

Chapter I

Introduction

1.1 Background

Throughout the world, poor people are excluded from formal financial systems. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in lesser developed countries. Absent access to formal financial services, the poor have developed a wide variety of informal, community-based financial arrangements to meet their financial needs. In addition, over the last two decades, an increasing number of formal sector organizations have been created for the purpose of meeting those same needs. Microfinance is the term that has come to refer generally to such informal and formal arrangements offering financial services to the poor (Banerjee et al, 2013).

Large businesses are not solely source of foundation of nation's economy. Micro and small enterprises have also uplifted many economies like USA and UK. Thus, strategic financial and counselling programs have been initiated by the government and non-government agencies to support these enterprises. A substantial amount of GDP and employment is provided by MEs and hub of majority of world economies are based on MEs (Sharma, 2004).

In Nepal, microenterprise is defined as an economic entity that carries the features of self-employment, self-managed, employing 1-9 person, fixed capital investment up to 200,000 excluding land, and building, no licensing required. Over the last two decades, microfinance has become the Darling Child of the development, providing a new means to poverty alleviation through the partnership with the poor (Ruban, 2001).

Microcredit has generated considerable enthusiasm and hope for fast poverty alleviation. In 2006, Mohammed Yunus and the Grameen Bank were awarded the Nobel Prize for Peace, for their contribution to the reduction in world poverty. In 2009, the Consultative Group to Assist the Poor (CGAP), an international organization housed at the World Bank and dedicated to accelerating financial inclusion, cited the following as contributions of microfinance for which there was already evidence: eradication of poverty and hunger, universal primary education, the

promotion of gender equality and empowerment of women, reduction in child mortality, and improvement in material health (Banerjee et al, 2013).

Sarumathi and Mohan (2011) defined microfinance is the provision of financial services to low income poor and very poor self-employed people. Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services.

Microfinance has existed, although mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades, however, the serious global efforts have been made to formalize financial service provision to poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum. Today there are thousands of MFIs providing financial services to an estimated 100-200 million of the world's poor (Christen et, al, 1995).

As per Rahman (1998), microfinance is a provision of a broad range of financial services such as deposits, loans, payments services, insurance products and money transfer to poor and low income households and their enterprises. Micro-finance is the provision of a broad range of financial services such as credit and savings to poor and low-income household and their micro enterprises. Microfinance has been seen as contributing not only to poverty reduction and financial sustainability, but also to a series of 'virtuous spirals' of economic empowerment, increased well-being and social and political empowerment for women themselves, thereby addressing goals of gender equality and empowerment (Mayoux, 1999).

Microcredit is given to the poor either to help them establish their new business projects or to help small entrepreneurs who already have their business to expand it and be more sustainable (Rogaly, 1996). Usually the duration of these kinds of loans are short-term, maximum two years, conditioned to be used in productive projects for example agriculture, industry, trading and not in consumption. Typically, the interest rates are higher compared to bank and financial institutions loans (Rosenberg et al, 2000).

As per Rao (2010), microfinance is a tool for poverty alleviation and improving socio and economic conditions of the poor. Micro Finance is a new method to meet the credit requirement in rural areas. Since the bank borrowing requires collateral and the deprived class does not have any type of such collateral, the success of Bangladesh Gramena Bank which was started by Prof. Muhammed Yunus, in the 1976 attracted the attention of Indian policy makers towards the micro credit and micro finance.

The small amount of credit extended by the financial institutions to the clients is used for establishment of microenterprise helpful in generation of self-employment. The micro-entrepreneurs generate revenue and make reasonable profit from business activities initiated after investment of microcredit. The profit so generated is use for business growth and portion is utilize for household needs, which results in reduction of poverty, improvement of quality of life and fostering social as well as economic empowerment of clients.

The rise of microfinance industry represents a remarkable accomplishment takes within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies, demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of social investment for the poor (Mutua, et al, 1996).

1.2 Statement of the problem

Nepal is a poor country heavily dependent on foreign employment. Private sector has not been able to provide significant employment opportunities to the mass of the poorer population. The poor people have not enough capital as well as link to formal financial sector as they require collateral for commencement of the small business. Our society is patriarchal so most of the women have low index of human development having very rare space of capabilities. Regarding this context of our country, microfinance services have helped the poor segment for employment generation to some extent. Also, there are some research which concluded that microfinance is not able to help the real poor.

Kohalpur Municipality is a mix society where indeginious tharu community with migrated chettri, Brahmin, magar, dalits and other castes live with tolerance. Here are various microfinance institutions providing services to the poor ones on the basis of social collateral.

They are providing microcredit services on some interest rate with repayment scheme on instalment basis. They are also providing saving services for their clients. It seems that microfinance has helped the people for doing business. Is the loan amount provided sufficient for doing business? How is interest rate affecting business performance? Has microcredit services really helping people for generating income, increase saving and increase their creditworthiness?

Most of research on micro financing is developed on issue of poverty alleviation and empowering of poor but there is very less shed light by researcher on Micro enterprise and micro entrepreneurship.

This study tries to find out the answer of the following questions

- Is microfinance provision effective to the small micro enterprises?
- What is the effect of microcredit services on performance of small enterprises?
- Is there any relation between extent of provision of microfinance and performance of small enterprises?

1.3 Objectives

The general objective of study is to examine the effectiveness of microfinance provision to Small Enterprises. The specific objectives of the study are as follows:

- To examine the effects of accessing microcredit services on performance of small enterprises
- To analyse the relationship between provision of micro finance and performance of small enterprises

1.4 Research hypothesis

The study set following hypothesis:

H1. There is significant association between loan size and business performance.

Coleman (1999) studied microfinance programs in Thailand and found out that those programs had insignificant or negative impact on the borrower's household wealth. According to him, the borrowers become even poorer because they had to turn to moneylenders to finance the repayment of the loan and lead the borrowers into a vicious cycle of poverty.

Otieno, Lumumba, & Alponce (2011) conducted a study in Kisii County in Kenya to assess the effect of provision of micro finance on the performance of microenterprises focusing particularly on microenterprises under Kenya Rural Enterprise Program (KREP). The study which involved a total of 86 enterprises, found out that the size of loan given to majority of borrowers was inadequately small to facilitate significant investment in businesses. The study also found out that loan amounts disbursed to the majority of applicants (respondents) were less than the amount they applied. The authors concluded that due to inadequately small loans, youth microenterprises were not able to grow to small and medium size enterprises. Based on these arguments, the study establishes the above hypothesis

H2. There is significant association between interest rate and business performance.

Microenterprise operators, especially in the developing countries, have limited access to credit from formal sources. Banks, which offer relatively low rates compared to MFIs and moneylenders, continue to favor large-scale business and neglect the poor potential entrepreneurs on the basis that have no the conventional collaterals to guarantee for the loan they request.

According to Roodman (2011), the impact of high interest rates has to be judged against the possible harm of poor people having no access to credit at all. Explaining why small loans should be attached to high interest rate; Rosenberg, Gonzalez & Narain (2000) noted lending \$100,000 in 1,000 loans of \$100 each will obviously require a lot more in staff salaries than making a single loan of \$100,000.

Ruban (2001) explained the reason why MFIs have to attach their loan with high interest rates. He argued that MFIs have to hinge the credit products with high interests so as to be able to meet

the high administrative costs associated with small loans. According to him, the interest rates of 30 to 50 percent or more offered by MFIs are low compared to that which is offered by local moneylenders. Loans with high interest rates can have devastating impact on the borrowers when the same are used to facilitate consumption than business investment (Morduch, 2000). For instance, women owners of microenterprises are likely to be unable repay loans with high interest rates given that they are tend to invest the borrowed money in other activities like health, education and basic needs than in business.

Morduch (2000) observed that the poor borrowers become poorer not richer and because their businesses do not produce enough profit to compensate for the high interest rates and that due to high interest rate, the poor do fail to repay loan and may fall into a debt trap (Morduch, 2000). In Tanzania, high interest rate on microloans has been found to constrain financial stability of microenterprises. Kayune, Urass & Mwakaloba (2005) identified high interest as one of the constraints against borrowing other than lack of collateral by the poor. However, poor people go on borrowing from MFIs in spite of the high interest rates. Engagement in loans with high interest rates means that borrowers would have little returns on their businesses the fact that will in turn limit business performance in terms of investment on assets, profit. On the basis of these arguments, the study establishes the above hypothesis.

H3. There is significant association between repayment period and business performance.

Generally, the beneficiaries of microcredit schemes, especially where Grameen banks solidarity group lending applies, experience short repayment time most often one week after loan disbursement. Mosley and Hulme (1998) noted that frequent repayment scheme is used by MFIs to reduce repayment insecurity. According to them, advantage of this scheme is that it screens out the undisciplined borrowers, thus giving early warning to loan officers and group members. However, short repayment period means that borrowers have to make returns before making any investment. In the same vein Wanambisi & Bwisa (2013) argued for tight repayment schedule showing that flexible repayment contributed to high default rate among microcredit clients in Bangladesh.

A study conducted by Roodman (2011) on the role of repayment period and business performance suggests that there is positive correlation between more flexible repayment period and business performance. Field & Pande (2008) conducted a study to evaluate the effect of weekly repayment in a microfinance institution called Village Welfare Society in Calcuta – India. In this study, borrowers were randomly assigned to one of three conditions: usual weekly reimbursement starting immediately after loan disbursement, monthly reimbursement, or weekly reimbursement starting a few weeks after the loan started. The findings revealed that the group which was given a gap of a few weeks was more likely to start a business, and when they started they were more likely to make a bigger investment than one that only started paying after a while. On the basis of these arguments, the study establishes the above hypothesis.

H4: Business age of the small business owner has significant impact on success of microcredit entrepreneurs.

Studies done by Brush & Harish (1991) indicated the significant and positive relationship between business age and the success of entrepreneurs. As suggested by those studies, experienced entrepreneurs are more likely to identify their potentials as well as the business opportunities. The ability to recognize the potentials and opportunities thus lead to higher earnings and satisfaction. In addition, the better the experience of the entrepreneurs, lead to the wider exposure of the business and success (Luissier & Pteifer, 2001). Based on the above arguments, the above hypothesis is developed

H5: There is significant association of the loan and saving services jointly on performance of small business.

Simeyo, Martin, Nyamao, Patrick & Odenado (2011) found that there is significant relationship between provision of microfinance services (loan & saving) and small business performance. There is positive correlation between microfinance services and small business performance. On the basis of this the above hypothesis is developed.

1.5 Significance of the study

The impact of microfinance on micro and small enterprise survival and growth has not been empirically tested in the literature, especially in Nepal. This study therefore becomes significant in filling gap by testing empirically the impact of the financial services offered by microfinance banks on small business performance in Nepal. The study contributes to the literature on microfinance and small business performance in Nepal and serves as reference for future research. The findings of the study will be helpful for planners and policy makers, government and local government bodies, I/NGO, microfinance institutions and academicians and students. This study will also be important for the future researchers who wish to conduct studies on this topic area.

1.6 Limitations

The major limitations of the study are as follows.

- The foremost limitation of this study is that this study is based on only financial services, that is, microcredit service and saving service of the microfinance .This study does not incorporate the non-financial services, that is trading and insurance service of microfinance.
- The study is based on the primary source of data. Therefore, the reliability of the conclusion of the study depends upon the accuracy of the information provided by the respondents.

1.7 Organization of the study

The whole study comprises three main sections: preliminary report, body and supplementary. The preliminary part comprises of title page, certification, acknowledgements, table of contents,

list of tables, list of figures, abbreviations used and executive summary. The body of the report includes five sections: introduction, literature review, research methods, data analysis and results and discussions, summary, conclusion and recommendations. The final section of the report consists of supplementary section including references and appendix as questionnaire and summary of responses.

The introduction section of the report includes the overall background of the study, problem statement, objectives of study, research hypothesis, significance of the study and limitation of the study.

The literature review of some major studies related to vicious cycle of poverty, microfinance and theoretical framework have been presented in chapter two. The literature for each section has been presented separately. The chapter further consists of theoretical framework which explains the relationship between dependent and independent variables with the presence of moderating variables.

Subsequently, the research methods used for the study has been explained in chapter three which comprises of research design, population and sample for study, nature and sources of data, instrumentation and procedures used for the study and the data analysis.

The fourth chapter is all about the data analysis and the results that derive the results obtained from the responses of the individual investors. The SPSS and MS-Excel software has been used for the data analysis and interpretation has been done accordingly.

The fifth chapter deals with summary, conclusion and recommendations of the study. The discussion part includes the integration of theory with that of the findings of the study, investigation of the study and drawing out conclusion and implications

Chapter II

Review of Literature

This chapter mainly focus on the related literature from various arenas such as articles of scholars, journal, books, reports. In this section different literatures are reviewed categorizing them into theoretical and empirical.

2.1 Theoretical Review

The theories relating to microfinance are reviewed under this heading such as concept of microfinance, women empowerment, models of microfinance, microfinance and small enterprises, informal sector, impact studies of microfinance on income.

2.1.1 Concept of Microfinance

Microcredit means provision of small amount of loan to very small businesses. The microcredit is provided by MFIs or NGOs to that poor section of community who lacks access to conventional financial system due to weak financial position. Stiglitz and Weiss (1983), MFIs provide small amount of credit on interest to the poor without any physical collateral. Instead, social collateral is introduced by forming groups. Loan repayment by an individual member of a group is the collective responsibility of all the members in the group and default by a member disqualifies all members to get new loans. Members in the group monitor the activities of each other and peer pressure induces the repayment of the loan. This format of peer monitoring mitigates the problem of asymmetric information and reduces transaction costs.

Gupta & Goetz (1996) explained microfinance as a field that focuses on providing a variety of financial services to the poor. Typically, individuals with very little income experience great difficulty in taking advantage of things like savings opportunities and insurance products. Often,

low incomes go hand-in-hand with a lack of collateral and credit, making it difficult for the poor to obtain loans, invest and enjoy insurance protection. Microfinance seeks to eliminate this problem, providing micro insurance, microloans, and other financial services to low-income people. Often, microfinance services are aimed at helping people to start their own businesses thus creating the opportunity for increased income and greater financial independence.

According to Mcpherson (1996) microfinance can be defined as formal schemes designed to improve the well-being of the poor through better access to saving services and loans. Literally, micro-finance means providing very poor people with very small loans to help them engage in productive activities or grow their small businesses. Micro-credit is the name given to small loans made to poor people who are regarded as bad financial risks by conventional banks, as they have insufficient savings or assets to obtain a loan. Despite the diversity of the definitions, the word "micro-finance" generally means small size loans with shorter repayment periods; its clients are small entrepreneurs and low income households; and the loans are used to generate income, develop enterprises and utilities by the community for social services, such as health and education.

Ledgerwood (1999) has highlighted financial services as savings, credit, insurance and payment services which are provided by the MFIs to its eligible clients. There are many activities and characteristics are included in microfinance. Some are: small and short-term loans; social collateral rather than financial collateral, access to larger amount of loan if repayment performance is positive; search and access the real poor and their business demand, continuous monitoring of business; loan on higher interest rates due expensive financial transactions and risk factor; easy way to access finance, therefore not too much paper work, and easy and short procedures; offering saving services to borrowers even for smallest amount, offer training services to borrower's business development; literacy training to borrowers so that they can come up with competence to daily business problems and its solutions; health care, social services and other skill training services to provide borrower a sustainable base for their business development (Ledgerwood, 1999).

Mayoux (1999) microfinance aims to break the cycle of entrapment. To do this, it relies heavily on the fact that, when individuals form into cohesive and durable groups, the risk of repayment

defaults by individual members is substantially reduced. The mutuality of the group rests on a policy of the lender: future loans will only be given if the group has a good repayment history. Therefore, group members can be relied upon to pressure any defaulting individuals or to make alternative arrangements in case of sickness or disappearance. For the lender, this policy significantly reduces both the cost of chasing bad debts and the scale of debt write-offs arising from persistent defaulters. Micro-finance therefore provides a way for banks to lend small sums of capital to the poor and landless people, thus enabling them to participate in economic activities that would otherwise be denied to them. In doing so, the more disadvantaged members of society are enabled to engage in entrepreneurial activities, increasing their own incomes to reduce poverty while at the same time loosening their dependence on traditional money-lenders; the poor therefore are empowered to escape from exploitative business relationships.

Rutherford (2000) explained that microfinance is aimed at providing financial services in small amounts. For example, it is possible for a person to benefit greatly from a loan of just \$50 USD. A bank would probably be uninterested in granting such a small loan and a low-income person could have great difficulty in securing the loan of a larger amount. In such a case, a needy individual might seek a loan from an unsafe source, accepting incredibly high rates and suffering from unfair lending practices. The individual could secure a loan at a reasonable rate, without suffering unfortunate consequence.

The key characteristic of microfinance is ability of securing microcredit without any collateral (Orlando & Pollack, 2000). Gomez & Santor (2001) described microfinance as banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, due to lack of sufficient collateral. Microfinance is a development tool that provides financial services and products to assist the very or exceptionally poor for enhancing or establishing their enterprises.

Mckernam (2002) defined microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high

quality financial services, including not just credit but also savings, insurance, health care and personal development and fund transfers. Those who promote microfinance generally believe that such access will help poor people out of poverty. The institutions providing such financial services are known as microfinance institutions.

Yunus (2003) opined that microcredit is based on the premise that the poor have skills which remain unutilized or underutilized and that it is not the lack of skills that makes poor people poor. Charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty, therefore, the solution to poverty is to unleash financial energy and help individual develop their creative capacity. Following these views, microloan may be seen as a new tool, a machine, or a shop in the marketplace. People have used small loans, known as microcredit, to launch new enterprises, create jobs and help economies to flourish. Yunus (2003) opined that these loans are character-based rather than collateral based.

Microfinance is a phenomenon that reflects the provision of credit and microloans to low income people in order to enable them to engage in productive economic activities that help them enhance their income (Chowdhury & Bhuiaaya, 2004). Microfinance is a wider concept than microcredit as it includes the provision of other financial services like saving funds and insurance services in addition to the provision of microcredit; however the two terms (microfinance and microcredit) are often used interchangeably (Khandker, 2005).

However, technically, micro-finance is a type of banking service that is provided to unemployed or low income individuals or groups who otherwise have no other means of gaining financial services (Hietalahti & Linder, 2006). Therefore, microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low income clients. Thus, micro-finance involves both micro-credits and micro-savings. Micro-credits refer to a small amount of money loaned to an individual or through group lending (Hietalahti & Linder, 2006).

Ogunrinola & Alege (2007), the importance of micro-finance lies in the fact that the formal institutional banking sector has not lived up to its social responsibility of meeting the financial needs of the poor due to various reasons such as: (i) lack of adequate branch network in rural

areas; (ii) the inability of the poor to offer satisfactory collaterals for the loans; and (iii) lack of education and awareness among the poor.

Sendi & Anderson (2009) defined microfinance as small-scale financial services that are provided to rural/informal small-scale operators for farming, fishing, trading, and building of houses and to engage in any other productive and distributive activities. Microfinance and micro financial institutions are intended to fill a definite gap in the finance market and the financial system respectively, to assist the financing requirements of some neglected groups who may be unable to obtain finance from the formal financial system. These neglected groups that constitute the target users of such microfinance are mainly in the informal sector of the economy and are predominantly engaged in small-scale farming, commercial/trading and industrial activities.

Sendi & Anderson (2009) found significant impacts of the effect of microcredit programs on alleviating poverty in Tanzanian. This was reflected in higher income, capital accumulation and employment among loan recipients. Positive impacts of microcredit have been found by Carreria & Silva (2010) who evaluated the impacts of microfinance institutions in rural Thailand. They found it to enhance asset growth, consumption smoothing and occupational mobility, while decreasing borrowers' vulnerability, also especially if women are the main recipients. In another study it was found that income, consumption and agricultural investment increased among recipients as well as overall wages levels in a village in Thailand.

As per Rao (2010) microfinance traces its origins to 1976, when Dr. Mohammed Yunus started a small microfinance scheme as an experiment in the rural areas of Bangladesh. The experiment evolved from its initial success into the Grameen Bank, the world's first microfinance institution, which popularized group lending, in which loans were issued to individual members of small, homogeneous groups, who collectively guarantee loans issued to their members. All members were barred from further access to credit in the case of default by one group member, providing strong incentives for the group to ensure repayment by each individual borrower.

As per Rao (2010), microfinance is a tool for poverty alleviation and improving socio and economic conditions of the poor. Micro Finance is a new method to meet the credit requirement in rural areas. Since the bank borrowing requires collateral and the deprived class does not have any type of such collateral, the success of Bangladesh Grameen Bank which was started by Prof. Muhammed Yunus, in the 1976 attracted the attention of Indian policy makers towards the micro credit and micro finance.

Naeem & Khan (2015) the small amount of credit extended by the financial institutions to the clients is used for establishment of microenterprise helpful in generation of self-employment. The micro-entrepreneurs generate revenue and make reasonable profit from business activities initiated after investment of microcredit. The profit so generated is use for business growth and portion is utilize for household needs, which results in reduction of poverty, improvement of quality of life and fostering social as well as economic empowerment of clients.

Paramanandam & Packirisamy (2015) have defined microfinance as the financial services provided to deprived group of people and micro-entrepreneurs for income generating activities and self-employment opportunities.

The imperfect information paradigm

Microfinance programs have been innovative in addressing the problems arising from imperfect information flows. Group monitoring, coupled with the small size and short duration of loans, help tide over the adverse selection and moral hazard problems that impact financial markets and institutions. The high interest cost drove away the safe, low-risk/low return borrowers giving rise to a 'lemons' problem (Akerlof, 1970).

The seminal work of Stiglitz and Weiss (1983) provided the analytical underpinnings of the imperfect information paradigm. In a world of rational agents where information is costly and imperfect, information asymmetry between loan applicants and the lenders, primarily banks, leads to strategic self-maximizing behaviour. It is the responsibility of the uninformed lenders (banks) to differentiate among the mass of informed borrowers to identify the most efficient among them. In the absence of information from borrowers that would reveal their true

creditworthiness, banks charge higher interest fees to offset the risks caused by this information asymmetry.

2.1.2 Microfinance and small enterprises

According to Bennett (1994), MFIs can offer their clients who are mostly below or slightly above the poverty line a variety of products and services. The most prominent services is financial, that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterates. Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral (farms) due to distance. The high lending cost is explained by the transaction cost theory. The transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan.

Orlando & Pollack (2000), MEs are viewed with different policy implication. First, due to lack of skills and unemployed ability labors are not able to employ in formal sector. So, in this perspective, ME are considered as underemployed or surplus labour. This view robustly focuses on high level of poverty. Second view presents labours are attracted to MEs just for its flexibility and earning opportunities. This view does not put poverty as necessary condition to choose MEs.

Improving the access to finance of small and medium enterprises is crucial in fostering entrepreneurship, competition, innovation and growth in both developing and developed countries. Gomez & Santor (2001) SMEs in both developed and developing countries are faced by difficulties in accessing sufficient and adequate capital to enhance further growth and development of their businesses. Small businesses have difficulties in accessing finance as many financial service providers consider them as high risk businesses which are mainly associated with high transaction costs and or low returns on investment. SMEs in Zimbabwe do create employment opportunities, generate income, contribute to economic growth and reduce poverty by serving as livelihood for the poor. Accesses to financial services however remain a very strong constraint to their growth and development despite their increasing roles.

The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings (Bhatt & Tang 2002).

MEs are propounded as major tool for poverty alleviation and employment opportunity for poor. It is regarded as one of the hottest anti-poverty strategies. Out of the blue, other criticized MEs and characterized MEs as low productivity and with given plenty of labor with low marginal productivity, low education levels ,small scale of operations and lack of adequate capital inputs. The MEs sector employs 50 to 70 percent of the manufacturing workforce in many developing countries but it contributes only 25 percent in the value addition (Parker and Praag, 2006).

An enterprise as sole proprietorship, partnership, or family business with low amount of credit needs is known as MEs. MEs are managed by low income, women or minorities; generally they are excluded from formal credits as they have poor credit histories inadequate collateral (Robinson, 2009).

Rahman and Ahmed (2010), micro and small enterprises are identified as those having fixed capital or the number of workers under certain threshold levels. Microenterprises constitute small businesses and shops, cottage industries, transport services, etc. Three broad categories of economic activities can be identified namely, production, trading, and providing transport services. In production, the poor may be involved in agricultural or non-agricultural activities. Agricultural activities include farming, cattle rearing, poultry rearing and fisheries. Non-agricultural production can cover a wide variety of activities ranging from food processing to producing different handicrafts and household items like pots, mats, cloth. Trading includes shop keeping, small business, and selling specific items like vegetables, fish. Providing transport services can be through rickshaws, boats, or motor vehicles used as taxis.

2.1.3 Informal sector

Informal sector has a handsome contribution to the GDP and significant role in employment creation, production and income generation. The World Bank proclaims 55.7 percent of total employment in Nepal is in informal sector. Informal sector enterprises typically comprehend these features Easy entry. Family ownership Small Scale operation Reliance on indigenous resources labor intensive technology Acquisition of skill outside the formal schooling system unregulated and competitive market (ILO, 2000)

Informal sector stands for unregistered, unregulated and untaxed business including service enterprise production activities and street vendor sales. Informal sector is self-organized energies of people escaping government strictures (Hart, 2001). As per Sharma (2004), informal sector gathers informal community-based organisations at different stages of institutionalisation, such as self-help groups and informal savings and credit organisations. Moneylenders, traders, friends and relatives can also be included in this group as they provide an informal source of finance used by the majority of the poor population in Nepal. Dhikuti are informal groups that pool funds to extend informal credit to their members.

Khandker (2005) observed microfinance supports mainly informal activities that often have a low return and low market demand. It may therefore be hypothesized that the aggregate poverty impact of microfinance is modest or even non-existent. If true, the poverty impact of microfinance observed at the participant level represents either income redistribution or short-run income generation from the microfinance intervention.

Swaim&Wallentien (2009) analysed the impact of micro-finance and opportunities to female micro entrepreneurs in the informal sector in Nairobi, Kenya with the objective of clarifying how micro-entrepreneurs have benefited from credit and financial services. The study showed the inter-relationship among social and economic empowerment. Income generating activities were necessary for women. Control over credit and business has shown as an important indicator of empowerment. Related activities play an important role for the success of any microfinance

program and their ability to contribute to women empowerment. Microfinance with neo-liberal priorities could help them for self-confidence and substantial tools to improve their lives. The most important part in effective microfinance is women's participation and the strengthening of their sense of responsibility. The author suggested that an explicit policy of empowerment and related activities need microfinance programs for women empowerment. The government should promote various opportunities and fight against the exploitative features of the informal sector.

2.1.4 Women empowerment

Empowerment of women means to allow women subsist and assent to them live a life with self-esteem, civilization, admiration and self-reliance. Kabeer (1997) notified that women's empowerment is the progression to obtain the ability of women to construct the strategic life preferences. Construct choices, gaining the capability, work out to bargain power, increasing a sense of self significance to protected preferred changes, belief in one's ability and the right to control one's life are vital fundamentals of women empowerment.

The Centre for Self-Help Development (CSD) also reported in Nepal that women were able to make small purchases of necessary items like groceries independently. But larger purchases and personal purchases, like jewellery always required the consent of the husband, representing incomplete progress toward empowerment in this area (Shrestha, 1998).

Mayoux (1999) women empowerment depends on certain factors related to household management and social uplift. As it helps to reduce poverty, millennium development goals can be realized. Most probably, women utilize their income on physical health of family, dietetic needs of household and education of children. It is obvious that women empowerment positively effects on children and household better-off in provision of food, expenditures and welfare. Men are often feeling satisfied about women's credit plan, and other income generating programs, because by these programs their wives don't demand money from them (Mayoux, 1999).

Women's ability to influence or make decisions that affect their lives and their futures is considered to be one of the principal components of empowerment by most scholars. It is much less clear, however, what types of decisions and what degree of influence should be classified as empowerment in different contexts. In spite of the difficulties, some microfinance institutions are finding ways to evaluate their impact on women's decision making. The Women Empowerment Programme in Nepal, for example, conducted a study that showed an average of 89,000 out of 130,000 or 68 percent of women in its program experienced an increase in their decision making roles in the areas of family planning, children's marriage, buying and selling property, and sending their daughters to school – all areas of decision making traditionally dominated by men (Ashe & Parrott, 2001).

Research done by UNDP, UNIFEM, and the World Bank, among others, indicates that gender inequalities in developing societies inhibit economic growth and development. For example, a recent World Bank report confirms that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard of their people (World Bank, 2001). The UNDP found a very strong correlation between its gender empowerment measure and gender related development indices and its Human Development Index. Overall, evidence is mounting that improved gender equality is a critical component of any development strategy.

Madheswaran & Dharmadhikary (2001) women's empowerment was based on economic and financial empowerment but now its concept has been wider which involves Psychological, intra home relational, Socio cultural, legal and political aspects. Copestake (2002) defined women empowerment through microfinance is identified and measured in various dimensions: impact on decision-making, on self-confidence of women, on their status home, on family relationships and the incidence of domestic violence, on their involvement in the community, on their political empowerment and rights.

Ngo & Wahhaj (2012) micro-finance groups are seen as contributing to building 'social capital' through developing and strengthening women's networks. This building of 'social capital' is then seen as potentially leading to women's collective empowerment. It is further assumed that

support for female entrepreneurs will increase women's employment more generally, tapping an underutilized resource for economic development. Microfinance programmes are seen as an entry point or complement to community development programmes like literacy, health and family planning, decreased household vulnerability and women's role in achieving this are assumed to lead to higher status for women in the household and greater well-being for women and their children. Economic growth can be obtained by giving importance to gender equality; because by promoting gender equality we are empowering women to contribute more in economic growth (Zahoor & Muhammad, 2015).

2.1.5 Impact studies of microfinance on income

The impact of microfinance on income has been analyzed at the individual, household and enterprise levels. Mosley and Hulme (1998) conducted various studies on different microfinance programmes in numerous countries and found strong evidence of the positive relationship between access to a credit and the borrower's level of income. The authors indicated that the middle and upper poor received more benefits from income-generating credit initiatives than the poorest. Mckernan (2002) evaluated three significant microcredit programmes in Bangladesh and discovered that the profit for self-employed activities of households could be increased by programme participation.

Copstake (2002) estimated the effect of an urban credit program – a group-based microcredit program in Zambia- and found that microcredit has a significant impact on the growth in enterprise profit and household income in the case of borrowers who have received a second loan. These programmes were also examined at the village-level, Khandker (2005), showed that microloan have a positive impact on average households annual income, especially in the rural non-farm sector.

2.1.6 Models of microfinance

Musso and Schaivo (2008), there are different kinds of microcredit programmes however in general microfinance institutions offer credit either through joint liability group lending or individual-based lending. The individual lending model is close to the banks model where there is a direct relationship between the programme and the loan holder, whereas the group lending model a group of borrowers are responsible for loan repayments. In this case if one of the group members does not repay the loan the others group members have to contribute otherwise the whole group will be deprived future access to loans from the programme.

Individual model

Ledgerwood (1999), individual lending is defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. Individual lending requires frequent and close contact with individual to provide credit products tailored to the specific needs of the business. It is most successful for larger urban-based, production-oriented businesses who have some form of collateral or a willing co-signer. In rural areas, individual lending can also be successful with small farmers.

As per Bateman (2013), individual lending model is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment. The individual model is, in many cases, a part of a larger 'credit plus' programme where other socio-economic services such as skill development, education, and other outreach services are provided.

The grameen solidarity group model

Sharma & Zeller (1997) the Grameen Bank's model arises from the idea of imperfect information paradigm. Along with its vision of empowering the poor, has drawn widespread recognition in recent decades and is being adopted by many countries around the globe. The model evokes union and feminist traditions in its formulation of the "solidarity groups" through which women receive credit collateralized by "group guarantee" rather than by tangible assets. Solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organisations such as the Grameen Bank, who use this type of microfinance model. They also highlight the fact that this model has contributed to broader social benefits

because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network.

As per Klonner (2003) in grameen model, primary unit to whom lending fund is a group of 5 members that organize and apply for loan. In first round, loan is granted for two members to invest in their business. If these two members become successful to repay amount, then four to six weeks later, next two members are granted for loan. Last one member will be eligible for loan if previous two repay loan successfully. Repayment of loan open door for next loan and then go on if all members repay loan successfully. If anyone of group member will default in her loan, whole group will disqualified for further loan. So this rather to financial collateral, social collateral is involved

The Grameen microcredit model is thought to be bottom-up, fulfilling the credit requirements of the marginalized people who, otherwise ignored by the banks, would engage in micro-entrepreneurial activities. This, in turn, would contribute to increase their production, income and consumption, and make a positive impact on the overall socio-economic development of the country by reducing poverty and bringing entrepreneurial development(Mosley & Rock, 2004).

Credit unions

A credit union is a unique member-driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest. The members are people of some common bond: working for the same employer; belonging to the same church, labour union, social fraternity or living/working in the same community. A credit union's membership is open to all who belong to the group, regardless of race, religion, colour or creed. Microfinance triangle comprise of financial sustainability, outreach to the poor, and institutional impact. There are costs to be incurred when reaching out to the poor and most especially with small loans (Christen et al, 1995).

The financial institutions always try to keep this cost as minimum as possible and when the poor are in a dispersed and vast geographical area, the cost of outreach increases. The provision of financial services to the poor is expensive and to make the financial institutions sustainable requires patience and attention to avoid excessive cost and risks (von Pischke, 1996). The deliveries of MFI products and services have transaction cost consequences in order to have greater outreach. Some microfinance institutions visit their clients instead of them to come to the institution thereby reducing the cost that clients may suffer from. For MFIs to be sustainable, it is important for them to have break-even interest rates. This interest rates need to be much higher so that the financial institution's revenue can cover the total expenditure (Mosley&Hulme, 1998). The break-even rate which is higher than the market rate is defined as the difference between the cost of supply and the cost of demand of the products and services.

Village banking model

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups and help members accumulate savings (Holt, 1994).

Mosley &Humble (1998) stated that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Pitt & Shahidur, 1998).

Rotating savings and credit associations

Klonner (2003), rotating saving and credit associations are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle .This model is a very common form of savings and credit. Klonner (2003) stated that the members of the group are usually neighbours and

friends, and the group provides an opportunity for social interaction and are very popular with women. They are also called merry-go rounds or Self-Help Groups

2.2 Empirical Review

Hulme (2000) reviews the methodological options for doing impact assessments identifying three broad approaches: the scientific method (principally control-group surveys), the humanities tradition (ethnography and other qualitative methods), and participatory learning and action (participatory qualitative tools that include, for example, participatory rural appraisal, rapid rural appraisal, and farming systems research). He concludes that an optimal impact assessment mechanism should be a mix of the different methods for a fit between assessment objectives, program context, human resources and timing.

Analyzing MFIs in Nepal, Bhatta (2001) concludes that due to the topology and extreme poverty levels in Nepal, it will be difficult for MFIs to have any meaningful impact on poverty. Nonetheless, he goes on to suggest that MFIs should expand into the hill and mountainous areas and target women so as to increase the probability of success.

Brau&Woller (2004) survey 73 MFIs in the US and developing countries on their impact evaluation practices. They find that the sampled institutions regularly evaluated their programs, albeit using inexpensive and unscientific methods, regularly monitored project performance, saw evaluation as vital, used findings to implement project changes, and sought formal feedback from clients. The survey findings also shed light on the role played by various stakeholders in the evaluation process.

Simeyo, Martin, Nyamao, Patrick & Odondo (2011) evaluated the effect of provision of microfinance on the performance of youth micro enterprises. The research methodology was multiple regression analysis, Pearson correlation. The survey was conducted through structured questionnaire on 110 youth microenterprises owner. They concluded loan characteristic had the

largest significant effect on performance of micro enterprises, followed by trading in microenterprise investment and saving mobilization had least but significant effect provision of microfinance has a significant effect on the performance of microenterprise in Kenya.

Olowe, Moradeyo&Babalola (2013) investigated the impact of microfinance on SMEs growth in Nigeria. They used Pearson correlation coefficient and multiple regression analysis. Their conclusion was the financial services obtained from MFIs have positive significant impact on SMEs growth in Nigeria. The results also revealed that duration of loan has positive impact on SMEs growth. High interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Nigeria.

Wanambisi&Bwisa (2013) investigated the effects of microfinance institutions lending on micro and small enterprises performance within Kitale Municipality. The researcher used multivariate logistic regression as methodology. The size of sample was 120 SMEs owner from them data was collected from questionnaire. The research study has established that respondents preferred MFI loans because collateral is not required unlike bank loans. The study found that majority of those who access loans reported that they could repay loans plus interest from business activities. The study indicated a strong positive significant relationship between the amount of loan and performance of SMEs increase in income/sales.

Salia&Mbwambo (2014) examined the effects of four credit characteristics including size, interest rate, repayment period and borrowing experience on business performance namely sales revenue, net profit and business net worth. Their methodology were bivariate correlation and multiple regression. The findings revealed that size of credit was positively correlated with total sales revenue and business net worth at significant level. Interest rate was negatively correlated with all three measures of business performance indicators at significant level. Furthermore, the study established that borrowing experience was positively correlated with total sales revenue at significant level but not with other two indicators.

Kireti&Sakwa (2014) assessed the socio -economic effects of microfinance services on Women in Kenya. The data were collected through self-administered questionnaire. They concluded access to microcredit services increased income level, increased stock, and output of the enterprises as well as increased expenditure on health and education services. The availability of

micro-saving services to women increased capital resources to cater for education and health care services.

Laetitia, Shukla, & Luvanda (2015) assessed the business growth level of selected SME's in Kicukiro District before and after acquiring Microfinance services and analysed the contribution of microcredit on business growth of selected Women SME's in Kicukiro District. The research methodology comprised of Pearson correlation coefficient. They concluded that business performance before micro finance loan was fair which means that the entrepreneurs needed microfinance loan in order to promote business performance. In spite of high interest rate on loan amount, the business performance in term of profitability, growth, income increased after taking loan.

Naeem, Khan, Sheikh Ali, & Hassan (2015) explored the impact of microcredit on women enterprises. They administered questionnaire method to 60 female beneficiaries who availed microfinance for two year or more prior to survey and compare with 20 new clients. They concluded microfinance has positive impact on the creation of microenterprises. Beneficiaries business income increased after taking loan from microfinance.

Terana, Mohamad & Jusri (2015) assessed the factors that contribute the effectiveness of microcredit to small business and examine the determinants of total income after joining AIM program. The research method employed were descriptive analysis, factor analysis and multiple linear regression. Hundred recipients of AIM microcredit program loan. Factor analysis found four dimension of effectiveness in the microcredit program such as earning ability, payment scheme, member's cooperation, and wellbeing. Similarly regression analysis identified 3 variables that significantly influence the total income of small business after joining program. These variable are duration of loan received, loan amount and no of employee.

Chapter III

Research Methods

This chapter presents the procedures that were used to collect and analyse the data for the study. This chapter deals how the study was carried in order to test the hypothesis to fulfil the objectives of the study. This chapter includes the research design, population and sample, nature and source of data, instruments, data collection method, theoretical framework and method of analysis.

3.1 Research design

This study is based on the descriptive and analytical research design based on the data collected through the survey. Descriptive research design helps to describe the basic features of the data in the study. Additionally, analytical research design helps to examine the role of microfinance financial services and small business owner's educational level on the business performance. Exploratory research is used to explore the dimension of effectiveness in microcredit program on the small business. Data has been analysed quantitatively using descriptive statistics. The tabulation and different statistical tools have been used to analyse and to find out the needed result. A self-administered questionnaire has been used to gather the information through primary sources.

3.2 Population and sample

The population of this study comprises of all those small enterprises owners in Kohalpur Municipality, Banke District Nepal who have taken loan from Micro finance institutions to start business or to support existing business. There is no formal organization which provides information regarding exact number of microfinance clients who have taken loan for business purpose. The small business owners may be engaged in two or more microfinance institutions or might have taken loan for business purpose from more than one microfinance institution. So, the exact size of population of the study is not known.

ChhimekiBikas Bank, ShawalambanlaghuBittaBikas Bank Limited, Madhya PaschimanchalGrammenBikash Bank Ltd, NirdhanUtthan Bank Ltd, MahilaUppakarBikash Bank, Sana KisanBikash Bank Ltd, forward community microfinance, SawadeshiBikas Bank and PaschimanchalGrameen Bank are the microfinance operating in Kohalpur Municipality. SanaKiasn bank did not include in this study because it provides only loan to the agriculture based enterprises it does not provides loan to the trading and service based enterprises. All those small enterprises owners who have taken loan for business purpose are the population for the study.

For the appropriate sample size, references were taken from Khan (2012) sample size in his study was 70 SME; Naeem, Khan &Hussan (2015) sample size in their study was 60 female owned small enterprises; and Chowdhury &Bhuiyaaya (2004) sample size in their study was 64 small enterprises who had taken loan from microfinance intuitions for business purpose. So, with the reference to these studies, it is believed that the sample size of 61 small business owners (clients) was appropriate for this study. So, the sample size for the study was comprised of 61 small business owners (clients) who had taken loan from microfinance institutions for business purpose. Clients are selected from the list obtained from ShawalambanlaghuBittaBikas Bank Limited, Madhya PaschimanchalGrammenBikash Bank Ltd, NirdhanUtthan Bank Ltd, MahilaUppakar Munch Ltd. The sampling technique used for this study is sample random sampling method.

3.3 Nature and source of data

This study was based on primary data. Primary data were obtained by conducting questionnaire survey from selected sample of microfinance clients. Questionnaires with close ended questions were distributed to collect the information from investors. Data obtained from questionnaire was quantitative in nature.

3.4 Instruments

Questionnaire for the study was developed by combining the questionnaire from Olowe, Moradeyo&Babalola (2013); Salia&Mbwambo (2014); Terano, Mohamed &Jursi (2015) and Simeyo et al. (2011).

Question related with the demographic variables and microcredit characteristics (loan amount, interest rate, loan repayment period, timeliness in loan processing, loan repayment status) type of business were taken fromSharma (2004). Furthermore,likert scale question related with loan characteristics, saving mobilization and business performance were constructed from Simeyo et al. (2011).

The questionnaire was divided into three sections. The first section included general introduction regarding the study and questionnaire, the second section included demographic variables (gender, age, level of education) and the last section included the questions required for the study.

For the second part of the questionnaire, i.e., personal information, nominal and ordinal measurements were used. Likert Scale was used because it was found to be mostly suitable for measuring people's views, opinions and perceptions. The statements on the Likert Scale were expressed on a five-point scale which asked respondents to indicate the extent to which they agreed with the statements ranging from strongly agree (SA), agree (A), uncertain (U), disagree (D) and strongly disagree (SD).

In order to test the comprehensiveness and trustworthiness of the questionnaire, pilot survey was done among 10 small business owners. The final questionnaire for this study was drafted after pre-testing the questionnaire among 10 respondents of two microfinance institutions clients (NirdhanUtthan Bank Ltd,ShawalambanlaghuBittaBikas Bank Limited), and statistical analysis was by using SPSS software. They were filled in a self-administered manner. In this regard, they were formulated in English and translated into Nepali to make them understandable to respondents.

3.5 Data collection method

Self-administered method of questionnaire is used for the data collection. Based on the lists of clients obtained from the microfinance institutions, a final list of clients of microfinance was prepared. After that the name lists were arranged in the alphabetical order then respondents were selected randomly from the final list. Questionnaires were filled by visiting respondents on their enterprise address.

3.6 Theoretical framework

The entire analysis and interpretation of this study was based upon three different types of variables i.e. dependent variable and independent variables and moderating variable.

In this study, provision of microfinance financial services were taken as independent variables while small enterprise performance was taken as dependent variable and business age was taken as moderating variable.

The theoretical framework developed for the study can be presented as follows

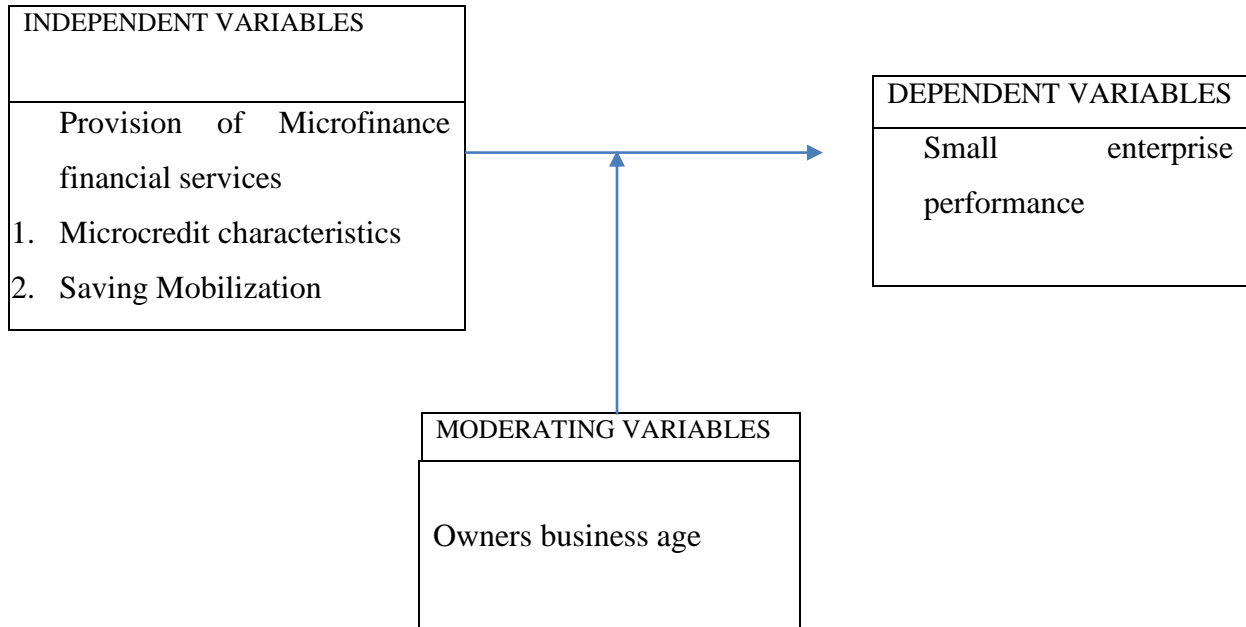


Figure 1. Theoretical Framework

3.6.1 Dependent variable

Business performance of small enterprises is taken as dependent variable. Increase in revenue, increase in saving and improvement in creditworthiness are the indicators of the small enterprises success which are depended on the microfinance provision. In this research the average of income, saving and creditworthiness of small business entrepreneurs have been calculated from their horizontal summation using Ms-Exel to determine the business performance. Each of the three components are given equal weightage(i.e one third).

3.6.2. Independent Variables

In this study, provision of microfinance financial services were taken as independent variables.

Microcredit characteristics

Weber (2009) described microcredit programs as the provision of small loans to individuals, usually within groups, as capital investment to enable income generation through self-

employment. Weber added that the poor's businesses were seen as a symbol of unmet demand for credit and on the other hand poverty was thought to be the result of market failure: ...Market imperfections, asymmetric information and the high fixed costs of small-scale lending, limited the access of the poor to formal finance, thus pushing the poor to the informal financial sector or to the extreme case of financial exclusion.

Credits are also claimed to create economic power that would generate into social power, lifting the poor out of poverty (Yunus, 1976). Moreover, it is also argued that microcredit enhances human capital regardless of poverty level because expenditures on education and health care are increased, which may then extend to poor individuals through intra-household and inter-generational effects (Mosley & Rock, 2004) . Micro credit characteristics are: loan amount, duration of loan, repayment of loan, time taken for processing the loan, loan interest.

The capability of borrowers to repay their microcredit loans is an important issue that needs attention. Borrowers can either repay their loan or choose to default. Borrower defaults may be voluntary or involuntary (Burgess and Pande, 2005). According to Carpenter & Peterson (2002), involuntary defaults of borrowed funds could be caused by unexpected circumstances occurring in the borrower's business that affect their ability to repay the loan. Unexpected circumstances include lower business revenue generated, natural disasters and borrowers' illness. In contrast, voluntary default is related to morally hazardous behaviour by the borrower. In this category, the borrower has the ability to repay the borrowed funds but refuses to because of the low level of enforcement mechanisms used by the institution.

Mobilization of saving

Khandker (2005) while credit has been the traditional focus of microfinance institutions (MFIs) and donors; the importance of micro-savings programs for the poor is gaining recognition within the microfinance literature. Traditional savings schemes – Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), deposit collectors, cash hidden in the home – have been granularly explored by development practitioners.

Mosley & Rock (2004), microfinance savings services are seen as a means of securing savings and of encouraging the poorest to save more and more systematically. Rogaly (1996) argued that

with savings, households can build up assets to use as collateral, smooth seasonal consumption needs, self-insure against major shocks and self-finance investments. Saving mobilization characteristics are: saving services, frequency of saving deposits, use of saving pattern for credit worthiness assessment.

3.6.3 Moderating variable

The moderating variable is one that has contingent effect on the independent and dependent variables relationship. Business age was the moderating variable for the study.

Business Age

There is a relationship between business age and small business performance. Business age had been categorized into less than one year, one to two years, two to three years, three to four years and more than four years.

3.7 Methods of analysis

The data obtained from the questionnaire response were processed and analyzed using the SPSS and MS -excel software. The data were entered by using codes with the help of SPSS software. After that, statistical tools like descriptive statistics, Chi-square test, ANOVA, correlation and regression analysis for the dependent and independent variables was used.

3.7.1 Descriptive statistics

Descriptive statistical analysis tools will include tables, frequency tables, percentiles which were used to describe the obtained results. The demographic variables have been analysed using this tool.

3.7.2 Chi-square test for independence

Chi-square test is a nonparametric statistical test analysing method often used in experimental work where the data consists of frequencies, counts or percentages. It can be used to determine

whether two or more classifications of the samples are interdependent or not. Pearson chi-square test for independence was applied to check the association between extends of provision of microfinance services and business performance.

3.7.3 ANOVA

Analysis of variance (ANOVA) is a statistical model used to analyse the differences among group means and their association procedures (Such as variation among and between groups analysis. ANOVA provides a statistical test of whether or not the means of several groups are equal, and therefore generalizes the t- test to more than two groups. ANOVAs are useful for comparing (testing) three or more means (groups or variable) for statistical significantly different. Thus, F statistics is a value that helps to find out if the means between two populations are significantly different. In this study F statistics have been used to find out the significant different.

3.7.4 Cross tabulation

A cross -tabulation is a two (more) dimensional table that records the number (frequency) of respondents that have the specific characteristics described in the cells of the table. This table provides a wealth of information about the relationship between the variables. It helps to understand how two different variables are related to each other. In this study, Cross tabulation between loan amount and business performance, loan repayment period and business performance and business age and business performance with Chi -square test have been done.

3.7.5 Multiple regression models

The multiple regression linear regression analysis is used to establish the relationship and magnitude between micro finance provision (Independent variables) and performance of small enterprise (Dependent variable).

Model 1 specification (Microcredit and Small business performance)

$$B_p = \alpha + \beta_1 L + \beta_2 R + \beta_3 I + \varepsilon$$

Where, B_p = Business performance, α – Constant (Autonomous performance), L – Loan, R – Loan repayment period, I – Interest on loan, $\beta_1, \beta_2, \beta_3$ – Coefficients of Independent variables and ε – Error term. This model was used by Olowe (2010), Moradeyo & Babalola (2013); Salia & Mbwambo (2014) and Terano, Mohamed & Jursi (2015).

Model 2 specification (Business age, microcredit and Small business performance)

$$B_p = \alpha + \beta_1 L + \beta_2 R + \beta_3 I + \beta_4 A + \varepsilon$$

Where, B_p = Business performance, α – Constant (Autonomous performance), L – Loan, R – Loan repayment period, I – Interest on loan, A – Business age, $\beta_1, \beta_2, \beta_3, \beta_4$ – Coefficients of Independent variables and ε – Error term.

Model 3 specification (Provision of microfinance financial services and small business performance)

$$B_p = \alpha + \beta_1 L + \beta_2 S + \varepsilon$$

Where, B_p = Business performance, α – Constant (Autonomous performance), L – Loan, S – Saving Mobilization, β_1, β_2 – Coefficients of Independent variables and ε – Error term. This model was used by Simeyo et al. (2011) and Rotichet et al. (2015). Hypothesis H5 was tested through model 3 regression model.

Chapter IV

Analysis and Interpretation of Data

This chapter presents the analysis of the data collected to fulfill the objectives of the study and to test the hypotheses presented in chapter one. The chapter deals with data background to have an overview of the surveyed data which includes analysis of respondents' profile. It is descriptive in nature and the researcher has use the tools such as pie-chart, bar diagrams for the clearer view of

data. It is followed by the description of the type of business operated and table is used for vividness.

The chapter deals with the analysis of microcredit characteristics such as loan amount, sufficiency status, repayment status and utilization of the loan amount with the help of frequency and percentage table. To see the relationship of the dependent variable (small business performance) with independent variables such as loan characteristics components separately, cross tabulation is used with chi-square analysis. The influence of moderating variable business age on the small business performance is also analyzed by the same method of cross tabulation.

The further analysis is done with the help of multiple linear regression model to see the relationship between dependent variables (small business performance) and independent variables. Model 1 regression analysis is done to see the influence of microcredit characteristics namely loan size, repayment period, and interest rate on the small business performance. Model 2 regression analysis is done to see the influence of microcredit characteristics along with moderating variable business age on small business performance. The relationship between microfinance services and small business performance is seen through the help of correlation analysis. Further to see the effect of microfinance services on the small business performance multiple linear regression model 3 is used for the analysis.

4.1 Small business owners profile

The demographic factors have been taken into consideration for the background study of the small business owner. This section explains the demographic characteristics of the respondent. In this section, the respondents profile has been analyzed in terms of gender, age, marital status, and educational background. Table1 shows the percentage of respondents according to their gender and marital status.

Table 1: *Profile of the respondents by gender and marital status*

Characteristics		Frequency	Percentage
Gender	Male	3	4.9
	Female	58	95.1
Marital status	Married	57	93
	Unmarried	1	2
	Divorced	1	2
	Widow	2	3

Table 1 shows that out of the total sample, 95.1 percent respondents are females and only 4.9 percent respondents are males. The most of the respondents are therefore women, which further confirms the fact that most beneficiaries of microfinance credit facilities are female. It also can be said that there may be the role of microfinance institution on the empowerment of women as it opens many avenues for economic activities. Due to participation of women in economic activities through the help of microfinance it may change the traditional decision rule to some extent.

The table shows the marital status of respondents in percentage. The profile based on the marital status shows that 93 percent of the total respondents are married, 2 percent of the total respondents are divorced and 3 percent respondents are widow and 2 percent of the respondents are found to be unmarried. Very few of the beneficiaries of microcredit is unmarried. So, the majority of respondents are married.

Table 2: *Profile of respondents by age and education*

Characteristics		Frequency	Percentage
Age	25-29	10	16.4
	30-34	25	41
	35-39	17	27.9
	40-44	6	9.8
	45 above	3	4.9

Education status	Illiterate	8	13
	Primary	8	13
	Lower secondary	20	33
	Secondary	20	33
	Higher secondary	5	8

Here, the table 2 presents the distribution of respondents in terms of age. Out of total respondents, the majority of respondents fall in the age category of 30-34, this accounts for 41 percent of the total respondents and followed by the age category of 35-39 that is 27.9 percent, age category of 25-29 that is 16.4 percent and age category of 40-44 that is 9.8 percent. There are 4.9 percent of respondents of the age category more than 45 years of age. Large proportion of respondents fall in the age category of 30-39, 67.9 percent respondents fall in this age category. According to the figure 4, all respondents fall within the economic active age group, that is age group of 25 – 54 years which entails that energetic, and mature population groups are engaged in microfinance.

Likewise, education level of respondents was also taken into account in order to find out levels of education of respondents surveyed in Kohalpur. The table 2 also presents the literacy status of the respondents where 87 percent of the respondents are literate and have formal education and just only 13 percent respondents are illiterate.

The table 2 also illustrates that 13 percent of the total respondents have primary education while 33 percent of respondents have qualification of lower secondary being the largest group. Similarly, 33 percent of respondents have quantification of secondary level which also accounts as the largest group together with lower secondary level. 8 percent of the respondents have qualification of higher secondary level which is least among all and majority of respondents have academic education up to lower secondary and secondary level.

4.2 Type of business operated

There are three categories of enterprises undertaken by the respondents namely based on trading, agriculture and service. Table 3 shows the frequency and in percentage of different categories of enterprises undertaken by respondents.

Table 3: Type of business operated

Type of Business	Frequency	Percent
Trading	32	52.5
Grocery shop	16	26.2
Vegetable shop	5	8.2
Street vendor	9	14.8
Fancy	2	3.3
Agriculture	18	29.5
Vegetable farming	6	9.8
Poultry farming	2	3.3
Livestock keeping	10	16.4
Service	11	18
Tailoring shop	4	6.5
Rickshaw	1	1.6
Hair cutting	1	1.6
Meat shop	2	3.3
Beauty parlor	3	5
Total	61	100

Table 3 depicts that there are 3 categories of enterprises undertaken by the respondents namely based on trading, agriculture and service. The majority of respondents have made investment in trading based enterprises (52.5 percent), is followed by agriculture based enterprises 29.5 percent and service based enterprises 18 percent. Out of total respondents based on trading business, sixteen have grocery shop, five have vegetable shop, nine are street vendor, and two have fancy shop.

Out of eighteen respondents' based on agriculture business, two respondent have made investment in poultry farming, six respondents have invested in vegetable farming and remaining

ten respondents have made investment in livestock keeping. It is seen that people of Kohalpur Municipality are interested in livestock farming. It may be the reason due to access of forests through community forestry.

Similarly, out of eleven respondents based on service, four respondents have made investment in tailoring shop, one respondent made investment in rickshaw, one respondent made investment in haircutting and three respondents made investment in beauty parlour. In sum, it is clear from the given table that most beneficiaries of microcredit are engaged in the trading based enterprises.

4.3 Micro credit loan amount

The respondents were asked question related to microcredit characteristics. The questionnaire includes loan amount, sufficiency status, arrangement of extra fund, repayment period.

Table 4: *Loan amount*

Loan amount	Frequency	Percent
UptoRs 50,000	8	13.1
Rs 50,001-100,000	16	26.2
Rs 100,001-150,000	18	29.6
Rs150,001-200,000	11	18
Rs 200,001-250,000	7	11.5
Above 3,00,000	1	1.6
Total	61	100

Table 4 shows that the amount of loan borrowed from the microfinance institutions ranges from below Rs. 50,000 to above Rs. 300,000. Out of total respondent, 29.5 percent of respondents have a loan size in the interval of 100,001 -150,000 while 26.2 percent of respondents have a loan size in the interval of 50,001-100,000. Similarly, 18 percent of respondents have a loan size in the loan interval of 150,000-200,000. Likewise, 13.1 percent of respondents have a loan size in the loan interval of up to 50,000. Similarly 11.5 percent of respondents have a loan size in the loan interval of 200,001-250,000. Respondents having loan size above 300,000 is least in percentage among all which is only 1.6 percent. The loan size of a large majority of respondent (68.9 percent) fall in the loan interval of 50,001 to 150,000.

Only few respondents (31.1 percent) have loan size of more than 150,000. Respondents used these loans either, to start a business or expand an existing one. In sum, it is clear from the given table that the small amount of credit extended by the Microfinance institutions to the clients is used for establishment of microenterprise and helpful in generation of self-employment.

Table 5: *Sufficiency of Loan Amount*

Sufficiency status			Arrangement of Extra fund		
Frequency	Percent			Frequency	Percent
Yes	55	90.2	Not managed	2	33.3
No	6	9.8	Borrowed from money lenders	3	50
Total	61	100	Borrowed from other institutions	1	16.7
			Total	6	100

Table 5, depicts that 90.2 percent of the respondents had get sufficient amount to finance the business, just only 9.8 percent of the respondents did not get total applied amount.

Out of total respondents who did not get sufficient amount form microfinance, majority of respondents made arrangement of extra fund from informal sector that is 50 percent made arrangement of additional fund by borrowing from moneylenders, 16.7 percent made arrangement of extra fund from other institutions which implies that they are engaged in more than one microfinance institution. Similarly, 33.3 percent did not seek any other source for meeting the deficient amount.

Table 6: *Repayment status*

Difficulties in repayment of installment	Frequency	Percent
Yes	11	18
No	50	82
Total	61	100
Cause of difficulties in repayment of installment		
Partial operation of the business	3	27.3
Failure of the business	4	36.4
Use of loan for household consumption	2	18.2
Interest and principle period is short	2	18.2
Total	11	100

Table 6 shows that 82 percent of the respondents considered loan repayment installments as convenient to them and had no problem in meeting the repayment schedule, while 18 percent of the respondents answered that they had problem in meeting the repayment schedule.

Out of total respondents who had problem in meeting the repayment schedule, 36.4 percent answered that the cause of the difficulties in repayment of installment was due to failure of the business. 27.3 percent of respondents among whom have faced difficulties in repayment of loan was due to partial operation of business. The cause of difficulties in repayment of loan for 18.2 percent out of eleven respondents was due to use of loan for household consumption. Similarly, 18.2 percent of respondents among whom faced difficulties in repayment of installment said the cause was interest and principle period is short.

Utilization of Loans Accessed from MFIs

SMEs must ensure that the loans they receive from MFIs are used solely for business purposes in order to reap the benefits of the loans in their businesses.

Table 7: *Utilization of MFI loan*

Utilization solely for business	Frequency	Percent
Yes	51	83.6
No	10	16.4
Total	61	100

As depicted in table 7 above, out of total respondents, 83.6 percent pointed out that they had used the loans as they applied solely for business purposes while only 16.4 percent argued that they did not use loan solely for business purpose. The result implied that most SMEs utilized the loans granted by MFIs effectively for business purposes. However, this result is contrary to Coleman, 1999 who asserted that MFIs loans were not effectively utilized by borrowers as women borrowers end up in a vicious cycle of debt as they used the money from the village banks for consumption purposes and they were also forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans.

4.4 Small business performance with respect to loan characteristics

This section analyzes the relationship between micro loan characteristics and small business performance. The microloan characteristics included in the study are loan amount, repayment period and interest rate. The relationship between microloan characteristics and small business performance is tested using Pearson chi-square test and results are analyzed in the tables. The significance level is set at 5 percent. It is then compared with p-value, if p-value is less than α , it can be concluded that there is significant relationship between microloan characteristics and small business performance.

Table 8: *Small business performance with respect to loan amount*

Within amount	Loan	Agree	Neutral	Disagree	Total	Pearson Chi Square	Asymp. Sig. (2-sided)

UptoRs 50000	11.5%	0%	1.6%	13.1%	15.487	0.005
Rs 50001-100000	14.8%	8.2%	3.2%	26.2%		
Rs 100001-150000	21.3%	6.6%	1.6%	29.5%		
Rs150001-200000	16.4%	1.6%	1.6%	18.1%		
Rs 200001-250000	9.9%	1.6%	0%	11.5%		
Above Rs 300000	1.6%	0%	0%	1.6%		
Total	74.5%	18.1%	7.4%	100%		

Table 8 shows the relationship between loan amount and small business performance. Under the loan interval of up to 50, 000, out of 13.1 percent small business owners 11.5 percent (87.7 percent) are agreed that their business performance is satisfactory, they are satisfied with income, saving generated from the business. Similarly, under the loan interval of 500001 - 100000, out of 26.2 percent small business owners, 14.8 percent (56.5 percent) are agreed that their business performance is satisfactory and they are satisfied with the income, saving generated from the business. Likewise, under the loan interval of 100001 -1500000, out of 29.5 percent small business owners, 21.3 percent (72.2 percent) are agreed that their business performance is satisfactory and they are satisfied with income, saving generated from the business.

Furthermore, under the loan interval of 1500001 -2000000, out of 18.1 percent small business owners, 16.4 percent (90.6 percent) small business owners are agreed that increased in income, saving from the business . Similarly, under the loan interval of 200001-250000, out of 11.5 percent small business owners, 9.9 percent (86 percent) small business owners are agreed that increased in income, saving and credit worthiness from the business. Lastly, under the loan interval above 300000, out of 1.6 percent of small business owners, 1.6 percent (100 percent)small business owners agreed that there is increase in income, saving and credit worthiness, no one small business owner is disagreed that increased in income, saving and creditworthiness from the business.

Here, out of total small business owners, 7.4 percent disagreed that there is not increase in business performance which is seen through increase in income, saving and credit worthiness. This may be due to reasons like insufficiency of loan amount to run the business. The owners may not be able to do activities they wish to do for the enhancement of business due to lack of

capital. Small business owners of group less than 200000, have disagreed to increase in business performance.

This result implies that the increase in loan amount lead to increase in income, saving and creditworthiness and ultimately increase in small business growth. The result is similar with the study by Wanambisi&Bwisa (2013) andSalia&Mbwambo(2014) who found that microenterprises had failed to expand their business due to inadequate credit. Here, the observed chi-square is 15.487, and the p-value is 0.005 which is less than 5 percent significant level. So, there is significant association between loan amount and small business performance. Hence, the hypothesis (H1) set in chapter one is accepted.

Table 9: *Small business performance with respect to repayment period*

Indicator of performance							
Within Repayment period	Agree	Neutral	Disagree	Total	Chi square	Asymp. Sig. (2- sided)	
Less than 1 year	11.5%	9.8%	4.9%	26.2%	15.960	0.001	
1to 2 year	18%	6.6%	0%	24.6%			
2 to 3 year	44.3%	3.3%	1.6%	49.2%			
Total	73.8%	19.7%	6.5%	100%			

The table 9 shows the relationship between the loan repayment period and small business performance. Under the loan repayment period of less than 1 year, out of 26.2 percent small business owners, 11.5 percent (43.8 percent) small business owners are agreed that increase in income, saving, credit worthiness from business. Likewise, under the loan repayment period of 1 to 2 year, out of 24.6 percent small business owners, 18 percent (41.9 percent) are agreed that increased in income, saving and credit worthiness from business. Similarly, under the loan repayment period of 2 to 3 year, out of 49.2 percent small business owners, 44.3 percent (90 percent) are agreed that increased in income, saving, and credit worthiness from the business.

This result implies that longer repayment lead to increase in income, saving and credit worthiness form the business.

Here, 6.5 percent small business owners, disagreed that there is increase in income, saving and credit worthiness among all period of repayment period. This may be the reason that the repayment period for small business owners was not convenient. The business may not give profits early for livestock raising.

The result is similar with the study by Wanambisi&Bwisa (2013) andSalia&Mbwambo(2014). Here, the observed chi-square is 15.960and the p-value is 0.001 which is less than 5 percent significant level. So, there is significant association between loan repayment period and small business performance. Hence, the hypothesis (H2) set in chapter one is accepted.

Table 10: *Small business performance with respect to interest rate*

% Within interest rate	Agree	Neutral	Disagree	Total	Chi -square	Asmpt.Sig (2 Sided)
High	13.1%	6.6%	6.5%	26.2%	16.608	0.034
Moderate	32.8%	9.8%	0%	42.6%		
Low	27.9%	3.3%	0%	31.2%		
Total	73.8%	19.7 %	6.5%	100%		

Table 10 shows the influence of interest rate on the business performance. Out of total respondents, more than forty percent respondents that is 42.6 percent opinioned that interest rate on the loan is moderate, almost one third that is 31.2 percent opinioned that interest rate on the loan is low and only one fourth percent that is 26.2 percent respondents opinioned that interest rate is high. Out of 26.2 percent respondents who opinioned that interest rate is high, fifty percent agreed that their business performance is increased. Likewise, out of 42.6 percent respondents who opined that interest rate is moderate, more than third fourth that is 76.9 percent agreed that their business performance is increased. Similarly, out of 31.2 percent respondents who opinioned that interest rate is low, 89.42 percent respondents agreed that their business performance is increased.

Only, 6.5 percent small business owners disagreed that there is negative relationship between interest rate and business performance. It may be due to reason that other factors are important for the small business owners such as loan size, repayment period. These small business entrepreneurs do not agree that lower interest rate helps to increase income, saving and credit worthiness. The number of business owners who do not agree are in negligible amount.

This result implies that lower the interest rate on loan, higher will be the business performance. The lower interest rate increases the profit margin which gives entrepreneurs motivation for doing business. Here, the observed chi-square value is 16.608. The p-value is 0.034 which is less than 5 percent significance level. So, there is significant association between interest rate on loan and business performance.

4.5 Influence of moderating variable on the small business performance

This section analyzes the relationship between small business owner's business age and small business performance. The business age has been categorized into five groups: less than one year; 1-2 year; 2-3 year; 3-4 year and more than 4 year. The moderating variable helps to moderate the influence of the independent variables on dependent variable. Business age is taken as moderating variable for the independent variables: interest rate, repayment period and loan size.

Table 11: *Small business performance with respect to business age*

Business Age	Agree	Neutral	Disagree	Total	Chi-square	Asymp. Sig. (2-sided)

Less than 1 year	4.9%	1.6%	6.6%	13.1%	18.354	0.013
1-2 year	8.2%	13.10%	0%	21.3%		
2-3 year	21.3%	0%	0%	21.3%		
3-4 year	24.6%	3.3%	0%	27.9%		
More than 4 year	14.8%	1.6%	0%	16.4%		
Total	73.8%	19.6%	6.6%	100.00%		

The table 11 shows the relationship between the business age and small business performance. Under the less than 1 year small business owner, out of 13.1 percent small business owners, 4.9 percent (37.4 percent) are agreed that increased in income, saving, creditworthiness from the business. Under the 1-2 year of business age of small business owners, out of 21.3 percent small business owners, 8.2 percent (38.49 percent) are agreed that increased in income, saving and creditworthiness from the business.

Similarly, under the 2-3 year business age of small business owners, out of 21.3 percent small business owners, 21.3 percent (100 percent) are agreed that increased in income, saving and creditworthiness from business. Likewise, under the 3-4 business age of small business owners, out of 27.9 percent (88.17 percent) are agreed that that increased in income, saving and creditworthiness from the business. Similarly, under the more than 4 year business age of small business owners, out of 16.4 percent (90.24 percent) are agreed that increase in income, saving, creditworthiness from the business.

Here, 6.6 percent small business owners do not agree that business age has positive relationship between with increase in business performance. 19.6 percent of small business owners showed their indifference regarding the relationship between business age and increase in income, saving and credit worthiness. For them the major causes may be loan size, interest rate, repayment period, training rather than age of business.

This result implies that the higher the business age of small business owners lead to wider exposure of the business and success. The result is similar with the study by Salwa,

Azahari&Tamkin (2013). Here, the observed chi-square is 18.354 and the p-value is 0.013 which is less than 5 percent significant level. So, there is significant association between education level of small business owners and small business performance. Hence, the hypothesis (H4) set in chapter one is accepted.

4.6 Multiple linear regressions between micro loan characteristics, and dependent variables

For the measurement of influence of micro credit characteristics namely loan size, repayment period and interest rate on the small business performance multiple regression analysis was done. As mentioned in the theoretical framework, microcredit characteristics (loan amount, loan repayment period and interest rate) were taken as dependent variable, business age was taken as moderating variable and business performance was taken as independent variable. The interpretation of regression analysis was based on the Pearson correlations, Beta coefficient, adjusted R square values, and significance p -value. The first model deals with the influence of microcredit characteristics (loan size, repayment period and interest rate) on small business performance. Similarly, model second deals with the influence of moderating and microcredit characteristics on small business performance.

Table 12 shows the results of regression analysis of Model 1 and Model 2. The findings of the Model 1 indicate that loan size, loan repayment period have positive significant effect on the business performance while interest rate has negative significant effect on the business performance.

Table 12: *Influence of micro credit characteristics namely loan size, repayment period and interest rate and business age on the small business performance*

Variables	Model 1	Sig.	Model 2	Sig.
-----------	---------	------	---------	------

(Constant)	0.318	0.003	0.986	0.001
Loan size	0.279	0.006	0.411	0.000
Repayment period	0.215	0.002	0.183	0.003
Interest rate	-0.413	0.010	-0.423	0.008
Business age			0.167	0.004
Adjusted R Square	0.573		0.592	
F- statistics	17.398		17.918	
P –value	0.000		0.000	

The table 12 shows that the adjusted R square value is the coefficient of determinant and shows the variability in the dependent variable explained by the variability in independent variable(s). The adjusted R square value is 0.573 which indicates that 57.3 percent of the variations in dependent variable are explained by the variations in the independent variable while remaining 42.7 percent still unexplained, this could be due to the effect of extraneous variables, which implies that more than fifty percent (57.3 percent) variation in business performance is explained by the loan amount, loan repayment period and interest rate. This is good percentage of the variation in business performance is explained by loan amount, repayment period and interest rate, therefore the explanatory power of the model is considered to be satisfactory.

The F-value and p- value show the overall significance of the model, that is the regression equation. In this analysis, the model is significant (since F- value = 17.398, P -value = 0.000 < 0.05 which means the regression model is a good fit of data. Thus, there is significant relationship between microcredit characteristics (loan size, loan repayment period, and interest rate) and small business performance.

The P-value and beta shown in the table indicates that loan size with the beta of 0.279, loan repayment period with the beta of 0.215 have positive statistically significant impact on the small business performance while interest rate with the beta of -0.413 has negative statistically significant on the small business performance. This indicates that hypothesis H1, H2, H3 set in chapter 1 have been accepted.

Loan size has highest positive beta ($\beta= 0.279$) this implies that increase in loan amount will increase the business performance. Similarly, loan repayment period has positive impact on the business performance with beta 0.215 this implies that as the loan repayment period is increased, the business performance will also increase. Likewise, interest rate has negative impact on the business performance with beta -0.413 this implies that as interest rate increased, small business performance will decrease.

Adding, the moderating variable in Model (2), the adjusted R square value increase from 0.573 to 0.592, this could be due to the effect of business age. The adjusted R square value indicates 59.2 percent variations in business performance are explained by the loan amount, loan repayment period, interest rate and business age and remaining 40.8 percent still unexplained. According to the results of Model (2), loan size, repayment period, interest rate, and business age seem to have significant impact on the small business performance. The result shows the impact of microcredit characteristics (loan amount, repayment period and interest rate) on the business performances but these relationships may be moderated by business age of small business owner.

4.7 Relationship between microfinance services and small business performance

The relationship between microfinance services and small business performance is determined by the study of correlation between these two variables. Small business performance is taken as dependent variable while microfinance financial services are taken as independent variable. The relationship between the dependent and independent variables is presented in Table 13. The pearson correlation value has been shown in the table and the test of significance is done at 5% level significant level.

Table 13: *Correlation coefficient between provision of microfinance services and business performance*

Independent Variables	Small business performance (Dependent variable)	Sig
-----------------------	--	-----

Loan	0.597	0.018
Saving mobilization	0.076	0.001

Pearson correlation coefficient was used to determine the strength and direction of association between the provision of microfinance and performance of small business. The table 13 shows loan characteristics is significant at 1 percent and saving mobilization is significant at 5 percent. This result is in line finding of Simeyo et al. (2011) who found that there is positive correlation between microfinance services (loan and saving) and microenterprise performance. It implies that improvement in the provision levels of microfinance will result in increased or positive effect on performance of small business.

4.8 Multiple linear regressions between microfinance services and dependent variables

The second objective was to examine the effects of microfinance services on performance of small enterprises. To address this, multiple regression analysis was used. Microcredit characteristics and saving mobilization were taken as dependent variable while business performance was taken as independent variable.

Table 14: *Effect of microfinance services on the small business performance*

Dependent variable	Independent variables	B	Sig.

Business performance	(Constant)	0.318	0.003
	Microloan characteristics	0.675	0.012
	Saving mobilization	0.314	0.007
	R square	0.512	
	F –value	18.716	
	P- value	0.001	

Table 14 shows the results of regression analysis between microfinance services and business performance. Table 14 demonstrates loan characteristics, and saving mobilization have positive effect on the business performance. The R square value is the coefficient of determinant and shows the variability in the dependent variable explained by the variability in independent variable(s). The R square value of 0.512 implies that more than fifty percent (51.2 percent) of the variations in dependent variable (small business performance) are explained jointly by the variations in the independent variables (microloan service and saving mobilization service) while remaining 49.8 percent still unexplained ,this could be due to the effect of extraneous variables. This is a good percentage of variations in small business performance is explained by only microfinance loan services and saving mobilization services, therefore the explanatory power of the model is considered to be satisfactory.

The F-value and p- value show the overall significance of the model, that is the regression equation. In this analysis, the model is significant (since F- value = 18.716, P -value = 0.001 < 0.05 which means the regression model is a good fit of data. This result indicates that hypothesis H5 set in chapter 1 has been accepted. There is significant relationship between microfinance services and business performance

The unstandardized coefficients (β) indicates how much the dependent variable varies with independent variables, when all other independent variables are held constant. The loan and saving both have positive beta, meaning that as the magnitude of independent variables (loan and saving) increase, the magnitude of the dependent variable (performance) also increases. Loan has

larger beta of 0.67 than saving mobilization with beta of 0.314. So, micro loan service has larger effect on the business performance than saving mobilization.

Chapter V

Summary, Conclusion and Recommendation

This chapter presents the summary of the results obtained from the data analysis, conclusion and recommendation that could be drawn from the study. For this, this chapter has been divided into three segments. The first segment is driven towards discussion summary of effectiveness of micro-financing on small business enterprise. Likewise, conclusion is drawn in the second segment from the result obtained from the data analysis mentioned in chapter IV and the recommendation of the study are listed in the third segment.

5.1 Summary.

The summary of the study are as follows

- There is relatively high participation of female in microfinance program comparison to male that means most beneficiaries of microfinance credit facilities are female.
- The overwhelming majority of respondents are married (93 percent) followed by widow (3 percent) and divorced (2 percent) and unmarried(2 percent).
- Likewise, 41 percent respondents belonged to the age group of 30-34, 27.9 percent respondents were of the age group of 35-39, 16.4 percent respondents were of the age group of 25-29, 9.8 percent respondents were of age group 40-44 and 4.9 percent respondents were of age group more than 45 years. All respondents fall within the economic active age group, that is, age group of 25 – 54 years which entails that energetic and mature population groups are engaged in microfinance.
- In term of literacy status, 87 percent of the respondents are literate and have formal education and 13 percent respondents are illiterate. Out of total literate respondents, both the lower secondary and secondary level have same percentage of respondents 37.9 percent each. It is followed by 14.9 percent of respondents had qualification of primary level education. The respondents having higher secondary level education are least in percentage of 8 percent.
- The majority of respondents have made investment in trading based enterprises (52.5 percent), is followed by agriculture based enterprises (29.5 percent) and service based enterprises (18 percent).

- The loan size of a large majority of respondent (68.9 percent) fall in the loan interval of 50,001 to 150,000. Only few respondents (31.1 percent) have loan size of more than 150,000.
- Likewise, 90.2 percent of the respondents had get sufficient amount to finance the business just 9.8 percent of the respondents did not get total applied amount. Out of total respondents who did not get sufficient amount form microfinance 50 percent made arrangement of additional fund by borrowing from moneylenders, 16.7 percent made arrangement of extra fund from other institutions which implies that they are engaged in more than one microfinance institution. Similarly, 33.3 percent did not seek any other source for meeting the deficient amount.
- Out of total respondents 82 percent considered loan repayment installments as convenient to them and had no problem in meeting the repayment schedule, while 18 percent of the respondents answered that they had problem in meeting the repayment schedule.
- Out of total respondents, 83.6 percent pointed out that they had used the loans as they applied solely for business purposes while only 16.4 argued that they did not use loan solely for business purpose
- There is positive relation between loan size, repayment period and business age and business performance and negative relation between interest rate and business performance.
- Likewise, the relationship between small business performance and microcredit characteristics (loan amount, loan repayment period and interest rate) and business age are significant at 95 percent level of confidence
- There is statistically significant relation between loan amount and small business performance.
- There is statistically significant relation between loan repayment period and small business performance.

- There is statistically significant relation between interest rate and small business performance.
- There is statistically significant relation between business age and small business performance.
- Through Pearson Correlation analysis, it was found that provision of microfinance services are positively correlated with the business performance
- There is significant relation between the provision of microfinance services and performance of small business. Microloan service and saving mobilization service both are significant at 95 percent confidence level.
- Through regression analysis, it was found that micro loan service had larger impact than saving mobilization service of microfinance. So, micro loan service has larger effect on the business performance than saving mobilization.

5.2 Conclusion

There is significant impact of loan amount, loan repayment period, interest rate, business age, and provision of microfinance financial services on the small business performance (average determined by horizontal summation of income, saving and creditworthiness of small business enterprise with equal weightage given to each of three components). It implies that increase in loan size lead to increase in business performance, more flexible loan repayment period are likely to have better their business performance better than those whose loans are guided by strict and tight repayment schedule, higher the interest rate the lower the business performance.

The larger the business age of small business owners lead to wider exposure of the business and success, improvement in the provision level of microfinance will result in increased or positive effect on performance of small business.

The study concluded that provision of microfinance financial services is effective to the small business. Provision of microfinance services have been helpful in the development of small or microenterprise.

5.3 Recommendations

The study presents significant implications to the existing literature, policy makers, government, I/NGO, microfinance institutions, students which have been presented in the following paragraphs.

Only few studies has been undertaken earlier on the effectiveness of microfinance financial services to small enterprises in the Nepalese context. Thus, this study has added to the literature of microfinance effectives on small business in the Nepalese context.

MFBs must increase the duration of their client's loans, or spread the repayment over a longer period of time. This will enable borrowers to pay interest and principal amount on time from income generated from borrowed money. Loan service has higher effect on the business performance than saving mobilization. So, the outcome of the study can be useful for the microfinance institutions, in the sense that it is expected to assist the microfinance institutions in assessing the effectiveness of their programs and to know which services contribute most to small business growth and survival and to formulate strategies related with credit policy.

This study has implication to the government officials, Nepal Rastra Bank, as it is important for them to bring the large chunk of population in formal financial institutions. Despite growing number and types of banks and financial institutions along the financial liberalization, the large chunk of population has still been far from access to institutional finance. Percentage of the people availing institutional financial services has reached to about sixty percent as a result of efforts made to extend services of bank and financial institutions to remote and rural areas. The government should design a special program with the provision of subsidies for meeting operational costs in order to motivate the MFI to implement microfinance programs in the remote area.

The present study is based on the only financial services of microfinance institutions. One can conduct future research by taking financial and non-financial services of microfinance

institutions. This study has taken only one moderating variable that is, business age one can conduct further research by taking more moderating variables such as, educational level. Further, research can also be conducted on effectiveness of microfinance provision to small business in the context of individual lending instead of the group lending and compare whether they have any similarities.

References

- Abdul, Khan, S., Sheikh, S. R., Ali, M., & Hassan, S. F. (2013). The impact of microfinance on small enterprises: a case study of Qetta District, Pakistan. *American International Journal of Social Sciences*, 2 (2), 193-201.
- Akerlof, G. (1970). The market for lemons: Quality uncertainty and the market mechanism. *The Quarterly Journal of economics*, 84(2), 488-500.
- Ashe, J., & Parrott, L. (2001). *Impact evaluation of PACT's women's empowerment programme in Nepal: a savings and literacy led alternative to financial institutional building*. Cambridge, Mass.: Brandies University, 2001.
- Banerjee, A., Duflo, E., Glennester, R., & Kinnan, C. (2013). The miracle of microfinance: evidence from randomized evaluation. *Massachusetts Institute of Technology: Department of Economics, Working Paper Series*, 13-09.
- Bateman, C. (2013). The microfinance illusions. *Asian Business Review*, 3(3), 145-153.
- Bennett, K. (1994). Confidence intervals for age estimates and deposition times in late – Quaternary sediment sequences. *The Holocene*, 4(2), 337-348.
- Bhatt, N., & Tang, S. Y. (2002). Determinants of repayment in microcredit: evidence from programmes in the United States. *International Journal of Urban and Regional Research*, 26, 360-376.
- Bhatta, G. (2001). Small is indeed beautiful but: the context of microcredit strategies in Nepal. *Policy Studies Journal*, 29, 283-295.
- Brau, J. C., & Woller, G. M. (2004). Microfinance: a comprehensive review of the existing literature. *The Journal of Entrepreneurial Finance*, 9, 21-25.
- Brush, C., & Harish, R. (1991). Antecedent influence on female owned business. *Journal of Managerial Psychology*, 6(2), 9-16.
- Burgess, R., & Pande, R. (2005). Can rural banks reduce poverty? Evidence from the Indian social banking experiment. *American Economics Review*, 95(3), 780-795.
- Carpenter, R., & Peterson, B. (2002). Is the growth of small firms constrained by internal finance? *The Review of Economics and Statistics*, 50(2), 298-309.
- Carrera, C., & Silva, F. (2010). No deep pockets: some stylized empirical results on firms financial constraints. *Journal of Economic Survey*, 24(4), 731-753.

- Cartwright, J., Pitt, M., & Khandker, S. (2006). Empowering women with microfinance: evidence from Bangladesh. *Economics Development and Cultural Change*, 54(4), 791-831.
- Chowdhury, S., & Bhuiya, A. (2004). The wider impact of BRAC poverty alleviation program in Bangladesh. *Journal of International Development*, 16(3), 369-386.
- Christen, R. P., Rhyne, E., Vogel, R., & Kean, C. (1995). Maximizing the outreach of microenterprise finance: an analysis of successful microfinance programs. *USAID Programme and Operations Assessment Report 10*, 15-21.
- Coleman, B. (1999). The impact of group lending in North-East Thailand. *Journal of Development Economics*, 60(5), 105-141.
- Copstake, J. (2002). Inequality and the polarizing impact of microcredit: evidence from Zambia. *Journal of International Development*, 14(6), 743-755.
- Field, E. P., & Pande, R. (2008). Repayment frequency and default in microfinance: evidence from India. *European Economic Review*, 17(3), 89-101.
- Gomez, R., & Santor, E. (2001). Does the microfinance group lending model actually work? *Journal of Diplomacy and International Relations*, 9(2), 21-48.
- Gupta, R., & Goetz, A. (1996). Who takes the credit? Gender, power, and control over, loan use in rural credit programs in Bangladesh. *World Development*, 24(3), 45-63.
- Hart, K. (2001). *Money in an unequal world*. New York: Texere.
- Hietalahti, J., & Linder, M. (2006). Socio – economic impacts of microfinance and repayment performance: a case study of the small enterprises in Thailand. *Progress in Development Studies*, 6(3), 201-210.
- Holt, S. (1994). The village bank methodology: Performance and prospect. *International Journal of Economics and Finance*, 4, 7-12.
- Hulme, D. (2000). Impact assessment methodologies for microfinance: theory, experience and better practice. *World Development*, 28, 79-98.
- Huq, H. (2004). Surviving in the world of microdebt: a case of rural Bangladesh. *World Development*, 31(1), 1826-1835.
- ILO. (2000). *World Labor Report*. Geneva: International Labor Organization.
- Imai, K., Arun, T., & Anim, S. (2010). Microfinance and household poverty reduction: new evidence from India. *World Development*, 38(12), 1760-1774.

- Kabeer, N. (1997). Women, wages and intra-house power relations in urban Bangladesh. *Development and Changes*, 28, 261-302.
- Karmani, M. (2007). Impact study of microfinance on poverty alleviation. *Journal of Development Economics*, 5(3), 135-148.
- Kayune, K., Urass, J., & Mwakaloba, A. (2005). Credit enrichment or impoverishment? *Journal of Development Studies*, 14(2), 79-93.
- Kereti, G. W., & Sakwa, M. (2014). Socio-economic effects of microfinance services on women: the case of Rosewo microfinance, Nakuru. *International Journal of Academic Research in Economics and Management Sciences*, 3, 43-58.
- Khandker, S. R. (2005). Microfinance and poverty: evidence using panel data from Bangladesh. *World Bank Economic Review*, 19(2), 263-286.
- Klonneer, S. (2003). Rotating saving and credit associations with risk averse participants. *International Economic Review*, 44(3), 979-1005.
- Kuzilwa, J. (2005). The role of credit for small business success: a study of the national entrepreneurship development fund in Tanzania. *The Journal of Entrepreneurship*, 14(5), 101-123.
- Ledgerwood, J. (1999). *Microfinance Handbook: Sustainable banking with poor. An institutional and financial perspective*. Washington D.C: The World Bank.
- Lussiers, R., & Pteifer, S. (2001). A cross prediction model for business success. *Journal of Small Business Management*, 30(3), 228-239.
- Madheswaran, S., & Dharmadhikary, A. (2001). Empowering rural women through self-help groups: lessons from Maharashtra rural credit program. *Indian Journal of Agricultural Economics*, 56, 427-443.
- Mayoux, L. (1999). Questioning virtuous spirals: Microfinance and women empowerment in Africa. *Journal of International Development*, 11, 957-984.
- Mckernam, S. (2002). The impact of microcredit programs on self-employment profits: do non-credit program aspects matter. *The Review of Economics and Statistics*, 81(6), 93-115.
- Mcperson, M. (1996). Microfinance and growth of micro and small enterprises in South Africa. *Journal of Development Economics*, 48(6), 257-277.
- Morduch, J. (1999). The microfinance promise. *Journal of Economic Literature*, 37(4), 1559-1614.
- Morduch, J. (2000). The microfinance schism. *World Development*, 28(4), 617-629.

- Mosley, P., & Humle, D. (1998). Micro enterprise: is there a conflict between growth and poverty alleviation? *World Development*, 26(5), 783-790.
- Mosley, P., & Rock, J. (2004). Microfinance, labor markets, poverty in Africa. *Journal of International Development*, 16(5), 783-790.
- Muhammad, A. S. (2012). The impact of socio-economic factors on small business success. *Malaysia Journal of Society and Space*, 8(1), 24-29.
- Mutua, K., Nataradol, P., Otero, M., & Chung, B. (1996). The view from the field: perspectives from managers of microfinance institutions. *Journal of International Development*, 8, 179-193.
- Naeem, A., & Khan, S. (2015). The impact of microfinance on women micro-enterprises: a case study of district Quetta, Pakistan. *American Journal of Social Science*, vol 4, 19-26.
- Ngo, T., & Wahhaj, J. (2012). Microfinance and gender empowerment. *Journal of Development Economics*, 99, 1-12.
- Ogunrinola, O., & Alege, P. (2007). Microcredit and microenterprises development: an analysis of some rural based enterprises in Nigeria. *Journal of Economics and Social Science*, 5(3), 35-44.
- Olowe, F., Moradeyo, O., & Babalola, O. (2013). Empirical study of the impact of microfinance bank on small and medium growth in Nigeria. *International Journal of Academic Research in Economic and Management Sciences*, 2(6), 116-124.
- Orlando, M., & Pollack, M. (2000). Microenterprises and poverty: evidence from the Latin America. *Inter-America Development Bank Sustainable Development Microenterprises*, 8(12), 254-263.
- Otieno, S., Lumumba, M., & Alpone, J. (2011). Effects of provision of microfinance on the performance of microenterprises: a study of youth microenterprises, Kenya. *African Journal of Business Management*, 8(10), 290-300.
- Paramanandam, D., & Packirisamy, P. (2015). An empirical study on the impact of microfinance on the women owned enterprises. *Journal of Enterprising Communities*, 9(4), 298-314.
- Parker, S., & Praag, M. (2006). Capital constraints and entrepreneurial performance. *Journal of Business and Economic statistics*, 24(4), 416-431.
- Pitt, M., & Shahidur, K. (1998). The impact of group based credit programs on poor households in Bangladesh. *Journal of Political Economy*, 106(5), 958-996.

- Raduan, C., Kumar, N., & Lim, L. (2006). Entrepreneur success factors and escalation of small medium sized enterprises in Malaysia. *Journal of Science*, 2(3).
- Rahman, M., & Ahmad, F. (2010). Impact of microfinance on the rural poor's livelihood in Bangladesh: an empirical study. *International Journal of Islamic and Middle Eastern finance and management*, 3(2), 168-190.
- Rahman, S., & Momen. M. (2009). Impact of microfinance programme on low income borrowers: evidences from Bangladesh. *International Business and Economic Research Journal*, 8(2), 8-15.
- Rahman, A. (1998). A micro-credit initiative for equitable and sustainable development: who pays? *World Development*, 26, 67-82.
- Rao, G. J. (2010). Micro Financing: a boom for the poor. *Journal of Management and Science*, 180-192.
- Robinson, M. (2009). The microfinance revolution: sustainable finance for poor. *The World Bank*.
- Rogaly, B. (1996). Microfinance evangelism, destitute women and the hard selling of a new anti-poverty formula. *Development in Practice*, 6(2), 100-112.
- Roodman, D. (2011). Due diligence: an impertinent inquiry into microfinance. *World Development*, 32(14), 638-646.
- Rosenberg, R., Gonzalez, A., & Nararian, S. (2000). The new moneylenders: are the poor being exploited by high microcredit interest rate. *World Development*, 28(6), 635-644.
- Ruban, M. (2001). The promise of microfinance for poverty relief in the developing world. *World Development*, 29(2), 8-15.
- Rutherford, S. (2000). *The poor and their money*. Delhi: Oxford University Press.
- Salia, P. J., & Mbwambo, J. S. (2014). Credit characteristics and business performance: a survey of women owned microenterprises in Tanzania. *Asian Business Review*, 4(7), 12-21.
- Salwa, A. F., Azahari, A. M., & Tamkin, B. J. (2013). Success factors of successful microcredit entrepreneurs: empirical evidence from Malaysia. *International Journal of Business and Social Science*, 4(5), 153-159.
- Sarumathi, S., & Mohan, K. (2011). Role of microfinance in women's empowerment. *Journal of Management and Science*, 1, 1-10.
- Sharma, M., & Zeller, M. (1997). Repayment performance in group based credit programs in Bangladesh. *World Development*, 25(10), 1731-1742.

- Sharma, P. (2004). Microfinance: a powerful tool for social transformation, its challenges and principles. *The Journal of Business Studies*, 2(2), 69-74.
- Shrestha, M. (1998). *Report on self-help banking programme and women empowerment*. Nepal, 1998.
- Simeyo, Martin, I., Nyamao, N. Y., & Ojera, P. (2011). Effect of provision of microfinance on the performance of micro enterprises. *Journal of Business and Management*, Vol50, 8290-8300.
- Sendi, L., & Anderson, A. (2009). Tanzanian microenterprises and microfinance: the role and impact for poor women. *Journal of Entrepreneurship*, 18(1), 1-19.
- Stiglitz, J., & Weiss, A. (1983). Credit rationing: Reply. *The American Economic Review*, 77, 228-231.
- Swaim, R., & Wallentin, F. (2009). Does microfinance empower women? Evidence from the selfhelp groups in India. *International Review of Applied Economics*, 23(5), 541-556.
- Terano, R., Mohamed, Z., & Jusri, J. H. (2015). Effectiveness of microcredit programme and determinants of income among small business entrepreneurs in Malaysia. *Journal of Global Entrepreneurship research*, 5(22), 186-210.
- UNDP. (1995). *Human Development Report*. New York: UNDP, 1996.
- von Pischke, J. (1996). Measuring the trade-off between outreach and sustainability of microenterprise lenders. *Journal of International Development*, 8, 225-239.
- Wanambisi, A. N., & Bwisa, H. (2013). Effects of microfinance lending on business performance: a survey of micro and small enterprises in Kitale Municipality, Kenya. *International Journal of Academic Research in Business and Social Science*, 3(7), 56-66.
- Weber, H. (2009). The global political economy of microfinance and poverty reduction: locating local livelihoods in political analysis. *Journal of Microfinance*, Vol3, 43-63.
- World Bank. (2001). *Engendering development: through gender equality in rights, resources, and voice – summary*. Washington, D. C.: World Bank, 2001. Available at www.worldbank.org/gender/prt/engendersummary.pdf.
- Yunus, M. (1976). Microfinance and poverty in Bangladesh. *Journal of Development Studies*, 37(4), 101-132.
- Yunus, M. (2003). *Banker to poor: micro lending and fight against the world poverty*. New York: Public Affairs.
- Zahoor, A., & Muhammad, S. (2015). Strategies for empowering women and gender equality through microfinance in Pakistan. *International Journal of Academic Research in Accounting, Finance and Management Science*, 5, 171-178.

Survey on Effectiveness of Microfinancing on Small enterprise, 2018

Dear Respondent,

I am a student of Central Department of Economics, TU (M.A) and conducting a research on Effectiveness of Microfinancing on Small enterprise- a case study of Kohalpur Municipality as a partial fulfillment of my Master Degree. I kindly request you to give few minutes of your precious time so that I can fill the following questionnaire. Information provided by you will be kept confidential and be used only for academic purpose.

Thank you.

Researcher

Personal Details

Sex	Age	Literacy Status/ Education Status	Marital Status
Male	Below 24	Illiterate	Unmarried
Female	25-29	Literate/formal education	Married
	30-34	Primary	Divorced
	35-39	Lower Secondary	Widow
	40-44	Secondary	
	45 above	Higher Secondary	

1. How long have you been a member of Microfinance?

- a. Less than 1 year
- b. 1-2 year
- c. 2-3 year
- d. More than 3 years

2. How long did it take for you to receive loan from Microfinance?

- a. Less than one week b. 1-2 week c. 2-3 week

3. What was your loan amount that you had taken from microfinance?

- a. Up to 50,000 b. 50,001-1,00,000
c. 1,00,000-1,50,000 d. 1,50,001-2,00,000
e. 2,00,001-2,50,000 e. 2,50,001-3,00,000
g. Above 3,00,000

4. Is this amount sufficient for your business?

- a. Yes b. No

5. If you say no, how did you arrange the additional fund?

- a. Not managed b. Help from family members
c. Borrowed from moneylender d. Borrowed from neighbors/friends
e. Borrowed from other institutions

6. What was the purpose of taking the loan?

- a. To start business b. To expand the existing business

7. Type of business you operate.

- a. Trading (.....) b. Agriculture (.....) c. Service (.....)

8. How long have you been in this business?

- a. Less than 1 year b. 1-2 year c. 2-3 year
d. 3-4 year e. More than 4 year

9. Which of these basic requirements did you have satisfied before the loan was given to you?

- a. Physical collateral b. Social collateral c. Savings

- d. Guarantor's
- e. Other specify

10. Did you use exact amount that you had acquired as loan solely for business purpose?

- a. Yes
- b. No

Repayment of loan

11. What is your period of repayment of loan?

- a. Less than 1 year
- b. 1-2 year
- c. 2-3 year

12. Do you manage to repay the loans installment and interest on time?

- a. Yes
- b. No

13. If you say no what was the reason for your failure to repay the loan on time?

- a. Partial operation of the business
- b. Failure of the business
- c. Use of loan for household consumption
- d. Loan installment period is not convenience

14. How do you make the arrangement of fund to repay your loan?

- a. Not managed
- b. Family members
- c. Borrowing from money lender
- d. Sale of business

15. Please express your opinion on the interest rate on your loan?

- a. High
- b. Moderate
- c. Low

16. Loan Characteristics

For each question below please help me to tick on the box that matches your perception

1= Most favorable, 5= least favorable

Statements	(1)	(2)	(3)	(4)	(5)
------------	-----	-----	-----	-----	-----

Timeliness in loan processing					
Interest rate					
Repayment period					
Loan size					
Grant of amount applied for					

17. Saving Mobilization

For each statement below please help me to tick on the box that matches your perception

1 = Most satisfactory, 5 = Less satisfactory

Attributes of saving mobilization	(1)	(2)	(3)	(4)	(5)
Saving Services					
Frequency of saving deposits					
Use of saving pattern for credit worthiness assessment					

18. Indicators of performance of small enterprises

For each statement below please help me to tick on the box that matches your perception

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

Indicators of performance	(1)	(2)	(3)	(4)	(5)
Microfinance services have helped your business to increase income from business					
Microfinance service has helped your business to increasing saving and have reinvested in your business					

Increase Creditworthiness					
---------------------------	--	--	--	--	--

Thank you for precious time and information