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Effect of Microfinance on Enterprise Level of Poor People: An Empirical Study

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The current study tries to set the impact of micro-credit services on improvement in business base in Nepal. The study employed a causal study. The sample for this study consists of participants of MFIs in the Kathmandu, Lalitpur and Sindhupalchok from January 2014 to December January 2016. Stratified random sampling was used to select 400 respondents. Data was collected by use of a questionnaire and in-depth interview. The data was pre-processed using Statistical Package for Social Sciences (SPSS). Studies shows the credit facilities had the highest impact followed by use of different business base. The study also recommends that the MFIs operating in the Nepal be empowered through provision of finances which can be advanced to the locals as credit to facilitate economic growth of people. To build capacity among the people of the study area, the study recommends that the MFIs operating in the Nepal undertake regular training especially on financial management/management as well as operational courses so that the local can learn the best financial management skills and thus improve their businesses as well as income.

Keywords: microfinance, poverty, employment

1. Introduction

Poverty is a pervasive problem in our society. Spanning across the world, poverty exists in different levels and various forms. At the current threshold of $1.25 a day, according to the World Bank estimates that around 25% of the population in developing countries lives below the poverty line (UNCDF, 2009) This figure translates to 1.3 billion people living in poverty, or about 20% of the global population.

As the World Bank broadly defines it, poverty is a "pronounced deprivation in well-being," (as cited in Khandker & Haughton, 2009, p. 2). The poor people are deprived of basic necessities in life, such as food, shelter, clothing, and clean drinking water. They also lack access to health care, quality education, and employment opportunities that are important in improving their human capital and facilitating social mobility. Due to the profound impact that poverty has on the poor's well-being, efforts have been made by various multilateral organizations, such as the United Nations, to address these problems and combat poverty. Through the years, different poverty reduction strategies and instruments have been developed in order to improve the poor's standard of living and help the people break the vicious cycle of poverty.

Microfinance is the provision of financial services to the poor, aiming to empower low-income populations by providing them with access to credit and other financial services. Through microfinance institutions (MFI), the poor can obtain collateral-free loans at relatively low interest rates and use the money for creating microenterprises, funding children's education, and improving homes, among others. Aside from microcredit, MFIs have also developed numerous financial products, such as micro-insurance and micro-mortgage that are designed to accommodate the poor's financial needs. Most of these institutions have also required their clients to open up savings accounts, which could be used for emergency and investment purposes (Carr & Tong, 2002, p. 82).

Despite the success of microfinance in including the poor people in the financial sector, critics claim that this antipoverty tool lacks hard data to prove its positive impact on reducing poverty levels. Some researchers also question the real impact of microfinance institutions (MFI) in women empowerment, and argue that assistance from the public and private sectors must be made available to effectively improve the lives of the poor. Others are also concerned at how these institutions would be able to fulfill their goals while trying to achieve long-term sustainability.

There is no doubt microfinance is the appropriate tool to uplift the living standard of people. Most of the study focuses on efficiency of microfinance institutions and limited aspect of house hold, some researches try to make happy for donor agency. The current study tries to find out how micro finance (micro credit) able to eradicate the poverty level from business level.

The attractiveness and accomplishments of microfinance are evidenced by the formation of large microfinance institutions (MFIs) across the world and the increased participation of NGOs in microfinance industry, mutual international organizations such as the World Bank and UN Development Program, have also recognized the prospective of microfinance as a poverty alleviation instrument and have contributed radically to develop its programs (Midgley, 2008, p. 470).

Muhammad Yunus, founder of the Grameen Bank in Bangladesh and recipient of the 2006 Nobel prize on economics gave recognition of Microfinance in worldwide. Although microfinance was not his original and sole idea, Yunus pioneered the implementation of joint-liability groups as a substitute to tangible collaterals when borrowing loans, and emphasized the role of women in managing credit and managing small business. He founded the Grameen Bank in the early of 1970s as an effort to restructure the impoverished poverty that inundated in Bangladesh. He believes that the poor possess on "entrepreneurial drive" and are equipped with "survival skills" that allow them to become successful micro- He also asserts that to develop tools and services that would greatly benefit the poor, entrepreneurs (Engler, 2009, p. 82). And their limitations must be carefully considered by institutions which fight poverty (Yunus, 2007, p. 20).

There is certainly much truth in what about how MFIs should approach their target income groups and accommodate the limitations of the poor. For instance, most commercial banks believe that this portion of population is "unbankable" due to their lack of put up as collateral. Most commercial banks believe that the poor entail high risks, and are more likely to default on loans compared to middle and high-income individuals. Microfinance, on the other hand, departs from traditional banking services, which only target specific groups. It minimize the formal inherent in conventional banking by simplifying paper work and forms, and establishing banking centers in villages (Yunus, 2007, p. 20). Microfinance's core principle lies on the assumption that the poor people are motivated to do anything to move out of poverty and better their lives.

Several key features of microfinance that differentiate it from commercial banking procedures are outlined by Elahi and Demopoulos (2004). They mention five characteristics of this poverty alleviation tool: 1) small loan size, which is determined by micro lending institutions and dependent on the country's socioeconomic development 2) focus on women borrowers, who have little access to credit 3) emphasis on the utilization of loans to start microenterprises as they provide employment opportunities to clients 4) absence of tangible collateral, and formation of joint-liability groups to enforce payment, and 5) savings mobilization programs, which require borrowers to open savings accounts and accumulate financial assets (Elahi & Danapoulos, 2004, p. 62). Along with these key features, training and group meetings are also essential elements in microfinance. Entrepreneurship and risk management skills, credit discipline, values formation, information on health and hygiene, among others are discussed and taught in these training sessions to equip the borrower with proper knowledge of effectively managing her small business and aid her in everyday living (Dowla & Barua, 2006, pp. 18-19). Through this approach, MFIs are not only able to provide financial capital to the poor, but they are also able to promote a sense of responsibility and drive to achieve success in entrepreneurial endeavors.

Kathryn Imboden, indicates in her research that there is a growing number of literature that can support the positive relationship between financial sector development and poverty alleviation. She notes that because financial sector development contributes to economic growth, it indirectly aids in alleviating poverty. Also, by providing access to finance, the financial sector has direct effects on the economic condition of the poor (Imboden, 2005, p. 68).

Method

The design employed in this study is descriptive survey method. The method is ideal, as the study involves collecting data from rural and poor urban members of microfinance institutions (MFIs) with a view to analyze the association between microfinance and poverty reduction. Sample comprised 400 members of MFI's which from different microfinance companies. The stratified random sampling is used while the convenience sampling is adopted to draw elements or respondents to be included in the study. The study uses descriptive statistics, chi-square tools in testing the research questions of the study.

Results and discussion

This section discusses the descriptive statistics, chi-square and percentage results on to assess the impact of microfinance on poverty reduction in Nepal.

Following table shows the gender wise distribution of respondents of the study areas.

Table No. 1 Gender distribution of sample respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	151	37.8	37.8	37.8
	Male	249	62.3	62.3	100.0
	Total	400	100.0	100.0	

Source: field survey 2016

The demographic profile of the survey respondents presented in table No. 1 shows that 37.8% (151 out of 400) of the respondents were female and 62.3% (249 respondent out of 400 sample size) were male. It shows the large level of male are income generating activities in the comparison of female.

Because of risk bearing capacity male, they are involve in financial activities .

Table No 2. Impact of microfinance on increase in business size.

Involvement year in microfinance		Change in size of business						Total	
		Yes		No		Don't know			
1 year	Count	153	38.2%	41	10.2%	3	0.8%	197	49.2%
2-4 years	Count	149	37.2%	32	8%	2	0.5%		183
5 and more years	Count	20	5%	0	0%	0	0%	20	5%
Total	Count	322	80.5%	73	18.2%	5	1.2%	400	100%

Source: field survey 2016

Above table shows that 80.5% respondents (322 respondents out of 400) are agreed for the change in size of business size, only 18.2% respondents (73 respondents out of 400) said that size of their business is not changed during the period. And only 1.2% respondents said that they are unknown about the change in business size during the period. It shows that mejority of the respondents are capeble to business growth, which are financially supported by microfinance institutes. So we can conclude that microfinance program helps to make strengthen the enterprise base of participants.

Table No 3. Involvement year in microfinance and add new product in business

Involvement year in microfinance		Add new product in business						Total	
		Yes		No		Don't know			
1 year loan	Count	132	33.0%	65	16.2%	0	0%	197	49.2%
2-4 years loan	Count	95	23.8%	86	21.5%	2%	0.5%	183	45.8%
5 and more years loan	Count	10	2.5%	10	2.5%	0	0%	20	5%
Total	Count	237	59.2%	161	40.2%	2	0.5%	400	100%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.440	4	.022

Source: Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance.

Since the calculated value is less than the table value (0.05>0.022) so there is significant relationship between involvement year in micro credit program and add new product in business. When business able to earn profit, businessman only think to add new product in business. 59.2% respondents said that their business added new product in during the period. It is shown that financial performance, strong base for enterprise resource and income smoothing of business is increased.

Table No 4. Involvement year in microfinance and increase in no. of employee

Involvement year in microfinance		increase in no of employee in business						Total	
		Yes		No		Don't know			
1 year	Count	130	32.5%	66	16.5%	1	0.2%	197	49.2%
2-4 years	Count	94	23.5%	77	19.2%	12	3%	183	45.8
5 and more years	Count	16	4%	2	0.5%	2	0.5%	20	5%
Total	Count	240	60%	145	36.2%	15	3.8%	400	100%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.163	4	.000

According to above table 60.8% respondent's (243 respondent out of 400 respondents) business run in profit, 37% respondent's (148 respondents out of 400) business is run in neither profit nor loss situation and 2.3% of respondent's (9 respondents out of 400 respondents) business run in loss. According to field observation main cause of neither profit nor loss position business was respondents include capital expenditure in to revenue expenditure and they only gave priority for cash basis. In another hand 9 respondent's business are run in loss, and cause of loss was family dispute, lack of technical training/ manpower and lack of marketing. when studied the overall situation most of the business run in profit, which It is shown that financial performance, strong financial base of enterprise for resource and income smoothing of business is increased.

5. Relationship between involvement years in micro finance and expenditure on children education

Relationshioship between involvement year in microfinance and expenditure level of children education of respondends were as follows:

Table No. 5. Involvement in microfinance and expenditure on children education

Involvement year in micro finance			Monthly Expenditure on children education								Total	
			No expenditure		1-10 thousand		11-20 thousand		More than 21 thousand			
	1 year	Count	0	0.0%	105	28%	50	13.3 %	19	5.1%	174	46.4%
	2-4 years	Count	4	1.1%	132	35.2%	34	9.1%	11	2.9%	181	48.3%
	5 & more years	Count	0	0.0%	16	4.3%	4	1.1%	0	0.0%	20	5.3%
Total		Count	4	1.1%	253	67.5%	88	23.5 %	30	8%	375	100%

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.003	6	.020

Source: field data 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value (0.05>0.020) so there is significant relationship between involvement in micro credit program and expenditure on children education of people.

Relationshioship between involvement year in microfinance and expenditure on food of respondents were as follows;

Table No. 6. Involvement in microfinance and expenditure on food

Involvement year in micro finance			Change in expenditure on food				Total	
			Last year		This year			
	1 year	Count & %	139	34.9%	58	14.6%	197	49.5%
	2-4 years	Count & %	73	18.3%	108	27.1%	181	45.5%
	5 and more years	Count & %	3	0.8%	17	4.3%	20	5%
Total		Count & %	215	54%	183	46%	398	100%

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)

Pearson Chi-Square	47.607	2	.000

Source: Field data 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value (0.05>0.000) so there is significant relationship between involvement in micro credit program and change in food and feeding. Due to the change in income from the business activities, certain part of income (profit) goes to consumption then expenditure on food going to increase.

Conclusion

Microfinance has been a very significant tool of reducing poverty through enhancement of microenterprises in the developing countries like Nepal. Poverty is an extreme threat to the vulnerable people, as they cannot fulfill their basic needs of life. This research has been carried out to evaluate the relationship between microfinance and poverty reduction through business activities, creation of employment opportunities, fulfillment of food and capabilities for expenditure for children, which are indicator of poverty reduction. On the basis of theoretical and empirical discussion of relevant literatures, microfinance alone cannot alleviate the poverty from the grass root level of society.

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