

IMPACT OF MICROFINANCE SERVICES ON FINANCIAL PERFORMANCE OF SMES IN KATHMANDU

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fulfilment of the requirements for the Degree of Masters of Business Studies

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“IMPACT OF MICROFINANCE SERVICES ON FINANCIAL PERFORMANCE OF SMES IN KATHMANDU”** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Mr. Yogesh Koirala has defended research proposal entitled “*IMPACT OF MICROFINANCE SERVICES ON FINANCIAL PERFORMANCE OF SMES IN KATHMANDU*” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor Teacher’s name and submits the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled “*IMPACT OF MICROFINANCE SERVICES ON FINANCIAL PERFORMANCE OF SMES IN KATHMANDU*” presented by Mr. Yogesh Koirala for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Researcher

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ABBREVIATIONS

AD	:	Anno Domini
ANOVA	:	Analysis of Variance
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
CB	:	Commercial Banks
e.g.	:	Example
i.e.	:	That is
IN	:	Innovation
LTD	:	Limited
NBL	:	Nepal Bank Limited
NRB	:	Nepal Rastra Bank
SD	:	Standard Deviation
SMEs	:	Small and Medium Enterprises
SPSS	:	Statistical Package for the Social Sciences
TU	:	Tribhuvan University

ABSTRACT

The objective of this study is to explore the impact of Microfinance Services on the Financial Performance of SMEs in Kathmandu. This study uses both qualitative and quantitative methods within a descriptive and causal research design. This study also utilized findings from various prior research to establish a strong conceptual framework. The data were collected through questionnaire method from the respondents who use SMEs services in Kathmandu Valley of Nepal. The analysis of questionnaire data was conducted using the Statistical Package for the Social Sciences (SPSS), facilitating a comprehensive examination of the relationships between distinct psychological factors and entrepreneurial success. The variables used in this study include access to credit, saving mobilization, role modelling, financial skills and training. Correlation analysis of the data shows the positive relation between these independent variables and the dependent aligning with empirical evidence found in prior research. Regression analysis highlighted the collective and significant contribution of these variables such as access to credit, saving mobilization, Financial skill training, Role modeling in illustrating variations in performance of SMEs. The findings indicate that access to microfinance services plays a vital role in enhancing the financial performance of SMEs in Kathmandu. The findings revealed a significant positive correlation between access to credit and financial performance which explain that SMEs with greater access to credit tend to exhibit better financial performance outcomes. This underscores the importance of microfinance services in facilitating business growth and sustainability. Saving mobilization emerged as a key determinant of financial performance, with a strong positive correlation observed between saving mobilization and business success. SMEs that effectively mobilize savings are better positioned to invest in growth opportunities and manage financial risks.

Key words: Access to Credit, Saving Mobilization, Role Modelling, Financial Skills and Training, Financial Performance of SMEs

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Microfinance (MF) serves as a means of achieving financial inclusion by providing access to financial services to individuals who would not otherwise be able to obtain them through more traditional credit institutions such as commercial banks. A range of financial services are provided by micro-finance organizations (MFIs), mainly in the areas of payment services, microinsurance, microcredit, and microsavings. In addition to financial intermediation, many MFIs also provide social intermediation services including group development, financial literacy training, and capacity building for group members (Ledgerwood, 2000).

Regarding the above remark, it follows that the financial performance of MSEs is presumed to be supported by organizations that offer microfinance services since they supply capital to individuals with disabilities and address the shortage of resources. But according to the argument, MSEs whose objective is to maximize profits can only be helped if these capitalistic businesses are prepared to provide a helping hand—a gesture that benefits microfinance institutions as well as MSEs (Smith, 1977).

Microenterprise development is a key strategy for eradicating poverty and producing jobs in Nepal. Through microcredit provision and beneficial use in small and medium-sized businesses, microcredit plays a pivotal role in ameliorating the socioeconomic circumstances of the impoverished and unbanked. Schumpeter (1934) came to the conclusion that the financial sector is an engine of economic expansion because it encourages advantageous investments. Investment and capital creation are promoted by a well-established financial institution via identifying and providing financing for lucrative company ventures. The country's economic progress is greatly impacted by the financial sector's expansion, since it directs accumulated capital into lucrative businesses.

Financial inclusion is a pressing issue in developing countries such as Nepal, where a large number of individuals still do not have access to traditional banking services. The poor and vulnerable people who have been exploited by the unofficial lending industry and are unable to provide physical security for a loan are the main populations that financial inclusion seeks to assist.

It is a common misperception that formal banking institutions (FFIs) only provide savings accounts, lending facilities, and other financial support services to small and medium-sized enterprises (MSMEs). This is because many SMEs are unable to provide the collateral security that these formal institutions need, and banks find it difficult to recover the high expenses of doing business with small enterprises. Furthermore, banks find it unpleasant to deal with micro and small enterprises due to the risks involved in lending to SMEs (Wong, 1994). Due to the high failure rate of small firms, lenders find it difficult to accurately assess an organization's likelihood of success, the entrepreneur's abilities, and the likelihood of repayment.

In Kathmandu, Nepal, small- and medium-sized businesses (SMEs) often give the underprivileged a way to survive, create jobs, increase revenue, and contribute more to the country's economic development. Conversely, microfinance serves an institutional purpose in addition to providing low-income individuals with access to capital for poverty alleviation. It seeks to create institutions that offer financial services to the impoverished, who are often overlooked by the traditional banking sector.

The purpose of this study is to determine how microfinance affects the financial performance of small and medium-sized enterprises in Kathmandu. In order to conduct this study, the researcher looked at the problems that both developed and developing countries confront and evaluated the literature. This therefore helped to identify possible roadblocks to the development of the firm in the future.

1.2 Problem Statement

Microfinance institutions are set up to offer a range of financial services to underprivileged individuals in order to help them achieve different types of development goals. Microfinance is the means by which poverty may be ended. As microfinance becomes more widely accepted and popular, more services for the underprivileged may become available, increasing efficiency and outreach while lowering costs. Buckley conducted study in 1997 on the effects of microfinance lending on company development, including financial success, high payback rates, and outreach. Buckley's 1997 research in Kenya, conducted in Malawi and Ghana, revealed a positive correlation between the expansion of SMEs and microfinance services in terms of employment, income level, and profit.

However, Gyimah and Boachie (2018) found that 65% of SMEs fail or perform poorly as a result of not having access to microcredit for growth and the introduction of new goods and services to the market. SMEs in the Kathmandu market are doing horribly, even with the abundance of microfinance institutions. This calls into question how much the Kathmandu Valley's small and medium-sized businesses' financial performance is impacted by microfinance institutions. The financial success of SMEs would promote their expansion, which would in turn create jobs and advance Kathmandu's economy.

Regarding the earlier statement assertions, there aren't many empirical data points that demonstrate how much MFIs have assisted MSEs in meeting expectations and indicating their goals. The researcher looks at how much microfinance has helped the SMEs in the Kathmandu Valley grow in this scenario. The majority of SMEs in Kathmandu are unable to experience strong company growth despite the rise in microfinance institutions offering a variety of lending services. Which demonstrates that there are insufficient opportunities for microfinance and credit services, which are detrimental to the people of Kathmandu due to their high interest rates and short payback terms? Nevertheless, no research study has examined how microfinance affects the financial performance of SMEs in Nepal's Kathmandu Valley.

Factors influencing SMEs' financial performances in Nepal have not been the focus of previous research on the impact of microfinance on SMEs. The purpose of this research is to elucidate the connection between microfinance and the financial performance of micro and small businesses in the Kathmandu Valley.

To achieve the set objectives the research, it has to provide answers of various questions:

- i. What is the structure and pattern of services of microfinance and financial performances of SMEs in Kathmandu valley?
- ii. What is the relationship between services of microfinance and financial performances of SMEs in Kathmandu valley?
- iii. What is the effect of services of microfinance on financial performances of SMEs in Kathmandu valley?

1.3 Objectives of the Study

The major purpose for this research was to analyze the effect of micro-finance on the financial performances of SMEs in the Kathmandu valley.

The specific objectives of the research are:

- i. To assess the structure and pattern of services of microfinance and financial performances of SMEs in Kathmandu valley.
- ii. To examine the relationship between services of microfinance and financial performances of SMEs in Kathmandu valley.
- iii. To analyze the effect of services of microfinance on financial performances of SMEs in Kathmandu valley.

1.4 Hypothesis

In the Muhanga area of Rwanda, Omwono (2019) carried out research to look at the impact of microfinance services on the financial performance of SMEs. The study's conclusions show a favorable correlation between SMEs' financial performance and microcredit. According to a 2014 Wakaba research on the impact of microfinance on the financial performance of SMEs in Kiambu County, the majority of SMEs utilize loans to expand their businesses and obtain credit for capital investments. The SMEs who are exhibiting there don't have any other sources of finance for their operations.

According to Monge (2016), microfinance lending has a more positive impact on the majority of SMEs in Tanzania in terms of growing market share, employment, net profits, sales income, financial credibility, and smaller loan amounts. Consequently, research demonstrates that improvements in the quality of microcredit findings have a major impact on company growth. The following hypothesis may be established to investigate the influence of micro-finance in the financial performance of SMEs based on previous empirical investigations.

Numerous studies from earlier literature have demonstrated the significance of loan service for SMEs' financial success. According to Kihara (2017) and Gyimah and Boachie (2018), there is a clear correlation between financial performance and loan availability and that credit availability has a favorable effect on the financial

performance of SMEs. The following hypotheses are the result of this study's literature analysis.

H1: There is Significant Relationship Between access to credit and Financial Performance of SMEs.

In their research, Kisaka and Mwewa (2014) found a substantial correlation between financial performance and saving behavior. This demonstrates unequivocally that saving services will improve the financial performance of small and medium-sized businesses. Therefore, it is essential to investigate how saving services affect financial success. Thus, this investigation has postulated that:

H2: There is significant Relationship between saving mobilization and financial performance of SMEs.

Based on the literature, this study has hypothesized the following. Haider, Asad, and Fatima (2017) revealed a positive relationship between financial education and training services and financial performance. It also indicates that financial training and advisory services will be crucial terms to be examined in this study.

H3: There is significant relationship between financial training and Financial Performance of SMEs.

1.5 Rationale of the Study

A financial service that helps the poor and small company owners create opportunities for their own employment and other forms of income is known as micro-finance. The microfinance revolution has caused a shift in the attitudes of many countries toward the poor, and in some, substantial credit flows have been provided, often to very low-income households or organizations that would otherwise be turned down by traditional financial institutions.

The report provides empirical evidence supporting the effect of microfinance services on SMEs' financial performance in the Kathmandu Valley. The findings of this study might be helpful to microfinance organizations and the Nepali government in improving their services by providing insights.

Important elements that can assist governmental and nonprofit organizations improve microfinance services to SMEs and ensure that improved laws and regulations are in place to obtain better microfinance services will be generated by this study.

The study's findings will be helpful for future research on the performance of SMEs and microfinance.

1.6 Limitations of the Study

- i. All of the data used in this study, both for the independent and dependent variables, were from primary sources. Therefore, the correctness of the data submitted by the respondents determines how reliable the study's results will be.
- ii. There are just 385 sample observations of original data in total. A smaller sample size might provide the anticipated, less significant outcome.
- iii. The study's scope was restricted to examining how the financial performance of SMEs in the Kathmandu Valley was impacted by loan, savings, and financial consulting and training services.
- iv. Although convenience sampling is a strategy used to gather data, it does not yield results that are representative.
- v. The data analysis was completed with the SPSS program.

CHAPTER-II

LITERATURE REVIEW

Any scientific inquiry is built upon the information, investigations, and research from the past. They offer the concept or foundation for further research. This chapter's foundation is a survey of pertinent books, journals, manuals, reports, articles, previously completed published and unpublished theses, linked websites, and studies on the main subjects of the investigation. The conceptual framework of the study is explained in this section, which also looks at the variables affecting SMEs' financial performance. This section showcases the many contributions made by academics and writers who have previously worked on similar research initiatives.

2.1 Theoretical Review

This area explained the theories used in conducting this research as follows:

2.1.1 The Lean Six Sigma theory

Introduced by Motorola in 1986, the Lean Six Sigma theory proposes an all-encompassing method of improving financial performance via the integration of quality management concepts into every aspect of profit-seeking businesses (Ananthukrishna, 2019). The pursuit of fault-free production—embodied by the 99.99% defect-free production target—is at the heart of this theory. It is accomplished through ongoing quality improvement programs aimed at enhancing customer satisfaction and is supported by problem-solving techniques, most notably the Define, Measure, Analyze, Improve, and Control (DMAIC) framework.

Lean Six Sigma is essential for cutting process cycle times and expenses while also increasing customer happiness and profitability, as Singh and Malhotra (2014) point out. As a result, Six Sigma projects are only considered feasible when project stakeholders see measurable savings as a result of project execution. Kumar, Antony, and Tiwari (2011) also credit management's proactive participation, staff members' good attitudes, and competent project management abilities for the success of Six Sigma projects.

As the dependent variable in these types of investigations, this theoretical framework is highly relevant for examining financial performance. In particular, the ongoing enhancement of the goods that micro and small businesses sell—possibly enabled by the

availability of training services from microfinance organizations—helps to save costs, which in turn boosts profitability. Thus, the quest of quality enhancement is proposed as a crucial route to profit development for small and medium-sized enterprises.

2.1.2 Financial Growth Theory

Berger and Udell's (1998) theory of financial growth addresses small enterprises and how their financing requirements and alternatives evolve as they grow. This is due to the perception that the company has gained experience and has become less ambiguous and casual. According to this, organizations are based on a continuum of variables, including data, age, and size. Smaller, more inexperienced businesses should rely on exchange credit, holy messenger finance, and introductory insider finance, as they fall closer to the left end of the continuum. The development cycle model states that when a business expands, it may access venture capital (VC) as a source of intermediate value and mid-term credits as a source of transitional finance. As the firm gets older, more seasoned, and more casually plain, it has most likely attained public valuation (PE) or long-term acquisition in the ultimate stage of the development plan. According to the report, microfinance is the only source of capital accessible to small and medium-sized firms (SMEs), who need it in order to grow.

When in doubt, independent initiatives usually incur greater financing costs than do bigger businesses, per Berger and Udell (1998). Due to the size of the credits and their ignorance of small business strategies, advance experts are compelled to justify their efforts by pointing to greater rates of return. For the small business, these variables lead to enormous financing charges and substantial capital expenses. The majority of financial foundations require that the owners of privately owned companies really guarantee the growth, even as they recognize individual efforts. These special certifications allow the foundation to take action against secretly transferring the money belonging to the free endeavors owner in the case of default (Berger and Udell, 1998). This notion helped me concentrate on the idea that, when a firm wants to increase its capital in connection to the activity it does in that region, it should go to microfinance foundations for funding.

2.1.3 Microfinance Credit Theory

Smith (1977) developed the Micro Credit Theory, which evolved into the Economic Theory, in response to the lack of a generally acknowledged theory on matters relating to microfinance services. The thesis recognized that businesses with a capitalist bent support private profits. It also made it simpler for microfinance organizations to assess the welfare of their customers. The theory also led to the development of the miniaturized scale hypothesis of credit, which postulates that data asymmetries can be resolved by using a regular loaning model with a dual system, which monitors, controls, and arranges adverse risk observation (Smith, 1977). As a result, the theory views microfinance-based organizations as capitalistic businesses motivated by social conscience. Because they supply cash to individuals with disabilities and address the issue of few resources, microfinance institutions are thought to support the financial performance of small and medium-sized enterprises (SMEs). But according to the argument, MSEs whose objective is to maximize profits can only be helped if these capitalistic businesses are prepared to provide a helping hand—a gesture that benefits microfinance institutions as well as MSEs (Smith, 1977).

Usually presented as the necessary next step in microfinance, gathering advancing addresses the inadequacies of imperfect credit markets, specifically the challenge of resolving information variations. Information discrepancies may cause the distinct traits of moral hazard and opposing assurance. Due to unsettling assurance, the advance specialist needs details regarding the risk posed by its debtors. Higher advance costs should be assessed to less secure borrowers in order to offset the longer risk of default, as less secure borrowers will surely default more frequently than safer borrowers (Rahman, 2010). Two frameworks that handle the problem of information awkwardness are typically included in the conventional crediting model: companion seeing to mitigate moral risk and assortative planning or screening to supervise hostile decision.

When the company needed the entry of advancements and development of the SMEs, this hypothesis aided in the investigation. The presentation of SMEs through their admission to microfinance administrations is supported by this concept.

2.1.4 Definition and Scope of Microfinance

According to Grameen Bank (2006), microfinance services are financial services offered to low-income payees, especially the impoverished and the disadvantaged. As a

result, the service customers include not just low-income women but also businessmen who own tiny businesses and are always looking for funding for their ventures.

Microfinance refers to restricted financial services for the two attributes and stores that are provided to people running specific businesses; who work small-scale projects where goods are produced, repaired, exchanged, or created; who provide various forms of assistance; who labor for wages or commissions; who receive payment for leasing small amounts of land, cars, or equipment; and who are provided to other people and local groups in rural and urban areas (Luo, Hafee, Sun, & Rahman, 2015). Microfinance is thought to assist more than 200 million people, and a significant chunk of this clientele was acquired during periods of explosive growth in the early 2000s, when microfinance was praised as an essential tool for development and its commercialization as a way to boost both non-financial and financial returns.

In contrast to commercial banks, microfinance does not prioritize consideration of credit applications over factors such as member gender, availability of collateral, business age, and official registration. This facilitates the process of enterprise financing from microfinance banks for microbusiness owners, particularly those who have been disadvantaged, hence improving their performance (Casmir, 2014).

According to Morduch (1998), the development of the microfinance sector is predicated on the knowledge that those living in poverty are capable of making money, but are constrained by a lack of access to and a lack of organization for credit, reserve funds, and protection offices. This method differs from coordinated credit techniques as well in that it places less emphasis on public authority participation and pays careful attention to the incentives that lead to effective execution. The foundation of advancements in microfinance administrations is a model conveyance model, which is thought to be the best way to meet the impoverished's financial needs within various institutional and financial frameworks. Nevertheless, after twenty years of involvement, a better understanding of the financial assistance inclinations and behavioral patterns of the poor and most unfortunate is still anticipated to expand the scope of microfinance drives in addressing concerns regarding the implications of government assistance for MFIs.

2.1.5 Small and Medium Enterprises

It is common to refer to "micro, small, and medium enterprises" (SMEs) as "SMEs." Another name for it is MSMEs, or micro, small, and medium enterprises. The majority of the non-agricultural economic activities carried out by SMEs include manufacturing, mining, trading, and services. The definition of a SME is not universally accepted. Many countries use different measures of size, depending on their level of development. The most often used measures are personnel, total capital investment, and business turnover. There must be up to nine workers, the entrepreneur must actively participate in management, and annual financial transactions must be less than twenty lakhs. Here are a few instances where these requirements are met. A micro-enterprise is a tiny company that can be led by a man or a woman, has ten to fifteen employees, and is focused on turning a profit.

The bulk of small and medium-sized enterprises (SMEs) in Nepal are producing food items for both the local and international markets, consumer and home goods, and textiles and related commodities. Small business activity in Nepal has been dominated by pulses, flour mills, rice, oil, and dairy products; aerated beverages, juices, and biscuits; processed goods; noodles and sweets; water; vegetables; and a variety of home items and uses of those commodities. Other industries in which SMEs operate include those centered around forests, handicrafts and timber, handmade items and cloths, textiles and clothing, carpets, and leather products. The production of plastic, metal, wooden and press furniture, kitchenware, jute goods, animal products, and poultry items also involves a large number of SMEs. It is also highly concentrated in the production of zinc oxide, plywood, tubes, and color paint goods. Conversely, there are a number of agro-based industries, such as those that deal with vegetables, tea, agricultural products, dairy, animal products, and floral items, in which small businesses have started to make investments. Small hydropower, tourist attractions, and buildings also received capital investment in some categories, demonstrating the outcome of the private sector's ability to provide funds for the development of infrastructure. At the micro, cottage, and family levels, there are a significant number of seasonal unregistered enterprises (Khare & Upadhyaya, 2021).

The southern Nepalese province of Kathmandu will soon transform into a major contemporary hub, with new assembly units promising to invest billions of rupees in the near future. The cottage and small industry development committee claims that more

than 300 massive companies have bet a total of one billion rupees. Additionally, the area has hired some 600 medium-sized businesses, and they would also make a sizable contribution. In the area, around 10,000 businesses are registered as small and micro businesses. With Lumbini's exposure as the Buddha's birthplace, Bhairahawa Global Airport's ongoing development, easy access to raw materials because of its location on the connecting line with India, and constant foundation improvement, Kathmandu is poised to become a major modern hub of the nation very soon. The majority of the small and medium-sized businesses in the Kathmandu district are retail businesses that sell a variety of everyday usable goods. These businesses are already registered and offer a wide range of goods and services to the locals.

2.1.6 Models of Micro Financing in Nepal

The varied topography and dense population of Nepal are reflected in its microfinance practices. Some groups in the Terai area (plain), which is more densely populated, has a more advanced transportation infrastructure, and is easier to reach clients, have accepted the Grameen Bank concept. Moreover, this is the location of dynamic financial institutions such as business and improvement banks. Local associations that appear to be the most adapted to the disengagement and restriction of country networks in the slopes and mountains include Self-Help Groups, Credit and Savings Associations, and Cooperatives.

Grameen Bank Methodology

I was introduced to Nepal in the middle of the 1990s. Typically, general credits, sporadic advances, specific credits (disinfection, lodging), and the credits given from the gathering store are offered by microfinance providers using the Grameen approach. Generally speaking, reserve funds items consist of any additional private, purposeful reserve funds as well as the required collecting store reserve funds. Recently, a few leading microfinance providers have started to break away from the traditional Grameen model in order to focus on new methods tailored to Nepal, such as streamlining tasks, showcasing client-friendly products, and placing a strong emphasis on staff development and establishment.

Community Based Models

Savings accounts and Credit Cooperative Societies (SCCS) provide their members with advance merchandise and a large amount of reserve funds. They will typically assist

both the wealthy and the impoverished, with a more grounded emphasis on the distressed due to the connections established by reform initiatives. Credits granted by SCCS cover specific goals such as farming, microenterprise, housing, or, occasionally, crisis or social reasons. The base duration of the credits is ninety days, but they can be extended for more than a year and a half.

Village Bank Model

It was also utilized in Nepal between 1998 and 2001 as a component of Pact Nepal's Women Empowerment Program. This ideology is based on empowering relatively large groups (approximately 20–40 people in Nepal) to start their own financial institutions using a reserve money first approach. First, the town bank advertisers, who were in close proximity to Pact Nepal's NGO partners, provided training to the town banks with a focus on developing the executive boards and participation cap. Additionally, the marketers provide funds to the business in order to build the local bank's "outer record," which is subsequently lent to private customers. The local bank collects individual reimbursements and then reimburses the advertising for their basic commitment. Similarly, the local bank employees build their "inward record" by lending money and investing money in this asset.

Other Group and Individual Lending Methodologies

Nepal Bank Ltd. and Rastriya Banijya Bank, the primary business banks accessible to the public, constitute 95% of the banking network in rural Nepal. However, they are scaling back their operations in these areas due to the impact of local conflicts and the pressures from World Bank-supported reconstruction efforts. As per the restricted area requirement, these banks have the option to either invest in microfinance institutions or extend direct loans to the impoverished, typically limited to Rs. 30,000 per individual or group, often within government-backed initiatives like the Intensive Banking Program.

The advancement of microfinance initiatives in Nepal encounters numerous challenges. There's a necessity for further research to develop a model suitable for the hilly and mountainous regions. Recent studies conducted by CMF suggest that a federative structure of Savings and Credit Cooperative Societies (SCCS) could significantly enhance microfinance services' outreach in these areas. Similar to other nations, expanding outreach to the poorest remains a formidable task in Nepal. Moreover, the political environment and ongoing unrest pose challenges to the effectiveness of

microfinance strategies, given the additional costs associated with instability in rural areas.

2.1.7 Contribution of SMEs to the Economy

Nepal boasts a plethora of small and medium-scale enterprises (SMEs) scattered across its landscape, from the remote Terai regions to the highlands encircling Kathmandu. These SMEs serve as crucial drivers of economic and social progress in the nation, generating both employment opportunities and income. Particularly noteworthy are the microbusinesses, many of which are owned by women, as they provide vital livelihoods to impoverished households while also enhancing local products and services (Neupane, 2014).

The significant role of small and micro businesses in job creation, poverty alleviation, and the overall growth of the private sector cannot be overstated. In Nepal, these enterprises are deemed more conducive to economic development compared to larger ventures. Various organizations and initiatives such as IEDI, MEDEP, OVOP, along with governmental efforts, are dedicated to fostering the growth of micro and small enterprises (Karki, 2013).

The engagement of microfinance institutions (MFIs) has notably boosted off-farm income by 68%, showcasing the transformative impact of non-farm activities. SMEs represent a staggering 96% of all industrial establishments and contribute significantly to employment (83%) and the manufacturing sector's GDP contribution (approximately 80%) in Nepal (Dahal & Sharma, 2004).

The Department of Small and Cottage Industries reports a remarkable increase in the number of micro, small, and medium enterprises (MSMEs) in Nepal, reaching 400,000 by 2015–16 from just 69,431 in fiscal year 2005–06. This surge, primarily driven by women-led enterprises, underscores the push for inclusive economic growth. MSMEs presently contribute around 22% to the national GDP and provide 1.75 million jobs, underscoring their indispensable role in Nepal's economy (Acharya, 2017).

2.1.8 Problem Faced by SMEs

MSEs in Nepal confront various challenges stemming from outdated production processes, limited access to capital, traditional management methods, and a lack of

entrepreneurial culture and knowledge regarding business processes and marketing activities. Securing sufficient finance remains a persistent issue, partly due to entrepreneurs' unfamiliarity with available financial institutions and the reliance of lenders on personal relationships rather than project viability. The perception of formal sector financing as burdensome and bureaucratic also deters MSEs, leading many to opt for informal credit despite its high interest rates. Additionally, MSEs require support in selecting and acquiring appropriate technology to meet their unique needs and facilitate ongoing upgrades, particularly in product development and manufacturing (Karki, 2013).

Compared to larger enterprises, MSEs encounter more hurdles in startup and expansion endeavors. Research suggests that small firms face more challenges than medium-sized ones, which, in turn, face more difficulties than large firms. In many countries, especially in emerging economies, access to finance for SMEs and entrepreneurs remains limited due to lenders' concerns about high risk, small portfolios, and high transaction costs (Schiffer & Mauro, 2001).

The cost of transactions further exacerbates the difficulty for MSEs in accessing finance, as high transaction costs diminish banks' profitability from lending compared to safer investments like treasury bonds. Information asymmetry also plays a role, as banks may perceive smaller or less established clients as higher default risks and impose stringent collateral requirements or avoid lending altogether. This risk perception contributes to higher transaction costs and may lead banks to view clients differently from the clients' own assessment of their creditworthiness (Kung & Gabriel, 2011; Ackah & Vuvor, 2011).

2.2 Conceptual Review

Microfinance services

Grameen Bank (2006) showed that microfinance services denote the provision of banking services tailored for individuals with limited financial means, particularly those who are marginalized or living in poverty. Thus, the clientele of such services encompasses not only impoverished individuals but also small-scale entrepreneurs perpetually seeking capital to sustain their ventures. These individuals commonly engage with microfinance institutions to address emergent financial needs, including asset acquisition for household purposes, meeting financial obligations, and enhancing

residential infrastructure. Consequently, the spectrum of services offered by microfinance entities encompasses a diverse array of financial products, such as micro-loans, micro-insurance, and savings facilities.

Microcredit, as highlighted by Gyimah and Boachie (2018), is heralded as the cornerstone of microfinance institutions, representing a pivotal element within the microfinance landscape. These entities utilize terms such as "microcredit" and "microloan" interchangeably, categorizing them as integral components of the microfinance sector. These financial instruments are disbursed through microfinance programs, serving multifaceted objectives. Business proprietors utilize these funds to address fundamental needs, mitigate risk, and fortify household financial resilience, thereby fostering robust performance metrics within the small and medium-sized enterprise (SME) sector, encompassing aspects such as earnings and sales turnover.

Susu is a phrase that is frequently used in Ghana to refer to small-scale savings. The part of corporate profits donated to MFIs on a preferential basis to be kept in the client's bank account is referred to as microsavings (Gyimah & Boachie, 2018). According to Gyimah and Boachie (2018), in order to enable small firms in emerging economies save for future investments, savings facilities must be made available to them. MFIs manage the micro savings requirements of small enterprises to help them save, invest in the future, and expand their operations. Commercial banks in developing nations may not necessarily cover all of their clients in the unorganized sector; this is where MFIs step in. The micro-savings services provided by MFIs assist small company owners in amassing value over time for use in pursuing meaningful endeavors.

Susu is a term that is frequently used in Ghana to refer to small-scale savings. The part of corporate profits donated to micro-finance on an important basis to be kept in client's account is referred to as micro savings (Gyimah & Boachie, 2018). According to Gyimah and Boachie (2018), in order to enable small firms in developing economies save for future investments, savings facilities must be made available for microfinance clients. MFIs manage the micro savings requirements of small enterprises to help them save, invest in the future, and expand their operations. Commercial banks in developing nations may not necessarily cover all of their clients in the unorganized sector; this is where micro-finance step in. Small company owners can accumulate value over time for use in engaging in useful objectives with the assistance of the micro savings services provided by MFIs.

MFIs likewise furnish private companies with preparing administrations through productive asset usage, the executives of stock, and other essential bookkeeping strategies. Monetary proficiency preparing assists entrepreneurs or chiefs with creating objective and sensible money decisions that can fuel their business development. As referred to by Boachie and Gyimah (2018), Dunford guaranteed that most microfinance phases of preparation were intended to help recipients in the distribution of miniature credits, consequently upgrading their speculations and family prosperity.

Financial Performance

Performance is a key determinant of a company's external competitiveness in its industry as well as its internal resilience. According to Moullin's (2007) perspective, performance—especially in the area of finance—embodies an organization's capacity to effectively manage its operations, which improves service delivery to stakeholders and customers. Financial performance measures are used to appraise a firm's capacity to efficiently administer the assets that provide its income, making it easier to track and appraise SMEs' advancement toward accomplishing their strategic goals.

SMEs must regularly analyze and assess their operations to make sure they are in line with their declared goals, missions, and objectives. Because SMEs have a wide range of goals and objectives, there are several methods available for assessing their financial success. These include measurements of gross profit, net profit, and net margin on sales in addition to the effects of debt and equity financing on the operation of the firm. greater debt financing means greater interest expenses, which might reduce net profit; nevertheless, a preponderance of equity and lower debt could have different results (Kihara, 2017).

According to Praise (2003), financial performance refers to actions taken with the intention of reaching financial objectives that are evaluated by others. According to Glenn (2006), financial performance is a measure of an organization's efficiency and efficacy that frequently makes use of variables like profit, sales turnover, and production ratio. The financial performance of major organizations is broken down into a number of finance-based parameters, including asset management, debt control, market value, liquidity, and earnings (Brigham and Houston, 2015). Micro and small enterprises, however, frequently do not have access to these thorough financial metrics.

Wijewardena, Nanayakkara, and Zoysa (2008) conducted an empirical research that highlights the applicability of SME financial performance by converting finance ratios into indicators like profit, production levels, and sales turnover. This viewpoint is supported by McMahon's (2007) assertion that the sales ratio, production ratio, and profit may be used to assess the financial success of MSEs.

2.3 Empirical Review

Most studies claim that microfinance services have a favorable impact on the performance of SMEs. The purpose of this empirical review is to shed light on the link between SMEs' financial success and microfinance services.

Acharya et al. (2023) explored the impact of microfinance on saving mobilization and management within microenterprises in study titled "Contribution of Nirdhan Utthan Microfinance Institution to Saving Mobilization and Management at Microenterprises,". The study focuses on variables such as saving mobilization, economic status, microfinance, and microenterprises. Employing a descriptive research design and utilizing the case study method, the authors conduct thematic analysis for primary data and employ simple statistical tools for secondary data analysis. The findings indicate that microfinance has been successful in mobilizing savings across various business sectors, with a significant portion of borrowers (98.70%) receiving collateral-free loans. The study also highlights the substantial role of microfinance institutions in improving the economic status of borrowers and entrepreneurs. This research contributes to understanding the pivotal role of microfinance in fostering saving mobilization and management within microenterprises, providing insights relevant for policymakers and practitioners in the microfinance sector.

Adhikari (2022) investigated the challenges and opportunities in expanding access to finance for SMEs in Nepal in study titled "Expanding Access to Finance for Small and Medium Enterprises: An Analysis of Demand and Supply Side Constraints of Nepal,". The variables considered include the SME financing gap, policy measures, lending approach, use of technology, and financial literacy. Adhikari adopts an explorative research design, employing a combination of literature review, field observations, key informant interviews, and a questionnaire survey. The findings of the study reveal a clear financing gap for SMEs, with constraints identified at both policy and operational levels. However, modern technology is recognized as having the potential to reduce these constraints. The study highlights significant issues related to policy, lending, and

technology, offering valuable insights for policymakers, financial institutions, and SMEs aiming to improve access to finance in Nepal.

Thapa and Chowdhary (2022) explored the effects of microfinance on the economic and social empowerment of women entrepreneurs in study titled "Impact of Microfinance on the Empowerment of Women Entrepreneurs in Kathmandu District, Nepal.". The variables considered include economic and social empowerment. The researchers employed a structured questionnaire survey among 124 women entrepreneurs and utilized statistical tools such as one sample t-test, paired sample t-test, Wilcoxon test, and McNemar test for data analysis. The findings of the study indicate that microfinance has a significant positive impact on various aspects of women entrepreneurs' lives, including increased business turnover, investment, savings, expenditures, asset ownership, decision-making freedom, family and social relationships, mobility, and children's education and health. This research underscores the pivotal role of microfinance in promoting the empowerment of women entrepreneurs in Nepal, offering insights that can inform policy and practice in the microfinance sector and women's empowerment initiatives.

Lamichhane (2021) delved into the crucial relationship between client satisfaction and the sustainability of MFIs. This research examines variables such as client satisfaction, financial self-sufficiency, income-generating activities, operational self-sufficiency, over-indebtedness, poverty alleviation, responsible finance, and self-employment opportunities in study titled "Client Satisfaction and Sustainability of Microfinance Institutions (MFIs)". Employing a descriptive research design and a review of best practices, the study identifies that appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for complaint resolution are key factors contributing to the operational and financial sustainability of MFIs. This research provides valuable insights into the mechanisms through which client satisfaction can bolster the long-term viability of microfinance institutions, offering practical implications for stakeholders in the microfinance sector.

Gyimah and Boachie (2018) researched on the connection between microloans and the growth of small businesses. The descriptive research design of the study employed a structured questionnaire to examine 248 small business owners. The study discovered a favorable relationship between all microfinance products and small business growth.

According to the report, MFIs should improve the insurance plans they provide to individuals conducting business in order to provide them with financial security in the event of any additional operational shortcomings. In a similar vein, MFIs ought to continue systematically providing creative training in order to bolster expansion and profitability. Since the research used a descriptive research design rather than the explanatory one that the researcher will use, there is a methodological gap.

Omondi and Jagongo (2018) studied on the effectiveness of microfinance programs and young SMEs. The study employed a descriptive research design and involved 135 young SMEs. The study found that the performance of SMEs was positively impacted by microfinance products. It was suggested that MFIs teach SME owners basic financial management techniques before providing them with loans or any other kind of financial support as a tactic to enhance SME performance. The effective use of the funds is guaranteed by doing this. Because insurance was studied in a different field and was not regarded as a microfinance service, there is a contextual gap in the study.

Makola and Sakwa (2017) researched on household well-being and microfinance accessibility. The sample size for the survey research design of the study consisted of 220 SME owners. Self-administered, semi-structured, and structured questionnaires were used in the data collection process. The microloans and business development services offered by the microfinance greatly improved the clients' well-being, according to the study. It was proposed that companies providing microloans ought to provide their clients with further financial education. These services should concentrate on issues that generally affect low-income households as well as growing businesses. But because the study only looked at microloans and business development, there is a conceptual gap.

Haider, Asad, and Fatima (2017) researched on microfinance and the prosperity of small and micro businesses in the Indian state of Punjab, financial training is essential to guaranteeing improved business performance. A questionnaire was employed in the study to collect data. A simple sampling technique was employed to choose 385 respondents who are small- and medium-sized business owners. According to a survey, SMEs' owners' financial education fosters the growth of their businesses. The researcher suggested that business training modules be included into business studies curricula to assist business students in developing their entrepreneurial skills. Small business owners

should be required to receive financial training from microfinance organizations in order to boost the loan recovery rate.

Antoh et al. (2016) investigated the impact of microfinance on earnings and startup capital in Ghana. The study combined quantitative and qualitative methods with a descriptive research design. 361 microloan recipients were included in the study, including thirteen senior Sinapi Aba Trust members, such as financial service officers and associates branch managers. The study found that microfinance services raised people's incomes, especially for those in the banking sector. There was a conceptual gap in the study because it only looked at loans.

Rotich (2015) studied the performance of SMEs in Kenya and the accessibility of microloans. The researchers used an explanatory research methodology along with self-administered questions to analyze 429 SMES in the Githurai area. The results demonstrated that MSME owners had positive opinions of the microfinance institutions' savings, credit, and training in MSME investment services. The study found that there was some correlation between the services provided by microfinance institutions and the performance of micro firms. Microfinance also had a major effect on MSMEs' performance. There was a conceptual gap caused by the lack of insurance as a microfinance service.

Mungai (2015) studied the growth of microfinance products and SMEs in Kajiado County, Kenya. The study looked at nine distinct business classes in Kajiado County using a descriptive research methodology. Both partial correlation analysis and multiple regression analysis were used to evaluate the relative effects of microfinance products on the growth of SMEs. However, the majority of SMEs did not use this product, despite the study demonstrating the relative impact of microsavings on SME growth. There are methodological and contextual gaps because the research is focused on a particular topic.

Peprah (2015) studied the beneficiaries of microfinance programs' reactions in the Ghanaian metropolis of Sekondi-Takoradi. The study has employed in-person interviews and questionnaires to gather primary data. Responses were analyzed using descriptive analysis. A study found that while some beneficiaries' standard of living remained the same, they saw gains in their periodic savings. As a result, the report suggested that microfinance reduce loan interest rates, offer insurance to recipients to

shield them from risks, and ensure that the loans they provide to clients are utilized for the purposes for which they were designed. The study left a conceptual gap because it only looked at loans and savings as microfinance services.

Makorere (2014) examined the benefits of microcredit for Tanzanian small and medium-sized businesses. The researcher used a cross-sectional design strategy and administered a structured questionnaire to 51 SME owners who were chosen through a straightforward random and snowball sampling design. The study discovered that the support of microfinance was directly accountable for an increase in jobs, profits, sales, and outlets in addition to an increase in capital structure. The study advises managing credit using an integrative approach. There was a conceptual and contextual gap about the extra microfinance services provided beyond lending.

Ngugi and Kerongo (2014) analyzed impact of microfinance on the growth of small and medium-sized businesses in Mombasa County, Kenya, was examined by. The study employed a descriptive survey research design in order to assess the impact of microfinance on small business growth. Based on the collected data, MFIs were beneficially assisting SMEs in growing their operations. In line with this, the study discovered a strong and favorable correlation between loans and the expansion of SME. One of the report's many recommendations was to lend money to SMEs who had sufficient and thorough observational activities. Income, sales, and competitiveness were the study's independent variables; there was no conceptual research gap, in contrast to the variables used in this investigation.

The effects of microsavings, microcredit, and financial education on small business growth were examined by Kisaka and Mwewa (2014). The sample size for the study was 100 businesses based on a survey. Inquiries were made using questionnaires. The study discovered that microsavings and microcredit led to SMEs' notable and positive growth. However, training has no impact on SMEs' ability to grow. The recommendation was for microfinance banks to conduct a requirements analysis of SMEs in order to offer tailored training services to their SME clients.

Moruf (2013) investigated the impact of microcredit on small and medium-sized business operations was carried out by. Investigations were conducted into the administration of microloans on SME projects, the perspectives of SME on microloans, and the difficulties faced by SME in obtaining these loan facilities. Using a structured

questionnaire, the researcher collected firsthand data from 250 randomly selected SMEs. The results of the study demonstrated a strong relationship between SME performance and microloan performance. It was also revealed that SMEs had trouble obtaining financing due to high interest rates and other issues. The study examined how microfinance institutions in Nigeria managed loans to small businesses, focusing on the effects of microcredit services offered by these organizations on small business operations. A conceptual and contextual gap developed as a result of the variations in the study's environment and the study variables falling under the independent variable.

Study on microfinance and SME growth was done by Ahiabor (2013). The researcher chose 70 SMEs for sampling out of 235, and SPSS was utilized to analyze the quantitative data. The survey found that high interest rates and other costs made it difficult for SMEs to make a profit and repay their advances. There was a conceptual gap in the study because the majority of the research was based on microloans given to SMEs by MFIs.

Sánchez (2011) investigated how financial education prepares a person to become a finance manager by providing tangible funding, which encourages participation in the economy and society. Entrepreneurs with vision are trained in financial management, business planning, and forecasting by microfinance. An additional noteworthy advantage of preparation is that it helps business owners develop networks, share ideas, and enhance their skills to advance their company through higher-level commercialization. The main reason for obtaining this wide range of skills is that these programs are specifically designed to highlight enterprising abilities among SMEs' owners. Worldwide, the importance of readiness has been recognized as a key tool for enhancing SMEs' display.

Table 1

Summary of Empirical Review

Author	Study	Variable used	Methodology	Findings
Gyanu Acharya, Dr. Rohit Kumar Shrestha, Ganesh Prasad	Contribution of Nirdhan Utthan Microfinance Institution to Saving Mobilization	Saving mobilization, economic status, microfinance, microenterprises	Descriptive research design, case study method, thematic analysis for	Microfinance has been successful in mobilizing savings in various

Niraula (2023)	and Management at Microenterprises		primary data, and simple statistical tools for secondary data	business sectors; 98.70% of borrowers received collateral-free loans; significant role in improving economic status of borrowers and entrepreneurs
Joseph Mwangi Njuguna, Gilbert Nyaga Njagi (2022)	Effect of Loan Microfinance Practices on Growth of the Boda Boda Industry in Kenya; A Case of Kamukunji Sub-County	accessibility, motorcycle ownership, microfinance training, savings	Descriptive study design, qualitative and quantitative research methods, data collection through questionnaires, data analysis using regression analysis and descriptive statistics with SPSS software at 95% confidence level	Loan Accessibility: Positive (Statistically Significant), Motorcycle Ownership: Positive (Not directly stated), Microfinance Training: Positive (Not Statistically Significant)
Jeebanath Adhikari (2022)	Expanding Access to Finance for SMEs in Nepal	- SME financing gap - Policy measures - Lending approach - Use	- Explorative research design Literature review - Field	- Financing gap for SMEs is clear - Constraints exist at policy

			of technology - Financial literacy	observations - Key informant interviews - Questionnaire survey	and operational levels - Modern technology has potential to reduce constraints - Significant policy, lending, and technology- related issues identified
Bharat Singh Thapa & Supriya Chowdhary (2022)	Impact of Microfinance on the Empowerment of Women Entrepreneurs in Kathmandu District, Nepal	Economic and social empowerment	Structured questionnaire survey among 124 women entrepreneurs; statistical tools like one sample t-test, paired sample t-test, Wilcoxon test, and McNemar test	Microfinance leads to increased business turnover, investment, savings, expenditures, asset ownership, decision- making freedom, family and social relationships, mobility, and children's education and health.	
Basu Lamichhane (2021)	Client Satisfaction and Sustainability of Microfinance Institutions (MFIs)	Client satisfaction, financial self- sufficiency, income- generating	Descriptive research design, review of best practices	Appropriate product design and delivery, prevention of over- indebtedness,	

		activities, operational self- sufficiency, over- indebtedness, poverty alleviation, responsible finance, self- employment opportunities		transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for complaint resolution contribute to the operational and financial sustainability of MFIs.
Gyimah & Boachie (2018)	Micro-finance products and small business growth in Ghana	Study included government regulations as a moderating variable	Correlation and multiple regression analysis	It showed a positive relationship between microfinance items and the development of little undertakings.
Omondi and Jagongo (2018)	Microfinance Services and Financial Performance among youth SMEs in Kisumu.	Micro-finance services including saving, micro loan & financial training as independent variable	Correlation and multiple regression analysis	Microfinance services have a positive relationship with the financial performance of SMEs.
Makola and Sakwa (2017)	Microfinance openness and family	It includes savings, insurance and	Multiple regression analysis	77% of respondents concurred that

	prosperity in government Embakasi regulation. Constituency, Kenya			admittance to miniature advances further developed family pay. 71% concurred that a positive relationship exists among preparation phases and business execution.
Haider, Asad and Fatima (2017)	Microfinance and performance of micro and small enterprises in Punjab	This study used net profit margin as the performance indicator	Multiple regression analysis	Preparing was extremely essential in guaranteeing that organizations appreciate better execution.
Anto, Mensah, Enu- Kwesi and Addo (2016)	Effects of microfinance products and incomes and business capital in Ghana	The study focused on micro insurance, savings and financial literacy training	Correlation and multiple regression analysis	Recipients of microfinance advances had the option to encounter an expansion in their functioning capital and their pay level.
Mungai (2015)	The impact of microfinance offices on the	Study included government regulations as a	Multiple regression analysis	Found a general impact of miniature

	development of SMEs in Kajiado County, Kenya	moderating variable		saving money on SME development, in any case, most SMEs didn't belittle the miniature saving items presented by microfinance foundations.
Peprah (2015)	The effect of microfinance offices and its effect on recipients in the Sekondi-Takoradi metropolis, Ghana	The review was centered around microfinance and the monetary exhibition of SMEs	Multiple regression analysis	Found that investment funds of a portion of the recipients increased however their way of life continued as before.
Rotich (2015)	Impact of microfinance products SME performance in Kenya	The study based on variables like micro savings, micro loans and insurance	Correlation and multiple regression analysis	There is an affiliation between provision of microfinance and performance of micro enterprises.
Kisaka and Mwewa (2014)	Micro credit, micro reserve funds and preparing on the development of SMEs	The study included government regulations as a moderating variable	Multiple regression analysis	Credit and investment funds affected the development of SMEs. training

	Machakos County in Kenya				no affected the development of SMEs.
Makorere (2014)	The role of micro credit supporting SMEs in Morogoro, Tanzania	The review presented different factors in like miniature protection, reserve funds. The review centered in Ghana	Multiple regression analysis		Microcredit played a direct role in the expansion of SMEs. Access to microloans alone does not directly correlate with increased corporate capital structure.
Ngugi and Kerongo (2014)	Micro-financing and development of small and micro enterprises in Mombasa County, Kenya	The review in view of different factors like funds, credits and insurance	Correlation and multiple regression analysis		Innovative achievement was connected with large scale financial variables like tax collection, foundation Uncovered a positive and significant association among microcredit and the development of SMEs
Ahiabor (2013)	Microfinance and the development of	The study introduced other variables such	Correlation and multiple regression		Exorbitant financing costs among different

	SME in the as role model, analysis		elements were
	Ledzorkuku- repayment of		obstructing
	Krowor of loan and		SMEs from
	Ghana reasonable		creating
	profits.		sensible gains
			for
			reimbursement
			of advances.
Moruf (2013)	Miniature credit The study Multiple	and the tasks of concentrated on regression	Shown that
	SMEs micro-savings, analysis	insurance, and	SMEs face
		government	various
		restrictions as a	obstacles when
		moderating	trying to
		factor.	acquire finance.
			Among these
			difficulties was
			the high interest
			rate.

CHAPTER III

RESEARCH METHODOLOGY

This chapter's structure outlines numerous processes that the researcher will use to explore the research topic, along with the reasoning for each step. In general, the chapter examines and provides the following topics: Research design, Description of the research region and population, Sampling frame, Sample size, Sampling procedures, Types and sources of data, Data collecting methods, and Data presentation and analysis.

3.1 Research Design

Kothari (2004) defined research design as “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. This particular research is quantitative in nature. The research design used in this research was descriptive and causal comparative research design. Causal comparative research design provides better understanding of the relationship between loan service, saving service, financial training and advisory service and SMEs financial performance in Kathmandu district.

This study adopted the descriptive approach, which was praised by Saunders, Lewis, and Thornhill (2007) who argued that it provides an easy way to comprehend people's perspectives and ideas about the issue. In the same way, Kothari (2004) provided additional evidence for the idea that a descriptive design employs a large number of participants and accurately captures the features of the population by using an unprejudiced sample. Utilizing the interview guide and questionnaires is also a part of it. Additionally, results can be generalized based on the population from which the sample was drawn Saunders et al. (2007).

3.2 Population and Sample, and Sampling Design

The populace alludes to the total arrangement of people, subjects or items or occasions having normal noticeable qualities in which the scientist is keen on. All the micro and small enterprises of Kathmandu valley, who started or expanded their business through the help of microfinance is population. To qualify the selection of respondents, entrepreneur who initiated and expanded their business through the loan taken from microfinance institutions were considered. All small and medium businesses presenting in Kathmandu valley are target population for this research study.

The sampling technique that is used in this research is Convenience sampling among the non-probability sampling technique. Convenience sampling is important for the study purpose and the purpose of study and it had been convenient to respondents as they are free to express and share their information with the researcher. The total number of respondents that were surveyed through the questionnaire was 385. Business owners who have taken loan service from MFIs are respondent for data collection. Cochran (1977) developed a formula to calculate sample size when the population is infinite:

$$n_0 = Z^2 pq / e^2$$

Where,

Z = confidence level (95%)

P = estimated proportion q = 1 – P

e = error margin (5%, an "acceptable" margin of error used by researchers

falls between 4% and 8% at the 95% confidence level.)

$$n_0 = \frac{(1.96)^2 (0.5) (0.5)}{(0.05)^2}$$

$$= 384.16$$

Sample size required was at least 384.16 \cong 385

3.3 Nature and Source of Data

The study intends to incorporate primary methods of data collection. For this research purpose data were collected through self-administrative questionnaire.

3.4 Instrumentation of Data Collection

Research instruments also known as research questionnaire, there are two types of research instruments; self- developed research instruments and already developed and used research instruments. In this study, four instruments were used, Loan Service, Saving Service, Financial training and advisory service and financial performance of SMEs these research instruments were already used and validated in western context. First hand data were collected by maintaining self-administrative questionnaire. The questionnaire contained closed ended questions relating to each study variable. This research is mainly focused on the firsthand data. At initial phase, the conceptual framework was developed based on the secondary data collection procedure. The secondary source of data as a part of literature review was internet, books, journals, newspaper and articles. In the later stage of the research, the primary source of data

collection was used for the purpose of collecting data so as to analyze data for making findings. Thus, the major tool used in data Collection was questionnaire. The questionnaire that was used for this study was retrieved from Kimunga (2021).

Questionnaire	Reference
LS1, LS2, LS3, LS4, LS5	Kimunga (2021)
SS1, SS2, SS3, SS4, SS5	Kimunga (2021)
FT1, FT2, FT3, FT4, FT5	Kimunga (2021)
FP1, FP2, FP3, FP4, FP5	Kimunga (2021)

As mentioned with the questionnaire the tool that was used for primary data collection was implied and these explained as follows:

Quantitatively, survey questionnaires used in investigation practically aided collection of multitudes of information from the sample size within a specified time period and in a way that is relatively unsupported. Closed ended questionnaires were embraced as supported by Amin (2005) who acknowledged that they offer responses which are unambiguous making it easy to evaluate. Additionally, Mugenda and Mugenda (1999) also acknowledged that using questionnaires is cheap in regard to monetary and time resources. Observations resulted by questionnaires were quick making it easy for the researcher to quantify them with the aid of SPSS and Smart PLS.

In order to answer the basis questions raised, the questionnaire was prepared with three parts. The first part consisted of demographic profile of the respondents which was designed in a closed ended format. The second part covered that business information of the respondents which was also prepared in a closed ended format. The last section dealt with small and medium enterprises financial performance, which was also designed using the close ended format. The cycle structure that was utilized in the examination survey comprised of the accompanying inquiries;

- Dichotomous questions (closed, structured questions)
- Likert scale questions (closed, structured questions)

Total 400 set of questionnaires were distributed to the sampled respondents in order to get actual and accurate information. Distribution work has been done through personal visit and also electronic means to get accurate and actual information. The data were collected by visiting various SMEs presenting in Kathmandu district. The Questionnaire

has been used as a research instrument with 5-point scale having Likert scale which indicated by 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5= Strongly Agree

3.5 Methods of Data Analysis

The primary data used in this study were gathered. Using multiple regression analysis, correlation analysis, and descriptive analysis, the gathered data will be examined using SPSS 26 software.

Descriptive Analysis

According to Mugenda and Mugenda (2003), descriptive analysis is typically the best method for obtaining data that illustrates relationships and presents the world as it is—that is, the rate or frequency distribution, mean, and change influencing the share price of development banks. This analysis can be helpful in identifying the key points of the examination's data and in providing an overview of the example and metrics.

Correlation Analysis

Correlation Analysis between variables was studied to find relations among them. Pearson's Correlation analysis is used to determine the relation between various independent and dependent variables associated with the research. It measures the linear correlation between any two variables.

Correlation interpretation is based on following five classical rules:

- (r = 0 to .20) indicates negligible or no correlation
- (r = .20 to .40) indicates positive but low degree of correlation
- (r = .40 to .60) indicates positive moderate degree of correlation
- (r = .60 to .80) indicates positive and marked degree of correlation
- (r = .80 to .1.00) indicates positive and high degree of correlation

All variables are treated symmetrically, i.e., there is no distinction between dependent and independent variables. Two variables are said to be correlated when they tend to simultaneously vary in the same direction. If both the variables tend to increase or decrease together, the correlation is said to be direct or positive. When one variable tends to increase and the other decreases, the correlation is said to be negative or inverse.

Multiple Regression Analysis

A correlation analysis can only tell whether or not a strong relationship exists between two variables. But even if a correlation coefficient indicates that a strong relationship exists between two variables, the exact shape of the relationship between the two variables cannot be determined. In this case, regression analysis provides more information about the slope of the relationship. It is used to describe the nature of a relationship and to make predictions. This section determines which independent variable explains variability in the outcome, how much variability in dependent variables are significant (over other variables) in explaining the variability of the dependent variable.

To evaluate the impact of microcredit on SMEs' performance, the study employed standard least square regression analysis. In this analysis, the dependent variable was sales performance, as it reflects both short- and long-term trends of SMEs. The explanatory variables included credit size (indicating the amount of credit provided to SMEs), micro-savings, interest rate, loan term, debt repayment, and business training. These indicators were selected based on key microfinance characteristics. The objective was to ascertain the extent to which microcredit could enhance the financial performance of SMEs in the study. Various regression models were utilized to examine the influence of microcredit on the financial performance of SMEs.

With the following regression model the study was

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \dots$$

Where,

Y = financial performance of SMEs

β_0 = constant

β_{1-4} = independent variable coefficient of regression

x_1 = Access to credit

x_2 = saving mobilization

x_3 = Financial skill training

x_4 = Role modeling

ϵ = error term

In this function where Y is dependent variable which was analyzed by regular logarithm for Profit, sales turnover and production which was recommend by (Azeref & Gelagil, 2018, Kimunga, 2021, Ishaq & Mishra, 2020) with various article published they have key factors for analysing financial performance are loan service, saving service and financial training and advisory service as independent variable. β_0 indicates constant which shows the financial performance is affected by the variable which is included in this model.

3.6 Research Framework and Definition of Variables

In this research, it is planned to investigate impact of micro-finance on financial performance of small and medium enterprises in Kathmandu District. Conceptual framework is formulated on the basis of literature of (Omwono, 2019). In the research, the three dimensions of microfinance services known as “loan service”, “saving service”, and “financial training and advisory service” will be taken as independent variables whereas financial performance will be taken as dependent variable.

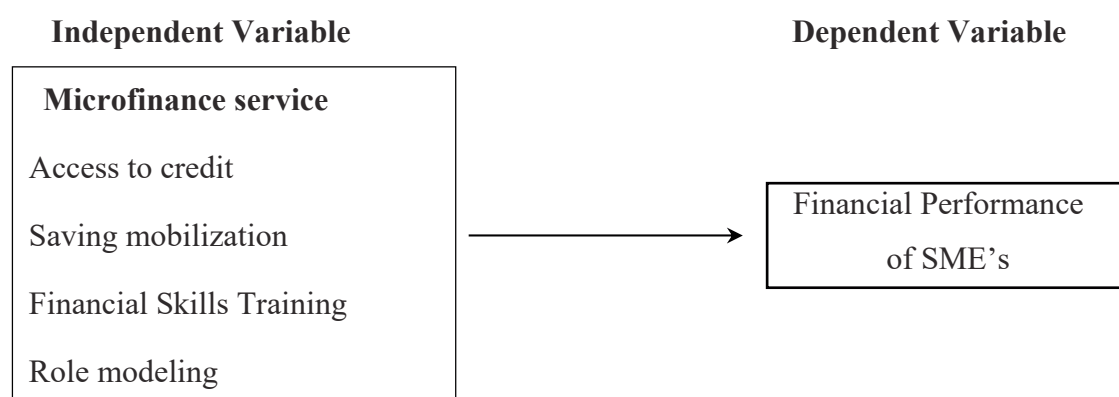


Figure 1 Research Framework

Source: Omondi and Jagongo (2018)

The illustrated framework highlights the association existing between the predictor variable and the outcome variable. ‘Microfinance services’ signify the predictor variable whereas ‘financial performance’ of MSEs is the outcome variable. Within a conceptual framework, the independent variable (Microfinance services) is operationalized into loan services (short term loans, long term loans; Savings services (involuntary savings, voluntary savings); and training and advisory services (pre-disbursement training, post-disbursement training, management training). All these affects financial performance of MSEs with basis on profit level, production ratio, and sales turn over.

3.6.1 Definition of Variables

Access to Credit

Access to credit refers to the ability of individuals or businesses to obtain financial resources from lending institutions such as banks, microfinance institutions, or other credit providers. This is a critical factor for small and medium-sized enterprises (SMEs) as it influences their capacity to invest in business expansion, purchase inventory, and manage operational costs. When SMEs have easier access to credit, they can leverage these funds to improve their production capabilities, enter new markets, and enhance their overall competitiveness. Conversely, limited access to credit can hinder the growth potential of SMEs, making it difficult for them to scale up operations and potentially causing liquidity issues that could threaten their survival (Acharya et al., 2023).

Saving Mobilization

Saving mobilization refers to the process of collecting savings from individuals or entities within an economy and channeling these funds into the financial system. This process is essential for financial institutions, as it provides a stable source of funds that can be used for lending and investment purposes. For SMEs, saving mobilization is crucial because it can enhance their financial stability and resilience. By effectively mobilizing savings, SMEs can build up reserves that can be used for future investments, emergency funds, or to smooth out cash flow fluctuations. This can also improve their creditworthiness, making it easier for them to access credit.

Financial Skills Training

Financial skills training involves educating individuals and business owners on various aspects of financial management, including budgeting, accounting, financial planning, and investment strategies. For SMEs, such training is invaluable as it equips them with the knowledge and tools needed to make informed financial decisions. Financially literate business owners are better positioned to manage their finances efficiently, optimize their resource allocation, and navigate complex financial environments. This can lead to improved financial health of the business, higher profitability, and sustainable growth (Thapa & Chowdhary, 2022).

Role Modeling

Role modeling in a business context involves the practice of demonstrating successful behaviors and practices that other business owners or entrepreneurs can emulate. For SMEs, having access to role models—be it through mentors, successful entrepreneurs, or industry leaders—can provide inspiration and practical insights into effective business management. Role models can influence SMEs by showcasing best practices in financial management, innovative business strategies, and resilience in the face of challenges. This can help emerging businesses adopt proven strategies, avoid common pitfalls, and ultimately enhance their performance and growth prospects (Lamichhane, 2021).

Financial Performance of SMEs

The financial performance of SMEs refers to how well these businesses manage their financial resources to achieve profitability, growth, and sustainability. It encompasses various financial metrics such as revenue, profit margins, return on investment, and cash flow. Strong financial performance indicates that an SME is effectively managing its resources, generating sufficient income, and maintaining healthy financial practices. This performance is influenced by various factors, including access to credit, savings mobilization, financial skills, and the influence of role models. A robust financial performance is crucial for the long-term viability of SMEs, as it determines their ability to invest in growth, weather economic downturns, and provide returns to stakeholders (Omondi & Jagongo, 2018).

CHAPTER IV

RESULTS AND DISCUSSION

This chapter aims to achieve the objectives of the study by empirically analyzing the collected data from the respondents. This chapter attempts to present the results obtained from the data analysis and research methodology discussed in chapter three. The results of the data are analyzed based on the research questions and hypothesis. On the basis of primary data obtained from the 400 respondents, this study tried to examine the impact of microfinance services on financial performance of SMEs in Kathmandu

This chapter includes the demographic profile of respondents, descriptive statistics of variables and testing of hypothesis and discussion of the result obtained through analysis. Respondent's profile summarized basic information such as gender, educational level, age, marital status etc. Under the analysis mean value, standard deviations, correlation and regression of corresponding items of the research variables are analyzed.

4.1 Results

This section presents the demographic analysis and interpretation of data collected from a sample of 400 respondents who participated in the survey. It includes demographic characteristics including age, gender, educational level and ownership type. The demographic breakdown of the respondents is depicted in the table below.

4.1.1 Gender of Respondents

The gender of respondents has been categorized into male, female. Table 1 presents the frequency distribution and percentage composition of the different genders.

Table 1

Gender of respondent

Gender of respondents	Frequency	Percent
Male	203	50.7
Female	197	49.3
Total	400	100.0

Table 1 shows gender distribution among the surveyed respondents where 203 respondents, constituting 50.7% of the total sample are male, while 197 respondents, comprising 49.3% of the sample are female.

4.1.2 Age of Respondents

The Age of respondents is classified into below 20, 21-30, 31-40 and above 40. The frequency distribution and percentage composition of different genders is shown in Table 2.

Age of respondents

	Frequency	Percent
Below 20	86	21.5
21-30	234	58.5
31-40	62	15.5
Above 40	18	4.5
Total	400	100.0

The table 2 shows the frequency distribution and percentage composition of respondents categorized by age groups. The total sample size is 400 out of which 86 individuals which is 21.5% of the total sample falls under age group below 20, 234 individuals or 58.5% of the sample, belong to the age group between 21 and 30, 62 individuals or 15.5% of the total, were aged between 31 and 40. Those above the age of 40 represented the smallest proportion, with 18 individuals which is 4.5% of the sample.

4.1.3 Marital Status

The marital status of respondents is classified married and unmarried. The frequency distribution and percentage composition of marital status is shown in Table 3.

Table 3

Marital Status of Respondent

	Frequency	Percent
Married	211	52.8
Unmarried	189	47.3
Total	400	100.0

Table 3 shows the marital status distribution of the respondents, consisting of a total sample size of 400 individuals. 211 individuals, which is 52.8% of the total sample are married whereas 189 individuals which is 47.3% of the sample are unmarried. The above table shows numerical breakdown of the distribution of respondents based on marital status while the percentages provide insight into the proportional representation of each group relative to the total sample size.

4.1.4 Educational Status of Respondents

The educational status of respondents is classified High school, Bachelor's degree Master's degree and Doctoral degree. The frequency distribution and percentage composition of different education level of respondents is shown in Table 4.

Table 4

Education Status

Educational Status	Frequency	Percent
Up to +2	76	19.0
Bachelors	168	42.0
Masters	134	33.5
Above Masters	22	5.5
Total	400	100.0

Table 4 shows the education status distribution of the surveyed respondents, with a total sample size of 400 individuals. Among the respondents, 76 individuals, accounting for 19.0% of the total sample, reported having education up to the +2 level. The largest group of respondents, comprising 168 individuals or 42.0% of the sample, held a bachelor's degree, 134 individuals, representing 33.5% of the total sample, reported having obtained a master's degree, 22 individuals or 5.5% of the sample, indicated having education beyond the master's level. This breakdown illustrates the diverse educational backgrounds of the surveyed population, with significant representation across different levels of education attainment.

4.1.5 Types of Ownership

The type of ownership is divided into two categories sole proprietorship and Partnership. The frequency distribution and percentage composition of these ownership types among respondents are presented in Table 5.

Table 5

Type of Ownership

	Frequency	Percent
Sole Proprietorship	217	54.3
Partnership	183	45.8
Total	400	100.0

Table 5 shows the distribution of respondents based on the type of ownership, with a total sample size of 400 individuals. Among these respondents, 217 individuals, comprising 54.3% of the total sample, reported owning businesses under the category of sole proprietorship, 183 individuals, representing 45.8% of the sample, indicated ownership within a partnership structure. This breakdown demonstrates a relatively balanced distribution between sole proprietorship and partnership ownership models within the surveyed population.

4.1.6 Business Operation Duration

The business operation duration is classified into 0-3 years, 4 – 6 years, over 6 Years and Above. The frequency distribution and percentage composition of business operation duration of respondents is shown in Table 6.

Table 6

Business Operation Duration

	Frequency	Percent
0 - 3 years	132	33.0
4 – 6 years	142	35.5
6 Years and Above	126	31.5
Total	400	100.0

Table 6 shows the distribution of respondents according to the duration of their business operations, of total sample size of 400 individuals. Among these respondents, 132 individuals, accounting for 33.0% of the total sample, reported operating their businesses for a duration ranging from 0 to 3 years, 142 individuals or 35.5% of the sample, indicated a business operation duration spanning from 4 to 6 years, 126 individuals, representing 31.5% of the total sample, reported having businesses that had been operational for 6 years or more.

4.2 Descriptive Statistics

This part of the research explains the descriptive analysis conducted on the data collected from the respondents through questionnaires. Descriptive analysis use statistical tools and measures to explain the data effectively. The key statistical measures utilized in this study include the mean, frequency, and standard deviation.. The study involved the administration of "Five Point Likert Scale" questions to the respondents, who were asked to provide the answer in following

1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

The mean and standard deviation of independent and dependent variables are shown in Table 7.

Table 7

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
AC	1.00	5.00	3.8215	.95105
SM	1.00	5.00	3.5700	.77031
RM	1.00	5.00	3.5545	.82470
FST	1.00	5.00	3.3820	.75505
FP	1.00	5.00	3.6755	.75340

Table 7 shows the descriptive statistics for various factors measured on a Five Point Likert Scale. The variables examined include Access to credit (AC), Role modelling (RM), Saving mobilization (SM), Financial skills and training (FST), and Financial performance (FP). For each factor, the table presents the minimum and maximum scores recorded, along with the mean and standard deviation.

The minimum scores for all factors are 1.00, indicating the lowest possible rating, while the maximum scores are 5.00, representing the highest possible rating. The mean values indicate the average rating given by respondents for each factor, with Access to credit having the highest mean score of 3.8215, followed by Financial performance (3.6755), Role modelling (3.5545), Saving mobilization (3.5700), and Financial skills and training (3.3820). Standard deviation values measure the dispersion or variability of scores around the mean, with lower values indicating less variability and higher values indicating greater variability.

4.3 Inferential analysis

This section aims to outline the methodology employed to analyze the empirical findings and evaluate the hypotheses formulated in the previous chapter. Inferential statistics serve as the primary analytical approach which helps researchers to extrapolate or generalize observations made from samples to the broader population from which they were drawn. This method allows for the utilization of one or more samples to estimate values or characteristics of the entire population. Inferential analysis involves testing hypotheses to ascertain whether observed disparities between groups or variables are genuine or merely occur randomly. This section consists of two analysis tools.

4.3.1 Correlation Analysis

The study conducted correlation analysis to explore relationships among variables. Pearson's Correlation analysis was employed to determine the relation between different independent and dependent variables relevant to the research. This method identifies the strength and direction of linear correlation between any pair of variables.

Table 8

Correlations

		AC	SM	RM	FST	FP
AC	Pearson Correlation	1				
	Sig. (2-tailed)					
SM	Pearson Correlation	.703**	1			
	Sig. (2-tailed)	.000				
RM	Pearson Correlation	.472**	.586**	1		
	Sig. (2-tailed)	.000	.000			
FST	Pearson Correlation	.561**	.620**	.537**	1	
	Sig. (2-tailed)	.000	.000	.000		.
FP	Pearson Correlation	.589**	.718**	.641**	.555**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

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

Table 8 presents correlation analysis results which show the Pearson correlation coefficients between variables which are Access to credit (AC), Saving mobilization

(SM), Role modeling (RM), Financial skills and training (FST), and Financial performance (FP). There is a statistically significant positive correlation between Access to credit and Saving mobilization ($r = 0.703, p < 0.01$), Access to credit and Role modeling ($r = 0.472, p < 0.01$), Access to credit and Financial skills and training ($r = 0.561, p < 0.01$), and Access to credit and Financial performance ($r = 0.589, p < 0.01$). There is a statistically significant positive correlation between Saving mobilization and Role modeling ($r = 0.586, p < 0.01$), Saving mobilization and Financial skills and training ($r = 0.620, p < 0.01$), Saving mobilization and Financial performance ($r = 0.718, p < 0.01$). There is a statistically significant positive correlation between Role modeling and Financial skills and training ($r = 0.537, p < 0.01$), Role modeling and Financial performance ($r = 0.641, p < 0.01$). and also between Financial skills and training and Financial performance ($r = 0.555, p < 0.01$).

These correlation coefficients indicate the strength and direction of the relationships between the variables, demonstrating their interconnectedness within the research context.

4.3.2 Regression Analysis

Correlation analysis helps to see if there's a relation between two variables, but it doesn't show exactly how they're related. Regression analysis is used for that purposes. This method gives more details about how one variable affects another. It helps to figure out which factors explain changes in other variables, and how much they matter compared to other factors. Unlike correlation, regression assumes there's a cause-and-effect relationship between the variables.

When simple linear regression is used, it focuses on how one factor directly influences another. However, multiple linear regression considers how multiple factors collectively influence one variable. Correlation measures the extent of association between two variables, while regression helps to understand the strength and direction of that relationship. In this study, linear regression analysis is conducted to see how independent variables are related with dependent variables. This method allows examining several independent factors at once and how they influence the outcome. The equation for this relationship is formulated based on previous research which helps to understand the impact of various factors on this outcomes.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \dots$$

Where,

Y = financial performance of SMEs

β_0 = constant

β_{1-3} = independent variable coefficient of regression

x_1 = Access to credit

x_2 = Saving mobilization

x_3 = Financial skill training

x_4 = Role modeling

ϵ = error term

The results of model summary, analysis of variance (ANOVA) and beta coefficients of impact of independent variables are presented in the following tables.

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775 ^a	.601	.597	.47851

a. Predictors: (Constant), FST, RM, AC, SM

Table 9 shows summary of the regression model used in the analysis. The table includes several important metrics for evaluating the model's effectiveness in explaining the relationship between the independent variables (FST, RM, AC, SM) and the dependent variable. The R value is also known as the correlation coefficient it indicates the strength of the relationship between the independent and dependent variables. In this case, the R value is .775 which shows a moderately strong positive relationship between the variables.

The R Square value, or coefficient of determination, represents the proportion of variance in the dependent variable that is explained by the independent variables. Here, the R Square value is .601, indicating that approximately 60.1% of the variance in the dependent variable is accounted for by the independent variables in the model. The Adjusted R Square value adjusts the R Square value to account for the number of predictors in the model and provides a more accurate estimate of the model's

goodness of fit. In this table, the Adjusted R Square value is .597. The Std. Error of the Estimate represents the standard deviation of the residuals, or the differences between the observed and predicted values of the dependent variable. In this case, the Std. Error of the Estimate is .47851.

Table 10

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	136.036	4	34.009	148.528	.000 ^b
Residual	90.444	395	.229		
Total	226.480	399			

a. Dependent Variable: FP

b. Predictors: (Constant), FST, RM, AC, SM

Table 10 shows the results of the analysis of variance (ANOVA) for the regression model. This table breaks down the variation in the dependent variable into components attributed to the regression model and the residuals. The Regression row indicates the sum of squares, degrees of freedom (df), mean square, F-value, and significance (Sig.) associated with the regression model. The sum of squares for the regression model is 136.036, with 4 degrees of freedom, resulting in a mean square of 34.009. The F-value is 148.528, and the significance value is denoted by .000, which indicates that the regression model is statistically significant. The Residual row provides the sum of squares, degrees of freedom (df), and mean square for the residuals. The sum of squares for the residuals is 90.444, with 395 degrees of freedom, resulting in a mean square of .229. The Total row represents the overall sum of squares and degrees of freedom for the entire model, including both the regression model and the residuals. The total sum of squares is 226.480, with 399 degrees of freedom.

Table 11

Coefficient

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
(Constant)	.650	.129		5.028	.000
AC	.089	.036	.112	2.436	.015
SM	.408	.050	.417	8.206	.000
RM	.280	.037	.307	7.510	.000
FST	.070	.043	.070	1.619	.106

a. Dependent Variable: FP

Table 11 shows the results of the regression analysis, detailing the coefficients, standard errors, standardized coefficients (Beta), t-values, and significance levels (Sig.) for each predictor variable within the model. Each predictor variable, including Access to Credit (AC), Saving Mobilization (SM), Role Modelling (RM), and Financial Skills and Training (FST), is evaluated for its impact on the dependent variable. The unstandardized coefficients (B) provide insights into the change in the dependent variable for a one-unit change in each predictor variable while holding all other variables constant. Access to Credit (AC) has a coefficient of .089, indicating that for every one-unit increase in Access to Credit, there is an associated increase of .089 in the dependent variable. Standardized coefficients (Beta) offer a standardized measure of the importance of each independent variable in explaining the variance of the dependent variable. These coefficients allow for a comparison of the relative influence of different predictor variables. Saving Mobilization (SM) exhibits the highest standardized coefficient at .417.

The t-values reflect the significance of each independent variable. A higher t-value indicates a more significant impact on the dependent variable. For example, both Saving Mobilization (SM) and Role Modelling (RM) demonstrate high t-values of 8.206 and 7.510.

The significance levels (Sig.) indicate the probability of obtaining the observed results if there were no true relationship between the predictor variables and the dependent variable. Variables with a significance level below a predetermined threshold (often .05) are considered statistically significant. In this analysis, Access to Credit (AC), Saving Mobilization (SM), and Role Modelling (RM) all exhibit highly significant relationships with the dependent variable, as indicated by their low significance levels ($p < .05$). However, Financial Skills and Training (FST) does not reach the conventional threshold for statistical significance, with a significance level of .106.

4.4 Discussion

This research on the "Impact of Microfinance Services on Financial Performance of SMEs in Kathmandu" contributes to the existing literature by examining the specific relationship between microfinance services and the financial performance of small and medium enterprises (SMEs) in Kathmandu, Nepal. This study aimed to identify factors affecting the financial performances of SMEs.

In comparison to the previous studies, this research delves into a specific geographical context and focuses on the financial performance outcomes of SMEs, thereby adding depth to the understanding of the impact of microfinance services. While previous studies have explored related topics such as saving mobilization, access to finance, and empowerment of entrepreneurs, this study specifically addresses the financial performance aspect, providing insights that are relevant for policymakers, practitioners, and stakeholders in the microfinance sector in Kathmandu.

Acharya et al. (2023) examined the contribution of microfinance institutions to saving mobilization and management within microenterprises, highlighting the success of microfinance in mobilizing savings and improving the economic status of borrowers. While this study shares a similar focus on the role of microfinance, this study extends this by focusing on its impact on the overall financial performance of SMEs in Kathmandu.

Similarly Jeebanath Adhikari (2022) examined the challenges and opportunities in expanding access to finance for SMEs in Nepal, emphasizing the financing gap and policy constraints. This study complements this by exploring how access to microfinance services specifically influences the financial performance of SMEs, shedding light on potential solutions to address the identified challenges.

Bharat Singh Thapa and Supriya Chowdhary (2022) examined the effects of microfinance on the economic and social empowerment of women entrepreneurs in Nepal. While their study focused on the empowerment aspect, this research extends this by examining the broader financial performance outcomes of SMEs in Kathmandu, providing a overall understanding of the impact of microfinance services on business sustainability and growth.

Basu Dev Lamichhane (2021) examined the relationship between client satisfaction and the sustainability of microfinance institutions, emphasizing factors such as product design, prevention of over-indebtedness, and responsible finance. While their study focused on institutional sustainability, this research examines the downstream effects of microfinance services on the financial performance of SMEs, providing insights into the outcomes of client satisfaction in terms of business performance.

Gyimah and Boachie (2018) investigated the relationship between microloans and the expansion of small businesses in Ghana, emphasizing the positive correlation between microfinance products and business growth. While their study focused on growth outcomes, this research examines a broader spectrum of financial performance indicators, including profitability and sustainability, among SMEs in Kathmandu.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The objective of this study is to explore the impact of Microfinance Services on the Financial Performance of SMEs in Kathmandu. This study uses both qualitative and quantitative methods within a descriptive and causal research design. This study also utilized findings from various prior research to establish a strong conceptual framework. The data were collected through questionnaire method from the respondents who use SMEs services in Kathmandu Valley of Nepal. The analysis of questionnaire data was conducted using the Statistical Package for the Social Sciences (SPSS), facilitating a comprehensive examination of the relationships between distinct psychological factors and entrepreneurial success.

The variables used in this study include access to credit, saving mobilization, role modelling, financial skills and training. Correlation analysis of the data shows the positive relation between these independent variables and the dependent aligning with empirical evidence found in prior research. Regression analysis highlighted the collective and significant contribution of these variables such as access to credit, saving mobilization, financial skill training, Role modeling in illustrating variations in performance of SMEs. The findings indicate that access to microfinance services plays a vital role in enhancing the financial performance of SMEs in Kathmandu.

ANOVA results underscored the statistical significance of the regression model, supporting the pivotal role played by factors in driving business success. This study contributes valuable insights into the relationship between microfinance services and the financial performance of SMEs, providing implications for policymakers and practitioners in the microfinance sector.

5.2 Conclusion

This study examined the impact of Microfinance Services on Financial Performance of SMEs in Kathmandu includes the influence of role modelling, access to credit, saving mobilization, and financial skills and training on the financial performance of SMEs in Kathmandu. This study analyzed the data through correlation and regression analyses from which valuable insights is gained into the relationships between these variables and this dependent variable, financial performance of SMEs. Correlation

analysis helped to understand the strength and direction of the relationships between this research's variables, while regression analysis enabled to determine the collective impact of these variables on financial performance.

The findings revealed a significant positive correlation between access to credit and financial performance which explain that SMEs with greater access to credit tend to exhibit better financial performance outcomes. This underscores the importance of microfinance services in facilitating business growth and sustainability. Saving mobilization emerged as a key determinant of financial performance, with a strong positive correlation observed between saving mobilization and business success. SMEs that effectively mobilize savings are better positioned to invest in growth opportunities and manage financial risks.

The role modelling variable demonstrated a positive relation with financial performance, suggesting that SMEs with access to positive role models or mentorship networks may benefit from valuable guidance and insights that contribute to improved financial outcomes. The correlation between financial skills and training and financial performance was positive, it was not statistically significant. This suggests that while financial skills and training are important for SMEs, other factors may have a stronger influence on financial performance.

5.3 Implications

- Policymakers can use the insights from this study to formulate policies aimed at enhancing access to credit for SMEs. This could involve implementing measures to streamline the process of obtaining loans from microfinance institutions and creating incentives for financial institutions to prioritize lending to SMEs.
- MFIs can leverage the findings to tailor their services to better meet the needs of SMEs in Kathmandu. This may include designing innovative loan products crafted to the specific requirements of SMEs and providing targeted financial literacy and training programs to enhance the financial skills of entrepreneurs.
- Entrepreneurs and SME owners can use the insights from this study to make informed decisions about their businesses. They can proactively seek out role models or mentorship opportunities to gain valuable insights and guidance. They can also focus on mobilizing savings effectively to invest in growth opportunities and mitigate financial risks.

- Capacity building initiatives focused on enhancing financial literacy and entrepreneurial skills can play a crucial role in empowering SMEs to improve their financial performance. Training programs aimed at enhancing financial management skills and providing guidance on accessing credit can help SMEs navigate the challenges they face.
- This study contributes to the existing body of research on the impact of microfinance services on SMEs' financial performance. Researchers and academics can build upon this findings to conduct further research and explore additional dimensions of the relationship between microfinance and SME development.

Future Research Implications

Future research implications stemming from this study encompass a broad spectrum of potential inquiries, each aimed at advancing this understanding of microfinance and SME development in Kathmandu, Nepal. Longitudinal studies present a promising method for tracking the sustained impact of microfinance services on SMEs over time. By observing SMEs' progress longitudinally, researchers can measure the durability of microfinance interventions and their enduring effects on financial performance.

Qualitative investigations offer a complementary approach to delve deeper into the nuances of microfinance dynamics. Qualitative methods, such as interviews and focus groups, can explain the intricate mechanisms through which microfinance services shape SMEs' financial outcomes which provides richer insights into the lived experiences of entrepreneurs.

Future research could explore the contextual factors that influence the efficacy of microfinance interventions across different regions of Kathmandu. By considering the diverse socioeconomic and cultural landscapes within Nepal, researchers can make microfinance strategies to fit the unique challenges and opportunities faced by SMEs in specific contexts.

The growing world of digital financial services presents a promising area for exploration. Future studies could investigate how digitalization, including mobile banking and fintech innovations, impacts SMEs' access to finance and their subsequent financial performance. Understanding the role of digital platforms in

facilitating financial inclusion could inform the design of more inclusive microfinance interventions.

Gender-responsive research is crucial in addressing the unique needs of male and female entrepreneurs. Building upon existing studies on the empowerment of women entrepreneurs, future research could delve deeper into gender dimensions within microfinance, assessing how microfinance services affect men and women differently and informing gender-sensitive policies and interventions.

Comparative studies could explain the relative effectiveness of microfinance compared to other forms of financial support for SMEs. By comparing the outcomes of microfinance interventions with traditional bank loans, government grants, and other financing mechanisms, researchers can discern the distinctive contributions of microfinance to SME development.

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Questionnaire on
‘Impact of Microfinance Services on Financial Performance of
SMEs in Kathmandu’

Dear Sir/Madam,

I am a student of MBS at Shankher Dev Campus. This survey on the mentioned title is designed to understand initiation towards street food vendors. I kindly request to fill up the questionnaire with relevant information. The information provided will be kept confidential and used in aggregate form. Your cooperation is expected to add academic value and will be highly appreciated.

Regards,

Yogesh Koirala

Shankhar Dev Campus

Demographic Profile

Name (Optional).....

1. Age
 - below 20
 - 21-30
 - 31-40
 - above 40
2. Gender
 - Male
 - Female
3. Marital Status
 - Married
 - Unmarried
4. Education Level
 - SEE/SLC or Below
 - Intermediate
 - Bachelor
 - Master and above
5. Ownership
 - Sole proprietorship
 - Partnership
6. How long has your business operated (years)?
 - 0 - 3 years

- 4 - 6 years
- over 6 years

Please select an option reflect your opinion that shows the level of disagreement or agreement at the end of each statement. The answer provided to the statements will be measured on Likert scale. The 5- point measurement scale with explanation is below:

1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

S.N.	Items	Responses				
		1	2	3	4	5
7	Access to credit					
7.1	Flexible loan repayment schedules of MFIs have enabled me increase my sales.					
7.2	Investments I make using loans with low interest rates from MFI increase on my business profits					
7.3	Small loans to meet temporary business shortfalls increase my business sales level					
7.4	Short term loans from microfinance institutions increase my business production levels					
7.5	The MFI loan terms that are in the market are fair enough for my business sales operations					
8	Saving mobilization	1	2	3	4	5
8.1	Saving mobilization through the MFI provide a safety net for my business during financial challenges					
8.2	Interest earned on my voluntary savings in the MFI increases on my profits					
8.3	Regular savings with a MFI safeguards my business profits					
8.4	Absence of ledger fees for savings made in the MFI maintains my business profits					
8.5	Annual withdrawals of my savings increase my business capital and sales consequently.					
9	Financial Skills Training	1	2	3	4	5
9.1	Basic business skills attained from MFIs has increased my sales					

9.2	Training on maintaining records of my business transactions has enabled me ascertain my profits					
9.3	Financial management training by MFIs has helped me increase my sales.					
9.4	MFIs training programs help small business to gain business management skills which increases their profits in the long run					
9.5	Pre-loan training by MFIs has enabled me to increase my sales revenue.					
10	Role modeling	1	2	3	4	5
10.1	I believe that successful entrepreneurs who have benefited from microfinance services serve as role models					
10.2	I personally have been inspired or motivated by the success stories of other SMEs that have utilized microfinance services					
10.3	Microfinance institutions play a role in promoting the success stories of SMEs that have benefited from their services as a way to inspire					
10.4	I have observed impact on the performance and growth of my SME due to role modeling by successful SMEs with microfinance support					
10.5	The availability of role models among successful SMEs positively influence my willingness to take risks and explore new opportunities as an SME owner					
11	Financial Performance of SME's	1	2	3	4	5
11.1	My business capital has been growing over the past 3 years					
11.2	My cash collections have increased over the last three years					
11.3	My profits have been growing over the last three years.					
11.4	Each year we register an increase in sales volume					
11.5	Our production levels have increased					

Thank you for all your time and contributions in this research.

IMPACT OF MICROFINANCE SERVICES ON FINANCIAL PE...

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ABSTRACT The objective of this study is to explore the impact of Microfinance Services on the Financial Performance of SMEs in Kathmandu. This study uses both qualitative and quantitative methods within a descriptive and causal research design. This study also utilized findings from various prior research to establish a strong conceptual framework. The data were collected through questionnaire method from the respondents who use SMEs services in Kathmandu Valley of Nepal. The analysis of questionnaire data was conducted using the Statistical Package for the Social Sciences (SPSS), facilitating a comprehensive examination of the relationships between distinct psychological factors and entrepreneurial success. The variables used in this study include access to credit, saving mobilization, role modelling, financial skills and training. Correlation analysis of the data shows the positive relation between these independent variables and the dependent aligning with empirical evidence found in prior research. Regression analysis highlighted the collective and significant contribution of these variables such as access to credit, saving mobilization, Financial skill training, Role modeling in illustrating variations in performance of SMEs. The findings indicate that access to microfinance services plays a vital role in enhancing the financial performance of SMEs in Kathmandu. The findings revealed a significant positive correlation between access to credit and financial performance which explain that SMEs with greater access to credit tend to exhibit better financial performance outcomes. This underscores the importance of microfinance services in facilitating business growth and sustainability. Saving mobilization emerged as a key determinant of financial performance, with a strong positive correlation observed between saving mobilization and business success. SMEs that effectively mobilize savings are better positioned to invest in growth opportunities and manage financial risks. Key words: Access to Credit, Saving Mobilization, Role Modelling, Financial Skills and Training, Financial Performance of