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Financial Inclusion through Microfinance and Entrepreneurial Development

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A B S T R A C T

Entrepreneurship is vital for not only the financial development of the individuals but also the economy at large. Financial services are always critically important at every scale of the business and efficient provision of financial services always helps to nurture the business activity. Financial inclusion through microfinance is vital to reducing poverty through micro and small enterprise development. Academic research on this topic created a significant amount of literature for the last two decades. In this study, we reviewed 68 articles from different countries for a period of twenty years from 1990 to 2019. Some of the similar article's findings are not included in the final paper. It is inferred that Small and Medium Enterprises-SMEs always have survival issues. Micro-entrepreneurs try to attain sustainable growth through their dedicated efforts, quality products, improving processing, innovation, working for customer satisfaction, and managing human resources. But all these entrepreneurial activities are less fruitful due to the lack of finances and government support, which restrain micro-entrepreneurs to take initiatives and remain risk-averse. The critical review of these articles leads us to the conclusion that financial inclusion has a positive impact on multiple dimensions of entrepreneurial development. Furthermore, this also opens a new vista for future empirical research on micro, small, and medium enterprises development.

INTRODUCTION

Since the 1970s the microfinance is considered to be important as well as an effective tool to eradicate poverty by reducing the financial disparity between the economic classes of developing countries. Over the period, the microfinance services expanded from just a microcredit service to a broad range of services like micro-insurance, savings, mortgage, fund transfers, and other financial services (Newman et al., 2017). The core objective of such microfinance services is to nurture the micro-entrepreneurship for the economic empowerment of the people living on or below the poverty line. The impact of microfinance on poverty with the mediation of entrepreneurial development is an important research

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question. Several studies have already been conducted on the impact of microfinance on the socio-economic conditions but no consistent results were found in the literature for the impact of microfinance on the socio-economic development of these underprivileged people (Armendáriz and Morduch, 2010). Since its inception, the prime objective of microfinance was financial development through entrepreneurial development. Financial development through entrepreneurial development is a situation where impoverished people become self-sufficient financially.

Methodology

This is a review article covering the important works done related to the topic. This study presents a rigorous review of the existing literature on microfinance and its impact on entrepreneurial development. As it is a review of the scholarly research articles so, only scholarly articles are reviewed, which are relevant and significant. Similar works are also excluded. All relevant databases are used to search the literature including indices and archives. Related works were searched regarding keywords and terms. The authors used their judgment to include or exclude in the analysis. The research work was sorted for financial inclusion, microfinance, and entrepreneurial development. The research work was collected related to the dependent variable financial inclusion and the independent variables of microfinance and economic development. This article does not include quantitative data and analysis. It further does not include a comparison of results but an overall analysis of the findings and conclusions of the researchers. This study considers the impact and factors affecting this impact of microfinance on entrepreneurial development. Furthermore, the impact of microfinance on different dimensions of entrepreneurial development is presented in this study. This could help the policymaker and researcher for their empirical investigation in this area.

This study addresses the question that how financial inclusion can be achieved through microfinance and entrepreneurial development. The problem is that there is a dearth of financial inclusion and microfinance is one way to achieve it. Microfinance in its true spirit results in entrepreneurial development, which also positively affects financial inclusion. So, the focus is to review the relevant literature and find out how financial inclusion can be achieved and enhanced by using microcredit and developing new ventures.

Microfinance and Economic Activity

SMEs comprise almost 90% of the total industry and 50% of employment in the developing countries and contribute significantly to Gross Domestic Product (GDP) and poverty alleviation (Si, et al., 2020 & Sutter et al., 2019). Entrepreneurial development plays a pivotal role in poverty alleviation and economic development (World Bank, 2016). The economy at large could flourish with the development of SMEs, which could be attained by innovation in products and production processes (Jocumsen, 2004). SMEs are the backbone of any economy (Tsai, 2015) and catalyst for economic development (Gbandi & Amissah, 2014). Small scale businesses could turn into medium-scale and eventually large-scale enterprises, which could also contribute significantly towards job creation. But SMEs face many obstacles on their pathway towards economic growth, out of which the major is the financial constraint and inaccessibility to financing facilities (Sutter et al., 2019) because of high risk, lack of traceable credit history, and unavailability of collateral. Because of the small loan size and lack of collateral, lending to micro, small and medium enterprises (MSMEs) is very costly for conventional financial institutions (Niaz & Iqbal, 2019). Therefore, they refuse to serve this very important segment of society. The failure of formal financial intermediaries prevents the poor to invest and contribute to the economy at their full potential, therefore, deflating the efficiency and growth of the economy at large (Skoufias, et al, 2013). They may look towards the informal financial source in the absence of their access to the formal financial institutions, which are costly, tricky, and sometimes fraudulent.

Income, economic activity, and access to microfinance are critically interlinking phenomena. The person having low income or no entrepreneurial activity has no access to financial services either. Therefore, there will not be any chance of poverty alleviation or economic growth in such a scenario (Beisland & Mersland, 2014). The efficient financial system ensures the productive mobility of finances in an economy. An efficient financial system (credits, savings, and payments services) foster economic growth, enhance productivity, generate employment, and expand the overall size of micro-entrepreneurs (Sharma, 2016). This financing gap is filled by the MFIs for the last three decades globally particularly, in developing economies (Niaz & Iqbal, 2019). A large number of MFIs have been established all over the world to facilitate micro-entrepreneurs by offering them financial and non-financial services. Because of MFIs, they gain financial freedom, which turns into their overall socio-economic wellbeing. Their competency of optimum utilization of scarce resources along with microfinance enables them to not only bring well-being to their families but the overall economy. Innovation is pivotal for the success of entrepreneurial activities and it is greatly influenced by the availability and accessibility of funds (Wu, et al., 2016).

Quaye et al. (2014) inferred that SMEs have contributed significantly towards economic development, job creation, entrepreneurial development, and GDP growth. MFIs have significantly abridged the financing gap for SMEs, which resulted in a significant contribution towards the economic wellbeing of the people at large. To attain real entrepreneurial development this system of financial inclusion must be efficient with greater outreach (Sherwani & Sabiha, 2015). SMEs could contribute towards economic development and for this SMEs require access to finances and a stable financial system. In the current era, SMEs are considered to be a more effective vehicle for the overall economic development rather than depending on large-scale enterprises (Akpan & Nneji, 2015). MSMEs are considered to be the backbone of the economy they require financial assistance and exposure to financial services to enhance their productivity and profitability. MFIs not only fulfill the financial needs of these enterprises but also enhance financial mobility, promote savings and provide necessary training. The major hurdles in this development are the collateral requirement, high-interest rate, non-disclosure, and misappropriation. He suggested customer orientation as a solution to all these problems (Nendakulola, 2015).

SMEs exist in a volatile environment where their survival is always at stake. Micro-entrepreneurs tried to develop sustainable SMEs by putting dedicated effort, improving quality, through customer satisfaction and better HR policies (Majukwa, 2019). The provision of financial services helps in this overall development activity. Incorporating all such activities as described by General System Theory is the focus to attain sustainability and sustainable growth in SMEs (Rousseau, 2015). But poor government policies and lack of financial services could significantly hinder the growth and development of SMEs (Kulemeka et al., 2015). As the lack of finances causes a reduction in stamina to take initiatives and risks which ultimately limit the growth potentials of micro-entrepreneurs.

The economy of developing countries is greatly influenced by SMEs (Chirkos, 2014), up to 90% of the industry consists of SMEs. The development of SMEs in Nigeria is a significant concern of policymakers. Data from 70 SMEs have been gathered through questionnaires. The provision of loans through microfinance attributed growth, better market share, and competitive advantage to the SMEs of Nigeria (Bagudu et al., 2016). In Kenya, the microfinance sector had played a significant role in economic development and poverty reduction. In 2012, the SME sector contributed 25% in GDP which is almost twice as large as reported in 1993. This growth has been attributed to the MFIs working in the country. The provision of microfinance products enables impoverished people to start their businesses which alleviate their poverty significantly (Maengwe & Otuya, 2016).

Musau (2015) inferred that lending conditions have a significant impact on entrepreneurial development. The size of the loan, the requirement of collateral, terms of lending, and loan processing time are the factors that hindered the development process. Furthermore, the training services were not regularly attended by the borrowers. Which also hindered entrepreneurial development. User-friendly policies and a customer-oriented approach are required to bring in real development.

Microfinance enables borrowers to not only start their businesses rather they enhance their structural and relational social capital. This social capital causes greater mobility of resources, diversity in the business activity, and expansion in the size (Ojong & Simba 2019). Microfinance helped micro-entrepreneurs to have greater market share and growth by having innovation in the business process and practices (Bagudu et al., 2016). The training enhanced the social capital and entrepreneurial activity of the SMEs as well (Ojong & Simba 2019). The higher the frequency of the training higher the will be entrepreneurial development (Musau, 2015).

MFIs are a major source of women empowerment (Omar et al., 2014), as the provision of funds enabled women to become micro-entrepreneurs which makes them financially self-sustainable and reduces overall poverty. Furthermore, microfinance enables the contribution of women in the socio-economic development of their families as well as the economic development of the country (Niaz & Iqbal, 2019 and Kithae et al., 2013). Ekpe (2011) explained that microfinance services have a positive impact on the entrepreneurial activity of women. But the activity of women entrepreneurs has been greatly influenced by social capital, attitude towards microfinance, and opportunity for entrepreneurial activity. Overall microfinance positively affects the business performance of women entrepreneurs, along with the increase in their socio-economic satisfaction and overall wellbeing (Bhuiyan & Ivlevs, 2019 and Reavley & Lituchy, 2008).

Financial Inclusion

Financial inclusion through microfinance contributed to the socio-economic development of impoverished people by making their micro-enterprises more sustainable. But this contribution is greatly hindered because of the low demand for the loan in the least developed countries. This is because of the collateral requirement (Nendakulola, 2015), socio-cultural factors (Niaz & Iqbal, 2019), high-interest rate, and low level of education (Raza, 2014), which discouraged the individuals to take a loan from MFIs.

Bhuiyan and Ivlevs (2019) assessed the impact of microcredit on the hedonic economic well-being of individuals. They explored the multidimensionality of the subjective well-being of individuals particularly caused by entrepreneurship. They incorporated the theory of procedural utility along with the life-domain model of overall life satisfaction to assess the causal relationship between microcredit usage and overall subjective well-being. Different dimensions of well-being were extracted from the survey of 1430 households along with data of their demographic and socioeconomic status. In the presence of multiple control variables, results of regression inferred that overall satisfaction has been reduced because of worry and depression caused by microcredit. However, the female micro-entrepreneurs, having access to micro-credit, experienced a high level of satisfaction due to the high level of financial assets and security. Overall microcredit reduced the overall life satisfaction and well-being because of the stress factor except for female borrowers.

Ojong and Simba (2019) analyzed the role of microfinance, particularly in group-based lending, in developing structural and relational social capital. Access to finance bring in growth but finance through group lending further help in resource channelization and resource mobility. Frequent meetings give exposure to the group members and help them in enhancing their business cycle and ultimately overall size of the business. Formal and informal training further contributed significantly to entrepreneurial development.

Si et al. (2019) reviewed the existing literature on microfinance and poverty reduction, along with different factors and their effects on multiple dimensions of poverty has been explored. They inferred that the economic dimension of poverty is not a valid measure of poverty rather we must go for the social dimension of poverty. Micro-credit causes stress over the micro-entrepreneurs because of financial liability which causes a reduction in the overall well-being of the micro-credit users. However, female borrowers feel empowerment and freedom after getting micro-credit.

Ruslan and Adlin (2018) identified the determinants of accessibility of microfinance services and the impact of microcredit on the performance of SMEs. They inferred that SMEs are the backbone of the economy of Malaysia, so it is pivotal to assess the impact of micro-credit on different dimensions of SME's performance. A questionnaire has been used to gather the responses of 498 entrepreneurs out of which 386 were borrowers and 112 were non-borrowers. They imply logistic regression to access the determinants of microfinance accessibility, multinomial logit model to access the determinants of the choice of microcredit providers, multiple regression to assess the determinants of the interest rate charged, and Propensity Score Matching (PSM) to assess the impact of microfinance on SME's performance. They found that along with other factors microcredit providers' distance from the workplace, financial training, SME's characteristics, and creditworthiness are the key factors affecting the choice of microcredit providers and the interest rate charged. Furthermore, access to micro-credit has a significant positive impact on sales and employment growth.

Omodolapo (2017) investigated the impact of microfinance banks on SME development in the OYO state. By using statistical tools like chi-square and multiple-linear regression they inferred that microcredit has a significant positive impact on the development of SMEs. The loan size, the distance from loan providers, network meetings, and loan duration have a significant association with the SME's performance. This SME's development could contribute significantly to economic development.

Entrepreneurial Development

Kimmitt and Munoz (2017) explored the impact of financial inclusion through microfinance on entrepreneurial activity from a different perspective. They have incorporated the institutional element, legal framework, ease of lending, and ease of doing business into the empirical investigation. Concluding that instrumental freedom has a key role in achieving financial inclusions as well as entrepreneurial development. Just provision of microfinance is not enough for successful entrepreneurial development, rather strong instrumental freedom is also required along with the micro-entrepreneurship environment.

Newman et al. (2017) emphasized the importance of microfinance on the development of micro-entrepreneurship. They followed a descriptive approach and concluded that reasonably large literature is available for the impact of microfinance on poverty but what we need to know empirically is about the impact of microfinance on key entrepreneurial outcomes like the development of new ventures, growth, performance, and survival of enterprises.

Manaf (2017) surveyed 1,176 respondents through stratified random sampling, who were participating in the microcredit scheme. A comprehensive questionnaire has been used to capture the responses. The impact of the microcredit scheme on entrepreneurial skill development has been assessed which leads towards a better quality of life. It is inferred that microcredit significantly contributed to entrepreneurial skill development. Furthermore, the strategic location of the business and interpersonal skills to respond to market competition are important for the success of the business. Lahimer et al. (2013) and Nag and Das (2015) also concluded that microfinance contributed positively towards entrepreneurial skill development.

Wu, et al. (2016) explained the importance of accessibility to funds for the sustainability and growth of micro-enterprises. They explained that the micro-enterprises have the most constrained supply of funds, which hindered their development and growth process. Data of 3,235 entrepreneurs have been gathered and the results inferred that innovation in the entrepreneurial activity is the key success factor. This innovation in business activity is greatly affected by the sources and accessibility of funds. Microfinance services had contributed to the sustainable development of SMEs in Mogadishu as well. The responses of 120 micro-entrepreneurs were captured through a questionnaire. It is inferred that access to microfinance services is difficult but access to finances is pivotal for the growth of micro-enterprises. Therefore, the flexibility of operations at MFIs and the training of entrepreneurs are highly needed for sustainable development (Mohamud & Awale, 2016).

Akpan and Nneji (2015) assessed the impact of financial liberalization on the SME development of Nigeria. The results of OLS have inferred that MFBs contributed significantly towards the entrepreneurial environment through the provision of financial and non-financial services. MFIs abridged the gap in accessibility to resources, which has a significant positive impact on the performance and sustainable growth of SMEs in Nigeria. It is recommended that governments must also play their part in promoting entrepreneurship through financial liberalization policies and training-oriented services.

Ferdousi (2015) analyzed the effect of loan size on innovation and subsequently the income earned by the micro-entrepreneurs. They gathered the data of 102 micro-entrepreneurs from 12 villages to assess the impact of loan size on the innovation and income of micro-entrepreneurs. Further, the direct and indirect impact of innovation on business performance has been assessed. The results of regression inferred that loan size has a significant positive impact on the income but the innovation is not a simple thing to deal with. The innovation is linked with business skills, information, and technological factor; therefore, it is recommended to link the loan size with these factors.

Chirkos (2014) explained that MFIs are pivotal for developing and transitional economies. MFIs gave hope to the poor for socio-economic well-being through enterprise development. But MFIs are unable to serve the poorest of the poor because of lacking business skills, market availability, technology, and market places in rural areas. The collateral requirements (size of the assets, particularly land) are the major restraining force for the poorest of the poor to get benefited from the microfinance services. The service structure of MFIs must be redesigned to incorporate the extreme poor into the service network of MFIs. The provision of microfinance does not solve all problems of impoverishing people but it ignites the process through financing their business ideas. Microfinance is a major source of strengthening the operations of SMEs.

Skoufias et al. (2013) inferred that lack of finances and inaccessibility to financing sources is a major constraint to their efficiency and growth in scale of operations. Microfinance has the potential to induce a favorable impact on the economic development of the country. The increased supply of microfinance services through formal sources could lead to efficient utilization and allocation of resources. The use of the formal source of microcredit is high in females. Lending to female micro-entrepreneurs is more effective for enterprise development and risk-averse for the MFIs.

Waithaka et al. (2014) analyzed 2,956 micro-entrepreneurs of Nairobi with the help of descriptive and regression analysis. They found a positive role in microfinancing in the development of Micro and Small Enterprises (MSEs). They concluded that the workshop, seminars, formal and informal training contributed significantly towards entrepreneurial development, which leads to the growth of MSEs in Nairobi. The technical and moral support provided by the MFIs shall ensure the development of SMEs.

Raza (2014) explained the factors which contributed to the demand for credit among the small farm owners. The Probit and OLS analyses were carried out to analyze the effect of education, assets owned, location, household size, collateral requirement, interest rate, and income of the individual households of Pakistan on the demand for loans. Higher education of the borrowers and lower interest rate has a positive impact on the loan demand. People prefer the informal source of lending rather than formal sources; the most probable reason is the high-interest rate and strict lending requirements.

Quaye et al. (2014) conducted a field study for analyzing both MFIs and targeted SMEs. Qualitative data has been gathered and descriptive statistics have been used for the inferences about the impact of microfinance on SME development. MFIs positively enhance the productivity and saving practices among micro-entrepreneurs. But along with these positive impacts MFIs still need to work on strengthening their operations. Furthermore, they must reduce the interest rates and collateral requirements through innovative products, to make micro-financing cost-effective for the micro-entrepreneurs.

Oleka et al. (2014) analyzed the impact of microfinance on the production and growth of SMEs. They have analyzed the data of SMEs from 2003 to 2013 with the help of regression and inferred that along with access to microfinance, size, nature, age, location of the business significantly affects the growth of SMEs. Furthermore, the size of the loan, tenure of the loan, and interest rate also have a significant positive impact on the growth and expansion capacity of SMEs. Age and repayment tenure of loan has an inverse relation with the growth of SMEs.

Abdulsalam and Tukur (2014) analyzed the impact of microfinance on the SMEs of Nigeria. The results of the regression analysis inferred that microfinance has a positive impact on the job creation and growth of SMEs. Other factors like size of loan, size & type of business, economic conditions, poor market, and government support & policies are the key determinants of the growth of SMEs.

Ravi and Roy (2014) analyzed the impact of microfinance on the survival, growth, and productivity of micro-small and medium enterprises. The growth of MSMEs is dependent on the resources owned, the vision of the owner, the nature of the firm, and strategic decision-making. The study concluded that both financial and non-financial types of services significantly affect the performance and improve the expansion capability of MSMEs in India.

Makorere (2014) analyzed the SMEs receiving microfinance and inferred that access to microfinance services causes growth in sales and profits of the business. It also increases business outreach (in terms of branches and service) and employment. The services of MFIs to enhance entrepreneurial skills like business training and grace period performed better than others. Tax exemptions, lower interest rates, and better infrastructure contributed towards the better performance of MFIs. Macroeconomic conditions also affect SMEs up to a great extent. The supportive policy framework of the government and the financial sector of the country is vital for the success and sustainable growth of SMEs, which could translate into poverty alleviation. Supportive policies and building competencies by the MFIs with good governance could translate into the growth of micro-entrepreneurs and micro-enterprises (Narayan, 2014). It is not just the provision of microfinance that could ensure the success and growth of SMEs. The right size of the loan at the right time with more customer-oriented policies is the key to SME development (Nendakulola, 2015 and Olutunla & Obamuyi, 2008). Owners' education, loan size, loan terms, location of the business, incorporating the technology into business operations, the size of the business are the significant contributing factors towards SME growth.

Sharma (2016) explained that the pro-poor financial system causes growth in the economy, enterprises, and socio-economic status of impoverished people. A comprehensive survey has been conducted through questionnaires and in-depth interviews of micro-entrepreneurs and managers of microfinance providers. The results indicate that the lack of proper training causes a reduction in the performance of SMEs. Furthermore, microfinance has a positive impact on literacy, women empowerment, food security, sanitation, improvement in overall living standards, access to safe water, and healthcare services. Limited depth and breadth of outreach, lack of skills, and skill-oriented training of micro-entrepreneurs are the basic hurdles in enterprise development.

Babajide et al. (2011) investigated the impact of microfinance usage on the development of MSMEs. They used different statistical tools on the primary as well as secondary data of firms working in Nigeria. Secondary data of all the MSMEs have been taken for five years. Whereas, primary data of 135 MSMEs has been gathered through a questionnaire. They inferred that a significant positive impact of microfinance usage has been observed in the performance of MSMEs in Nigeria. Furthermore, a significant positive impact of non-financial services of MFIs and the time duration of loans on the development of MSME has been witnessed. Regular use of microfinance and non-financial services of MFBs contributes positively towards entrepreneurial development.

Quaye (2011) analyzed microfinance from the perspectives of both MFI and SMEs in Ghana. It was inferred that financial services have a significant positive impact on the performance and growth of SMEs. MFIs enable micro-entrepreneurs to have access to financing and saving products. Furthermore, financial and entrepreneurial training further helped the owner of SMEs to fight the market challenges. Along with these advantages, collateral requirements and high-interest rates are major obstacles for SMEs. Therefore, it is suggested that the products must be client-oriented.

Olu (2009) analyzed data gathered from a group of micro-entrepreneurs with the help of chi-square and regression analysis. From the results, it has been inferred that the activities of MFIs are significantly affecting entrepreneurial productivity. But there is no significant effect of activities of MFIs on entrepreneurial development. Furthermore, the role of MFIs is pivotal and significantly affects SMEs, impoverished people, other financial institutions, and the economy at large (Agboola & Osunde, 2012).

Basargekar (2011) inferred that microfinance services are better able to build social capital through awareness and proper capacity building. The formal government support programs could give financial independence to the socially and economically weaker women but are unable to build social capital through linkages and training. Such training platforms enable them to learn from each other through sharing different ideas and brainstorm over those ideas which enhances their confidence and decision-making power. Furthermore, the level of capacity building is directly proportionate to the period of association with the MFI and its programs. Furthermore, a higher level of entrepreneurial skills shall lead towards better utilization of loan amounts for productive purposes.

Al-Mamun et al. (2010) analyzed the effect of microcredit on assets owned by micro-entrepreneurs of Malaysia and inferred that microcredit improves the level of assets owned. To increase the efficiency of loan utilization appropriate training, more innovative product design (to meet for diverse needs of the impoverished people), and better outreach must be focused on by MFIs. Overall in Malaysia microfinance is considered to be an effective development tool.

Gyimah and Boachie (2018) analyzed 248 SMEs through regression analysis to gauge the impact of microfinance services on the development of SMEs. From the results, it is inferred that microfinance services, particularly microloans have a great contribution to SME development. They also recommend working on strengthening the micro-insurance services to facilitate SMEs and mitigate risk associated with the SMEs. Furthermore, they inferred that the role of training is significant for entrepreneurial development.

Shahriar et al. (2016) assessed the tendency of MFIs to support the start-ups of micro-enterprises in 65 countries by applying PSM. They concluded that MFIs are now focused on profit and formulate more profit-oriented policies that restrained them from lending to risky ventures. The start-up of micro-enterprise by a new entrepreneur with no credit history and collateral is the riskiest job. Therefore, MFIs do not prefer to lend to new business ventures. Whereas not-for-profit MFIs are more focused on development rather than earning profits like commercial MFIs. But the core theme of supporting individuals who have financial constraints for new ventures is compromised by the for-profit MFIs, which hindered the development of micro-entrepreneurship and new micro-enterprises (Banerjee et al., 2015; Newman et al., 2014; Shahriar et al., 2016).

Discussion

Right from the beginning microfinance is about entrepreneurial development, when Dr. Muhammad Yunus found a group of skillful women with no capital which hindered their earnings and socio-economic empowerment. He lent a small amount for their business activity which empowers them economically and socially. Therefore, the original role of microfinance since its inception was to give a launching pad to those who have entrepreneurial skills for their sustainable financial development. Microfinance was a start-up capital given with an orientation of micro and small enterprise development. Furthermore, it's not just the financial constraint that restraints micro-entrepreneurs to flourish and become self-sustainable. Along with capital, they need entrepreneurial skills, human resources, exposure to markets, and other interpersonal skills for sustainable enterprise development.

Some studies (Banerjee et al., 2015; Karlan and Ratan, 2014 & Bruton et al., 2015) indicated that the impact of microfinance on entrepreneurial development is not as enchanting as it is expected. The profit of entrepreneurs has increased but the overall socio-economic status does not increase. Financial inclusion through microfinance increased entrepreneurial activity and savings but it does not increase the health conditions, education, women empowerment, and sometimes the entrepreneurial activity may also not increase (Bruton et al., 2015). Lending to farmers and retailers by Grameen bank also does not result in the economic development of impoverished people (Newman et al., 2017). One possible reason is that in current practices, microfinancing is not typically for those who innovate or wish to start new businesses.

As discussed, the MFIs are meant to provide microfinance to the potential micro-entrepreneurs as a tool for the socio-economic development of impoverished people. But lending to new ventures is always risky therefore lending to existing micro-enterprises is the prime orientation of commercial MFIs (Shahriar et al., 2016). Furthermore, the commercial MFIs prefer to lend a higher amount of loan to the existing venture which helps them lower their risk and attain economies of scale. Such lending practices do have a positive impact on entrepreneurial development but there is a vital role of innovation in this development in which existing businesses lack significantly (Ferdousi, 2015). The innovation is linked with business skills, information, and technological factor; therefore, it is recommended to link the loan size with these factors.

Conclusion

The purpose of this study is to find out the effect of financial inclusion through microfinance on entrepreneurial development. A researcher has significantly explored the area of the impact of microfinance services on the development of SMEs. These studies have also yielded a significant insight into the matter of poverty alleviation through entrepreneurial development, which was the core objective of microfinance since its inception. A rich literature was available on the said issue which is fragmented in different types of studies, particularly including exploratory and descriptive studies. The descriptive and empirical analysis was carried out to come up with the true insight of the subject matter. This study has provided a clear view of the different perspectives of financial inclusion through microfinance and its impact on poverty alleviation through entrepreneurial development. Access to microfinance positively affects the profitability, size, market share, production, productivity, number of employees, and growth of SMEs. Furthermore, it contributed positively to the overall living standard of micro-entrepreneurs. Financial inclusion resulted in a positive impact on job creation and overall socio-economic development. Along with financial inclusion size of business, nature of business, age of business, location of the business, market conditions, economic conditions, customer-oriented policies, the right size of the loans, owner's education, use of technology, training of entrepreneurs, resources owned, vision of owner, strategic decision making, financial and non-financial services of MFIs also impacting the performance of Micro-Small-Medium Enterprises (MSMEs). Collateral requirements, lack of training, and relevant skills have an inverse relationship with enterprise development. Tenure of the loan and age of SMEs has both positive and reverse associations with the growth of SMEs.

Overall a large amount of literature shows a significant positive impact of financial inclusion on entrepreneurial development. The exposure to microfinance contributed positively towards entrepreneurial development by increasing the size of the business, expanding the activity of a business, technological advancements in the business, cost control in the business, increasing the market share, and many others. This article is not only helpful for the policymaker and practitioners but also presents a practical guide for the research scholars for future research directions.

Future Research Directions

The impact of microfinance on entrepreneurial development has been explored but these studies have methodological limitations. Most of the surveys have only captured a single or quite a few dimensions of entrepreneurial development. But a business receives funds that may invest in multiple dimensions and each type of investment required a variable amount of time to yield benefits. Therefore, it is recommended to capture multiple dimensions of enterprise and entrepreneurial development to incorporate in the empirical analysis. Furthermore, construct a multidimensional index of enterprise development for more in-depth insight into the phenomenon.

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