



Microfinance Sector and It's Growth From India's Perspective: A Critical Evaluation

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Abstract:

This study looked into the function of financial literacy in the connection between sustainable microfinance and women's empowerment. We established a theoretical design using financial education as a moderator effect, women's empowering as an aware of the possibilities, and sustainable microfinance as an outcome measure. The analytical method used was variance-based SEM. The findings indicate that the experience and mediation variables significantly influence the amount of variance both directly and indirectly. Financial literacy serves as a partial intermediary in the interaction between women's economic and sustainable microfinance. The popularisation of women's empowerment in development work is proven to be an option to local knowledge financial education. To ensure the viability of sustainable microfinance, stereotype programmes also need to take pro-literacy measures into account. This research adds to the existing understanding of the connection among women's empowerment and sustainable microfinance by considering financial education as a mediator factor.

Keywords: sustainable microfinance; women's empowerment; financial literacy; mediation

Introduction

Several academic scholars have looked at microfinance as a potential solution to reducing poverty in rural communities. The impetus for studying rural microfinance is the absence of formal financial assistance that rural populations with constraints encounter. For instance, it is



impossible to eliminate poverty and achieve women's emancipation while 2/3 of people globally lack financial education and women continue to trail after men in economic decision. Microfinance institutions (MFIs) have indeed been recognised as businesses that can assist developing countries in addressing social issues. MFIs aid those at the base of the income ladder in enhancing their possibilities for employment and standard of living. Women rely so much on microfinance since they have fewer choices for breaking the cycle of poverty. Since economic ignorance impacts everybody, there are considerable differences in money management among women, limited individuals, and people who have less knowledge. Money management is a major achievement in attaining at least nine of the seventeen Sustainable Development Goals (SDGs).

The linkages among microfinance, money management, and women's empowerment have been examined in a number of past studies papers using a methodology. Over the past 20 years, a lot of research has been done on the growth of microfinance, money management, and women's empowerment. More in-depth research has been done recently on the connection among money management, women's empowerment, and microfinance. This study analyses the function of money management as a moderating element in the correlation among women's empowerment and sustainable microfinance rather than concentrating on the connection between microfinance, money management, and women's empowerment. We used the idea of sustainable microfinance in our research. In order to create sustainable microfinance, two a priori separate concepts—microfinance and climate science been integrated.

Literature Review and Hypothesis Development

Empowering Women and Economic Education

Consequently, a variety of academic scholars have underlined the link between financial education and women's empowerment. By taking part in government- and MFI-sponsored training programmes, women can increase their money management. These programmes aim to increase women's participation in education and enhance their performance in the government sector. If microfinance is not combined with education, it falls short of empowering women. The



COVID-19 epidemic has had disproportionately negative consequences on women's capacity to recover from the financial shock. The use of payment, savings, credit, and risk assessment services by women necessitates their financial literacy. The effectiveness of female entrepreneurs in developing rural business depends on their financial literacy levels. If women have equal opportunities for education, employment opportunities, economic ability, and participation in both economic and political decision-making procedures, domestic and global success will follow. For the recognition of women's rights and the accomplishment of more developmental objectives like poverty reduction, education, economic expansion, health, and welfare, women's economic empowerment is essential. In summary, a number of studies have originally looked into how money management affects women's empowerment.

There is still a dearth of research on how women's empowerment affects their money management. Due to this, we recommend taking an alternative path to account for how women's empowerment affects money management. In our opinion, women need to be given more power in order to run their houses and neighbourhood projects. After gaining control over their lives, they can improve their financial literacy by seeking out formal instruction and using their own local expertise. Using local knowledge as a foundation, a bottom-up strategy has been established to empower women in rural areas. The activities of this women's agricultural club seem to be successful since they are able to continue and expand in terms of both membership and controlled funds. Their ability to save and borrow money grows as a result of the value of their local knowledge. As a result, this study suggests the following:

H1 – Empowering women has a beneficial impact on financial education.

Microfinance Sustainability and Financial Education

This research has indeed demonstrated a connection among having sufficient money management and the likelihood of obtaining microfinance services. The idea of sustainable funding is promoted by sustainable microfinance, which includes all microfinance initiatives to address the effects of climate change. Approaching the sustainable finance industry entails obstacles as well as new opportunities and benefits. Due to the lack of expertise the majority of



microfinance institutions have in this field, adjustments must be made to the administrative and operational criteria, financial products, and credit evaluation methodologies.

The fundamentals of money management and potential connections to microloan accessibility are challenging processes. Women who are unfamiliar with corporate sustainability procedures now regard them as being complex and challenging to enter. Women must be efficient and effective in order to access micro-financial services including microcredit, micro-insurance, and loans in kind. As a result, the particularly in the current can be put forth:

H2 – Sustainable microfinance is positively impacted by money management.

Microfinance and Sustainable Women's Empowerment

One of the foundational elements of a prosperous, healthy, and sustainable planet is women's empowerment. It pertains to the fifth SDG. The development of Grameen Bank is correlated with the empowerment of women through microfinance organisations that offer microloans and microsavings. Stakeholders can use these MFIs as a route of transmission to reach millions of the world's poorest people, who are particularly vulnerable to the consequences of climate change. Millions of poor individuals, mainly women, receive resources through the intermediary work of sustainable MFIs. Many stakeholders are devoted to helping MFIs carry out sustainable microfinance in order to promote long-term sustainability. Such assistance will help MFIs create sustainable credit solutions. In fact, the stakeholders support sustainable materials by sponsoring money management events and offering professional and business guidance. By providing microfinance services, MFIs and other similar groups have developed into significant tools for empowering women. This research suggests the following theory as a result.

H3 – Sustainable microfinance is positively impacted by the empowerment of women.

Significant relationship between financial, sustainable microfinance, and women's empowerment
Along with microfinance, money management has a history of concentrating on the big picture as opposed to how money management enhances access to microloans. Due to their lack of financial awareness, women's access to money is restricted in many different ways. The

promotion of microfinance programmes that encourage sustainability activity uses factors including climate change, natural disasters, and sustainable microfinance. To finance the sustainability initiatives of their clients, microfinance institutions provide a variety of environmentally friendly products. The goal is to enhance the availability of microcredit for saving clubs. In poor nations, women's access to microfinance is facilitated by financial literacy, according to a recent study by Lindahl and Mokvist. Credit availability is not as crucial as money management, which should be emphasised in all future microfinance initiatives. Microfinance has the potential to significantly improve women's economic standing and power dynamics, but only when combined with money management. Money management has an impact on both the ability of women to obtain microfinance and their empowerment. In light of its connection to sustainable microfinance and the empowerment of women, we think money management can make a big difference. As a result, this research brought forth the research assumptions:

H4 – The link among sustainable microfinance and women's empowerment is mediated through money management.

The structure for mediating the connection between women's empowerment and sustainable microfinance practises in India through money management is shown in Figure 1.

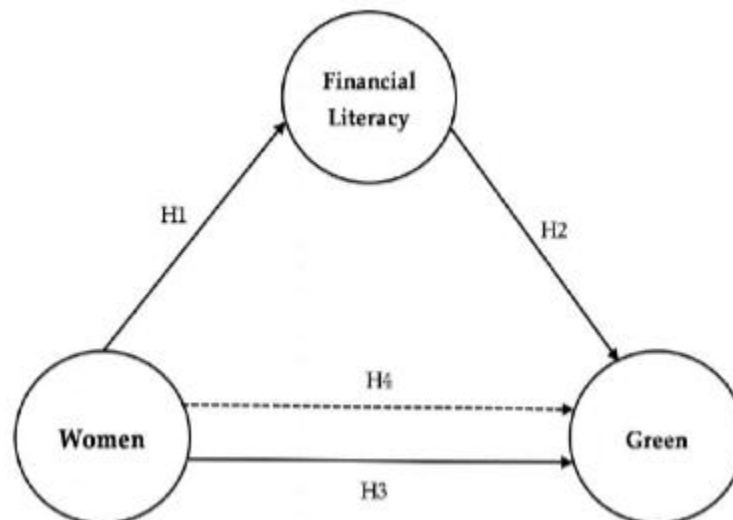


Figure 1. Research framework.



Methods

The women's farming organisations in India provided the data for this study. According to Atahau et al., a rural MFI that has functioned in India for more than 20 years is made up of women's farming groups.

We employed purposive sampling to get the sample. The sample size was selected in accordance with the requirements of the partial least squares structural equation model (PLS-SEM). The statistical power and pointing arrows played the most roles in establishing the sample size. The minimum sample size required to achieve an 80% statistical power (coefficient of determination at least 0.5; chance of error 1%) and four pointing arrows (indirect arrow included) was 58. We delivered questionnaires to survey participants in a first round from January to March 2021. The intended audience for this survey was 100 respondents. Because about 20% of the responses were missing, we discarded 80 samples.

It was decided that it would be best to omit the nine male respondents from the survey results since we had male respondents. As a result, 71 female participants were chosen from the poll for data gathering. Several focus group discussions (FGDs) were organised as part of the second phase to assess how MFI members perceived a local authority plan to improve access to financial services in operating sustainable MFIs. A local civil servant, a local spokesman, and five members of the women's microfinance group were all invited and all consented to participate in the FGD phase. FGDs were used to gather more in-depth information since women felt more at ease talking collectively in groups. FGDs were held in the village's open space (at the home of the women's group's leader), where they frequently congregated for group discussions. The FGDs lasted for around two hours. Using this approach, the researchers were able to gather more in-depth data on the use of sustainable microfinance, wealth creation, and women's empowerment. During the FGD meetings, we also took into account the medical precautions for COVID-19 prevention, such as social withdrawal.



Table 1. Components and indicators.

Component	Code	Indicators
Women	Women1	Women’s economic engagement in MFIs increases as their financial literacy improves.
	Women2	After gaining adequate financial literacy, women play an important part in MFI decision-making.
	Women3	The members of MFIs who have good financial literacy can earn more money.
	Women4	Increased financial participation by women due to improved financial knowledge can help MFIs grow.
	Women5	MFIs’ financial capability can be increased by increasing the income of their female members.
Literacy	Literacy1	My business will be benefitted by a low-interest loan.
	Literacy2	It is necessary to set up funds for unplanned expenses.
	Literacy3	Purchasing life insurance will protect you from the risk of accidents and other disasters.
	Literacy4	The debit side records incoming funds, while the credit side records outgoing funds.
	Literacy5	Making a financial budget is important for determining funding priorities.
	Literacy6	Saving money in a variety of assets reduces the risk of losing money.
Green	Green1	MFIs offer soft loans for eco-friendly businesses.
	Green2	Live pharmacy is encouraged by MFIs.
	Green3	MFI members follow the principle of affordability by performing tasks efficiently.
	Green4	MFIs help to reduce grassland and forest fires.
	Green5	In MFIs, utensils are used repeatedly.
	Green6	MFIs have a recycling policy.

The study framework contained each variable (component). These variables were ascribed to the corresponding component. Six indicators for financial literacy, five criteria for women's empowerment, and six indicators for sustainable microfinance were employed. As a result, three equations, as listed below, were generated using our study framework (which is displayed in the last section of the literature review):

$$\text{Green Microfinance} = \alpha_1 + c \text{ Women's Empowerment} + \epsilon_1 \tag{1}$$

$$\text{Financial Literacy} = \alpha_2 + a \text{ Women's Empowerment} + \epsilon_2 \tag{2}$$

There were 2 methods used to analyse the data. Conducting a measurement model review was the first stage. The testing of the hypotheses made up the second step. A convergent validity test, a discriminant validity test, and an internal consistency reliability check were all included in the reflection measurement. By using the Cronbach's alpha, rho A, and composite reliability, the internal consistency was evaluated. The average variance extracted and the outer loadings were the focus of the convergent validity. The discriminant validity was determined by the relationships' Heterotrait-Monotrait (HTMT) ratio.

Results

71 female respondents from the women's agricultural organisations participated in this study. The majority of the respondents were over 40 years old. According to Table 2, the majority of the women were farmers.

Table 2. Respondents' characteristics.

No.	Demographic Factor	Frequency	%
1	Gender Female	71	100.0
2	Age 21–25 years old 26–30 years old 31–35 years old 36–40 years old >40 years old	15 6 13 7 30	21.1 8.5 18.3 9.9 42.3
3	Education No education Elementary school Junior high school Senior high school Bachelor	24 16 12 17 2	33.8 22.5 16.9 23.9 2.8
4	Occupation Teacher Housewife Entrepreneur Farmer	1 25 3 42	1.4 35.2 4.2 59.2
5	Monthly income <US\$200 ≥US\$200–500 >US\$500	- 68 3	- 95.8 4.2

Source: Authors' calculation.

The survey's target population was made appropriate due to the participants' low salaries and lack of educational experience. This was expected because there are alternatives for workers with low education levels in the unorganised sector. Additionally, the conditions were met for internal consistency, convergent validity, and discriminant validity. According to Table 3, all components satisfied the convergent validity and internal consistency requirements. An AVE score greater than 0.5 is a sign of convergent validity. All three metrics—the composite reliability (CR), Cronbach's alpha (CA), and rho A—exceed 0.7. The outer loading values



between a component and its indicators are all higher than 0.6 as well. This suggests that the validity of all indicators is supported by the dependability of each one. Table 4 also illustrates the discriminant validity of HTMT.

Table 3. Internal consistency and convergent and discriminant validity.

Component	AVE	CR	CA	rho_A	Reflective Model	Outer Loadings
Women's Empowerment	0.613	0.885	0.835	0.868	Women1 ← Women	0.878
					Women2 ← Women	0.881
					Women3 ← Women	0.867
					Women4 ← Women	0.670
					Women5 ← Women	0.566
Green Microfinance	0.630	0.909	0.879	0.906	Green1 ← Green	0.727
					Green2 ← Green	0.662
					Green3 ← Green	0.655
					Green4 ← Green	0.882
					Green5 ← Green	0.904
					Green6 ← Green	0.890
Financial Literacy	0.519	0.864	0.833	0.895	Literacy1 ← Literacy	0.799
					Literacy2 ← Literacy	0.855
					Literacy3 ← Literacy	0.695
					Literacy4 ← Literacy	0.628
					Literacy5 ← Literacy	0.708
					Literacy6 ← Literacy	0.604

Source: Authors' calculation.

Table 4. Discriminant validity.

HTMT	Original Sample	Bias	2.5%	97.5%
Green → Literacy	0.791	0.009	0.686	0.878
Women → Literacy	0.599	0.019	0.400	0.730
Women → Green	0.833	-0.001	0.651	0.964

Source: Authors' calculation.

The fact that the HTMT correlation ratio is smaller than 0.90 indicates that the HTMT correlation ratio supports the discriminant validity. With 5000 bootstrap subsamples, the bootstrapping approach was employed to investigate the hypotheses. Results indicate that 32.1% (0.321) of the variation in financial literacy is explained by women's empowerment (See in Figure 2). On the other hand, 74.9% (0.749) of the variation in sustainable microfinance can be attributed to women's empowerment and financial performance.

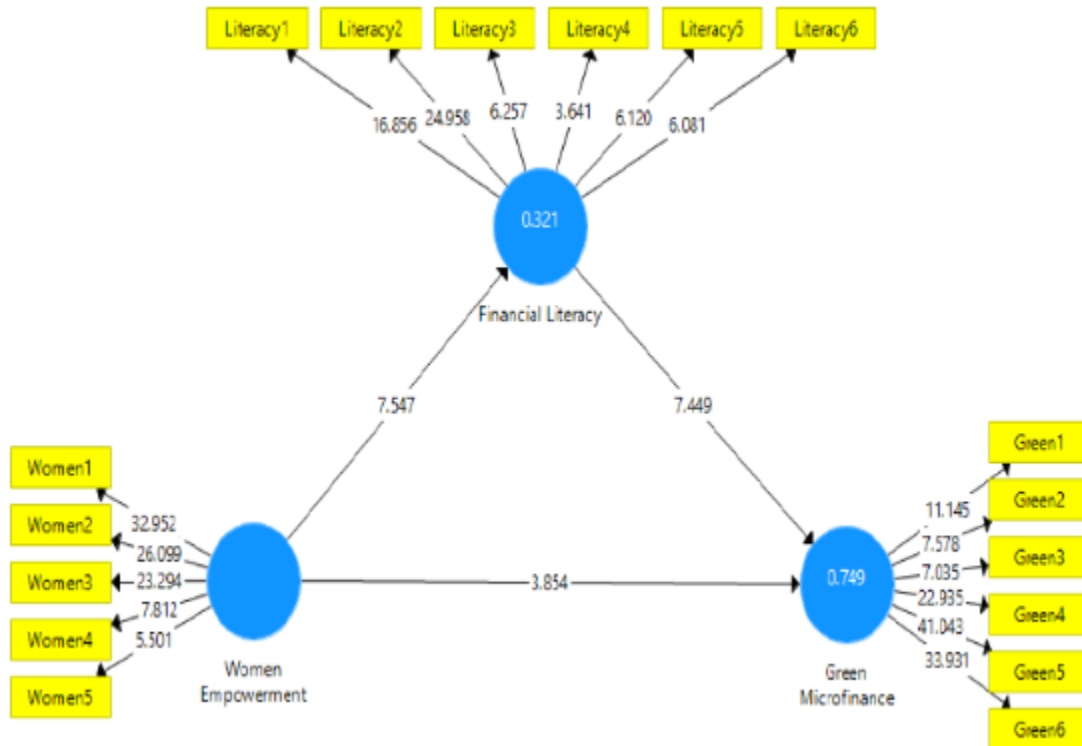


Figure 2. SEM results using variance. Note: The coefficient of determination is represented by the values within money management (0.321) and sustainable microfinance (0.749). (R² scores). T-statistics are represented by the values inside the arrow, such as 7.547, 7.449, and 3.854. The t-statistics of outer loadings are highlighted by the values within the latent (circle) and indicators (rectangle). To compare the outcomes of structural model relationships, the goodness-of-fit (GoF) index of the structural model was examined. R² score is the primary metric used to assess the models' capacity for explanation. The square root of average variance extracted times R squared had already been used to calculate the GoF index $(\sqrt{AVE \times R^2})$ [47]. Therefore, $GoF = \sqrt{AVE \times R^2} = \sqrt{0.587 \times 0.385} = 0.476$. A model fit that is satisfactory and has a high level of predictive power is given a Goodness of Fit value of 0.476. The findings from the hypothesis test are shown in Table 5 below.



$$\text{Green Microfinance} = 0.365 \text{ Women's Empowerment} \quad (4)$$

$$\text{Financial Literacy} = 0.566 \text{ Women's Empowerment} \quad (5)$$

$$\text{Green Microfinance} = 0.342 \text{ Women's Empowerment} + 0.604 \text{ Financial Literacy} \quad (6)$$

Table 5. Hypothesis testing.

Hypothesis	Effect	β	p-Value	Decision
1	Women → Literacy	0.566	0.000 ***	H1 is supported
2	Literacy → Green	0.604	0.000 ***	H2 is supported
3	Women → Green	0.365	0.000 ***	H3 is supported
4	Women → Literacy → Green	0.342	0.000 ***	H4 is supported
Mediation	Test statistic	Std. Error	p-value	Decision
Sobel test	5.304	0.064	0.000 ***	Mediation is supported

According to the proposed paradigm, money management may act as a bridge between sustainable microfinance and women's empowerment. Further research is warranted on this mediating effect of financial literacy, which may improve understanding of the model. The Sobel test lends credence to the claim that financial literacy mediates the relationship between women's empowerment and sustainable microfinance. In our study, we also computed the mediating share of financial literacy.

$$\frac{ab}{c} = 0.9366 \quad (7)$$

According to the findings of this study, money management mediates by as much as 93.661% the association between women's empowerment and sustainable microfinance. Future investigation is advised to clarify the remaining 6.339% of the components.

Discussion

The results demonstrate that money management is positively and significantly impacted by women's empowerment. Our findings are consistent with earlier research. After gaining power, women can enhance their financial literacy through formal education as well as local knowledge. Using local knowledge as a foundation, a bottom-up strategy has been established to empower women in rural areas. Women's money management (savings and loans) tended to increase after



using their local knowledge in the context of rural microfinance operations. Women's empowerment gave them the opportunity to improve their financial literacy through official or informal education.

Women who had higher education were more likely to make wise decisions, increasing their money management. Women's ability to function in public settings may be improved by increasing their educational engagement. The SDGs and the wellbeing of women both depend on advancing women's abilities. Therefore, the SDG5 needs to be taken into account in order to empower all women. The five members of the microfinance organisation emphasised that support from the community and the local government may help them realise their goals more broadly. According to the findings of the FGD, the women could create their sustainable business concepts by taking into account their local knowledge. Women's empowerment in the women's agricultural organisations grappled with the economic recovery during the occurrence and persistence of COVID-19.

The members of the group improved their financial capacity thanks to the tacit knowledge they learned through local wisdom. On the basis of equality and sustainability considerations, regular social meetings (arisan), savings, loans, and profit-sharing were incorporated in the administration. In spite of their lower socioeconomic status, the women took part in microfinance programmes and household decision-making. The five women in the women's microfinance group stressed that they played a significant role in becoming the family's primary provider based on the findings of the FGD. Due to the dearth of formal work opportunities, the majority of women participated in the farming operations of the women's clubs. To improve their understanding of finances, they incorporated Marapu ideals into their regular routines.

Conclusions

According to our research, women can empower themselves in sustainable microfinance efforts and increase their financial literacy by using their local knowledge. The belief in the ancestors, or Marapu, was the source of the local knowledge in this instance. The ultimate purpose of the



research was to enhance the pro-literacy (SDG 4) policy in order to advance the local government's pro-women (SDG 5) and pro-climate (SDG 13) policies. A viable option for achieving the goal was the community for women's financial inclusion, which looked at the environment and women's empowerment policies through sustainable microfinance institutions.

Establishing women's role-based local financial literacy is an alternate technique for sustainable microfinance in terms of policy implications. To increase women's financial inclusion, the government must fund programmes that are gender-specific. Local government must enhance financial literacy for women participating in sustainable microfinance initiatives in order to meet future challenges in the digital age. In this case, this can be done by promoting women's understanding of the goods and services offered by the banking and financial sectors.

The sustainability of sustainable microfinance is seen to be best understood holistically by integrating a spiritual quotient (local knowledge), an intellectual quotient (financial literacy), and an emotional quotient (environmental ethics). Additionally, the approach of this study suggests that the bootstrapping technique be used to deal with small sample numbers. A nonparametric approach called the bootstrapping methodology can be used to assess the statistical significance of results from variance-based SEM, such as path coefficients, Cronbach's alpha, HTMT, and R2 values. Our study revealed how financial literacy has a moderating effect, and we used the Sobel test to formally validate our findings. Although this study has many advantages, it also has several disadvantages. First off, since we used the purposive sampling approach, it is advised that future research adopt a different sampling technique, like random sampling, to increase the study's generalizability.

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