

Impact of Microfinance Institutions on Scaling Micro Enterprises in the Kathmandu Valley

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Abstract

This study examines the impact of microfinance institutions on scaling micro enterprises in the Kathmandu Valley. Growth of micro enterprise is the dependent variable. The selected independent variables are micro credit, training programs, financial advisory, interest rate, marketing facility, technical support and business idea generation. The primary source of data is used to assess the opinions of respondents regarding micro credit, training programs, financial advisory, interest rate, marketing facility, technical support, business idea generation, and growth of micro enterprise. The study is based on both primary and secondary data. The primary data were gathered from 194 respondents through questionnaires. The secondary data were gathered from National Economic Census. To achieve the purpose of the study, structured questionnaire is prepared. The correlation and multiple regression models are estimated to test the significance and importance of microfinance institutions on micro enterprises in the Kathmandu Valley.

The study showed a positive impact of micro credit on growth of micro enterprises. It indicates that higher the micro credit, higher would be the growth of micro enterprises. Similarly, the study showed a positive impact of training programs on growth of micro enterprises. It indicates that higher the training program for increasing awareness towards microenterprises lead to increase in growth of micro enterprises. Likewise, the study also revealed a positive impact of technical support on growth of micro enterprises. It indicates that higher the technical support from the concern authority leads to increase in growth of micro enterprises. Further, the study observed a positive impact of marketing facilities on growth of micro enterprises. It indicates that supportive marketing facilities lead to increase in growth of micro enterprises. In addition, the study observed a positive impact of financial advisory on growth of micro enterprises. It indicates that proper financial advices from the concerned authority leads to increase in growth of micro enterprises. Likewise, the study showed a negative impact of interest rate on growth of micro enterprises. It indicates that higher the interest rate, lower would be the growth of micro enterprises. Further, the study also revealed a positive impact of business idea generation on growth of micro enterprises. It indicates that different business ideas related to microenterprises lead to increase in growth of micro enterprises.

Keywords: micro credit, training programs, financial advisory, interest rate, marketing facility, technical support, business idea generation, growth of micro enterprise

1. Introduction

The origin of microfinance can be traced back to 1976 when Muhammad Yunus established the Grameen Bank in Bangladesh, marking the beginning of an innovative approach to financial inclusion for the poor. Since then, numerous microfinance institutions have emerged, employing groundbreaking strategies to reach the most economically vulnerable populations. In Nepal, the Rural Financial Sector Analysis (RFSA) revealed that by mid-July 2009, Micro Credit Development Banks (Asian Development Bank [ADB], 2010) enrolled over 547,000 group members and 436,000 borrowers, with an estimated

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400,000 individuals benefiting from microcredit facilities. In 1974, the Nepal Rastra Bank (NRB) issued directives to Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), mandating them to allocate a minimum of 5 percent of the deposits towards a “priority sector credit” scheme. This initiative targeted key sectors such as agriculture, cottage industries, and services, aiming to bolster economic development. Over the course of nearly four decades, various institutions in Nepal have actively engaged in microfinance, with the central bank, NRB, assuming a pivotal role in shaping policy decisions. Microfinance is defined as the provision of credit, savings, and other financial services to lower-income groups’ (Almeyda *et al.*, 1999). According to Conroy (2003), microfinancing is the delivery of financial services to poor and low-income households with limited access to formal financial institutions. Microfinance is can also be described as banking for the underprivileged. Similarly, Rolando (2010) opined that microfinance is an excellent way of assisting entrepreneurs. It provides the underprivileged with maintainable revenue through low interest loans. Moreover, Stanley (2008) denoted microfinance as small-scale business or credit services; which are made available to people operating selected business; running small enterprises in which goods are manufactured, reprocessed, repaired or exchanged in rural as well as urban area.

Njoroge *et al.* (2016) examined the effects of interest rate on financial performance of micro enterprises: a case study of Makutano Township in West Pokot Country. The study found that there is a significant relationship between risk free rate and financial performance. Similarly, Ashogbon *et al.* (2022) investigated whether the interest rate affect the growth of small and medium scale enterprises (SMEs) in Nigeria. The results showed that LRCM have a negative effect on SMEGDP such that if the LRCM is increased by 1%, SMEGDP declines by 1.6%. On the other hand, an increase in RR by 1% leads to an increase in SMEGDP by 0.005%. Similarly, Zachary (2013) analyzed the effect of interest rates on demand for credit by small medium enterprises in Nairobi County. The results showed that interest rate policy is significantly related to credit access. Likewise, Nganga *et al.* (2020) examined the interest rates capping and performance of selected small and medium restaurants in Nairobi West, Nairobi City County, Kenya. The study concluded that the risks associated with repaying, operating environment, status and ownership structure influenced performance of the SMEs since it determined the potential to get credit from the banks and other lenders. Further, Abayo *et al.* (2017) analyzed the effect of micro-credit on growth of small business enterprises: A case of M-Shwari at Kibuye Market in Kisumu County, Kenya. The study revealed that a need for enhanced publicity efforts by core players in mobile credit, alongside proactive regulatory measures to address potential hindrances to financial inclusion posed by technological innovations. In addition, Gampala (2018) assessed the credit impact on performance of micro and small enterprises in Telangana. The study concluded that credit programs formulated by state and central governments has to consider filed level reality and financial institutions which are serving these credit programs have to treat MSEs as medium and large enterprises.

Rotich *et al.* (2015) examined the effects of microfinance services on the performance of Micro, Small, and Medium Scale Enterprises (MSMEs) in Kenya. The study found that access to savings schemes, managerial training, and loan grace periods significantly influence the performance of MSMEs. The impact of microfinance institutions on the growth of micro and small enterprises in Tanzania: Case study of Mwanza city was investigated by Nendakulola (2015). The study concluded that MFIs have a positive effect on SME growth in Mwanza

City, with key contributions including increased access to credit, savings enhancement, and provision of business, financial, and managerial aspects. Similarly, Rose (2016) assessed the impact of microfinance facilities on performance of small and medium enterprises in Malaysia. The study highlighted the important role of microfinance in supporting SME performance in Malaysia, emphasizing the importance of financial support and education in driving business success and economic growth in the region. The impact of microfinance institutions on development of small and medium enterprise: A case study of Lagos state was analyzed by Bagudu *et al.* (2016). The study shed light on the vital role of MFIs in fostering SME development in Lagos, Nigeria, highlighting the positive effects of microfinance initiatives on enhancing business performance and competitiveness in the region. Likewise, Taiwo and Benson (2016) examined the role of microfinance institutions in financing small businesses. The study underscored the crucial role of microfinance institutions in Nigeria, as small businesses heavily relied on funding for growth. The impact of microfinance on micro enterprises performance was examined by Atmadja *et al.* (2016). This study signified interplay between microfinance and microenterprise performance, highlighting the importance of social capital in driving business success in Indonesia's microenterprise landscape. Further, Zhiri (2017) analyzed the impact of microfinance services on the performance of Small and Medium Scale Enterprises (SMEs) in Zaria Metropolis. The finding illuminated the essential role of microfinance services in boosting SME performance and fostering entrepreneurship within the region.

Sule and Eniola (2018) assessed the impact of microfinance banks on small and medium scale enterprises in Nigeria's development. The finding offered valuable insights into the pivotal role of microfinance banks in propelling the growth and development of SMEs in Nigeria's economy. The effect of microfinance products on small business growth: emerging economy perspective was investigated by Boachie (2018). The findings revealed that all microfinance products, particularly micro loans, has a positive effect on small business growth in Ghana. Similarly, Farghly *et al.* (2018) observed the impact of microfinance on sustainable growth of micro, small, and medium enterprises (MSMEs) in Egypt. The results underscored the vital role of microfinance in fostering sustainable growth across multiple dimensions within the Egyptian MSME sector. Microfinance institutions support and the growth of small and medium-sized enterprises was investigated by Geoffrey and Emenike (2018). The study concluded the importance of initiatives aimed at enhancing access to financial and non-financial services for SMEs in Nimule and similar contexts. Likewise, Aladejebi (2019) investigated the impact of microfinance banks on the growth of Small and Medium Enterprises (SMEs) in Lagos metropolis. The study revealed that encouraging savings behavior among SMEs attributed to higher interest rates and faster loan disbursement through MFBs. Effect of microfinance banks on the growth of selected Small and Medium Scale Enterprises in Makurdi Metropolis, Benue State was assessed by Garba (2019). The study concluded that microfinance played a crucial role in facilitating job creation and business expansion among small businesses in Nigeria's Makurdi Metropolis.

Angeles (2019) analyzed the mediating effect of microfinancing on access to finance and growth of microenterprises: evidence from the Philippines. The study revealed that access to finance significantly impacts microenterprise growth, particularly when complemented by effective microfinancing strategies. The microfinance repayment performance of SMEs in Indonesia: Examining the roles of social capital and loan credit terms was examined by

Worokinasih and Potipiroon (2019). The study revealed that social capital has a direct effect on SMEs' repayment performance by fostering mutual trust between lenders and borrowers, potentially reducing loan delinquency. Similarly, Kibichii and Wafula (2020) assessed the effect of microfinance products on the growth of Small and Medium Enterprises in Nairobi County. The study found a significant and positive impact of microfinance institutions on SME growth in Nairobi County. Impact of microfinance loans on the performance of SMEs: The case of Lebanon was investigated by Moussa (2020). The study found significant relationships between microloan amounts and various aspects of SME financial performance, revealing a positive correlation between microloan amounts and indicators of financial health, such as revenue generation and profitability. Likewise, Idrees *et al.* (2022) examined the impact of microfinance on Small and Medium Enterprise Growth: A Case Study of Pakistan. The study found that microfinance plays a crucial role in mediating the relationship between access to finance and SMEs' growth in Karachi, Pakistan.

In the context of Nepal, Adhikari (2022) examined how innovation and scaling create impacts in social enterprises: insights from Nepal. The study concludes that Bihani Venture has managed both social innovation and scaling through its innovative programs and strategies designed to create positive impacts of ageing population. Similarly, Dhungana and Ranabhat (2022) assessed the impact of microcredit on micro-enterprise development in the Gandaki Province of Nepal. The study disclosed that microfinance intervention, particularly through microcredit, significantly influenced micro-business and enterprise development in the region. The impact of micro-credit on the development of small or microenterprises in the Kaski district of Nepal was investigated by Ranabhat and Dhungana (2021). The study revealed a positive correlation between micro-credit and multiple aspects of enterprise development, indicating that micro-credit has notably encouraged clients to engage in micro-business and enterprise development activities. The impact of microcredit on household consumption and assets in Nepal was investigated by Pokhrel (2023). The study revealed a positive and significant relationship between microcredit participation and household consumption as well as assets. Similarly, Panday (2017) examined the impact of micro credit on empowerment of women (A Study of Gaidakot Municipality, Nawalparasi). The study concluded a positive impact of microcredit on the empowerment of women in Gaidakot Municipality, Nawalparasi. Through participation in microcredit programs, women demonstrated improvements in socioeconomic status, increased self-reliance, enhanced savings habits, and greater involvement in social activities, indicating the effectiveness of such initiatives in fostering empowerment among rural women. In addition, Choudhary *et al.* (2021) examined the role of access to finance for smallholders' seed business growth in Nepal. The study revealed that increased awareness about the PSLP has the potential to significantly enhance farmers' gross margins, with a potential increase of up to 46%.

The above discussion shows that empirical evidences vary greatly across the studies on the impact of microfinance institutions on scaling the micro enterprises. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the impact of microfinance institutions on scaling micro enterprises in the Kathmandu Valley. Specifically, it examines the relationship of micro credit, training programs, financial advisory, interest rate, marketing

facility, technical support and business idea generation with growth of micro enterprises in the Kathmandu Valley.

The remainder of this study is organized as follows: section two describes the sample, data, and methodology. Section three presents the empirical results and final section draws the conclusion.

2. Methodological aspects

This study is based on both primary and secondary data. The primary data were gathered from 194 respondents through questionnaires. Similarly, the main sources of secondary data were the National Economic Census. The study employed convenience sampling method. The respondents' views were collected on micro credit, training programs, financial advisory, interest rate, marketing facility, technical support, business idea generation, and growth of micro enterprises. This study is based on descriptive as well as causal comparative research designs.

The model

The model used in this study assumes that growth of micro enterprises depends upon microfinance institutions on scaling micro enterprises. The dependent variable selected for the study is growth of micro enterprises. Similarly, the selected independent variables are micro credit, training programs, financial advisory, interest rate, marketing facility, technical support, and business idea generation. Therefore, the model takes the following form:

Growth of micro enterprises = $f(\text{micro credit, training programs, financial advisory, interest rate, marketing facility, technical support, and business idea generation})$.

More specifically,

$$GM = \beta_0 + \beta_1 MC + \beta_2 TP + \beta_3 FA + \beta_4 IR + \beta_5 MF + \beta_6 TS + \beta_7 BIG + e$$

Where,

GM = Growth of micro enterprises

MC = Micro credit

TP = Training programs

FA = Financial advisory

IR = Interest rate

MF = Marketing facility

TS = Technical support

BIG = Business Idea generation

Growth of micro enterprises was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "I prefer loan from microfinance (MFI) for the source of start-up capital", "The sales of the firm have increased by associating

with MFI” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.756$).

Micro credit was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “Borrowing money from MFIs has helped the company handle financial difficulties”, “I can manage to repay the loans I receive from MFIs.” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.751$).

Training programs factor was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “Training programs provided by MFI result in higher employee performance”, “I am able to grow my business through training on management skills” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.781$).

Financial advisory was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “MFI gives financial advice alongside loans”, “MFI helps to minimize financial risk of the business through proper guidance and suggestions” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.798$).

Interest rate was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “High interest rates discourage businesses from investing and expanding”, “High interest rates raise the cost of funds for businesses” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.822$).

Marketing facility was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “MFIs provide various marketing tools to grow the business”, “MFIs has managed to facilitate registration of SMEs in business associations” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.797$).

Technical support was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “MFIs tell us about all the costs for the loan”, “I’ve handled some microfinance loans in the past”, “I know how to keep simple financial records” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.781$).

Business idea generation was measured by using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “MFIs aids in establishing local businesses by backing new or inexperienced ideas”, “MFIs promotes idea generation by removing the barrier of needing capital to start a business” and so on. The reliability of the

items was measured by computing the Cronbach's alpha ($\alpha = 0.825$).

The following section describes the independent variables used in this study along with the hypothesis formulation.

Micro credit

Microcredit is a small loan given to people, who don't have access to traditional banking services. It helps them start or expand small businesses, improving the livelihoods and communities. Mailo *et al.* (2014) concluded that micro credit has a positive impact on alleviate poverty in Sindh along with that 40% of the beneficiaries opened shops/small provision stores, followed by investment in poultry, embroidery and livestock. Similarly, Monge (2016) revealed that significant number of the SMEs benefitted from the MFIs loans in both economic and social well-being of individual clients, even though only a few of them were capable enough to secure the required amount needed. Likewise, Hossain *et al.* (2018) found that microcredit provided by MFIs in Bangladesh significantly contributes to the growth and development of small businesses, leading to improvements in poverty conditions by creating employment opportunities, particularly for low and semi-skilled workers. Based on it, this study develops the following hypothesis:

H₁: There is a positive relationship between micro credit and growth of micro enterprises.

Training programs

Training programs are structured educational initiatives designed to teach specific skills, knowledge, or competencies to participants. Training helps SMEs to cope with the latest accounting systems, information technology, management concepts and production techniques. Similarly, Yahya *et al.* (2012) found that manager's characteristics (age, experience, education, perceptions, awareness and skills), enterprises characteristics (life stage, sector, size and profits) and external characteristics (tax, type of training and source of fund) affect the manager's and SMEs involvement in employees training market. The study also found that training has a positive impact on SMEs performance as measured by profits, revenues and size. Similarly, Atan *et al.* (2015) concluded that effective training leads to improving employees' job performance. Likewise, Oseni (2020) claimed that training enables entrepreneurs to develop great capacity towards building sustainable relationship with customer. The study also found that training gives them more exposure to the workings and happenings in the industry. However, Siddiqui (2011) stated that if businesses build effective training mechanism, then naturally the employees become more effective that in turn will increase the business performance. The study found that training has a positive and clear effect on business performance and productivity. Based on it, this study develops the following hypothesis:

H₂: There is a positive relationship between training programs and growth of micro enterprises.

Financial advisory

Financial advisory within the context of microfinance involves offering specialized guidance and support to individuals or small businesses who are recipients of microcredit or other microfinance services. Similarly, Hodaei *et al.* (2014) found that there is a significant relationship of financial advisory services with solving the complexity of financial matters

and the financial illiteracy of clients. The study also concluded that there is a positive and a significant impact of financial advisory services on financial business decision making. Likewise, Heinrich *et al.* (2014) found that the complexity of financial matters and the financial illiteracy of clients prevents informed financial decision making in current financial advisory services. In addition, Hermansson and Song (2016) investigated the impact of financial advisory services meetings on the saving behavior. The study concluded that financial advisory meetings have a positive and a significant impact on stocks of financial products. Furthermore, Silic and Ruf (2018) found that there is a positive relationship between high net worth individual and financial advisors. Based on it, this study develops the following hypothesis:

H₃: There is a positive relationship between financial advisory and growth of micro enterprises.

Interest rate

Interest rate is the money charged on loan of money. Investors borrow money from banks and other financial institution for Investment (Maranga and Nyakundi, 2017). Maranga *et al.* (2017) concluded that an influence of loan repayment on financial performance in banks. Similarly, Ikalele *et al.* (2018) found that interest rate capping has a discernible impact on the availability of funds to manufacturing SMEs in Nairobi, Kenya. Likewise, Zachary and Lydiah (2013) revealed that effective interest rates, annual profits and owners' equity explained demand for loans in that order area. Further, Udoka *et al.* (2012) revealed that there existed an inverse relationship between interest rate and economic growth in Nigeria, meaning that increase in interest rate will decrease GDP of the country, thus retarding growth of the real sector. In addition, Hatmanu *et al.* (2020) found that there is a negative impact of interest rate on economic growth in the short run. Moreover, Hariz *et al.* (2017) showed that interest rates have a negative and a significant impact on gross domestic product. Based on it, this study develops the following hypothesis:

H₄: There is a negative relationship between interest rate and growth of micro enterprises.

Marketing facility

A marketing facility within the context of microfinance is the resources and support provided to microfinance clients to help them promote and sell the products or services effectively. Owomoyela *et al.* (2013) defined marketing strategy as way of providing a quality product that satisfies customer needs, offering affordable price and engaging in wider distribution and back it up with effective promotion strategy. Similarly, Maurya *et al.* (2015) found that marketing activities of a firm plays a powerful role in furthering firm's success. Likewise, Al Asheg *et al.* (2019) found that marketing facility has a statistically significant and positive impact on SME firm performance in Bangladesh. The study also revealed that SME firm performance is driven by the firm's ability to satisfy customer's need and pursue the untapped opportunity. Furthermore, Sargeant *et al.* (1999) found that many organizations have yet to achieve a market orientation and that a focus on competitors is frequently absent. The study also found no link between the degree of market orientation attained and the performance of the business as measured by profitability and turnover. Based on it, this study develops the following hypothesis:

H₅: There is a positive relationship between marketing facility and growth of micro enterprises.

Technical support

Technical support in the context of microfinance involves providing assistance to microfinance institutions (MFIs) or the clients in utilizing technology effectively to enhance financial services delivery. Similarly, Ashrafi *et al.* (2008) found that majority SMEs have reported a positive performance and other benefits by utilizing information and communication technology (ICT) in the businesses. The study also stated that organizations of all types are utilizing ICT around the globe, not only for cutting costs and improving efficiency, but also for providing better customer service. The money related associations need to put more energy in financing SMEs, the employment ought to be felt by the SMEs with respect to advancement and improvement (Wakaba, 2014). Likewise, Peppard *et al.* (2004) stated that the successful implementation of ICT is one of the key factors of the long-term growth. The study also argued that ICT resources are combined through structures, processes and roles at the organization level to develop competencies. Based on it, this study develops the following hypothesis:

H₆. There is a positive relationship between technical support and growth of micro enterprises.

Business idea generation

Business idea generation involves the process of identifying, developing, and refining innovative concepts for new ventures or products. Moreover, Kaltenecker *et al.* (2013) investigated the importance of the business idea for new venture creation in the software industry. The study concluded that business idea has a significant and a positive impact on the intention to create a company. Similarly, Goldenberg *et al.* (2001) revealed that there is a positive relationship between identifying predictive guidelines early in the new product development process and unnecessary costs avoidance. The study also concluded that ideas origination, specific configurations and level of technology used have a significant impact on success of a new products in the marketplace. Similarly, Fleming and Singh (2007) argued that when the boundaries of knowledge are assumed away, the generation of ideas becomes stimulated and the result is usually a multiplicity of many new ways of doing the same thing. Likewise, Marques (2016) examined the impact of competitions for ideas and business plans on firm creation and development of entrepreneurial university. The study concluded that ideas and business plans competitions have a significant impact on entrepreneurial spirit in an academic environment, motivating students and lecturers. Based on it, this study develops the following hypothesis:

H₇. There is a positive relationship between business idea generation and growth of micro enterprises.

3. Results and discussion

Correlation analysis

On analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall's Tau correlation coefficients along with mean and standard deviation has been computed and the results are presented in Table 1.

Table 1

Kendall's Tau correlation coefficients matrix

This table presents Kendall's Tau coefficients between dependent variable and independent variables. The correlation coefficients are based on 194 observations. The dependent variable is GM (Growth of micro enterprises). The independent variables are MC (Micro credit), TP (Training programs), TS (Technical support), MF (Marketing facilities), FAS (Financial advisory service), IR (Interest rate), and BIG (Business idea generation).

Variables	Mean	S.D.	GM	MC	TP	TS	MF	FAS	IR	BIG
GM	4.094	0.727	1							
MC	4.029	0.712	0.426**	1						
TP	3.895	0.818	0.526**	0.419**	1					
TS	3.871	0.817	0.418**	0.424**	0.573**	1				
MF	3.903	0.832	0.470**	0.446**	0.501**	0.491**	1			
FAS	3.900	0.821	0.412**	0.402**	0.471**	0.555**	0.587**	1		
IR	4.186	0.721	-0.134*	0.186**	0.164**	0.200**	0.285**	0.296**	1	
BIG	3.840	0.905	0.418**	0.330**	0.464**	0.468**	0.486**	0.506**	0.254**	1

Notes: The asterisk signs (**) and (*) indicate that the result are significant at one percent and five percent levels respectively.

Table 1 shows that micro credit is positively correlated to growth of micro enterprises. It indicates that higher the micro credit disburse for the development of microenterprises lead to increase in growth of micro enterprises. Similarly, training programs is positively correlated to growth of micro enterprises. It indicates that higher the training program for increasing awareness towards microenterprises lead to increase in growth of micro enterprises. Likewise, technical supports are positively correlated to growth of micro enterprises. It indicates that higher the technical support from the concern authority leads to increase in growth of micro enterprises. Further, marketing facilities are also positively correlated to growth of micro enterprises. It indicates that supportive marketing facilities lead to increase in growth of micro enterprises. In addition, financial advisory service is positively correlated to growth of micro enterprises. It indicates that proper financial advices from the concerned authority leads to increase in growth of micro enterprises. Likewise, interest rate is negatively correlated to growth of micro enterprises. It indicates that higher the interest rate, lower would be the growth of micro enterprises. Further, business idea generation is positively correlated to growth of micro enterprises. It indicates that different business ideas related to microenterprises lead to increase in growth of micro enterprises.

Regression analysis

Having indicated the Kendall's Tau correlation coefficients, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it shows the regression results of micro credit, training programs, technical support, marketing facility, financial advisory service, interest rate and business idea generation on growth of micro enterprises in the Kathmandu Valley.

Table 2

Estimated regression results of micro credit, training programs, technical support, marketing facilities, financial advisory service, interest rate, and business idea generation on growth of micro enterprises

The results are based on 194 observations using linear regression model. The model is $GM = \beta_0 + \beta_1 MC + \beta_2 TP + \beta_3 TS + \beta_4 MF + \beta_5 FAS + \beta_6 IR + \beta_7 BIG + e$ where the dependent variable is GM (Growth of micro enterprises). The independent variables are MC (Micro credit), TP (Training programs), TS (Technical support), MF (Marketing facilities), FAS (Financial advisory service), IR (Interest rate), and BIG (Business idea generation).

Model	Intercept	Regression coefficients of							Adj. R_bar2	SEE	F-value
		MC	TP	TS	MF	FAS	IR	BIG			
1	0.655 (5.975)**	0.683 (12.445)**							0.444	0.542	154.882
2	1.79 (9.375)**		0.592 (12.332)**						0.439	0.545	152.071
3	2.208 (9.971)**			0.534 (10.815)**					0.356	0.584	107.705
4	1.994 (10.048)**				0.538 (10.815)**				0.375	0.575	116.974
5	2.109 (10.111)**					0.509 (9.725)**			0.327	0.597	94.576
6	2.641 (9.098)**						-0.347 (5.081)**		0.114	0.6852	25.816
7	3.373 (12.487)**							0.448 (9.305)**	0.307	0.605	86.588
8	0.986 (4.669)**	0.423 (6.601)**	0.361 (6.456)**						0.541	0.493	114.685
9	1.563 (7.558)**			0.309 (4.931)**	0.342 (5.565)**				0.443	0.543	77.742
10	1.923 (7.152)**					0.476 (7.866)**	-0.075 (1.095)		0.327	0.597	47.938
11	2.032 (7.598)**						-0.121 (1.797)	0.405 (7.578)**	0.315	0.602	45.412
12	2.032 (7.598)**	0.326 (4.740)**	0.262 (3.996)**	0.021 (0.294)	0.165 (2.322)*	0.003 (0.043)	-0.026 (0.454)	0.075 (1.306)	0.564	0.48	36.636

Notes:

- Figures in parenthesis are t-values.
- The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
- Growth of micro enterprises is dependent variable.

Table 2 show that the beta coefficients for micro credit are positive with growth of micro enterprises. It indicates that micro credit has a positive impact on growth of micro enterprises. This finding is consistent with the findings of Mailo *et al.* (2014). Similarly, the beta coefficients for training programs are positive with growth of micro enterprises. It indicates that training programs have positive impact on growth of micro enterprises. This finding is consistent with the findings of Yahya *et al.* (2012). Likewise, the beta coefficients for technical supports are positive with growth of micro enterprises. It indicates that technical supports have positive impact on growth of micro enterprises. This finding is consistent with the findings of Ashrafi *et al.* (2008). Further, the beta coefficients for marketing facilities are positive with growth of micro enterprises. It indicates that marketing facilities have positive impact on growth of micro enterprises. This finding is consistent with the findings of Maurya *et al.* (2015). In addition, the beta coefficients for financial advisory service are positive with growth of micro enterprises. It indicates that financial advisory service has a positive impact on growth of micro enterprises. This finding is similar to the findings of Hodaei *et al.* (2014). Moreover, the beta coefficients for interest rate are negative with growth of micro enterprises. It indicates that interest rate has a negative impact on growth of micro enterprises. This finding is consistent with the findings of Udoka *et al.* (2012). Further, the beta coefficients for business idea generations are positive with growth of micro enterprises. It indicates that business idea generations have positive impact on growth of micro enterprises. This finding

is consistent with the findings of Kaltenecker *et al.* (2013).

4. Summary and conclusion

Microfinance is defined as the provision of credit, savings, and other financial services to lower-income groups'. Micro financing is the delivery of financial services to poor and low-income households with limited access to formal financial institutions. Microfinance is can also be described as banking for the underprivileged. Microfinance is an excellent way of assisting entrepreneurs. It provides the underprivileged with maintainable revenue through low interest loans. Microfinance as small-scale financial services that are granted to informal small business operators in other to take part in any other creative or distributive activities. Microfinance as small-scale business or credit services; which are made available to people operating selected business; running small enterprises in which goods are manufactured, reprocessed, repaired or exchanged in rural as well as urban area.

This study attempts to examine the impact of microfinance institutions on scaling micro enterprises in the Kathmandu Valley. The study is based on primary data of 194 respondents.

The major conclusion of the study is that microfinance provides banking services to those who are unemployed or have low incomes and can't access traditional banks. It helps them obtain small business loans safely and ethically. A business is any organization involved in commercial activities, and starting one involves processes to turn an idea into a successful venture. Supporting the growth of new businesses is crucial for reducing youth unemployment. However, microfinance has sometimes caused more debt for already struggling communities and worsened economic, social, and environmental issues. The major conclusion of this study is that micro credit, training programs, financial advisory, marketing facility, technical support, and business idea generation have positive impact on growth of micro enterprises. It indicates that higher the micro credit, training programs, financial advisory, marketing facility, technical support, and business idea generation, higher would be the growth of micro enterprises. However, interest rate has a positive impact on growth of micro enterprises. It indicates that higher the interest rate, lower would be the growth of micro enterprises. The study also concludes that micro credit is most significant factor followed by training programs that determines the change in growth of micro enterprises.

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