

# Financial Awareness as a Catalyst for Women's Entrepreneurial Growth: Examining the Impact of NBFC-MFIs Loan Terms on Women Micro-Entrepreneurs

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## ABSTRACT

Microfinance Institutions (MFIs) have spread across India, but despite their widespread operations, the majority of people remain unaware of their penetration and outreach. The study analyses the role of microfinance in poverty mitigation by studying the key indicator of awareness. MFIs can prove to be an effective tool for sustainable development, as the awareness and branch outreach of MFIs is increasing year after year. Non-Banking Financial Company–Microfinance Institutions (NBFC-MFIs) provide financial services to low-income women who often lack access to formal banking systems. Awareness of loan terms and conditions, such as interest rates, repayment schedules, processing charges, penalties, and loan tenure, plays a crucial role in ensuring effective utilization of credit. The present study examined the level of awareness regarding the terms and conditions of loans provided by NBFC-MFIs and its impact on the socio-economic status, business performance, and loan profile of women micro-entrepreneurs. The findings indicate that awareness of loan-related aspects such as interest rates, repayment schedules, loan tenure, processing charges, penalties, and other borrowing conditions plays a significant role in determining the effectiveness of microfinance services.

**Keywords:** *Awareness; Microfinance; Microcredit; NBFC-MFIs*

## 1. INTRODUCTION

Non-Banking Financial Companies (NBFCs) are companies registered under the Companies Act, 2013 in India, engaged in various businesses such as loans and advances, acquisition of shares, stocks, bonds, insurance business, hire purchase business, and chit fund business. The microfinance industry in India is largely dominated by Non-Banking Financial Company–Microfinance Institutions (NBFC-MFIs), regulated by the Reserve Bank of India (RBI). These companies provide financial services to sections of the population that are unable to meet the eligibility criteria and terms and conditions of the banking sector, largely due to a lack of creditworthiness. In recent decades, microfinance has emerged as a successful sector in many countries, providing financial services such as savings, credit, remittances, and insurance to the poor, and playing an important role globally (Sagar & Chaturvedi, 2023).

Financial literacy is one of the key aspects in understanding borrower outreach in microfinance (Hansen et al., 2021). Awareness of the various loan procedures and schemes available strongly influences micro-entrepreneurs' dependence on NBFC-MFIs. Borrower awareness enables them to know their rights. It also reflects the knowledge

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and level of awareness borrowers have about the products and services they receive (Prakash, 2012). Awareness of borrowers towards loan aspects of NBFC-MFIs is important for the successful operation of NBFC-MFIs. The financial behaviour of borrowers is determined by their level of awareness of the institution's schemes and services. It makes it easier for borrowers to understand, evaluate, and select schemes and services by providing them with the necessary knowledge, skill, and confidence.

## **2. REVIEW OF LITERATURE**

Microfinance is an effective tool for achieving financial inclusion in India. One study focused on analyzing the role of microfinance institutions in providing good-quality services to satisfy their clients as well as increasing the level of financial awareness among them. The employees of microfinance institutions were found to satisfy their customers through prompt service. The study found that microfinance institutions have been successful in increasing financial awareness and satisfaction levels among their clients (Prakash et al., 2022).

All the women workers were aware of microfinance credit schemes but were not aware of other microfinance services such as micro-insurance, savings schemes, and employment schemes. Moreover, demographic variables did not influence the factors of women's empowerment. It was observed that after availing microfinance loans, there was greater family and economic empowerment. The women workers felt that the loan procedure was difficult, as most of them were illiterate, and they received a very small loan amount, distributed among groups of 10 to 12 members, which meant they were often unable to meet the needs for which the loan was taken (Budampati & Reddy, 2022).

MFIs serve those who are economically marginalized and traditionally excluded from the formal financial system. Women were less likely to access microfinance loans and tended to take smaller loans, with no evidence of youth obtaining microfinance loans compared to other age groups. Reliable borrowers were more likely to access repeat loans (Chamboko & Guvuriro, 2022).

In any economy, funding for agriculture is necessary for the growth of the agricultural sector. The application of loan funds by borrowers determines how effectively the agricultural credit system operates. Characteristics related to agriculture, demographics, and agricultural credit had an effect on how borrowers used agricultural credit (Lokesha & Hawaldar, 2019).

## **3. STATEMENT OF THE PROBLEM**

Many women micro-entrepreneurs obtain loans from NBFC-MFIs without fully understanding the terms and conditions associated with the loans. Lack of awareness may lead to repayment difficulties, financial stress, inefficient utilization of funds, and reduced business performance. Therefore, it is important to examine the level of awareness regarding loan terms and its impact on the socio-economic, business, and loan profiles of women borrowers.

## **4. OBJECTIVES OF THE STUDY**

1. To study the awareness of women micro-entrepreneurs regarding the terms of loans offered by NBFC-MFIs.
2. To examine the relationship between awareness of loan terms and the socio-economic, business, and loan profile of women micro-entrepreneurs.

## **5. METHODOLOGY**

The present study is based on primary data, sourced through a well-structured interview schedule administered to NBFC-MFI women borrowers in Coimbatore District. Proportionate stratified random sampling was used to draw a proportionate sample from NBFC-MFIs registered under the MFIN network. The ideal sample size for the study was determined using Cochran's formula, and 386 responses were considered as the final sample size for the study.

## **6. HYPOTHESES OF THE STUDY**

$H_{a1a}$ : There is a significant mean difference in awareness of loan terms among the socio-economic profile of the respondents.

$H_{a1b}$ : There is a significant mean difference in awareness of loan terms among the business and loan profile of the respondents.

## **7. RESULT**

Table 1 presents the level of awareness of women micro-entrepreneurs regarding the terms of loans offered by NBFC-MFIs.

**Table 1: Level of Awareness of Women Micro-Entrepreneurs on Terms of Loans of NBFC-MFIs**

Statements	HA			A			N			UA			HUA			Total Score	Mean	SD
	N	%	Score	N	%	Score	N	%	Score	N	%	Score	N	%	Score			
Eligibility criteria for availing loans from NBFC-MFIs	189	49	945	133	34.5	532	49	12.7	147	15	3.9	30	–	–	–	1654	4.28	0.83
Loan application process and required documentation	145	37.6	725	97	25.1	388	85	22	255	42	10.9	84	17	4.4	17	1452	3.76	1.18
Knowledge on available loan schemes offered by NBFC-MFI	237	6.4	1185	143	37.6	572	6	1.6	18	–	–	–	–	–	–	1775	4.59	0.52
Maximum loan amount eligible for borrowing	208	53.9	1010	172	44.6	512	6	1.6	18	–	–	–	–	–	–	1540	3.99	0.53
Applicable interest rates on loan amounts	213	55.2	1065	138	35.8	552	34	8.8	102	–	–	–	1	0.3	1	1720	4.45	0.67
Loan repayment schedule and terms	202	52.3	1010	128	33.2	512	50	13	150	3	0.8	6	3	0.8	3	1681	4.35	0.79
Advisory and financial guidance services provided by NBFC-MFIs	153	39.6	765	129	33.4	516	87	22.5	261	14	3.6	28	3	0.8	3	1573	4.08	0.91
Consequences and procedures in case of loan default	144	0.337	720	140	36.3	560	68	17.6	204	23	6	46	11	2.8	11	1541	3.99	1.02
Awareness of borrower rights and responsibilities	121	31.3	605	85	22	340	102	26.4	306	52	13.5	104	26	6.7	26	1381	3.58	1.24

Source: Computed data. HA = Highly Aware; A = Aware; N = Neutral; UA = Unaware; HUA = Highly Unaware.

**Table 2: Awareness of Loan Terms and Socio-Economic Profile of the Respondents**

Variables		Sum of Squares	Df	Mean Square	F	p	Result
Age (in years)	Between Groups	1177.631	3	392.544	16.176	0.0001	Significant
	Within Groups	9269.923	382	24.267			
Educational Qualification	Between Groups	2735.179	5	547.036	26.953	0.0001	Significant
	Within Groups	7712.376	380	20.296			
Social Category	Between Groups	169.269	2	84.634	3.154	0.044	Significant
	Within Groups	10278.286	383	26.836			
Earning Members in the Family	Between Groups	542.211	3	180.737	6.970	0.0001	Significant
	Within Groups	9905.343	382	25.930			
Area of Residence	Between Groups	1708.846	2	854.423	37.448	0.0001	Significant
	Within Groups	8738.709	383	22.816			

Variable	Groups	t-value	Result
Type of Family	Joint	38.07	
	Nuclear	37.11	Significant (p = 0.074)

Source: Computed data.

**Table 3: Awareness of Loan Terms and Business and Loan Profile of the Respondents**

Variables		Sum of Squares	Df	Mean Square	F	p	Result
Years of Experience in Business	Between Groups	676.860	3	225.620	8.821	0.0001	Significant
	Within Groups	9770.695	382	25.578			
Nature of Business	Between Groups	1151.292	7	164.470	6.688	0.0001	Significant
	Within Groups	9296.263	378	24.593			
Monthly Income from the Business	Between Groups	822.825	4	205.706	8.143	0.0001	Significant
	Within Groups	9624.729	381	25.262			
Years of Association with NBFC-MFIs	Between Groups	584.565	4	146.141	5.645	0.0002	Significant
	Within Groups	9862.990	381	25.887			
Amount of Loan Taken	Between Groups	724.061	4	181.015	7.093	0.0001	Significant
	Within Groups	9723.493	381	25.521			

Source: Computed data.

## 8. DISCUSSION

Socio-economic factors play a critical role in shaping the awareness of women micro-entrepreneurs regarding the terms of loans offered by NBFC-MFIs. Socio-economic variables such as age ( $p = 0.0001$ ), educational qualification ( $p = 0.0001$ ), social category ( $p = 0.044$ ), earning members in the family ( $p = 0.0001$ ), and area of residence ( $p = 0.0001$ ) showed a significant mean difference in awareness scores across socio-economic profiles; hence, the alternative hypothesis ( $H_{a1a}$ ) is accepted.

With reference to the variable type of family ( $p = 0.074$ ), no significant mean difference was found. This indicates no evidence of a difference in awareness scores between respondents from joint and nuclear families. The mean square values for age, educational qualification, social group, and area of residence were the highest, indicating that these variables are most influential in shaping women micro-entrepreneurs' levels of awareness. These

variables strongly influence how respondents understand loan terms, suggesting that NBFC-MFIs should adopt better strategies to inform each socio-economic group.

Years of experience in business ( $p = 0.0001$ ), nature of business ( $p = 0.0001$ ), monthly income from business ( $p = 0.0001$ ), years of association with NBFC-MFIs ( $p = 0.0002$ ), and amount of loan taken ( $p = 0.0001$ ) showed a significant mean difference in awareness of loan terms offered by NBFC-MFIs. As all these  $p$ -values are well below the significance threshold of 0.05, the alternative hypothesis ( $H_{a1b}$ ) is accepted with respect to these variables. The results reveal that experienced business owners tend to be more aware of loan terms since they have accumulated greater exposure to different financial products over the years. In addition, businesses engaged in manufacturing products often require larger loans, making their owners more accustomed to evaluating complex loan terms.

## 9. CONCLUSION

The study is expected to reveal that greater awareness of NBFC-MFI loan terms leads to better loan utilization, improved repayment performance, enhanced business growth, and improved socio-economic conditions among women micro-entrepreneurs. Improved financial literacy and transparency regarding loan conditions can enhance the economic empowerment of women micro-entrepreneurs and contribute to sustainable business development and financial well-being. The study reveals that women borrowers who possess a higher level of awareness about loan terms are better equipped to make informed financial decisions. Such awareness contributes to improved financial discipline, reduced repayment defaults, and enhanced confidence in handling credit. In contrast, inadequate understanding of loan conditions may lead to financial mismanagement, repayment difficulties, and increased debt burden. The study highlights that financial knowledge not only supports economic advancement but also strengthens the decision-making power and financial independence of women. NBFC-MFIs can contribute substantially to women's economic participation, poverty reduction, and sustainable livelihood creation.

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