

# Research Paper: The Effect of Microcredit Accounts for the Empowerment of Rural Women (Case Study: Hamedan Province, Iran)

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## ABSTRACT

**Purpose:** This study examines the effect of microcredit accounts, Empowerment of rural women and rural development. Survey research was conducted in the second half of 2021. The study's sample comprises rural women in microcredit accounts in Karim Abad and Parluk villages in Saleh Abad County in Hamedan Province.

**Methods:** A questionnaire was used for data collection, but interviews, observations, and field studies were also used. Experts confirmed that the questionnaire had a valid face. The questionnaire was given to credit, economy, banking, and financial credit experts to determine its reliability. As a result of Cronbach's alpha analysis, a value of 0.82 was obtained, which is very satisfactory. SPSS software was used to analyze the data to identify the key factors.

**Results:** Based on the value of variance, we present five significant factors that influence microcredit accounts of rural women in this study: economic and motivational factors (16.051), social damages (14.701), satisfaction (14.545), empowerment of employment (9.057), and investment development (7.371).

**Conclusion:** The rationalization sessions should be held for those not members of such credits to familiarize them with the development of such distinctions and encourage them to engage in profitable occupations. A further suggestion is to establish a communicative network among these credit institutions in other villages to share experiences and learn from one another.

## 1. Introduction

**A**

lthough rural women play a significant role in the local economy, their contribu-

tion cannot be widened due to a deficiency of finance, not only for investing in income generation but also for sound financial support, which is essential to improve their social, economic, and psychological lives. Rural women are not given easy access to commercial banks

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for financial assistance. This is due to the lack of sufficient collateral and the inability to fulfill the necessary legal requirements. Although individual money lenders filled this gap in the early days, the batten has shifted to micro-credit financing (MCF) institutions. These institutions offer micro-finance loans for high-interest rates that are easily accessible. Due to the attractive characteristic of easy access, it has become popular and spread all over the country, making addicted followers. Since this micro-credit financing is actively based on rural women, it is time to study how it affects rural women (Guruge et al., 2023).

Women's empowerment has become one of the critical priorities for sustainable development around the world. Even in developed countries, this factor is also being considered, as women in developed countries experience several types of discrimination differently. For developing countries, gender inequality has been established as one of the most vital obstacles to progress. Indeed, women's empowerment has been reflected as a significant indicator of the sustainability of women's success and Well-being (Guruge et al., 2023). Bangladesh is a developing country; until recently, it has been predominantly rural. In total, 66% of Bangladesh's population lives in rural areas (World Bank, 2015). This creates vulnerability for women in the isolated regions in villages and thus necessitates focusing on the impact of micro-credit accessible to people experiencing poverty. Out of 144 countries, Bangladesh has been ranked 75th according to the 2015 gender gap index of the World Economic Forum (Schwab, 2015).

Microcredit is a functional method to generate income, reduce poverty, and increase food security and women empowerment by boosting economic development (Roodman & Morduch, 2014). Microcredit is a way to begin participating in achievable income generation activities essential to securing working capital or credit to assist people experiencing poverty when they need assistance. Microcredit is a collateral-free investment, mainly for poor female clients, to help them achieve the requirements for their empowerment projects. Most poor women cannot access formal credit from traditional banks and other monetary organizations. As Yunus notes, this occurs "because untrained or illiterate poor are not poor; they are poor because they cannot retain the sincere returns of their labor. The reason is evident—the poor have no control over the capital that calls the tune, and poor rural women work for the benefit of someone else who controls the capital" (Yunus, 2007). Microcredit schemes aim to improve the lives of poor people by helping them select an inclusive financial organization to

alleviate their poverty. Microcredit also helps poor women set forth a path of transformational empowerment to enhance sustainable development. Subsequently, microcredit has reconstructed the economic and social configurations at the grassroots level by financially supporting small-income households (Rahman et al., 2017). Accordingly, the study (Morduch, 1999) stated that the welfare of rural female borrowers has been significantly influenced by microcredit schemes in Bangladesh, consisting of household expenses, assets, and education. In addition, the work of (Pitt et al., 2006). They assessed that the prospective impact of microcredit programs is associated with decreasing the lack of rural households by suggesting methods for easy consumption and income. Furthermore, microcredit has significantly enhanced household incomes, crop production, livestock, expenditures, and employment in Bangladesh's agricultural and rural sectors. While Bangladesh has reached its maximum coverage of microcredit programs, it has still not reached a level of satisfaction for all rural women (Akhter & Cheng, 2020).

The general inaccessibility of factors of production, primarily finance, in less developed countries inhibits the attainment of development goals. Thus, people, especially people experiencing poverty, are limited in their ability to become entrepreneurs. Therefore, potential employment opportunities and household prospects for creating wealth and improving income are lost. Microcredit has been one of the frameworks used to address this issue. A significant part of its evolution has been recognizing credit market failures, particularly in the formal financial sector. Microfinance, combining savings and credit, has replaced the formal financial sector. Accordingly, saving services, rather than simply loans, can help improve the welfare of people experiencing poverty, particularly women (Vonderlack & Schreiner, 2001).

The literature has defined institutions in a variety of ways. In other words, they are any form of constraint that human beings devise to shape their interactions with one another, i.e., a framework within which individual interactions are conducted (Jutting, 2003). As defined, institutions can be described as "the rules of the game" in a society or as human constrictions determining human behavior (Junior and Smith). An institution comprises norms, regulations, and laws that establish the rules governing a "game." These rules change individual and group behavior to make it more predictable. Formal and informal means are used to accomplish this, including laws, contracts, and social norms and conventions that have developed over the years (Wiggins & David, 2006).

There are two types of institutional frameworks within a society: formal and informal (Leftwich, 2006). Formal rules and constraints, including political and economic constraints, govern it. As part of the bedrock on which formal institutions are based, constitutions, statutes, common laws, and other legal documents are necessary.

By contrast, informal institutions supplement formal institutions and are governed by customs, traditions, conventions, taboos, and unwritten laws and regulations. Any economy or society, including developed and developing countries, can benefit from informal institutions. In less developed countries, informal institutions are more important and more prominent due to formal institutions' poor or underdeveloped state. In addition, few formal institutions exist, often weak and insufficient to serve the needs of a large proportion of society, especially the less materially endowed (Jutting, 2003; Junior & Smith 2004).

The impact of microfinance on poverty reduction is not automatic, although there is evidence to support this. MFIs must reach the poor and very poor in order to reduce poverty. In this regard, practitioners and donors are interested in assessing the poverty levels of microfinance clients and poverty outreach efforts (Weiss & Montgomery, 2004). An improved understanding of the target market and whether it is being reached can assist practitioners in designing financial services catering to the needs of different demographic groups. Assessing poverty outreach and impact can help donors determine the best way to allocate resources to reduce poverty. It is essential to conduct poverty outreach to determine who is being reached by microfinance based on their poverty level. In contrast, impact assessments help to determine whether microfinance has a positive effect on their well-being.

Zeller et al. (2000) state that "the excitement regarding microfinance and poverty alleviation is not supported by sound facts derived from rigorous research." Impact evaluations are sometimes a reluctance of governments, institutions, and project managers because they can be time-consuming, expensive, technically complex, and politically sensitive, especially if they are negative (Baker, 2000).

Despite this, a rigorous evaluation can be used to assess the appropriateness and effectiveness of a program. A developing country, where resources are relatively scarce, should maximize every dollar spent on poverty reduction to maximize its impact (Baker, 2000). MFI management and customer service can be improved

through impact analysis. As a result, there is a strong argument in favor of attempting to assess the depth of MFI outreach and the impact of MFI services on the welfare of the clients.

Providing financial assistance to poverty-stricken individuals who are interested in starting their businesses is the purpose of this loan. In most cases, the maximum loan amount for this type of loan is a couple hundred dollars, so an impoverished individual is unlikely to be able to rely exclusively on the loan to fund their business. Is there a difference between microfinance and microcredit?

There are several differences between microcredit and microfinance, but these terms are commonly used interchangeably. In addition to the definitions of microcredit and microfinance provided above, some differences between these concepts are outlined below.

"A microcredit loan is a tiny loan provided by a legally recognized institution to an unsalaried borrower with little or no collateral. Microcredit does not typically include consumer credit provided to salaried workers based on automated credit scoring, though this may change in the future.

Microfinance typically refers to various financial services, including credit, savings, insurance, money transfers, and other financial products provided by different service providers and aimed at poor and low-income individuals." In addition, the most crucial point regarding microfinance and microcredit is that these types of financial services are intended to assist people in creating jobs and small businesses and to enable them to achieve financial independence (Jutting, 2003; Junior & Smith, 2004).

## 2. Literature Review

Micro-credit financing MCF can be defined as providing small loans with higher interest rates and shorter repayment periods, which provide virtual collateral for the poor segment of the community to enhance their living standard and alleviate poverty (Pureza, 2022). Microcredit provides a small loan amount that may depend on the nature of the requirement and situation (Pureza, 2022). Yogendrarajah, & Samasinghe (2016) concluded that the interest rate of micro-credit is higher than traditional banking loans due to limited periods, higher administrative costs, and high risk due to collateral-free loans. Karlan and Zinman (2011) examined Microcredit in Theory and Practice Using Randomized Credit Scor-

ing for Impact Evaluation, evidence from the study suggests that MCF supports the country's economy and has an overall positive effect on the financial sector by fulfilling the capital requirement for collateral fewer people. Rural women are a significant force in the country's development and play a dual role in society by supporting the economic improvements and well-being of the family.

Micro Credit financing has been a significant topic for two decades been a critical component for promoting decent work to enhance women's status (ILO, 2006). Even though microcredit is considered an effective and innovative measurement for poverty alleviation, especially improvement in women's economic, social and psychological conditions, some negative issues due to high-interest rates have been reported in developing countries. However, generally, microcredit financing provides pure financial support and improves women's social status (Weber, 2013).

Several types of MCF models are practiced in Sri Lanka. Community banking model, Grameen-type group collateral lending model, Individual lending, using the group as a focal point, Self-help groups, Credit unions / Cooperatives, and ROSCAs are some of them (Perera & Wijekoon, 2019).

Since the mission is to enhance clients' well-being by alleviating poverty, an MCF should impact client income and living standards (Weber, 2013). However, according to Vaida (2022), microcredit can be a "loan shark" that provides easy credit to borrowers at high-interest rates, sometimes 1.5 percent per day. Microcredit does not increase income; it dives the poor segment into a debt trap.

In its simplest form, microcredit provides credit and other financial services for those deprived of a formal banking system (Hossain, 2020). It helps low-income or non-earning people obtain a financial loan and benefits

their earning capabilities to help them meet their living standards. Considered to be an effective tool for poverty alleviation and a method of financial inclusion for the poor and unbanked, microcredit was initiated by Professor Muhammad Yunus in the 1970s and later gained popularity (Morduch, 1999). At an overwhelming rate worldwide, this financial process has increased the numbers of its users in developing countries, and according to recent data sheets, more than 200 million people are direct or indirect beneficiaries of this system (Anderson et al., 2002). Microcredit remarkably assists users' multidimensional well-being and improves rural living standards (Adjei et al., 2009). Since the term "women empowerment" is a crucial topic, it appears throughout the literature. Rural women empowerment refers to expanding women's assets and capabilities to participate, sit at the table, negotiate, and control and hold accountable the institutions that affect their lives (Mahmud, 2013) Women's absolute and relative well-being is an observable dimension of women empowerment. Absolute well-being is the process of improving women's success. It is indicated by outcomes that measure the current status of literacy, health and nutrition, labor force participation, mobility, and ownership of assets. In contrast, relative well-being is the process of improving the position of women relative to men within the household and is indicated by women's involvement in household processes, such as decision-making control over household income, assets, and loans (Alkire et al., 2013) Women empowerment begins when women understand how socio-cultural, economic, and political forces adversely affect them and thereby become aware of the socio-psycho-cultural inequity that is being imposed upon them. This process starts with the awareness and understanding of women's positive self-image, self-confidence, rights and duties, capabilities, and potential (Allsopp & Tallontire, 2015) (Figure 1).

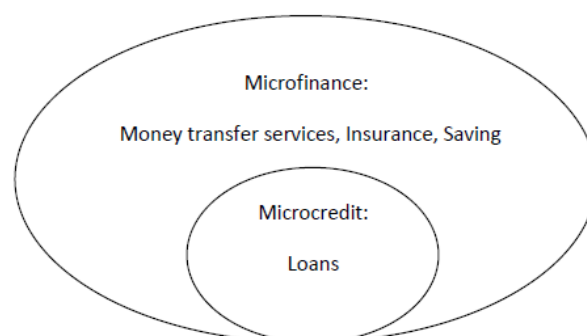


Figure 1. Microcredit V. Microfinance

Reference: Nkamura, 2009: 4

### 3. Methodology

Geographically, this study encompasses Karim Abad and Parluk rural areas. This group of rural is from Saleh Abad City, Hamedan. The organization is one of the oldest and most successful microcredit funds to assist rural women in the country. The study involved the conduct of a survey. A sample of rural women members of the rural microcredit fund in Karim Abad and Parluk rural has been analyzed due to the low number of members (fewer than 200 people per rural). As part of this study, the selection and analysis of the statistical population, their frequency, distribution, and their relationships have been discussed. In addition to interviews and observations, studies and documents were used to collect data. Experts have approved the accuracy of the index and items in the questionnaire, or the face validity. In order to assess the reliability of the research instrument, a questionnaire was distributed to experts in economics, banking sector credit, fund credit, and financial services. It is acceptable to achieve Cronbach’s alpha at 82%. Because research significantly impacts society, we describe and analyze their data in this study. A factor analysis was used to identify the critical factors in the data analysis.

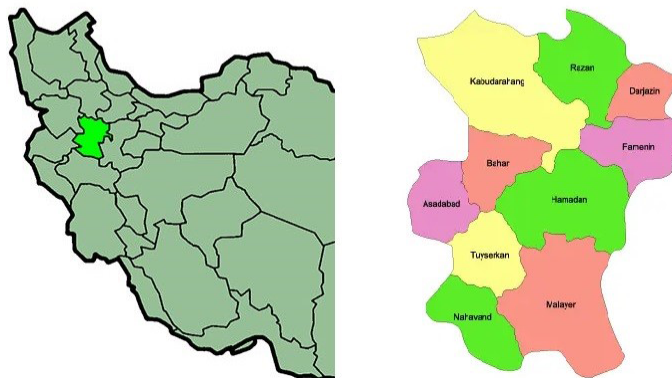


Figure 2. Map of the study area



A questionnaire was used for data collection, but interviews, observations, and field studies were also used. This study examines the effect of microcredit accounts, Empowerment of rural women and rural development. Survey research was conducted in the second half of 2021. The study’s sample comprises rural women in microcredit accounts in Karim Abad and Parluk villages in Saleh Abad County in Hamedan Province (Figure 2). In order to identify the key factors, SPSS software was used to analyze the data.

### 4. Findings

Study results indicate that the average age of the women enrolled was 33.96 years. Participants were required to be at least 20 and at most 60. 27.1% of the women were illiterate, and 6.3% had a primary school diploma. Most (44.8 percent) held a junior high school diploma, while 22.9 percent held a college degree. Additionally, 46.9% of respondents were from Karim Abad and 53.1% from Parluk. Fund membership was open to women between 1 and 10 years of age. There was an average membership duration of 5.55 years. By contrast, 35.4 percent of background members were aged nine or older.

Table 1. Uses of received loans by members of the fund

Uses	Percentage	The actual percentage
*Nothing	8.3	8.3
Family	21.9	21.9
Personal consumption	13.5	13.5
Dowry	2.1	2.1
Saving	7.3	7.3
Production Activity	35.4	35.4
Investment	11.5	11.5
Total	100	100

\*The number of people waiting to receive a Loan has not yet received a loan.





Most participants (72.9%) were members of the fund with previous knowledge of the fund, and the remainder had no previous knowledge. There is a withdrawal rate of 17.7 percent among members.

**Factor analysis**

The purpose of factor analysis is to identify the underlying factors or variables. As a result, researchers identified and named standard variables by the common variance. This method could not be used in any case because of its capability for data analysis. These analyses should be conducted using data with the appropriate competencies. As a result, the Bartlett test and KMO coefficient were used. Factor analysis can be used as long as the KMO value exceeds 0.5. As shown in Table 2, the KMO value is 5.61, which is a good value. Bartlett’s test has a significance level of 0.000. As a result, it is statistically significant at 99%.

As a result of ensuring the appropriateness of the data, variable rotation has been used to achieve a significant factor in the factor analysis. Table 3 presents the extraction factors. Microfinance impacted rural women’s economic, sociocultural, and satisfaction outcomes, accounting for 61.661 percent of the variance. Seventeen variables have been excluded from factor analysis due to a low load factor and low influence.

Table 4 shows the loading factor status after rotation for variables with loading factors more significant than 5.0.

The effects of microfinance on rural women can be attributed to five key factors:

1. Two factors explain 16.051% of the variance in the effects of rural women’s microfinance. The first factor (economy and motivation) prioritizes explaining the effects of rural women’s microfinance. A total of six variables have a loading factor greater than 0.5, including financial independence and self-sufficiency among members, increased agricultural production and animal poultry production, reduced poverty in rural areas, increased motivation and willingness to participate in economic activities, increased rural women’s participation and motivation, and increase rural women’s tendency to engage in economic activities.

2. The second factor (reduction of social harm) explains 14.791% of the total variance of rural women’s microfinance effects. Five variables with a loading factor greater than 0.5 are involved in this factor, including satisfaction with the return on investment (investment), family problems, and employment reduction among rural women.

3. This factor alone explained 14.545% of the total variance of the effects of rural women’s microfinance and is the third priority. Five variables with a loading factor greater than 0.5 are included in this factor, including the satisfaction with monitoring loan utilization; the tendency to continue funding activities; the satisfaction with loan conditions; the satisfaction with board selection; and the elimination of intermediaries and dealers.

4. The fourth factor (employment empowerment) explained 9.057% of the total variance resulting from rural women’s microfinance and is ranked fourth. The factors influencing this factor are previous job improvement, job creation, eliminating intermediaries, and dealers, which have loading factors greater than 0.5.

**Table 2.** KMO and Bartlett coefficients for rural women’s microfinance

KMO	Bartletts	Sig
61.5	3767.826	0.00



**Table 3.** Total factor percentage, variance percentage, and eigenvalues

No.	Factor Name	Eigenvalues	variance percent of Eigenvalues	total Percentage
1	Economic issues and motivation	6.421	16.051	16.051
2	Reduction of social harm	5.880	14.701	30.752
3	Satisfaction and life expectancy	5.818	14.545	45.298
4	Employment Empowerment	3.623	9.057	54.355
5	Investment and funds	2.923	7.307	61.661

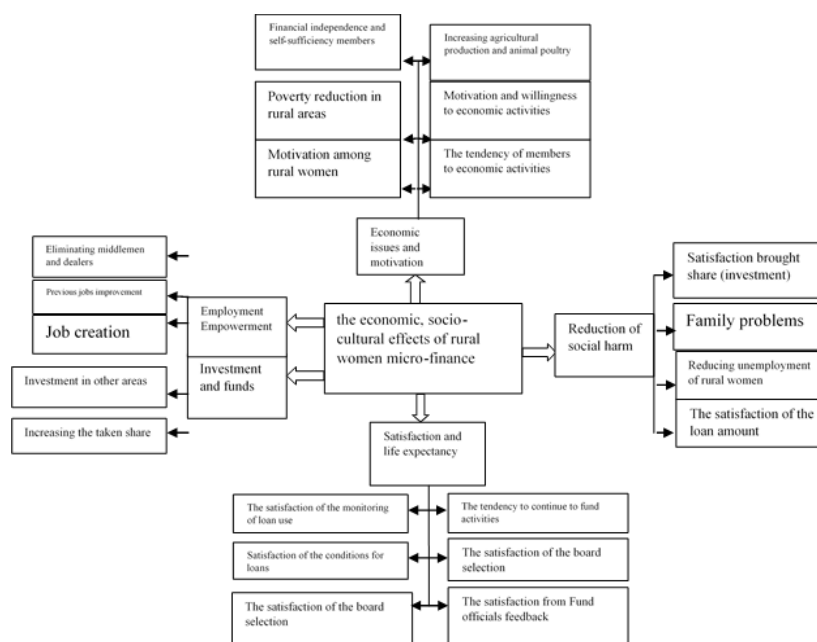


5. Besides factor five (investment and funds), factor five alone explained 7.307% of the variance in the effects of rural women’s microfinance. There are two vari-

ables with a loading factor greater than 0.5 in this factor, including investment in other areas and increasing market share.

**Table 4.** Factors affecting rural women’s microfinance and the load factor obtained

Priority	Factor Name	Variables	Loadings factors
First	Economic issues and motivation	Financial independence and self-sufficiency members	0.608
		Increasing agricultural production and animal poultry	0.614
		Poverty reduction in rural areas	0.654
		Motivation and willingness to economic activities	0.638
		Improving rural women’s participation	0.691
		Motivation among rural women	0.715
		The tendency of members to economic activities	0.614
Second	Reduction of social harm	Satisfaction brought share (investment)	0.686
		Family problems	0.725
		Reducing unemployment of rural women	0.728
		The satisfaction of the loan amount	0.614
		The satisfaction from Fund official’s feedback	0.659
		The satisfaction of the monitoring of loan use	0.721
Third	Satisfaction and life expectancy	The tendency to continue to fund activities	0.735
		Satisfaction of the conditions for loans	0.738
		The satisfaction of the board selection	0.746
		Eliminating intermediaries and dealers	0.629
		Previous jobs improvement	0.752
Fourth	Employment Empowerment	Job creation	0.802
		Investment in other areas	0.680
Fifth	Investment and funds	Increasing the taken share	0.762



**Figure 3.** Rural women’s economic, cultural, and social welfare factors



## 5. Discussion

Microcredit has not been established in our country despite the pressing needs of the people (in villages and deprived areas) for over one hundred years. In order to resolve this issue, planners and politicians must consider unsuccessful domestic experiences along with successful international experiences, and establish financial institutions as intermediaries between the people and the government by defining microcredit as a reasonable term.

It is therefore essential that the funds granted to poor and low-income women be accompanied by workshops and advice in order for them to develop the funds and credits, and their influence in society will be provided.

A majority of the population of the country is female, so it is suggested that the government grant rural women the right to invest in production and service activities to increase productivity in the rural areas.

Due to granting sufficient credits to women who are the family guardians for sustainable development, the social harms experienced by rural women and their children will be reduced. According to social and cultural experts and planners, rural women can overcome many ongoing challenges with a modest investment in partial credits. The cost of preventing social harm through predictive actions in society will be significantly less than the high cost of refining it.

The governors are advised to use entrepreneurial jobs commensurate with rural women's investing amount since the credit amount and value are low.

It seems that using successful and pioneering countries' experiences regarding entrepreneurship and microfinance credits will help develop rural women's businesses.

The development of any country begins with its villages, and developed countries have developed their rural areas, so increasing the number of loans granted to rural women may facilitate the development of that area on a social and economic level.

According to the research, the participants are dissatisfied with their income due to a lack of resources. The establishment of a credit company may result from this trend. The rural population may consume their loans in ways other than productive activities. The support provided by the government at the beginning of establishing

a credit company may be of great importance in terms of the company's strength. Members' satisfaction may be increased by the credit institution's management and a fair distribution of loans among the fund members. Fund-credit companies also depend heavily on members' trust in their governors. It is possible that granting additional loans to other members will be facilitated if these loans are repaid on time. As a result, members may be unable to continue their activities continuously.

- Fund members should visit successful enterprises in fund credits to motivate them.

- Organize workshops for rural women who have not yet enrolled in the credit fund to familiarize them with the development and progress of the fund.

- To establish a network of funds in nearby villages to exchange experiences with them.

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## Conflict of Interest

The authors declared no conflicts of interest.

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