

# Effectiveness of Women Subsidy Loan in Promoting Women Entrepreneurship in Banke District, Nepal

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## Abstract

*In recognition of the significance of women's entrepreneurship in strengthening the nation's economy, the government of Nepal has implemented a program of offering subsidized loans. This study has been carried out with an objective of evaluating the effectiveness of women's subsidy loan program in promoting entrepreneurship among women in Banke district. The research utilizes a descriptive approach to examine the impact of such financial interventions made by the government on women's entrepreneurial activity in the region. A survey method was employed to select 60 women entrepreneurs as the sample of the study who have utilized subsidy loans provided by five commercial banks in Banke. A convenient method for sampling was employed for selecting respondents, facilitating accessibility and mitigating resource constraints and the data were gathered using a detailed questionnaire. The study concluded that the majority of the respondents (66.7%) borrowed a loan ranging between 13-15 Lakh of which 25% of the respondents invested in stocks. Many respondents (55%), reported earning a profit ranging from 3 to 6 lakh. There exists a moderate positive correlation between the initial investment amount and the level of profit. Moreover, the loan has facilitated the women in earning greater revenues, creating employment opportunities for others, and extending the scale of their firm.*

**Keywords:** Entrepreneurship, investment, stocks, subsidy loan, women

## Introduction

Over the past few decades, there has been a significant global increase in the participation of women in business. Economic globalization has fostered the growth of female entrepreneurship (Jahanshahi et al. 2010). Widely recognized as a crucial pillar of the economy, women's entrepreneurship significantly contributes to employment creation, personal growth, and the economic advancement of a nation (Noor & Isa, 2020). A greater number of women in entrepreneurship contributes to the alleviation of poverty in the country by generating additional employment prospects (Ahamad, et al. 2016).

Nevertheless, women's entrepreneurship is still in the developmental phase in Nepal (Maskey, 2014). Numerous factors such as lengthy documentation, bureaucratic hurdles, political uncertainty, unconducive business conditions, corruption, strikes and unionization affect the entrepreneurial environment in Nepal (Acharya & Pandey, 2018).

Although women make up half of the country's population, their involvement in commercial activities is very shallow. According to the Central Bureau of Statistics (2018), there are total 923,356 registered firms in Nepal. Out of these, only 29.80 percent are owned by females, which is almost one-third of the male entrepreneurs. Although this represents a positive trend, the ratio doesn't seem to meet expectations.

The absence of sufficient working capital is recognized as one of the most serious problems for women in business (Hossain and Rahman, 1999). Typically, women do not utilize formal banking channels to finance their businesses, relying on conventional banking sources to meet their capital needs. They mostly choose their savings, familial funds, and lending from banks as the primary sources of financing for their entrepreneurial endeavors (ThapaKarki & Xheneti, 2018). Women often encounter obstacles in pursuit of wealth, leading them to rely on their personal assets or those of their acquaintances and family members (Marlow & Carter, 2006). The major types of funding preferred by women entrepreneurs in Nepal are savings, borrowing from acquaintances and relatives, equity, and debt (Maskey, 2017).

The increased number of subsidies plays a role in improving financial effectiveness (Hudon & Traca, 2010). Having access to affordable financing greatly improves firm innovation and expansion (Hall & Lerner, 2010). Lower interest rates enable businesses to allocate more funds toward growth initiatives, such as augmenting manufacturing capabilities, penetrating untapped markets, or innovating new offerings. These investments have the potential to generate higher income and profitability in the long run (Beck et al., 2005). Recognizing the necessity of formal financing opportunities for women entrepreneurs, the government of Nepal has attempted to offer subsidized loans to them (NRB, 2018). Since fiscal year 2018/19, the Nepalese government has been granting a 6 percent loan rate subsidy to women entrepreneurs under the "Mahila Uddhamshilta Karja" program. Financial institutions of A, B, C, and D class can provide loans up to a maximum sum of Rs. 15.00 Lakh. According to this plan, a subsidy in the interest rate (base Rate + premium Rate) will be given for a maximum of 5 years. If the loan length exceeds 5 years, the borrowers will be responsible for repaying the debt on their own (NRB, 2018). This loan does not incur any additional banking fees. Also, the loan can be granted based on either an individual or joint guarantee.

Based on the aforementioned literature, some scholars have displayed significant enthusiasm in researching many facets of women entrepreneurs, such as their societal standing and the global challenges they face. As per my knowledge, in Nepal, a limited number of studies have been conducted to examine women entrepreneurship and their socio-economic situation. The study of women's access to finance and credit facilities for business has gained significant importance on an international scale. However, the level

of research on women entrepreneurs in Nepal, specifically in terms of finance and credit facilities, is very inadequate. It is evident that a business cannot exist and flourish without appropriate access to financing facilities. There is a lack of research on the roles and effectiveness of subsidy schemes and loan facilities specifically targeted at women. Thus, this study aims to evaluate the effectiveness of women's subsidy loans in promoting entrepreneurship among women in Nepal. The research seeks to understand how these financial programs impact the growth and sustainability of women-led businesses. To achieve this, the study tests the following hypotheses:

- **Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between profit earned (dependent variable) and initial investment, amount of loan, and stock added (independent variables).
- **Alternative Hypothesis (H<sub>1</sub>):** There is a significant relationship between profit earned (dependent variable) and initial investment, amount of loan, and stock added (independent variables).

By examining these relationships, the study aims to provide insights into the role of subsidy loans in enhancing women entrepreneurship and to inform policies and practices that can further support women entrepreneurs in Nepal.

## Methods

### Study Design

This study used a descriptive cross-section research design to find out the current situation of women subsidy loan in promoting women entrepreneurship. This study is mainly based on quantitative data. Furthermore, the examining the correlation and regression has been identified to express the relationship among dependent and independent variables. This study included both primary and secondary sources of data.

### Study Population and Sampling

The study population comprises 1,106 women entrepreneurs in the Banke district who have accessed subsidized loan facilities. Using a convenience sampling method, the researcher selected 60 women as participants.

Various pragmatic factors led to the selection of this sample. Owing to time constraints, financial limitations and logistical challenges, surveying a larger section of the population proved impractical.

### Data Collection Tools

The survey method has been employed to collect the required data. The questionnaire and the key-informant interview schedule are chiefly used as the instruments for the purpose of collecting data in this study.

## Variables Specification

The independent variable of this study is the subsidized loan amount taken by the women entrepreneurs, the initial investment employed in the business, and the level of stocks added after availing the loan. And the dependent variables that are affected by the independent variables are the profit level of the business.

## Data Analysis

The gathered data has been analyzed with the data analysis software SPSS. Simple regression analysis has been employed to identify the relation between the dependent and independent variables.

The regression model is given as:

$$\text{Profit: } a + X_1 * \text{ILI} + X_2 * \text{ASLT} + X_3 * \text{TLSASL}$$

**Dependent Variable:** Profit of Business

## Independent Variables

a= Constant

ILI: Initial Level of Investment

ASL: Amount of Subsidized Loan Taken

TLSASL: Total Level of Stocks Added after Subsidized Loan

The researcher has categorized the study under following three themes:

- Socio-demographic Profiles
- Situation of Women Subsidy Loan
- Relationship between dependent and independent variables

## Results & Discussion

### Socio-demographic Profiles

The socio-demographic profiles of the respondents have been shown by age group, caste/ethnicity, religion and educational level in the table below.

The result shows that most respondents, (96.7%), belonged to the age group 20 to 50. Women between the ages of 35 and 49 are more inclined to establish their own businesses, typically after acquiring work experience (DeMartino & Barbato, 2003). All the respondents were literate. Out of them, 43 percent of women have gained higher secondary levels of education and higher. Brush et al. (2009) conducted research and found a favorable correlation between greater levels of education and entrepreneurial success among women. Ninety-five percent of the respondents were married. Women

who are married or have family responsibilities may encounter extra difficulties in managing the balance between work and family, which can impact their decisions and operations as entrepreneurs (Kirkwood, 2009).

**Table 1**

*Socio Demographic Profile of Respondents*

Age Group	Frequency	Percentage
20-30	15	25
30-40	24	40
40-50	19	31.7
50 & above	2	3.3
Total	60	100
Caste/ Ethnicity		
Brahmin	16	26.7
Chhetri	26	43.3
Mongolian	6	10
Dalit	6	10
Muslim	2	3.3
Madhesi	4	6.7
Total	60	100
Religion		
Hindu	54	90
Muslim	4	6.7
Buddhist	2	3.3
Others	0	0
Total	60	100
Educational level		
Informal Education	1	1.7
Primary Level	7	11.7
Secondary Level	26	43.3
Higher Level	26	43.3
Total	60	100

**Situation of Women Subsidy Loan**

This includes type of business, amount of initial investment, amount of stock added after availing loan and the level of profit after availing loan.

***Type of Business***

The type of businesses that the respondents were involved have been shown in the table below:

**Table 2***Type of Business of Respondents*

Type of Business	Frequency	Percent
Groceries & Clothes	26	43.3
Furniture & Metal	6	10.0
Hotel & Restaurant	11	18.3
Stationery	2	3.3
Agriculture Related	5	8.3
Beauty Parlor	8	13.3
Remittance	2	3.3
Total	60	100.0

The study showed that a higher portion of respondents (43%) were involved in the business of groceries and clothes. Other types such as hotel & Restaurant, stationery and remittance business were less prioritized business types. Women entrepreneurs primarily engage in grocery and clothing businesses due to reduced start-up costs, steady demand, and less skill requirements. The government can provide specific initiatives, such as capacity building and financial assistance, to diversify women's entrepreneurial endeavors.

*Amount of Initial Investment*

The amount of initial investment employed by the respondents is shown in the table below:

**Table 3***Amount of Initial Investment*

Amount of Investment (In Rs. In Lakh)	Frequency	Percent
Less than 3	3	5.0
3-6	32	53.3
6-9	17	28.3
9-12	7	11.7
18 & above	1	1.7
Total	60	100.0

Most of the respondents were doing business on a small scale, with the majority of respondents (53.3%) investing amount in between Rs. 3-6 lakh and minimal (1.7%) of them investing in the amount of Rs. 18 lakh and above as initial capital while starting their business. A greater amount of initial investment means more stocks in business and leads the business to run at a larger scale

*Amount of Subsidy Loan Taken by Respondents*

The amount of subsidy loan taken by the respondents has been shown in the table below:

**Table 4***Amount of Loan*

Amount of Loan (Rs. In Lakh)	Frequency	Percent
Less than 7	2	3.3
9-11	10	16.7
11-13	8	13.3
13-15	40	66.7
Total	60	100.0

The data represents that the maximum number of respondents (66.7%) had taken the loan amounting to between 13-15 lakh. And minimal (3.3%) percent of them had taken a loan amounting to less than 7.00 lakh. This loan has been successfully aligning for the capital needs for the business ventures.

***Amount of Stock Added After Availing Loan***

The women entrepreneurs expanded their business by adding the stocks to their business. The stocks added after availing loan is presented in the table below:

**Table 5***Amount of Stock Added*

Amount of Stock Added (in Lakh)	Frequency	Percent
3-5	5	8.3
5-7	4	6.7
7-9	13	21.7
9-11	12	20.0
11-13	11	18.3
13-15	15	25.0
Total	60	100.0

The result shows that one-fourth of the respondents (25%) of them had added stock amounting to in between Rs 13-15 lakh. Minimal (6.7%) of them have added stock amounting in between 5-7 lakh.

**Level of Profit after Availing Loan**

The level of profit after availing loan has been represented in the table below:

**Table 6***Level of Profit after Availing Loan*

Amount of Profit (in Lakh)	Frequency	Percent
0-3	2	3.3
3-6	33	55.0
6-9	23	38.3
9-12	1	1.7
12-15	1	1.7
Total	60	100.0

The majority (55%) of the respondents earned a profit in between 3-6 lakh followed by (38.3%) of them earned 6-9 lakh. A minimum (3.4%) of them had earned a profit in between 9-15 lakh. The provision of subsidies leads to the improvement in the business performance of small and medium-sized enterprises (Jovanovic & Zubovic, 2019). The significant increase in profit level has aided women in enhancing their status within their families and within society. Also, they have been able to grow their business further by investing in stocks.

### Relationship Between Independent and Dependent Variables

In this section, the relationship of the independent variables, i.e., Initial Level of Investment, Total Level of Stocks Added, and the Amount of Subsidized Loan Taken, with the dependent variable, i.e., Profit Level, will be identified and discussed.

**Table 7**

*Correlation between level of profit and initial investment*

		Level of Profit	Initial Investment
Level of Profit this Year	Pearson	1	.539**
	Correlation		
	Sig. (2-tailed)		.010
	N	22	22
Initial Investment	Pearson	.539**	1
	Correlation		
	Sig. (2-tailed)	.010	
	N	22	22

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

**Table 8**

*Correlation between amount of loan and level of profit*

		Level of Profit	Amount of Loan
Level of Profit this Year	Pearson Correlation	1	.564**
	Sig. (2-tailed)		.006
	N	22	22
Amount of Loan	Pearson Correlation	.564**	1
	Sig. (2-tailed)	.006	
	N	22	22

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

**Table 9**

*Correlation between level of profit and stock added after availing loan*

		Level of Profit this Year	Stock Added after availing loan
Level of Profit this Year	Pearson Correlation	1	.601**
	Sig. (2-tailed)		.003
	N	22	22
Stock Added after availing loan	Pearson Correlation	.601**	1
	Sig. (2-tailed)	.003	
	N	22	22

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



To find the association between the initial level of investment and level of profit, Karl Pearson's Coefficient 'r' between the initial level of investment and level of profit has been calculated. We obtained a coefficient of correlation 'r' of 0.539. This shows that there is a moderate positive relationship between the initial level of investment and level of profit. This shows that the initial amount of funds invested has an important impact on the profit earnings of a business. Investing a larger amount of initial capital ensures good profit for the business. Moreover, other factors like the level of competition, the different types of variable and fixed costs, and the marketing strategy also needed to be considered for earning the best profit.

The obtained coefficient of correlation 'r' between the amount of subsidized loan and level of profit is 0.564. This shows that there is a moderately positive relationship between the amount of subsidized loan and level of profit. When the loan amount is higher, the level of profit increases and vice versa. The coefficient of correlation 'r' between the level of stock added after availing a loan and the level of profit is 0.601. This shows that there is a strong positive relationship between the level of stock added after availing loan and the level of profit. The business experiences an increase in profit when it adds more to stock, and vice versa.

#### Regression Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.666 <sup>a</sup>	.444	.414	149071.02305

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	54038.915	129256.126		.418	.677
Initial Investment	-.031	.096	-.043	-.325	.746
Amount of Loan	.221	.109	.245	2.034	.047
Stock Added after availing loan	.249	.072	.524	3.443	.001

a. Dependent Variable: Level of Profit

In this analysis,  $R^2$  value of 0.444 indicates that approximately 44.4% of the variability in the dependent variable is explained by the independent variables in the model (initial investment, amount of loan, and stock added after availing loan). Constant (Intercept) value is 54038.915.

This is the expected value of the dependent variable (level of profit this Year) when all independent variables are zero. However, it may not always have a practical interpretation depending on the context. The coefficient of initial investment -0.031 For each unit increase in initial investment, the level of profit this year is expected to decrease by 0.031 units, holding other factors constant. However, this effect is not statistically significant ( $p = 0.746$ ). The coefficient of the amount of loan is 0.221,

indicating that for each unit increase in the amount of loan, the level of profit this year is expected to increase by 0.221 units, holding other factors constant. This effect is statistically significant ( $p = 0.047$ ). Having access to more affordable financing can enhance firm performance by reducing financial burdens (Aghion et al., 2009). The coefficient of stock added after availing a loan is 0.249. For each unit increase in stock added after availing loan, the level of profit this year is expected to increase by 0.249 units, holding other factors constant. This effect is statistically significant ( $p = 0.001$ ). The analysis confirms the alternative hypothesis, indicating a significant relationship between the profit earned (dependent variable) and the independent variables: initial investment, amount of loan, and stock added.

### Conclusion

The introduction of subsidized loans for women entrepreneurs has led to notable advantages, such as enhanced profitability, the generation of employment opportunities, and the enhancement of women's living conditions. Government interventions, including subsidy loans, have a positive impact on fostering entrepreneurship (Lerner, 1999). Sixty five per cent (65%) of respondents indicated that they have hired external staff for their business. This figure shows the beneficial effect of women's entrepreneurship on job creation while simultaneously addressing the problem of reliance on foreign employment in the country. Ninety five per cent (95%) of the respondents expanded their business after availing themselves of loan which reflects the greater role of subsidized loans in promoting women entrepreneurship. 65% of the respondents indicated that they would not take out the loan without a subsidy. This highlights the significant impact of the subsidy loan in enhancing financial accessibility for a large portion of woman entrepreneurs. The subsidy loan has effectively encouraged women to utilize formal financial channels instead of informal ones. Ninety two per cent (92%) of respondents reported an improvement in their confidence level due to the expansion of their businesses by low-rate loans. The dependence on others has been reduced, which has significantly led to the economic empowerment of women entrepreneurs. All the respondents reported that their business motivation has increased due to the availability of this loan.

Seventy three per cent (73%) of the respondents fully utilized the entire loan amount for company purposes. An additional 27 percent of individuals allocated the loan toward either real estate investments or the repayment of previous debts. There appears to be a prevalent misuse of the money by numerous borrowers. The central bank should conduct regular and rigorous oversight to detect such inconsistencies. Twenty eight per cent (28%) of respondents expressed that the loan amount was insufficient. They employed various informal channels to obtain financing for their company. If female entrepreneurs

can offer enough collateral and present convincing business proposals, the government needs to enhance the accessibility of loans for them to enhance women's motivation in carrying out their commercial endeavors and promotion of women empowerment.

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