

EMPOWERING RURAL WOMEN THROUGH INTEREST-FREE MICROLOANS: A QUALITATIVE STUDY USING THE CAPABILITY AND EMPOWERMENT THEORY

Muhammad Anis Danish, Sahar Rameez, Rahila Rahim, Noor Muhammad, Asif Raza Sheikh, Parkash Malhi

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Corresponding Author: *
Sahar Rameez

Abstract

This qualitative study explores the impact of interest-free microloans on the empowerment of rural women in Pakistan through the lens of the Capability Approach and Empowerment Theory. Data were collected from 25 female participants enrolled in the HANDS Welfare Organization's microloan program using semi-structured interviews, focus group discussions, and guided questionnaires. Braun and Clarke's (2006) reflexive thematic analysis was employed to examine how access to financial resources influences women's economic, social, and personal capabilities, while also identifying policy implications, challenges, and opportunities associated with the program. Five major themes emerged from the analysis: (1) financial capability and autonomy, (2) entrepreneurship and skill application, (3) enhanced household roles and social recognition, (4) community-level empowerment, and (5) structural and cultural barriers. The findings showed that interest-free microloans supported the establishment and expansion of small businesses while improving women's self-confidence, mobility, decision-making capacity, and family well-being. However, limited loan amounts and mobility restrictions remained significant barriers to sustained empowerment. The study also highlighted the role of peer support networks and informal savings groups in promoting long-term sustainability and community resilience. Overall, the findings demonstrate that financial inclusion enhances women's agency and participation in social and economic life. Policy recommendations include increasing loan sizes, integrating structured training programs, and strengthening community-based support systems.

INTRODUCTION

Within this context, interest-free microfinance schemes represent a promising and contextually appropriate intervention for advancing gender equity, alleviating poverty, and enhancing community well-being. The concept of microfinance was popularised through the

pioneering work of Muhammad Yunus and the Grameen Bank in the 1980s, which demonstrated that small, collateral-free loans could enable poor women to initiate income-generating activities and improve household welfare (Yunus, 2007). Subsequent empirical evidence suggests that

microfinance can contribute to women's empowerment by enhancing access to financial resources, increasing participation in household decision-making, and improving social status, although outcomes vary across contexts (Banerjee et al., 2015; Duflo, 2012).

In Pakistan, organisations such as Akhuwat and HANDS Welfare Organization have adapted the microfinance model by offering interest-free loans targeted at marginalised populations, particularly women. These models reduce financial risk while aligning with socio-cultural and religious norms, thereby improving accessibility and acceptance among rural communities (Khan & Rahman, 2021; Akhuwat, 2020).

This study is theoretically grounded in the capability approach, as articulated by Amartya Sen (1999), which conceptualises development as the expansion of individuals' capabilities and freedoms rather than mere income growth. By applying this framework, the study highlights how access to microloans enables women to achieve valued functionings such as financial autonomy, investment in children's education, and enhanced mobility (Sen, 1999; Nussbaum, 2011). Complementing this perspective, women's empowerment theory conceptualises empowerment as the process through which women gain the ability to make strategic life choices in contexts where such agency was previously constrained (Kabeer, 1999).

The study draws on qualitative data collected from 25 women participating in the HANDS interest-free microloan programme in rural Sindh, Pakistan. Using Virginia Braun and Victoria Clarke's (2006) reflexive thematic analysis, the research explores the multidimensional impacts of microloans on women's financial, social, and personal well-being. Specifically, it addresses three core research questions:

1. How do interest-free microloans expand women's economic and decision-making capabilities?
2. What social and cultural barriers constrain women's effective utilisation of these financial resources?
3. In what ways does the programme contribute to household stability and broader community development?

By situating these questions within the broader literature on gender, development, and microfinance in South Asia, the study contributes to ongoing debates regarding the transformative potential of financial inclusion initiatives. The findings suggest that interest-free microloans not only address immediate economic needs but also catalyse shifts in women's social status, agency, and participation in household decision-making. However, these gains remain mediated by persistent structural and cultural barriers, including mobility restrictions, patriarchal norms, and limited market access (Garikipati et al., 2017; Karim, 2011).

Importantly, the study underscores that financial access alone is insufficient for sustained empowerment. Effective microfinance interventions must be complemented by capacity-building initiatives, skills development, market linkages, and community-level support systems. These findings offer critical insights for policymakers, development practitioners, and non-governmental organisations seeking to design gender-responsive microfinance programmes that are both contextually relevant and sustainable.

Hence, this research advances understanding of how interest-free microfinance can serve as a catalyst for women's empowerment while highlighting the need for integrated, multi-sectoral approaches to achieve meaningful and lasting gender equality. The implications extend beyond rural Pakistan, offering transferable lessons for

similar low- and middle-income country (LMIC) contexts across South Asia and beyond.

Methods

This study employed a qualitative research design to explore the lived experiences of women in rural Sindh, Pakistan, following their participation in an interest-free microloan programme implemented by HANDS Welfare Organization. The qualitative approach was selected to capture the depth and complexity of empowerment processes, which are context-specific and socially embedded (Creswell & Poth, 2018). Empowerment was conceptualised through the capability approach and women's empowerment theory, which frame development as the expansion of individuals' freedoms and their ability to make strategic life choices (Amartya Sen, 1999; Kabeer, 1999).

Sampling and Participants

Participants were selected using purposive sampling to ensure inclusion of women actively engaged in the HANDS microloan programme and capable of reflecting on its impacts. A total of 25 women, aged 20–50 years, were recruited based on their programme participation and willingness to share their experiences. The majority were married, primarily responsible for household duties, and had limited or no prior access to formal financial services—characteristics typical of financially excluded populations in rural Pakistan (World Bank, 2022).

Data Collection

Data were collected in June 2025 through a combination of face-to-face and online interviews, enabling inclusion of participants from diverse geographical and socio-cultural contexts. Semi-structured interviews and focus group discussions were conducted in Sindhi and Urdu, with English used where necessary. Trained female facilitators

and translators, familiar with local cultural norms, supported data collection to ensure accurate communication and participant comfort—an important consideration in gender-sensitive research contexts (Mack et al., 2005).

Each session lasted approximately 45–60 minutes and followed a structured interview guide exploring participants' financial status prior to receiving loans, utilisation of microloans, perceived challenges, and outcomes at individual, household, and community levels. Informed consent was obtained either verbally or in writing, depending on participants' literacy levels. All sessions were audio-recorded, transcribed verbatim, and translated into English to facilitate analysis.

Data Analysis

Data were analysed using the six-phase reflexive thematic analysis framework developed by Virginia Braun and Victoria Clarke (2006). The analysis combined inductive and deductive approaches: inductive coding captured participants' lived experiences, while deductive coding was informed by theoretical constructs from the capability approach and empowerment theory, including agency, resources, and achievements (Kabeer, 1999; Sen, 1999).

The analysis began with repeated reading of transcripts to achieve familiarisation and identify preliminary patterns related to financial autonomy, mobility, and household dynamics. A total of 118 initial codes were generated, capturing both explicit accounts (e.g., “started tailoring shop,” “pays school fees”) and latent meanings (e.g., “negotiating patriarchy,” “emerging confidence”). These codes were subsequently organised into broader thematic categories, including economic agency, entrepreneurship, household roles, community support, and structural constraints. Through iterative

refinement, five final themes were developed, aligned with the capability framework, ensuring internal coherence and conceptual distinctiveness (Braun & Clarke, 2006). Themes were supported by illustrative participant quotations and interpreted through the lenses of agency, functionings, and empowerment.

Trustworthiness and Rigour

To enhance methodological rigour, the study adopted established qualitative quality criteria (Lincoln & Guba, 1985). Credibility was strengthened through data triangulation (interviews and focus groups) and iterative discussions among researchers during coding and theme development. Dependability was ensured by maintaining a detailed audit trail documenting coding decisions and analytical processes. Confirmability was enhanced through reflexive memoing, enabling researchers to critically examine their positionality and assumptions regarding gender norms and microfinance. Transferability was supported through rich, contextualised descriptions of the study setting, participant characteristics, and programme context.

Findings

Thematic analysis identified five interrelated themes illustrating how interest-free microloans influence women's financial capabilities, social positioning, and overall empowerment. These themes comprise: (1) financial capability and autonomy; (2) entrepreneurship and skill development; (3) enhanced household roles and social recognition; (4) community-level empowerment and solidarity; and (5) structural and cultural barriers limiting full utilisation of financial resources. Collectively, the findings demonstrate that microloans function as a catalyst for empowerment by strengthening individual agency and enabling women to participate more

actively in economic and social spheres. At the same time, the results reveal the persistence of structural constraints that continue to shape and, in some cases, restrict the extent to which these gains can be fully realised.

Theme 1: Financial Capability and Autonomy

Prior to accessing microloans, participants described pervasive financial insecurity, characterised by dependence on male household members and exclusion from financial decision-making. Access to interest-free credit marked a critical transition, enabling women to exercise control over financial resources and engage in independent economic activity. Many participants initiated small-scale enterprises—such as tailoring, food vending, and beauty services—reflecting a shift from economic dependency to self-reliance. Participants reported increased confidence in budgeting, saving, and managing household expenditures:

“For the first time, I bought cloth for my business without asking my husband.”

“I know how to save now; earlier I had no control over even small expenses.”

From a theoretical perspective, these findings align with the capability approach, whereby access to resources expands substantive freedoms and enhances economic agency (Amartya Sen, 1999; Robeyns, 2017). Women transitioned from passive recipients of household income to active financial actors capable of allocating resources toward productive and welfare-enhancing goals.

Theme 2: Entrepreneurship and Skill Utilisation

Microloans facilitated the transformation of previously undervalued domestic skills into income-generating enterprises. Participants leveraged existing competencies—such as tailoring, embroidery, catering, and handicrafts—or acquired new skills through informal peer learning. This

shift marked a transition from unpaid domestic labour to recognised economic activity.

“I always stitched clothes for my children. Now it is my business.”

“My neighbour taught me how to make wedding trays; now I sell them.”

Within the capability framework, these findings highlight the conversion of latent skills into valued functionings, such as earning income and establishing business identity (Nussbaum, 2011). Microfinance thus acted as a catalytic resource, enabling women to operationalise their capabilities and envision future growth.

Theme 3: Enhanced Household Role and Social Recognition

Participants consistently reported that their economic contributions—particularly toward education, healthcare, and household expenses—led to increased respect, decision-making authority, and improved intra-household relationships.

“Now my husband asks me before making big decisions.”

“My in-laws respect me more because I pay for the children’s school fees.”

These narratives demonstrate that empowerment is relational and multidimensional. Economic participation reshaped intra-household power dynamics and enhanced women’s dignity and social standing. This aligns with Kabeer’s (1999) framework, which conceptualises empowerment as the expansion of agency, resources, and achievements. However, these gains remained context-dependent and mediated by prevailing patriarchal norms.

Theme 4: Community-Level Empowerment and Solidarity

Beyond individual households, microloans contributed to broader community-level

transformations. Participants reported the emergence of informal support networks, including collaborative savings groups, shared learning, and peer mentorship.

“We meet every week and share ideas about improving our shops.”

“Other women say they want to apply after seeing my success.”

Successful participants often became role models, encouraging other women to engage in income-generating activities and challenging traditional gender norms. These findings highlight the development of collective capabilities and the role of social capital in amplifying empowerment outcomes (Putnam, 2000; Ibrahim, 2006).

Theme 5: Structural and Cultural Barriers to Full Utilisation

Despite these positive outcomes, participants identified persistent structural and socio-cultural barriers that constrained the full realisation of microloan benefits. Limited loan sizes restricted business scalability, while gendered mobility constraints hindered access to markets and training opportunities.

“I cannot go to the main market alone; my brother goes for me.”

“The loan is helpful but not enough to grow the business.”

Additionally, reliance on male intermediaries often reduced women’s control over business operations. Within the capability framework, these barriers function as “conversion factors,” limiting the translation of resources into meaningful outcomes (Robeyns, 2017). These findings are consistent with broader critiques that highlight the limitations of microfinance in the absence of structural change (Lamia Karim, 2011; Garikipati et al., 2017).

Collectively, the findings demonstrate that interest-free microloans act as a significant enabler

of women’s empowerment by expanding economic agency, enhancing social recognition, and fostering community solidarity. At the same time, the persistence of structural and cultural constraints highlights that financial inclusion alone is insufficient for sustained empowerment.

The results emphasise the need for integrated interventions that combine access to credit with skills development, mentorship, market linkages, and gender-transformative approaches. Such multi-dimensional strategies are essential to ensure that empowerment is not only initiated but also sustained within complex sociocultural contexts.

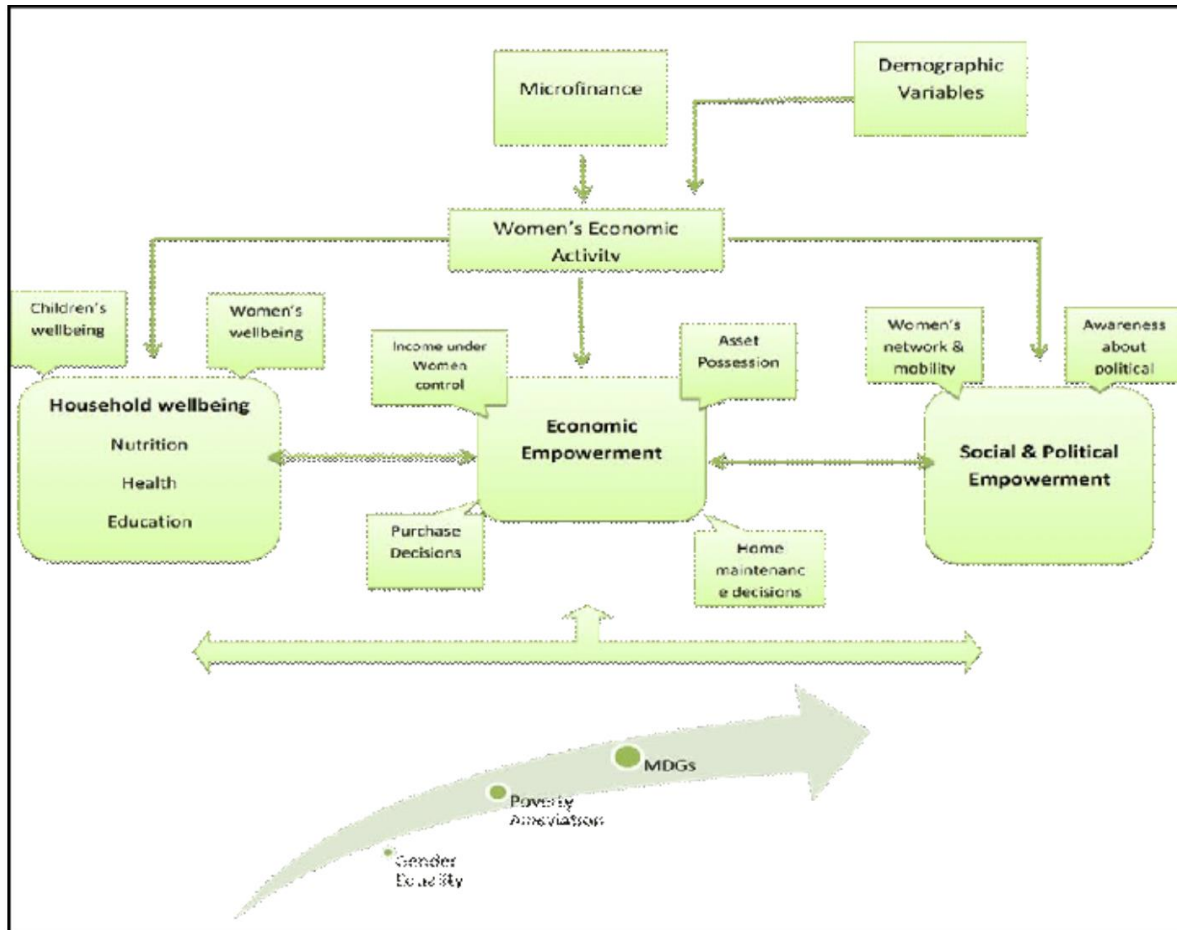


Figure 1. Conceptual Framework Adapted from Gender and rural microfinance: Reaching and empowering women IFAD, by Mayoux and Hartl (2009)

Discussion:

This study demonstrates that interest-free microloans can play a significant role in enhancing rural women’s financial independence, social participation, and decision-making authority within households and communities. Drawing on the capability approach and women’s

empowerment theory, the findings suggest that access to financial resources enables women to expand their economic agency and participate more actively in shaping their life trajectories. Participants’ narratives revealed improved control over financial decisions, including spending, saving, and investment in small-scale enterprises.

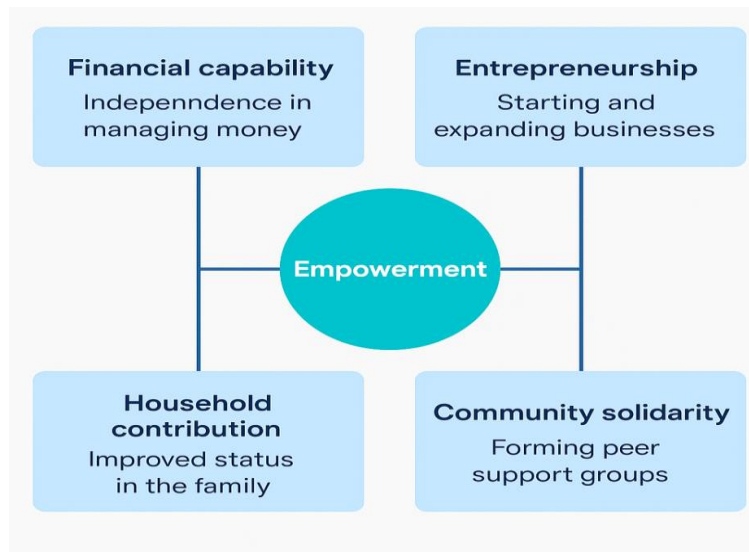
These findings align with Kabeer's (1999) conceptualisation of empowerment as the ability to make strategic life choices in contexts where such choices were previously constrained. Similarly, the findings reflect Amartya Sen's (1999) capability approach, which defines development as the expansion of substantive freedoms, highlighting how microloans facilitate women's transition from economic dependence to active agents in both financial and social spheres. Importantly, empowerment in this study extended beyond economic gains. Participants reported non-material benefits, including enhanced self-confidence, improved social status, increased recognition within their households, and a greater sense of purpose. These findings reinforce the multidimensional nature of empowerment, encompassing both material and psychosocial dimensions (Nussbaum, 2011; Richardson, 2018). Such outcomes are consistent with broader evidence suggesting that financial inclusion initiatives can generate transformative effects when they influence identity, agency, and social relations alongside income (Duflo, 2012).

The study also highlights the relevance of microfinance interventions to global development priorities, particularly the United Nations Sustainable Development Goals (SDGs). The findings contribute to SDG 1 (No Poverty) through enhanced income generation, SDG 5 (Gender Equality) by increasing women's autonomy and visibility, SDG 8 (Decent Work and Economic Growth) via entrepreneurship, and

SDG 10 (Reduced Inequalities) by targeting financially excluded rural populations (United Nations, 2015). These linkages underscore the potential of interest-free microfinance as a mechanism for advancing inclusive and sustainable development.

However, the study also identifies persistent structural and socio-cultural barriers that constrain the full realisation of microloan benefits. Limited loan sizes restrict business scalability, while gendered mobility constraints and entrenched patriarchal norms continue to limit women's access to markets, training, and decision-making spaces. These barriers reflect broader systemic inequalities and function as conversion constraints within the capability framework, limiting women's ability to translate resources into meaningful outcomes (Robeyns, 2017). Similar challenges have been highlighted in global microfinance literature, which emphasises that financial inclusion alone is insufficient without addressing underlying gendered power dynamics (Lamia Karim, 2011; Garikipati et al., 2017).

Addressing these constraints requires integrated, gender-responsive approaches that extend beyond financial provision. Effective interventions should combine microfinance with capacity-building initiatives, mentorship, improved market access, and gender-transformative policies that challenge restrictive norms and support women's sustained participation in economic and social life (Kabeer, 2005).



Conclusion

This study concludes that interest-free microloans represent a valuable pathway for advancing women's empowerment in rural Pakistan by enhancing financial autonomy, strengthening agency, and improving both economic and social well-being. The findings demonstrate that empowerment is a multidimensional process, encompassing not only income generation but also non-material gains such as self-confidence, social recognition, and increased decision-making power.


At the same time, the persistence of structural and cultural barriers highlights the need for comprehensive and context-sensitive approaches. To maximise impact, microfinance programmes must be embedded within broader support systems that include skills development, market linkages, and gender-transformative interventions. Overall, interest-free microfinance—when combined with enabling policies and institutional support—has the potential to foster both individual and collective empowerment, contributing to more equitable, resilient, and sustainable communities. These findings offer important implications for policymakers,

development practitioners, and researchers seeking to design inclusive financial interventions in low- and middle-income settings.

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