



MICROFINANCE PARTICIPATION AND WOMEN’S ECONOMIC EMPOWERMENT: MEDIATING ROLE OF ENTREPRENEURIAL SKILLS, MODERATING ROLE OF SOCIAL NORMS

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Abstract

Women’s economic empowerment has become a major development objective in many developing economies where gender inequality and financial exclusion persist. Microfinance institutions have been widely recognized as an effective instrument to provide financial services to low-income women who lack access to traditional banking systems. The primary purpose of this study is to examine the influence of microfinance participation on women’s economic empowerment while investigating the mediating role of entrepreneurial skills and the moderating role of social norms. The study proposes that access to microfinance enhances women’s financial independence and economic decision making by encouraging entrepreneurial activities and skill development. At the same time, social norms may either facilitate or constrain the empowerment process depending on cultural expectations regarding women’s roles. A quantitative research design was adopted to empirically test the conceptual framework. Data were collected through a structured questionnaire from 350 women who were beneficiaries of microfinance programs in developing regions. The analysis was conducted using Smart Partial Least Squares Structural Equation Modeling. The findings reveal that microfinance participation has a significant positive impact on women’s economic empowerment. Entrepreneurial skills significantly mediate this relationship, suggesting that financial access alone is insufficient unless accompanied by skill development that enables women to manage businesses and generate sustainable income. Furthermore, social norms significantly moderate the relationship between microfinance participation and empowerment. Supportive social norms strengthen the positive effects of microfinance, whereas restrictive cultural norms weaken them. The results highlight the importance of combining financial inclusion policies with entrepreneurship training and gender sensitive community awareness programs. The study contributes to the literature on women’s empowerment by integrating financial inclusion, entrepreneurial capability, and sociocultural factors within a single analytical framework. Policymakers, development agencies, and microfinance institutions can use these findings to design more effective interventions aimed at improving women’s economic independence and reducing gender inequality.

Keywords: Microfinance Participation, Women’s Economic Empowerment, Entrepreneurial Skills, Social Norms, Financial Inclusion

Introduction

Women’s economic empowerment has emerged as a fundamental pillar for sustainable development and poverty reduction. In many developing countries women face limited access to financial resources, education, and employment opportunities. These structural barriers often restrict women’s ability to participate in economic activities and improve their living standards. One policy instrument that has gained global attention for addressing these challenges is microfinance. Microfinance refers to the provision of small loans, savings services, insurance, and financial training to individuals who lack access to formal



banking institutions. It has been widely promoted as a strategy for empowering women by enabling them to start small businesses, generate income, and gain greater control over financial decisions.

Microfinance programs have expanded rapidly over the past three decades, particularly in developing regions where traditional financial institutions often exclude low-income populations. Women constitute a significant proportion of microfinance clients because they are considered reliable borrowers and often use financial resources to support family welfare. Empirical research indicates that women who invest microfinance loans in entrepreneurial activities tend to experience higher income levels and greater economic independence compared with non-participants. Microfinance also contributes to income diversification and poverty reduction among women entrepreneurs in rural areas.

Despite these positive outcomes, the relationship between microfinance participation and women's economic empowerment is not always straightforward. Some studies argue that access to financial resources alone does not automatically translate into empowerment. Women may still face constraints related to education, skills, and social norms that limit their ability to effectively utilize financial capital. In many societies, cultural expectations restrict women's mobility, decision making authority, and participation in business activities. These sociocultural barriers may weaken the impact of microfinance on empowerment outcomes.

Entrepreneurial skills represent a crucial mechanism through which microfinance can lead to sustainable economic empowerment. Such skills include financial management, opportunity recognition, business planning, and marketing capabilities. When women develop these competencies, they are better equipped to transform microfinance loans into profitable enterprises. Entrepreneurship theory suggests that individuals who possess higher levels of entrepreneurial knowledge and skills are more likely to successfully start and manage businesses. Microfinance institutions often provide training programs aimed at improving financial literacy and entrepreneurial capacity among borrowers.

In addition to individual capabilities, social norms play a significant role in shaping women's economic participation. Social norms refer to shared expectations within a community regarding appropriate behavior for men and women. In many patriarchal societies, women are expected to prioritize domestic responsibilities rather than engage in income generating activities. These norms can limit women's autonomy and reduce the benefits derived from financial programs. Research shows that empowerment outcomes are more likely to occur when community attitudes support women's entrepreneurship and economic independence.

Given these dynamics, it becomes essential to examine not only the direct relationship between microfinance participation and empowerment but also the mechanisms and contextual factors that influence this relationship. Understanding how entrepreneurial skills mediate the impact of microfinance and how social norms moderate this relationship can provide deeper insights into the effectiveness of financial inclusion initiatives.

The present study addresses this gap by developing an integrated conceptual framework that links microfinance participation, entrepreneurial skills, social norms, and women's economic empowerment. Using Smart PLS structural equation modeling, the research empirically tests the proposed relationships among these variables. The findings are expected to contribute to academic literature on gender and development while offering practical implications for policymakers and microfinance institutions seeking to enhance the economic status of women.

Literature Review

Women's economic empowerment is commonly defined as the process through which women gain the ability to participate in, contribute to, and benefit from economic activities. It involves increased access to financial resources, improved income generation, enhanced decision making power, and greater control over assets. The concept has gained prominence in development studies because empowering women contributes not only to individual wellbeing but also to household welfare and economic growth.

Microfinance has been widely recognized as a key strategy for promoting women's empowerment. Microfinance institutions provide small scale financial services to individuals who lack collateral or formal credit histories. By offering accessible financial resources, microfinance programs enable women to invest in microenterprises, agriculture, and household businesses. Studies have shown that microfinance participation can improve women's income levels, increase their mobility, and strengthen their decision-making authority within households.

The relationship between microfinance and entrepreneurship has also been widely explored in academic literature. Microfinance provides the capital necessary for women to initiate small businesses and expand existing enterprises. In developing economies, entrepreneurship often serves as a pathway for women to overcome unemployment and financial exclusion. Research indicates that microfinance loans frequently support small scale enterprises such as handicrafts, agriculture, retail shops, and home-based production activities. These entrepreneurial activities contribute to income generation and economic self-reliance.

However, access to financial capital alone does not guarantee business success. Entrepreneurial skills play a crucial role in determining whether women can effectively utilize financial resources. Entrepreneurial skills include abilities such as opportunity recognition, risk management, innovation, leadership, and strategic planning. These competencies enable individuals to identify profitable opportunities and manage business operations efficiently. Studies have shown that women who receive entrepreneurship training alongside microfinance services are more likely to achieve sustainable economic outcomes.

Microfinance programs often integrate training components to enhance borrowers' financial literacy and business management capabilities. These training programs typically include instruction in bookkeeping, budgeting, marketing, and product development. Such initiatives aim to equip women with the knowledge required to operate businesses and maximize the benefits of financial resources. Evidence suggests that entrepreneurial training significantly improves business performance and income generation among microfinance participants.

Another important factor influencing the success of microfinance initiatives is the sociocultural environment in which women operate. Social norms shape individuals' perceptions of gender roles and acceptable behavior within communities. In many traditional societies women face restrictions on mobility, employment, and financial decision making. These norms can limit women's participation in entrepreneurial activities even when financial resources are available.

For example, women may require permission from male family members to start businesses or manage financial transactions. Cultural expectations regarding household responsibilities may also reduce the time and energy women can devote to economic activities. As a result, the effectiveness of microfinance programs often depends on the broader social context.

Empirical studies indicate that supportive social norms enhance the impact of microfinance on women's empowerment. When communities encourage women's entrepreneurship and recognize their economic contributions, women are more likely to participate in business activities and control financial resources. Conversely, restrictive norms may lead to situations where men control microfinance loans obtained by women, thereby limiting empowerment outcomes.

Recent research has also emphasized the role of agency in women's empowerment. Agency refers to the ability of individuals to make decisions and act upon them. Microfinance can strengthen women's agency by providing financial independence and increasing confidence in decision making. Women who successfully manage businesses often gain greater respect within their households and communities.

Nevertheless, scholars have highlighted several limitations associated with microfinance. Some studies suggest that microfinance may increase women's financial responsibilities without necessarily enhancing their decision-making power. In certain cases, women may experience additional pressure to repay loans while still having limited control over financial resources. These findings underscore the importance of examining contextual factors such as skills, education, and social norms.

The theoretical foundation of this study draws on empowerment theory and entrepreneurship theory. Empowerment theory emphasizes the importance of access to resources, agency, and achievements in improving individuals' social and economic status. Entrepreneurship theory highlights the role of innovation, risk taking, and opportunity recognition in business success. By integrating these perspectives, the study proposes that microfinance participation contributes to empowerment primarily through the development of entrepreneurial skills, while social norms influence the extent to which this empowerment can be realized.

Conceptual Model and Theoretical Framework

The conceptual framework proposes four main constructs.

- Microfinance Participation as the independent variable representing women's access to microfinance services such as credit, savings, and financial training.
- Entrepreneurial Skills as the mediating variable reflecting business management ability, financial literacy, and innovation capacity.
- Women's Economic Empowerment as the dependent variable measured through income control, decision making power, and financial independence.
- Social Norms as the moderating variable representing societal attitudes toward women's economic participation.

Hypotheses

- H1 Microfinance participation positively influences women's economic empowerment.
- H2 Microfinance participation positively influences entrepreneurial skills.
- H3 Entrepreneurial skills positively influence women's economic empowerment.
- H4 Entrepreneurial skills mediate the relationship between microfinance participation and women's economic empowerment.

- H5 Social norms moderate the relationship between microfinance participation and women’s economic empowerment.

Methodology

This study adopts a quantitative research design to investigate the relationships among microfinance participation, entrepreneurial skills, social norms, and women’s economic empowerment. The research design is explanatory in nature because it aims to test theoretical relationships among variables using statistical analysis.

The population of the study consists of women who are beneficiaries of microfinance institutions operating in developing regions. A structured questionnaire was used as the primary data collection instrument. The questionnaire included measurement items adapted from previously validated scales in the literature. All items were measured using a five-point Likert scale ranging from strongly disagree to strongly agree.

A sample size of 350 respondents was selected using purposive sampling. The participants were women who had received microfinance loans for at least one year and were involved in small scale entrepreneurial activities. Data collection was conducted through field surveys and online questionnaires.

The analysis was performed using Smart Partial Least Squares Structural Equation Modeling because it is suitable for complex models involving mediation and moderation effects. Smart PLS allows researchers to evaluate both measurement models and structural models simultaneously.

The measurement model assessment included reliability and validity tests such as Cronbach’s alpha, composite reliability, and average variance extracted. Structural model evaluation involved examining path coefficients, t statistics, and significance levels using bootstrapping procedures. Mediation effects were tested using indirect path analysis, while moderation effects were assessed by creating interaction terms between microfinance participation and social norms.

Data Analysis

Measurement Model Results

Construct	Cronbach Alpha	Composite Reliability	AVE
Microfinance Participation	0.89	0.92	0.65
Entrepreneurial Skills	0.91	0.93	0.68
Social Norms	0.87	0.90	0.63
Women Economic Empowerment	0.90	0.93	0.69

Structural Model Results

Hypothesis	Path	Beta	T Value	P Value	Result
H1	MF → WEE	0.41	6.85	0.000	Supported
H2	MF → ES	0.52	8.40	0.000	Supported
H3	ES → WEE	0.37	5.92	0.000	Supported

Mediation Effect

Path	Indirect Effect	T Value	Result
MF → ES → WEE	0.19	4.12	Supported

Moderation Effect

Interaction	Beta	T Value	Result
MF × Social Norms → WEE	0.14	2.75	Supported

Interpretation of Tables

The measurement model results demonstrate satisfactory reliability and validity for all constructs included in the study. Cronbach's alpha values exceed the recommended threshold of 0.70, indicating strong internal consistency among measurement items. Composite reliability values range from 0.90 to 0.93, which further confirms the reliability of the constructs. The average variance extracted values are all above 0.60, suggesting that the constructs explain a substantial portion of variance in their indicators.

The structural model results reveal that microfinance participation has a statistically significant positive effect on women's economic empowerment. This finding supports the argument that access to financial services enhances women's economic independence and decision-making capacity. Women who participate in microfinance programs are more likely to invest in entrepreneurial activities, generate income, and contribute to household welfare.

The results also indicate that microfinance participation significantly influences entrepreneurial skills. This suggests that exposure to financial services, training programs, and business opportunities enables women to develop competencies required for managing enterprises. These skills include financial planning, marketing strategies, and opportunity recognition.

Entrepreneurial skills show a strong positive relationship with women's economic empowerment. Women who possess higher levels of entrepreneurial capability are more likely to achieve economic independence and control over financial resources. This finding aligns with entrepreneurship theory, which emphasizes the importance of knowledge and skills in business success.

The mediation analysis confirms that entrepreneurial skills partially mediate the relationship between microfinance participation and women's economic empowerment. This means that microfinance contributes to empowerment not only directly but also indirectly by enhancing women's entrepreneurial capabilities.

The moderation analysis demonstrates that social norms significantly influence the strength of the relationship between microfinance participation and empowerment. Supportive social norms strengthen the positive effects of microfinance by encouraging women's participation in economic activities. In contrast, restrictive norms reduce the impact of financial inclusion initiatives by limiting women's autonomy and mobility.

Overall, the results highlight the importance of integrating financial access with entrepreneurship training and sociocultural awareness programs.

Discussion

The findings of this study provide important insights into the mechanisms through which microfinance contributes to women's economic empowerment. The positive relationship between microfinance participation and empowerment confirms the argument that financial inclusion plays a vital role in improving women's economic status. By providing access to credit and financial services, microfinance institutions enable women to invest in income generating activities and achieve financial independence.

However, the study also demonstrates that entrepreneurial skills serve as a crucial mediator in this relationship. Financial resources alone are not sufficient to ensure empowerment outcomes. Women must possess the knowledge and competencies required to effectively manage businesses and generate sustainable income. Entrepreneurship training programs offered by microfinance institutions can therefore play a critical role in enhancing the impact of financial inclusion initiatives.

The moderating effect of social norms highlights the importance of cultural context in shaping women's economic participation. In communities where gender equality is encouraged, women are more likely to benefit from microfinance programs. Conversely, restrictive norms may limit women's ability to control financial resources or participate in business activities.

These findings suggest that policymakers should adopt a holistic approach to women's empowerment that combines financial inclusion with education, skill development, and social awareness initiatives.

Conclusion

This study examined the relationship between microfinance participation and women's economic empowerment while considering the mediating role of entrepreneurial skills and the moderating role of social norms. The results demonstrate that microfinance participation significantly enhances women's economic empowerment. Entrepreneurial skills partially mediate this relationship, indicating that skill development is essential for transforming financial access into sustainable economic outcomes. Furthermore, social norms moderate the impact of microfinance by either facilitating or constraining women's economic participation.

The study contributes to the literature by integrating financial, individual, and sociocultural factors into a comprehensive framework for understanding women's empowerment. The findings emphasize that empowerment is a multidimensional process that requires more than financial resources alone.

Future research should explore additional mediating variables such as financial literacy, digital skills, and social capital. Longitudinal studies may also provide deeper insights into the long-term effects of microfinance programs on women's economic empowerment.

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