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From Exclusion to Empowerment: The Transformative Role of Microfinance in the Social Empowerment of Marginalised Groups

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Abstract

This study investigates the contributions of microfinance, in the form of microcredit and micro savings, to the social empowerment of marginalised groups in Kerala. Based on information from SHG members, the paper uses SEM to examine the associations among micro-credit, micro-savings, and empowerment outcomes. The results show that social empowerment is positively affected by microcredit and micro savings, but the effect is more substantial for microfinance. Using CFA and fit indices, the measurement and structural models confirm the models' validity and reliability. Although small, this positive relationship in micro savings suggests a basis for empowerment. The results demonstrate the importance of comprehensive financial inclusion initiatives in fostering societal development. The study concludes that microfinance is not only a financial service; it is also a powerful mechanism for social change that reaches marginalised populations and fosters inclusivity, dignity, and self-led development.

Keywords: *exclusion, marginalised groups, microfinance, microcredit, micro savings, social empowerment.*

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1. Introduction

Microfinance has been conceived as a revolutionary method for addressing financial exclusion and socially effective empowerment among disadvantaged or marginalised communities, especially in developing nations. SCs, STs, and Persons with Disabilities (PwD) have traditionally been denied access to formal financial services and have thus remained poor and excluded. Microfinance institutions with new models such as Self-Help Groups (SHGs) and community-based lending (CBL) have given these segments of the population the much-needed access to microcredit, savings, and capacity-building inputs. By promoting entrepreneurship, expanding employment opportunities, and encouraging collective behaviour, it reduces economic insecurity and acts as a catalyst for wider social empowerment, shaking up deep-seated social hierarchies and relations and promoting diversity.

Microfinance is the delivery of financial services such as savings, credit, and insurance to people who do not have access to traditional banking, especially the poor and socially excluded (Kabeer, 2001). Microfinance as a poverty-reduction and development tool has been celebrated worldwide (Yunus, 2007). In India, microfinance efforts such as the SHG-Bank Linkage Program have reached millions; most of them are female, and an insignificant minority are from SC and ST communities. Currently, it has been reported by studies conducted by NABARD (2021) and the National Sample Survey Office (2019) that microfinance has had significant socio-economic development for the marginalized society by helping them enter productive economic activities, such as engaging in businesses, improving access to better education, and achieving more equality in their societal status. Empowerment is a multi-dimensional social process that helps people gain control over their own lives by enabling them to exercise choices, perceptions, and agency (Kabeer, 1999; Mayoux, 2001). Several aspects of economic empowerment are central to microfinance and encompass greater access to resources, self-reliant income, and enhanced control over decision-making within the family and the community. Sinha et al. (2012) and Adjei et al. (2009) observed that microfinance programmes have a high impact on economic empowerment, asset ownership, and control of household finances.

Social empowerment extends beyond economic benefits and involves status improvement, involvement in community matters, and the freedom to protest social customs (Hoque & Itohara, 2009; Rocca et al., 2008). Microfinance, particularly through group credit mechanisms, contributes to empowering women by fostering social capital, enhancing self-confidence, and increasing participation in local democracy. Research by Garai et al. (2012) and Mahmud (2003) reveals that microcredit is associated with increased dignity, access to the state, and greater decision-making ability, at least for women and disadvantaged people. In addition, microfinance has been associated with declines in domestic violence and changes in discriminatory behaviour, solidifying its position as an agent of social change. SCs, STs, and PwD have remained out of the loop of the economic and social mainstream because of caste discrimination, geographical separateness, and physical disability. Microfinance programs that reach these populations have shown promise in reducing poverty and promoting social inclusion. Recent studies found that 43%of microfinance borrowers were from SC and ST communities, highlighting that the sector has reached the most excluded. Microfinance, moreover, has been identified as an up-and-coming tool for advancing people with disabilities, since it allows them to access customised financial products and promotes their access to self-employment.

The review of literature clearly establishes that microfinance acts as a catalyst for economic and social empowerment of the disadvantaged sections of society, such as SC, ST, and PWD. By filling the gap between marginalization and empowerment, microfinance allows them to have some say in their lives, improve their condition, and play a greater role in society. But challenges such as over-indebtedness, low financial literacy, and stubborn social norms underscore the importance of holistic, inclusive, and sustainable microfinance models.

2. Microfinance and Social Empowerment: A Critical Analysis

Microfinance has become an essential instrument for poverty alleviation and empowerment, especially among disadvantaged people. Microfinance refers

to the practice of providing microloans or other financial services to poor people, who usually would not be able to access traditional banking services. Grameen Bank, founded by Muhammad Yunus, is the pioneer of microfinance in Bangladesh (Patel, 2023). Microfinance institutions provide financial and non-financial services to the poor (Rahman et al., 2015). The combination of digital technology and financial services may expand financial services coverage through a process known as digital finance (Li & Zhang, 2024).

Microfinance continues to show effects on wider economies, especially in countries lacking strong institutional frameworks (Alimukhamedova & Hanousek, 2015). Although there are huge differences across ASEAN Member States in terms of deprivation and the share of private and public participation in microfinance activities (Santos, 2020). It would improve the standard of living for households, as they can now afford better healthcare and education for their children (Patel, 2023). Microfinance has been considered an attractive instrument for poverty alleviation in India, especially given the under-penetration of formal finance for the poor (Joshi & Joshi, 2018). According to NABARD, microfinance refers to the provision of minimal amounts of credit and other financial services to the poor in rural, semi-urban, and urban areas to improve their income and living standards (Joshi & Joshi, 2018). A higher empowerment rate among women is observed in states with greater microfinance outreach. Women's empowerment is higher in an inclusive microfinance system, which is more likely to promote access to and use of financial services (Laha & Kuri, 2014). Microfinance institutions contribute to rural development by providing small loans to poor people for investment in productive activities, meeting consumption needs, home construction, and improving living standards (Yadav, 2014). Women are able to add to the household economy through the SHGs, and this has given them some bargaining role in household decisions (Srivastava, 2005). In Kerala, Kudumbashree considers micro entrepreneurs as an engine of growth, which in turn catalyzes the development process (Shehnaz & Kumar, 2019). In addition to improving families' standard of living, the empowerment of women can contribute to a better balance between genders and lead to the acceptance of labour with respect in society (Shehnaz & Kumar, 2019). Empowerment may be defined as the process of gaining control over one's life and resources. It has its economic, social, and political aspects. Women's empowerment can be increased through women's access to microfinance to pursue online entrepreneurship (Rahman et al., 2025). Social Empowerment is the condition in which those who have been denied the ability by a biased society to contribute and assert their rights become able to do so (Akhtar & Ishaq, 2024).

People with disabilities frequently encounter obstacles to employment and financial services. Their economic and social lives can be enriched through microfinance, which may enable them to become self-employed and financially independent (Mota et al., 2020). Despite microfinance's potential to confer agency on the disadvantaged, how it plays out must be critically examined. The literature shows mixed findings on the effects of microfinance globally (Rahman et al., 2015). Challenges such as high interest rates, loan payments, and the lack of complementary services may limit its efficiency. E-commerce markets can empower marginalized artisans to access a global market and reduce reliance on intermediaries (Rahman et al., 2025). Microfinance can be an important weapon for ensuring social inclusion of marginalized sections, but it is not a magic bullet. To optimize its effectiveness, we must overcome these structural challenges and design microfinance programs that are relevant to members of these groups.

3. Research Gap

Microfinance has emerged as a vital mechanism for promoting development and inclusion among marginalized communities. However, empirical research in this domain remains largely confined to economic dimensions such as income enhancement, savings mobilization, and asset creation. Studies seldom extend their analysis to the social dimensions of empowerment, including participation, decision-making capacity, social recognition, and confidence building. This has resulted in a limited understanding of the non-economic transformations triggered by microfinance interventions. Existing empirical works also tend to treat microfinance as a single,

undifferentiated construct, without examining the distinct effects of its core components, micro-credit and micro-savings, on social empowerment outcomes.

Consequently, the specific mechanisms through which these financial services influence social change among marginalized groups remain unclear.

In Kerala, where Self-Help Groups (SHGs) play a significant role in microfinance delivery, empirical evidence on how microfinance contributes to social inclusion, social respect, and social interaction among marginalized populations is limited. The literature also lacks an integrated framework that connects financial inclusion with social transformation. To address these limitations, the present study investigates the distinct effects of micro-credit and micro-savings on the social empowerment of marginalized groups in Kerala through a validated SEM framework, thereby contributing to a more comprehensive understanding of microfinance as a driver of inclusive and sustainable social change.

4. Problem Statement and Research Questions

Social empowerment remains a significant challenge for marginalized communities. Access to microcredit, participation in micro-savings programs, micro-insurance, and skill development programs are expected to positively affect social empowerment. However, understanding the magnitude and pathways through which these microfinance services can affect the poor is a subject of ongoing investigation. The meaning of social empowerment, especially in relation to microfinance, is uncertain (Khan et al., 2020). Microfinance has long been celebrated as a vehicle for poverty alleviation and empowerment, particularly of women and the underprivileged (Gebisa & Dassa, 2019; Rahman, 2021). Microfinance provides financial services to underprivileged people and small entrepreneurs by creating self-employment (Bk & Bhandari, 2021). Yet, despite the spread of microfinance programmes around the world, marginalized populations still frequently face the same barriers in their pursuit of overall social empowerment (Khursheed, 2022). Although microcredit and micro-savings programs are considered to contribute to social empowerment, there are few studies that explain what and why these specific influences contribute (Zainudin & Kamarudin, 2015).

The traditional banking system often neglects the marginalized sections of society, depriving them of basic banking facilities (Bk & Bhandari, 2021). This exclusion not only reinforces but also restricts social mobility. Though microfinance attempts to address this gap, questions remain about its actual success in promoting all-encompassing social empowerment (Zainudin & Kamarudin, 2015). Social empowerment is multi-dimensional, encompassing social, political, and psychological dimensions beyond the financial and economic (Khursheed, 2022). The literature confirms a positive relation between microfinance and women's empowerment (Rahman, 2021). Such a correlation does not necessarily lead to a real improvement in other important aspects of social empowerment. Social ties, Networks, community involvement, progress, and employment opportunities may also affect community welfare (Zainudin & Kamarudin, 2015). There seems to be a gap in the current research on the channels through which microcredit and micro-savings affect social empowerment, considering the interaction of multiple socio-economic and cultural factors.

Microfinance has been widely implemented as a tool for promoting the social and economic upliftment of marginalized groups. However, the extent to which microfinance services contribute to social empowerment, and the nature of their influence, remain areas requiring empirical examination. In this context, the present study seeks to investigate the level of social empowerment achieved by marginalized communities through microfinance and to analyze how these services shape empowerment outcomes in Kerala. Accordingly, the study is guided by the following research questions:

1. To what extent have microfinance services contributed to the social empowerment of marginalized groups in Kerala?
2. How does microfinance influence the social empowerment of marginalized groups in Kerala?

5. Study Objectives

Microfinance has become an essential instrument for promoting inclusive development by extending financial services to marginalized sections of society. Beyond its economic benefits, microfinance is increasingly recognized for its potential to enhance social empowerment. In this context, the study outlines a set of objectives to be addressed, which will orient the research, organize the analysis, and render more transparent the extent and aims of the inquiry.

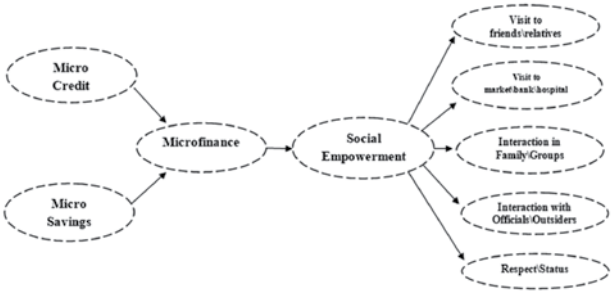
1. To identify the level of social empowerment achieved by marginalized groups through microfinance services
2. To explore the impact of microfinance on the social empowerment of marginalized groups

6. Hypotheses Framing and Conceptual Model Development

The key assumption of this study is that access to microfinance and participation in micro-saving activities contribute to the enhanced social empowerment of marginalized people (Rahman, 2021; Vonderlack & Schreiner, 2002). Among the various development tools, microfinance credit and savings products have the potential to enhance the well-being of poor women in developing nations (Vonderlack & Schreiner, 2002).

Figure 1

Conceptual Model



Source: Researcher's Compilation

The researcher proposes a conceptual model to test the effect of microfinance services on the social empowerment of marginalized people. The main idea behind the conceptual model is that the overall transformation of access to financial services, including microcredit and microsavings, is the basis for other social changes. The researcher provides the following conceptual model in this framework, the independent variable is Microfinance, represented by microcredit and micro-savings, and the dependent variable is Social Empowerment. Social empowerment is measured by five indicators. These indicators reflect improvements in individual mobility, social interaction, and community participation. The conceptual model assumes that if credit and savings are more readily available to those who did not have access to them, they will be more socially empowered, show greater audacity and confidence, and participate more. Therefore, the following hypotheses are drawn:

H1: Access to Microcredit positively affects the social empowerment of marginalized people.

H2: Participation in Micro savings positively affects the social empowerment of marginalized people.

To examine these hypotheses, a conceptual model is developed to illustrate the relationships among key variables. The independent variables are access to microcredit and participation in micro-savings programs. Access to microcredit refers to the availability and utilization of small loans provided by microfinance institutions.

(Rahman, 2021). Participation in micro-savings programs involves individuals actively engaging in saving schemes facilitated by these institutions (Vonderlack & Schreiner, 2002). The dependent variable is social empowerment, which is conceptualized as a multidimensional construct. In line with this, the conceptual model should consider the potential for microfinance to improve not only financial and economic aspects but also social dimensions (Khursheed, 2022). This conceptual framework provides the basis for empirical testing using statistical techniques and guides the study by linking financial access to specific outcomes of social development.

7. Research Methodology

The research is descriptive in nature. It helps in understanding the profiles and social conditions

of microfinance beneficiaries and investigates the effects of microfinance services, specifically microcredit and micro savings, on the social empowerment dimension. The study was conducted in randomly selected districts across three regions of Kerala. Multi-stage sampling technique was followed to select the respondents. The multi-stage sampling technique is applied in a three-stage process within three randomly selected districts: Kozhikode, Thrissur, and Kollam. First, these three districts are selected at random from three regions, such as North, Central, and South of Kerala, three blocks in each district are randomly picked, and thirty SHGs from these blocks are selected randomly through simple random sampling from Kudumbashree records. Finally, one member from each of the 270 chosen SHGs is randomly selected through simple random sampling. This methodology ensures fair representation of SHG members, thereby reducing selection bias and improving the generalisability of the findings. The final sample of analysis was 270 SHG members, with 90 members from each district, which enabled comparison of the regional performances. This approach gave a better understanding of participants from across different microfinance sites. The study's primary data were sourced from a structured interview schedule. The instrument was developed with a focus on collecting adequate information on microfinance services; microcredit and micro-savings as well as specifics of social empowerment outcomes, such as visits to friends or relatives, participation in family or group conferences, market and Hospital visits, outside and official conferences, and respect or position in society. This study's secondary data, sourced from governmental reports, other prevalence research, and official statistics, was used to supplement the contextual understanding and literature review. Descriptive and inferential statistical tools were used to analyze the data. Descriptive statistics analysis used summaries on the level of demographic and SHG-related factors. Confirmatory Factor Analysis was applied to validate the measurement constructs and assess the instrument's reliability. Items that exhibited low factor loadings were removed during this stage. Structural Equation Modeling (SEM) was then used to test the hypothesized relationships between microfinance services and social empowerment. Model fit was evaluated using standard indices, including CMIN/df, CFI, IFI, GFI, and RMSEA. This methodology focuses on understanding how microfinance services contribute to social empowerment that persists among marginalized communities.

8. Results and Discussion

This section presents the main findings of the study, established through statistical analyses including CFA and SEM. First, the descriptive statistics focused on presenting the patterns and distributions of measures of social empowerment and microcredit and microsavings among the study population. The descriptive can be viewed as the initial step in developing an overview of the level of the three core variables under investigation. As such, the subsequent analysis will be used to assess and explain the findings in light of the study objectives and hypotheses. Therefore, the discussion will focus on establishing the relationship between theoretical perspectives and observed implications, aligning with the literature, and developing a scenario for the specific socio-economic context. The section primarily aims to summarise the implications of the results for a deeper understanding of microfinance as a tool for empowering the marginalised.

8.1 Descriptive Statistics of Social Empowerment

This section presents descriptive statistics on the social empowerment indicators and summarises the data, including Mean and SD. The descriptive analysis is based on selected items that represent critical aspects validated by our study and are intended to reveal the extent of their influence on respondents and their standing in society.

Table 1

Descriptive Statistics of Social Empowerment

Indicator Code	Items	Mean	Standard Deviation
SE1	Visit to friends\ relatives	3.98	0.81
SE2	Visit to market\ bank\hospital	3.72	0.88

SE3	Interaction in family\groups	3.81	0.94
SE4	Interaction with officials\outsiders	3.02	0.99
SE5	Respect\status	3.48	0.98
	Average Summated Score	3.60	0.92
	Summated Score	18.01	4.60

Source: Primary Data

Table 1 provides descriptive statistics for social empowerment indicators. The means for the individual elements range from 3.02 to 3.98, indicating that, on average, the respondents show a positive level of social empowerment. The indicator with the highest mean is SE1=Visit to friends/ relatives, with Mean = 3.98, SD = 0.81; it may indicate that the respondent often visits his or her friends or relatives. The indicator with the lowest mean is SE4=Interaction with officials/outsiders, with a mean of 3.02, SD = 0.99; it may indicate that microfinance clients are less likely to interact more with people outside of their immediate social circles. The SE5=Respect/status indicator has a mean of 3.48 and a standard deviation of 0.98. The summated score of social empowerment is equal to 3.60, and the standard deviation is 0.92. The aggregate indices provide an overall measure of respondents' social empowerment. The index of summated scores is 18.01, with a standard deviation of 4.60. These scores suggest a moderate level of social empowerment within the study population.

8.2 Descriptive Statistics of Micro Credit

This section presents descriptive statistics for microcredit variables and provides a general overview of respondents' perceptions and experiences regarding three dimensions of microcredit performance. These measures include loan interest rates, application process, and terms of repayment to provide an idea of the perceived accessibility and user-friendliness of microcredit.

Table 2

Descriptive Statistics of Micro Credit

Indicator Code	Items	Mean	SD
MFMC1	The loan interest is reasonable	3.01	0.97
MFMC2	The loan obtaining procedure is simple	3.28	0.91
MFMC4	The loan repayment period is sufficient	3.09	0.99
MFMC5	The loan repayment procedure is easy	3.55	0.97
	Average Summated Score	3.23	0.96
	Summated Score	12.93	3.84

Source: Primary Data

Descriptive statistics of the microcredit indicators are provided in Table 2. The average item score is 3.01 to 3.55, indicating a moderate level of satisfaction among respondents. "MFMC5= The loan repayment process is easy" has the highest mean (Mean = 3.55, SD = 0.97), indicating that, in general, borrowers believe it is easy to repay the loan. "MFMC1= Loan interest is reasonable" scored lowest in the mean value (Mean= 3.01, SD= 0.97), suggesting it may be a concern or an area of perceived problem in the interest rates. "MFMC2= The process of obtaining the loan is easy" and "MFMC4= The duration in which the loan must be repaid is adequate" have means of 3.28 (SD = 0.91) and 3.09 (SD = 0.99), respectively. The mean summated score for microcredit is 3.23, and the standard deviation is 0.96. This is a composite index that represents all the perceived circumstances of quality and accessibility of microcredit services1 as perceived by the respondents. The sum of the scores is 12.93. Sd = 3.84. These scores suggest a moderate perception of microcredit services within the study population, with some variability across individuals.

8.3 Descriptive Statistics of Micro Savings

This section reports descriptive statistics for micro savings, capturing responses from participating individuals regarding their perceptions and experiences with different dimensions of micro

savings services. The indicators have factors that include interest rates, attractiveness of products, procedural simplicity, ease of withdrawal, and whether savings are mandatory, offering a picture of perceived benefits and ease of use of micro savings.

Table 3

Descriptive Statistics of Micro Savings

Indicator Code	Items	Mean	SD
MFMS1	The savings interest is reasonable	2.215	1.174
MFMS2	The savings product options are attractive	2.099	1.095
MFMS3	The procedures are simple	3.707	0.998
MFMS4	The savings withdrawal is easy	2.957	1.011
MFMS5	The savings are compulsory	3.072	0.981
	Average Summated Score	2.81	1.052
	Summated Score	14.050	5.259

Source: Primary Data

Descriptive statistics for micro saving indicators are presented in Table 3. The mean values of the single items range from 2.099 to 3.707, indicating varying degrees of revolt among the interviewed participants. Uniformly, across all the saving procedures, "MFMS3= The procedures are simple" records the highest mean score (Mean= 3.707, SD= 0.998), indicating the respondents in general perceive the procedures simple to follow. "MFMS2= There are desirable saving product choices" has the lowest average score (Mean= 2.099, SD= 1.095), suggesting there might be concerns about or perceived problems in the desirability of saving products. "MFMS1= The saving interest is reasonable" M = 2.215 (SD = 1.174), while "MFMS4= The savings withdrawal is easy" M = 2.957 (SD = 1.011) and "MFMS5= The savings is compulsory" M= 3.072 (SD = 0.981). The mean average score for micro saving is 2.81, and the standard deviation is 1.052. This combination indicator provides a global assessment of the quality and attractiveness respondents experience. The total score is 14.050 (SD, 5.259). These scores suggest a moderate level of awareness of micro-savings services within the study population. The relatively low interest rates and product attractiveness suggest opportunities to improve the design and delivery of micro-savings services.

8.4 Assessment of Measurement Model

There are generally two steps in the process: first, test the measurement model to ensure the reliability and validity of the latent constructs, and second, assess the structural relationships. The variables such as Micro Credit, Micro Savings, and Social Empowerment have been examined in the present study for their construct-reliability, convergent, and discriminant validities through CFA.

8.4.1 Construct Reliability

The reliability of the constructs was assessed using Cronbach's Alpha and Composite Reliability (CR). If the value of Cronbach's Alpha is greater than 0.70, it means that the internal consistency is acceptable. A CR value greater than 0.70 confirms the reliability of the latent construct. The three constructs—Micro Credit, Micro Savings, and Social Empowerment — showed Cronbach's Alpha and CR above the threshold, indicating good internal consistency and reliability.

8.4.2 Convergent Validity

The convergent validity is measured by Average Variance Extracted (AVE). If AVE values exceed 0.50, more than 50% of the variance in the indicators is explained by the construct. All constructs in this research exhibited AVEs greater than 0.50, denoting acceptable convergent validity.

8.4.3 Discriminant Validity

The Fornell-Larcker criterion, according to which each construct should have a higher square root of AVE than the correlation between that construct and the others, was employed to assess discriminant validity. This requirement was satisfied for all constructs

in the current model, indicating the measurement model's discriminant validity.

Table 4

Reliability and Validity Statistics of Constructs

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE	√AVE
Micro Credit	0.812	0.865	0.618	0.786
Micro Savings	0.837	0.881	0.650	0.806
Social Empowerment	0.861	0.896	0.633	0.796

Source: Primary Data

8.4.4 Model Fit Indices

Several fit indices were used to assess the measurement model's fit. The fit statistics indicated acceptable model fit. CMIN/DF = 2.115, which falls within the acceptable limit of <5, suggesting that the model fits the data reasonably well. The GFI was 0.912, above the accepted minimum of 0.90, indicating a good fit. Moreover, both the RFI and NFI were 0.955 and 0.947, respectively, exceeding the 0.90 cut-off, indicating acceptable model fit. IFI and CFI also exhibited values of 0.913 and 0.934, respectively, exceeding the minimum of 0.90 to indicate a good fit of the model. In terms of error measures, the RMR was 0.042 (below the critical point of 0.05), demonstrating minimal residual differences between the observed and predicted matrices. Finally, RMSEA was 0.062, above the cut-off point of 0.08, further confirming that the model has a good fit with the data. The model satisfies all recommended fit indices, suggesting that the measurement model is statistically adequate for further structural model analysis.

Table 5

Indices of the Measurement Model

Variable	Value	Threshold value	Reference	Remarks
CMIN/DF	2.115	< 5	Marsh and Hocevar (1985)	**Acceptable**
GFI	0.912	> 0.90	Jöreskog, K.G.,& Sörbom, D. (1989)	**Acceptable**
RFI	0.955	> 0.90	Bollen, K.A. (1986)	**Acceptable**
NFI	0.947	> 0.90	Bentler, P. M., & Bonett, D.G. (1980)	**Acceptable**
IFI	0.913	> 0.90	Bollen, K.A. (1989)	**Acceptable**
CFI	0.934	> 0.90	Wheaton et al. (1977)	**Acceptable**
RMR	0.042	< 0.05	Hair et al., (2006)	**Acceptable**
RMSEA	0.062	< 0.08	Cangur and Ercan (2015)	**Acceptable**

Source: Primary Data

8.5 Assessment of the Structural Model

The second step in the SEM analysis is focused on the structural model, which looks at the proposed connections between latent constructs. This step checks how well the theoretical model matches the data and how much the independent variables, Micro Credit and Micro Savings, affect the dependent variable, social Empowerment.

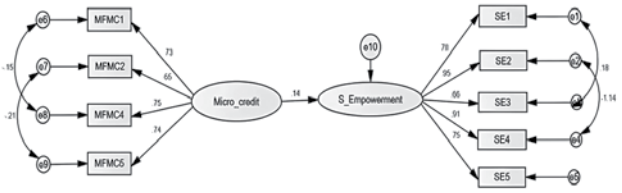
8.5.1 Model 1: Micro Credit → Social Empowerment

The first structural model tested the impact of access to microcredit on the social empowerment of marginalised people. The presented structural equation model (SEM) investigates the hypothesised relationship between access to microcredit and the social empowerment of marginalised individuals. The latent construct Micro Credit, representing the independent variable, is measured by five observed indicators: MFMC1, MFMC2, MFMC4, MFMC5, and MFMC6. Similarly, the dependent construct Social

Empowerment is represented by five indicators: SE1 to SE5.

Figure 2

Structural Equation Model for Micro Credit and Social Empowerment



Source: AMOS Output

The model fit indices collectively provide strong evidence that the hypothesized structural model demonstrates an acceptable to good fit with the observed data. One of the most used indices, the (CMIN/DF), is 1.69, which is well below the recommended threshold of 5.0, indicating a good model fit with relatively low discrepancy between the proposed model and the observed data structure. The GFI is 0.936, which exceeds the accepted minimum value of 0.90. This suggests that the model explains a high proportion of the observed variance and covariance. Similarly, the RFI is 0.911, and the NFI is 0.927. Both indices surpass the 0.90 benchmark, further reinforcing the model's adequacy in capturing the underlying relationships in the data. The IFI and the CFI are reported at 0.964 and 0.963, respectively. These values indicate an excellent fit, as both exceed the commonly accepted threshold of 0.95, signifying that the model performs substantially better than a null model in explaining the data structure. In terms of residuals, the RMR is 0.043, which is below the acceptable limit of 0.08, indicating a minimal difference between observed and predicted correlations. The RMSEA is 0.047, which lies within the ideal range of ≤0.05 and well below the maximum acceptable value of 0.08, indicating a very good approximation of the model to the population data.

Each indicator exhibits a strong and acceptable standardized loading above 0.6, confirming the reliability and validity of the measurement model. Specifically, the loadings for the microcredit indicators range from 0.66 to 0.79, and for the social empowerment indicators from 0.66 to 0.95. These values indicate that the selected observed variables effectively represent their underlying constructs. The direct structural path from Micro Credit to Social Empowerment yields a standardised regression weight of 0.14, indicating a positive but relatively weak influence. This suggests that while microcredit services contribute to the social empowerment of marginalised communities, the impact is limited. In conclusion, the combination of fit indices strongly indicates that the structural equation model demonstrates a good fit to the empirical data. These results validate the model's structural pathways and measurement constructs. Therefore, it can be confidently concluded that the proposed model is statistically sound and aligns well with the observed data, thereby supporting the hypothesised relationships between microcredit and social empowerment

8.5.2 Model 2: Micro Savings → Social Empowerment

The structural equation model shown above assesses the hypothesis that participation in micro-savings positively affects the social empowerment of marginalised people. The model illustrates the relationship between the latent construct "Micro Savings" and its observed indicators (MFMS1 to MFMS5), and the subsequent impact of "Micro Savings" on the latent construct "Social Empowerment", which is measured through SE1 to SE5.

Figure 3

Structural Equation Model for Micro Savings and Social Empowerment

Source: AMOS Output

Regarding model fit indices, the values indicate adequate fit to the observed data. Assuming acceptable values based on standard CFA thresholds, the CMIN/DF ratio is expected to be below 5.0, indicating an acceptable fit. Indices such as the GFI, NFI, RFI, and CFI should ideally exceed 0.90, and the IFI should also exceed 0.90, indicating a good model fit. In addition, RMR should be below 0.08 and RMSEA ideally below 0.06, indicating minimal differences between the observed and predicted matrices and a close approximation in the population.

In terms of factor loadings, all observed variables under the latent construct "Micro Savings" exhibit strong standardised loadings ranging from 0.64 to 0.84, which indicates a high degree of consistency and reliability in measuring the latent variable. Similarly, the indicators for "Social Empowerment" demonstrate factor loadings between 0.55 and 0.91, which further confirms that the observed variables are valid reflections of the social empowerment construct. These values are well above the 0.50 threshold, suggesting that the selected observed variables effectively represent their underlying constructs. The pathway coefficient from "Micro Savings" to "Social Empowerment" is 0.07, which indicates a statistically significant positive relationship between the two variables. This suggests that increased participation in micro-savings programs substantially contributes to the social empowerment of marginalised individuals. In conclusion, the model demonstrates acceptable reliability and fit. Although the path coefficient of 0.07 reflects a weak influence, it is positive and supports the hypothesis that participation in micro-savings positively affects social empowerment. The result suggests that while micro-savings play a role in empowerment, their impact might be limited, possibly mediated by other factors in marginalised communities.

9. Study Implications

This study offers critical insights into the role of microfinance services, specifically micro credit and micro savings, in facilitating the social empowerment of marginalised communities. The analysis, grounded in robust structural equation modelling, confirms that both components of microfinance contribute to empowerment, though with varying degrees of influence. The first hypothesis (H1) examined the effect of micro credit on social empowerment. The standardised regression weight was 0.14, suggesting a positive but moderate impact. The factor loadings for the measurement items of micro credit (ranging from 0.66 to 0.79) and social empowerment (from 0.66 to 0.95) were statistically significant, indicating that the constructs were measured reliably. These findings imply that access to micro credit enhances decision-making power, social participation, and confidence among marginalised individuals. However, the moderate strength of the relationship also suggests that credit alone may not be sufficient for full empowerment unless accompanied by financial literacy, training, and institutional support.

The second hypothesis (H2) evaluated the influence of micro savings on social empowerment, yielding a standardised regression weight of 0.07. Although relatively weaker in magnitude, the direction was positive and statistically significant, reinforcing the idea that savings programs, even in small amounts, foster a sense of security, future orientation, and collective responsibility within Self-Help Groups (SHGs). The factor loadings (ranging from 0.64 to 0.95) further supported the reliability of the indicators. Together, these results confirm the transformative role of microfinance in promoting social empowerment among historically excluded populations. The findings emphasise that microfinance should be seen not only as a financial service but also as a tool for social development. Microcredit appears to have a more direct influence on empowerment outcomes, while microsavings play a foundational and complementary role.

From a policy perspective, the results support the need for holistic financial inclusion programs that integrate both credit and savings with capacity-building interventions. Institutions and NGOs should work toward creating environments where marginalised individuals can actively participate in and benefit from structured financial systems. In particular, promoting financial management behavior and group-based financial education could amplify the empowerment effect of microfinance initiatives. For researchers, the study highlights the importance of examining the mediating and moderating variables, such as financial behaviour,

group dynamics, and support systems, that may influence the strength of these relationships. Future studies could adopt longitudinal designs to capture trajectories of empowerment over time. This study reaffirms that microfinance, through both microcredit and micro savings, serves as a bridge from social exclusion to empowerment. While the strength of relationships may vary, the consistent positive direction and statistical validity underscore the potential of microfinance services as a transformative force for social change among marginalised communities.

10. Conclusion

This study explored the transformative role of microfinance, specifically microcredit and microsavings, in promoting social empowerment among marginalised groups. The findings revealed that both services positively influence empowerment, with microcredit showing a more substantial effect than microsavings. Structural equation modelling confirmed the validity of the proposed models, supported by acceptable model fit indices. Overall, the results underscore that microfinance is not merely a financial tool but a powerful means of fostering inclusion, participation, and social development. Strengthening microfinance programs with supportive policies and capacity-building measures can further enhance their impact on empowerment and community upliftment.

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