

The Impact of Microfinance and Self-Help Groups on Women's Empowerment and Social Inclusion

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Abstract

Microfinance and Self-Help Groups (SHGs) have emerged as important mechanisms for promoting financial inclusion and empowering women in developing economies. These initiatives provide access to credit, savings opportunities, and social support networks that enable women to participate more actively in economic and community activities. This paper examines the role of microfinance and SHGs in enhancing women's empowerment and promoting social inclusion. Evidence from existing studies suggests that participation in SHGs improves women's financial independence, decision-making power within households, and access to education and healthcare. SHGs create collective platforms that strengthen women's social capital and encourage participation in community development initiatives, these positive impacts, challenges such as limited financial literacy, inadequate institutional support, and socio-cultural barriers remain significant obstacles. The study highlights the need for integrated policy frameworks that combine financial services with education, skill development, and institutional support to maximize the empowerment potential of microfinance and SHG programs.

Keywords: Microfinance, Self-Help Groups, Women Empowerment, Financial Inclusion, Social Development.

1. Introduction

Women's empowerment has become a critical component of sustainable development and poverty reduction strategies across the globe. Empowering women not only enhances their individual well-being but also contributes significantly to economic growth, social stability, and community development. Despite notable progress in recent decades, women in many developing countries continue to face numerous socio-economic challenges, including limited access to financial services, lower educational attainment, restricted employment opportunities, and cultural norms that limit their participation in decision-making processes. These barriers often prevent women from fully realizing their potential and contributing effectively to national development [1]. One of the most effective approaches to addressing these challenges is through financial inclusion initiatives such as microfinance and Self-Help Groups (SHGs). Microfinance provides small-scale financial services—including credit, savings, insurance, and financial training—to individuals who lack access to conventional banking systems. Women are often the primary beneficiaries of microfinance programs because they are typically excluded from formal financial institutions due to lack of collateral, limited income sources, or social constraints. By providing access to financial resources, microfinance initiatives enable women to start small businesses, improve household income, and enhance their economic independence.

Self-Help Groups (SHGs) complement microfinance by creating community-based support networks where women can collectively save money, access credit, and share knowledge and experiences.

These groups usually consist of 10–20 members who meet regularly to discuss financial matters, social issues, and community development activities. The SHG model not only promotes financial inclusion but also strengthens social cohesion and encourages collective decision-making among women [2]. Over the past few decades, the integration of microfinance and SHG programs has gained considerable recognition as a powerful tool for poverty alleviation and women's empowerment, particularly in developing countries such as India, Bangladesh, and Nepal. These initiatives have been widely supported by governments, non-governmental organizations (NGOs), and international development agencies. Research indicates that women's participation in SHGs often leads to improved financial literacy, increased savings behavior, and enhanced participation in household and community decision-making. Beyond economic benefits, SHGs play a significant role in promoting social inclusion. Women who participate in these groups often gain increased awareness of their rights, improved confidence, and stronger social networks. These changes enable them to challenge traditional gender norms and participate more actively in community development initiatives. As a result, microfinance and SHGs are increasingly recognized as important mechanisms for achieving

broader development goals, including gender equality and inclusive growth. This study aims to examine the role of microfinance and Self-Help Groups in promoting women's empowerment and social inclusion. It highlights the economic and social benefits associated with these initiatives while also identifying key challenges that may limit their effectiveness [3]. Understanding these dynamics is essential for designing policies and programs that maximize the positive impact of microfinance and SHGs on women's empowerment.

2. Role of Microfinance in Women's Empowerment

Microfinance has emerged as a transformative tool for improving the economic and social status of women in developing economies. The providing access to small loans and financial services, microfinance institutions enable women to engage in income-generating activities that would otherwise be inaccessible due to financial constraints. These opportunities allow women to establish small enterprises such as retail businesses, agricultural ventures, handicraft production, or food processing activities, thereby increasing household income and improving living standards. Access to financial resources significantly enhances women's economic independence. When women contribute to household income, they often gain greater respect and recognition within the family and community. This increased economic participation strengthens their bargaining power in household decision-making processes, including decisions related to children's education, healthcare, and family welfare. Consequently, microfinance programs contribute not only to economic empowerment but also to improved social status for women. Another important dimension of microfinance is the promotion of financial literacy and entrepreneurial skills. Many microfinance institutions provide training programs that teach participants how to manage loans, maintain savings, and operate small businesses effectively [4].

These training initiatives help women develop essential skills such as budgeting, marketing, and financial planning, which are critical for sustaining and expanding their enterprises. As women gain these skills, they become more confident in managing financial resources and pursuing economic opportunities. Microfinance also encourages savings behavior among women. Regular savings practices enable women to build financial security and cope with unexpected expenses such as medical emergencies or crop failures. This financial stability reduces vulnerability to poverty and enhances household resilience during economic shocks.

Microfinance initiatives often promote group-based lending models, where women form small groups that collectively guarantee loan repayment. This approach fosters mutual accountability, trust, and cooperation among members. Group interactions create opportunities for women to exchange knowledge, discuss challenges, and develop collective solutions to common problems. Such interactions strengthen social networks and encourage collaboration within communities. Empirical studies have demonstrated that microfinance participation can lead to improvements in women's self-confidence, leadership abilities, and social participation. Women who successfully manage businesses and financial resources often become role models within their communities, inspiring others to pursue similar opportunities. In some cases, women involved in microfinance programs have also taken active roles in local governance and community development initiatives, these benefits, it is important to recognize that microfinance alone may not be sufficient to achieve complete empowerment. Factors such as education, access to markets, supportive policies, and cultural acceptance also play important roles in determining the success of these initiatives [5]. Therefore, integrating microfinance programs with training, education, and social support systems is essential to maximize their long-term impact on women's empowerment.

Table 1. Impacts of Microfinance and Self-Help Groups on Women's Empowerment and Social Inclusion

Dimension	Components	Impact on Women
Economic Empowerment	Access to microcredit, savings programs, small enterprise development	Increased income generation, financial independence, improved household economic stability
Decision-Making Power	Participation in household financial decisions, control over financial resources	Greater influence in family decisions related to education, health, and investments
Social Inclusion	Participation in SHG meetings, community engagement, collective action	Strengthened social networks and improved participation in community activities
Capacity Building	Financial literacy training, entrepreneurship development programs	Improved business skills, financial management ability, and leadership capacity
Gender Equality	Increased awareness of women's rights and social issues	Reduction in gender discrimination and increased confidence among women
Community Development	Participation in social campaigns and local governance	Contribution to community welfare, education initiatives, and public health awareness

3. Self-Help Groups and Social Inclusion

Self-Help Groups (SHGs) have become an important community-based approach for promoting women's empowerment and social inclusion, particularly in developing countries. These groups typically consist of 10–20 members, primarily women from similar socio-economic backgrounds, who come together voluntarily to save money, access small loans, and support one another in achieving financial and social goals.

The SHG model encourages collective action, mutual trust, and participatory decision-making, which are essential elements for strengthening social cohesion and empowering marginalized communities. One of the important advantages of SHGs is their ability to create a supportive environment where women can share experiences, knowledge, and resources. Regular meetings provide opportunities for members to discuss financial matters, social challenges, and community development issues [6].

Through these interactions, women develop stronger social networks and gain confidence in expressing their opinions. This collective support system plays a crucial role in helping women overcome social isolation and discrimination that may exist in traditional societies. Participation in SHGs often leads to increased awareness of social rights, health issues, education, and government welfare programs. Women who are actively involved in these groups tend to become more informed about opportunities available to them and their families. This increased awareness contributes to improved access to healthcare, better educational opportunities for children, and greater participation in community activities. As a result, SHGs serve as effective platforms for disseminating information and promoting social development.

In addition to financial and informational benefits, SHGs contribute significantly to building leadership and decision-making skills among women. Members often take turns managing group activities such as maintaining financial records, organizing meetings, and coordinating with financial institutions or government agencies. These responsibilities help women develop managerial and leadership abilities that can extend beyond the group and influence broader community participation.

SHGs encourage women to engage in collective initiatives aimed at improving local conditions. In many communities, SHG members participate in campaigns related to sanitation, education, healthcare, environmental protection, and poverty alleviation. These activities strengthen the role of women as active contributors to community development and social transformation. Another important aspect of SHGs is their role in enhancing social inclusion for marginalized groups. Women from disadvantaged backgrounds, including those belonging to lower socio-economic classes or minority communities, often face barriers that limit their access to financial and social resources. SHGs provide an inclusive platform where these women can participate equally and benefit from shared opportunities [7]. Through collective action and mutual support, members are better able to challenge social inequalities and advocate for their rights. SHGs serve not only as financial institutions but also as platforms for social empowerment. The solidarity, encouraging participation, and strengthening social networks, these groups contribute significantly to the broader goal of inclusive development.

4. Challenges and Limitations

Despite the significant benefits associated with microfinance and Self-Help Groups, several challenges and limitations can affect their overall effectiveness in promoting women's empowerment and social inclusion. Addressing these issues is essential to ensure the sustainability and long-term impact of such initiatives. One of the major challenges is the limited financial literacy among many participants. Women who join microfinance programs or SHGs often have little prior experience with financial management, which can lead to difficulties in managing loans, maintaining savings, or investing funds effectively.

Without adequate training and financial education, some participants may struggle to utilize credit productively, potentially leading to repayment difficulties or financial stress. Another challenge is the risk of over-indebtedness. In some cases, participants may take multiple loans from different microfinance institutions or informal lenders [8-9]. This can create financial pressure and increase the risk of default, especially if income-generating activities do not generate expected returns. High interest rates charged by certain microfinance institutions may further exacerbate this problem, reducing the financial benefits for borrowers.

Socio-cultural barriers also remain a significant limitation to the success of microfinance and SHG programs. In many traditional societies, gender norms restrict women's mobility, decision-making authority, and access to economic opportunities. Even when women receive financial support through microfinance programs, they may still face resistance from family members or community structures that limit their ability to manage financial resources independently. Institutional challenges also affect the sustainability of SHGs. In some cases, groups may lack proper training, guidance, or supervision, which can lead to poor record-keeping, mismanagement of funds, or conflicts among members. Weak institutional support from government agencies or financial institutions may further limit the growth and effectiveness of SHGs [10-11]. Market access is another important challenge. Women who start small enterprises through microfinance support may struggle to find reliable markets for their products or services. Limited infrastructure, lack of marketing skills, and competition from larger businesses can hinder the success of these ventures. Without proper market linkages and entrepreneurial training, the income-generating potential of microfinance-supported enterprises may remain limited, external factors such as economic instability, natural disasters, or public health crises can negatively affect microfinance programs and the activities of SHGs. These factors may reduce household income and increase financial vulnerability, making it more difficult for participants to repay loans or sustain their businesses. To overcome these challenges, it is important for policymakers, financial institutions, and development organizations to adopt integrated strategies that combine financial services with capacity-building programs. Providing financial literacy training, entrepreneurial education, market access support, and strong institutional frameworks can significantly enhance the effectiveness of microfinance and SHG initiatives [12-13]. Such comprehensive approaches are essential for ensuring that these programs achieve their intended goal of empowering women and promoting inclusive development.

5. Conclusion

Microfinance and Self-Help Groups (SHGs) have emerged as powerful tools for promoting women's empowerment and fostering social inclusion in developing economies.

The providing access to financial resources, savings opportunities, and small-scale credit, these initiatives enable women to participate more actively in income-generating activities and improve their overall economic well-being. Increased financial independence not only strengthens women's role within households but also enhances their confidence, decision-making capacity, and ability to contribute to family and community development. SHGs play a crucial role in building social capital among women. Regular group interactions create opportunities for knowledge sharing, collective decision-making, and mutual support. Through these platforms, women gain greater awareness of social issues, government welfare schemes, and their legal rights. Participation in SHGs also encourages women to engage in community development activities, thereby promoting social cohesion and strengthening their role in local governance and public life, the significant progress achieved through microfinance and SHG programs, several challenges remain. Issues such as limited financial literacy, socio-cultural constraints, inadequate institutional support, and restricted access to markets can reduce the effectiveness of these initiatives. Addressing these barriers requires a comprehensive approach that integrates financial services with education, skill development, and capacity-building programs. For microfinance and SHGs to achieve their full potential, policymakers and development organizations must strengthen institutional frameworks and ensure that women receive adequate training and support. Promoting financial literacy, improving market linkages, and encouraging community participation can significantly enhance the sustainability and impact of these programs, well-designed microfinance and SHG initiatives can serve as important drivers of gender equality, poverty reduction, and inclusive socio-economic development.

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