

# Role of Microfinance Institutions on Women Empowerment in Afghanistan

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**Abstract:** Microfinance Institutions are extensively recognized as a mechanism for reducing poverty and assisting vulnerable people in accessing financial services. Prior research proved that microfinance helps to eradicate poverty and uplifts the oppressed sections of society. MFIs are thought to be essential in improving people's lives in Afghanistan, and their members have steadily increased since 2003. In this study, the authors examine the role of MFIs on women's empowerment in Afghanistan regarding financial assistance to the family, business growth, and economic development. MISFA and AMA support MFIs and women borrowers by providing a wide range of services while actively participating in research, product development, and innovation to help borrowers. The authors collected data from 124 MFIs/Banks staff, and the one-sample t-test was used, indicating that MFIs played a substantial role in women's empowerment in Afghanistan. It also used principle component analysis to identify the four main factors of empowerment: business and financial growth, capacity building, economic development, and financial services.

**Keywords:** Afghanistan, Microfinance, Microfinance Institutions, Women Empowerment.

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## I. Introduction

The traditional form of the microfinance foundation has been used in numerous industries worldwide. Modern microfinance, however, did not exist until the 1900s. It's challenging to pinpoint the precise year, period, and place where microfinance first appeared. The world's poor invented microfinance, but researchers didn't learn about it until the 1960s (Athanas, 2011). The microfinance initiative has developed a perception of the improvised people in many countries. Large credit flows have been created in some countries, primarily to low-income communities and households previously excluded by traditional financial institutions (Kurmanalieva et al., 2003).

Microfinance programs are used worldwide to empower the poor, assist them in rising out of poverty, and let them participate fully in their country's economic and cultural development (Otero, 2005). Also, Microcredit provides a wide range of financial services to low-income people and their micro-businesses, such as payment, credits, deposits, cash, transfers, and insurance, to alleviate poverty (Lazer 2008). MFIs have grown popular as an economic development strategy for low-income people since the late 1990s. As Yunus (2007) suggested, microfinance programs can assist the poor in producing more money and address poverty-related challenges.

In the context of Afghanistan, the Microfinance Investment Support Facility for Afghanistan (MISFA) started an effective program for the Afghan people and was established in 2003. Most of the International donors assisted in establishing this kind of mechanism for poor people to improve their incomes, start businesses, and decrease poverty. Therefore, the Afghan Reconstruction Trust Fund (ARTF) of the World Bank provided technical knowledge in the microfinance sector in Afghanistan. Consultative Group for Assisting the Poor (CGAP) was taken action; this system has helped to organize donor funding, encouraging global and local NGOs to join the microfinance industry and helping to satisfy the sector's increasing requirements. MISFA was recently converted by an organization within a government program into an Afghan business with limited liability. It is now a non-share holding company governed by an independent board of directors and controlled by the Ministry of Finance (MoF). Later MISFA established AMA - Afghanistan Microfinance Association in 2005, and it started operations under Afghanistan's Ministry of Justice in 2007. Afghanistan Microfinance Association (AMA) framed itself as an association that supports the broader development finance industry in Afghanistan, with assistance from the United States Agency for International Development (USAID)'s Financial Access for Investing in Development of Afghanistan (FAIDA) project and continuous support from MISFA. According to the AMA's June 2022 report, 107 branches and six microfinance institutions are operating throughout the country, with a total gross loan portfolio of 4,471,321,394 AFN. Around 88,543 active

borrowers—of whom 36% are women—and 2,031 employees work for these financial institutions (AMA, 2022).

This paper explores whether MFIs positively impact women's empowerment in income generation, business growth, employment opportunities, economic decision-making, and gender equality.

## **II. Literature Review**

MFIs have developed as a framework for poverty alleviation and economic development. According to Rajasekar (2004), MFIs give services to the most disadvantaged to pursue income-generating services and have greater recovery rates. Arunkumar et al. (2016) determined the role of microfinance on women's empowerment through self-help groups. They stated that women's participation in the Self Help Group positively impacts their income earnings, family income, family financial decisions, development in living conditions, change in social communication, and awareness about society's problems. Furthermore, They concluded that microfinance and involvement in Self-Help Groups empower women.

Mrema (2016) described microfinance's impact on women's empowerment and assessed PRIDE MFI's efficiency in women's empowerment in Uganda. He found a direct relationship between women's empowerment and MFIs' performance. He stated borrowers who choose to invest their availed credit in income-generating activities such as gaining assets, financial knowledge, house development, and identification in the community had practiced females' empowerment due to enhancement in earning.

Sarwari and Srivatsa (2021) intended to explore the empowerment of women members of Muslima and non-Muslim Self Help Groups in Karnataka, India. According to the study, microfinance significantly influences women's empowerment in both groups. Non-Muslim women, on the other hand, were more empowered than Muslim women. In another study, Sarwari and Srivatsa (2021) investigated whether Muslim women had been empowered through involvement in Self-Help organizations. The study surveyed 346 Muslim women in Dakshina Kannada and used the Wilcoxon signed ranked test and Kruskal Wallis. The findings demonstrated a strong influence of microfinance on Muslim women empowerment's financial and social parameters. However, four Taluks of research participants had different levels of empowerment.

According to Barr (2004), access to finance would enhance the poor's economic status by giving them greater access to treatment and education, improving the workforce's productivity. As a result, MFIs should complement the official financial system because they can provide loans to the poor. Furthermore, MFIs can assist disadvantaged people in increasing their income and asset base. Another research conducted in Kurukshetra, Haryana, discovered that microfinance, particularly micro-savings, is progressively growing as a beneficial, practical way to reduce poverty (Tripathy, 2006).

According to Echavez et al. (2012), people enrolled in the MFIs program are more proactive than other groups in Afghanistan and can move swiftly outside their houses. In this context, the concept of women's jobs to earn an income was widely accepted in the culture. The dedication of women to participate in successful work with their houses was appreciated and fostered by society. Moreover, they stated that MFIs strongly influenced all-female borrowers to use the loan to create or grow a small business.

Sultani et. (2021) researched the role of microfinance in borrowers' income and employment prospects in Bamyān, Afghanistan. They revealed that microfinance substantially affects income generation and job opportunities. Furthermore, their findings indicated that the participants increased their earnings and job opportunities. In another research, Chandrashekhar and Sultani (2021) examined the effect of microfinance on women's income after using microfinance services in Afghanistan. According to the findings, microfinance outcomes considerably increase Afghan women entrepreneurs' income and job opportunities.

### **The objective of the study**

The study examines the role of MFIs on women's empowerment regarding income generation, financial assistance for families, business growth, and economic development.

### **Hypothesis**

H<sub>0</sub>: Microfinance has not played a significant role in Afghanistan.

## **III. Methodology**

The primary data for the present study was gathered via a structured questionnaire, and it was an empirical study that also used secondary data. The English-language structured questionnaire was created using Google Forms online. The questionnaire used a scale of 1 to 5, with 1 being a strong disagreement and 5 a strong agreement, for variables showing the MFIs' roles.

**Reliability, Validity Test, and Pilot Testing**

The reliability of the questionnaire for this study was evaluated by calculating Cronbach's alpha scores. The Cronbach alpha value for 14 questions in the structured questionnaire regarding the role of MFIs in empowering women. The Cronbach alpha value was (0.832) which is appropriate according to Nunnally (1978).

**Sampling Technique and Sample Size**

The researcher used a purposeful non-probability sample technique for the MFI staff in three Afghan provinces. 124 responses were gathered after the researcher created an online Google Form and sent it to MFI staff with an appropriate understanding of microfinance in Afghanistan. 2,670 employees were working for MFIs in total in 2019. Based on purposive sampling, the researcher chose 124 employees from three provinces of Afghanistan. The respondents were the CEO, CFO, Regional Director, Manager, Deputy Branch Manager, Senior Loan Officer, and Loan Officer.

**IV. Analysis Parts**

**Table no 1.** Descriptive Statistics of Demographic

	N/Valid Cases	Median	Std. Deviation
Designation	124	Loan Officer	3.11406
Province	124	Kabul	.74367
Geographical Background	124	Urban	.70049
Gender	124	Male	.42501
Age	124	31-35 Years	1.21391
Qualification	124	Bachelor	.61068
Working Experience	124	4 -6 Years	1.72520

*Source: field survey data*

Table 1 indicates that, of the 124 individuals in the sample, 16 (12.9%) are loan officers, 92 (74.2%) belong to Kabul Province, and 103 (83.1%) are urban residents. Additionally, 39 (31.5%) of the staff members were between the ages of 31 and 35, and 95 (76.6%) were men. Moreover, 86 employees, or 69.4%, had bachelor's degrees. Likewise, 29 (23.4%) employees had 4 to 6 years of experience.

**Table no2.** Role of Microfinance Institutions on women's Empowerment in Afghanistan

Item Numbers	SD		D		N		A		SA		Total		
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	N	Mean	SD
1	4	3.2	0	0.0	5	4.0	70	56.5	45	36.3	124	4.2	0.8
2	2	1.6	3	2.4	9	7.3	65	52.4	45	36.3	124	4.2	0.8
3	5	4.0	12	9.7	18	14.5	67	54.0	22	17.7	124	3.7	1
4	1	0.8	1	0.8	15	12.1	62	50.0	45	36.3	124	4.2	0.7
5	4	3.2	1	0.8	10	8.1	73	58.9	36	29.0	124	4.1	0.8
6	3	2.4	3	2.4	11	8.9	70	56.5	37	29.8	124	4.1	0.8
7	1	0.8	4	3.2	18	14.5	72	58.1	29	23.4	124	4	0.8
8	0	0.0	5	4.0	11	8.9	60	48.4	48	38.7	124	4.2	0.8
9	4	3.2	1	0.8	16	12.9	71	57.3	32	25.8	124	4	0.8
10	3	2.4	7	5.6	26	21.0	66	53.2	22	17.7	124	3.8	0.9

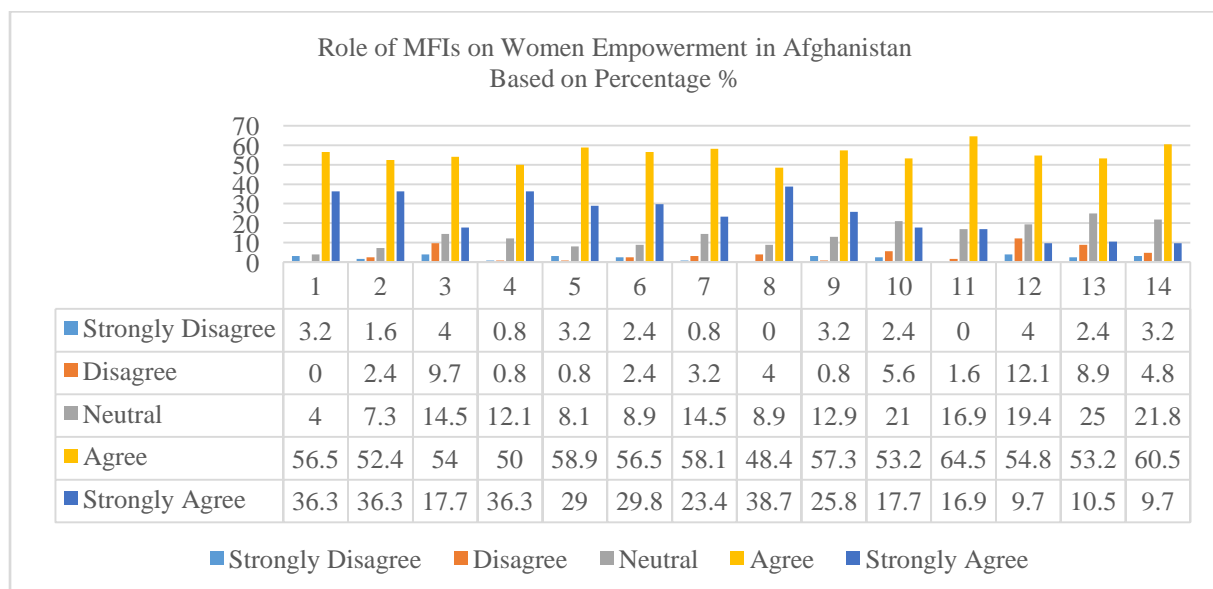
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11	0	0.0	2	1.6	21	16.9	80	64.5	21	16.9	124	4	0.6
12	5	4.0	15	12.1	24	19.4	68	54.8	12	9.7	124	3.5	1
13	3	2.4	11	8.9	31	25.0	66	53.2	13	10.5	124	3.6	0.9
14	4	3.2	6	4.8	27	21.8	75	60.5	12	9.7	124	3.7	0.8
15												4	0.5

Source: Survey data

**Items details:**

1. Microfinance is an essential tool in socioeconomic development and plays a vital role in reducing poverty
2. MFIs provide loans and financial services to Small and Medium Enterprises.
3. Microfinance is the source of loans, savings, and other essential financial services to the neglected section of the society
4. The role of MFIs is to provide employment opportunities for women
5. The role of MFIs is to help existing businesses grow or diversify their activities.
6. The role of MFIs is to encourage the development of new businesses
7. The role of MFIs is to empower women or other disadvantaged sections of the society
8. Microfinance is the greatest means of poverty alleviation
9. MFIs help to increase borrowers' income
10. MFIs help to improve borrowers' saving
11. Microfinance is helping borrowers in better access financial literacy
12. Microfinance is helping borrowers in accessing formal education
13. MFIs have specific capacity-building programs for women employees
14. Microfinance is helping borrowers in accessing asset acquisition
15. Overall Role



Source: Survey data

According to the survey of 124 staff members, the mean score for the statement "Microfinance is an essential tool in socio-economic development and plays a vital role in reducing poverty" is  $4.2 \pm 0.8$  %, around 92.8% of the respondents expressed a positive opinion about the importance of microfinance.

The average score for the statement "MFIs is the provider of loans and financial services to SMEs" was  $4.2, \pm 0.8$ . Around 88.7% of the employees agreed with this statement. The mean score for the statement "MFIs is the provider of loans, savings, and other basic financial services to the neglected section of the society" was  $3.7, \pm 1.0$ . Among the respondents, with 71.7 % agreed and strongly agreed with this statement. The mean score for the statement "MFIs provide employment opportunities for women" was  $4.2, \pm 0.7$ , with 86.3 % of the staff agreeing and strongly agreeing. "The role of MFIs is to help existing businesses to grow or diversify their activities" got a mean score of  $4.1 \pm 0.8$ . Around 87.9 % of the respondents agreed. The mean score for "The

role of MFIs is to encourage the development of new businesses" was 4.1, ± 0.8, and 86.3 % of the respondents agreed.

The mean score for "The role of MFIs empowers women or other disadvantaged sections of the society" was 4.0, ± 0.8. Around 81.5% indicated they agree and strongly agree. The statement "Microfinance is the best tool for poverty alleviation" had a mean score of 4.2 ± 0.8. The results show that 87.1 % of the respondents agreed and strongly agreed with it. The statement "MFIs help to increase borrowers' income" had a mean score of 4, ± 0.8. The results reveal that 83.1 % of the respondents agree and strongly agree with the statement. The mean score for the statement "MFIs help to increase borrowers saving" was 3.8, ± 0.9, and 70.9% of the staff responded positively. The average score for the statement "Microfinance is helping borrowers in better access to financial literacy" was 4.0, ± 0.6. According to the survey, 81.4 % of the respondents agree and strongly agree. The mean score for "Microfinance is helping borrowers in accessing formal education" was 3.5, ± 1.0, and around 64.5 % of the respondents agreed and strongly agreed. The average score for the statement "MFIs have specific capacity building programs for women employees" was 3.6, ± 0.9. Around 63.7 % of the respondents agree and strongly agree with this statement. The proposition "Microfinance is helping borrowers in accessing asset acquisition "got a mean score of 3.7, ± 0.8. Around 70.2 % of the respondents agree and strongly agree with it.

Overall, the mean score for the role of MFIs on women empowerment in Afghanistan was 4, ± 0.5, with a one-sample t-test value of = 11.87, p=0.000, indicating that MFIs played a substantial role in women empowerment in Afghanistan. Therefore, the null hypothesis is rejected.

**Principle Component Method**

Factor analysis is employed using principal component analysis to identify and categorize different dimensions of MFI's role in women's empowerment.

**Table no 3.KMO and Bartlett's Test**

<i>KMO and Bartlett's Test</i>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.810
Bartlett's Test of Sphericity	Approx. Chi-Square	554.730
	df	91
	Sig.	.000

Source: Survey data

The KMO of 0.810 measured by SPSS 25 shows that factor analysis is appropriate for this adoption survey data. Moreover, Bartlett's test of Sphericity is statistically significant ( $p < 0.05$ ). And according to Kaiser (1974), a KMO value greater than 0.5 is acceptable. There are mediocre values between (.5-.7), good values between (.7-.8), and excellent values between (.8-.9); thus, factor analysis is applicable.

**Table no 4.Extraction Method: Principal Component Analysis.**

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.778	34.129	34.129	4.778	34.129	34.129	2.861	20.437	20.437
2	1.526	10.896	45.025	1.526	10.896	45.025	2.198	15.703	36.140
3	1.151	8.223	53.248	1.151	8.223	53.248	2.181	15.579	51.719
4	1.032	7.371	60.619	1.032	7.371	60.619	1.246	8.900	60.619
5	.913	6.523	67.143						
6	.823	5.881	73.024						
7	.736	5.256	78.280						

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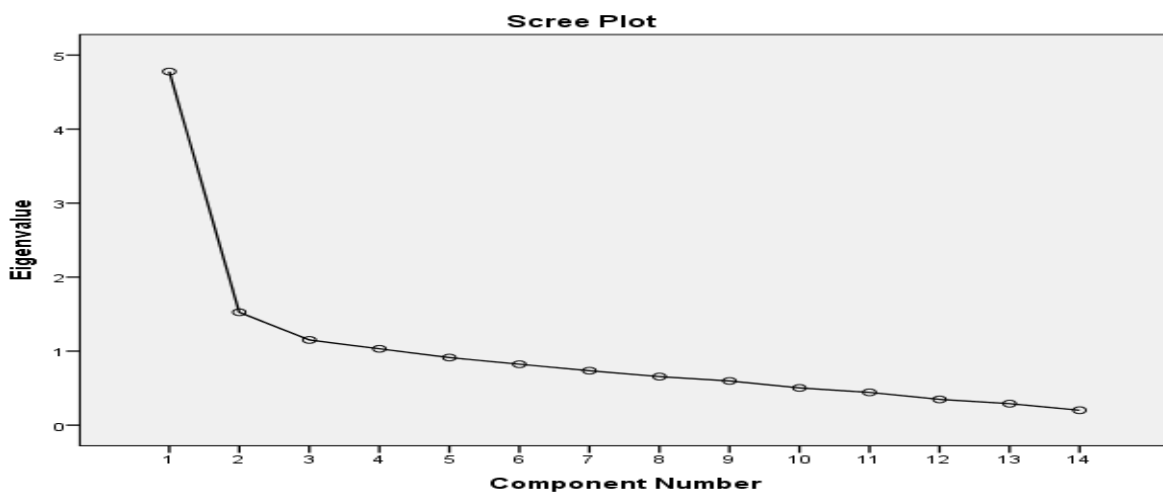
8	.656	4.688	82.968						
9	.598	4.269	87.237						
10	.503	3.595	90.832						
11	.443	3.165	93.997						
12	.348	2.487	96.484						
13	.291	2.076	98.560						
14	.202	1.440	100.000						

Source: Survey data

Four factors were extracted using the Extraction Method and Principal Component Analysis, as shown in the Scree-test. Using the eigenvalue and proportion of Variance described requirements (Kaiser, 1960), factor meaningfulness criterion (Pituch& Stevens, 2016), and the scree plot method, the factors were kept (Cattell, 1966). The eigenvalues of the retained factors are more significant than 1, and the proportion of variance explained by each component is more important than 5% of the total Variance. In the following graph, the scree plot specifies that four factors appear before the turning point on factor number. Consequently, extractions are based on the four following factors:

The first factor comprises five variables and has a variance of 34.12%. The second factor consists of three variables and has a variance of 10.89 %. The third factor includes five variables that exhibit a variation of 8.22 %. The fourth factor comprises one variable that accounts for 7.37 %. Overall, the fourteen variables with four major components (Factors) explained 60.61 % of the total Variance, which is significant because the Variance could be 50% or even less than 50% (Pituch& Stevens, 2016).

**Figure1.ScreePlot**



**Table no5.Rotated Component Matrix of Role of MFIs and Microfinance**

Factors	Items	F1	F2	F3	F4
Business and Financial Growth	Support the development of new businesses	0.735			
	Help to increase borrowers' income	0.707			
	Help to increase borrower's saving	0.668			
	Help existing businesses grow	0.631			
	Support women's empowerment	0.573			
Capacity Building	Helping borrowers' in accessing formal education		0.716		

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	Helping borrowers in asset acquisition		0.712		
	Facilitate capacity-building programs for women employees		0.686		
Economic development	Provide employment opportunities for women			0.689	
	Supply of loans and financial services			0.664	
	Plays a vital role in socioeconomic development			0.633	
	Helping borrowers in better access financial literacy			0.554	
	Best tool for poverty alleviation			0.426	
Financial Service	Supply of loans, savings, and financial services to the neglected society				0.836
% Variance		34.12	10.89	8.22	7.37
Eigenvalue		4.77	1.52	1.15	1.03
Extraction Method: Principal Component Analysis, Rotation Method: Varimax with Kaiser Normalization, Rotation converged in 8 iterations					

*Source: Survey data*

The first factor, "Business and Financial Growth," includes five variables (MFIs support the development of new businesses with a factor loading of 0.735, MFIs help to increase borrowers' income with a factor loading of 0.707, MFIs help to increase borrower's savings with a factor loading of 0.668, and MFIs help existing businesses to grow by factor loading of 0.631, MFIs support women's empowerment factor loading 0.573 with a variance 34.12 % and Eigen-value of 4.77.

The second factor, "capacity building," includes three variables that MFIs provide employment opportunities for women. Microfinance helps borrowers in asset acquisition, and MFIs facilitate capacity-building programs for women employees with a factor loading of 0.716, 0.712, and 0.686, respectively, with a variance of 10.89% and an Eigen-value of 1.52.

The third factor is "Economic development," which includes five variables the role of MFIs is to provide employment opportunities for women, provide loans and financial services, plays a vital role in socio-economic development, help borrowers better access financial literacy, and best tool for poverty alleviation with a factor loading of 0.689, 0.664, 0.633, 0.554 and 0.426 respectively with a variance 8.22% and Eigen-value of 1.15.

The fourth factor, "financial services," has only one variable (MFIs are the supplier of loans, savings, and financial services to the neglected society with a factor loading of 0.836) with a variance of 7.37% and an Eigenvalue of 1.03.

The Principle Components Analysis identified four domains of empowerment in Afghanistan, each defining and including various components. As the above analysis illustrates, the first Principle Components Analysis explains economic empowerment, the second factor determines capacity empowering, the third factor shows poverty alleviation, and the fourth component describes the financial saving sources.

### **V. Conclusion**

The present study examined the role of MFIs on women's empowerment in Afghanistan's three provinces, Kabul, Baghlan, and Bamyan. The study's results revealed that MFIs had a significant role in women's empowerment in Afghanistan. They helped the women borrowers in terms of socio-economic development, employment opportunities, business growth, development of new businesses, borrowers saving, assisting borrowers in better access to financial literacy, and borrowers accessing asset acquisition. Further, the result indicates that microfinance played a substantial role in women's empowerment in Afghanistan. This study also discovered the role of MFIs in Afghanistan through Principle Component Analysis and identified four major factors that influence women's empowerment: 'Business and Financial Growth,' 'capacity building,' 'Economic development,' and 'financial services.'

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