IMPACT OF MICRO FINANCE ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A CASE OF RUPANDEHI DISTRICT

BY

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Exam Roll No: 764/19

TU Registration No: 7-2-52-39-2014

A Graduate Research Report Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

At

The School of Management

Faculty of Management

Tribhuvan University

Kirtipur

August, 2022

Recommendation

CERTIFICATION

DECLARATION OF AUTHENTICITY

I, Saif Ali Khan, declare that this GRP is my original work. Any assistance I received during my study and thesis preparation has been recognized. In addition, I verify that all information sources and literature consulted are listed in the thesis' bibliography. I also understand that if at any time it is shown that I have significantly misinterpreted material presented to SOMTU, any credits awarded to me on the basis of that material may be revoked.

Signature:

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Date:

ACKNOWLEDGEMENT

This thesis report entitled “Impact of Microfinance on financial performance of Small and Medium enterprises in Rupandehi District” has been prepared in the partial fulfillment of the requirements of the degree of Master’s in Business Administration (MBA), School of Management, Tribhuvan University. I am highly indebted to various people, without their constant help and support this work would be incomplete.

Firstly, I would like to record my sincere appreciation and gratitude towards my supervisor Dr. Jeetendra Dangol guiding me and making this report a better one. Without his continuous support and guidance about numerous issues, I would be lost and confused in every step. His guidelines and feedbacks at different stage of the study helped me to shape this report.

My acknowledgement to Acting Director of School of Management, Tribhuvan University (SOMTU), Dr. Govinda Tamang and Deputy Director of School of Management, Tribhuvan University (SOMTU), Dr. Gangaram Biswakarma for their never-ending encouragement to complete this research effectively on time.

I am also extremely thankful to my friends and well-wishers who directly and indirectly helped me during the research project.

Finally, I would like to thank School of Management, Tribhuvan University for providing me this opportunity to conduct this research. In the same way, I cannot forget and thank enough to all the respondents for their valuable time and responses for this study, without which this study wouldn’t have been possible.

Saif Ali Khan

August, 2022

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ABBREVIATIONS

BFIs	Bank and Financial Institutions
FFIS	Formal Banking Institution
MFIs	Microfinance Institutions
MSEs	Micro and Small Enterprises
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PLS	Partial Least Squares Regression
SCCS	Saving funds and credit co-operative societies
WHO	World Health Organization

EXECUTIVE SUMMARY

The primary objective of this study was to assess the Impact of Microfinance on financial performance of small and medium enterprises in Rupandehi District and general objectives of this study were to examine the impact Saving service, Loan service and financial training and advisory service provided by microfinance on financial performance of small and medium enterprises. This study considered small and medium enterprises taking services from microfinance institutions for their business operating within Rupandehi district as population for data collection. A total of 385 enterprises from Rupandehi district who took services from microfinance for business purpose had been selected as sample size. Convenience sampling technique was used for the study purpose. A structured questionnaire was developed to gather the information regarding the purpose of the study. The questionnaires were multiple choices, rating scale, Likert scale and other demographic information were used to collect primary data. The study was based on lean six sigma theory, financial growth theory and microfinance credit theory.

The study revealed that loans service, savings service, and training and advisory services have a positive relationship with financial performance of SMEs. Specifically, the study revealed a very strong positive relationship between Loan services and financial performance of SMEs in Rupandehi district. The study concluded that the utilization of microfinance services among SMEs in Rupandehi district was still low although there is positive effect of these microfinance services on the financial performance of SMEs. The study recommends that management of microfinance institutions that offer microfinance service should survey SMEs to learn more about their demands and the challenges they face in accessing microfinance services. The results gained from this survey can be utilized to direct the creation of services that are specifically tailored to the needs of SMEs. Small and medium enterprises owners can able to enhance their financial performance of their business with the help of Micro finance. This study is a possible means to avoid the doubts of the peoples regarding self-employment activities, creating awareness in loan facilities and improving business.

CHAPTER I

INTRODUCTION

1.1 Background of the study

Lean Six Sigma Theory of a Firm's Performance, which holds that financial performance is well explained by the Six Sigma approach which embraces quality management in all enterprises seeking profits (Khadem, Ali, & Seifoddini). According to its proponent, Motorola, the lean sigma theory gave rise to 99.99966% faults free production notion which can only be actualized through an unceasing quality nourishment campaign that is customer dedicated as well as through application of the problem-solving procedures that are enhanced with the aid of statistical apparatuses which Define, Measure, Analyze, Improve, as well as Control (DMAIC) performance (Ananthukrishna, 2019). Additionally, Singh and Malhotra (2014) further emphasize that the Lean Six Sigma theory agitates for lessening the process cycle duration and costs whilst increasing customer satisfaction and profits. In that regard, Six Sigma plans are only appropriate when stakeholders reveal the savings that the project will harvest. Kumar, Antony and Tiwari (2011) attribute six sigma success to management involvement, employees' attitudes, as well as project management skills.

In this study, the Lean Six Sigma theory is deemed appropriate since it influences financial performance (the dependent variable). In other words, cost reduction is reinforced by ongoing product innovation by micro and small businesses owned by people. Access to training services provided by microfinance organizations promotes the idea of continual improvement. The bottom result is that MSEs, are predicted to use quality improvement as a priceless step toward generating profits.

Basing on the notion that the Lean Six Sigma Theory isn't conclusive on issues pertaining to microfinance services, Smith (1976) came up with the Micro Credit Theory which later metamorphosed into the Economic Theory (Smith, 1977). The theory states that private profits are bolstered by enterprises that are capitalistic in nature. It further provided that it becomes easy for microfinance institutions to review welfare of their clients. The theory further generated the miniaturized Scale hypothesis of credit which proposes asymmetries of data can be addressed by a loaning model which is standard and contains a duo system. Which serves to screen, manage, and coordinate unfavorable risk observation (Smith, 1977). Therefore, the theory looks at institutions that are microfinance based as enterprises that are capitalistic and driven by social consciousness.

In regard to the previous statement, financial performance of MSEs is therefore assumed to be bolstered by institution engaged in provision of microfinance services because they provide remedy to limited resources in which people like those with disabilities are offered capital. However, the theory holds that MSEs whose goal of profit maximization is enhanced can only be supported if these enterprises that are capitalistic in nature are willing to give them a helping hand in which both microfinance institutions and MSEs benefit (Smith, 1977).

Micro-finance (MF) is a mechanism for financial inclusion that gives access to service relating finance for people who are not able to have it through traditional credit institution like commercial bank. Micro-finance organizations (MFIs) offer variety of service of financial, primarily payment services, microinsurance, microcredit, and micro savings. Many MFIs also offer social intermediation administrations, for example, bunch development, monetary proficiency programs, and capacity building for group members, in addition to financial intermediation (Ledgerwood, 2000).

In Nepal, micro-enterprise development is an important method for creating jobs and reducing poverty. Micro-credit is a critical factor for improving socioeconomic situation with the poor & unbanked by providing microcredit and putting it to constructive use in small & medium business. Due to its support of beneficial investments, Schumpeter (1934) came to the conclusion that the financial sector is a growth-promoting force in the economy. By spotting and funding profitable business possibilities, an established financial institution raises the degree of capital formation and encourages investment. The expansion of the financial sector significantly affects the country's economic development through the channeling of amassed wealth into profitable industries.

In developing nations like Nepal, where many people still lack access to conventional banking services, financial inclusion is an urgent issue. The primary group of people that financial inclusion aims to help are the underprivileged and vulnerable individuals who have been taken advantage of by the informal lending sector and lack the ability to offer tangible collateral for a loan.

It is a frequent misconception that Micro Small and Medium-Sized Enterprises (MSMEs) have relatively little access for savings, credit facilities, and other financial assistance services offered by formal banking institutions (FFIs). This is due to the fact that many SMEs cannot offer the required collateral security required by these formal institutions, and banks also struggle to recoup the significant costs associated with working with small businesses. Additionally, the risks connected with granting loans to SMEs make it unappealing for banks to work with micro and small businesses (Wong, 1994). Since small businesses statistically have high failure rates, it is challenging for lenders to determine with accuracy whether an organization will succeed, the entrepreneur's skills, and the possibility of payback.

Small- and medium-sized enterprises (SMEs) in Rupandehi, Nepal tend to provide the poor with a means of subsistence, generate employment opportunities, boost income, and make a better contribution to economic progress. On the other hand, micro-finance plays a function at the institutional level in addition to helping the poor get access to capital to fight poverty. It aims to establish organizations that provide financial services to the underprivileged, who are frequently disregarded by the conventional banking industry.

Thus, this research is done for identification of impact of micro-finance on financial performance of SMEs in Rupandehi. To do this research, the researcher reviewed the literature and looked at the issues that both developed and developing nations face. This then assisted in identifying potential barriers to future business success.

1.2 Problem Statement

Micro-finance organizations are established to provide various financial services to the deprived sector of a group of people for achieving various growth objective. Microfinance is the tool for elimination of poverty. The availability of services for the poor may rise as microfinance gains popularity and enters the mainstream, enhancing effectiveness and outreach while bringing down prices. In 1997 Buckley have done research on the impact of micro-finance credit for development of business, for example outreach, high repayment rate and financial performance. Malawi, and Ghana, Buckley have done research in Kenya in 1997 found that there is good relation between growth of SMEs and micro-finance services in form of profit, income level and employments.

However, Bamwesigye (2008) observed that 65% of SME's collapse or have dismal performance due to lack of microcredit to expand and bring new products and services to the market. In Rupandehi market despite of many microfinance institutions SMEs are performing dismally. This raises the question about contributions of microfinance institutions for financial performance of small & medium business in Rupandehi district. Financial performance of SME's would facilitate their growth and in turn offer employment opportunities to people and spur economic development of Rupandehi.

In regards to previous statement statements, there are very few empirical evidences which show the extent at which MFIs has been helping MSEs to perform what they have been expected to perform and signifies its objectives. It is from this context that the researcher attempts to find out the contribution of microfinance for uplifting the SMEs in Rupandehi district.

With increasing the numbers of micro-finance which are providing various credit service in Rupandehi, most of SMEs are not able to good business growth. Which shows that there is lack of proper opportunity for micro-finance service and credit service which are unfavorable for people of Rupandehi by taking high interest rate and minimum repayment time. However, no any of research study focus on the contribution of micro-finance for financial performance of SMEs in Rupandehi district, Nepal.

Previous studies on impact of microfinance on SMEs have not focused on factors affecting the financial performances of SMEs in Nepal. This dissertation aims to clarify the relationship between micro-finance and micro and small enterprises financial performance in Rupandehi district.

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

- What is the influence of provision of loan Service in financial performances of SMEs in Rupandehi district?
- What is the effect of Saving service and financial performances of SMEs in Rupandehi district?
- What is the effect of Financial Training and advisory service and financial performances of SMEs in Rupandehi district?

1.3 Objective of the study

The major purpose for this research was to investigate the effect of micro-finance on the financial performances of SMEs in the Rupandehi district.

The specific objectives of the research are:

i. To investigate the relationship between loan services and financial performances of SMEs.

ii. To investigate the relationship among saving services and financial performance of SMEs.

iii. To investigate the effects of financial training and advisory services offered by microfinance institutions on financial performance of SMEs.

1.4 Significance of the Study

Micro-finance is defined as a financial service provided to the underprivileged and small business owners to assist them in creating chances for their own employment and other sources of income. Many nations have seen a shift in their views toward the poor as a result of the microfinance revolution, and some have seen significant flows of credit supplied, frequently to households or organizations with extremely low incomes who would typically be turned away by traditional financial institutions.

The study offers factual proof for the impact of micro-finance services on financial performance of SMEs in Rupandehi district. Micro-finance organization and Nepali goverment may benefit with the results of this research study and may help for understanding for improvement of services of micro-finance.

This study will generate important factors which can be helpful for governmental and nongovernmental institution to enhance microfinance services to the SMEs and to make that there will be better rules and regulation for getting better services of micro-finance.

Results of this study will be beneficial for the further study with related with the microfinance and SMEs performance.

1.5 Research Hypothesis

Omwono (2019) conducted a study to examine the effects of micro-finance service on financial performance of SMEs in Muhanga district, Rwanda. Findings of the research reveal there is positive relationship between micro-credit and financial performance of SMEs. According to study done by Wakaba in 2014 topic of the effect of micro-finance on the financial performance of SMEs in Kiambu county which reveal that most of the SMEs takes credit for capital investment, they have used loan for their business growth. SMEs presenting in that place doesn't have other source of funding for their business.

Monge (2016) reveles that most SMEs in Tanzania shows better contribution of micro-finance credit for increasing market share, number of employments, net profits, sales revenue, financial credibility, and lower credit amount. Therefore, it shows that betterment in the level of micro-credit findings increase in significant on growth of business. Based on prior empirical studies, following hypothesis can be developed to examine role of micro-finance in the financial performance of SMEs.

Many studies from literatures in the past have revealed that loan service plays an important role in financial performance of SMEs. Kihara, 2017 reveals loan service have positive impact on financial performanceof SMEs as Gyimah and Boachie, 2018 also find there is direct relations between loan service and Financial Performance . Based on literature this study has hypothesized the following.

H1: There is Significant Relationship Between loan service and Financial Performance of SMEs.

Kisaka and Mwewa, 2014 in their study established there is presence significant relation among saving service & Financial Performance. This clearly tells that saving service will help small and medium enterprises in their financial performance. Hence, it is crucial to examine the role of saving service on the financial performance. Therefore, this study has hypothesized that:

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

Haider, Asad, and Fatima, 2017 reveald in their study there is positive relationship among financial education and training services and Financial Performance which also shows that financial traing and adevisory service will be crucial term to be examine in this study so based on the literature this study has hypothesized the following.

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

1.6 Limitation of the Study

- This study is completely based on the primary sources of data regarding dependent and independent variables. Therefore, the reliability of conclusions of the study depends upon the accuracy of information provided by the respondents.
- Total number of sample of observations of primary data is only 385. Less sample size might lead to the less significant result as expected.
- The study was limited to checking the relationship of loan services, saving and financial advisory and training services on SMEs financial performance in Rupandehi distrct.
- Convenience sampling technique is used to collect the data but convenience sampling doesn't produce the representative results.
- Analysis of the data has been done by using the software called SPSS and Smart PLS.

1.7 Structure of the Study

The whole study comprises of three main sections: preliminary report, body and supplementary. The preliminary part comprises of title page, certification, acknowledgements, Declaration of authenticity, table of contents, list of figures, list of tables, and abbreviations used and executive summary. The body of the report includes five chapters: introduction, related review of literature and framework, Research method, Data analysis and Results, and discussions, conclusion and implications. The final section of the report consists of supplementary section including references and appendix. This study consists of one to five sections.

First chapter includes general overview of study. It describes what this study is all about and why this study is worth doing. It includes introduction of the topic, problem statement, purpose of the study, hypotheses for research, and limitation for study and organization of study. Whereas another chapter includes the review of earlier studies that are relevant to the problem explored in this study. It includes review of literature related to the international studies as well as review of studies in Nepalese context. It includes the summary of the major findings of previous studies and they are presented in separate headings. On the basis of these literature reviews, the conceptual framework for the study is constructed. The third chapter describes the methodological aspects that were applied in this research, which consists of research design, population for study and sample size, method of sampling, nature and source of data collection, instrumentation, methods of collecting the data and overall analysis of all those data. The fourth chapter contains systematic presentation and analysis of data. This chapter analyzes the collected data through the use of various statistical tools and techniques as mentioned in the chapter three. It tries to explain the relationship between factors and presents the result in the form of tables. The last part of the research study presents major results of the analysis of all data and discussions. Fifth chapter includes the discussion, summary & conclusion and implications of this research study. which summarizes research findings of research study & appropriate implications are presented based on the conclusion and findings of research study. Last part of this chapter presents the recommendation for future research. The final section of the report comprises of bibliography and appendix as questionnaire. Bibliography includes name of reference books, articles, reports, etc., its writer's name and its page; and appendix is attachment of questionnaire for the survey of the study.

CHAPTER-II
RELATED LITERATURE AND THEORETICAL FRAMEWORK

The foundation of any scientific research is based on past knowledge, studies and research. They provide the idea or ground for new studies. This chapter is based on review of related articles, books, journals, reports, manuals, previously conducted published/unpublished thesis, related websites and studies on the key components of the research. This section explains the study's conceptual framework and explores the factors influencing the financial performance of SMEs. This section shows the various works done by scholars and authors who have already contributed more in such type of research projects.

2.1 Theoretical review

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

2.1.1 The Lean Six Sigma theory

Lean six sigma theory propounded by Motorola 1986 holds that financial performance is brightly explained with the Six Sigma style which embraces quality management in all enterprises seeking profits (Ananthukrishna, 2019). In that repute, the lean sigma theory gave rise to the 99.99966% faults free production notion which is actualized through an unceasing quality nourishment campaign that is customer dedicated as well as through application of the problem-solving procedures that are enhanced with the aid of statistical apparatuses which Define, Measure, Analyze, Improve, as well as Control (DMAIC) performance. Additionally, Singh and Malhotra (2014) further emphasize that the Lean Six Sigma theory agitates for lessening process cycle duration and costs whilst increasing customer satisfaction and profits, in that regard, Six Sigma plans are only appropriate when stakeholders reveal the savings that the project will harvest. Kumar, Antony and Tiwari (2011) attribute six sigma success to management involvement, employees' attitudes, as well as project management skills.

The previous theory holds relevance in investigation by informing financial performance (the dependent variable). That is to say, through continuous improvement in products offered to persons owned micro and small enterprises which may be catalyzed through access to training services of microfinance institutions, costs reduction is enhanced. Bottom line, quality improvement is hypothesized to be a priceless step towards profit generation by

SMEs.

2.1.2 Financial Growth Theory

Berger and Udell (1998) came with theory of financial growth relating with small business which are involved in financial needs and financing option changing as the business grows, because the business is assumed to have become experienced and less informally opaque. That further propose that organizations rely upon size, age, data continuum where the more modest/more youthful/more hazy firms lie close to the left finish of the continuum showing that they should depend on introductory insider finance, exchange credit and holy messenger finance. The development cycle model predicts that as firm develops, it accessed funding (VC) as a wellspring of moderate value and mid-term credits as wellspring of transitional getting. At conclusive phase of development worldview, as the firm ages significantly, more experienced and all the more casually straightforward, it probably accessed public value (PE) or long haul acquiring. It helped this research study in SMEs when they want to increase it capita, they must need source of finance to finance their business and the only source of finance is from microfinance.

Berger and Udell (1998), when in doubt, the cost of capital for autonomous endeavors is ordinarily higher than it is for greater firms. The size of credits and nonappearance of information on the idea of action of the little firms force advance experts to shield their endeavor by mentioning higher speed of return, which come as extravagant credit cost and massive cost of capital for the little firm. While crediting to autonomous endeavors, most financial foundation requires the owners of the privately owned businesses to really guarantee the development. These singular accreditations license the foundation strategy against secretly put cash of free endeavors owner in the event of default (Berger and Udell, 1998). This hypothesis helped my concentrate in when the firm need to expand its capital it should pick the wellspring of money from microfinance foundations concerning the business they work in that region.

2.1.3 Microfinance Credit Theory

The absence of a universally accepted theory on issues pertaining to microfinance services prompted Smith (1977) to come up with the Micro Credit Theory which later metamorphosed into the Economic Theory (Smith, 1977). The theory acknowledged that private profits are bolstered by enterprises that are capitalistic in nature. It further provided that it becomes easy for microfinance institutions to review welfare of their clients. The theory further generated the miniaturized scale hypothesis of credit which proposes asymmetries of data can be addressed by a loaning model which is standard and contains a duo system. Which serves to screen, manage, and coordinate unfavorable risk observation (Smith, 1977). Therefore, the theory looks at institutions that are microfinance based as enterprises that are capitalistic and driven by social consciousness. In regard to the financial performance of SMEs is therefore assumed to be bolstered by institution engaged in provision of microfinance services because they provide remedy to limited resources in which people like those with disabilities are offered capital. However, the theory holds that MSEs whose goal of profit maximization is enhanced can only be supported if these enterprises that are capitalistic in nature are willing to give them a helping hand in which both microfinance institutions and MSEs benefit (Smith, 1977).

Gathering advancing is typically broadcasted as the essential progression of microfinance and cases to give an answer for the shortcomings of imperfect credit markets, explicitly to the trial of overcoming information deviations. Information deviations could provoke the specific characteristics of opposing assurance and moral gamble. Because of troublesome assurance, the advance expert requirements information on the danger of its borrowers. Less secure borrowers will undoubtedly default than safer borrowers, and consequently should be charged higher advance expenses to compensate for the extended bet of default (Rahman, 2010). The standard model of crediting normally contains two frameworks which address the issue of information awkward nature: assortative planning or screening to oversee hostile decision, and companion seeing to overcome moral gamble.

This hypothesis helped in this study when the firm need the entrance of advances and development of the SMEs. This hypothesis upholds the presentation of the SMEs through admittance to the microfinance administrations.

2.1.4 Definition and Scope of Microfinance

Microfinance services according to Grameen Bank (2006) refer to the banking service provisions for low-income payees particularly the deprived as well as the poverty stricken. Therefore, the service users not only women who are poor, but also business men with very small enterprises who are always in the hunt for capital to fund their entities.

Microfinance alludes to limited scope monetary administrations for the two attributes and stores that are given to individuals who are maintaining sure business; work little or miniature undertakings where merchandise are created, reused, fixed, or exchanged; offer types of assistance; work for wages or commissions; gain pay from leasing modest quantities of land, vehicles, or apparatus and apparatuses; and to others and neighborhood bunches in agricultural nations, in both rustic and metropolitan regions (Luo, Hafee, Sun, & Rahman, 2015). Over 200 million people are believed to be served by microfinance, and a large portion of this customer base was attained during periods of rapid expansion in the early 2000s, when microfinance was hailed as a vital development tool and its commercialization as a means of increasing both financial and non-financial returns.

Unlike commercial banks, the microfinance do not focus on making member gender, provision for collateral, age of firms and formal registration of firm most important categories while thinking on credit application. This makes it simpler for microbusiness owners, especially those who have been marginalized, to obtain enterprise financing from microfinance institutions, which in turn helps the business owners perform better (Casmir, 2014).

Morduch (1998) advancement of the microfinance area depends with the understanding that the poor have the ability to carry out pay creating financial exercises however are restricted by absence of admittance to and lacking arrangement of reserve funds, credit and protection offices. This approach likewise parts from the coordinated credit techniques by lessening the public authority inclusion and by giving close consideration to the motivations that drive productive execution. The improvements in microfinance administrations have been founded on a model conveyance model that is viewed as the most fitting solution to catch monetary necessities of the poor in different financial and institutional frameworks. In any case, following twenty years of involvement, a superior comprehension of the monetary help inclinations and ways of behaving of poor people and most unfortunate is as yet expected to grow the extent of microfinance drives in tending to the worries about government assistance ramifications of MFIs.

2.1.5 Small and Medium Enterprises

The terms "micro, small, and medium enterprises" (SMEs) are used interchangeably. It's also known as micro, small, and medium businesses (MSMEs). The SMEs mostly engage in manufacturing, mining, trade, and services in non-agricultural economic activities. There is no agreed-upon definition of a SME. Depending on their degree of development, many nations utilize a variety of size measurements. The employees, total capital investment, and business turnover are typically utilized metrics. The entrepreneur must be actively involved in management, there must be up to nine employees, the financial transaction must be less than twenty lakhs in one year. These are some examples of situations where these criteria apply. A micro-enterprise is a small business that employs between 10 and 15 people, is focused on making a profit, and can be run by either a man or a woman.

The majority of SMEs in Nepal are engaged in the production of textiles and associated goods, consumer and home goods, and food products for both the domestic and export markets. Pulses, flour mills, Rice, oil and dairy products, aerated drinks, juices and biscuits, processed goods, noodles and sweets, water, vegetables & various domestic products and uses of those goods have dominated by small business activity in Nepal. Forest based business activities, timber and handicrafts, handcrafted cloths and goods, textiles & clothes, carpets & leather products are other industries in which SMEs are active. Involvement of SMEs is also high in the manufacturing of plastic, metal furniture, wooden & presses, utensils, jute products, livestock products & poultry products. It is also high in the manufacturing of rubber tires and plywood, tubes & color paint products, boards, and zinc oxide. While in the same way various sectors where small business has begun to invest include agro-based ones including vegetables, tea and agricultural goods, dairy products, animal products and flower products. Small hydropower and tourist places and buildings also got capital investment in some category which shows result of the private sector's access to funding for infrastructure development. There are a sizable number of unregistered businesses that run on a seasonal basis at the micro, cottage, and family level (Khare & Upadhyaya, 2021).

Rupandehi region, in southern Nepal, will before long change into a significant modern center with new assembling units vowing to put billions of rupees soon. According to cottage and small industry development committee over 300 enormous firms have committed a speculation of Rs 1 billion each. Further, the locale has enlisted around 600 medium-sized firms and these too would contribute a sizeable sum. More than 10,000 firms in the locale are enrolled as little and cabin firms. Because of exposure of Lumbini as the origination of Buddha, the continuous development of Bhairahawa global Airport, simple admittance to unrefined substances due to connecting line point with India and consistent improvement of foundation, Rupandehi is ready to turn into a significant modern center of the country soon. Already more than small and medium enterprises are registered and they are providing various goods and service to the local people of Rupandehi district most of them are doing business with retail business selling various daily usable goods.

2.1.6 Models of MF in Nepal

Microfinance methods in Nepal are an impression of the nation's fluctuated geology and thick populace. The Grameen Bank idea has been embraced by a few gatherings in the Terai region (plain), which is all the more thickly occupied, has further developed transportation framework, and is less difficult to arrive at clients. Furthermore, it is where laid out monetary establishments like business and improvement banks are dynamic. Local area based associations, such Self-Help Groups, Credit and Savings Associations, and Cooperatives, give off an impression of being the most adjusted to the disengagement and confinement of country networks in the slopes and mountains.

Grameen Bank Methodology

First acquainted with Nepal in the mid-1990s. Microfinance suppliers utilizing the Grameen strategy will normally offer general credits, occasional advances, explicit credits (disinfection, lodging) and the credits gave from the gathering store. Reserve funds items are by and large the obligatory gathering store reserve funds, and any extra private, intentional reserve funds. As of late, a few driving microfinance suppliers have begun to create some distance from the conventional Grameen model, to zero in on new practices for Nepal, like a smoothing out of tasks, the presentation of client well-disposed items, and a solid accentuation on establishment and staff limit building.

Community Based Models

Saving funds and Credit Cooperative Societies (SCCS), give many reserve funds and advance items to their individuals. They will generally serve a well-off populace yet in addition poor people, with a more grounded accentuation on the distraught on account of associations laid out by improvement programs. Credits given by SCCS have a base term of 90 days and can be stretched out for over year and a half, covering explicit purposes, like farming, microenterprise, lodging, or, at times, crisis or social reasons.

Village Bank Model

Between 1998 and 2001, it was also used in Nepal as part of the Women Empowerment Program of Pact Nepal. This philosophy centers around enabling moderately huge gatherings (20-40 in Nepal) in building their own monetary establishment, with a reserve funds first methodology. To begin with, the town bank advertisers, for this situation nearby NGO accomplices of Pact Nepal, gave preparing to the town banks, zeroing in on building the limit of participation and the executives boards. The advertisers likewise loan store funding to develop the 'outer record' of the town bank, which is then on loaned to individuals. Reimbursements from individuals are gathered by the town bank, which reimburse its fundamental commitment to the advertisers. In equal, the town bank individuals develop their 'inward record' through investment funds and on loan inside this asset.

Other Group and Individual Lending Methodologies

The two public-possessed business banks, Nepal Bank Ltd. what's more, Rastriya Banijya Bank, addressing 95% of the country parts of business banks in Nepal, are lessening their presence in rustic regions. Their branches were impressively debilitated by the outcomes of the neighborhood struggle and the developing tension from the rebuilding program upheld by the World Bank. Under the denied area necessity, business banks can decide to give value or discount assets to microfinance establishments, or loan straightforwardly to poor people. For the situation, they normally give credits not surpassing Rs.30, 000 to people or gatherings, most frequently with regards to an administration supported program (Intensive Banking Program for instance).

The improvement of microfinance rehearses in Nepal actually faces many difficulties. There is a need to embrace further exploration on fostering a model adjusted to the slopes and mountains. A federative form of Savings and Credit Cooperative Societies (SCCS) might fundamentally strengthen the effort of microfinance administrations in the slopes in light of recent research led by CMF.As in numerous nations, developing the effort in focusing on the most unfortunate is as yet a troublesome errand in Nepal. Also, the political setting and the ongoing rebellion don't give the best circumstances to microfinance strategies to be the most effective, given the extra costs connected with the frailty circumstance in rustic regions.

2.1.7 Contribution of SMEs to the Economy

Nepal is a country where we can find lots of small and medium scale enterprises. They can be found everywhere, including the remotest Terai regions and the highlands surrounding Kathmandu. SMES play a vital role in the economic and social development of this country. Both jobs and income are produced by them. Microbusiness profits, many of which are owned by women, provide poor households with crucial incomes. MSEs also improve products and offer crucial local services (Neupane, 2014).

Small and micro businesses make a substantial contribution to the creation of jobs, the reduction of poverty, and the expansion of the private sector as a whole. In developing nations like Nepal, micro and small businesses are more suited for economic development than medium and large-scale businesses. The development of MEs is being worked on by organizations and programs like IEDI, MEDEP, and OVOP in addition to the ministry of industry. On account of proprietor of miniature endeavors, multiple third i.e., 67.9 rate miniature ventures are worked by ladies' business people and remaining undertakings i.e., 32.1 rate ventures are worked by male business people (Karki, 2013).

Farm income rose by 19.5% but off-farm income rose by 68%, indicating that non-farm activities changed more after MFI engagement. SMEs made up 96 percent of all industrial establishments in 2001, supplied 83 percent of the sector's employment creation, and made up around eighty percent of the manufacturing sector is contributed to the total GDP of Nepal (Dahal & Sharma, 2004).

Department of Small and Cottage industries shows that, the number of MSMEs in the nation climbed to 400,000 between 2006–07 and 2015–16 from 69,431 up until fiscal 2005–06. This is an impressive growth from the 70,000 MSMEs that existed up until that point (DCSI). Since women manage the majority of micro, small, and medium-sized businesses, the expansion in MSMEs has also contributed to the idea of inclusive economic growth. According to data from the Ministry of Industry, MSMEs have been producing about 22% of the nation's GDP and 1.75 million jobs, which has been essential to the economy (Acharya, 2017).

2.2 Problem Faced by SMEs

In general, MSEs in Nepal have antiquated and less efficient production processes and technologies, limited capital bases, archaic management practices, undeveloped entrepreneurial cultures, and less knowledge and data towards activities relating business process and doing their marketing activities. On financial front, MSEs are frequently unable to obtain sufficient finance to complete comparatively more work. One factor contributing to entrepreneurs' incapacity to raise capital is their ignorance of financial institutions that can grant them loans. The habit of financial institutions to grant credit based on relationships rather than the viability of the projects is another factor in their difficulty to raise money. Because they view the process as being difficult and unduly bureaucratic, many MSEs are hesitant to apply for financing from the formal sector. Instead, because it is readily and quickly accessible, people continue to rely on informal credit despite its high interest rates. On the front of product development and manufacturing, MSEs need assistance in making the best technological option, furthermore in obtaining latest technology that suits to their unique demands & able for undergo recurring upgrades. The ability of most MSEs to export is significantly impacted by a lack of access to technology (Karki, 2013).

MSEs face a greater number of difficulties in carrying on with work than huge endeavors due to the challenges in supporting beginning up and extension. Schiffer and Mauro (2001) found that little firms will for the most part experience a greater number of difficulties than medium-sized firms, which similarly experience a bigger number of difficulties than colossal firms. In numerous countries, especially arising nations, advancing to private endeavors and business visionaries stays confined considering the way that financial center individuals are unfortunate about giving credit to associations on account of their high bet, little portfolios, and high trade cost.

As indicated by Kung and Gabriel (2011) cost of exchange adds to the powerlessness of the MSE to get to back. They are of the assessment that "assuming exchange cost of loaning are high the net edge banks anticipate from credits activity don't look at well 16 against safe venture addressed by depository bonds". Ackah and Vuvor (2011) likewise shares the very view that in the event that a bank face data unevenness, the issue frequently turns out to be fairly powerful power the person holds in guaranteeing reimbursement. These push up exchange cost as the likelihood of default is thought to be high and must be contained. Hence, banks might try not to loan to more modest or less popular clients or force severe security prerequisites when they do. They might see clients in manners that would beat the last option own impression of the trouble in acquiring formal money.

2.3 Empirical Review

The majority of research studies contend that microfinance services positively affect SME performance. This empirical review's goal is to provide insight into the relationship between micro-finance services and the performance of SMEs with their financial condition.

2.3.1Micro Loan and Financial Performance of SMEs

Moruf (2013) conducted research on the effect of micro-credit on operations of small and medium business. Administration with microloans on SME projects, SME perspectives on microloans, and SME challenges in obtaining these loan facilities were all investigated. The researcher used a structured questionnaire to obtain firsthand information from two hundred and fourty randomly SMEs. The study's findings showed a notable correlation between SME performance and microloan performance. The high interest rates and other difficulties SMEs faced in getting finance were also disclosed. The study focused for the impact of micro credit services provided by micro-finance organizations for the operations of small business, evaluating SMEs' actions of how loans were managed by microfinance institutions in Nigeria. Due to the differences in the study's environment and the study variables falling under the independent variable, there was a conceptual and contextual gap developed as a result.

In the Ledzorkuku-Krowor Municipality in Ghana's Greater Accra Region, Ahiabor (2013) conducted study on microfinance and the growth of SME. From 235 SMEs, the researcher selected 70 for sampling, and SPSS was used to examine the quantitative data. According to the survey, it was difficult for SMEs to turn a profit and pay back their advances because of high interest rates and other fees. The research was based mostly on microloans provided by MFIs to SMEs, leaving a conceptual gap in the study.

In research published in 2014, Makorere (2014) investigated how microcredit helped small and medium business in Tanzania. Researcher employed Cross-sectional design strategy and gave 51 SME owners who were selected using a simple random and snowball sampling design a structured questionnaire. The study found that, besides an increase in capital structure, the support of microfinance was directly responsible for an increase in jobs, profits, sales, and outlets. The study suggests using an integrative strategy while managing credit. Regarding the additional microfinance services offered in addition to lending, a conceptual and contextual vacuum was left.

In 2014, Ngugi and Kerongo have studied for impact of micro-finance for expansion of small and medium business of Kenya's Mombasa County. So as to evaluate effect of microfinancing for the expansion of small business, the research used a descriptive survey research approach. According to the data that was gathered, MFIs were helping SMEs expand their operations in a beneficial way. Similar to this, the study found a significant and positive association between loans and SME growth. The report made several recommendations, one of which was to provide loans to SMEs with adequate and comprehensive observing activities. In contrast to the variables that will be employed in this research, the study used income, sales, and competitiveness as the independent variables, with not having the conceptual research gap.

In 2016, Antoh, E. F., Mensah, Enu-Kwesi, F., & Addo, examine how microfinance in Ghana affects earnings and startup capital. The descriptive research design was used in the study, along with both quantitative and qualitative approaches. The study included 361 recipients of microloans, including thirteen senior members among the Sinapi Aba Trust, including financial service officers and associates branch manager. According to the research, microfinance services increased people's incomes, particularly for those who worked in the banking industry. The study's exclusive focus on loans led to a conceptual gap.

Furthermore, in Kenya, Makola and Sakwa (2017) performed research on household well-being and microfinance accessibility. 220 SME owners made up the sample size for the study's survey research design. Data collection involved the use of self-administered, semi-structured and structured questionnaires. The study found that the clients' wellbeing was significantly enhanced by the microloans and business development services provided by the microfinance. It was suggested that businesses who offer microloans should help their customers with additional financial education. These services ought to focus on expanding businesses as well as problems that generally impact low-income households. However, there is a conceptual gap because the study was limited to microloans and business development.

Gyimah and Boachie (2018) conducted research on the relationship between microloans and the expansion of small businesses in Ghana. A structured questionnaire was used in the research's descriptive research design to study 248 owners of small businesses. The study found a positive correlation between small business growth and all microfinance products. The study recommends that MFIs enhance the insurance solutions they offer to people doing business activities in response to give financial assurance to them for event of any other operational shortcoming. Similar to this, MFIs should keep systematically delivering innovative training to support growth and profitability. There is a methodological gap since the research employed a descriptive research design rather than the explanatory that the researcher will use.

2.3.2 Micro Savings and Financial Performance of SMEs

In Kenya's Machakos County, Kisaka and Mwewa (2014) investigated the impact of micro savings, micro-credit and financial training on the expansion of small business. The study used a survey with 100 businesses as its sample size. Data was gathered via questionnaires. The study found that SMEs grew significantly and favorably as a result of microcredit and micro savings. Training, however, has no effect on the expansion of SMEs. To provide customized training services to their SME clients, it was advised that microfinance banks do a requirements analysis of SMEs.

Mungai (2015) conducted research on the expansion of SMEs and microfinance products in Kenya's Kajiado County. The study used a descriptive research methodology to examine nine different business classes in the Kajiado County. To assess the relative impact of microfinance products on SME growth, multiple regression analysis and partial correlation analysis were used. The study showed a relative impact of micro saving on SME growth, but the majority of SMEs did not use this product. Due to the research's distinct topic area, there are methodological and contextual gaps.

Peprah (2015) also conducted research on how Ghana's Sekondi-Takoradi metropolis' microfinance beneficiaries responded to the programs. To collect primary data for the study, face-to-face interviews and questionnaires have been used. Descriptive analysis used for analyzing the responses. According to research study, some beneficiaries saw a gain in periodic saving, but their standard of living same. Accordingly, report recommended that micro-finance lower loan interest rates, provide recipients with insurance to protect them from dangers, and make sure that the loans they issue to customers are used for what they were intended for. Due to its exclusive focus on loans and savings as microfinance services, the study left a conceptual vacuum.

In Kisumu County, Kenya, Omondi and Jagongo (2018) conducted study on the performance of young SMEs and microfinance programs. 135 young SMEs were studied using a descriptive research design. According to the study, microfinance products positively impacted the performance of SMEs. Before offering SME owners loans or any other type of financial assistance, it was advised that MFIs train them in fundamental financial management skills as a strategy to improve SME performance. By doing this, the effective utilization of the funds is ensured. There is a contextual gap in the study because insurance was not considered a microfinance service and was studied in a different area.

2.3.3 Financial Training and Advisory and Financial Performance of SMEs

As per Sánchez, (2011) monetary schooling preparing gives material funding to a finance manager engaging the individual to take part in the economy and society. Microfinance train business visionaries on monetary administration, business arranging and projection. One more significant benefit of preparing is that the proprietors foster organizations, innovation sharing, and master abilities to improve their business by commercializing it to a greater level. The fundamental purpose for procuring this multitude of abilities is that such preparation are custom-made to show enterprising abilities among the proprietors of SMEs. All around the world significance of preparing has been perceived as a significant device for improving the exhibition of SMEs

Likewise, the study on the growth of SMEs in Taizhou, China, was conducted by Xitian in 2013. The research's data came from the analysis of questionnaires that were created to be used independently. The study finds that the number of employees determines the size of the company. The survey also stated that the availability of training is another characteristic of SMEs. The study made clear that, in the situation of the availability of training, the forecast of a SME's development and productivity level is very likely. This is due to the higher likelihood of increased efficiency and worker fulfillment for SMEs that frequently upgrade for workers. Research came to the conclusion that microfinance services are crucial for the growth of SMEs.

Furthermore, Organization for Economic Cooperation and Development (OECD) conducted a study on SMEs in the New Zealand, Canada, United Kingdom, Poland, Turkey & Belgium. The study found that SMEs are reluctant to participate in financial training programs due to a lack of time, high training costs, and difficulties while giving the training & advisory to fulfill the demands of the business activities. In addition, It found that companies shunned training opportunities because they believed they possessed the necessary business-related skills. In order to help SME owners, gain the necessary expertise for effective utilization of the resources they obtain, microfinance institutions must train them.

To support previous literature Rotich (2015) conducted study of the SMEs performance in Kenya and availability of micro-credit programs. In order to analyze four hundred and twenty-nine SMES in Githurai area, the researcher have taken self-administered question and an explanatory research methodology. The findings showed that the microfinance institutions' savings, credit, and training in MSME investment services were all viewed favorably by MSME owners. According to the study, there is some association between the performance of micro firms and the services offered by microfinance institutions. MSMEs' performance was also significantly impacted by microfinance. The absence of insurance as a microfinance service resulted in a conceptual gap.

Lastly According to research by Haider, Asad, and Fatima (2017) on micro-finance & the success of small and micro businesses in Indian state of Punjab, financial training is crucial for ensuring that companies perform better. The study used a questionnaire as its method for gathering data. A straight forward sampling procedure have been used to select a respondent of 385 who owns small and medium business owners. Survey found that SMEs owners' financial trainings helps their companies flourish. In order to help business students, enhance their entrepreneurial talents, the researcher recommended that business training modules be created as part of business studies curricula. In order to increase the loan recovery rate, micro-finance organizations should have to made mandatory for providing financial training to small business owners.

2.4 Summary of Literature Review and Concluding Remarks

The chapter reviewed the literature for how microfinance services impact SMEs' financial performance. The researcher discovered that there are few studies on the effects of loans, savings, financial literacy training, and other microfinance services on SMEs. The majority of research done centered on the mobilization of savings and the disbursement of loans. This suggests that there is insufficient empirical data regarding the financial success of SMEs and microfinance products. As a result, it follows that research for connection among micro-finance & Financial performance of small and medium business is important.

Table 1

Literature Review Matrix

Author	Study	Variable used	Methodology	Findings
Gyimah & Boachie (2018)	Micro-finance products and small business growth in Ghana	Study included government regulations as a moderating variable	Correlation and multiple regression analysis	It showed a positive relationship between microfinance items and the development of little undertakings.
Omondi and Jagongo (2018)	Microfinance Services and Financial Performance among youth SMEs in Kisumu.	Micro-finance services including saving, micro loan & financial training as independent variable	Correlation and multiple regression analysis	Microfinance services have a positive relationship with the financial performance of SMEs.
Makola and Sakwa (2017)	Microfinance openness and family prosperity in Embakasi Constituency, Kenya	It includes savings, insurance and government regulation.	Multiple regression analysis	77% of respondents concurred that admittance to miniature advances further developed family pay. 71% concurred that a positive relationship exists among preparation phases and business execution.

Table 1: *Literature Review Matrix (contd.)*

Author	Study	Variable used	Methodology	Findings
Haider, Asad and Fatima (2017)	Microfinance and performance of micro and small enterprises in Punjab	This study used net profit margin as the performance indicator	Multiple regression analysis	Preparing was extremely essential in guaranteeing that organizations appreciate better execution.
Anto, Mensah, Enu-Kwesi and Addo (2016)	Effects of microfinance of products on incomes and business capital in Ghana	The study focused on micro insurance, savings and financial literacy training	Correlation and multiple regression analysis	Recipients of microfinance advances had the option to encounter an expansion in their functioning capital and their pay level.
Mungai (2015)	The impact of microfinance offices on the development of SMEs in Kajiado County, Kenya	Study included government regulations as a moderating variable	Multiple regression analysis	Found a general impact of miniature saving money on SME development, in any case, most SMEs didn't belittle the miniature saving items presented by microfinance foundations.
Peprah (2015)	The effect of microfinance offices and its effect on recipients in the Sekondi-Takoradi metropolis, Ghana	The review was centered around microfinance and the monetary exhibition of SMEs	Multiple 7regression analysis	Found that investment funds of a portion of the recipients increased however their way of life continued as before.

Table 1: *Literature Review Matrix (contd.)*

Author	Study	Variable used	Methodology	Findings
Kisaka and Mwewa (2014)	Micro credit, micro reserve funds and preparing on the development of SMEs in Machakos County in Kenya	The study included government regulations as a moderating variable	Multiple regression analysis	Credit and investment funds affected the development of SMEs. training no affected the development of SMEs.
Makorere (2014)	The role of micro credit in supporting SMEs in Morogoro, Tanzania	The review presented different factors like miniature protection, reserve funds. The review centered in Ghana	Multiple regression analysis	Microcredit played a direct role in the expansion of SMEs. Access to microloans alone does not directly correlate with increased corporate capital structure.
Ngugi and Kerongo (2014)	Micro-financing and development of small and micro enterprises in Mombasa County, Kenya	The review in view of different factors like funds, credits and insurance	Correlation and multiple regression analysis	Innovative achievement was connected with large scale financial variables like tax collection, foundation Uncovered a positive and significant association among microcredit and the development of SMEs
Rotich (2015)	Impact of microfinance products on SME performance in Kenya	The study based on variables like micro savings, micro loans and insurance	Correlation and multiple regression analysis	There is an affiliation between provision of microfinance and performance of

				micro enterprises.

Table 1: *Literature Review Matrix (contd.)*

Author	Study	Variable used	Methodology	Findings
Ahiabor (2013)	Microfinance and the development of SME in the Ledzorkuku-Krowor of Ghana	The study introduced other variables such as role model, repayment of loan and reasonable profits.	Correlation and multiple regression analysis	Exorbitant financing costs among different elements were obstructing SMEs from creating sensible gains for reimbursement of advances.
Moruf (2013)	Miniature credit and the tasks of SMEs	The study concentrated on micro-savings, insurance, and government restrictions as a moderating factor.	Multiple regression analysis	Shown that SMEs face various obstacles when trying to acquire finance. Among these difficulties was the high interest rate.

2.5 Conceptual Review

Microfinance services

Microfinance services according to Grameen Bank (2006) refers to the banking services provisions for low-income payees particularly the deprived as well as the poverty stricken. Therefore, the services users not only include who are poor, but also business men with very small enterprises who are always in the hunt for capital to fund their business. Actually, these categories of people take services in microfinance entities for emergency management, such as acquisition of assets for their households, financing obligations and also for their homes' improvement. So, the services provided by microfinance entities expound on multitude of product related to finance which are offered to the microfinance clients such as micro-loan, micro-insurance and savings.

Microcredit has been referred to as the cornerstone of microfinance institutions and is a crucial component of microfinance (Gyimah & Boachie, 2018). All these are sources that provide certain people doing business on an as-needed basis. MFIs use the terms "micro credit" and "micro loan" interchangeably and classify them as parts of the microfinance industry. These loans are provided through microfinance programs, which serve a number of purposes. Business owners may take care of their basic needs, reduce risk, and improve the household's financial security, which leads to strong SMEs performance in factor of earnings, sales turnover and other factors of their performance.

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

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

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

Financial Performance

Performance is the indicator of business's internal strength and external concern when compared to other businesses in the same industry. According to Moullin 2007 theory, performance with finance is capacity of organization which manage their operation by offering consumers and other stakeholders improved services. A company venture's capacity to manage the resources that generate its revenue is assessed using financial performance metrics. It is done to track and evaluate how well SMEs are doing in achieving their strategic objectives.

SMEs must periodically analyze and evaluate their operations to see if they are still on course to fulfill their stated objectives, aims, and missions. There are many approaches for SMEs to evaluate their financial performance due to the diversity of their aims and objectives. These metrics include gross profit, net profit, and net margin on sales. Different factors both equity and debt financing have on a business' performance. More debt financing would mean greater interest costs, which would lower net profit. On the other hand, a significantly greater usage of equity and less debt would have the opposite effect (Kihara, 2017).

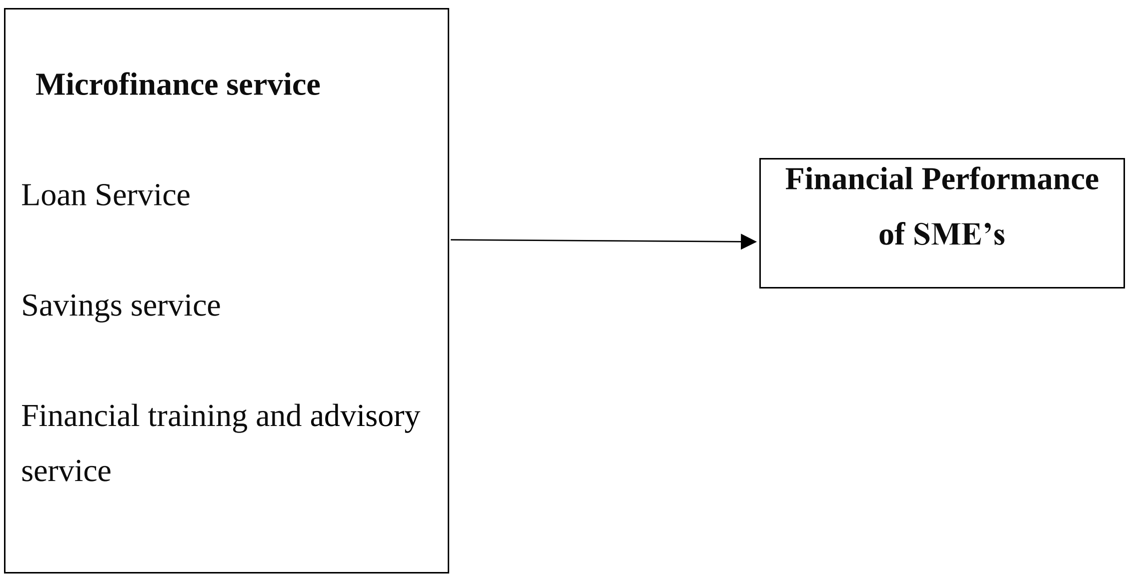
According to Praise (2003), financial performance refers to behavior directed toward achieving financial goals in the eyes of those passing judgment. Glenn (2006) describes financial performance of an entity as a productivity and effectiveness measuring instrument that may be used by an organization. Profit, sales turnover, and production ratio were used in this study to gauge financial performance. In this regard, Brigham and Houston (2015) provide an illustration of how the financial performance of enormous companies can be broken down into a number of finance-based ratios. Liquidity, market value, earnings, asset management, and debt control are a few of these. However, micro and small businesses completely lack these five financial parameters. In this regard therefore, an empirical study by Wijewardena, Nanayakkara, and Zoysa (2008) highlights that the performance for SMEs in terms of finances is generalizable by altering ratios of finance into sales turnover, level of production and profit. This similar notion is supported by McMahon (2007) who contends that financial performance of MSEs can be rationed on the basis of sales ratio, production ratio, and profit.

2.6 Conceptual Framework

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

Figure 2.1. Conceptual Framework

Independent Variable   Dependent Variable



Source: (Omondi & Jagongo, 2018)

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

2.7 Concluding Remarks

The contribution of microfinance on the financial performance on SMEs have not get opportunity to get research attention of Rupandehi district. Which shows this study have filled the research gap by extracting condition of Rupandehi and giving proper evidence for the effect of micro-finance for the financial performance of micro and small business within the country. While there has been sufficient exploration accessible on the issues and difficulties looked by Micro-Enterprises and need of Microfinance there is a deficiency of writing and examination on the effect of Microfinance on the development of the Micro-Enterprises.

Besides, empirical observations relating to microfinance services and financial performance in Nepal have given life to inconclusive results. Some empirical observations only looked at microfinance and poverty alleviation amongst. Other studies looked at microfinance service delivery alone as a catalyst for enterprise growth (Ranabhat & Dhungana, 2021). A question pertaining to whether specific microfinance services (loan services, savings services, training and advisory services) improve or worsens financial performance of SMEs in Rupandehi offers a gap for further research which this study will serve to fill.

CHAPTER III

RESEARCH METHODS

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

3.1 Research Design

Kothari in 2004 defined research design as “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. The conceptual framework is the framework for conducting research; it constitutes the blue print of collecting various data and analysis of those data. This particular research is quantitative in nature. The research design used in this research is descriptive and analytical research design. This design provides better understanding of the relationship between loan service, saving service, financial training and advisory service and SMEs financial performance in Rupandehi district.

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

3.2 Population and Sample

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

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

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

Where,

Z = confidence level (95%)

P = estimated proportion

q = 1 – P

e = error margin (5%, an "acceptable" margin of error used by researchers falls between 4% and 8% at the 95% confidence level.)

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

= 384.16

Sample size required was at least 384.16.

3.3 Nature and Source of Data

The study intends to incorporate primary methods of data collection.

Primary Data:

For this research purpose data were collected through self-administrative questionnaire.

3.4 Instrumentation

Research instruments also known as research questionnaire, there are two types of research instruments; self- developed research instruments and already developed and used research instruments. In this study, four instruments were used, Loan Service, Saving Service, Financial training and advisory service and financial performance of SMEs these research instruments were already used and validated in western context. First hand data were collected by maintaining self-administrative questionnaire. The questionnaire contained closed ended questions relating to each study variable. This research is mainly focused on the firsthand data. At initial phase, the conceptual framework was developed based on the secondary data collection procedure. The secondary source of data as a part of literature review was internet, books, journals, newspaper and articles. In the later stage of the research, the primary source of data collection was used for the purpose of collecting data so as to analyze data for making findings. Thus, the major tool used in data Collection was questionnaire. The questionnaire that was used for this study was retrieved from Kimunga (2021).

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

3.5 Tools for Data Collection

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

3.5.1 Questionnaire Survey

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

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

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

Total 385 set of questionnaires were distributed to the sampled respondents in order to get actual and accurate information. Distribution work has been done through personal visit and also electronic means to get accurate and actual information. The data were collected by visiting various SMEs presenting in Rupandehi district. The Questionnaire has been used as a research instrument with 5-point scale having Likert scale which indicated by 1=Strongly Disagree,2=Disagree, 3=Neutral, 4=Agree and 5= Strongly Agree

3.6 Methods of Data Analysis

After the information had been gathered, the reactions on poll review were sorted, organized, handled and investigated with the assistance of Smart PLS and SPSS. Both the Kolmogorov-Smirnov and Shapiro-Wilk tests yielded p-esteems under 0.05, recommending that the information was not routinely disseminated (Mishra, Pandey, and Singh, 2019).

Descriptive as well as factual instruments were suggested to accomplish the plan of the review. Frequency distributions, tables, percentage, means, variation, comparison of means and non-parametric tests were performed. Reliability analysis using Cronbach's alpha to evaluate whether the value obtained in this research can be trusted or not. It evaluates how well set of variables and items measures a single, one- sided is hidden aspect of individuals, suggested to be more than 0.7.

Cronbach alpha qualities are subject to the quantity of things in the scale. The p-esteem was contrasted with the importance level based on which the invalid speculation was either dismissed or not. In the event that the p esteem was not exactly the importance level (0.05), the invalid speculation was dismissed. On the off chance that p esteem was more noteworthy than or equivalent to importance level, the invalid speculation was not dismissed.

In top sections of the questionnaire, people were have to give general background data on their Age group, Gender, married status educational level & business information were analyzed using simple statistical tool i.e., table. Second sections include questions regarding the independent and dependent variables such as loan Service, savings services, financial training and advisory services and financial performances of SMEs. Each variable consists of various questions derived from various literature studies. All together 20 questions have been asked in the form of Likert scale in which the respondent have to provide level of agree and disagree.

3.7 The Model

To inspect the effect of microcredit on the performance of SMEs, the review utilized standard least square relapse investigation, where the reliant variable was estimated by sales performance since it shows both the short-and long-run patterns of SMEs, while the logical factors were credit size which was estimated by how much credit to SMEs, micro-savings, interest rate, term of the credit, reimbursement of obligation and business preparing. The indicators are chosen from key microfinance qualities. The speculation was set to find how much microcredit could work on the financial performance of SMEs in the review. The accompanying various relapse model was utilized to look at the impact of microcredit on the financial presentation of SMEs:

With the following regression model the study was based on:

$Y= \beta O + \beta 1x1+ \beta 2x2 +\beta 3x3 + \acute{\varepsilon}\ldots$ ...

Where,

Y= financial performance

βO = constant

$\beta 1$-3 = independent variable coefficient of regression

x1 = loan service

x2 = saving service

x3 = Financial training and advisory service

$\acute{\varepsilon}$ = error term

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

CHAPTER IV

ANALYSIS AND RESULTS

The Chapter explains the demonstration summarization, analysis and interpretations of the various information collected for the research using various techniques discussed in previous chapters. In order to meet the research objectives, this chapter presents descriptive analysis of demographic data using SPSS and analysis of the connection between variables using Smart-PLS.

4.1. Demographic profile of Respondents

The demographical profile of respondent reflected with the table:

Table 2

Demographic characters of respondents

		Numbers	Percent
Gender	Male	256	66.5
	Female	129	33.5
Age	Less than 20 years	21	5.4
	21 - 30 years	137	35.7
	31 - 40 years	167	43.4
	41 - 50 years	48	12.4
	over 50 years	12	3.1
Marital status	Single	104	27
	Married	253	65.8
	Divorced	14	3.6
	Widowed	14	3.6
Education	SLC/SEE or below	124	32.3
	Intermediate	152	39.5
	bachelor's degree	60	15.5
	master's degree	49	12.7

Source: Survey data (2022)

Table 2 shows that the numbers of the male and female respondents in the sample and with sample of 385 there are more male doing business than female in Rupandehi district. This shows that there are more male entrepreneurs who are engaged in small and medium enterprise rather than females. The study established that most of the respondents are from age group 21-40 years representing high numbers of age group involving in business activities This represents those respondents had varying ages and therefore the research gained views across the various ages of small and medium business owners.

Table 2 also shows that the number of married respondents are involve in business activities rather than unmarried people.

This represents that running a business is indifferent to marital status of the people. The table also shows that a large proportion of the respondents are equipped with intermediate education qualification.

4.2 Business Information

Table 3

Business profile of respondent is reflected with the table:

		Number	Percent
Ownership	Individual	319	82.9
	Partnership	66	17.1
Business duration	0-3 years	122	31.7
	4-6 years	195	50.6
	over 6 years	68	17.7
Employees numbers	less than 10	269	69.9
	10-49	103	26.7
	more than 50	13	3.4
Business type	Retail shop	112	29.1
	Restaurants and food vendors	131	34
	Services	70	18.2
	Manufacturing	72	18.7
Annual turnover	less than 100000	64	16.6
	100000-500000	175	45.5
	over 500000	146	37.9

Table 3 shows that there is more respondent who owns business solely and small proportion respondent are doing business with involving in partnership. The table also shows that there are less numbers of owners who are doing their business activities from 0-3years but majority of respondents are engaged in business activities from 4-6 years. Table also shows that majority of business which has less than 10 employees' involvement in their business activities.

4.3 Descriptive Statistics

Table 4

Level of loan Services

Code	Item	N	Min	Max	Mean	S. D
LS1	Flexible loan repayment schedules of MFIs have enabled me increase my sales.	385	1	5	3.81	1.07
LS2	Investments I make using loans with low interest rates from MFI increase on my business profits	385	1	5	3.58	1.03
LS3	Small loans to meet temporary business shortfalls increase my business sales level	385	1	5	3.6	1.08
LS4	Short term loans from microfinance institutions increase my business production levels	385	1	5	3.55	1.11
LS5	The MFI loan terms that are in the market are fair enough for my business sales operations	385	1	5	3.56	1.19

Table 4 exhibits the descriptive statics of Loan Services. The table shows that mean value of all items is greater than 3, which indicates that the average respondent business firms are influenced by Loan Services which are provided by Micro finance institutions. All the items have responses ranging from strongly disagree to strongly agree, whereas the highest mean is recorded in LS1 i.e., 3.81 indicating highest level of agreement for the statement by average respondent. Likewise, the highest standard deviation is 1.19 from LS5 which indicates maximum deviation of responses. Whereas, 1.03 is the lowest standard deviation from LS2, indicating minimum deviation of responses.

Table 5

Microfinance Saving services Ratings

Code	Item	N	Min	Max	Mean	**S. D**
SS1	Interest earned on my voluntary savings in the MFI increases on my profits	385	1	5	3.71	1.15
SS2	Investments I make using my savings from MFI increase on my sales	385	1	5	3.57	1.12
SS3	Regular savings with an MFI safeguards my business profits	385	1	5	3.64	1.15
SS4	Absence of ledger fees for savings made in the MFI maintains my business profits	385	1	5	3.41	1.11
SS5	Annual withdrawals of my savings increase my business capital and sales consequently.	385	1	5	3.58	1.16

Table 5 exhibits the descriptive statics of Saving Services. The table shows that mean value of all item is greater than 3, which indicates that the average respondent business firms are influenced by Saving Services which are provided by Micro finance institutions. All the items have responses ranging from strongly disagree to strongly agree, whereas the highest mean is recorded in SS1 i.e., 3.71 indicating highest level of agreement for the statement by average respondent. Likewise, the highest standard deviation is 1.16 from SS5 which indicates maximum deviation of responses.

Table 6

Relationship between Training and advisory services and financial performance

Code	Item	N	Min	Max	Mean	S. D
FT1	Basic business skills attained from MFIs has increased my sales	385	1	5	3.66	1.15
FT2	Training on maintaining records of my business transactions has enabled me ascertain my profits	385	1	5	3.55	1.1
FT3	Financial management training by MFIs has helped me increase my sales.	385	1	5	3.57	1.09
FT4	MFIs training programs help small business to gain business management skills which increases their profits in the long run.	385	1	5	3.55	1.14
FT5	Pre-loan training by MFIs has enabled me to increase my sales revenue.	385	1	5	3.52	1.21

Table 6 exhibits the descriptive statics of financial training and advisory services. The table shows that mean value of all item are greater than 3, which indicates that the average respondent business firms are influenced by Financial training and advisory services which are provided by Micro finance institutions. All the items have responses ranging from strongly disagree to strongly agree, whereas the highest mean is recorded in FT1 i.e., 3.66 indicating highest level of agreement for the statement by average respondent. Likewise, the highest standard deviation is 1.21 from FT5 which indicates maximum deviation of responses. Whereas, 1.09 is the lowest standard deviation from FT3, indicating minimum deviation of responses.

Table 7

Financial performance Indicators

Code	Item	N	Min	Max	Mean	S. D
FP1	My business capital has been growing over the past 3 years	385	1	5	3.72	1.16
FP2	My cash collections have increased over the last three years	385	1	5	3.59	1.1
FP3	My profits have been growing over the last three years	385	1	5	3.6	1.09
FP4	Each year we register an increase in sales volume	385	1	5	3.62	1.07
FP5	Our production levels have increased	385	1	5	3.55	1.079

Table 7 exhibits the descriptive statics of financial performance. The table shows that mean value of all item are greater than 3, which indicates that the average respondent business firms are influenced by Financial Performance. All the items have responses ranging from strongly disagree to strongly agree, whereas the highest mean is recorded in FP1 i.e., 3.72 indicating highest level of agreement for the statement by average respondent. Likewise, the highest standard deviation is 1.16 from FP1 which indicates maximum deviation of responses. Whereas, 1.07 is the lowest standard deviation from FP4, indicating minimum deviation of responses.

4.4 Normality Test

Shapiro- Wilk & Kolmogorov-Smirnova test was done to test and confirm the Normality in data set including variables under study. As shown in table 7, for all the variables under study, the significance of Kolmogorov-Smirnovaand Shapiro-Wilk was less than 0.05 which provides sufficient evidence for departure from normality. The test determined that the distribution of variables was not normal.

Table 8

Shapiro- Wilk & Kolmogorov-Smirnova

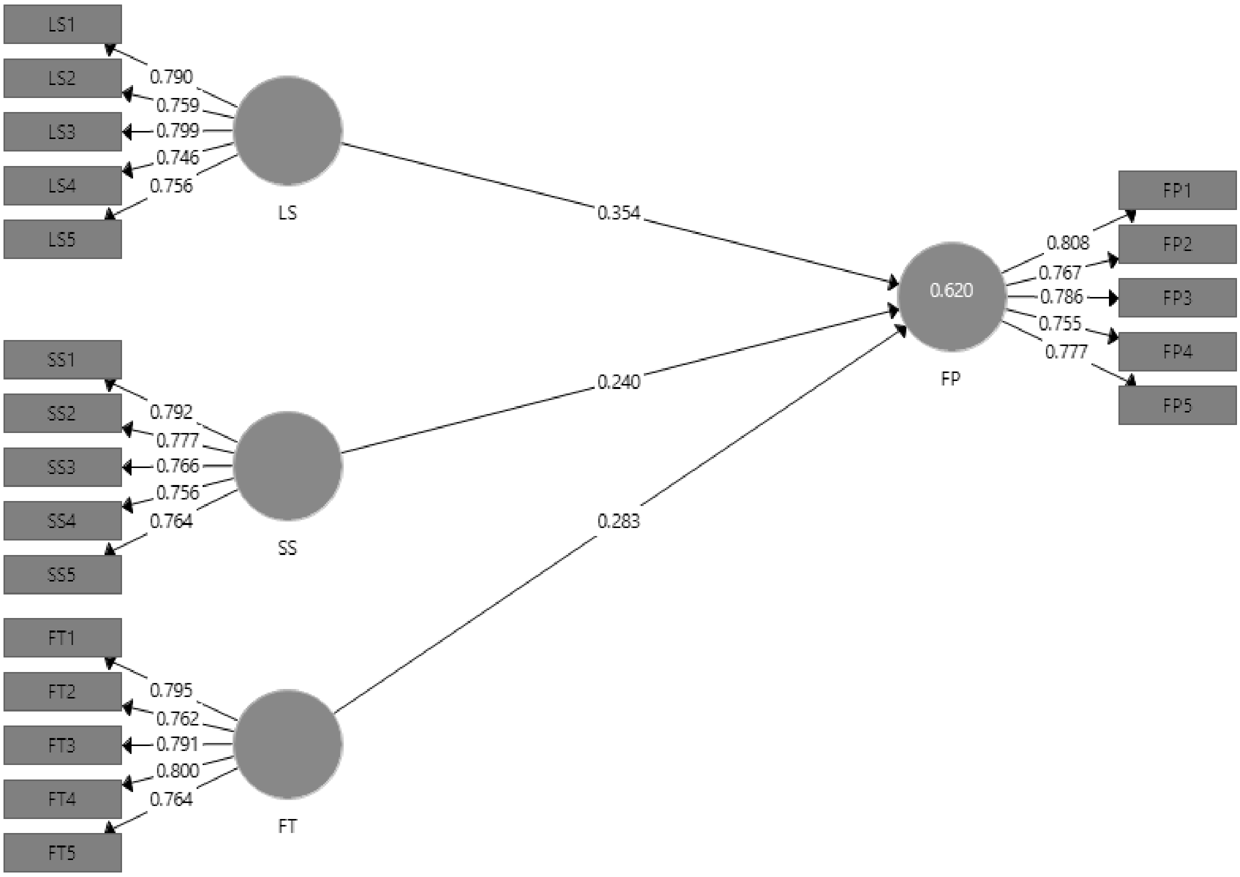
	Kolmogorov-Smirnova			Shapiro-Wilk		
	Stat.	Df.	Sig	Stat.	Df.	Sig
LS	0.143	385	0.000	0.908	385	.000
SS	0.154	385	0.000	0.899	385	.000
FT	0.149	385	0.000	0.901	385	.000
FP	0.148	385	0.000	0.897	385	.000

a. Lilliefors Significance Correction

4.5 Measurement Model Assessment

The relationship between concept and indicator variables is explained by the measurement model, also known as the outer model in PLS-SEM. This research work has two form of measurement models such as formative and reflective model. Assessment of the reflective measurement model involves evaluating the reliability factor, consistency reliability, validity and discriminant validity. The estimation model has been dissected in view of PLS-SEM with the assistance of Smart PLS 3.0. For the appraisal of the estimation model, factor stacking, composite dependability, Cronbach's alpha, normal separated difference (AVE), and discriminant legitimacy were inspected. The findings of all analyses used to assess the measurement model's validity and reliability are presented in the following sections. The research is based on a reflective measurement model that can be seen with its outer loadings in figure.

Figure 2. Assessment of Measurement Model



4.5.1. Reliability and Convergent Validity

The consistency or dependability with which a measurement scale assesses what it is designed to measure is referred to as reliability (Polit & Hungler 1995). Cronbach's alpha, which estimates reliability by the inter-item co-relation among the provided construct, is one of the most important criteria for testing internal consistency reliability. Composite Reliability is also a novel technique of assessing reliability (Henseler, Ringle, & Sarstedt, 2015).

Table 9

Reliability and Convergent Validity

Factors and Items	Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Loan Service		0.838	0.880	0.594
LS1	0.789			
LS2	0.758			
LS3	0.798			
LS4	0.746			
LS5	0.755			
Saving Service		0.830	0.879	0.593
SS1	0.792			
SS2	0.776			
SS3	0.765			
SS4	0.755			
SS5	0.763			
Financial training		0.842	0.888	0.613
FT1	0.795			
FT2	0.762			
FT3	0.790			
FT4	0.800			
FT5	0.764			
Financial performance		0.838	0.885	0.606
FP1	0.808			
FP2	0.766			
FP3	0.785			
FP4	0.755			
FP5	0.776			

Table 9 reveals that all four constructs fulfill the expected thresholds as table shows the loadings value were more than 0.708. where composite reliability were more than 0.7 (Hair, Hult, Ringle, Sarstedt, & Thiele, 2017). Table shows that the value of Cronbach's Alpha is more than 0.8 which is considered as good and shows the reliability of the data (Hulin, Netemeyer, and Cudeck, 2001). The convergent validity of the measurement model is evaluated in this study by looking at its average variance extracted (AVE) value. If the constructs has AVE more than 0.5 then they are said to have good convergent validity. Table 9 reveals that the AVEs for all constructs range from 0.593 to 0.613, indicating that the measuring model has good convergent validity

To depict inward consistency, Kline (2000) proposed a usually acknowledged rule by utilizing Cronbach's alpha which is alpha is characterized as a generally utilized file of test Productivity. Alpha is impacted by the test length and dimensionality. A high worth of alpha (>0.90) may recommend redundancies and show that the test length ought to be abbreviated. The consistency or dependability of a construct's measure is referred to as reliability. In other words, given that the underlying phenomena is not altering company expansion from exceptional (high-stakes testing) with business expansion, quality, and productivity, do we essentially obtain the same answer every time we use this scale to assess the same construct.

Table 10

Cronbach alpha values

Cronbach alpha	consistency
a > 0.9	Fantastic
0.7 < a< 0.9	Great
0.6 < a< 0.7	Satisfactory
0.5 < a< 0.6	Faulty
a< 0.5	Unsuitable

source (Kline, 2000)

4.5.2. Discriminant Validity

"The extent to which the measure is properly distinct from similar constructs inside the nomological net," says Discriminant validity (Dinev & Hart, 2004). The Discriminant validity was tested using the Fornell-Larcker, cross-loading, and Heterotrait-Monotrait criteria.

Table 11

Discriminant Validity- Fornell & Larcker

	FP	FT	LS	SS
FP	**0.778**			
FT	0.691	**0.782**		
LS	0.725	0.688	**0.77**	
SS	0.694	0.686	0.734	**0.77**

Note: Diagonals are the square root of AVE

Table 11 shows that the elements that were loaded were higher in their own construct. It has also been discovered that the root square of AVE is more than the root square of matching correlation estimates that meet Fornell and Larker's (1981 criteria.

Table 12

Cross-loadings

	FP	FT	LS	SS
FP1	**0.808**	0.510	0.584	0.563
FP2	**0.767**	0.559	0.599	0.555
FP3	**0.786**	0.528	0.554	0.562
FP4	**0.755**	0.550	0.529	0.512
FP5	**0.777**	0.547	0.555	0.510
FT1	0.586	**0.795**	0.567	0.562
FT2	0.530	**0.762**	0.541	0.568
FT3	0.537	**0.791**	0.505	0.497
FT4	0.555	**0.800**	0.544	0.531
FT5	0.495	**0.764**	0.536	0.530
LS1	0.580	0.530	**0.790**	0.602
LS2	0.555	0.543	**0.759**	0.584
LS3	0.573	0.567	**0.799**	0.586
LS4	0.539	0.549	**0.746**	0.527
LS5	0.546	0.462	**0.756**	0.527
SS1	0.571	0.530	0.546	**0.792**
SS2	0.565	0.537	0.613	**0.777**
SS3	0.540	0.544	0.556	**0.766**
SS4	0.441	0.481	0.546	**0.756**
SS5	0.543	0.549	0.568	**0.764**

The assigned construct's cross-loading indicators should be higher than all other constructs' loading indications. Table 12 shows the results of cross-loadings generated by the Smart PLS algorithm function. When compared to other variables, all item measurement utilized by this research study loading highest with their opposite latent variable. Furthermore, each block's loading is more than value of other blocks presenting in the same rows and columns, indicating that are proposed in the conceptual model, separating each latent variable as a result, the cross-loading output verifies the discriminant validity of the measurement model.

Table 13

HTMT (Heterotrait-Monotrait Ratio)

	FP	FT	LS	SS
FP				
FT	0.822			
LS	0.869	0.824		
SS	0.826	0.819	0.884	

In fractional least squares underlying condition displaying, the Heterotrait-Monotrait proportion of relationships (HTMT) is another strategy for testing discriminant legitimacy. The HTMT technique depends on ascertaining the connection between's the develops. The HTMT proportion is utilized to decide discriminant legitimacy. The discriminant legitimacy of the estimation model was laid out in light of the fact that each of the develops had HTMT under 0.9 (Henseler et al., 2015). By and large, the estimation model's dependability and legitimacy tests are palatable, showing that the things used to gauge builds in this exposition are legitimate and reasonable for assessing boundaries in the underlying model.

4.5.3 Goodness of model fit

As indicated by Hair et al., (2014's) norms for satisfactory fit, SRMR ought to be under 0.08. So as shown in the table it fits the model of fitness so it is acceptable for the research model.

Table 14

model Fit

	Saturated Model	Estimated Model
SRMR	0.056	0.056

4.5 Assessment of Structural Model

The tests performed to examining structural model validity to do this research study are demonstrated in the next subsections, which include an analysis of the coefficient of determination (R2) and path coefficients.

4.5.1 Indicator Collinearity (Inner VIF)

The VIF (Variance Inflation Factor) statistic is used to determine if the indicators are collinear. When independent variables in a regression model are correlated, this is known as collinearity. When we fit the model and analyze the findings, a high degree of correlation between variables can present problems. The Variance Inflation Factor (VIF) values were less than 5, ranging from 1 to 2.523, indicating that the model was not multicollinear (Hair et al., 2014).

Table 15

Indicator Collinearity (Inner VIF)

	FT	LS	SS	FP
FP				1.000
FT				2.199
LS				2.523
SS				2.512

4.5.2 Hypothesis Testing

The model was measured with using bootstrapping method with 5000 resamples for determining the significance for path coefficient in order to check the significance of the hypotheses. The PLS technique is adopted for testing hypothesis relation between the factors as shown in the figure and table below:

Figure 3. Structural Model

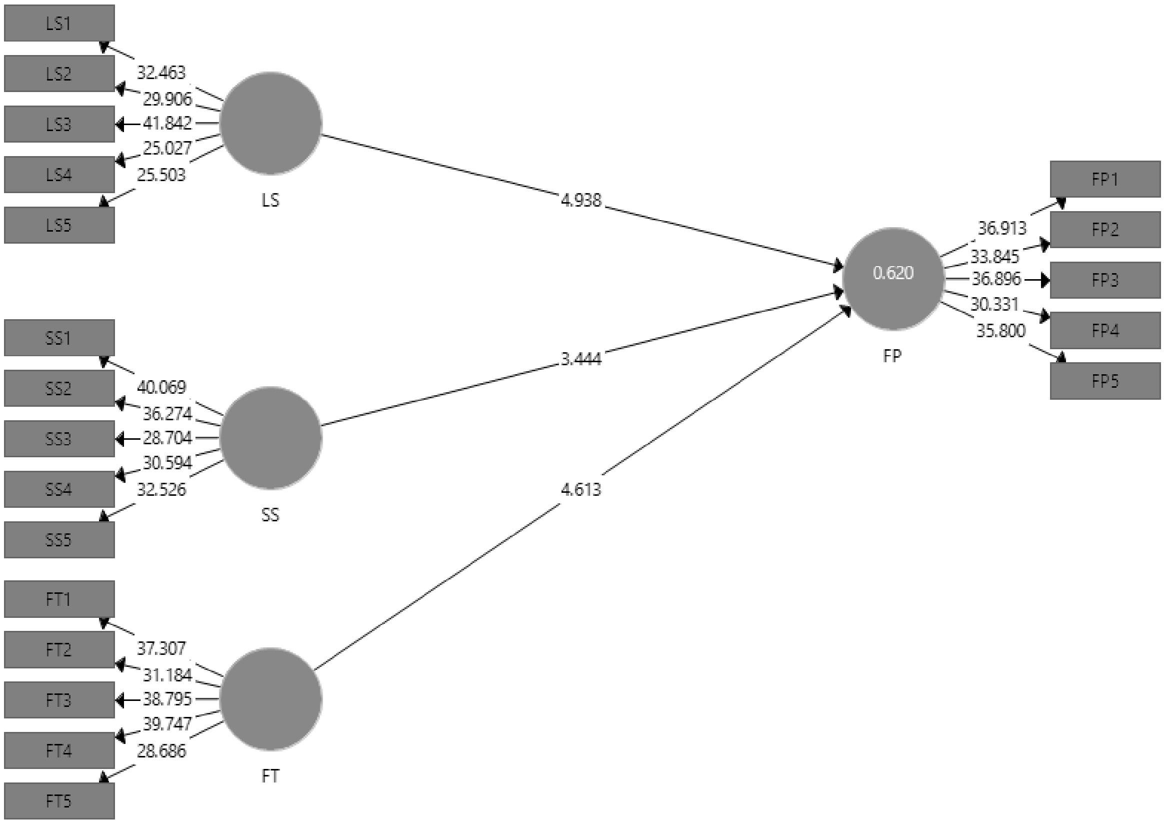


Figure 3 shows the regression coefficients between independent variables, i.e., loan service, savings services, financial training and advisory services and financial performance. It can be observed from the figure that value of R^2 is 0.620 which means that loan service, savings services, financial training and advisory services collectively explain 62 percent of variance in financial performance. The remaining variance can be explained by other variables which are not included in this study.

Table 16

Hypothesis Testing

	Beta Coefficient	Sample Mean (M)	Standard Deviation	t-statistics	p Values	Hypothesis
LS -> FP	0.354	0.354	0.072	4.906	0.000	Supported
SS -> FP	0.240	0.240	0.070	3.422	0.001	Supported
FT -> FP	0.283	0.286	0.062	4.611	0.000	Supported

H1: There is significant relationship between loan service and financial performance of SMEs.

Table 16 reveals there is positive influence between loan service and financial performance of SMEs representing from Rupandehi district. Thus, the hypothesis 1 is supported by the values Beta is 0.354 and $p<0.05$.

H2: There is significant relationship between saving service and financial performance of SMEs.

Table 16 reveals there is positive influence between saving service and financial performance of SMEs representing from Rupandehi district. Thus, the hypothesis 1 is supported by the values Beta is 0.240 and $p<0.05$.

H3: There is significant relationship between financial training and advisory services and financial performance of SMEs.

Table 16 reveals there is positive influence between saving service and financial performance of SMEs representing from Rupandehi district. Thus, the hypothesis 1 is supported by the values Beta is 0.283 and $p<0.05$.

4.5.4 Findings

- The mean value of loan service in a five-point Likert scale is 3.628 with a standard deviation of .846 which suggests that average respondents slightly agreed to the statements that measured loan service.
- The mean value of Saving service in a five-point Likert scale is 3.589 with a standard deviation of .881 which suggests that average respondents slightly agreed to the statements that measured Saving service.
- The mean value of financial training and advisory service in a five-point Likert scale

is 3.571 with a standard deviation of .894 which suggests that average respondents slightly agreed to the statements that measured financial training service.

- The mean value of financial performance in a five-point Likert scale is 3.621 with a standard deviation of .861 which suggests that average respondents slightly agreed to the statements that measured financial performance.
- H1: There is significant relationship between loan service and financial performance of SMEs is supported which indicates that the perception about LS influence on the financial performance of SMEs in Rupandehi district.
- H2: There is significant relationship between saving service and financial performance of SMEs is supported which indicates that the perception about SS influence on the financial performance of SMEs in Rupandehi district.
- H3: There is significant relationship between financial training and advisory services and financial performance of SMEs is supported which indicates that the perception about influence on the financial performance of SMEs in Rupandehi district.

CHAPTER V
DISCUSSION, CONCLUSIONS, AND IMPLICATIONS

The purpose of this section is to sum up the discussion, conclusion & future implications of research study. The data results from Chapter IV are addressed in this section. Based on previous works of literature and theories mentioned during the research, the analysis is explored and compared. This chapter also has future implications and offers insights that could be useful in future study.

5.1. Discussions

The purpose of this research study was to investigate the impact of microfinance service on the financial performance of small and medium enterprises in Rupandehi district of Nepal. Particularly this research study is to determine the impact of loan service, saving service and financial training advisory on the financial performance of SMEs in Rupandehi district of Nepal.

The results from data analysis are in-congruent with previous researches and serve the objectives of the study. This research study has determined impact of micro-finance institution on financial performance of SMEs in Rupendehi District. The research study reviewed conceptual review, theoretical review, review of related studies, research gap etc. to explore the Microfinance (MFIs) services.

Ledgerwood, 2000 stated that microfinance provide various financial services to micro entrepreneurs run by poor people. Indigenous organizations or non-profits run by local authorities in their communities frequently act as private sector MFIs. International NGOs and funders regularly help them with financial support or technical support, especially during the first stages of development.

The vital goal of the review was to examine the impact of Microfinance administrations on the monetary execution of SMEs in the Rupandehi area of Nepal. Considering this, it was guessed that there was no critical factual impact of the composite microfinance administrations on the monetary execution of SMEs. Monetary execution was estimated utilizing the deals turnover, level of creation and benefit. The exploration laid out a measurably huge positive relationship between microfinance administrations and monetary execution of SMEs.

5.1.1 Relationship between loan services and financial performance of SMEs presenting of Rupandehi district

The first purpose of this research study was to determine impact of loan service on financial performance of SMEs in Rupandehi district in Nepal. Revelations on the first objective portrayed a very strong positive relationship between Loan services and financial performance of small and medium enterprises in Rupandehi district. So findings implied that better loans service would result to an increase in financial performance of SMEs. Which shows that when utilization of loan service is systematically performed SMEs owner, which shows that financial performance have improved in condition for increasement in the sales level and profit level and doing business continuedly. Therefore, these findings were in agreement with previous studies by various scholars who established a positive significance for instance; Research conducted on microfinance implication on business growth within Ibadan in Nigeria by Olowe, Moradeyo and Babola (2013) established that there is a significant relationship between microfinance loan services on business growth.

The study overwhelmingly confirmed that the respondents liked the loan services as analysis provided in table 4.3 revealed that Investments made using loans with low interest rates increased on profits of SMEs owned. This observation supported by the study conducted in Nigeria by Oleka, Maduagwu & Igwenagu (2014) it acknowledged low interest loans are likely to push the growth of MSEs upwards.

Also, the revelations that majority of the respondents rated the loan service's contribution to financial performance SMEs as good. The aforementioned observation concurs with research conducted by Oleka et al., (2014) who asserted that loans serve to increase on financial performance of businesses because it leads to higher returns.

5.1.2 Relationship between Saving service and financial performance of SMEs in Rupandehi district

The revelations on second hypothesis illustrate that positive relationship was obtained between saving services and financial performance of SMEs in Rupandehi district. This implies that the aforesaid saving services in the study significantly explain variations in financial performance of SMEs. Which shows that when utilization of saving services is fully embraced by SMEs owner, which is more likely for financial performance which improve for the factors in level of sales, increased production levels, increased profits and also continuity of business. These findings were in agreement with previous studies by various scholars who established a positive significance for instance; Kisaka et al., (2014) who expounded of micro saving, micro credit and financial training together contribute significantly to the SMEs financial performance.

This study findings as reflected in table 4 provided that majority of the respondents believed that regular savings with MFIs safeguards business profits. However, People operating SMEs disregarded that Interest earned on voluntary savings increased on their profits. Overall, majority of participants rated saving services as good. The reflections show that microfinance services play a critical role in the financial performance of MSEs by providing access to savings. Therefore, these findings are in agreement with Kisaka et al., (2014) who acknowledged that micro saving, micro credit and financial training together contribute significantly to the SMEs financial performance.

5.1.3 Relationship between Microfinance training and advisory service and financial performanceof SMEs in Rupandehi district

This research study on third hypothesis reflects there was a positive and strong relation among financial training service and financial performance ($p<0.05$). This implies that the aforesaid training and advisory services in the study significantly explain variations in financial performance of SMEs in Rupandehi district. This means that when training and advisory services are fully embraced by people operating SMEs, this is more like as their financial performance have improved with sales revenue, profits & increasement in production levels. The aforesaid findings are supporting with revelations from investigations by Kisaka et al., (2014) highlighted that training contributes conclusively to MSEs' financial performance. The discoveries uncovered that larger part of the respondents concurred that financial performance stages of preparation was significant for the exhibition of their business, but admittance to such phases of preparation was troublesome.

Majority of respondents revealed that business management skills help small business to increase their profits in the long run. This is in agreement with research conducted by Edgcomb (2002) who highlighted those features of participants with their final outcomes are significantly impacted by training. Also, people operating SMEs in Rupandehi district rated training and advisory services contribution to financial performance as poor.

5.2 Conclusions

The results of the study showed a beneficial connection among services of micro-finance and the financial growth of SMEs. This research study discovered that SMEs were unable to develop owing to a lack of funding and those micro-credit facilities has substantial effect on their financial performance.

This study came to the conclusion that loan service are crucial in impacting the financial success of small and medium businesses owners. Therefore, it is crucial for microfinance institutions to lower interest rates and cut down on the paperwork required for loan applications in order to enhance the access to loan services for owners running SMEs. According to the study's findings, MFI support for SMEs improves their operations and encourages an increase in entrepreneurial activity. A p-value of less than 0.05 indicated that saving service had a substantial impact on SMEs' financial performance. The study comes to the conclusion that there is a critical need to enhance savings programs, make savings more enticing to clients, and attract savings from more firms in order to encourage saves.

According to the study's findings, loan services, as opposed to saving, advisory, training, and other types of services, were discovered to significantly affect financial performance. Therefore, it is important for people running SMEs to adopt loan services in order to expand their financial base. This can be done by lowering loan interest rates to pique their interest. Loan service is main factor for the improvement of SMEs financial performance as with loan service SMEs owner can able to increase their turnover which will leads for the increasement in the revenue of the business so, loan service is the important service of MFIs for growth of SMEs.

5.3 Implication

Result of the study indicates direct positive relationship between saving service, loan service and financial training with financial performance of SMEs, which imply that small business owners will be aware about the impact microfinance services for better performance of SMEs and can create such favorable condition for the better financial performance of SMEs. The findings of this study were strongly supported by the existing literature. The direct relationship between Loan service, saving service and financial training and financial performance were found to be positive.

The study has great implication for small business enterprises who are engage with microfinance institutions. SMEs owners can able to enhance their financial performance of their business with the help of Micro finance. This study is a possible means to avoid the doubts of the peoples regarding self-employment activities, creating awareness in loan facilities and improving business. This study will also increase the engagement other people with the entrepreneurship with better support from microfinance & member can reinforce member’s capacity through increasing further to their income and overall production of nation.

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APPENDIX I

Dear respondents,

I am a student of the School of Management Tribhuwan University writing my MBA Graduate Research Project is entitled on: "Impact of microfinance institution on the financial performance of small and medium scale enterprises in Rupendehi District". I would expect your time and cooperation for providing some information that will be helpful for me to carry out this research work and expected to provide important policy feedback. Your response shall be treated confidentially and anonymously.

Thank you

Section A:
Demographic
(Tick where appropriate please)

1. Gender
   i. Male [256] ii. Female [129]

2. Age (Range)
   i. Below 20 years [21] ii. 21-30 years [137]
   iii.31-40 years [167] iv. 41-50 years [48]
   v. over 50 years [12]

3. Educational level Completed
   i. SLC/SEE or below [124] ii. Intermediate [152]
   iii. BachelorLevel [60] iv. Master degree [49]

4. Marital status
   i. Single [104] ii. Married [253]
   iii. Divorced [14] iv. Widowed [14]

Business Information

5. Ownership
   i. Sole propritorship [319] ii. Partnership [60]

6. How long has your business operated (Years)?
   i. 0-3 years [122] ii. 4-6 years [195]
   iii. over 6 years [68]

7. Business Types
   i.Retail shop [112]
   ii.Restaurants and Food vendors [130]

iii.Service [70] iv. Manufacturing [172]

8. Annual turnover

i. Less than 100,000 [64] ii. 100,000-500,000 [170]

iii.over 500,000 [145]

Section B:

This section deals with the various microfinance services in the study. Please indicate the extent to which you agree with the statements below by TICKING [√]. The response options are, 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree and 5 = Strongly Agree.

Part II: Loan facilities on financial performance of Small and Medium Enterprises.

S. N	Statement	1	2	3	4	5
I.	Flexible loan repayment schedules of MFIs have enabled me increase my sales.	13	43	57	160	112
II.	Investments I make using loans with low interest rates from MFI increase on my business profits	17	37	107	153	71
III.	Small loans to meet temporary business shortfalls increase my business sales level	16	49	80	158	82
IV.	Short term loans from microfinance institutions increase my business production levels	23	46	86	155	75
V.	The MFI loan terms that are in the market are fair enough for my business sales operations	32	43	74	149	87

Part III: Savings services on financial performance of Small and Medium Enterprises.

S. N	Statement	1	2	3	4	5
I.	Interest earned on my voluntary savings in the MFI increases on my profits	19	53	55	150	10 8
II.	Interest earned on my voluntary savings in the MFI increases on my profits	25	41	89	148	82
III.	Regular savings with a MFI safeguards my business profits	29	30	84	146	96
IV.	Absence of ledger fees for savings made in the MFI maintains my business profits	18	66	108	123	70
V.	Annual withdrawals of my savings increase my business capital and sales consequently.	29	42	69	163	82

Part IV: Financial skills training and financial performance of Small and Medium Enterprises.

S. N	Statement	1	2	3	4	5
I.	Basic business skills attained from MFIs has increased my sales	25	47	51	172	90
II.	Training on maintaining records of my business transactions has enabled me ascertain my profits	26	37	94	155	73
III.	Financial management training by MFIs has helped me increase my sales.	21	47	81	163	73
IV.	MFIs training programs help small business to gain business management skills which increases their profits in the long run	28	40	88	150	79
V.	Pre-loan training by MFIs has enabled me to increase my sales revenue.	33	52	66	149	85

Part V: Financial Performance of SME's.

S.N	Statement	1	2	3	4	5
I.	my business capital has been growing over the past 3 years	26	41	48	166	104
II.	my cash collections have increased over the last three years	23	36	99	142	85
III.	my profits have been growing over the last three years.	20	42	90	153	80
IV.	Each year we register an increase in sales volume	15	51	78	160	81
V.	Our production levels have increased	15	60	78	161	71