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Role of Microfinance on Entrepreneurship Capacity Building

Amrit Shahi
Teaching Faculty in Surkhet Multiple Campus (TU) and
IT Expert, Officer at Mid-West University Surkhet
Email: dr@shahiamrit365.com.np

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ABSTRACT

Microfinance is pivotal for economic growth and entrepreneurship in Nepal, as evidenced by recent financial reports from leading institutions like CBBL, DDBL, and FOWAD have reported substantial profit increases. Theoretical frameworks and policies emphasize microfinance's role in poverty reduction and economic development. However, research highlights gaps in understanding its impact on entrepreneurship, financial inclusion, and decision-making, especially in marginalized areas. Empirical studies acknowledge microfinance's positive effect on entrepreneurship and identify challenges such as limited access and low financial literacy. This study employs structured questionnaire surveys with 150 participants and conducts inferential analysis using SPSS 20 to uncover correlations between microfinance interventions and entrepreneurship outcomes. The proposed conceptual framework explores the relationship between microfinance and entrepreneurship, revealing significant correlations with entrepreneur well-being. Regression analysis indicates that while ability awareness training positively impacts entrepreneurship, micro-credit, micro-insurance, and micro-saving may not directly influence entrepreneur well-being. This underscores the intricate dynamics between microfinance and entrepreneurship, necessitating tailored interventions and policies to support micro-entrepreneurs and foster inclusive development. The analysis highlights the importance of ability awareness training and challenging traditional microfinance strategies. Policymakers are urged to prioritize comprehensive support, focusing on skill enhancement programs. Future research should conduct longitudinal studies to understand the long-term impacts of interventions better and inform policy development for more effective practices. By linking theory, empirical evidence, and practical applications, this study offers a comprehensive understanding of how microfinance can be optimized to support entrepreneurship and economic growth in Nepal.

1. INTRODUCTION

Microfinance is increasingly significant to organizations, governments, non-governmental organizations (NGOs), microfinance institutions (MFIs), banks, and academia, and it has also become a major industry in many emerging economies (AI-Maamari et al., 2022). Microfinance in Nepal was officially established in 2036/37 B.S. and has since been successful in providing subsidized credit to poor and marginalized farmers (Lohani, 2022). The primary goal of microfinance is to assist underprivileged and impoverished segments of society. Its reach has grown dramatically across the globe. Microfinance focuses on low-income individuals who are jobless, self-employed, or unemployed and intend to start a business or activity (Elia, 2006). Economic conditions, budget limits, location, technology, and infrastructure all influence the availability of job prospects in developing nations. Many people who are unemployed or have few other options turn to self-employment and entrepreneurship to make ends meet. Microfinance has become more critical for supporting microenterprises in various circumstances; as Banerjee (2020) rightly points out: "It takes money to make money." Nepal Rastra Bank has set aside funds to support 3% of overall loans to the underprivileged beginning in 2047 BS. Nepalese non-governmental organizations and the private sector began providing credit services in 2048 BS.

According to this survey, 55 microfinance organizations provide microcredit services in Nepal. The NRB has designated microfinance enterprises as 'D' class financial institutions. Nepal Development Banks, Commercial Banks, and Finance Companies also provide microfinance services (Babu, 2022). According to Rular Bank Bangladesh, Nepali microfinance is based on Professor Mohammad Yunus' model. Harihardev Pant deserves credit for pioneering microfinance services as Deputy Governor of Nepal Rastra Bank. NRB started with a microcredit program, later renamed microfinance.

Microfinance services were founded under the Development Bank laws, but as they grow and activities alter, they are now classified as banks and financial institutions under the same laws (Shrestha, 2009). Also," Muhammad Yunus, Muhammad Yunus started Bangladesh Grameen Bank (BGB) in 1976 to organize the poorest of the impoverished into self-help groups and teach them the fundamental "principle of survival." It all began in 1976 when he lent $27 to 42 needy residents of a village near the university campus where he taught economics (Dhungana, 2018). He continued to observe how others suffered due to being unable to locate even the most minor amounts of money to continue their daily activities. They sought out lenders to assist them with this problem.

Moneylenders utilized them as slave labor in exchange for reputable loan terms. He wanted to know how many people were in the village. He made a list. 42 names were on the list, and $27 was required. The economist who lectured his students on the national five-year plan and the rationale behind spending billions of dollars to cure poverty was ignorant that some individuals feel unhappy because they lack access to a small amount of money, even only one dollar. Even if the government invests billions of dollars in major initiatives, this need of the impoverished will not be satisfied (Sastha, 2019). The term "microcredit" was eventually coined to explain these tiny, no-collateral loans for the poor's attempts to make a living. Everywhere, people embraced the Grameen idea. According to impartial assessments of microcredit initiatives, giving underprivileged households quick and inexpensive access to credit and other financial services can positively affect their quality of life. A vast array of economic and social indicators are significantly impacted by the Grameen Bank, including the ability of its members to escape poverty, enhance their nutrition, housing, and sanitation, reduce child mortality and the birth rate, improve their children's access to education, increase women's emancipation, and participate more in social and political activities (Hashemi, 1996).

However, as many countries try to develop strategies to increase the impoverished's access to credit facilities, the value of microfinance for the advancement of the underprivileged has come to be acknowledged worldwide. The issue of how to provide effective, efficient, and long-lasting financial services to the impoverished has been discussed by planners, bankers, and representatives of governmental and non-governmental groups. Following a ten-year campaign to provide credit for self-employment to 100 million of the world's poorest families by 2005, focusing on women from those families, a micro-credit summit was held in Washington in February 1997. The attempt and concept have finally garnered international recognition and peaked interest (Shrestha, 2009).

In these conditions, microfinance emerged as a widely acknowledged breakthrough. It became a productive system that provided low-income people, especially micro businesses, with financial services. Many different types of institutions and variants in microfinance technologies have emerged globally during the last 20 years. Microfinance has played a significant role in fostering entrepreneurship in underdeveloped countries such as Nepal. Finding new information and opportunities, turning those into new markets, services, and products, allocating financial gains, securing the necessary funds for the business, taking on managerial responsibilities, and being able to take on business risk are just a few of the many tasks that entrepreneurs perform.

Depending on the country's development stage, entrepreneurs were classified as opportunity- or necessity-driven (Wilson, 2015). Necessity entrepreneurship is driven by survival, subsistence production, and self-employment, whereas opportunistic entrepreneurship is motivated by profits and is more likely to be sustained. This type of investing entails figuring out what the market needs, particularly the gaps in the market. In order to reduce poverty through business, microfinance is essential in three situations, according to Liaquat and Khan (2022). First, the poor must have at least the most basic knowledge and abilities of entrepreneurship. Owners of microbusinesses ought to be adept at identifying market opportunities.

Mateusz (2017) found that microfinance institutions like to provide microentrepreneurs with training, lending, money transfer, savings, and microinsurance services and stimulate entrepreneurship through financial growth. Studies show that the success of microentrepreneurs and small enterprises and the growth of GDP are favourably and significantly connected with the loan programs provided by microfinance organizations. (Dhungana, 2018) investigates how microfinance affects both personal and corporate performance. Microfinance plays a significant role in the expansion of small enterprises and microentrepreneurs.

Micro-firms need more than only financing to promote sustainable micro-entrepreneurship; these services include savings, insurance, and money transfers (Bharti, 2006). Numerous studies have shown that microfinance and the different activities performed by microfinance institutions contribute to the formation of the micro business development pattern. Entrepreneurship = $\alpha + \beta$ (Microfinance) + ε is the general regression model for microfinance and entrepreneurship, where α is the intercept, ε is the error term, and β is the slope coefficient on the main microfinance explanatory variable.

It has been believed that microfinance plays a significant role in the overall expansion of the economy. It benefits the nation's social and economic well-being and the expansion of entrepreneurship. Microfinance helps marginalized people who do not have access to the official banking system by enhancing their welfare and living conditions. It is thought to be the most effective way to end poverty. In addition to microcredit, microfinance offers savings accounts, insurance, and other services. Primarily, it tackles the unemployment problem in rural areas by generating job opportunities by expanding small enterprises. Microfinance institutions are essential in reducing the income gap between the rich and the poor (Wilson, 2015).

The fourth quarter report for 2077/78 has been produced by Chhimek Laghubitta Bittiya Sanstha Limited (CBBL), one of Nepal's leading microfinance organizations. Unaudited data indicates that profits rose dramatically compared to last year's period. Chhimek Laghubitta declared a net profit of Rs. 121.56 crores for 2077–2078. In comparison with last year, the profit increased by 87 percent. In the fiscal year 2076–2077, the microfinance company made a net profit of Rs. 64.92 crores.

The large write-back of provisions and the rise in net interest income are to blame for the profit growth. The company's net interest income climbed to Rs 206.51 crore from Rs 175.38 crore in the prior year. In addition, it has been given write-backs of provisions of Rs. 57.13 crores. At Ashad's end in 2078 BS, Chhimek Laghubitta had 312.15 crores in reserves and surplus in addition to 183 crores in paid-up capital. A total loan of Rs 25.10 Arba has been raised by the microfinance at the capital, where CBBL has a net worth of Rs 231.85 per share and earnings per share (EPS) of Rs 66.43 (Investopaper, Chhimek-fouth-quater, 2021).

For the fiscal year 2077–2078, Deproc Laghubitta Bittiya Sanstha Limited (DDBL) declared a net profit of Rs 71.37 crores. The unaudited fourth quarter (Q4) report shows a roughly 160% growth in net earnings for the microfinance sector. Deprosc Laghubitta's net profit for the preceding fiscal year 2076–2077 was Rs. 27.50 cores. The profit gain was partly attributed to the write-back of a provision of Rs. 38.98 crores for potential losses. The net interest income increased by 42% to Rs. 137.03 crores (Investopaper, 2021).

FOWAD, the Forward Community Laghubitta, declared a net profit of Rs 57.46 crores for the fiscal year 2077–2078. Relative to the prior fiscal year, the unaudited fourth-quarter report showed a 180 percent increase in earnings. During the fiscal year 2076–2077, the FOWAD profited by Rs. 20.46 crores. Investopaper (2021) attributes the increase in earnings to a 69% rise in net interest income.

In the fiscal year 2078/79, Suryodaya Womi Laghubitta Bittiya Sanstha Limited reported a 13% decrease in net profit. According to the fourth-quarter unaudited report, microfinance profited Rs 13.96 crores for the fiscal year 2078/79. The net profit for the preceding fiscal year 2077–2078 was Rs 16.05 crores (Investopaper, 2022). The researcher can identify the gaps in the previous study that need to be filled by the present research project. This is a new area of research.

It is predicted that research will be done on the areas of this study that were not covered. The gap between the old and new research will be closed in this study's investigation of microfinance real-world data using visual analysis under the specified goals and constraints. My research has looked at the relationship between entrepreneurship and the microfinance sector. Financial indicators, correlations, multiple regressions, and trend analyses of the selected microfinance company are looked at in the first phase of this research. Several research gaps have been identified after thoroughly evaluating research articles in microfinance published since 1980. These gaps require further inquiry to improve precision and originality in the research domain. First, a lot of studies have been done on particular components of the program, such as the beneficiary households' economic growth. However, little has been done on how factors interact to provide larger social advantages, like more entrepreneurship.

Additionally, despite programs like the Self-Reliance Fund, which the government and NRB established to help the rural poor by generating income, little thought has gone into understanding how microfinance affects the financial inclusion of marginalized and poorer segments of society. Moreover, research has looked at the decision-making skills of entrepreneurs and how they affect empowerment, but little is known about how revenue growth affects these skills. Comparably, little research has been done on the connection between income propensity, educational achievement, and entrepreneurial well-being.

Furthermore, there is a dearth of research on the effect of microfinance on entrepreneurial potential in particular geographic locations, such as Birendranagar Municipality in Surkhet District in Karnali Province. This emphasizes the significance of localized studies that consider geographical variances in study outcomes. Finally, there is still a lack of knowledge about the sustenance-oriented component of micro-entrepreneurship in Karnali Province, which calls for more research to enlighten better those involved in developing the area. Filling such gaps will help progress the field of microfinance research and offer practitioners and policymakers helpful information for promoting economic growth and entrepreneurship in marginalized areas.

Research on microfinance has primarily focused on its effects on specific variables, such as income generation, asset growth, and women's empowerment. The impact of microfinance on the expansion of entrepreneurship has been the subject of other studies. Descriptive studies have also been conducted on the role of JLGs and SHGs. However, there are no compelling research findings on microfinance's effect on entrepreneurship development in Birendranagar Municipality of Karnali Province, Nepal, owing to changes in variables, including asset growth, women's empowerment, and an increase in income-generating activities. This means that the research has implications even at the national level.

The research objectives framed to study the impact of each microfinance intervention on entrepreneurship development individually to--

a. investigate the extent to which access to microcredit influences entrepreneurship development.
b. explore the role of microinsurance in entrepreneurship development by analyzing how the presence of microinsurance affects individuals' propensity to engage in entrepreneurial activities.
c. assess the contribution of micro-saving to entrepreneurship development by examining how participation in microwaving programs influences individuals' entrepreneurial behaviors and outcomes.
d. evaluate the effectiveness of ability awareness training in fostering entrepreneurship development.

The study highlights the positive impact of microfinance loans on entrepreneurship development, particularly in revenue, assets, and profit for existing business owners. However, it notes that these impacts are statistically insignificant. Despite this, the study underscores the importance of understanding the ground-level situation to protect micro-entrepreneurs from inherent risks and to suggest actions that benefit all stakeholders involved in microfinance. Since the establishment of microfinance in 2036/37 BS, it has played a significant role in fostering entrepreneurship development.

However, the study acknowledges certain limitations that need to be considered. Firstly, the geographic coverage of the study is limited to one municipality, specifically Birendranager Municipality within the Karnali Province of Nepal. Therefore, the findings may not be generalizable to other parts of the province or different regions of the country. Secondly, due to the low levels of education or literacy among respondents, capturing aspects of micro-entrepreneurship proved challenging. This limitation hindered the ability to delve into specific aspects of micro-entrepreneurship that would have required posing more complex or nuanced questions to the respondents.

2. LITERATURE REVIEWS

A literature review summarizes and arranges the research findings logically by reviewing the theories, justifications, debates, critical analyses, and conclusions of many academic researchers in fields related to the research topic before the current research study (Babu, 2022). It is commonly known that microfinance institutions (MFIs) help the poor access traditional financial services. Even though most

MFIs only manage small amounts of resources, their undiversified loan portfolios expose them to systematic risk, making them depend on governments and donors to expand and become financially independent (Elia, 2006). Since it costs the MFIs a lot to provide small loans and small amounts of deposit savings to meet the demands of new entrepreneurs launching small businesses, funding is necessary for MFIs to lower transaction costs associated with assisting the impoverished to become entrepreneurs.

Consequently, multilateral banks, government aid agencies, foundations, and apex organizations provide grants and soft capital to MFIs. These funds are offered at a low interest rate to encourage the initial capital needed to meet the social goals established by the donor community (Armendáriz & Morduch, 2010). By providing enormous sums of money to MFIs, all financial institutions strive to fulfil their promise to aid the impoverished. This allows MFIs to provide loans to the impoverished with low interest rates, easy access, and minimal collateral requirements to launch new small businesses.

The following services are vital to donors in microfinance: grants to build institutional capacity; grants to cover operating deficits; grants for loan capital and equity; concessional loans to finance on-lending; credit lines; guarantees for commercial funds; and technical assistance (Neogi et al., 2017). Nevertheless, many organizations rely on more traditional forms of capital finance, like debt and equity financing.

Regulations govern the transition from non-commercial to commercial capital, which occurs proportionally to their maturity level. MFIs have assisted people with mid-level incomes to grow and learn how to manage their social and financial objectives before literature (Babu, 2022). They argue that MFIs' well-being develops sustainably as their operational footprint expands. Institutions' funding patterns are addressed by their life-cycle theoretical perspectives.

With an emphasis on theoretical perspectives, this paper investigates the funding patterns of MFIs at every stage of their operational life cycle to fulfill their dual missions of financial sustainability and outreach. It accomplishes this through the prism of the life-cycle hypothesis. This study explores whether MFIs' social mission evolves as they become more operationally and financially viable as individual entrepreneurs and grow as enterprises. Microfinance services are designed to help consumers—typically lower demographic segments—who are socially or physically isolated or excluded become self-sufficient. Giving credit to those in need who would not otherwise have it is the basic aim of microfinance.

In Nepal, microfinance stands out as a ray of hope amidst socioeconomic difficulties (Panthi, 2022). It has laid the foundation for women's empowerment by supporting the rise of businesses. Microfinance can improve impoverished areas by increasing production and promoting self-sustaining livelihoods (Panthi, 2022). It can also address the gender inequality that exists in Nepalese society. Although lending was the primary focus of microfinance programs in the past, more recent efforts have emphasized client-focused entrepreneurship development activities (Cheston & Kuhn, 2001). However, their widespread adoption has been hampered by microfinance institutions (MFIs) lack of attention and investment in such initiatives (Cheston & Kuhn, 2001).

Based on the perceived need and MFIs' ability to close gaps in neglected markets, a target market for microfinance services is chosen (Guerin, 2006). The Central Bank of Kenya has acknowledged microfinance as the primary way to fund entrepreneurship (Cheston & Kuhn, 2001). Even with this acknowledgment, financing continues to be a significant barrier to the nation's entrepreneurial growth, which drives up unemployment rates. Thus, it is necessary to evaluate how much microfinance can

influence Kenya's business development (Cheston & Kuhn, 2001). Scholars have developed and assessed theories regarding the financial structures of microfinance institutions due to their unique funding structure. These theories include Agency Theory, Profit-Incentives Theory, Trade-off Theory, Pecking-Order Theory, and Life-Cycle Theory, which are briefly listed below (Elia, 2006).

Agency Theory or Principal-agent Theory: It consists of two people working as the principal's agent and principal, respectively (Ledgerwood, 2000). Nonetheless, a conflict of interest exists since, in this case, the MFIs' managers are more focused on profitability to maintain the institution's financial stability. At the same time, the donors—who are the principal—remain committed to their welfare objective.

Profit-Incentives Theory: Often called the venture capitalist approach, it is employed when MFIs depend on private funding instead of grants to meet the needs of the poor while continuing to operate profitably. This is because donor money has a quantity cap and has received criticism for constraining MFI efficiency due to a significant reliance on subsidies for operating costs (Wilson, 2015).

Trade-off Theory: The decision-maker for the company considers the benefits and drawbacks of different leverage arrangements, per Mateusz (2017). In the context of microfinance, this means striking a balance between profitability and outreach—that is, advancing an organization's financial objective, which involves aiding the impoverished and preserving its stable financial position.

Pecking-Order Theory: Donaldson initially put forth the Pecking Order Theory in 1961, which holds that organizations should finance their investments internally instead of externally. Retained earnings or liquid assets should be used to do this, and if internal money is insufficient, any available external cash should be added. in order to avoid needing to obtain further money to pay for the equity utilized for investment financing (Wikipedia, 2022).

Drawing from these theories, this paper applies them to develop hypotheses on MFI funding patterns and their impact on poverty alleviation and financial sustainability (Roy, 2010). Over the last four decades, microfinance has undergone significant paradigm shifts, gaining recognition as a powerful tool for poverty alleviation and economic empowerment (Cull & Morduch, 2017). Microfinance's overarching goals include eradicating poverty, boosting agricultural output, and supporting small business owners (Cull & Morduch, 2017).

In the case of the Microfinance study, Nepal National Microfinance Policy of 2005, microfinance is recognized as a pivotal tool for poverty reduction, acknowledging the significant challenge that poverty poses to Nepal's economic development. The policy document underscores the role of microfinance in facilitating capital formation and fostering self-confidence among marginalized individuals. It advocates for the necessity of a national microfinance policy, emphasizing the importance of enhanced collaboration among institutions and initiatives aimed at poverty alleviation. The policy highlights several benefits of a national microfinance policy, including creating opportunities for impoverished families to develop entrepreneurial skills and coordinating and organizing microfinance services under a unified legal framework. Additionally, the policy defines microfinance as providing financial services to poor and low-income households seeking to establish self-employment ventures. It outlines the scope of microfinance activities to encompass money transfers, microinsurance, microcredit, and micro-savings. Furthermore, the policy delineates six overarching goals, including poverty reduction and establishing laws and employment creation programs. It also addresses policies and strategies concerning the central bank's role, legislation governing micro-enterprises, and other pertinent areas (Sastha, 2019).

Several studies have delved into the outcomes of microfinance initiatives. Dhungana and Ranabhat (2022) suggest that microcredit enables women to become entrepreneurs, overcoming the barrier of lack of start-up funding. They emphasize the positive correlation between women's success in microbusiness and their financial, social, and human resources (Dhungana, 2018). Over the past three decades, microfinance has achieved remarkable milestones, proving the reliability of underprivileged consumers and establishing potent institutions dedicated to their financial needs (Panthi, 2022). However, challenges persist in scaling up quality financial services to serve larger populations, reaching even poorer and more remote populations, and reducing customer and provider costs (Panthi, 2022). Based on these reviews, the following statement has been hypothesized:

H_{01}: Microcredit has a significant impact on entrepreneurship development.

Households borrow more from microcredit institutions, but the overall uptake is low (only 26.4% of eligible households borrow, not the expected 80%). Some loans substitute for informal loans, leading to no significant difference in overall borrowed amounts. This surprising result, replicated in other studies, shows that the demand for microcredit is less than expected. There is no significant difference in monthly per capita and non-durable consumption. However, there are positive impacts on durable goods purchases, financed by increased labor supply and reduced spending on 'temptation goods.' Microcredit is expected to fuel business creation, but 15 to 18 months after access, households are no more likely to be entrepreneurs. Instead, they invest more in existing or new businesses, increasing average profits only for the most profitable businesses. After three years, treatment group businesses have more assets and higher profits in the upper percentiles, but the average business remains small and not very profitable. Based on these reviews, the following statement has been hypothesized:

H_{02}: Microinsurance has a significant impact on entrepreneurship development.

Micro-saving mechanisms, particularly commitment savings accounts, offer several potential benefits for entrepreneurship development beyond immediate financial improvements. The structured nature of commitment accounts helps individuals build a savings discipline, which can be crucial for entrepreneurial ventures. It also micro saving supports entrepreneurship development, such as capital accumulation, financial discipline, investment in business inputs, risk management, increased business opportunities, and long-term financial stability (Gine & Goldberg, 2011). Based on these reviews, the following statement has been hypothesized:

H_{03}: Micro-saving has a significant impact on entrepreneurship development.

Entrepreneurship training positively impacted opportunity identification and entrepreneurial action; the specific impact of ability awareness training alone was not significant. The varied nature of entrepreneurship training programs, including differences in content, duration, and delivery methods, makes it difficult to generalize findings, suggesting that certain types of training, such as ability awareness, may not have a uniformly significant impact across different contexts. Also, the study underscores the importance of providing comprehensive entrepreneurial skills, indicating that focusing solely on ability awareness may somewhat be sufficient for a significant impact on entrepreneurship development (Frese & Muhangi, 2016).

H_{04}: Ability awareness training has a significant impact on entrepreneurship development.

This research aims to determine how microfinance has impacted the rise in entrepreneurship in the Karnali Province's Birendrangar Municipality. A conceptual framework for assessing the relationship

between microfinance services such as microcredit, microinsurance, micro-savings, and ability awareness training provided by the microfinance institution is provided as the independent variable, and entrepreneurship development, which results in financial growth, flexibility, and decision-making, is provided as the dependent variable (Sharma, 2014).

Figure 1

Conceptual Framework of the Study

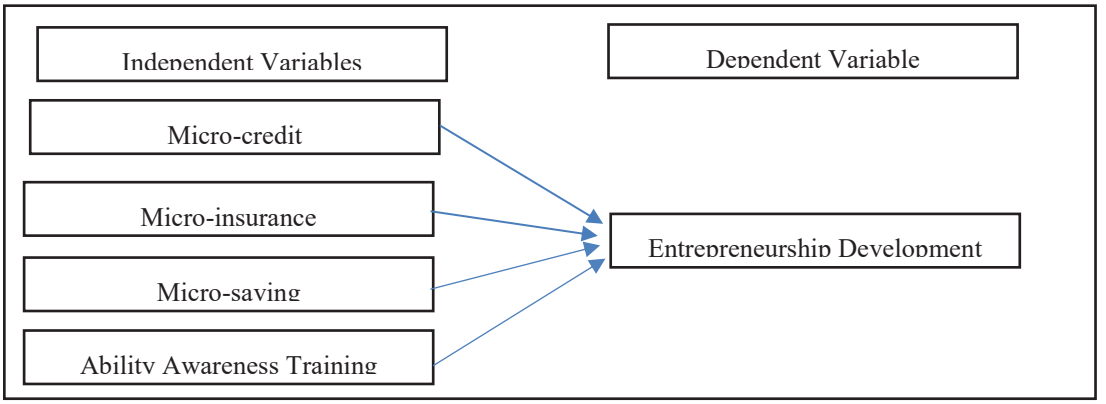

Figure 1 illustrates the proposed conceptual framework, where entrepreneurship development is assessed through dependent variables such as financial literacy, flexibility, growth, and decision-making, which influence various services offered by microfinance institutions. These services include micro-credit, micro-insurance, micro-saving, and ability awareness training, with dependent and independent variables derived from existing literature and studies.

Under dependent variables, the variation in independent variables is expected to impact or alter entrepreneurship development. Financial literacy, flexibility, and growth are crucial for supporting business development among entrepreneurs. Microfinance institutions (MFIs) provide entrepreneurs access to financing at low interest rates and unsecured loans. However, challenges related to financial literacy can hinder the success of microenterprise endeavors. Decision-making within microfinance institutions also contributes significantly, as individuals involved in these institutions can select among various services offered, thereby influencing their entrepreneurial journey. Regarding independent variables, micro-credit, micro-insurance, and micro-saving are anticipated to affect or modify the dependent variables. Micro-credit provides small loans to individuals to initiate small businesses or become self-employed, particularly benefiting those with low incomes. Micro-insurance offers protection against specific risks for low-income individuals through recurrent premium payments. Micro-saving encourages individuals to save money, thereby promoting financial inclusion and stability. Moreover, ability awareness training aims to enhance the entrepreneurial activities of individuals by providing them with the necessary skills and knowledge about entrepreneurship. Bridging the gap in managerial abilities and strategic planning can significantly contribute to the growth of entrepreneurship.

Thus, this conceptual framework explores the relationship between microfinance services and entrepreneurship development, emphasizing the crucial role of dependent and independent variables in fostering entrepreneurial growth and financial inclusion.

3. METHODS AND PROCEDURES

The research methodology adopted in this study employs quantitative methodologies to explore the impact of microfinance on entrepreneurship development, integrating analytical and descriptive approaches and interpretation. The sample size of 150 respondents from Microfinance institutions was chosen due to its relevance to the study's focus on Birendranagar Municipality in Surkhet. This area was selected as it represents a significant microfinance hub, with 20-25 tentative institutions catering to over 15,000 active subscribers. By targeting this demographic, the study aims to provide insights directly applicable to the region's entrepreneurship landscape, enhancing its findings' relevance and applicability. The study endeavors to contribute meaningful insights into the interplay between microfinance and entrepreneurship development in this area through meticulous nonprobability convenient sampling techniques, data analysis, and socio-ethical compliance. The gathered data shows no multicollinearity concerns, with variance inflation factors (VIF) ranging between 1.178 and 1.431. Each construct, including micro-credit, micro-insurance, micro-saving, ability awareness training, and entrepreneurship development, exhibits reliable test values of 0.787, 0.770, 0.674, 0.706, and 0.815, respectively.

4. RESULTS

The systematic presentation, interpretations, and analysis of the data are the topics covered in this section.

Results of Descriptive Analysis

The result section explains the output of the primary data obtained from the questionnaire forms with the respondents, focusing on the respondent's profile, age, education, income, and relations between the dependent variables.

Analysis of Respondents' Profile

The respondents' profiles were measured in age, education, marital status, and employment; the following table discusses them.

Table 1

Demographic Information of the Respondents

Demographic Information	Subcategory	Percentage (%)
Age	15-19 years	-
	20-24 years	-
	25-29 years	25
	30-34 years	28
	34 years and above	47
Education	No formal education	7
	Up to secondary level	40
	Intermediate	38
	Bachelor	10
	Master	5
	Others	-

Demographic Information	Subcategory	Percentage (%)
Employment	Employed	13
	Self-employed	68
	Unemployed	17
	Retired	2
Income	Less than 50,000	26
	50,000-100,000	34
	100,000-500,000	36
	500,000 and above	4

Source: field survey, 2024

The respondents were grouped into five age categories: 15-19 years, 20-24 years, 25-29 years, 30-34 years, and 34 years and above. The analysis showed that a quarter of the respondents belonged to the 25-29 age group, almost 28 percent were in the 30-34 age bracket, and about 47 percent were aged 34 and above, indicating that most microfinance participants fell into the 34 and above age category. Regarding educational attainment, respondents were divided into categories including no formal education, up to secondary level, intermediate, bachelor, master, and others. Findings indicated that 40 percent of respondents had completed education up to the secondary level, 38 percent had intermediate education, 10 percent had bachelor's degrees, 7 percent had no formal education, and 5 percent had master's degrees. Regarding employment status, respondents were classified as employed, self-employed, unemployed, or retired. Results revealed that the majority (68 percent) were self-employed, followed by 13 percent employed, 17 percent unemployed, and 2 percent retired. Income levels were categorized into four groups: less than 50000, 50000-100000, 100000-500000, and 500000 and above. The analysis showed that the most significant proportion (36 percent) fell into the 100000-500000 income bracket, followed by 34 percent in the 50000-100000 range, 26 percent earning less than 50000, and 4 percent earning more than 500000.

Analysis of Microfinancing Service Received

The following table reveals several key insights about the preferences, motivations, and outcomes associated with microfinance services among respondents

Table 2

Preferences and Motivations for Microfinance Services

Service Type	Preference (%)
Credit	68
Saving	16
Insurance	13
Other	3

Source: field survey, 2024

Table 3

Motivations for Seeking Microfinance Services

Motivation	Percentage (%)
Expand existing businesses	84
Avoid lengthy processes	8
Venture into entrepreneurship	6
Save time	2

Source: field survey, 2024

Table 4

Income Levels Post-Microfinance Loans

Income Range	Percentage (%)
50,000 to 100,000	40
100,000 to 500,000	32
Up to 50,000	20
500,000 and above	8

Source: field survey, 2024

The above analysis of microfinance services revealed that credit services were the most preferred among respondents, with 68 percent expressing a preference for them. Saving services followed at 16 percent, insurance services were favored by 13 percent, and other services accounted for 3 percent of respondents' preferences. Additionally, an examination of the motivations behind seeking microfinance services indicated that a significant majority, comprising 84 percent of respondents, aimed to expand their existing businesses. Other reasons cited included the desire to avoid lengthy processes (8 percent), venture into entrepreneurship (6 percent), and save time (2 percent). Furthermore, an analysis of respondents' income levels post-microfinance loans revealed that the most significant proportion, accounting for 40 percent, reported incomes ranging from 50,000 to 100,000. This was followed by 32 percent reporting incomes between 100,000 and 500,000, while 20 percent reported incomes up to 50,000, and 8 percent reported incomes of 500,000 and above.

Results of Inferential Analysis

Inferential Analysis helps to show the result of correlation analysis between micro-credit facilities and entrepreneur well-being in this section.

Pearson Correlation

This section describes a correlation analysis of entrepreneur well-being about the independent variables. Table 5 shows the correlation between micro-credit facilities and entrepreneur well-being.

Table 5

Correlation analysis between micro-credit facilities and entrepreneur well-being

		MC	MI	MS	AAT	ED
MC	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	100				
MI	Pearson Correlation	.264**	1			
	Sig. (2-tailed)	.008				
	N	100	100			
MS	Pearson Correlation	.363**	.352**	1		
	Sig. (2-tailed)	.000	.000			
	N	100	100	100		
AAT	Pearson Correlation	.273**	.216*	.355**	1	
	Sig. (2-tailed)	.006	.031	.000		
	N	100	100	100	100	
ED	Pearson Correlation	.319**	.321**	.326**	.429**	1
	Sig. (2-tailed)	.001	.001	.001	.000	
	N	100	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Note: MC: Micro-Credit, MI: Micro-Insurance, MS: Micro-Saving, AAT: Ability Awareness Training, and ED: Entrepreneurship Development

Source: Field Survey, 2024

Table 5 displays the correlation analysis between micro-credit facilities and entrepreneur well-being, along with other related constructs, including Micro-Insurance (MI), Micro-Saving (MS), Ability Awareness Training (AAT), and Entrepreneurship Development (ED). The table reveals significant positive correlations between micro-credit and each of the other constructs, indicating that as micro-credit increases, so does the level of each construct. Specifically, strong correlations are observed between micro-credit and micro-saving (0.363**), micro-credit and entrepreneurship development (0.319**), micro-saving and micro-insurance (0.352**), micro-saving and ability awareness training (0.355**), and ability awareness training and entrepreneurship development (0.429**). These findings suggest that access to micro-credit is associated with improved entrepreneur well-being, highlighting the interconnectedness of various support mechanisms in fostering entrepreneurial success.

Regression Analysis

This segment presents the outcomes of the regression examination concerning entrepreneur well-being concerning the predictor variables comprising Micro-Credit, Micro-Insurance, Micro-Saving, Ability Awareness Training, and Entrepreneurship Development. The regression analysis illustrating the relationship between these independent variables and the dependent variable is showcased in Table 6.

Table 6
Results of Regression analysis

Variables	B	t	Sig.
Intercept	2.134	5.513	.000
MC	.121	1.563	.121
MI	.118	1.885	.063
MS	.067	.952	.343
AAT	.213	.315	.001
Adjusted Square	0.241		
F-Value	8.880		
Sig.	0.000		

Source: Field Survey, 2024

Note: MC: Micro-Credit, MI: Micro-Insurance, MS: Micro-Saving, AAT: Ability Awareness Training, and ED: Entrepreneurship Development

The regression analysis conducted on entrepreneur well-being in relation to the predictor variables—Micro-Credit, Micro-Insurance, Micro-Saving, and Ability Awareness Training—revealed exciting findings. The intercept coefficient was statistically significant at a p-value of .000, indicating its substantial impact on entrepreneur well-being. However, when examining the specific predictor variables, only Ability Awareness Training (AAT) demonstrated a significant positive impact ($\beta = .213$, $p = .001$). This suggests that entrepreneurs who undergo ability awareness training tend to experience higher levels of well-being. Conversely, Micro-Credit (MC), Micro-Insurance (MI), and Micro-Saving (MS) did not exhibit significant impacts on entrepreneur well-being. These results challenge hypotheses H01, H02, and H03, suggesting that micro-credit, micro-insurance, and micro-saving may not influence entrepreneurship development as anticipated. However, hypothesis H04 is supported, indicating that ability awareness training does play a significant role in fostering entrepreneurship development. Overall, the adjusted R-squared value of 0.241 suggests that the combination of these predictor variables can explain approximately 24.1% of the variation in entrepreneur well-being.

5. DISCUSSIONS

The findings of our regression analysis shed light on the factors influencing entrepreneur well-being, with notable implications for policy and practice. Our study uncovered that Ability Awareness Training (AAT) significantly impacts entrepreneur well-being, aligning with prior research emphasizing the importance of skill-building and knowledge enhancement for entrepreneurial success (Marshall et al., 2020). This underscores the value of investing in training programs to bolster entrepreneurs' competencies and capabilities. Interestingly, our results diverge from some past studies regarding the impact of micro-credit (MC), micro-insurance (MI), and micro-saving (MS) on entrepreneur well-being. While these financial support mechanisms have been heralded as catalysts for entrepreneurship development in various contexts (Mamun et al., 2019), our findings suggest a nuanced relationship. Our study did not find significant effects of MC, MI, or MS on entrepreneur well-being, challenging assumptions that access to microfinance inherently translates into improved entrepreneurial outcomes.

This underscores the need for a critical reevaluation of the efficacy and targeting of microfinance interventions, considering contextual factors and entrepreneurs' diverse needs (Mamun et al., 2019).

Moreover, our identification of AAT as a significant predictor of entrepreneur well-being resonates with prior research highlighting the pivotal role of education and training in fostering entrepreneurial success (Mukhtar et al., 2021). By providing entrepreneurs with the necessary skills and knowledge to navigate challenges and capitalize on opportunities, AAT programs can contribute to long-term sustainability and growth within entrepreneurial ecosystems. Our study contributes to the ongoing discourse on the determinants of entrepreneur well-being, emphasizing the multifaceted nature of support mechanisms and the importance of tailored interventions. While further research is warranted to unpack the nuanced dynamics, our findings underscore the value of holistic approaches that integrate financial and non-financial support to nurture thriving entrepreneurial ventures.

6. CONCLUSIONS

The analysis has illuminated key factors influencing entrepreneur well-being, with significant implications for policy and practice. Notably, we found that ability awareness training (AAT) emerges as a crucial determinant, emphasizing investing in programs that enhance entrepreneurs' skills and knowledge. However, our study diverges from previous research by revealing the non-significant effects of micro-credit (MC), micro-insurance (MI), and micro-saving (MS) on entrepreneur well-being. This challenges conventional wisdom regarding the role of microfinance in fostering entrepreneurship, prompting a critical reassessment of intervention strategies. Moreover, our findings underscore the multifaceted nature of support mechanisms, highlighting the need for tailored interventions that integrate financial and non-financial components to nurture thriving entrepreneurial ventures.

Policy Implications: Reevaluating Microfinance Strategies: Policymakers should reassess microfinance interventions to ensure they effectively address entrepreneurs' diverse needs, considering contextual factors and the nuanced dynamics at play.

Investing in Training Programs: Policymakers should prioritize investment in ability awareness training programs to enhance entrepreneurs' competencies and capabilities, fostering long-term sustainability and growth within entrepreneurial ecosystems. The findings carry significant implications for various stakeholders, including policymakers, managers, and researchers. Firstly, for policymakers, our study underscores the need to reevaluate microfinance strategies. By recognizing the non-significant effects of micro-credit, micro-insurance, and micro-saving on entrepreneur well-being, policymakers can pivot towards more tailored interventions that address the nuanced needs of entrepreneurs. This might involve reallocating resources towards programs that provide comprehensive support, such as ability awareness training, which our study found to significantly impact entrepreneur well-being. Additionally, policymakers should prioritize investment in education and training initiatives to enhance entrepreneurs' skills and knowledge, fostering sustainable entrepreneurial ecosystems.

Our findings highlight the importance of prioritizing skill development within organizations for managers and business leaders. Managers can improve individual well-being and drive organizational innovation and growth by investing in training programs that enhance employees' entrepreneurial competencies. Furthermore, our study underscores the value of adopting a holistic approach to support mechanisms. Managers should consider integrating financial and non-financial support initiatives to address the multifaceted needs of entrepreneurs and promote their overall well-being.

Our study suggests several avenues for future research. Further research is needed to understand the nuanced dynamics of microfinance and its impact on entrepreneurship development. By addressing gaps in knowledge, researchers can contribute to developing more effective policies and practices to foster thriving entrepreneurial ventures.

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