150 women microfinance clients in Rautahat district, found significant increases in asset ownership, decision-making autonomy, household mobility, and community recognition following program participation. Dhungana et al. (2024) also note that microfinance increases the respect of women in the family and community and increases their power of communication.

Nevertheless, the evidence also shows significant limitations. Compared to economic empowerment, social/cultural empowerment is slower and more structurally constrained because it involves changes in gender norms that are deeply ingrained and do not depend on the financial status of women (Oberhauser and Aladuwaka, 2020). In their research on peri-urban Ghana, Abdul-Razak et al. (2015) discovered that women appreciated MFI solidarity networks but admitted that they could not oppose discriminatory inheritance and cultural practices. This disparity between personal benefits and institutional change is a serious constraint that

cannot be overcome by microfinance alone, indicating the necessity of additional community-based and policy-level interventions.

H_{A2}: Social and cultural empowerment through microfinance has a significant positive impact on women's empowerment.

Political Empowerment

Microfinance as a means of political empowerment has been relatively less systematically empirically studied, but the evidence available suggests that it has substantial impacts. Dhungana et al. (2023) discover that the participation in microfinance results in significant socio-political empowerment, and the capability approach, as implemented by Dhungana et al. (2024), conceptualises political empowerment as a result of increased capabilities that allow women to participate in collective decision-making and civic leadership. This trend is validated by Duwal (2019) in the Nepali context, who shows that MFI membership enhances the socio-political participation and political awareness of women.

One of the most striking gaps in this literature is the propensity to view political empowerment as a by-product of economic empowerment, as opposed to a dimension of agency that is cultivated separately. Such a conceptual subordination can result in underinvestment in civic engagement elements in the design of microfinance programs. The fact that political empowerment is the second most important predictor of overall women empowerment in the current study refutes this assumption and demands more specific focus on the political aspects of MFI programming.

H_{A3}: Political empowerment through microfinance has a significant positive impact on women's empowerment.

Personal Empowerment

Personal empowerment involves increased agency, autonomy, and self-determination in decision-making. Women who have been involved in microfinance programs say they feel more confident in their interactions with communities, more capable of voicing their opinions in family contexts, and less helpless (Khursheed, 2022). Bashyal (2025) records that psychological change, such as increased self-understanding and respect of the family, is one of the most stable changes that have been reported by microfinance participants in the context of developing countries.

Personal empowerment is theoretically different than psychological empowerment in that it prefigures externally manifested autonomy (e.g., decision-making ability, freedom of movement) as opposed to internal psychological conditions per se. But, in practice, these constructs overlap significantly in conceptual space, especially in the measurement of self-efficacy and confidence. This overlap should be given special consideration in the design of instruments and interpretation of regression coefficients, and is addressed further in the Results and Discussion sections.

H_{A4}: Personal empowerment through microfinance has a significant positive impact on women's empowerment.

Psychological Empowerment

Psychological empowerment is characterised by enhanced self-confidence, self-efficacy, self-worth, and sense of autonomy. Gubhaju (2023) shows that microfinance has a great impact on these psychological aspects of women who are involved in the program in the Rautahat district of Nepal. Similarly, Mahato and Jha (2024) in the Indian context discover that the involvement in self-help groups enhances the social trust, self-esteem, and autonomy of women. The evidence all points to the fact that psychological empowerment is not only an outcome but it may also be a mediating process where economic and social benefits are converted into long-term behavioural change.

However, psychological empowerment is a methodologically difficult measure. Internal states like self-efficacy and confidence are hard to measure without behavioural proxies that overlap with personal empowerment constructs. This ambiguity can explain the relatively smaller regression coefficients of psychological empowerment in earlier studies, and is a design weakness that is recognized in the current study.

H_{A5}: Psychological empowerment through microfinance has a significant positive impact on women's empowerment.

Nepal-Specific Evidence

Nepalese research offers directly relevant context. Dhungana et al. (2024) show that access to microcredit, the establishment of microbusinesses, the development of savings, and financial literacy have a significant and positive effect on the individual, economic, and socio-political empowerment of women in Pokhara. Gubhaju (2023), who examines the Rautahat district, confirms that the involvement in microfinance brings about substantial income, savings, asset ownership, and household financial decision-making. Specifically, evidence in Surkhet district shows that operational, individual, and family-level changes with the help of microfinance, such as decision-making on the use of public amenities and political participation, play a significant role in empowering women (Dhungana et al., 2023). Basnet (2023) puts these findings into the context of the socio-economic environment of Birendranagar itself, where the economic agency gains are acute, but structural limitations on political voice and movement are still present.

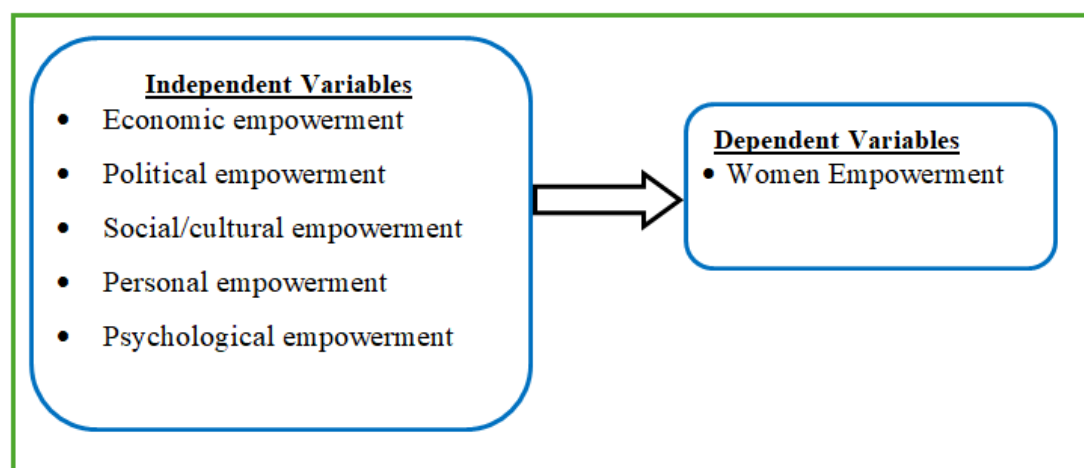
Microfinance and the Sustainable Development Goals

The literature provides definite connections between microfinance, women empowerment, and the overall SDG agenda. MFI operations directly promote SDG 1 (No Poverty), SDG 5 (Gender Equality), and SDG 8 (Decent Work and Economic Growth) by increasing financial inclusion and decreasing economic marginalization by gender. Financial inclusion is a goal in eight of the seventeen SDGs, and SDG 5 on gender equality and women empowerment is especially salient (UNCDF, 2024). These links support the argument that microfinance should be viewed as a sustainable development tool and not a financial service, and they contextualize the policy implications of the empirical results of the current study.

Conceptual Framework

Based on the theoretical frameworks and empirical evidence discussed above, this paper conceptualises women empowerment as a multidimensional outcome that is determined by five interrelated yet analytically distinct independent variables, namely, economic, political, social/cultural, personal, and psychological empowerment. The dimensions are operationalised as latent constructs assessed using an eight-item Likert scale, and overall women empowerment is the composite dependent variable. The conceptual framework of the study is shown in Figure 1.

Figure 1 Conceptual framework of the study



METHODOLOGY

The research design used in this study is quantitative research design to investigate the relationship between microfinance institution (MFI) participation and women empowerment in Birendranagar, Surkhet, Nepal in a systematic manner. The target population will include women who are active members of MFI programs in the municipality.

Sampling and Data Collection

The sample size of 180 respondents was selected using a purposive sampling strategy, where the respondents were women who had direct and sustained experience of microfinance participation. This was done to make sure that the respondents had the contextual knowledge that would enable them to respond to the research questions of the study in a meaningful way. Although purposive sampling presents familiar constraints in terms of statistical generalisability, it is suitable to exploratory and theory-testing designs where the depth and applicability of the experience of respondents are the most important (Bryman, 2016; Creswell, 2014). Future research ought to take into account stratified or probability-based sampling methods to increase representativeness of the larger MFI client population of Surkhet district.

The structured questionnaires were used to collect data in September- December 2025. The constructs were measured on an eight-item Likert scale (1 = strongly disagree to 5 = strongly agree) based on validated scales in the existing literature on women empowerment and microfinance (Khursheed, 2022; Dhungana et al., 2024; Huis et al., 2017). Structured questionnaires are established to produce credible, similar data in social science studies (Bryman, 2016; Punch, 2013).

A pilot study was carried out before the actual data collection involving 20 women microfinance participants who were selected out of the same population but not included in the main sample. The pilot was aimed at evaluating the clarity of questionnaire items, the suitability of response scales, and internal consistency of each construct. Items that created confusion or had low inter-item correlations were revised accordingly and the instrument finalised. The pilot study provided satisfactory Cronbachs Alpha values of all constructs (between 0.71 and 0.89), which validated the instrument readiness to be used in full scale.

Analytical Procedure

IBM SPSS Statistics version 25 was used to analyse all data. To test the internal consistency of each scale before testing the hypothesis, reliability analysis was performed using Cronbachs Alpha. The bivariate correlation analysis by Pearson was used to test the direction and strength of the relationships between all the variables of the study. The multiple regression analysis was then conducted as a standard to determine the relative contribution of each dimension of empowerment (economic, political, social/cultural, personal, and psychological) to the overall empowerment of women. Model diagnostics, such as analysis of Variance Inflation Factors (VIF), were performed to determine the possibility of multicollinearity between closely related predictors, especially the personal and psychological empowerment constructs (Field, 2018; Pallant, 2020). As observed in the Results section, VIF values of all predictors were within reasonable limits, which means that multicollinearity did not significantly affect the regression coefficients.

The limitation of this study is that it is cross-sectional, which only allows the determination of associations but not the direction of causality. Self-reported Likert-scale data may lead to response bias, and the study is limited to one municipality, which reduces geographic generalisability. These are discussed further in the Discussion section, as well as recommendations on future longitudinal and mixed-methods studies.

RESULTS

This section presents the results of the reliability analysis, correlation analysis, and multiple regression analysis used to test the five study hypotheses. Findings are reported systematically to demonstrate the robustness and explanatory power of the methodological procedure.

Reliability Analysis

Cronbach Alpha was used to measure internal consistency of each construct. Table 1 indicates that all constructs had acceptable to excellent reliability with coefficients of 0.704 (Women Empowerment) to 0.894 (Psychological Empowerment). The total summary reliability coefficient was 0.971, which means that there is a high level of internal consistency in the entire instrument (Taber, 2018). The acceptable level of 0.70 is traditionally accepted in social science research (Kothari, 2004), and all the constructs were at or above this level, which gives a solid foundation to further analyses.

Table 1: Reliability Test Results by Construct

Variables	No of items	Cronbach's Alpha
Economic Empowerment (EE)	8	0.747
Political empowerment (POE)	8	0.802
Social/cultural empowerment (SE)	8	0.731
Personal empowerment (PEE)	8	0.837
Psychological empowerment (PSE)	8	0.894
Women Empowerment (WE)	8	0.704

Source: Author's calculation using IBM SPSS 25

Correlation Analysis

The Pearson correlation of all the variables in the study is provided in Table 2. Personal Empowerment (PEE) and Economic Empowerment (EE) show the most significant correlations with overall Women Empowerment (WE) with correlation coefficients of $r = 0.829$ and $r = 0.781$ respectively ($p < 0.01$). WE has a moderately strong positive relationship with Social/Cultural Empowerment (SE) ($r = 0.577$), whereas Psychological Empowerment (PSE) and Political Empowerment (POE) have moderate positive relationships ($r = 0.461$ and $r = 0.309$ respectively).

There are a few inter-predictor correlations that should be noted. SE and EE have a significant correlation ($r = 0.681$), and PEE and EE also have a significant correlation ($r = 0.599$), which indicates that there is a certain level of conceptual and empirical overlap between these dimensions. On the other hand, POE shows low or almost no correlations with SE ($r = -0.009$) and PEE ($r = -0.087$), which means that political empowerment is a comparatively independent dimension. The fact that SE and PSE have a negative correlation ($r = -0.187$) is significant and could be due to the actual tension between internalisation of cultural norms and the formation of psychological autonomy - a result that should be further explored using qualitative research. The regression analysis investigated these inter-relationships as multicollinearity (see Table 3).

Table 2: Pearson Correlation Matrix

Variable	EE	POE	SE	PEE	PSE	WE
EE	1					
POE	0.196	1				
SE	.681**	-0.009	1			

PEE	.599**	-0.087	.455**	1		
PSE	0.166	.363**	-0.187	.382**	1	
WE	.781**	.309**	.577**	.829**	.461**	1

*. Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Multiple Regression Analysis

A standard multiple regression model was estimated with the five empowerment dimensions as predictors of overall Women’s Empowerment. Variance Inflation Factor (VIF) values for all predictors were below the commonly applied threshold of 5.0, indicating that multicollinearity did not substantially inflate standard errors or destabilise regression coefficients. The model fit statistics (Table 3), ANOVA results (Table 4), and individual predictor coefficients (Table 5) are reported in sequence below.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. Change	F
1	.955 ^a	.912	.906	.08105	.912	153.517	5	74	.000	

Note: Predictors: (Constant), Psychological Empowerment, Economic Empowerment, Political Empowerment, Personal Empowerment, Social/Cultural Empowerment.

The regression model accounts for 91.2 percent of the variance in Women’s Empowerment ($R^2 = .912$, Adjusted $R^2 = .906$), with an overall multiple correlation of $R = 0.955$. The model’s fit is confirmed by the highly significant F-change statistic ($F = 153.517$, $p < 0.001$), indicating that the predictors collectively account for a substantial and statistically significant proportion of variance in the outcome variable.

Table 4: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.042	5	1.008	153.517	.000 ^b
	Residual	.486	74	.007		
	Total	5.528	79			

a. Dependent Variable: Women Empowerment

b. Predictors: (Constant), Psychological empowerment, Economic Empowerment, Political empowerment, Personal empowerment, Social/cultural empowerment

The ANOVA confirms that the regression model is statistically significant ($F = 153.517$, $p < 0.001$). The regression sum of squares (5.042) substantially exceeds the residual sum of squares (0.486), indicating a well-fitting model with strong predictive efficiency. These results confirm that the five empowerment dimensions collectively explain a meaningful and significant proportion of variation in Women’s Empowerment outcomes.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.676	.151		4.482	.000
Economic Empowerment	.172	.040	.242	4.300	.000
Political empowerment	.197	.031	.260	6.255	.000
Social/cultural empowerment	.111	.033	.182	3.382	.001
Personal empowerment	.266	.025	.569	10.692	.000
Psychological empowerment	.092	.031	.143	2.989	.004

Note: Dependent variable: Women’s Empowerment. All VIF values < 5.0, confirming acceptable multicollinearity.

Personal Empowerment emerges as the strongest predictor of overall Women’s Empowerment ($\beta = 0.569$, $B = 0.266$, $t = 10.692$, $p < 0.001$), indicating that a one-unit increase in personal empowerment is associated with a 0.266-unit increase in overall empowerment, holding all other predictors constant. Political Empowerment ranks second ($\beta = 0.260$, $p < 0.001$), followed by Economic Empowerment ($\beta = 0.242$, $p < 0.001$). Social/Cultural Empowerment ($\beta = 0.182$, $p = 0.001$) and Psychological Empowerment ($\beta = 0.143$, $p = 0.004$) contribute significantly but with comparatively smaller effect sizes. All five predictors are statistically significant at $p < 0.05$, confirming the acceptance of all five study hypotheses.

The relatively smaller coefficient for psychological empowerment, compared to the personal empowerment dimension, may partly reflect conceptual overlap between these two closely related constructs, as noted in the Methodology section. Although VIF values indicate acceptable levels of multicollinearity, the shared variance between personal and psychological empowerment dimensions should be interpreted with caution and explored further in future studies using structural equation modelling.

Hypothesis Testing Summary

Table 6: Summary of Hypothesis Testing

Hypothesis	β Value	p-Value	Result
H _{A1} : Economic Empowerment through microfinance play significant positive impact on women empowerment	0.172	0.000	Significant positive impact; moderately important predictor. H _{A1} Accepted
H _{A2} : Political empowerment through microfinance has a significant positive impact on women's empowerment.	0.197	0.000	Significant positive impact; stronger than Economic Empowerment. H _{A2} Accepted
H _{A3} : Social and cultural empowerment through microfinance has a significant positive impact on	0.111	0.001	Significant positive impact; relatively weaker effect. H _{A3} Accepted

women's empowerment.

H_{A4}: Personal empowerment through microfinance has a significant positive impact on women's empowerment. 0.266 0.000 Strongest positive impact; critical to Women Empowerment. H_{A4} Accepted

H_{A5}: Psychological empowerment through microfinance has a significant positive impact on women's empowerment. 0.092 0.004 Significant positive impact; relatively smaller effect. H_{A5} Accepted

DISCUSSION

The empirical findings presented in this study compellingly demonstrate that microfinance institutions exert a multidimensional and statistically significant influence on women's empowerment in Birendranagar, Surkhet. The five hypotheses are all supported and each of the five dimensions of empowerment has a positive and significant contribution to the overall outcomes of empowerment. The results not only support but also expand the previous studies by elucidating the relative predictive significance of each dimension and by revealing some surprising trends, especially the surprisingly high influence of political empowerment and the relatively weak influence of psychological empowerment.

Personal Empowerment: The Dominant Predictor

Personal empowerment is found to be the best predictor of general women empowerment ($\beta = 0.569$), which supports H_{A4} and highlights the importance of internal agency of women in the empowerment process. This observation is consistent with Bashyal (2025), who discovered that the most recurrent change that microfinance participants in developing nations report is the development of self-confidence, better family relations, and the development of a sense of personal efficacy. It also echoes the finding of Shrestha et al. (2025) that microfinance helps women in the Nepal Sindhuli district to acquire knowledge and gain confidence. The preeminence of personal empowerment upholds theoretical models, especially those based on the capability approach (Kabeer, 1999), which place the establishment of internal agency as central to all other aspects of empowerment.

From a program design perspective, this finding suggests that microfinance programs that explicitly cultivate women's personal agency (through mentorship, peer learning, leadership development, and financial literacy) are likely to generate the highest empowerment returns. Financial access is necessary but insufficient; complementary programming that strengthens women's confidence, autonomy, and decision-making capacity is essential to maximising impact.

Political Empowerment: Stronger Than Expected

The second-strongest predictor is political empowerment ($\beta = 0.260$), a finding that challenges the conventional assumption that microfinance primarily operates through economic channels. This finding aligns with the results of Dhungana et al. (2024), who found that microfinance improves the status and communication power of women in family and community contexts in Pokhara, and with the results of Duwal (2019), who demonstrated the effect of microfinance on the socio-political participation of women in Nepal. The collective action, political awareness, and community leadership among the participants of the group-based structure of most MFI programs in Nepal are probably facilitated by the group-based structure, which converts financial inclusion into civic engagement.

This finding highlights the importance of incorporating civic education, leadership training, and community governance elements in microfinance programs to program designers and policymakers. MFIs which limit their programming to credit disbursement and repayment tracking might be missing important opportunities to trigger more socio-political change.

Economic Empowerment: Moderate but Foundational

Economic empowerment, while ranking third ($\beta = 0.242$), remains a highly significant predictor ($p < 0.001$) and the foundational channel through which microfinance is most commonly understood to operate. This aligns with the observation of Shrestha et al. (2025) in Sindhuli district that microcredit allows women to invest in businesses and deal with household crises, and with the observation of Dhungana et al. (2024) that microcredit allows women to establish businesses, save, and become financially literate in Pokhara. The medium coefficient compared to personal and political empowerment indicates that economic benefits might be enabling factors to, but not the results of, women empowerment - that is, money provides the conditions in which personal agency and civic engagement can thrive, but not empowerment.

This interpretation has significant policy implications. Policymakers must not be tempted to consider income generation and asset accumulation as adequate measures of women empowerment. Instead, economic empowerment indicators ought to be integrated into a wider evaluation system that encompasses personal, political, and social aspects of change.

Social and Cultural Empowerment: Significant but Structurally Constrained

Social/cultural empowerment demonstrates a significant but comparatively modest effect ($\beta = 0.182$, $p = 0.001$), reflecting the well-documented difficulty of achieving structural cultural change through financial inclusion alone. Thapa and Yadav (2024) affirm that the involvement of microfinance in Rautahat district improves the social recognition and household decision-making of women, yet the presence of gender norms that regulate mobility, inheritance, and social roles remains unaffected by the involvement of MFI. Oberhauser and Aladuwaka (2020) critically note that in the absence of structural interventions that address cultural and institutional norms, microfinance may create individualised economic benefits in an unaltered patriarchal system.

The results of this study support the idea that MFIs in the Birendranagar setting should collaborate with community-based organisations, local government agencies, and civil society organisations to overcome the socio-cultural factors that limit the full realisation of women agency. Community discussions about gender norms, male engagement initiatives, and gender-responsive local governance advocacy are specific interventions that should be considered. These complementary strategies are not optional in situations like Surkhet where caste and ethnic hierarchies intersect with gender to further marginalise women.

Psychological Empowerment: Significant but Limited and Methodologically Complex

Psychological empowerment shows the smallest effect ($\beta = 0.143$, $p = 0.004$), a finding that warrants careful interpretation. On the one hand, the importance of this dimension proves that microfinance does lead to the psychological change of women, as Gubhaju (2023) and Mahato and Jha (2024) report the increase in self-confidence, self-efficacy, and self-worth among the participants of microfinance and self-help groups in Nepal and India respectively. Conversely, the relatively low effect size could be due to the conceptual similarity between psychological and personal empowerment, where both constructs operationalise self-efficacy and confidence. Since the correlation between PEE and PSE is moderate ($r = 0.382$) in the correlation matrix, it is reasonable to assume that some of the impact of psychological empowerment is included in the personal empowerment coefficient. The next study must use structural equation modelling to test the mediating effect of psychological empowerment in the association between microfinance participation and personal and social empowerment outcomes formally.

In terms of program design, the lower psychological empowerment coefficient cannot be viewed as an excuse to prioritize psychosocial support less. Instead, it emphasizes the necessity of additional psychosocial interventions, such as counselling, mental health support, trauma-informed programming, and peer support groups, as part of MFI programs, especially among women who have to deal with domestic violence, social isolation, or extreme economic stress.

Implications for Policy and Practice

The findings carry several specific and actionable implications for microfinance policy and program design in Nepal and comparable contexts:

First, MFI programs must include systematic elements that focus on the development of personal agency, such as financial literacy training, entrepreneurship education, leadership mentoring, and peer learning groups. Since personal empowerment is the most dominant factor in overall empowerment results, the investment in these elements is likely to have the greatest payoff.

Second, since the impact of political empowerment was surprisingly high, MFIs ought to institutionalise the elements of civic engagement in their programming, such as the association of microfinance membership with community governance education, ward-level advocacy, and women leadership networks. In Nepal, where women representation in local government has increased with the 2015 Constitution, microfinance programs are well placed to supplement these structural benefits.

Third, the dampened impacts of social/cultural and psychological empowerment underscore the shortcomings of microfinance as an independent intervention. A bundled approach, which involves the integration of financial services with psychosocial support, community norm change programming, and gender-responsive social protection, should be embraced by policymakers. The coherence and effectiveness of such bundled approaches would be enhanced by coordination between MFIs, the Ministry of Women, Children and Senior Citizens, and local municipalities in Surkhet district.

Fourth, the results of the study highlight the significance of disaggregating the outcomes of empowerment by dimension in monitoring and evaluation systems. Programmes which report solely economic indicators, loan repayment rates, income increases, and asset accumulation, will underreport their transformative effect systematically and may fail to notice early signs of stagnation in social, psychological, or political aspects.

CONCLUSION

This study provides robust empirical evidence that microfinance institutions produce multidimensional and statistically significant effects on women's empowerment in Birendranagar, Surkhet. Quantitative analysis of 180 women MFI participants, through correlation and multiple regression analysis, shows that personal empowerment is the most significant predictor of overall women empowerment ($\beta = 0.569$), then political empowerment ($\beta = 0.260$) and economic empowerment ($\beta = 0.242$). The five dimensions collectively account about 90.6 percent of the variance in the overall empowerment outcomes (Adjusted $R^2 = 0.906$), which confirms the high explanatory power of the model.

The theoretical argument that the internal agency of women, in terms of confidence, autonomy, and decision-making capacity, is the underlying mechanism by which financial inclusion can be converted into meaningful empowerment is confirmed by the primacy of personal empowerment. The greater-than-anticipated role of political empowerment questions traditional conceptualizations of microfinance as an economic intervention, and indicates the civic and collective aspects of MFI involvement that are often understated in program design. Although economic empowerment is important and fundamental, it is more of an enabling factor to wider empowerment than a goal. Although social/cultural and psychological empowerment are closely linked to overall empowerment, they are limited by structural gender norms and measurement issues respectively, which indicates the necessity of interventions in other areas other than the financial one.

The results of the study have tangible implications on the MFI program designers, development policymakers, and local government in Nepal. Financial services bundled with programs that promote personal agency development, civic engagement, psychosocial support, and community norm change programming are more likely to produce holistic empowerment outcomes. Monitoring and evaluation systems must be able to capture all the five dimensions of empowerment, not just economic indicators, to give a holistic view of the transformative effects of microfinance.

Limitations and Future Research Directions

Several limitations of this study should be acknowledged. The cross-sectional design does not allow causal inference; regression analysis can determine predictive relationships, but not directionality or the exclusion of confounding factors. The purposive sampling, though suitable to the exploratory objectives of the study, limits the ability to generalise to other districts or populations. The possible conceptual overlap between the constructs of personal and psychological empowerment, which is handled by the multicollinearity diagnostics, should be more operationally defined in the development of future instruments.

Future studies must use longitudinal designs to monitor the patterns of empowerment over time and to determine causal relationships between microfinance membership and multidimensional empowerment outcomes. Mixed-methods designs, which combine qualitative data on in-depth interviews and focus group discussions, would deepen the insights into the socio-cultural processes, caste relations, and institutional conditions that influence the results of microfinance in particular local settings like Birendranagar. Structural equation modelling would enable formal testing of mediation and moderation pathways, especially the possible mediating role of psychological empowerment. The study would be enhanced by wider geographic coverage in the Surkhet district and comparisons with other mid-western Nepalese municipalities to provide evidence on the policy at the national level. The qualitative aspect is particularly significant because most socio-cultural aspects of sustainable development of microfinance, such as caste-based discrimination, ethnic identity, and intra-household power relations, cannot be sufficiently comprehended without more contextual approaches. Nevertheless, this research is a rigorous empirical contribution to the body of literature on microfinance and women empowerment in Nepal, and provides a methodological framework that can be replicated in future place-based studies in similar settings.

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