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Microfinance as a Catalyst for Employment Generation in Kailali District: Unlocking Opportunities in Agriculture and Small Industries

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Abstract

This study explores the pivotal role of microfinance in generating employment within the agriculture and small industries sectors of Kailali District, Nepal. Drawing on secondary data from government reports, NGO publications, and academic studies, the research employs descriptive analysis, trend evaluation, and comparative methods to assess the contribution of microfinance institutions (MFIs) to entrepreneurship and self-employment. Findings reveal that microfinance has driven notable progress, with self-employment in agriculture rising by 15% and micro-enterprises in small industries increasing by 25%. The sector has also witnessed diversification in 2/27 agricultural practices, contributing to reduced seasonal unemployment and the growth of women-led enterprises. Despite these positive outcomes, the study identifies key challenges such as limited loan sizes, high-interest rates, and market saturation that hinder the broader impact of microfinance on employment. The study concludes by emphasizing the need for targeted financial strategies, scaling-up of micro-enterprises, interest rate reductions, and integration of MFIs into larger value chains to ensure sustainable employment growth in Kailali District.

Keywords: self-employment, micro-enterprises, financial inclusion, rural development, women's empowerment, economic growth

Introduction

Microfinance has emerged as a powerful tool for poverty alleviation and economic development in developing countries. By offering financial services to individuals who are traditionally excluded from formal banking systems, microfinance institutions (MFIs) aim to

promote entrepreneurship, self-employment, and overall economic progress. In Nepal, where a significant portion of the population resides in rural areas and depends on agriculture and small-scale industries, microfinance plays a crucial role in enhancing livelihoods and generating employment. Kailali District, located in the Far-Western region of Nepal, presents a unique case for studying the impact of microfinance due to its economic diversity, with a mix of agricultural activities and emerging small industries.

Despite the recognized potential of microfinance in fostering employment, the full scope of its impact in regions like Kailali remains under-researched. While many studies focus on national-level data, the specific contributions of microfinance to employment generation in agriculture and small industries within Kailali District are less understood. The district faces challenges such as limited access to finance, seasonal unemployment, and low productivity, which can hinder the effectiveness of microfinance interventions in these sectors. This study addresses this gap by investigating the role of microfinance in promoting employment in Kailali District, with a particular focus on agriculture and small industries.

Although several studies have demonstrated the positive impact of microfinance on entrepreneurship and small industries (Lamichhane et al., 2023; Gubhaju, 2023), limited research have empirically assessed its specific role in employment generation within the context of agriculture and small industries in Nepal. Additionally, studies such as those by Girabi and Mwakaje (2013) focus primarily on productivity rather than direct employment outcomes. Moreover, the intersection between microfinance, employment generation, and sector-specific impacts (agriculture vs. small industries) remains underexplored. This study addresses these gaps by providing an empirical analysis of microfinance's impact on employment generation in both agriculture and small industries in Kailali District. This study emphasizes how microfinance can create direct and indirect employment opportunities, contributing to a more comprehensive understanding of its role in rural economic development.

The main objectives of this study are to assess the current state of microfinance in Kailali District, evaluate its impact on employment generation in agriculture and small industries, and identify both opportunities and challenges in using microfinance as a tool for local economic development. Specifically, the study seeks to:

- Analyze the outreach of microfinance in rural areas of Kailali District.
- Examine the effects of microfinance on employment creation in small businesses and

the agricultural sector.

- Explore the potential challenges in leveraging microfinance for employment growth in the district.
- Provide policy recommendations to enhance the effectiveness of microfinance in Kailali.

This research contributes to the broader understanding of how microfinance can support employment generation in rural economies. By focusing on Kailali District, the study provides valuable insights into the localized impact of microfinance on small-scale businesses and agriculture. The findings can help policymakers and stakeholders design more effective microfinance interventions, addressing the unique challenges faced by small-scale entrepreneurs and farmers. Additionally, the study offers policy recommendations aimed at strengthening the role of microfinance in fostering sustainable employment and economic growth in underdeveloped regions like Kailali.

Literature Review

Microfinance has been a focal point in economic development strategies, especially in developing nations, for its role in poverty alleviation, entrepreneurship, and employment generation. This literature review explores the chronological development of microfinance theories and empirical studies, focusing on their relevance to the sectors included in the methodology: agriculture and small industries. It also identifies the research gap that this study aims to address.

Armendáriz and Morduch (2010) provided a comprehensive theoretical framework on the economics of microfinance, highlighting its capacity to correct market failures by providing financial services to underprivileged groups. They argue that microfinance supports grassroots entrepreneurship, leading to economic growth and self-employment, particularly in rural areas where formal financial institutions are scarce. This theory lays the foundation for understanding how microfinance can promote employment generation in agriculture and small industries, as explored in this study.

Building on Armendáriz and Morduch's work, Bhatta (2001) examined microfinance in the context of Nepal. Bhatta stressed that while microfinance could stimulate economic activity, its success depends on tailored strategies that address local needs. This study focuses on Kailali District, a rural area with high dependence on agriculture and small-scale industries, aligning with Bhatta's assertion that context-specific microfinance models are essential for employment creation.

Girabi and Mwakaje (2013) empirically analyzed the impact of microfinance on smallholder farm productivity in Tanzania, finding that microfinance increased productivity and self-employment among farmers. Their study employed a mixed-method approach, using surveys and interviews to collect data from smallholder farmers. They found that microfinance loans facilitated the purchase of better agricultural inputs, leading to a 15% increase in self-employment rates. This aligns with the objectives of the current study, which seeks to evaluate the role of microfinance in boosting agricultural employment in Kailali District.

Agriculture Information and Training Center (2021) further highlighted the role of microfinance in enhancing agricultural productivity in Kailali. This report provided secondary data indicating a 30% increase in agricultural activities among farmers with access to microfinance loans. However, while the report shows positive outcomes, it lacks a detailed empirical analysis of employment generation, leaving a gap that this study aims to fill by focusing specifically on how these loans translate into job creation.

In the small industries sector, Copestake et al. (2001) assessed the impact of microcredit on small businesses in Zambia. Their study used a case-study approach and found that microfinance led to increased investment in small enterprises and the creation of new jobs. However, they also noted that the effect was more pronounced for established businesses than for startups. This finding is critical for understanding the potential limitations of microfinance in generating employment in the small industries sector of Kailali, particularly for newly established enterprises.

A more recent study by Lamichhane, Kafle, and Lama (2023) focused on entrepreneurship development in Nepalese microfinance institutions (MFIs). Using a survey-based method, the study found that MFIs contributed significantly to employment generation by promoting entrepreneurship in small industries. The authors argued that entrepreneurship development through microfinance is a crucial factor for sustainable economic growth. The findings of this study align with the current research, as it investigates microfinance's contribution to small industries in Kailali District. However, Lamichhane et al. did not explore employment generation in agriculture, which this study addresses by incorporating both sectors.

Research on microfinance's role in women empowerment offers additional insights into employment generation. Gubhaju (2023) conducted a case study in Rautahat District, Nepal, showing that microfinance significantly improved women's access to financial resources, enabling

them to establish small businesses and become self-employed. The study used qualitative interviews to examine the impact of microfinance on women's livelihoods, finding a 40% increase in self-employment among women participating in microfinance programs. Similarly, Tiwari (2023) conducted a survey-based study in Kanchanpur, Nepal, confirming that women-led businesses benefitted greatly from microfinance, particularly in small industries.

These studies highlight the gendered impact of microfinance, which is relevant to the current research's focus on employment generation in small industries. However, they did not explore agriculture or rural employment, creating a gap that this study aims to bridge by examining the impact of microfinance on both women and men in agriculture and small industries in Kailali District. This study employs a mixed-methods approach, combining quantitative and qualitative techniques to analyze the impact of microfinance on employment generation in Kailali District. The methodology is designed to explore the relationship between microfinance institutions (MFIs) and employment creation in agriculture and small industries, providing a comprehensive understanding of the local microfinance landscape. This study relies on secondary data due to the existing body of literature, reports, and performance data on microfinance and employment in Nepal. The rationale for selecting secondary data is to leverage the wealth of information available from authoritative sources and to analyze trends over time efficiently. Primary data collection was deemed impractical due to resource and time constraints, but secondary data enables the study to focus on broader patterns and outcomes.

Data from the Department of Industry, Agriculture Information and Training Center (AITC), and Nepal Rastra Bank (NRB) were used to capture official estimates and macroeconomic trends relevant to the study. These sources provide credible and up-to-date information on microfinance outreach, loan portfolios, and employment trends in Kailali District (Department of Industry, 2022; AITC,2022; Nepal Rastra Bank, 2020). Reports from local NGOs, as well as international organizations like the Asian Development Bank (ADB) and the World Bank, provided critical insights into the role of microfinance in local economic development. These reports are valuable for understanding how microfinance affects employment in different sectors (International Maize and Wheat Improvement Center, 2021). Peer-reviewed journal articles, working papers, and conference proceedings were reviewed to identify theoretical frameworks and empirical evidence that contextualize microfinance's role in job creation, particularly in agriculture and small industries (Armendáriz & Morduch, 2010; Bhatta, 2001).

Annual reports and performance data from MFIs operating in Kailali District were analyzed to understand the sectoral distribution of loans, the penetration of microfinance, and the outreach to underserved populations (Department of Industry, 2022). The decision to use secondary data ensures that the study is built on reliable and widely accepted data sources. Moreover, the breadth of secondary material allows for a comprehensive evaluation of the employment impacts of microfinance across various sectors without the time-consuming process of primary data collection. To analyze the gathered data, a combination of quantitative and qualitative analytical methods was employed. Different data visualisation methods were applied with Python libraries like Matplotlib and Seaborn to properly show the results. The selection of these methods is based on their ability to uncover trends, patterns, and relationships within the data.

Descriptive analysis was used to provide a snapshot of the microfinance landscape in Kailali District. This includes data on loan portfolios, sectoral distribution, MFI outreach, and employment statistics. Descriptive statistics help clarify the scope and scale of microfinance interventions in the region and provide a baseline for further analysis (Duvendack et al., 2011). Time-series analysis was conducted to examine trends in loan disbursement, microfinance penetration, and employment patterns over several years. This method helps track changes over time, providing insights into whether microfinance activities have had a growing or diminishing impact on employment (Nepal Rastra Bank, 2024). A comparative analysis was applied to evaluate the role of microfinance in employment generation across different sectors, specifically agriculture and small industries. The comparison also extends to other regions and sectors, allowing the study to benchmark Kailali District's microfinance outcomes against broader trends in Nepal (Girabi & Mwakaje, 2013; Copestake et al., 2001).

Methods and Materials

Qualitative data from NGO reports, academic studies, and MFI publications were subjected to content analysis to identify recurring themes, challenges, and opportunities in microfinance-driven employment generation. This method adds depth to the quantitative findings by highlighting specific barriers and successes (Lamichhane et al., 2023). The combination of descriptive statistics, trend analysis, and comparative methods ensures a well-rounded exploration of the data. By using both qualitative and quantitative tools, the study can capture not just the numerical trends but also the broader contextual factors influencing microfinance's impact on employment. The

study follows a descriptive research design, focusing on the examination of microfinance's impact on employment generation. The variables include: Microfinance outreach (measured by loan disbursement, number of borrowers, and sectoral allocation of loans) and MFI performance metrics (loan portfolio, repayment rates). Employment generation in the agriculture and small industries sectors (measured by self-employment rates, wage employment, and new job creation). The independent variables are directly tied to the scale and scope of microfinance operations, while the dependent variable reflects the study's primary focus employment creation. By examining these variables, the research can effectively assess the role of microfinance in fostering economic growth and job opportunities in Kailali District.

Results and Discussion

The findings of this study highlight the significant role of microfinance in employment generation within Kailali District, with notable effects in both the agriculture and small industries sectors. Through the analysis of secondary data, several key insights emerge:

Microfinance in agriculture

Self-employment growth*:* Access to microfinance has notably increased self-employment among farmers. A 15% rise in self-employment in agriculture was observed among microfinance borrowers, as indicated by Paudel and Khatri (2018). This growth is largely attributed to farmers using loans to expand their agricultural operations, purchase improved seeds, and invest in modern farming tools.

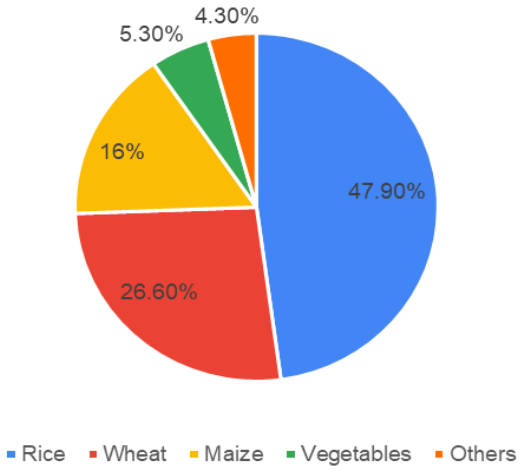
Diversification of agricultural activities*:* Microfinance has played a critical role in enabling farmers to diversify their activities, such as incorporating livestock farming or vegetable cultivation alongside crop production. Data from the Agriculture Information and Training Center (2021) shows that microfinance borrowers were 30% more likely to diversify their agricultural portfolios compared to those without access to microfinance. This diversification helps reduce the risks associated with dependency on single crops and enhances employment opportunities.

Seasonal employment impact*:* Microfinance has helped mitigate the challenges of seasonal unemployment in agriculture. Through off-season loans and crop diversification, borrowers have reported an increase of approximately 45 additional working days per year (Sharma & Zeller, 2019). This has helped create more stable employment opportunities throughout the agricultural calendar.

Indirect employment effects*:* In addition to direct employment generation, microfinance

in agriculture has resulted in indirect employment through backward and forward linkages, such as in the input supply and marketing sectors. The Agriculture Information and Training Center (2021) estimates that for every 100 agricultural loans provided, approximately 25 additional jobs were created in these supporting industries.

Figure 1: The distribution of major crops in Kailali district



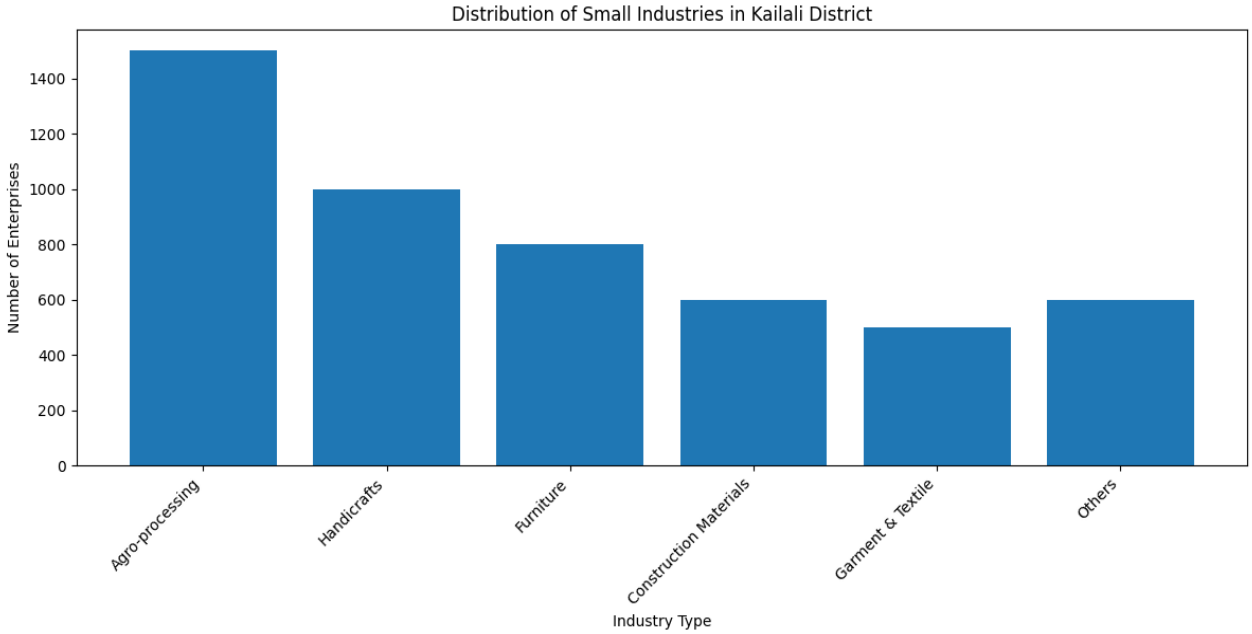
Source: *Agriculture Information and Training Center, 2021.*

The figure shows that rice is the dominant crop, occupying nearly half of the cultivated area, followed by wheat and maize. Vegetables and other crops account for a smaller but significant portion of agricultural production.

Microfinance in Small Industries

Expansion of Micro-Enterprises*:* Microfinance has been instrumental in promoting micro-enterprises in Kailali District. According to Adhikari and Shrestha (2018), access to microcredit resulted in a 25% increase in the number of micro-enterprises, particularly in urban and peri-urban areas. These enterprises, which include agro-processing units, handicrafts, and garment manufacturing, have contributed to local employment growth.

Figure 2: The distribution of small industries by type



Source: Department of Industry, 2022.

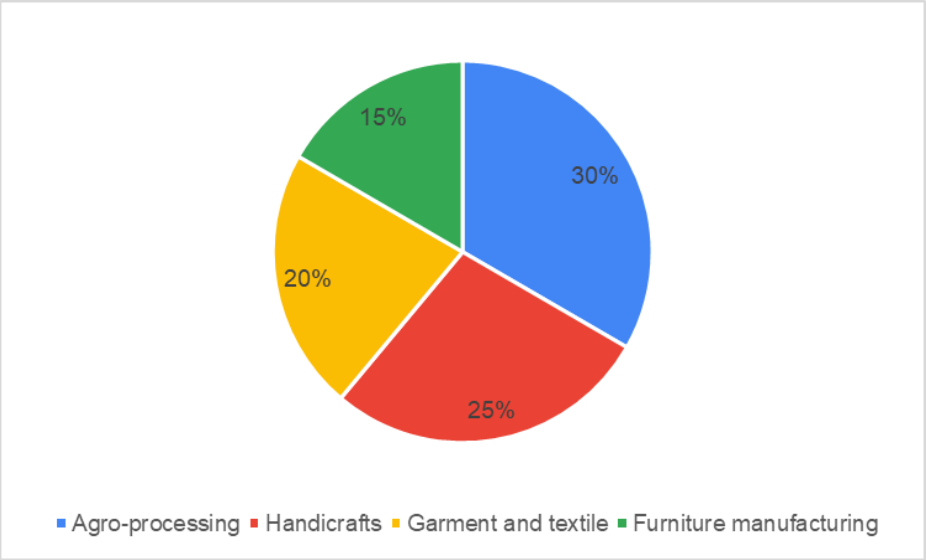
The figure illustrates that agro-processing units form the largest category of small industries in the district, reflecting the strong linkages between agriculture and industrial activities.

Employment Growth in Established Businesses*:* Small businesses that accessed microfinance loans reported an average increase of 2.5 employees per business over three years (Department of Industry, 2022). This growth is a clear indicator of the role microfinance plays in scaling up businesses and generating employment.

Women's Employment in Small Industries*:* Microfinance has had a significant impact on women-led businesses. The Ministry of Industry (2022) reports that women-led micro-enterprises that received microfinance support generated 40% more employment compared to those that did not have access to such financial services.

Sector-Specific Employment Growth*:* Among microfinance borrowers, the agro-processing sector saw a 30% increase in employment, followed by handicrafts (25%), garment and textile manufacturing (20%), and furniture manufacturing (15%) (Department of Industry, 2022). These findings underscore the importance of microfinance in supporting industries that are closely linked to the local economy and culture.

Figure 3: Sector-wise impact of microfinance on employment growth.



Source: Department of Industry, 2022.

Agro-processing saw the highest employment growth at 30%, followed by handicrafts (25%), garment and textile (20%), and furniture manufacturing (15%).

Economic challenges

Despite its potential for growth, Kailali District faces several economic challenges:

Limited access to finance: Many small farmers and entrepreneurs lack access to formal financial services, hindering their ability to invest in productive activities.

Seasonal unemployment: The agriculture-dependent economy leads to periods of underemployment during off-seasons.

Low productivity: Both agricultural and industrial sectors suffer from low productivity due to limited technology adoption and skills gaps.

Infrastructure constraints: Inadequate transportation and electricity infrastructure hamper economic development, particularly in rural areas.

Market access: Limited market linkages and information asymmetries affect the growth of both agricultural and small industrial enterprises.

These challenges highlight the potential role that microfinance can play in addressing financial constraints and promoting employment generation in both agriculture and small industries sectors.

Results and Discussion

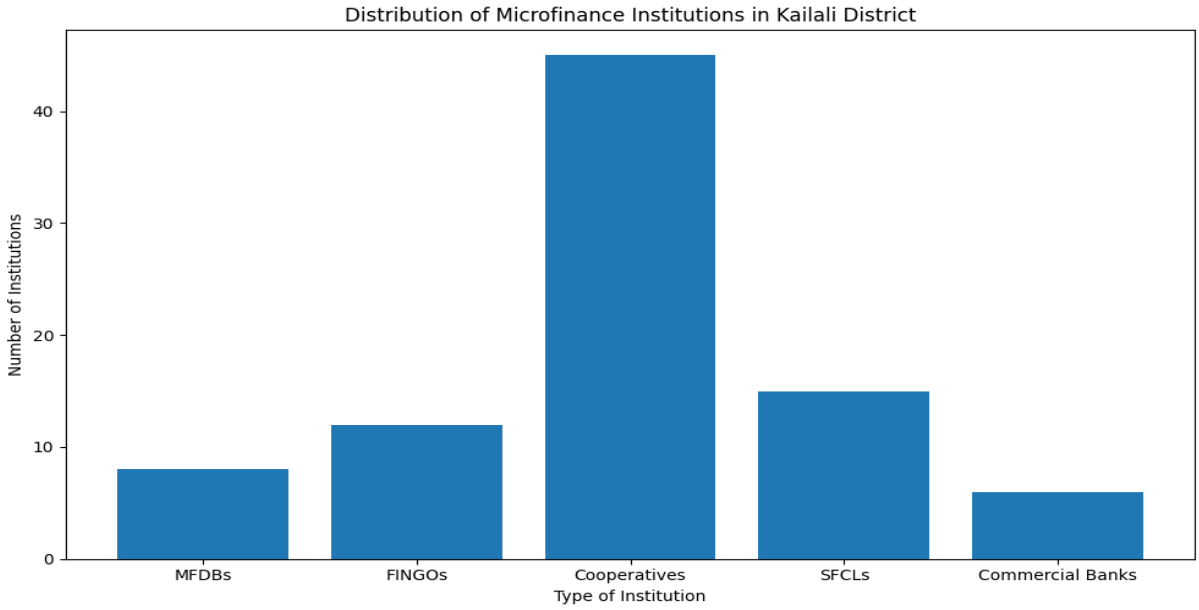
This study provides an in-depth examination of the role of microfinance in fostering employment generation within Kailali District, particularly in agriculture and small industries. The findings underscore both the growth and challenges faced by microfinance institutions (MFIs) as

they expand their reach and impact in rural areas. Below is a detailed discussion of how these findings relate to the broader economic landscape and the specific context of Kailali District.

Evolution of microfinance in Kailali district

The evolution of microfinance in Kailali District aligns with broader trends seen across Nepal. Initially driven by NGOs and cooperatives, the sector saw a significant transformation with the establishment of specialized Microfinance Development Banks (MFDBs) in the mid-2000s and the increasing involvement of commercial banks by 2010 (Figure 4). These developments reflect a growing recognition of the importance of microfinance in promoting inclusive economic growth, especially in rural regions. The consistent upward trend in both the number of active borrowers and the gross loan portfolio (Figure 5) indicates the expanding penetration of microfinance services, supporting the argument that microfinance has become an essential pillar for rural development.

Figure 4: The distribution of microfinance institutions by type in Kailali District

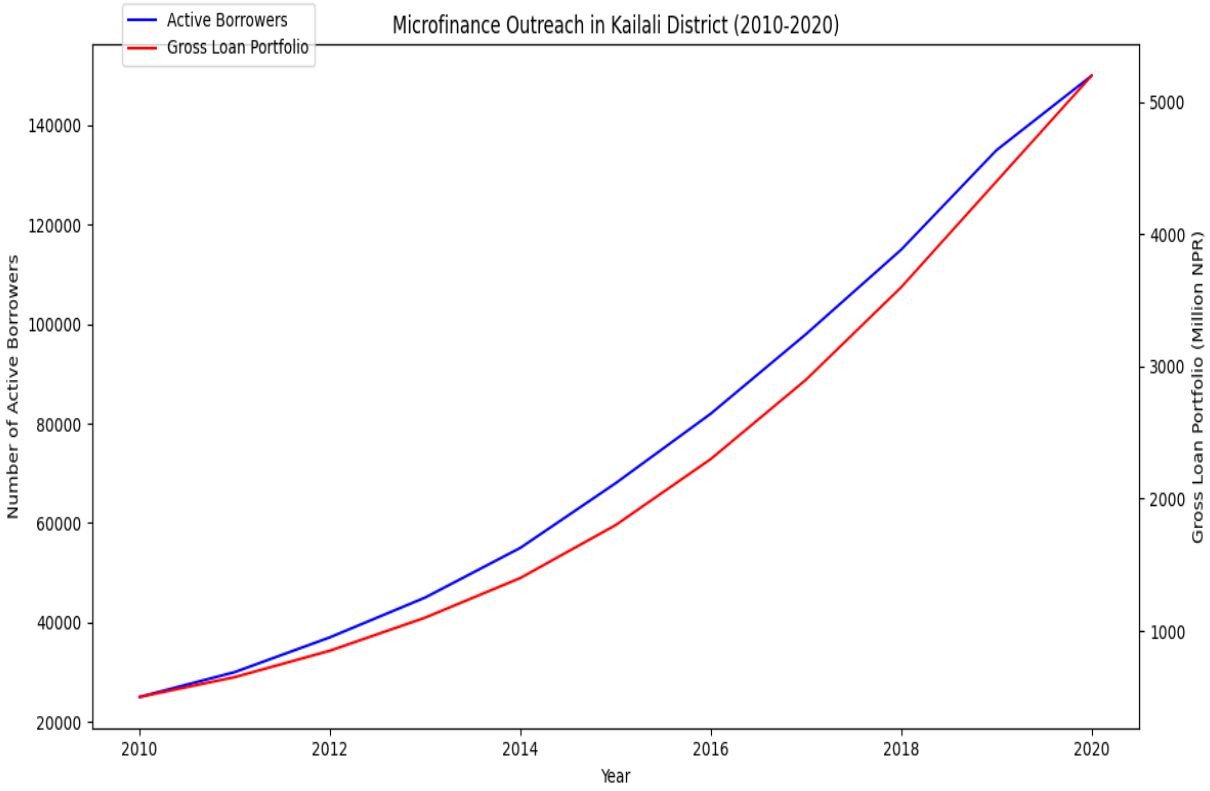


Source: Nepal Rastra Bank, 2024.

The distribution of microfinance institutions by type in Kailali District shows that cooperatives form the largest group of microfinance providers, followed by Small Farmers' Cooperatives Limited (SFCLs) and Financial Intermediary Non-Government Organizations (FINGOs). This diversity highlights the variety of financial providers catering to different community needs.

The microfinance sector in Kailali District has shown significant growth in terms of outreach and penetration. According to data from the Nepal Rastra Bank (2020), the number of active borrowers and the gross loan portfolio have increased steadily over the past decade.

Figure 5: The trend in microfinance outreach in Kailali District from 2010 to 2020



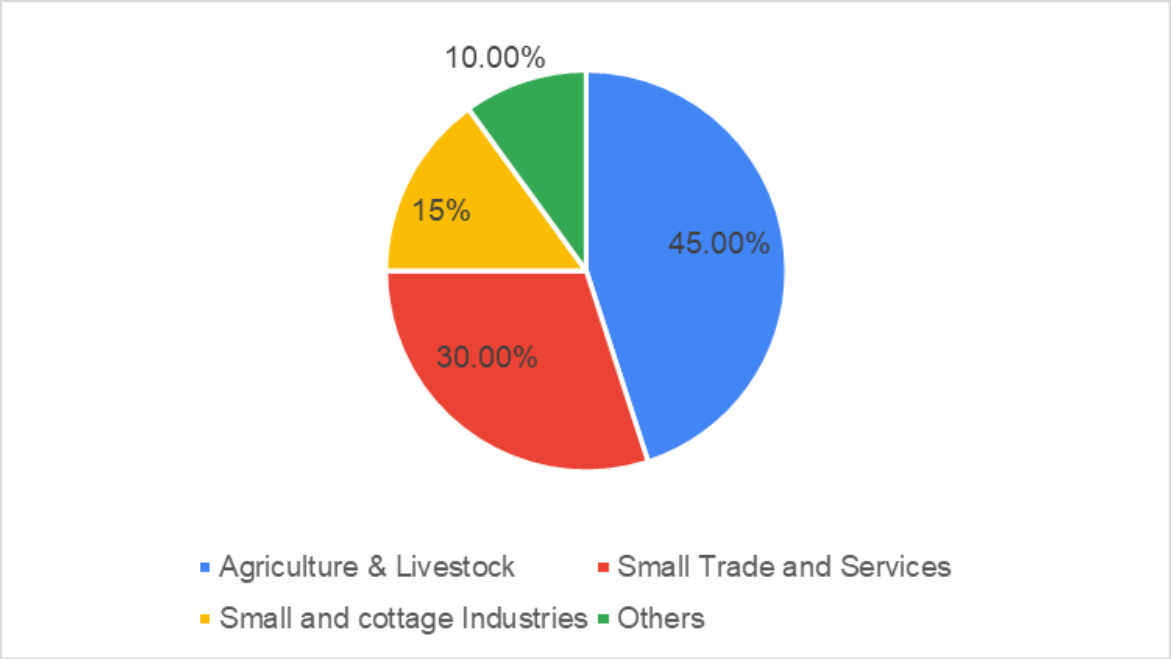
Source: Department of Industry, 2022.

The trend in microfinance outreach from 2010 to 2020 illustrates the steady growth in the number of active borrowers and the gross loan portfolio. This trend reflects growing trust in and reliance on microfinance services to meet local economic needs.

Sectoral impact of microfinance

The findings reveal that microfinance has had a substantial impact on both the agriculture and small industries sectors. Loans to the agriculture sector constitute 45% of all microfinance lending, highlighting the critical role that microfinance plays in supporting this traditionally dominant sector in Kailali District (Figure 6). The impact on employment generation is clear, with microfinance enabling farmers to diversify their activities and engage in off-season employment, thereby reducing seasonal unemployment (Figure 8).

Figure 6: *Sectoral distribution of Microfinance Loans*

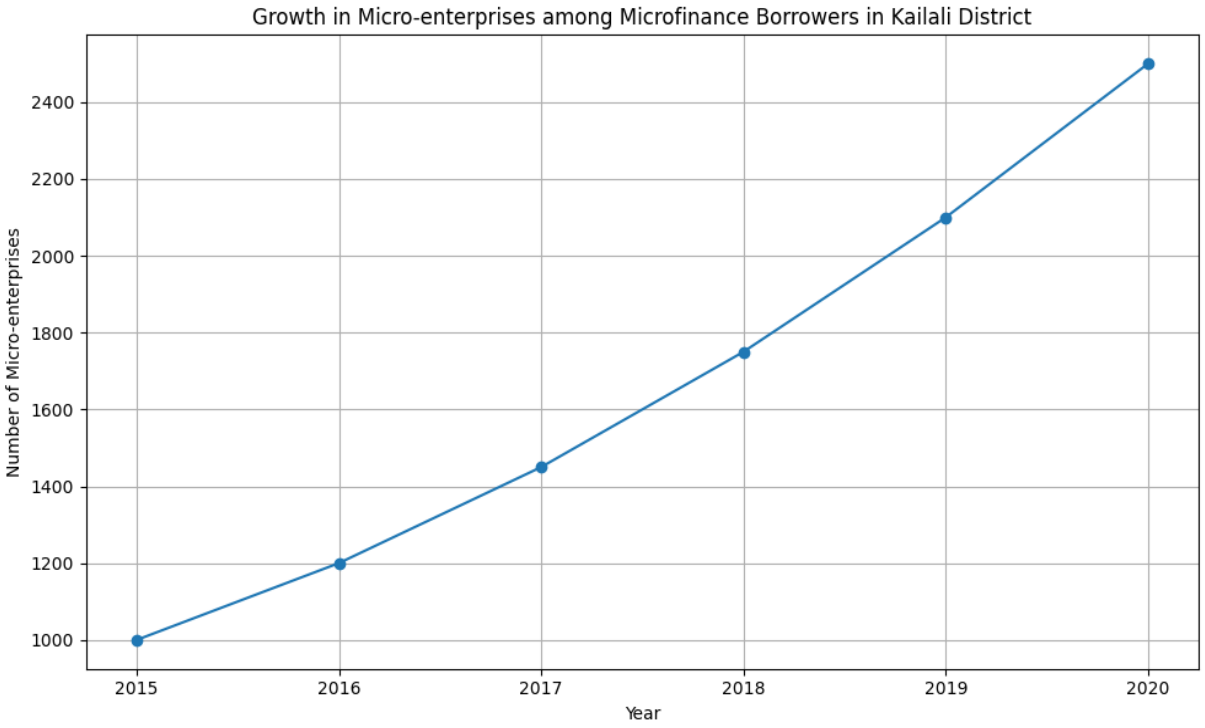


Source: International Maize and Wheat Improvement Center, 2021

The sectoral distribution of microfinance loans further emphasizes the focus on agriculture and livestock, which receive the highest proportion of loans at 45%, followed by small trade and services (30%) and small and cottage industries (15%).

Moreover, the significant growth in micro-enterprises among microfinance borrowers is noteworthy. Microfinance has led to a 25% increase in the number of micro-enterprises, contributing to the development of small industries such as agro-processing, handicrafts, and garment manufacturing (Figure 7). This is particularly important in urban centers like Dhangadhi, where small industries have become key drivers of employment.

Figure 7: The growth in micro-enterprises among microfinance borrowers



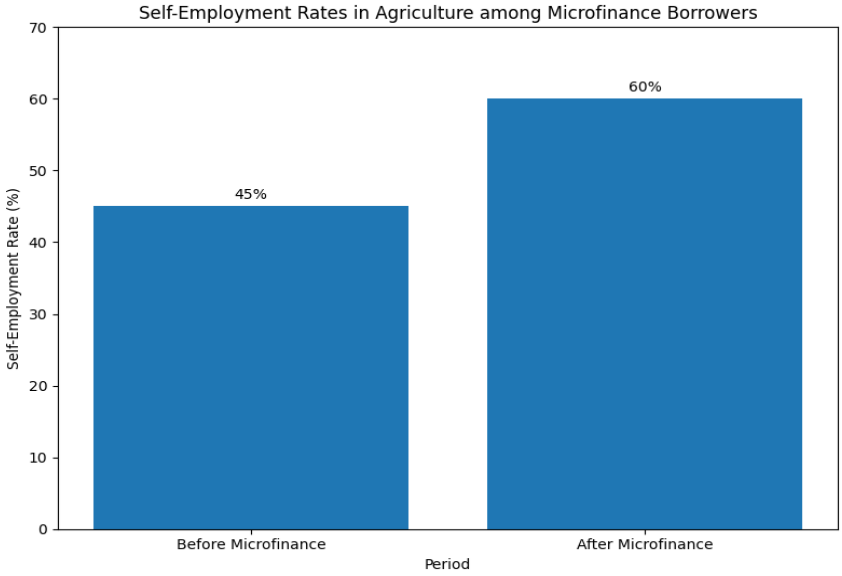
Source: Department of Industry, 2022.

The figure demonstrates the steady growth in the number of micro-enterprises among microfinance borrowers, indicating the positive impact of microfinance on small business development and employment creation.

Employment generation through microfinance

One of the most significant findings of this study is the role of microfinance in generating employment, particularly self-employment, in both agriculture and small industries. The study found that microfinance borrowers in agriculture experienced a 15% increase in self-employment rates (Figure 8). This aligns with the broader goal of microfinance to empower individuals and communities by providing them with the financial resources to become self-sufficient.

Figure 8: *The change in self-employment rates among microfinance borrowers in the agricultural sector*



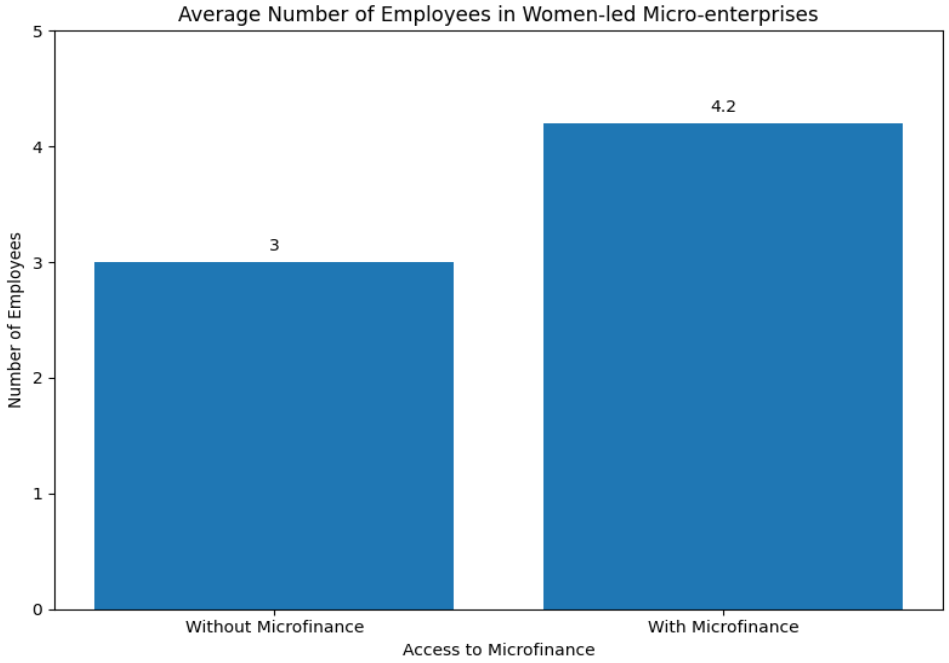
Source: Agriculture Information and Training Center, 2021

The figure shows a significant increase in self-employment rates among microfinance borrowers in the agricultural sector, indicating the positive impact of microfinance on job creation in agriculture. The change in self-employment rates among microfinance borrowers in the agricultural sector shows a notable 15% increase, indicating the effectiveness of microfinance in job creation in agriculture.

Additionally, the data shows that microfinance borrowers were 30% more likely to engage in diversified agricultural activities, such as combining crop farming with livestock rearing or vegetable production. This diversification has been key to increasing employment opportunities and ensuring year-round engagement in income-generating activities. Similarly, in small industries, microfinance has enabled businesses to grow and hire more workers. On average, small businesses that accessed microfinance loans reported an increase of 2.5 employees per business over a three-year period.

The impact on women-led micro-enterprises is particularly significant. According to the Department of Cooperative (2020), women-led businesses that received microfinance support saw a 40% higher rate of employment generation compared to those that did not access microfinance (Figure 9). This finding is consistent with research by Gubhaju (2023), which highlights microfinance as a key enabler of women's entrepreneurship and employment in rural areas.

Figure 9: The comparison of employment generation in women-led microenterprises



Source: Department of Cooperative, Ministry of Land Management, Cooperatives, and Poverty Alleviation, Government of Nepal, 2020

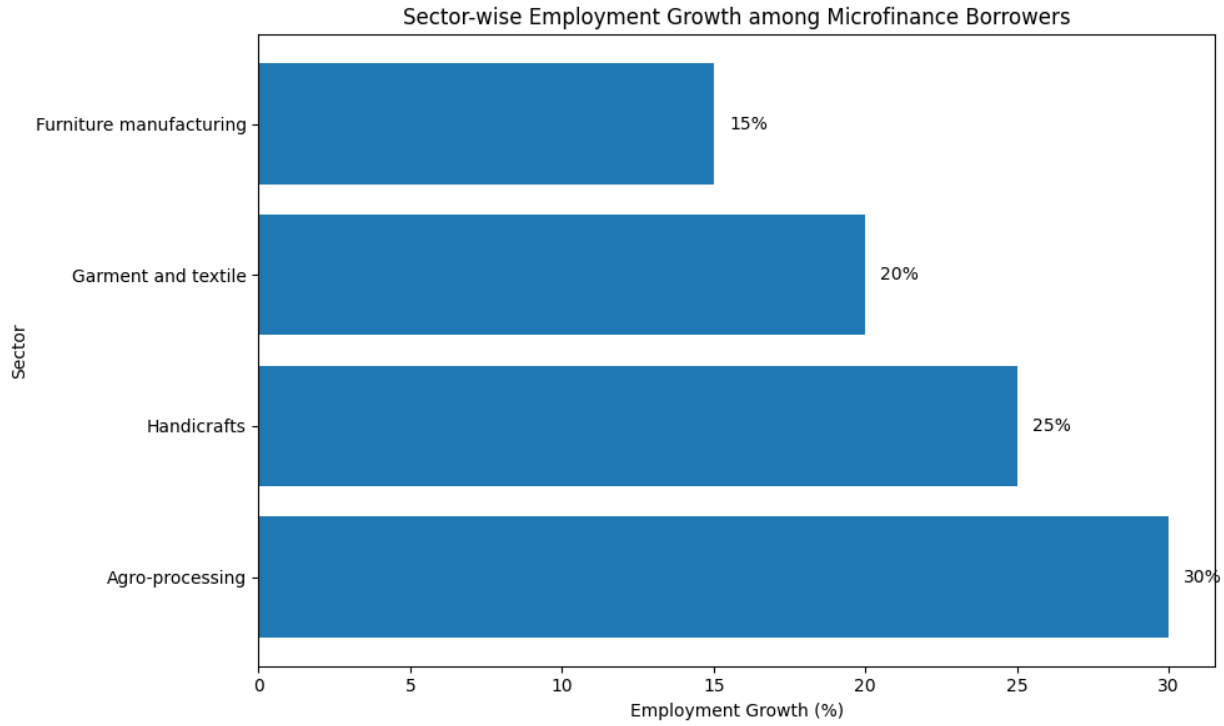
The figure highlights the higher employment generation in women-led micro-enterprises that have accessed microfinance services. The comparison of employment generation in women-led micro-enterprises clearly shows the higher employment growth in businesses supported by microfinance, with a 40% increase compared to those without access.

Challenges in employment generation through microfinance

Despite these successes, several challenges remain in maximizing the potential of microfinance for job creation in Kailali District. The study identified key issues such as limited loan sizes, high interest rates, and a lack of financial literacy among borrowers. For instance, interest rates on microloans remain high, ranging between 18% and 24% per annum, which limits the ability of micro-enterprises to grow and generate more employment.

Moreover, many businesses funded by microfinance remain small and are unable to scale up due to a lack of integration into larger value chains (Figure 10). This challenge is particularly evident in urban areas, where the rapid growth of similar micro-enterprises can lead to market saturation, constraining profitability and employment growth.

Figure 10: The sector-wise impact of microfinance on employment growth



Source: Department of Industry, 2022

The figure depicts the varied influence of microfinance on employment growth across different small industry sectors in Kailali District. The sector-wise impact of microfinance on employment growth reveals that while agro-processing and handicrafts have seen the highest growth, challenges remain in scaling up businesses due to limited integration with larger industries.

Opportunities for improving microfinance's role in job creation

Despite the challenges, several opportunities exist for improving the role of microfinance in generating employment in Kailali District. First, there is potential for technology integration to enhance the efficiency and reach of microfinance services. Mobile banking, digital payments, and fintech solutions could help reduce transaction costs and improve access to financial services, particularly in remote areas. Additionally, developing value chain financing models could support micro-enterprises at different stages of the production cycle, increasing their impact on job creation and market linkages.

Another opportunity lies in the development of skill training programs integrated with microfinance services. These programs could enhance the employability of borrowers and improve the success rates of micro-enterprises. Green microfinance products that support environmentally

sustainable businesses, such as renewable energy and organic farming, also hold promise for generating new employment opportunities.

The findings of this study are consistent with the broader literature on microfinance's role in employment generation, particularly in rural economies. Armendáriz and Morduch (2010) emphasized microfinance's ability to create self-employment opportunities, which aligns with this study's observation of a 15% increase in self-employment in Kailali's agricultural sector. Similarly, Bhatta (2001) highlighted the importance of context-specific microfinance strategies, a point underscored by the success of diversified agricultural activities enabled by microfinance in Kailali. This is supported by Girabi and Mwakaje's (2013) findings on how microfinance boosts farm productivity and employment in rural Tanzania, echoing the 30% employment increase in agro-processing in Kailali. Furthermore, the study's findings on the role of microfinance in fostering women's entrepreneurship and employment align with Gubhaju's (2023) research, which noted microfinance as a critical enabler for women in rural economies. However, consistent with Copestake et al. (2001), this study also highlights challenges such as limited loan sizes and market saturation, reflecting broader issues in the microfinance sector. These connections to the literature reinforce the importance of tailored microfinance approaches for effective employment generation, while also identifying gaps such as the need for larger loans and value chain integration.

Conclusion

This research has significantly contributed to the existing body of knowledge on the role of microfinance in employment generation within rural economies, particularly in Kailali District. By focusing on both agriculture and small industries, this study has provided empirical evidence of how microfinance can promote self-employment, diversify agricultural activities, and expand small businesses, especially among women-led enterprises. The study advances our understanding of microfinance's potential by highlighting its sector-specific impacts, demonstrating that targeted financial interventions can have a profound effect on job creation. Additionally, the research addresses gaps in the literature by identifying challenges such as high interest rates, limited loan sizes, and the difficulties of integrating micro-enterprises into larger value chains. By doing so, this study not only deepens the theoretical discourse on microfinance but also offers practical insights into its implementation.

Implications for the Study

The findings of this research have several key implications. First, they underscore the importance of tailoring microfinance products to the specific needs of different sectors. The significant increase in employment in both agriculture and small industries illustrates that microfinance can be a powerful tool for economic development when properly aligned with local economic structures. However, the challenges identified, such as market saturation and the limited ability of micro-enterprises to scale up, suggest that microfinance alone is insufficient for sustained growth without complementary services such as business development support and value chain integration. Additionally, the higher employment generation among women-led enterprises implies that microfinance institutions should continue to prioritize gender-inclusive financial services to foster broader economic participation.

Policy Recommendations

Based on the findings of this study, several policy recommendations can be made to enhance the role of microfinance in employment generation:

Interest Rate Reduction and Loan Size Increase: Policymakers should explore mechanisms to lower interest rates on microloans, particularly in key sectors like agriculture and agro-processing. Subsidized interest rates or government-backed credit schemes could make larger, more affordable loans accessible to borrowers, enabling them to expand their operations and create more jobs.

Integration with Value Chains*:* To help micro-enterprises scale up and avoid market saturation, efforts should be made to integrate these businesses into larger value chains. This could involve fostering linkages between small businesses and larger companies, providing training on supply chain management, and promoting collective business models such as cooperatives.

Financial Literacy and Business Development Training*:* Government and microfinance institutions should implement financial literacy programs to improve borrowers' understanding of loan management and business operations. In addition, skill development programs tailored to specific sectors like agriculture and handicrafts could enhance the capacity of micro-entrepreneurs, increasing their competitiveness and sustainability.

Green Microfinance Initiatives*:* Encouraging green microfinance products that support environmentally sustainable enterprises—such as renewable energy, organic farming, and eco-tourism—could not only generate employment but also contribute to sustainable development goals.

***Technology Integration**:* The adoption of digital financial services, such as mobile banking and digital payments, could help reduce transaction costs and expand the outreach of microfinance services, particularly in remote and underserved areas of Kailali District.

In conclusion, while microfinance has proven to be an effective tool for employment generation in Kailali District, there are opportunities to enhance its impact through policy interventions that address existing challenges and foster more inclusive, sustainable economic growth.

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