
Microfinance Companies on Entrepreneurship Development in Nepal

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ABSTRACT

This is survey based article. It is conducted with different microfinances institutions (MFIs) that branches are located in Bharatpur, Chitwan and Gaidakot, Nawalparasi. Respondents are 120 micro-entrepreneurs and 20 employees of the same MFIs are taken as respondents. Data and information are collected through questionnaires and interview. The questionnaires are distributed among the 120 sample micro-entrepreneurs and 20 employees of MFIs. The relationship between MFIs and entrepreneurships are analyzed through the use of chi square test. The article concluded that MFIs play significant role in enhance micro-enterprises operation. The study concluded that there are various barriers impede entrepreneurs' development. The major challenges involve negligence of government for the entrepreneurship development and lack of finance for the proper development of the enterprises. Poor financial literacy, poor management of market area and the lack of infrastructure development are also the challenges. Other factors that hindered enterprises growth that was cited by entrepreneurs: Interest rates charged are too high, rigid payment period; local market is not well diversified, high competition among the local entrepreneurs, no support from the local municipality. Despite the various problems and challenges, MFIs have a positive impact on the entrepreneurship development in overall study.

Introduction

The countries with better developed financial system experience faster reductions in income inequality and faster rates of poverty alleviation. A country will move on the development path if all the citizens are involved in the development process and enjoy good standard of living by having access to basic amenities of life such as food, clothing, housing, health, clean water, education, employment and good natural and social environment. But, if the people of a country are poor they will think about earning their livelihood only and their inclusion in the progress of nation will be miles away. Poverty is a characteristic of Nepal households or individuals. It has been realized in the recent years that there are limits to which government can singly promote development. Most of the traditional functions being carried out by the government in most countries ranging from the provision of economic development are becoming increasingly difficult to accomplish.

Microfinance is now globally recognized as an effective tool for reducing poverty. It has shown positive results in many countries; however, microfinance services have not yet deepened down to reach the neediest poor. There are still huge masses of people deprived of financial service in Nepal as in a number of other developing countries. (Shrestha, 2009).

Microfinance deals with the provision of financial services, such as loans, savings, insurance, money transfers, and payments facilities to income groups in the lower cadre, (Awojobi, 2014). It could also be used for productive purposes such as investments, seeds or additional working capital for micro enterprises. On the other hand, it could be used to provide for immediate family expenditure such as food, education, housing and health. Microfinance is an effective tool for reduction of poverty and economic empowerment for poor people (Ayoade & Agwu, 2015).

Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient. The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services.

Micro financing organizations support a large number of activities that range from providing the basics like bank checking and savings accounts to startup capital for small business entrepreneurs and educational programs that teach the principles of investing. These programs can focus on such skills as bookkeeping, cash-flow management, and technical or professional skills, like accounting. Unlike typical financing situations, in

which the lender is primarily concerned with the borrower having enough collateral to cover the loan, many microfinance organizations focus on helping entrepreneurs succeed.

In many instances, people seeking help from microfinance organizations are first required to take a basic money-management class. Lessons cover understanding interest rates, the concept of cash flow, how financing agreements and savings accounts work, how to budget, and how to manage debt. Once educated, customers may apply for loans. Just as one would find at a traditional bank, a loan officer helps borrowers with applications, oversees the lending process, and approves loans. The typical loan, sometimes as little as may not seem like much too some people in the developed world, but for many impoverished people, this figure often is enough to start a business or engage in other profitable activities.

Review of Literature

Fareed, Shahzad, Arshad, Lodhi, and Amen (2014), found the microfinance having the great impact on poverty reduction in Okara district. The availability of microfinance services, use of microfinance services, awareness of microfinance and facilitating terms & conditions of microfinance have the positive relationship with poverty reduction.

Hadidi (2018), investigated the impact of microfinance on entrepreneurial development of small scale enterprises that are aiming for growth and development in Egypt. This study explained the major contribution of microfinance institutions to the developing economy, like Egypt is its role in promoting entrepreneurship development in the nation. The study also reveals that one of the goals of entrepreneurship routed by successful Egyptian government has been the reduction of unemployment and poverty alleviation. A cordial thrust in public policy for the achievement of indigenous entrepreneurship through the provision of long term loans and equity capital by banks for enterprise. Given the gap between savings and invertible funds, the short fall is provided by credit delivery. Many newly developed and developing countries have therefore made credit delivery an endurable strategy in the development of entrepreneurship in both industry and agriculture. Sussan and Obamuyi (2018), found that microfinance bank has not significantly impacted on the development of entrepreneurship in Nigeria.

Gnawali (2018), found that microfinance institutions plays a positive role on women who invest in them by increasing their well-being, access to and control their resources., eradicating illiteracy among women, taking part in economic decisions and finally microfinance institution have boosted women's self-esteem. Respondents have positive response and satisfaction towards the services provided by microfinance and found positive response and satisfaction toward income status. But there is lack of practicable training programmers provided by microfinance.

Problem statements

Nepal being the developing country has various problems regarding socio-economic aspect one this very regard microfinance can become a beam of light. Microfinance has indeed help in women entrepreneurs in education which is basis for empowering women (Paudel, 2013). The various areas of Nepal are still undeveloped so microcredit can help these sectors to raise their bound of opportunities (Kharel, 2017). Women empowerment in Nepal is possible only if the income generations of women are raised (Khatiwada et al., 2018). In context of generating income and being self-dependent microfinance can help enrich efficiency (Dwibedi, 2015). Micro finance in rural economy is source for raising the standard of living (KC and Anita, 2018). Thus, Microfinance can overcome the problem regarding gender inequality prevailing in Nepalese society (Karn, 2018).

Micro entrepreneurs face dual challenges in accessing financial resources from microfinance institutions, the reasons for this could be either micro entrepreneurs lacks resources, poor government policy, or due to socio cultural factors, micro entrepreneurs have little access to education, with high household demand, which together with the business demand, impacts their ability to solely focus on their businesses and by implication their ability to seek loan finance. In Nepal, microfinance mainly helps in the development of the country by granting loans to low income earners. This article tries to answer the following questions.

- Does financing through microfinance institution (MFIs) help entrepreneurs to expand their enterprises?
- Does microfinance institution (MFIs) help to reduce the problem and challenges face by the entrepreneurs during their way of development?
- Does the advantages that entrepreneurs enjoy after receiving the product and service offered by the microfinance institution (MFIs) encourage for entrepreneurship development?

Objective

The objective of this article is to examine the impact of microfinance institution (MFIs) on

entrepreneurship development in Nepal. It also analyses the relationship between microfinance institution (MFIs) and entrepreneurship development and the problem and challenges face by Entrepreneurs.

Methodology

The study intended to identify impact of microfinance on entrepreneurship development. This study used only primary data, the information primarily gathered from the respondents whom respond from the questionnaires. It is conducted with different microfinances institutions (MFIs) that branches are located in Bharatpur, Chitwan and Gaidakot, Nawalparasi. Respondents are 120 micro-entrepreneurs and 20 employees of the same MFIs are taken as respondents. Primary data are collected using questionnaires and interview. The questionnaires are distributed among the 120 sample micro-entrepreneurs and 20 employees of MFIs. The relationship between MFIs and entrepreneurs are analyzed through the use of chi square test.

Table no: 1 Respondent Profile

	No of Respondent	Percentage
Entrepreneurs	120	86%
Employee from MFIs	20	14%
Total	140	100%

Research framework

Entrepreneurs may get knowledge about the microfinance through their friends, relatives, family member or from their community groups. If they find that the microfinance will help them to reduce their problem about entrepreneurship they will become the member of the microfinance where they can receive various product and service which will benefit them. Here, dependent variable is entrepreneurship development and independent variables or factor which contributes entrepreneurship development activities are:

Financial Flexibility: It helps the entrepreneur to develop their business. Entrepreneur receive these facility are and invest in their business for the better result. MFIs provide the credit facility to the entrepreneur in minimum interest rate and also provide the facility of loan without collateral.

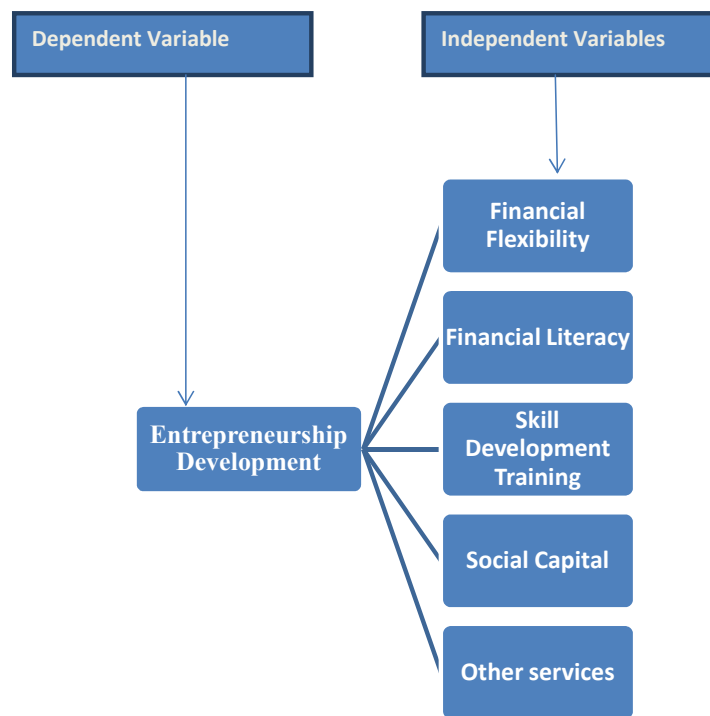
Financial Literacy: Problems of financial illiteracy, which will affects record keeping and financial decision-making ability of borrowers hinders activities of micro entrepreneurs to develop successful.

Skill Development Training: Availability of adequate skills and knowledge about entrepreneurship to individual will boost development of entrepreneurs' activities. While if most of peoples do not have enough skills in using and mobilizing resources for developing their entrepreneurial skills and this often leads to serious gaps in the fields of managerial skills, strategic planning, etc

Social Capital: Adequate social network among member of micro entrepreneur will stimulate activities of micro entrepreneurs to develop successful on other side lack of social capital, that is poor people do not have the social networks and this deprives the target groups of a key linkage with business partners which could otherwise have provided valuable assistance regarding different aspects of business development.

Other Services: MFIs also provide the various services to the entrepreneur like saving facilities with good interest in return it also provide the insurance, remittance, credit guarantee and other plus services.

Figure No 1: Conceptual framework



Results and Discussion

Structure of the respondent

The background information provides findings of respondent’s gender, age, education period of work in their respective organizations, the category of work and where business area is situated.

Table No 2: Gender of respondent

	Frequency	Percentage
Entrepreneurs		
Male	5	4%
Female	115	96%
Total	120	
MFI's Employee		
Male	7	35%
Female	13	65%
Total	20	100%

The table No 2 shows that out of 120 entrepreneurs only 4% were male whereas 96% were female whereas other side out of 20 employees who were considered on the study 65% were females and 35% were males. It shows that micro-enterprises are female dominated.

Table No 3: Other Information about Respondent

Age group	No of Respondents	Percentage
20-30	19	16%
31-40	49	40%
41-50	33	28%
50- Above	19	16%
Marital Status		
Married	107	89%

Unmarried	13	11%
Education Status		
Literate	97	81%
Illiterate	23	19%
Family Structure		
Single	67	56%
Joint	53	44%
Time period of joining MFIs		
Below 2	34	30%
3-4	55	48%
5-6	13	11%
Above 6	13	11%
Total	120	

From table no 3, it can be seen that there are 31 to 40 years age group entrepreneurs engaged mostly, 89% of entrepreneurs are married. Table also shows that 81% of entrepreneurs are literate, they can do some of their documentation for their enterprises by themselves and 56% of them were living in a single structure family. It is because most of entrepreneurs were migrated from the rural area. 48% of them had started their business from 3 to 4 years connecting with MFIs.

Based on the analysis, this study brings the following results.

- Entrepreneurs indicate more than one challenge that hinders their development. Negligence of the government is the primary cause of concern. Lack of finance, poor financial literacy, poor management of market area and the lack of infrastructure development are also the challenges. Other factors that hindered enterprises growth that was cited by entrepreneurs: Interest rates charged are too high, rigid payment period & interest charged, local market is not well diversified, high competition among the local entrepreneur, no support from the local municipality, slowdown in the economic activity affect the business and the business has also slowdown due to the effect of corona virus crisis which was also big challenges for the entrepreneurs.
- On the survey large majority of 95% of entrepreneurs felt that they are facing various problems on the way of growth and development of their enterprises.
- MFIs offered the various product and service to the entrepreneurs and from the study it can be concluded that MFIs products and services had a positive impact on the overall development of entrepreneurship.
- MFIs had reduced the financial challenges face by the entrepreneurs which had increased the ability to trade and expand their enterprises in the tough situation through the customized loan.
- This survey presents the situation where the MFIs do not facilitate much in financial literacy and on opening up new branches.
- According to the survey responses, Credit facility, training on financial management skill, low interest and loan facilities, and adequate grace period to settle the loan had helped the entrepreneurs to expand their enterprises. It concludes that there is a positive relationship between products & services offered by the MFIs and rate of expansion of enterprises.
- MFIs create the various advantages for the entrepreneurs like financial flexibility, financial literacy, entrepreneurship knowledge and skills, social capital and other facilities through MFIs products and services. So, it can also be concluded from the analysis that MFIs have positive impact on the growth and development of the entrepreneurship.
- There are somehow positive changes on the enterprises from MFIs. There are major challenges facing these businesses that have not been handled to substantial level to enhance their expansion and development.
- The various financial product and service offered by the MFIs has created the financial flexibility among the entrepreneurs which has reduce the financing challenges faced entrepreneurs and provided an opportunity for them to grow and expand.
- Majority of entrepreneurs are suffering from the poor financial management skill and they are unable to do

documentation for their business. They are unable to manage business finance and personal finance. They can only perform basic accounting for themselves.

- According to survey results, it is found that most of entrepreneurs are willing to adopt the new innovation on the MFIs and financial sector for their growth and development of their enterprises.
- MFIs conduct various personal skill development training, business management training and financial management training programs for the entrepreneurs before and after approving their groups for the membership of MFIs but those programs does not have strong impact on the entrepreneurs and their growth and development of their enterprises.
- The test of hypothesis (Chi-square test at 5% level of significance) shows the significant positive relationship between development of entrepreneurship and MFIs products and services.
- The test of hypothesis (Chi-square test at 5% level of significance) shows the significant positive relationship between the development of entrepreneurship and advantage that entrepreneurs receive through the MFIs products and service.
- The test of hypothesis is not only revealed the relationship between the variable but it also shows that MFIs have a positive impact on the entrepreneurship development in overall study.

Conclusion

Now a day there are somehow helping the entrepreneurs to deal with the problems and challenges that hinder them from the expansion of their enterprises. Numbers of MFIs and entrepreneurs are increasing day by day. Various product and services offered by the MFIs had reduced the financial problem among the entrepreneurs. Now a day, MFIs has become more helpful for the entrepreneurs in comparison to bank they can borrow small to medium amount of financial support for their enterprises. MFIs help the entrepreneurs to increase their financial knowledge through conducting various training and counseling programs. There is significant relationship between MFIs and entrepreneurship development. In comparison to the past days more and more entrepreneurs are attracted to be the member of MFIs. Especially MFIs have become more helpful for the women micro-entrepreneurs in the rural to city area.

Despite the positive impact, so many challenges and problems hamper to develop the micro-entrepreneurship in Nepal. Negligence of the government, poor financial literacy, lack of infrastructure development are the challenges. Other factors that hindered enterprises growth that was cited by entrepreneurs: Interest rates charged are too high, rigid payment period & interest charged, local market is not well diversified, high competition among the local entrepreneur, no support from the local municipality, slowdown in the economic activity affect the business and the business has also slowdown due to the effect of corona virus crisis which was also big challenges for the entrepreneurs. Concerned MFIs and government should address to resolve these problems for the development of micro-enterprises and micro finance in Nepal.

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