

FINANCIAL KNOWLEDGE AND SKILLS FOR DEVELOPING RURAL ENTREPRENEURSHIP

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Abstract

Financial knowledge and skill are purely a personal phenomenon that desire to explain what, how and why the individuals need to understand the regular personal financial matters. Financial knowledge and skill have close link with personal income, expenditure, savings, borrowings, personal financial planning, risk and benefits of the use of money in any activities. It also explains how a person plans to do a business regarding mobilization of financial resources, i.e. use of savings and collecting credit from persons or institutions. How far the person is able to understand and calculate the cost, revenue, profits and losses of a business s/he is doing is also within a scope of financial knowledge and skill. It means that knowledge and skill of financial matter is one of the key sources of success of a business, basically in rural businesses. This paper tries to link the financial knowledge and skill with success of rural entrepreneurs. Additionally, the paper tries to explore the role of financial knowledge and skill in creating, managing and sustaining the rural business that is the source of personal employment and thereby the source of income which ultimately help to nation building.

Key words: financial knowledge, financial skills, rural entrepreneurship, money management

INTRODUCTION

The Context

Financial knowledge is a part of financial literacy whereas the financial literacy itself is a part of functional literacy. In the emerging literacy discourse, various forms of literacy are assimilated such as financial literacy, environmental literacy, income breeding literacy,

life skills-based literacy, digital literacy, media literacy, political literacy and health literacy, etc, usually, these diverse forms of literacy are enveloped within the concept of functional literacy (Wagley and Lamichhane, 2010). Moreover, functional literacy is a formal plus process of education. Financial knowledge is an educational issue of each individual.

Financial knowledge comprises a complete information and awareness of financial services, such as savings, credits, remittance, and awareness of financial risks; such as exploitations, financial losses, skills of wealth maximization and comparative benefits from each financial activity as well. Similarly, financial knowledge also comprises the idea and awareness of personal cost in businesses and benefits of financial tools such as savings and credits; general awareness and selection capacity of ‘right financial institutions for right transactions’, ‘right transaction for right persons and business’. It also comprises awareness, basic concepts and understanding of financial markets such as market structures, status, influence and significance of financial markets by each individual.

Rural, micro and small entrepreneurship, synonymously understood in developing countries like in Nepal, is business done by each rural people either in service or agricultural sector in rural and deprived areas. “The term is derived from the French *entreprendre* which literally means “to undertake,” indicating the minimum characteristic of an entrepreneur. An entrepreneur applies his or her knowledge, skills, and competencies to create, organize, and manage an enterprise while generating wealth, employment, and impact the society positively” (Murthi, 2013). The definition links the personal knowledge and skill of starting, and expanding of income generating businesses. Service businesses in rural areas are tourism, parlor, saloon, agricultural counseling etc. Agricultural businesses are producing and selling the agricultural products. All these businesses are within the periphery of rural entrepreneurship for which the people are needed to be well informed, well-supported, and well-skilled of businesses, markets and other cost benefits associated with it. There are

forward and backward linkages of rural entrepreneurship that affect any agricultural and rural service businesses. These forward and backward linkages are pushing factors what generates and produces by such the businesses and pulling factors such as what affects such businesses respectively. “Typically, decisions to pursue (or not) an entrepreneurial idea are taken within the context of either a ‘push’ or ‘pull’ environment. The former is where the individual has been made redundant or is unhappy with their current working conditions. The latter pull factors concern market attractiveness such as opportunity to increase personal wealth, personal development and status” (Lee and Lashley, 2009, p 5)

Rural entrepreneurship is directly related with individual’s transformation. Here, the transformation means change in cognition, i.e. knowledge/attitude/skills, change in behavior and change in financial position of each individual. Any businesses in these areas are affected by knowledge inputs that come from several sources such as formal education, mass Medias, reference groups, experiences, family and from counseling of financial intermediaries. Such the counseling not only helps regarding the financial knowledge but also improves financial skills how the businesses are made success.

Linkages between financial knowledge and skill with rural entrepreneurship

Financial knowledge, a part of personal financial awareness, idea and informed situation, which gives a person cognitive power for rational decision making. Every activity of doing business is connected with money or financial resources of each individual. Informed situation of minimum use of money makes the business well run and profitable. Similarly, financial skill is also around the financial knowledge that helps individuals how to take rational decisions, how to develop effective business financial budgeting, how to make rational financial plan to make business success. There is double effect and relationship between financial knowledge and entrepreneurship. Financial knowledge helps to give better ideas for doing business; and a successful business helps to increase income from which

again one can increase savings and better livelihood as well. Financial concern is a heart in doing business. There is need of such knowledge and ability to better manage it.

Sucuahi, (2013) is in favor of positive relationship between financial literacy and entrepreneurship, in which the financial literacy consists of financial knowledge and skill, and claims that saving motivation via financial literacy can make the small business safe in future. Similarly, Bruhn and Zia, (2011) are also in favor of financial literacy training and say that there is positive and effective ex-ante result of financial literacy training in entrepreneurship development. But they have some reservation also in their argument that financial knowledge and skill are necessary but not sufficient conditions to start, operate and success the entrepreneurship. Smith and Kotze, (2008) also clearly mention the close relationship of financial literacy with entrepreneurship enhancement and rational equilibrium of savings and credits makes a success entrepreneurship. Dresler , Fischer and Schoar, (n.d.) also advocate the effectiveness of financial literacy in two ways; first the participants are aware of business knowledge and skill, and second, due to which the profitability of the business is high. All these show that there are close relationship between financial literacy and entrepreneurship development. It is obvious that every activity and transactions in businesses are connected with money, its knowledge and skill.

Understanding and categorization of rural entrepreneurship

Defining entrepreneurship in general and rural entrepreneurship, in particular is not an easy task. These are dynamic, ever changing, contextual and relative concept, i.e. one particular definition and understanding may not represent for all and for elsewhere. Although we have some national understanding and categorization of these; micro, small and rural entrepreneurship are interchangeably used. These are more common to explain the features of rural businesses that have indigenous features. Sometimes, cottage industries are also explained as micro or small or rural entrepreneurship.

Government of Nepal, (2014) has mentioned in its yearly public budget speech, rural entrepreneurship, in financing purpose, as the small and cottage businesses, such as herbs, harvesting, vegetable, agricultural and cold storage, fisheries, mushroom, milk products, animal/birds killing centre and similar businesses done mainly in rural areas. “Cottage Industries are defined as the traditional industries utilizing specific skill or local raw materials and resources, and labor intensive and related with national tradition, art and culture. Small Industries are categorized as the industries with a fixed asset of up to an amount of thirty million rupees shall be named as small industries” (Government of Nepal, 1992, p4).

Similarly, Government of Nepal, (2010), in its industrial policy, defines micro enterprises as the local and indigenous businesses that are established with maximum investment of rupees tow lakh, being the entrepreneurs themselves the managers of the businesses, having not more than nine employees including entrepreneurs, and yearly business turnover not exceeding rupees 20 lakh. The policy defines small enterprises as the businesses except micro and cottage industries established with not exceeding rupees five Crore of fixed investments. Although, the governmental definitions and categorization do not have proper uniqueness to better explain the rural entrepreneurship, it is a combination of small/micro and cottage industries established and run in the local level. Such the business give limited output, consume local raw materials, provide local employment opportunities, protect environment and helps sustainability of industrialization of the country as well.

Statement of the Problem

Due to the sluggish economy and growing labor force of more than 400 thousand annually, Nepal faces significant challenges in poverty reduction and employment generation (Ranabhat , 2013). He further adds that about 75 out of total such the labor force are compelled to cross the country boarder for employment, especially in East Asia and gulf countries with low remuneration. Nepal Rastra Bank, (2008) reports that about 35 percent

and 34 percent people are self employed in rural and urban areas of Nepal, respectively. Similarly, 33 percent and 18 percent people are unpaid households, laborers in those areas respectively. “The country’s development depends very much on having available a pool of skilled persons on which to draw for the jobs that need to be done. Skills are imparted through the education system and also through further formal training which may be specifically related to the requirements of the job” (Central Bureau of Statistics, 2008). All these show that the employment, self employment and situation of employability are poor in the country. There is need of increase the sustainable way of income generation.

Small, micro and rural entrepreneurship have significant role in income generation of individuals and thereby it has positive effects in personal expenditure and saving as well. Such the entrepreneurship development is not only necessary to promote employability of youth domestically and create self jobs but also to control the youth migration from the country. The entrepreneurship development also can control the weaknesses created by the globalization. Here the question arises how these youths are to motivate to do local jobs.

Rural and local people, in developing countries like Nepal, are found unable to create job themselves due to many reasons, out of which the low level of knowledge and skill of doing such the business are important ones. To introduce, manage and sustain the businesses, several types of awareness and knowledge are necessary for individuals; these include financial, technical, marketing, and managerial knowledge. Every element has its own significance, out of which financial knowledge and skill play the vital role to introduce, manage and sustain a micro or a small business.

Lee and Lashley, (2009) explain a good business knowledge, skills and traits, business culture and background of an entrepreneur are the basic qualification of doing local jobs. Similarly, he adds the knowledge of market opportunities; risk taking capacity and innovation desire are additional eligibility for doing such a business. Here the question

arises, from where and how to get such the knowledge, skill and traits of doing businesses?

For this, financial literacy training is able to provide such knowledge, skill and traits.

According to Smith, (2008), venture creation or development of self business is possible by them who are financially literate in the sense that such the people are well skilled to manage such the business and its financial agenda. Similarly, financial literacy also empowers people to cope with increasing financial complexities in the global livelihood. Here, major finding regarding financial literacy by Zadeh and Dahmardeh, (2013) show that that the local entrepreneurs lack the financial literacy what they need to plan, and implement the small businesses regarding management of savings and credits.

From the above explanations, the worth of financial knowledge and skill is vital for developing entrepreneurship in developing countries like Nepal. Ranabhat, (2010) emphasized that the financing support only, without skill development of the entrepreneurs, would not able to develop entrepreneurship. He has focused on training for skill development program. Kotze and Smith, (2008) have prioritized personal financial knowledge of entrepreneur plays vital role in entrepreneurship development. It means, when the people do not get better chance of business, finance, marketing and management knowledge and skill, the entrepreneurship development is not possible.

Here two questions arise; whether the financial knowledge and skill are necessary or sufficient for entrepreneurship development? And what is the situation of such the financial knowledge and skill by training and empowerment activities in Nepalese context to promote and develop the rural entrepreneurship?

Objectives of the study

Main objective of the paper is diagnosing the role of financial knowledge and skill in developing the micro entrepreneurship in rural areas of the country. The paper also will

present whether there are other factors also to affect micro entrepreneurship in these areas rather than financial knowledge and skills.

Significance of the Issue

The public budget by Government of Nepal, (2013) of fiscal year 2013/14 also had emphasized to promote private or self businesses both in urban and rural areas. It helps to understand how important the private business promotion is. The government of Nepal has emphasized such the local, small and micro entrepreneurship in many ways. The industrial policy is a significant policy backup for establishing, promoting and sustaining the business in around the country. It has provision of empowerment programs, credit programs, financial knowledge and skill for starting and doing such businesses. The policy signifies the rural enterprises for promoting savings, consuming credits, and for providing local employments.

All the latest comprehensive development planning of the government (tenth, eleventh, twelfth, and approach paper of thirteenth) have mentioned the significance of rural entrepreneurship and several ways of developing them. The approach paper of 13th planning of Government of Nepal, (2013) has desired to connect entrepreneurship with production and services, employment, export, local raw materials, import substitution, market management, forward/backward linkages (value chain), agro-industries, local skills, tourism development etc. the Twelfth Plan of Government of Nepal, (2011), first time in the history of development planning, 'a package of separate entrepreneurship and skill development training' is in provision (pg 79). The planning advocates that the state is accountable to provide necessary financial and business knowledge and skills for domestic and international market that could help the employability of the people. Such the knowledge/skill could help their competencies. But its proper implementation is in question.

Similarly, the eleventh planning of Government of Nepal (2008) has aimed to alleviate poverty via social inclusion though developing small and micro enterprises in the

country. And the tenth planning of Government of Nepal, (2002) had aimed developing micro and small enterprises to develop employment and source of income in rural areas of Nepal. In this ways, different planning phases have distinct and significant objectives to link the entrepreneurship development with national development by the government.

Theoretical Perspectives

The issue of financial knowledge and skill development for entrepreneurship development could be described through some of the theories. These theories are useful and some of lenses to see, analyze and interpret the issue. Such the theories are also helpful to contextualize the issue. Two theoretical insights are applied here, whereas there might other theories as well, to better compare and contrast the issue of financial knowledge and skill development for development of entrepreneurship. Theoretical Perspectives: Theory of change, Capability approach

Theory of Change: in simple sense, the theory of change explains how change occurs. Change is a desired situation against current situation. It seeks something positive newness that is useful for the human beings. The theory could be explained both on macro and micro sense; it means, theory of change considers the change both on individual and on aggregate people. Organizational Research Services (2004) explained the theory how the interventions or the actions transmits to the change. Furthermore, some meaningful interventions, actions and efforts are necessary to achieve change; such the change is expected in cognition (awareness, knowledge, skill), attitude (perceptions, beliefs, behavior), and position (health, Financial, social safety and status) of the individuals that drive to well-beings and prosperity. Some activities achieve required outcomes via linear transmission path, i.e. also called a logic model and some have non-linear transmission mechanism.

Vogel, (2012) describes theory of change as contextual concept that how changes or outcomes are to achieve with some inputs and interventions. He explains the theory as both of

process and product. According to him, critical aspect of TOC is rejecting the classical thinking of process and prescribed methodology but considering the dimensions of change in individual and society. In the same line; Kail and Lumley, (2012) explained the theory of change as an excellent basis for a strategic plan because it works methodically through the path from the need you are trying to address to the change you want to achieve. They further assume the theory as flexible and dynamic concept to achieve logical improvements to assure the change to individuals and society within implementation of programs. The same arguments regarding the theory belongs to International Network on Strategic Philanthropy (2005) that the theory of change is a service delivery strategy and is believed to be critical for producing change and improvement. All the writes have the similar arguments regarding the theory that when the change and departure in any existing situation is required, there is need of some logical inputs and interventions.

Change is inevitable for people in cognition, behavior and positions. The empowerment programs can provide knowledge and skill to the people that bring the change or outcome as change in attitude and behavior of doing something. Financial knowledge and skill is also necessary to improve and develop the entrepreneurship environment. Financial knowledge helps entrepreneurs from where, how much and why to collect the money to invest; how to utilize it, how to better manage, how to separate personal finance with business finance etc. Whereas, the financial skill help to develop financial plan about collecting and repayment of the borrowing. Theory of change can explain in this regard, how financial knowledge and skill can make change in usual situation of entrepreneurship.

Capability Approach: it is another approach to see, compare and analyze the issue that any working efficiency and capacity of individual is capability. It is necessary to increase in capability of persons to perform the job, to compare the jobs and change to better job. Capability opens the doors of multiple options for persons. The approach is developed by

novel prize laureate Amartya Sen in 1990s. In his unpublished PhD thesis, Chuan, (2011) said that When people are less capable to take benefits from available services, employments, earnings and entrepreneurships, they need to provide entitlement (special care and public benefits by governments as cash or kinds), or empowering them for earning. It clearly indicates that there are two ways of empowering and enabling people towards benefits, i.e. special take care by the government and making them capable by providing knowledge and skill of doing job. In most of the developing countries like Nepal, providing special care by public sector is not an easy job; the second option is sustainable and that creates capability and independency too. He further argued that without capability build up of the marginalized and low income people; mere the democracy, human rights, media consciousness, discourses (public debate), terminal elections etc may not work for them. All these post-modern concept cannot improve their capability whereas their incapability is the major reason for poverty.

In this regard, Martins, (n.d.) argues that human well-being should be assessed in terms of human functioning, where a human functioning is what a given human being is or does. Human functioning is what is essential to human beings or what are necessary for survival. To maintain the survival one needs capability to supply or attain different goods and services. In such who is not capable, cannot supply such the demands. In this way, personal capability is the basic source of their independency and employment and thereby free from poverty. In this regards, the personal strength on financial knowledge and skill, at least, can empower persons to do better entrepreneurship which can create better opportunity for them.

METHODOLOGY OF DATA COLLECTION

The methodology for preparing this paper is qualitative in nature that the paper does not need any quantitative data collection, presentation and analysis. In this qualitative data analysis; two basic methods of data collections are applied, i.e. desk review of the literatures and some of individual interviews with participants. These participants are some of the rural

entrepreneurs. Both of the methods are guided from the interpretative paradigm of research that believes on the interaction between and among the people for generating the knowledge. It believes that the knowledge is not readymade, but is created with human interaction and sharing of several experiences of their lives.

Desk review data are of secondary of nature which comes from literature reviews. Some of research reports, journal articles, and policy documents are reviewed for such the data and references. Most of these documents are retrieved from the electronic source. Similarly, some of face to face individual interviews with five rural entrepreneurs are conducted. These five participants are selected purposively to capture the interviews with the help of chief executive officer of Samudayik Savings and Credit Cooperative Society, Panauti in Kabhre district. Out of total five participants, three are male entrepreneurs and two are female entrepreneurs in the area. Out of three males, one is from Dalit (previously said untouches in our society) with profession of shoe maker (cobbler), another one was Janajati and was engaged in grocery shop (trade), and the next was from agricultural profession and of Chhetri caste. Out of two female participants, one was from janajati and was engaged with mobile shop (moving from one place to another with four wheeler cart) and next was from Brahmin caste who is doing grocery shop (trade). All the five participants are the members of the cooperative society and clients as savings and credits as well.

DATA PRESENTATION AND ANALYSIS

The data collected from the participants, taken from different individual interviews can be categorized into three themes and analysis on the basis of the themes like financial knowledge, and financial skill of the participants and its linkages with their businesses.

Financial knowledge

As Sucuahi, (2013) explains that the financial knowledge is about calculation and projection of debt, savings, income, expenditure, profits, cost etc because the knowledge

gives idea, consciousness, information, and awareness of financial matter, what FIs is for them to help/finance. In other words, the financial knowledge is informed concept of financial services, institutions, cost/benefits of financial products, better return from the instruments and consciousness of financial matter what they are facing and to face in daily lives. The understanding of a rational use of income and credit in different purposes is the financial knowledge. Exploring the situation of financial knowledge of the participants within limited time interviews is not an easy task.

Financial knowledge of the participants is found poor. They believe the institutions in more extent than they are aware of the financial matter and skill to calculate the interest rates, record keeping of the regular transactions etc. One of the participants said, *“malai byaj ke ho kati dinchhan kehi tha chhaina, ma padhe lekheko pani chhaina, hisab kitab pani kehi aaudaina, tara Krishna sar prati bishwas chha, pakkai beimani hudaina hola”*, (I don't know what the interest rate is and how much is it in savings and credits, I am illiterate, I cannot make any financial records of my transaction, but I fully trust Krishna sir, CEO of the cooperative, he is an honest, I believe). It shows the poor situation of financial knowledge.

Participants are unaware of necessity of distinguishing personal and business income, expenditure management. Most of the participants have the behavior of spending domestic and personal expenditure from business income. Normally, they do not care of how and why to separate such distinct nature of transactions each other to make the business fair and proper. Similarly, they are found no more conscious about recording the transactions of the business as well. Their understanding of utilizing the credit for proper objective is also found poor. One of the participants explained that she has taken credit for business and is spending it in paying the school fee of her child. Credit and its application knowledge is also poor.

Financial skill

Financial ability, capability, strength of decision making in financial concerns, ability to financial communication with concerned people, ability to make personal budget and plan according to potential income and expenditure, ability to calculate income/interest earnings and expenditure (consumptions and interest expenditure), self confidence in financial matter are the scope of the financial skill of a person. Bruhn and Zia (2011) are in favor of developing new production process, introducing new investment in businesses, skill development in separating personal and business income/expenditure, negotiating skill of credit from FIs, increase in sales and profits from the businesses gained from financial literacy program. In the same line, Smith (2008) says that personal and venture financial management skill is a key determinant of doing business where lack of knowledge of doing such business will drive to failure. Measuring the financial skill from limited interactions with persons is another challenge.

Participants are found no more skilled to calculate their interest earning and interest payment, unable to make any financial plan for business, unable to assess any business risks and plan to mitigate it, unable to calculate periodic business and financial turnover, and unable to distinguish business and personal income and expenditure. They are unable to make any purchase and sales plan and resources management for it accordingly. Most of the businesses are family and traditional business, participants have no capability, skill and desire to enlarge, sustain and reform it. Moreover, they do not have any bargaining skill of rate of interest rates, quality of service, discounts and rebates regarding savings and credits from Financial Intermediaries. Their financial skill, in this way, also found no more satisfactory.

Linking financial knowledge and skills in entrepreneurship

The financial knowledge and skill are the necessary but not sufficient conditions for being a successful entrepreneur. There are several other factors to affect the businesses such

as fairness of rivalry, supply of raw materials (backward linkage), comfortable situation in the sales (forward linkage), which is also called market perfections, support of the government. K.C., (n.d.) explains the limitations of entrepreneurship development in Nepal as limited financial resources, lack of proper entrepreneurial education and training facilities, low rate of return from industrial investment, conservative lending policy of banks and financial institutions, lack of adequate protection to investors, unstable and unsuitable economic and industrial policies of the government, wide-spread corruption in the public sector and the aspiration of many people in the private sector to be rich overnight instead of putting efforts to the industrial development (short sighted vision of people). To enumerate the major limitations and to advocate the linkage of financial knowledge and skill in entrepreneurship development is another difficult job.

The data says that the financial knowledge and skill are necessary but not sufficient condition for entrepreneurship development. Most of the participants are no more optimistic towards their businesses and claim that the external atmosphere for developing entrepreneurship is not favorable. There is not any protection, facilitation and easier market access of goods and services produced by these enterprises. And also some of the policy and legal frames such as comprehensive planning, yearly budget and programs are only supportive in the paper not in practice. One of the participants is found no more interested to sustain his family business which he was doing for a long, traditionally. He says; “*yo byawasayma tikna garo bho, manisla sasto matrai khojna thale, hamle kinnu parne saman mahango hudai gayo, yahi byapar garne manis dherai bhaye, aba bidesh tirai lagnu parla*” (it is being very difficult to sustain the business, buyers prefer only the cheaper products, whereas the raw materials of the products are being costlier, and also there is increasing the competition in the market too, now it is better to go overseas). Most of the participants are

untrained in business/financial skill training and they demand such type of empowerment programs. Skill developing training with financial management training is more important.

CONCLUSIONS AND IMPLICATIONS

Financial knowledge and skill are not only useful for entrepreneurship development but also necessary components. Such the financial capability of rural people provides them strength and with the help which they can be transforms them. Murthi, (2013) is in favor of developing entrepreneurship to transform the people and says that the social and rural entrepreneurs are responsible for social and rural transformation. To achieve such the change and transformation of rural people, there is need of changing the social businesses accordingly. Economic transformation of the poor and deprived rural population lies on the shift in rural economic activities from subsistence to commercial (Nepal Rastra Bank, 2008).

Entrepreneurship development, particularly in rural areas of the country, is a strong weapon to minimize poverty via self employment generation and thereby increase in personal income of the people. It is affected not only by financial awareness, understanding and skills but also by other several factors such as government support, necessary protection from crude pace of globalization, training and skill for empowering the entrepreneurs for proper business, developing local technology in production services etc. But, normally, according to the data, people do not desire to change and shift the usual, traditional and family profession.

However, the people are required to be independent in financial knowledge and skill for doing any business that makes the individuals success to more extent. Situation of Nepalese rural entrepreneurs regarding the financial consciousness and understanding is found very poor; they believe more to others, mainly to the institutions and its representatives than their knowledge and skills. Their financial concept with them is not found strong much to make them financially independent. Similarly they are not worried to record their business and financial transaction because they think it is their personal event. Hence, they are

illiterate regarding general reading and writing skills, they are found unable to make any proper business plan not only to take the credit but also for managing their business.

Without ability and awareness of financial concerns, doing the business is very difficult because in each and every event, there is use of money resources which is, by nature scarce and limited. It is so, the matter of finance is not only the personal, and it is also of business. Some social theories like capability approach and theory of change also explain the situation how the individuals are making capable and financially independent.

It is, therefore, the knowledge, understanding and skills of financial concern help the rural people how, why and what to do for their transformation. Such the knowledge and skills are purely the individual assets that can change their lives. Knowledge is a power and skill is the capability of doing things for their betterment. In this regard, financial power and capability is responsible to change the people and useful for their entrepreneurship development. It is also for sustainable change in their lives as well.

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