

**FACTORS INFLUENCING CREDIT  
ACCESSIBILITY AND SMES PERFORMANCE IN  
NEPAL**

**A Thesis**

**Submitted to the Department of Economics, Patan Multiple Campus,  
Faculty of Humanities and Social Sciences, Tribhuvan University,  
Nepal in Partial Fulfilment of the Requirement  
of the Degree of**

**MASTER OF ARTS  
in  
ECONOMICS**

**By**

**SAMBRIDHI KHANAL**

**Roll No: 80/075**

**TU Reg. Number: 6-3-22-1481-2018**

**Department of Economics,  
Patan Multiple Campus  
Tribhuvan University  
Lalitpur, Nepal**

**December 23, 2024**

## **DECLARATION**

I hereby declare that this thesis entitled “FACTORS INFLUENCING CREDIT ACCESSIBILITY AND SMES PERFORMANCE IN NEPAL” which I have submitted to the Department of Economics, Patan Multiple Campus, in partial fulfilment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS, is entirely my original work prepared under the guidance of my supervisor. I have made due acknowledgements to all ideas and information borrowed from different sources in the course of writing this thesis. The results of this thesis have not been presented or submitted anywhere else for the award of any degree. I shall be solely responsible for any evidence found against my declaration.

.....

Sambridhi Khanal



त्रिभुवन विश्वविद्यालय  
TRIBHUVAN UNIVERSITY

Phone { 5260294  
5260394  
5260911  
5261676

पाटन संयुक्त क्याम्पस  
**PATAN MULTIPLE CAMPUS**

तमसोमा ज्योतिर्गमय

स्थापना २०११ / Estd. 1954

क्याम्पस प्रमुखको कार्यालय  
Office of the Campus Chief  
Ph.: 5260510

पाटन ढोका ललितपुर, नेपाल  
Patan Dhoka, Lalitpur, Nepal

मिति / Date .....

पत्र संख्या/Ref. No. ....

**LETTER OF RECOMMENDATION**

This thesis entitled “FACTORS INFLUENCING CREDIT ACCESSIBILITY AND SMES PERFORMANCE IN NEPAL” has been prepared by Mrs. SAMBRIDHI KHANAL under my guidance and supervision. I, hereby, recommend it in partial fulfilment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS for final examination.

.....

Dr. Raghu Bir Bista  
Associate Professor

Date: 2024.10.23



त्रिभुवन विश्वविद्यालय  
TRIBHUVAN UNIVERSITY

Phone { 5260294  
5260394  
5260911  
5261676

**पाटन संयुक्त क्याम्पस**  
**PATAN MULTIPLE CAMPUS**

तमसोमा ज्योतिर्गमय

स्थापना १९५५ / Estd. 1954

क्याम्पस प्रमुखको कार्यालय  
Office of the Campus Chief  
Ph.: 5260510

पाटन ढोका ललितपुर, नेपाल  
Patan Dhoka, Lalitpur, Nepal

पत्र संख्या/Ref. No. ....

मिति / Date .....

**LETTER OF APPROVAL**

We certify that this thesis entitled FACTORS INFLUENCING CREDIT ACCESSIBILITY AND SMES PERFORMANCE IN NEPAL submitted by SAMBRIDHI KHANAL to the Department of Economics, Faculty of Humanities and Social Sciences, Patan Multiple Campus, Tribhuvan University, in partial fulfilment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

**Thesis Committee**

.....

Head of Department

Dr. Raghu Bir Bista

Associate Professor

.....

External Examiner

Gyan Mani Adhikari

Associate Professor

.....

Thesis Supervisor

Dr. Raghu Bir Bista

Associate Professor

Date: 2024.12.23

## ACKNOWLEDGEMENT

This study entitled “FACTORS INFLUENCING CREDIT ACCESSIBILITY AND SMES PERFORMANCE IN NEPAL” has been conducted to satisfy the partial requirements for the degree of Master of Arts in Economics of Tribhuvan University. I am overwhelmed with all the humbleness and gratefulness to acknowledge my in-depth gratitude to all those who have guided me to put these ideas, well above the level of simplicity and into something concrete.

First and foremost, my gratefulness goes to all the teachers and staff of Department of Economics, Patan Multiple Campus for their comments, discussion or general advice. I offer my sincerest gratitude to Associate Professor Dr. Raghu Bir Bista for his valuable supervision and guidance in completing this study. I am ineffably indebted and very thankful for his continuous support and constructive suggestion that have enabled this study project to achieve its present form.

Furthermore, I am also very grateful to my friend Mrs. Susmita Paudel, Assistant Director, Nepal Rastra Bank for helping me to understand the scenario of SME credit in Nepal and develop appropriate model. I would also like to thank my external examiner Gyan Mani Adhikari for providing me his invaluable suggestions during the viva.

Last but not least, I am very much thankful towards my mother, father, spouse, other family members and friends for continuous support, encouragement for the accomplishment of this thesis.

Sambridhi Khanal

## ABSTRACT

Small and medium-sized enterprises (SMEs) are pivotal to Nepal's economy, driving economic growth and job creation. However, they frequently encounter challenges in accessing credit, which limits their ability to expand and develop. This study investigates the factors influencing credit accessibility and SME performance in the Kathmandu Valley, Nepal. The objective was to analyse how collateral security (CS), presence of lending institutions (PLI), literacy levels among SME owners (LL), and interest rates charged (IRC) impact credit accessibility and subsequently influence SME performance. Data was collected through a semi-structured questionnaire administered to 300 SMEs in the region. Correlation and regression analyses were employed to examine the relationships between these variables. The findings highlight that CS significantly enhances credit accessibility (CA) for SMEs in Kathmandu Valley, emphasizing the importance of robust collateral for securing credit. Conversely, PLI did not show a statistically significant impact on CA, suggesting limitations in institutional support for credit access. LL among SME owners exhibited a marginally significant positive effect on CA, indicating that higher literacy levels could facilitate better credit access strategies. IRC demonstrated a strong positive association with CA, implying that higher interest rates are linked to greater credit accessibility for SMEs in the region. The study concludes that improving collateral security mechanisms and enhancing financial literacy among SME owners are critical steps to enhance credit accessibility in Kathmandu Valley. Policies aimed at reducing interest rates or providing subsidized credit could further improve SMEs' ability to access affordable financing. Strengthening the presence and effectiveness of lending institutions through targeted support and regulatory reforms is essential for fostering a conducive environment for SME growth and development. These findings underscore the importance of tailored policy interventions and institutional support in enhancing SME resilience and economic contributions in Nepal.

**Keywords:** SMEs, credit accessibility, collateral security, lending institutions, interest rates, Nepal

## TABLE OF CONTENTS

<b>DECLARATION</b>	<b>ii</b>
<b>LETTER OF RECOMMENDATION</b>	<b>iii</b>
<b>LETTER OF APPROVAL</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT</b>	<b>v</b>
<b>ABSTRACT</b>	<b>vi</b>
<b>TABLE OF CONTENTS</b>	<b>vii</b>
<b>ACRONYMS AND ABBREVIATIONS</b>	<b>ix</b>
<b>LIST OF TABLES</b>	<b>x</b>
<b>LIST OF FIGURE</b>	<b>xi</b>
<b>CHAPTER I : INTRODUCTION</b>	<b>1</b>
1.1 Background of the Study	1
1.2 Statement of the Problem	2
1.3 Objectives of the Study	4
1.4 Significance of the Study	4
1.5 Scope and Limitations of the Study	4
1.6 Outline of the Study	5
<b>CHAPTER II : REVIEW OF LITERATURE</b>	<b>6</b>
2.1 Introduction	6
2.2 Literature Review	6
2.2.1 International Context	6
2.2.2 National Context	15
2.3 Research Gap	25
2.4 Operational Definition of the Variables	27
<b>CHAPTER III : RESEARCH METHODOLOGY</b>	<b>30</b>
3.1 Introduction	30
3.2 Theoretical/ Conceptual Framework	30
3.3 Research Design	31
3.4 Nature and Sources of Data	31
3.5 Data Collection Method	32
3.5.1. Study Area	32
3.5.2. Sampling Design	32
3.5.3 Data Collection Tool	34

3.6	Data Analysis	35
3.7	Model Specification	36
	<b>CHAPTER IV : DATA PRESENTATION AND ANALYSIS</b>	<b>38</b>
4.1.	SMEs in Economic Growth and Development	38
4.2.	Characteristics of Small and Medium-sized Enterprises (SMEs) in Nepal	38
4.2.1	Socio-Economic Profile of SMEs Respondents	39
4.2.2	Market and Raw Materials	40
4.2.3	Employment and Finance	41
4.2.4	Market Demand and Outlet	42
4.2.5	Product Profile	43
4.2.6	Nature and Operations	44
4.2.7	Financial Metrics and Contributions	46
4.2.8	Legal Status	47
4.2.9	Investment Related	48
4.3	Factors influencing Credit Accessibility on SMEs Performance	50
4.3.1	Collateral Security	50
4.3.2	Presence of Lending Institutions	52
4.3.3	Literacy Level	53
4.3.4	Interest Rate Charged	55
4.3.5	Credit Accessibility	57
4.3.6	SMEs Performance	59
4.4	Analysis of Credit Accessibility and SME Performance	61
4.5	Impact of variables on Performance of SMEs	62
4.5.1	Factors Influencing the Credit Accessibility of SMEs	62
4.5.2	Factors impacting the Performance of SMEs	64
4.6.	Discussion	66
	<b>CHAPTER V : SUMMARY AND CONCLUSION</b>	<b>69</b>
5.1	Introduction	69
5.2	Summary	69
5.3	Key Findings of the Study	70
5.4	Conclusion	72
5.5	Recommendation	75
	<b>REFERENCES</b>	<b>76</b>
	<b>APPENDIX</b>	<b>81</b>

## ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
DMB	Deposit Money Bank
GDP	Gross Domestic Product
GFC	Global Financial Crisis
MFI	Microfinance Institution
MoF	Ministry of Finance
MSME	Micro, Small, and Medium Enterprises
NRB	National Retail Bank
OECD	Organization for Economic Cooperation and Development
PAR	Portfolio at Risk
PLS-SEM	Partial Least Squares Structural Equation Modelling
ROA	Return on Assets
ROE	Return on Equity
SME	Small and Medium-sized Enterprises
SPSS	Statistical Package for the Social Sciences
T	Test Statistic
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WTO	World Trade Organization

## LIST OF TABLES

Table 2. 1: Summary of Literatures	20
Table 4. 1: Respondents Profile	39
Table 4. 2: Market and Raw Materials	40
Table 4. 3: Employment and Finance	41
Table 4. 4: Market Demand and Outlet	42
Table 4. 5: Product Profile	43
Table 4. 6: Nature and Operations	44
Table 4. 7: Financial Metrics and Contributions	46
Table 4. 8: Legal Status	47
Table 4. 9: Investment Related	48
Table 4. 10: Statistical Analysis of Collateral Security	50
Table 4. 11: Statistical Analysis of Presence of Lending Institutions	52
Table 4. 12: Statistical Analysis of Literacy Level	54
Table 4. 13: Statistical Analysis of Interest Rate Charged	56
Table 4. 14: Statistical Analysis of Credit Accessibility	57
Table 4. 15: Statistical Analysis of SMEs Performance	59
Table 4. 16: Correlation Analysis	61
Table 4. 17: Regression Analysis with Study Variables and Credit Accessibility	62
Table 4. 18: Regression Analysis with Study Variables and SMEs Performance	64

## LIST OF FIGURE

Figure 3.1 Conceptual Framework

31

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Small and medium-sized enterprises (SMEs) are businesses that have a small market share in terms of employee count, revenue, ownership, and assets (World Bank, 2013). SMEs are defined as businesses that are managed by owners or part owners rather than a formal management structure, and are self-sufficient enough to be considered major organizations. These types of businesses play a crucial role in the economy of both developing and developed countries, and have a positive impact on the lives of individuals, employers, and workers by creating jobs and improving living conditions. Additionally, SMEs are an important source of entrepreneurial skills and innovative ideas (Sanni et al., 2020).

Nepal's Industrial Enterprise Act of 2020 categorizes companies by size according to their fixed asset value. However, Nepal currently lacks a comprehensive nationwide survey of businesses, including SMEs, which would provide detailed data on various aspects such as production, sales, employment, exports, and sourcing, among others. Consequently, there isn't a reliable method to accurately estimate the contribution of SMEs to the economy. The Ministry of Finance (MoF) in 2022 stated that SMEs contribute around 22 percent to the gross domestic product (GDP) and employ approximately 1.7 million people (ADBI, 2022).

Accessibility to credit refers to the ability of an individual or organization to obtain external funding as a way of addressing cash flow issues (Masdupi, Rasyid & Darni, 2024). Lenders evaluate the borrower's ability to repay the loan before granting short-term or long-term credit. Monteiro (2013) stated that SMEs face difficulties in obtaining credit from nonbank lenders due to their lack of credibility in providing unpublished information, resulting in challenges in securing financing. Therefore, this study focuses on the availability of credit for SMEs. According to Chandrayanti et al. (2019) the characteristics of a company do not have a significant impact on SME financing, the amount of financial leverage a business has does affect its chances of obtaining bank loans in Vietnam. In a study conducted in Malaysia, Haron et al. (2013) found that the

availability of collateral is a significant factor that determines the loan repayment ability.

To decrease the chances of default on loan repayment by SMEs, both financial and non-financial institutions often demand collateral in the form of tangible assets and impose strict requirements (Erdogan, 2019). According to Ma, Wu and Gan (2019) lending to SMEs is considered riskier than lending to established large firms. Acquiring reliable and precise information about the performance and financial position of SMEs poses a challenge for commercial banks that offer loans to such businesses. Consequently, banks tend to be cautious when providing funding to startups, especially those without sufficient collateral to support their claims (Erdogan, 2019). In addition, most commercial banks prefer to monitor the activities of the businesses they lend money to, to ensure that the funds are used in accordance with the agreed terms and for the intended purposes. Commercial banks are more likely to impose credit restrictions on small and medium-sized enterprises (SMEs) than on larger, established businesses, making it more challenging to monitor the activities of SMEs (Alhassan & Sakara, 2014).

## **1.2 Statement of the Problem**

Small and medium-sized enterprises (SMEs) are essential drivers of economic growth in Nepal, crucial for generating employment and reducing poverty. Despite their significant contributions, SMEs face substantial challenges in accessing financing, which hinders their expansion and development prospects. This issue is well-documented in global and local literature (Ghimire, 2021; Ma, Wu, & Gan, 2019; European Commission, 2019). Factors such as inadequate collateral, informal operational practices, and limited financial literacy among SME owners contribute to the difficulties they encounter in securing loans from formal financial institutions. These challenges are exacerbated by the uneven distribution of financial services, particularly in rural areas, where SMEs struggle the most to access credit (European Commission, 2019).

In Nepal the status quo reflects a disparity between policy intentions and practical outcomes for SMEs. Despite government recognition of SMEs' pivotal role in national development plans, many SMEs operate informally and face barriers when attempting

to transition to formal financial channels. Studies highlight the gap between policy support and implementation, underscoring the need for targeted interventions to bridge this divide (Ghimire, 2021). Moreover, the informal nature of many SME operations limits their ability to provide requisite financial documentation and meet collateral requirements, further constraining their access to credit (Ma, Wu, & Gan, 2019).

The existing literature underscores the complex interplay of factors influencing credit accessibility for SMEs in Nepal. Research indicates that while ownership of tangible assets can facilitate credit access, it is insufficient on its own. Other critical factors include the duration of business operation, educational background of SME owners, and the regulatory environment governing financial transactions (Ma, Wu, & Gan, 2019; Pearce & Bah, 2024; Balogun et al., 2017). These insights highlight the multifaceted nature of the challenges faced by SMEs in navigating the financial landscape, necessitating a holistic approach to address systemic barriers and enhance their resilience. This study seeks to contribute to the understanding of these issues by investigating the specific factors influencing credit accessibility for SMEs in the Kathmandu Valley, Nepal. By focusing on collateral security, the role of lending institutions, and the impact of financial literacy levels among SME owners, this study aims to provide empirical insights into how these factors shape SMEs' ability to access credit. Ultimately, the findings aim to inform policy recommendations and interventions aimed at fostering a more supportive environment for SME growth and sustainability in Nepal's economy.

Based on the various empirical review on problems statement, the following questions are raised to fill the gap from previous research.

1. What are the characteristics of small and medium-sized enterprises (SMEs) in Kathmandu Valley?
2. What are the factors influencing the credit accessibility for SMEs in Kathmandu Valley?
3. What factors impact the performance of small and medium-sized enterprises (SMEs) in Kathmandu Valley?

### **1.3 Objectives of the Study**

The general objective of this study is to analyse the factors influencing credit accessibility and its impact on the performance of small and medium-sized enterprises (SMEs) in Kathmandu Valley. And the specific objectives are as follows:

1. To analyse the characteristics of small and medium-sized enterprises (SMEs) in Kathmandu Valley.
2. To assess the factors influencing the accessibility of credit for SMEs in the Kathmandu Valley.
3. To examine the impacts of selected variables on the performance of SMEs in Kathmandu Valley.

### **1.4 Significance of the Study**

The study is conducted in response to the increasing significance of small and medium-sized enterprises (SMEs) in Nepal's economy, as well as the obstacles they face. SMEs are identified as a means of boosting industrialization, generating employment, promoting innovation, and reducing poverty. The study's findings provide SME owners in Nepal with a better understanding of the key factors that influence their access to finance. The results of this study are beneficial to the Nepalese government and other nations when formulating policies related to planning that are inclusive of all merchants, especially SMEs. Educational institutions and non-governmental organizations are also able to focus their efforts on SMEs by educating them about the realities of doing business, identifying areas where grants or donations can be made, and providing training for the less fortunate. This study also serves as a starting point for future research on the factors that affect SMEs' ability to obtain loans, according to academics and researchers.

### **1.5 Scope and Limitations of the Study**

Each and every research work have more or less limitations. To make this study precise, meaningful, and valuable, some limitations has made so that the objective of this study can be achieved within limited time, resource, and information. Some limitations of this study are as follows:

- The study focuses solely on SMEs in the Kathmandu Valley, limiting respondents to this geographical area. This restriction raises concerns about generalizability beyond this specific region.
- The sample size comprises only 300 SMEs, which is relatively small, raising concerns about the generalizability of the findings beyond this limited sample.
- The results obtained from the study may not be generalizable to all similar organizations due to the varying nature of their operations and businesses.
- In this study, only selected statistical tools and techniques has been used. However, it could benefit from the inclusion of other multivariate techniques such as structural equation modelling to enhance the analysis.
- There exist many factors that affect the credit accessibility and performance of SMEs. However, this study has only considered limited factors, such as collateral security, interest rates, and presence of lending institutions, along with demographic factors like age and education level of entrepreneurs.

## **1.6 Outline of the Study**

This study is organized into five chapters. The initial chapter centers on the Introduction, where the study explore into the study's context, the problem statement, the study's objectives, the reasons behind conducting this study, its limitations, and the overall structure of the study. Moving on to the second chapter, it entails a comprehensive literature review. This includes both a theoretical examination, which encompasses an analysis of relevant books and theoretical concepts, and an empirical review, which involves scrutinizing reports, journals, previous theses, and various other sources pertinent to the topic. The third chapter provides an in-depth explanation of the research methodology employed in this study, encompassing the research design, data sources, data collection processes, and the methods used for data analysis, among other aspects. In the fourth chapter, we present a detailed breakdown of the analysis and the outcomes. This chapter incorporates several subheadings, with each one tailored to the specific type of data at hand. Wrapping up the study, Chapter Five is dedicated to the summary, conclusions, the implications drawn from the study and recommendations. To conclude the document, we include the reference list and appendices at the end.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

In this chapter, the review of relevant literature on the determinants of credit accessibility for small and medium-sized enterprises (SMEs) are presented. This review encompasses theoretical and methodological contributions to the field, as well as empirical investigations and an estimating model. The chapter also explores study on factors that influence loan availability and the success of SMEs.

#### **2.2 Literature Review**

##### **2.2.1 International Context**

Aminkeng et al. (2024) investigated the impact of credit constraints on the financial performance of Small and Medium-Sized Enterprises (SMEs), focusing on their role in national economic development, poverty alleviation, and employment creation. The study attempted to establish how different types of credit constraints—namely risk, quantity, price, and transaction costs—affect the profitability of SMEs in Cameroon. Methodologically, the study employed endogenous switching regression analysis using cross-sectional data collected from a firm-level survey involving 520 SMEs. This approach allows for an examination of both constrained and unconstrained SMEs across various dimensions of credit availability and their corresponding financial outcomes. The findings indicate that a significant proportion (74%) of SMEs in Cameroon face credit constraints, with quantity constraints being the most prevalent (43%). Interestingly, SMEs constrained by risk and price tend to exhibit higher profitability compared to their unconstrained counterparts, while those constrained by quantity and transaction costs experience lower profitability. These variations in financial performance suggest nuanced impacts on poverty reduction efforts, highlighting that alleviating credit constraints does not uniformly enhance SME profitability or contribute consistently to poverty eradication. The study concludes with implications for policy and practice, emphasizing the need for tailored interventions that address specific types of credit constraints faced by SMEs in different economic contexts. A notable gap identified is the necessity for further research into the underlying

mechanisms that drive these differential impacts across various types of credit constraints among SMEs in developing economies.

Krishnakumar and Arul (2024) investigated the impact of bank credit on the business performance of unorganized event management firms in Salem District, India. Using a quantitative approach to analyse data collected from 230 firms via structured questionnaire, the study revealed that bank credit significantly enhances various aspects of business performance. Specifically, it facilitates the firms' capacity to manage multiple events concurrently, supports business expansion, increases return on investment, improves profitability, enhances competitive advantage, facilitates investment in new equipment, and promotes the adoption of modern technology. The study underscores the pivotal role of bank credit in bolstering the operational capabilities and market competitiveness of these firms. However, it identifies a gap in the availability of tailored financial products and policies to address the unique needs of small unorganized businesses in the event management sector. The findings recommend that banks formulate more supportive policies to streamline credit access for such firms, while also advising the firms themselves to invest in organizational structure, skilled personnel, and efficient management practices to enhance operational efficiency and industry reputation.

Masdupi, Rasyid and Darni (2024) investigated how geographic diversification influences credit risk management in microfinance institutions (MFIs). The method involved a systematic search of academic databases such as JSTOR, EBSCOhost, and Google Scholar, focusing on peer-reviewed articles published between 2000 and 2023. The review encompasses empirical studies, case studies, and theoretical frameworks to provide a comprehensive analysis. Findings revealed that geographic diversification can mitigate credit risk by reducing portfolio volatility and exposure to local economic downturns. However, the effectiveness of diversification strategies varies depending on factors such as regulatory environments, institutional size, and management practices. A notable gap in the literature is the limited focus on the moderating role of institutional efficiency and governance structures in enhancing the benefits of diversification. The review concludes that while geographic diversification holds potential for enhancing financial sustainability in MFIs, further research is needed to develop robust models that integrate both quantitative and qualitative aspects of diversification strategies.

Pearce and Bah (2024) explored the efficiency of Small and Medium Enterprises (SMEs) in the Western Area of Sierra Leone. They estimated the firm efficiency using stochastic frontier estimation methods and assessed how access to bank credit influences this efficiency. Likewise, the Maximum Likelihood procedure was used to estimate the maximum performance capacity and net business earnings. Data was collected from 450 randomly selected SMEs registered in the area from 2018 to 2020. Findings indicate that capital and labor productivity positively affect firm efficiency, while firm age tends to negatively impact efficiency. Significant factors influencing efficiency include the gender and educational level of SME heads, their professional training, sector of operation, and geographic area. The study concludes that despite the critical role SMEs play in employment and economic growth, their efficiencies vary widely, suggesting some may struggle to compete and grow due to inefficiencies. The gap identified lies in the need for further research to clarify the relative importance of various constraints faced by SMEs, such as working capital shortages, information access, skill levels, management capacity, and technological capabilities, to inform targeted policy interventions aimed at enhancing SME performance and sustainability in Sierra Leone and similar contexts.

Khan (2023) assessed the influence of bank-specific factors on the access to financing for Small and Medium Enterprises (SMEs) in Bangladesh. The analysis was carried by hypotheses testing with variables like the impact of bank size, ownership structure (including domestic private, state-owned, and foreign banks), branch location (rural vs. urban), and distress conditions on SMEs' ability to obtain financing. Methodologically, empirical analysis was conducted using data sourced from scheduled banks listed under the Bangladesh Bank Order, 1972, and SMEs operating within Bangladesh. The findings imply that SMEs tend to have better access to financing when they apply to smaller banks, domestic private banks, or rural branches. Conversely, access to financing is hindered when SMEs approach state-owned banks or foreign banks. Furthermore, the study reveals a negative impact of bank distress on SME financing availability. The conclusion drawn from these results underscores the critical role of bank-specific characteristics in shaping SMEs' access to financial resources in emerging economies like Bangladesh. However, the study suggests a gap in understanding the detailed mechanisms through which these factors influence financing

outcomes for SMEs, calling for further research to explore these dynamics more comprehensively.

Widyastuti, Ferdinand and Hermanto (2023) investigated the impact of financial literacy and credit terms on formal credit access and performance in Micro, Small, and Medium Enterprises (MSMEs) within Indonesia's creative industries. Employing Smart Partial Least Squares (PLS) analysis, data was collected from 100 MSMEs across four East Java cities, focusing on sectors such as handicrafts and fashion accessories. The study found significant direct and indirect effects of financial literacy and credit terms on both formal credit access and MSME performance. Higher levels of financial literacy among entrepreneurs were associated with increased access to formal credit, highlighting its role in facilitating better financial decision-making and business management. Additionally, favorable credit terms, including simplified collateral requirements and repayment conditions, were crucial in enhancing MSMEs' ability to secure and utilize formal credit effectively. The study underscores the importance of enhancing financial literacy programs and optimizing credit terms to support sustainable MSME growth and economic development. It concludes by advocating for tailored policies and interventions aimed at improving these factors to further bolster MSME resilience and performance. Future studies could delve deeper into specific policy frameworks and mechanisms that maximize the synergistic benefits of financial literacy and favorable credit terms in diverse MSME contexts.

Bin et al. (2021) investigates the impact of access to credit on the sustainability of Small and Medium-Sized Enterprises (SMEs) in Cameroon. Methodologically, the study employs prohibit and linear regression models to analyse factors such as collateral security, interest rates, corruption, and loan size using data from the 2016 World Bank enterprise survey. Findings indicate that collateral security, business experience, and loan size significantly influence credit access, with positive implications for SME sustainability. However, challenges including bureaucratic inefficiencies, corruption, and inadequate infrastructure continue to hinder SME growth potential in Cameroon. The study concludes that improving credit accessibility through targeted policies could enhance SME contributions to economic development. The identified gap underscores the need for further research into regulatory reforms and institutional support to mitigate barriers and foster a conducive environment for SMEs in Cameroon.

Chandrayanti et al. (2020) investigated the impact of entrepreneurial characteristics on credit accessibility among small businesses in West Sumatera, Indonesia. Using purposive random sampling, 221 small business entrepreneurs were surveyed, and Structural Equation Modelling (SEM) was employed for data analysis. Results indicated that entrepreneurial characteristics positively influence business performance, which in turn enhances credit accessibility. The study concluded that strengthening entrepreneurial traits can improve business performance and credit access. A significant gap identified was the need for more strategies to bolster entrepreneurial skills to facilitate better credit access. The findings emphasize the importance of business performance in mediating credit access, suggesting targeted policies to support small businesses' entrepreneurial development.

Cobbinah Milly and Sarpong (2020) examined the relationship between determinants of financial assistance and credit accessibility for small and medium-sized enterprises (SMEs) in Takoradi Metropolis, Ghana. Methodologically, the researchers employed a quantitative approach, utilizing a validated questionnaire administered to 336 SMEs out of 500 in the region. The data collected were analysed using ANOVA, regression analysis, and descriptive statistics to examine the impact of factors such as firm age, size, performance, and collateral security on credit accessibility. The findings indicated that these determinants significantly influence the availability of financial assistance to SMEs, highlighting the importance of firm characteristics and financial parameters in accessing credit. The study concluded that enhancing credit opportunities for SMEs, particularly through less stringent collateral requirements and lower interest rates, could foster greater financial inclusion and economic growth in Takoradi Metropolis. A notable gap identified is the need for qualitative insights into SMEs' experiences with financial institutions, which could provide deeper understanding of barriers and facilitators of credit accessibility. This study contributes valuable insights for policymakers and financial institutions aiming to improve SMEs' access to credit in Ghana.

Munguti and Wamugo (2020) investigated the impact of microfinance credit accessibility on the financial performance of Small and Medium Enterprises (SMEs) in Machakos County, Kenya. Utilizing a census survey approach and semi-structured questionnaires, the researchers gathered primary data directly from SME owners and

managers. Their findings revealed that factors such as collateral security, loan-income ratio, and geographical branch penetration significantly influence SME financial performance positively. The study underscores the importance of these factors in enhancing SMEs' financial stability and suggests strategies for improvement, including strengthening core capital, improving financial management practices, and promoting financial innovation and literacy. However, while providing valuable insights, the study acknowledges a need for further research to explore how these factors operate across different industries and under varying economic conditions to better support SME growth and sustainability.

Sanni et al. (2020) investigated the impact of deposit money banks' credit accessibility on the performance of SMEs in Kwara State, Nigeria. The objective was to analyse how access to credit from deposit money banks (DMBs) influences SME performance in the region. Using a sample size of 198 SME owners/managers selected randomly from a population of 382 respondents, data was collected through primary sources via structured questionnaires. Descriptive statistics and Partial Least Squares Structural Equation Modeling (PLS-SEM) were employed to analyse the data. The findings indicate a significant positive relationship between DMBs' credit accessibility and SME performance, highlighting that easier access to finance and lower credit-related charges positively impact SMEs' operational outcomes. However, the study concludes that despite these positive effects, SMEs in Kwara State still face challenges in fully harnessing credit facilities from DMBs. It recommends that DMBs implement more SME-friendly credit administration systems to enhance accessibility and affordability of funds. The gap identified suggests a need for further research into specific barriers that hinder SMEs from fully benefiting from available credit options in the banking sector, potentially exploring regulatory constraints or institutional factors impacting credit accessibility.

Sanni, Oke and Alayande (2020) investigated the effect of deposit money banks' (DMBs) credit accessibility on the performance of small and medium-sized enterprises (SMEs) in Kwara State, Nigeria. Utilizing Partial Least Squares-Structural Equation Modeling (PLS-SEM), the study analysed primary data from 198 SME owners and managers, selected randomly from a population of 382. The findings revealed that DMBs credit accessibility positively and significantly impacts SME performance

( $T=10.795$ ,  $\beta=0.043$ ). Additionally, credit-related charges, such as interest rates, also positively affect SME performance ( $T=10.690$ ,  $\beta=0.458$ ). These results imply that affordable financing from DMBs plays a crucial role in enhancing SME performance. However, the study concludes that SMEs in Kwara State face challenges in accessing finance due to stringent credit conditions. The authors recommend developing more SME-friendly credit systems to improve access to affordable financing. The study identifies a significant gap: despite the positive impact of accessible credit, SMEs struggle with obtaining it under favorable terms. Further research is suggested to explore effective credit systems tailored to SME needs.

Chandrayanti et al. (2019) investigates the impact of firm characteristics and business performance on credit access in small enterprises in West Sumatera, Indonesia. Using a survey instrument, data were collected from 221 small enterprises and analysed with Structural Equation Modeling (Lisrel 8.72). The results indicate that firm characteristics have a significant positive effect on credit access. Business performance mediates this relationship, implying that stronger firm characteristics lead to improved business performance, which in turn enhances credit accessibility. Despite this, only 30 percent of MSMEs in Indonesia access bank credit, underscoring the challenges these enterprises face. The study concludes that enhancing firm characteristics is crucial for better credit access. It recommends strategies to strengthen these characteristics to facilitate easier credit acquisition. A significant gap identified is the persistent difficulty SMEs face in meeting bank loan requirements. Further research is needed to develop effective support mechanisms for SMEs in accessing credit.

Erdogan (2019) focused the understanding of small and medium-sized enterprises (SMEs) financing by analyzing determinants influencing SMEs' perceptions of bank financing accessibility in Turkey. The study employed a quantitative approach using a sample of 492 Turkish SMEs. Data were gathered through surveys focusing on firm-level factors impacting SMEs' perceptions of bank loan accessibility. Logistic regression analysis was utilized to examine relationships between various firm characteristics (such as age, innovation level, ownership structure, profitability, industry type) and SMEs' perceptions of bank financing accessibility. Findings indicated that older and more innovative SMEs tend to perceive accessing bank loans more positively. Additionally, SMEs with longer relationships with their primary banks

and those with two owners express greater confidence in their ability to secure bank financing compared to firms with fewer or more owners. Profitable SMEs and those in the service industry also exhibit more positive perceptions of bank loan accessibility compared to loss-making firms and those in manufacturing sectors. The study concluded that firm-specific characteristics significantly influence SMEs' perceptions of bank financing accessibility in emerging markets like Turkey. A gap identified suggests a need for further qualitative research to delve deeper into the nuanced reasons behind SMEs' perceptions and actual experiences with bank financing.

Ma, Wu and Gan (2019) investigated the critical issue of credit accessibility and its impact on entrepreneurship in China, focusing on small and micro enterprises (SMEs). Methodologically, the study employs econometric techniques to examine the relationship between credit accessibility and entrepreneurial behavior, considering factors such as household demographics, financial constraints, and regional variations using data from the 2013 China Household Finance Survey (CHFS). Findings indicate a significant negative correlation between credit accessibility and the likelihood of households entering entrepreneurship, with estimates suggesting that a 10 percent improvement in credit availability could potentially create millions of new businesses and jobs. The study also highlights regional disparities, showing that SMEs in East China are more reliant on bank financing compared to those in Central and Western regions. The conclusion underscores the role of institutional deficiencies in shaping these financing challenges and advocates for policy interventions to enhance credit accessibility for SMEs across China. Despite its contributions, the research gap remains in exploring specific policy mechanisms to mitigate these constraints effectively.

Mutuku et al. (2019) investigates the influence of credit accessibility on the performance of banana farming in Kanyakine Ward, South Imenti Sub- County, Meru County, Kenya. The study assessed three specific objectives: the influence of collaterals, the cost of credit, and the availability of credit services on banana farming performance. It employed a descriptive survey design with a quantitative approach, targeting 114 small-scale banana farmers using stratified random sampling across three villages. Data was collected through a structured questionnaire, validated through pilot testing, and analysed using SPSS version 23. The findings indicated that collateral requirements and high costs of credit negatively impacted banana farming performance

by discouraging farmers from seeking credit. Conversely, the availability of credit services had a positive correlation with farm performance, suggesting that accessible credit facilities improved farm outcomes by providing timely and adequate financial support. The study recommended tailored financial policies to support small-scale farmers in accessing credit more easily and advocated for farmer education on credit management to mitigate risks associated with borrowing. This study contributes to understanding the critical role of credit accessibility in agricultural productivity, particularly in enhancing the performance of banana farming in Kenya.

Oke et al. (2019) evaluated the influence of business characteristics on access to bank financing in North Central Nigeria from the perspectives of both SMEs and banks. The study utilized World Bank and OECD Financial Literacy Questionnaires adapted for the context of North Central Nigeria as the primary source of data. A sample of 280 SMEs and 207 loan officers were selected from populations of 1,030 SMBs and 448 banks. Descriptive statistics, binary logit regression model with Marginal effect, and Kruskal Wallis H were employed to analyse the data. The results suggest that firm age, incorporation status, and industry are significant factors influencing SMEs' access to bank financing, while firm size is not significant. From the banks' perspective, all chosen business characteristics that are statistically significant at the 0.01 level are the criteria for loan acceptance for SMEs in North Central Nigeria. The study concludes that SMEs in the region face a severe capital shortage due to their inadequate understanding or investigation of all factors related to their access to banking facilities.

Raju and Rajan (2019) investigated the impact of institutional credit on the performance and export capability of small and medium enterprises (SMEs) in India. Financial statements from 323 manufacturing firms, covering the period from 2007 to 2012, were analysed using Structural Equation Model (SEM). The results indicate that internal finance has a more substantial effect on profitability and efficiency than other funding sources, including non-institutional debt and trade credit. However, institutional finance, particularly bank credit, plays a crucial role in enhancing export performance. This suggests that while internal finance is vital for overall financial health, access to bank credit is essential for improving SMEs' export capabilities. The study concludes that increasing bank credit flow to SMEs could significantly boost their export

activities. A key gap identified is the need for more supportive measures to facilitate SME access to institutional credit, enhancing their growth potential in export markets.

Win (2018) investigated the relationship between credit accessibility and the effectiveness of loans on farm performance in Wakema Township, Ayeyarwady Region, Myanmar. Using a mixed-methods approach, both primary and secondary data were employed. Primary data was collected through structured questionnaires administered via face-to-face interviews with 83 active agricultural farmers selected randomly from five village tracts, representing 10 percent of the farmers in those areas. Statistical methods such as correlation and regression analysis were utilized to examine the impact of credit accessibility on farm yield and income per acre. The findings indicate a significant positive correlation between credit accessibility and farm performance metrics, highlighting the crucial role of adequate credit access in enhancing agricultural productivity. However, the study identifies challenges, such as insufficient availability of formal low-interest loans during farming seasons, suggesting a need for enhanced government support and agricultural interventions like certified seed supply, agricultural research, knowledge dissemination on fertilizer use, crop diversification, and improved mechanization. The study concludes by emphasizing the importance of addressing these gaps to support sustainable agricultural development and economic growth in the region.

Wlodarczyk et al. (2018) conducted an analysis on various factors affecting the credit availability for Polish small and medium-sized businesses, including company size and age, financial performance, length of relationship with financial institutions, and unique features of the banking industry. Utilizing data from 500 small enterprises, Structural Equation Modelling was employed for analysis. The study revealed that small and medium-sized businesses in Poland have less access to finance compared to larger companies, similar to other European countries. The availability of bank credit is influenced by a company's size, liquidity, profitability, and the overall state of the banking system.

### **2.2.2 National Context**

Shakya et al. (2024) investigated the financial determinants affecting small enterprises in the Kathmandu Valley, emphasizing their influence on business growth and

sustainability. The study utilized an exploratory design, gathering data through structured questionnaires. For inferential analysis, Structural Equation Modeling (SEM) was employed. A sample of 403 individuals from the Kathmandu Valley was selected to represent the broader population. The SEM analysis indicated that four out of six constructs aligned well with the model. The findings demonstrate that globalization and external risk factors considerably affect the financial challenges encountered by small businesses. Furthermore, government policy was identified as a moderating factor, partially mediating the relationship between the dependent and independent variables, and exhibiting a significant impact.

Silwal (2024) examined the strategies employed by managers in navigating the capital market under financial constraints in Nepal. The study focused on the difficulties encountered in securing financing, utilizing descriptive analysis based on a survey of 198 financial executives who responded to a structured questionnaire. Approximately half of the participants reported experiencing financial difficulties at some point. The results indicated that managers prioritize internal equity, followed by external equity, and finally debt, a finding that stands in contrast to the hierarchical theory. Firms facing financial constraints identified several significant challenges in obtaining funds from banks, such as high interest rates, protracted banking procedures, and associated bank fees. Furthermore, the study highlighted the importance of maintaining financial flexibility and taking firm size into account as critical factors in addressing financial shortfalls.

Adhikari (2022) conducted an analysis of the barriers to enhancing financial access, particularly concerning Small and Medium Enterprises (SMEs) in Nepal. The study employed an exploratory design, utilizing various methods such as literature reviews, field observations, key informant interviews with Banks and Financial Institutions (BFIs), and a brief questionnaire survey targeting SMEs in the hilly regions of Nepal to gather data for this study. The challenges faced by SMEs in accessing finance were identified at both the policy and operational levels, affecting both demand and supply. There exists significant potential for modern technology to alleviate these barriers to financial access for SMEs in rural areas. Key areas of constraint include policy measures, lending practices, technological utilization, interest rates, collateral availability among SMEs, risk mitigation strategies, levels of financial literacy, the

developmental stage of SMEs' markets, their income levels, regulatory compliance, general price levels, and the advancement of physical infrastructure.

Adhikari et al. (2020) conducted a study to gain insights into the financial and significant challenges faced by small businesses in Nepal. The study collected primary data from 403 small business owners through a structured questionnaire and key informant interviews, using a 5-point Likert scale. The data was analysed using quantitative and descriptive methodologies. The findings indicate that over 90 percent of the respondents believe that small businesses face various challenges in financing their operations, with only a small percentage denying this.

United Nations (2020) conducted an extensive study evaluating the access to finance for Micro, Small, and Medium-sized Enterprises (MSMEs) in Nepal. The study involved interviews with various financial institutions, including banks and microfinance organizations, as well as entrepreneurs from the agricultural and manufacturing sectors in the Eastern and Mid-Western Regions of Nepal. The study indicated that although venture capital and private equity are beginning to emerge as potential sources of financing for MSMEs, their overall contribution remains minimal, with private equity accounting for only 0.5 percent of total MSME financing. Additionally, the adoption of financial technology (FinTech) to support MSMEs is on the rise among financial institutions in Nepal, as most banks are enhancing their digital services to better serve customers. Nevertheless, there is a pressing need for regulations that protect customer privacy, ensure transaction security, and provide a user-friendly experience.

Kharel and Dahal (2020) conducted research on the challenges faced by small and medium-sized manufacturing businesses (SMEs) in Nepal, a landlocked least developed country, when trying to integrate into global value chains (GVCs) through exports. The study utilized both qualitative primary data and limited secondary data, including information at the business level. The findings revealed that Nepal lacks a comprehensive policy framework for SMEs, let alone a plan for their internationalization or involvement in GVCs. Most fiscal incentives are not suited to the needs of SMEs, and the elimination of certain incentives due to new legislation has created policy uncertainty. High tariffs on raw materials and intermediate products, coupled with an inadequate duty drawback mechanism and an inefficient cons structure,

as well as insufficient training and competence of workers, are among the contributing factors to the country's pressing issues. Additionally, the study addressed other important issues, such as endowments, market access, logistics/trade facilitation, and nontariff measures, in that order.

Silwal and Mool (2020) conducted research on small and medium-sized enterprises (SMEs) in the Kathmandu Valley and found that these businesses have limited access to loans. The study collected data from 101 SMEs in the area through standardized questionnaires. The study focused on SME companies and network characteristics, as well as loan availability. The study employed a descriptive and informal comparative research design. The findings indicate that an owner's educational degree has a positive impact on credit availability, but gender has a negative impact. Business size has a negative influence on credit accessibility, while the age of the firm does not have any significant impact on credit availability.

Dhakal (2019) conducted a study on the utilization of financial instruments by Small and Medium Enterprises (SMEs). The target population of the study was defined as SMEs according to the Industrial Business Act of 2073. The study used both primary and secondary statistics. The study found that SMEs contributed 22 percent to Nepal's Gross Domestic Product (GDP) and created around 17 lakh employment opportunities. The study revealed that on average, 32 percent of SMEs' starting capital came from ancestral assets, 26 percent from their personal savings, 16 percent from banks and financial institutions, and the remaining amount from other sources. The study also found that about 50 percent of SMEs in operation have borrowed from banks and financial institutions, and 85 percent of them are receiving financial instruments through commercial banks.

Khanal (2019) conducted research on SME lending facilities in Nepal and found that on average, 33 percent of the initial capital of SMEs comes from the owners' ancestral property, 26 percent from their personal resources, and 16 percent from financial institutions such as banks. Informal borrowing, remittances, cooperative loans, and venture capital are also potential sources of investment. The study revealed that SMEs obtain loans from 85.9 percent of lenders by pledging their land and homes as collateral. Only a small percentage of SMEs (6.4%) received loans based on moveable assets, while 1.3 percent received loans based on machinery and equipment. Subsidized loans

were accessible to only 19.2 percent of small businesses. The majority of SMEs were unaware of the government's refinancing program for them. The study also identified that many banks were violating a provision of the National Retail Bank (NRB) that prohibits financial institutions from collecting service fees.

Pandey (2016) conducted research on the lending of loans to small and medium-sized enterprises (SMEs) by commercial banks in Nepal and their subsequent impact on GDP growth. The study utilized data from 28 commercial banks, classified as A-class financial institutions by the Nepal Rastra Bank, that operate within the country. The analysis focused on SME loans disbursed by these banks during the period from 2000 to 2015, encompassing a 16-year time series. The findings indicated a strong and long-term relationship between SME lending by commercial banks and economic growth. However, it was noted that the overall credit from the banking system did not have a significant effect on Nepal's economic growth, and the prevailing interest rates had a detrimental impact on the economy.

Subedhi (2016) examined into SMEs' access to finance for innovation and entrepreneurship in Chitwan District. Through quantitative analysis and convenience sampling of 72 small firms, it reveals positive correlations between certain firm attributes and credit access. Factors such as industry sector, size, and performance metrics significantly impact SMEs' ability to secure credit and influence financing policies. Understanding these dynamics is crucial for policymakers and stakeholders aiming to foster SME growth and economic development.

Nepali SMEs face well-known constraints, but identifying characteristics of higher-growth SMEs can inform immediate policy interventions to enhance performance. While causality isn't established, these traits provide starting points for effective policies. Surveying 352 SMEs across diverse sectors revealed factors correlated with success, including organizational knowledge, technical skills, market power, access to finance, and political connections. Tailored support for organizational capabilities, skills training, market competitiveness, and provincial government coordination is recommended. Addressing these factors could boost SME performance and contribute to economic growth in Nepal. The challenge lies in identifying and implementing effective interventions tailored to SME needs (Khan et al., 2023).

**Table 2.1***Summary of Literatures*

<b>Author(s)</b>	<b>Objectives</b>	<b>Methodology (Sample, Data Analysis, Population)</b>	<b>Dependent Variables</b>	<b>Independent Variables</b>	<b>Findings</b>
Pearce and Bah (2024)	Explore the efficiency of SMEs in Sierra Leone	Sample: 450 SMEs; Method: Stochastic frontier estimation; Population: SMEs in Western Area, Sierra Leone	Firm Efficiency	Access to finance, capital productivity, labor productivity, firm age, gender, education level	Capital and labor productivity positively affect efficiency; Firm age negatively impacts efficiency; Gender, education, and sector influence efficiency
Krishnakumar and Arul (2024)	Assess impact of bank credit on business performance of unorganized event firms in India	Sample: 230 firms; Method: Structured questionnaire, quantitative approach; Population: Event management firms in Salem District, India	Business Performance	Bank credit, business expansion, ROI, profitability, competitive advantage	Bank credit enhances business performance, supports expansion, ROI, profitability, and competitive advantage
Masdupi, Rasyid, and Darni (2024)	Analyse geographic diversification in MFIs	Method: Systematic review of literature; Data Sources: JSTOR,	Credit Risk	Geographic diversification, regulatory environment,	Geographic diversification mitigates credit risk; Effectiveness varies with

		EBSCOhost, Google Scholar; Population: Various studies (2000- 2023)		institutional size, managemen t practices	regulatory environment, institutional size, and management practices
Khan (2024)	Examine bank-specific factors influencing SME financing in Bangladesh	Method: Empirical analysis; Data Source: Scheduled banks, SMEs in Bangladesh; Population: SMEs in Bangladesh	Access to Financing	Bank size, ownership structure, branch location, bank distress	Smaller banks, domestic private banks, and rural branches improve SME financing; State-owned and foreign banks hinder access
Aminkeng et al. (2023)	Assess impact of credit constraints on SME financial performance in Cameroon	Sample: 520 SMEs; Method: Endogenous switching regression analysis; Population: SMEs in Cameroon	Financial Performance	Credit constraints (risk, quantity, price, transaction costs)	Credit constraints vary in impact; Risk and price constraints enhance profitability; Quantity and transaction cost constraints reduce profitability
Sanni, Oke, and Alayande (2023)	Impact of DMBs credit on SME performance	Sample: 198 SME owners/manag ers; Method: PLS-SEM;	SME Performance	Credit accessibility , credit- related charges,	Credit accessibility and credit- related charges

	in Kwara State, Nigeria	Population: SMEs in Kwara State, Nigeria		stringent credit conditions	positively impact SME performance; SMEs face stringent credit conditions
Chandraya nti et al. (2021)	Investigate firm characteristics and business performance on credit access in Indonesia	Sample: 221 small enterprises; Method: Structural Equation Modeling (Lisrel 8.72); Population: SMEs in West Sumatera, Indonesia	Credit Access	Firm characteristics, business performance	Firm characteristics positively impact credit access; Business performance mediates this relationship
Raju and Rajan (2021)	Analyse institutional credit impact on SME performance and export capability in India	Sample: 323 manufacturing firms; Method: Structural Equation Modeling; Population: SMEs in India	SME Performance, Export Capability	Institutional credit, internal finance	Internal finance affects profitability and efficiency; Bank credit enhances export performance
Munguti and Wamugo (2020)	Impact of microfinance credit on SME performance in Machakos County, Kenya	Method: Census survey, semi-structured questionnaires; Population: SMEs in Machakos County, Kenya	Financial Performance	Collateral security, loan-income ratio, branch penetration	Collateral security, loan-income ratio, and branch penetration influence financial performance positively

Win (2020)	Relationship between credit accessibility and farm performance in Myanmar	Sample: 83 farmers; Method: Mixed methods, correlation and regression analysis; Population: Farmers in Wakema Township, Ayeyarwady Region	Farm Performance	Credit accessibility, availability of low-interest loans	Credit accessibility positively correlates with farm performance; Challenges include insufficient low-interest loans
Ma, Wu, and Gan (2020)	Analyse credit accessibility impact on entrepreneurs hip in China	Data Source: 2013 China Household Finance Survey (CHFS); Method: Econometric techniques; Population: SMEs in China	Entrepreneurs hip	Credit accessibility, household demographics, financial constraints, regional variations	Negative correlation between credit accessibility and entrepreneurs hip; Regional disparities observed
Widyastuti, Ferdinand, and Hermanto (2020)	Impact of financial literacy and credit terms on MSME performance in Indonesia	Sample: 100 MSMEs; Method: Smart PLS analysis; Population: MSMEs in East Java, Indonesia	MSME Performance	Financial literacy, credit terms	Financial literacy and favorable credit terms enhance credit access and performance
Cobbinah, Milly, and Sarpong (2019)	Determinants of financial assistance and credit	Sample: 336 SMEs; Method: ANOVA,	Credit Accessibility	Firm age, size, performance	Firm age, size, performance, and collateral

	accessibility in Ghana	regression analysis, descriptive statistics; Population: SMEs in Takoradi Metropolis, Ghana		e, collateral security	security influence credit accessibility
Wlodarczyk et al. (2019)	Factors affecting credit availability for Polish SMEs	Sample: 500 small enterprises; Method: Structural Equation Modeling; Population: SMEs in Poland	Credit Availability	Company size, age, financial performance, relationship with financial institutions, banking industry features	Size, liquidity, profitability, and banking system state influence credit availability
Erdogan (2019)	Factors influencing SMEs' perceptions of bank financing in Turkey	Sample: 492 Turkish SMEs; Method: Logistic regression analysis; Population: Turkish SMEs	Perceptions of Bank Financing	Firm age, innovation level, ownership structure, profitability, industry type, bank relationship length	Older, innovative SMEs with longer bank relationships and fewer owners perceive better bank financing accessibility
Mutuku et al. (2018)	Influence of credit accessibility on banana farming in Kenya	Sample: 114 banana farmers; Method: Descriptive survey,	Farm Performance	Collateral requirements, credit costs, availability	Collateral requirements and high credit costs negatively impact

		quantitative approach; Population: Banana farmers in Kanyakine Ward, Kenya		of credit services	performance; Availability of credit services improves outcomes
Oke et al. (2018)	Business characteristics influencing bank financing in North Central Nigeria	Sample: 280 SMEs, 207 loan officers; Method: Binary logit regression, descriptive statistics; Population: SMEs and banks in North Central Nigeria	Access to Bank Financing	Firm age, incorporation status, industry	Firm age, incorporation status, and industry influence financing access; Size is not significant
Bin et al. (2018)	Impact of credit access on SME sustainability in Cameroon	Data Source: 2016 World Bank enterprise survey; Method: Probit and linear regression models; Population: SMEs in Cameroon	SME Sustainability	Credit access, collateral security, business experience, loan size	Collateral security, business experience, and loan size significantly influence credit access; Challenges include bureaucratic inefficiencies

### 2.3 Research Gap

Research in Nepal has extensively explored into the challenges confronting small and medium-sized enterprises (SMEs) regarding access to credit, shedding light on prevalent issues such as the heavy reliance on collateral security, limited awareness of government support programs, and the role of financial literacy in shaping credit

accessibility (Khanal, 2019; Dhakal, 2019; Silwal & Mool, 2020). However, these studies predominantly offer descriptive analyses of SME financing patterns and constraints, leaving a notable gap in understanding the specific determinants and their quantitative impact on credit accessibility. Furthermore, existing literature lacks a comprehensive exploration of the relationship between the presence of lending institutions and SMEs' access to credit, thus hindering a holistic understanding of the dynamics within the financial ecosystem (Adhikari et al., 2020; Subedhi, 2016). Additionally, while prior research acknowledges the significance of interest rates charged by lending institutions on credit accessibility, there is a notable absence of empirical evidence on this crucial factor influencing SME financing decisions (Balogun et al., 2017). Moreover, while previous studies recognize the importance of credit accessibility for SME performance, there remains a dearth of research investigating the causal relationship between credit accessibility and SME success, limiting insights into the broader implications of financial constraints on business outcomes (Kharel & Dahal, 2020).

To address these gaps, this study aims to conduct a quantitative analysis to elucidate the determinants of credit accessibility for SMEs in the Kathmandu Valley. By employing statistical tools and rigorous methodologies, this study seeks to provide unique insights into the factors influencing SMEs' ability to secure credit from lending institutions. Specifically, the study examined the relationship between collateral security and credit accessibility, assessing how SMEs with varying levels of collateral security fare in accessing funds from financial institutions. Additionally, the study explored the impact of the presence of lending institutions on SMEs' access to credit, investigating whether a higher concentration of financial institutions correlates with improved credit accessibility for SMEs operating in the Kathmandu Valley.

Furthermore, this study assessed the influence of entrepreneurs' literacy levels on credit accessibility, examining whether SMEs led by entrepreneurs with higher levels of education experience greater ease in securing credit compared to those led by individuals with lower educational attainment. Additionally, the study analysed the effect of interest rates charged by lending institutions on credit accessibility, investigating whether lower interest rates lead to increased accessibility to credit for SMEs in the Kathmandu Valley.

Moreover, the study examined the impact of credit accessibility on SME performance, exploring whether greater access to credit correlates with improved business outcomes such as profitability and growth. By investigating these research questions, this study aimed to provide actionable insights for policymakers, financial institutions, and SME stakeholders to formulate targeted interventions aimed at enhancing credit accessibility and fostering SME development in the Kathmandu Valley. Ultimately, the findings of this study endeavor hold the potential to contribute significantly to the advancement of SMEs and economic growth in Nepal.

## **2.4 Operational Definition of the Variables**

### **Collateral Security**

The degree to which assets are pledged by borrowers to lenders as security for the repayment of debts is referred to as collateral (Gitman, 2003). In the event of a default, the principal should be reclaimed using the security assets. Small and medium sized enterprises (SMEs) in particular give security in the form of assets (houses, companies, the automobile, and anything that may genuinely pay back the capital) in the event of loan defaults (Garrett, 2009). Loan security must be able to be sold under regular market circumstances, at a fair market value, and with an acceptable amount of promptness as well. However, in most banks, collateral must be at least 100% of the credit extension or financing product amount in order to finance SMEs and approve loan offers (Mullei & Bokea, 2000).

### **Presence of Lending Institution**

It has been shown that the number of financial institutions providing credit in an economy has an influence on the overall development of an economy. According to Schoof (2006), an insufficient number of financial institutions that provide loan services to SMEs would impede the growth of the sectors in which they operate. When the number of small-scale merchants is large, but the number of financial institutions that provide services tailored to them is limited (demand exceeds supply), the price of the loan will be high, making it unaffordable and, as a result, the number of SMEs that take out loans will be low.

## **Literacy Level**

In financial literacy, an individual's capacity to comprehend how money works how it is earned, handled, and invested is referred to as financial literacy. It is essential for each business owner to be knowledgeable about how to manage their company in order to be able to supervise its progress (Andoh & Nunoo, 2011). When it comes to making specific investment choices, a literate entrepreneur knows when to borrow, from whom to borrow, and at what rate to borrow.

## **Interest Rate Charged**

Specifically, this refers to the extra amount that must be paid in addition to the initial payment. It is a representation of the cost of borrowing. As much as lower interest rates may be favorable to lenders, they may be discouraging to clients who are considering borrowing. Interest rates tend to discourage small-scale merchants from borrowing cash from financial institutions because they are concerned about having to pay back significant penalties on the interest rate if they do not adhere to the loan agreement's terms and conditions. The greater the interest rate charged, the lower the rate of borrowing by small-scale merchants; conversely, the lower the rate of borrowing by large corporations (Ogolla, 2013).

## **Credit Accessibility**

Small and medium-sized enterprises (SMEs) have a limited ability to obtain bank financing, and as a result, there is an increasing need to address the factors that influence SMEs' ability to obtain microfinance and informal credits. This is because obtaining bank financing is not popular among small and medium-sized enterprises (SMEs). Therefore, SMEs with younger, less educated and experienced owners are more likely to borrow from informal sources such as friends, personal savings, and contributions than those with more educated and experienced owners (Rahman, et al. 2017).

## **SMEs Performance**

Provision of loans to small and medium-sized enterprises (SMEs) was proven to have a significant impact on the development and growth of SMEs. Credit has traditionally been defined as the distribution of money by a lender to a borrower in exchange for a

promise to return a set sum over a specified period of time, such as a year. They went on to say that when the poor are given the opportunity to establish or develop a sustainable company and become economically engaged, they may borrow with confidence. Small businesses, on the other hand, have significant difficulties in obtaining financing because of a lack of collateral security. According to Augusto et al. (2010), lending is only a fraction of what financial institutions offer to SMEs, and these institutions are attempting to develop a wide range of products and services, with fee-based products becoming increasingly important, all of which are aimed at serving a diverse range of SMEs.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter mainly focuses on the research methodology used in this study to accomplish research objectives as stated in chapter one. The main objective of this study was to analyse the credit accessibility among small and medium enterprises at Kathmandu valley. Essentially, this chapter has been detailed according to following subheadings: conceptual framework, research design, nature and source of data, data collection method, tools of analysis, model specification and operational definition of variables.

#### **3.2 Theoretical/ Conceptual Framework**

##### **3.2.1 Theoretical Framework**

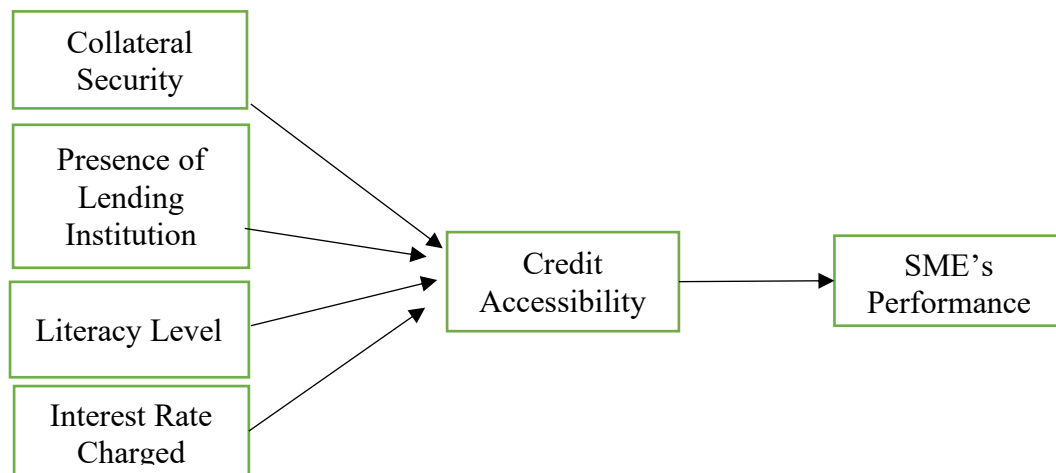
Mutuku et al. (2019), Sanni et al. (2020), Chandrayanti et al. (2019), and Ma, Wu & Gan (2019), provides a strong foundation for analysing the interplay between credit accessibility and their ultimate effect on SMEs success. Highlighting key determinants influencing credit access, the framework examines the relationship between credit accessibility and SME performance. As critical factors, it identifies four independent variables- collateral security, presence of lending institutions, literacy level, and interest rate charges. In turn, credit accessibility serves as a mediating variable that impacts SME performance.

##### **3.2.2 Conceptual Framework**

The study was based on the concept of dependent variables, which are the factors that are predicted to change as the independent variables are manipulated in the experiment. Dependent variables are also referred to as response variables. The framework for the study has been developed by conducting a literature review of previous studies. The variables for this study were derived from the empirical studies conducted by Bin et al. (2021) and Silwal and Mool (2020). Figure 2.1 depict the framework of the study:

**Figure 3.1**

*Conceptual Framework*



*Source:* (Mutuku et al., 2019; Sanni et al., 2020; Chandrayanti et al., 2019; Ma, Wu & Gan, 2019)

### **3.3 Research Design**

The study has been conducted using a descriptive and analytical research design. If the description is informative, a descriptive study is an appropriate method to be used. The reason for using a descriptive study was to identify variables and develop hypothetical constructions that can be tested using other formulas. Moreover, it serves as a method of studying a situation or behavior that is either ethically or physically impossible to generate in an experiment. Descriptive and casual research was carried out to meet the particular purpose of the study. Convenience sample methods was be used to collect the data needed for the study.

### **3.4 Nature and Sources of Data**

Both primary and secondary data collection method was applied to conduct the study. The study of past literatures, published and unpublished research was studied. Further, the necessary data for analysis has been collected from primary sources. The researcher obtained responses through pre-structured questionnaires distributed to a sample population, which was tabulated for data analysis. The pre-structured questionnaires were based on a five-point Likert Scale ranging from ‘Strongly Disagree’ to ‘Strongly Agree’. The required data and information were primarily collected through

questionnaires, either by directly visiting sample respondents or by using electronic mail.

### **3.5 Data Collection Method**

#### **3.5.1. Study Area**

The study is primarily focused on small and medium-sized enterprises (SMEs) located within the Kathmandu Valley in Nepal. This area has been chosen due to its economic significance and the concentration of businesses, which provides an ideal setting for the study. The Kathmandu Valley was chosen for its economic prominence, hosting a diverse array of SMEs across industries like manufacturing, tourism, and services. Its concentration of businesses allowed for comprehensive data collection and analysis, offering insights into sector-specific dynamics and broader economic trends.

#### **3.5.2. Sampling Design**

This research drew from a large and diverse pool of business owners across the Kathmandu Valley, representing a wide range of ages and genders. The sampling was utilized to ensure accessibility for researchers. According to the National Economic Census 2018, Nepal had 923,356 business establishments, with 95.5% classified as micro-enterprises and 4.2% as small enterprises. This suggests that approximately 38,781 establishments were small enterprises nationwide in 2018. While specific data for the Kathmandu Valley isn't provided in the census, the region is a major economic hub.

If we conservatively estimate that 20% of Nepal's small enterprises are located in the Kathmandu Valley, that would be:

$$38,781 \text{ small enterprises} \times 20\% = 7,756 \text{ small enterprises.}$$

This is a rough estimate; the actual number could be higher.

#### **Determining Sample Size Adequacy**

To assess if surveying 300 SMEs is sufficient, we use the sample size formula for finite populations:

$$n = (Z^2 \times p \times (1 - p)) / e^2$$

Where:

- $n$  = required sample size
- $Z$  = Z-score (1.96 for 95% confidence level)
- $p$  = estimated proportion of the population (0.5 for maximum variability)
- $e$  = margin of error (0.05 for  $\pm 5\%$ )

Plugging in the values:

$$n = (1.96^2 \times 0.5 \times 0.5) / 0.05^2 \quad n = (3.8416 \times 0.25) / 0.0025 \quad n = 384.16$$

Since the population is finite, we adjust the sample size:

$$n_{\text{adjusted}} = n / (1 + ((n - 1) / N))$$

Assuming  $N = 7,756$ :

$$n_{\text{adjusted}} = 384.16 / (1 + ((384.16 - 1) / 7,756)) \quad n_{\text{adjusted}} \approx 365$$

For a population of approximately 7,756 SMEs, a sample size of about 365 would be ideal for a 95% confidence level with a 5% margin of error. A sample size of 300 is slightly below this ideal but still within an acceptable range, especially considering practical constraints like time and resources. Therefore, surveying 300 SMEs in the Kathmandu Valley can be considered adequate for obtaining meaningful insights, though increasing the sample size closer to 365 would enhance the survey's precision.

### 3.5.3. Sample Distribution

The sample distribution in this study is likely biased due to the use of the sampling method used. The selection of SMEs was influenced by factors like accessibility and the researcher's network, potentially leading to an overrepresentation of certain types of businesses and underrepresentation of others. Similarly, the area-wise distribution of the sample is likely skewed, with a focus on areas easily accessible to the researcher.

Here is a simple table that segregates the 300 SMEs based on the different locations of Kathmandu Valley, following the estimated area-wise distribution percentages from the information above:

**Table 3.1***Area-wise Distribution of SMEs*

<b>Location</b>	<b>Number of SMEs Surveyed</b>	<b>Percent</b>	<b>Comments</b>
Urban Center	150	50	Higher representation due to accessibility and visibility.
Suburban Areas	100	33.33	Moderate representation based on proximity to urban areas.
Remote Locations	50	16.67	Lower representation due to accessibility constraints.
<b>Total</b>	<b>300</b>	<b>100</b>	

*Source: Calculation based on Annex-I***3.5.3 Data Collection Tool**

The pre-structured questionnaires have been used as a tool for this study which was designed to capture relevant information from SME owners regarding their experience on credit accessibility and their business performance. The primary objective of using pre-structured questionnaires was to systematically gather specific information from SME owners within the Kathmandu Valley. This information was crucial for investigating their experiences with credit accessibility and how it impacts their business performance. The questions were structured based on the variables identified in the research framework. To ensure the reliability and validity of the data, the questionnaire was developed using a five-point Likert Scale, ranging from ‘Strongly Disagree’ to ‘Strongly Agree’. These scales aided in quantifying the responses, making it easier to analyse the data.

**Structured Format:** The questionnaires followed a predefined format, meaning the questions were set in a specific order and respondents were presented with a limited set of answer choices. This standardized approach ensured consistency and comparability across all responses.

- a) **Focus on Key Variables:** The questions were carefully designed to address the key variables identified in the research framework. These variables likely

included factors such as interest rates, collateral requirements, access to lending institutions, literacy levels, and perceived barriers to credit access.

b) **Five-Point Likert Scale:** A core element of the questionnaire design was the use of a five-point Likert Scale. This scale allowed respondents to express their level of agreement or disagreement with specific statements related to credit accessibility and business performance. The five options on the scale typically included:

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

#### **3.5.4. Data Collection Methods**

Data was collected through two main methods:

a) **Survey:** The selected SMEs in Kathmandu Valley were visited physically to personally distribute and collect the completed questionnaires. This approach allowed for real-time clarification of any doubts or questions SME owners might have about the questionnaire.

b) **Electronic Mail:** In addition to physical visits, electronic mail was used as an alternative method to reach SME owners who may prefer virtual mode of communication. The questionnaire was sent electronically, and responses were collected through email.

#### **3.6 Data Analysis**

Descriptive statistics and inferential statistics are two distinct concepts in statistics. Descriptive statistics involve simply describing or summarizing the data, while inferential statistics attempt to draw conclusions that extend beyond the immediate data. For instance, researchers might use inferential statistics to make inferences about the beliefs of a larger population based on a sample. Alternatively, inferential statistics could be used to assess the probability that a difference between groups is meaningful and not simply due to chance. In this particular study, the inferential statistics was used

to make broader conclusions based on the data, while the author relied on descriptive statistics to provide an overview of the data. The data analysis in this study primarily used descriptive statistics.

Correlation is a measure of the strength of the linear relationship between two or more variables, where the change in one variable is associated with the change in another variable. If an increase (or decrease) in the value of one variable is accompanied by a corresponding increase (or decrease) in the value of another variable, then the two variables were considered to be correlated.

Statistical Package for Social Sciences (SPSS) software was used for data analysis.

### **3.6.1. Objective 1: To analyse the characteristics SMEs in Kathmandu Valley**

For objective 1, descriptive statistical tool is used to identify the characteristics of SMEs in Kathmandu valley. It is employed to summarize and measure the characteristics of the SMEs, such as their size, industry, and ownership structure. Descriptive statistics is utilized to analyse the frequencies, distributions, and central tendencies (mean, median, mode) of variables related to credit accessibility (e.g., interest rates, collateral requirements).

### **3.6.2. Objective 2: To assess the factors influencing the accessibility of credit for SMEs in the Kathmandu Valley**

For objective 2, regression model is used to examine the relationship between credit accessibility factors (independent variables) and SME performance (dependent variable). It is employed to determine the strength and direction of the relationship between variables. The model is likely used to assess the impact of factors such as interest rates, collateral requirements, and access to lending institutions on key performance indicators of SMEs (e.g., revenue). In order to justify the study, the following model specification has been used.

## **3.7 Model Specification**

In regression analysis, the researcher establishes a kind of average irreversible functional relationship between two variables. In other words, regression analysis is a mathematical measure of the average relationship between two or more variable in term

original unit of data. Apparently, the studies conducted by Bin et al. (2021) and Silwal and Mool (2020) have influenced this paper. The hypothetical statements of the model are that the credit accessibility depends on collateral security, presence of lending institutions, literacy level, and interest rate charged, while SME's performance depend on credit accessibility of SME's. To test the model of specification under the study regression is form as follows on the base of previous literature:

$$CA = \beta + \beta_1 CS + \beta_2 PLI + \beta_3 LL + \beta_4 IRC + e \dots \dots \dots (i)$$

$$SP = \beta + \beta_1 CA + \beta_2 CS + \beta_3 PLI + \beta_4 LL + \beta_5 IRC + e \dots \dots \dots (ii)$$

Where,

CA= Credit Accessibility,

SP= SMEs Performance,

CS= Collateral Security,

PLI= Presence of Lending Institutions,

LL= Literacy Level,

IRC= Interest Rate Charged,

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Regression Coefficient for Respective Variables,

e= error te

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1. SMEs in Economic Growth and Development**

Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of the nations worldwide. In order to create a job, innovation and the diversification of the economy, they contribute significantly as SMEs are the backbone of both developed and developing economies. They serve as a major source of employment and stimulate local economies due to their ability to adapt quickly to market changes.

The study focuses on identifying how credit accessibility affects the performance of SMEs, evaluating both quantitative and qualitative aspects to provide insights into the factors that enable or hinder their growth. The use of tools such as correlation and regression analysis, the research seeks to uncover relationships between credit accessibility and SME performance. Hence, it offers valuable recommendation for policymakers, financial institutions and entrepreneurs.

This chapter provides a comprehensive result achieved after the study on the impact of credit accessibility on SMEs performance. Various statistical tools like mean, standard deviation, and correlation and regression analysis have been executed using SPSS software to measure the credit accessibility on SMEs performance. Based on the objectives of the study, it has been divided into three parts. The outcomes have been interpreted followed by discussion with reference to relevant past literatures and presented in accordance with the objectives of the study.

#### **4.2. Characteristics of Small and Medium-sized Enterprises (SMEs) in Nepal**

##### **Socioeconomic Variables**

Based on the context of this study and common factors influencing SME credit access, some of the socioeconomic variables include owner's education level, household income, social networks and gender. By considering these socioeconomic variables, the research can provide a more nuanced understanding of the factors influencing credit accessibility and SME performance in Kathmandu Valley. There are different types of socio- economic characteristics of SMEs for which various indicators have been taken,

the details of which are explained in the tables below. Thus, this study aims to bring socio-economic characteristics of the data for which the results are drawn accordingly:

#### 4.2.1 Socio-Economic Profile of SMEs Respondents

The respondents of SMEs have heterogeneous socio-economic profile. The study aims to describe the demographic characteristics of the SMEs respondents by gender, age, family size, marital status, and education. Its detail is presented in Table 4.1.

**Table 4.1**

*Socio-Economic Profile of SMEs*

Items		Frequency	Percent
Gender	Male	148	49.3
	Female	152	50.7
Age	24-30	147	49
	30-40	106	35.3
	40-50	34	11.3
	50 and above	13	4.3
Family Size	Below 3	57	19
	4 to 6	211	70.3
	7 to 9	29	9.7
	10 and above	3	1
Marital Status	Divorced	19	6.3
	Married	147	49.0
	Unmarried	134	44.7
Education	+2 above	292	97.3
	SLC	8	2.7

*Source:* Survey, 2023

In the table 4.1, it is evident that the respondents are relatively evenly distributed between genders, with 49.3 percent being male and 50.7 percent female. Age-wise, the majority falls within the 24-30 age range (49%), followed by those aged 30-40 (35.3%), and smaller proportions in the 40-50 age group (11.3%) and 50 and above category (4.3%). Family size is mainly concentrated within the range of 4 to 6 members (70.3%).

Marital status shows that 49% of respondents are married, while 44.7% are unmarried, and a smaller proportion is divorced (6.3%). In terms of education, the majority possess

an education level of +2 and above (97.3%), and a smaller segment holds an SLC level of education (2.7%).

This comprehensive breakdown of respondent demographics provides a foundational understanding of the sample characteristics, which is crucial for interpreting subsequent analyses. It allows for a contextual grasp of the diverse backgrounds from which data has been collected, facilitating more accurate and unique interpretations of the credit accessibility's impact on SMEs' performance.

#### 4.2.2 Market and Raw Materials

The respondents of SMEs have different market preferences. The study aims to understand the market preferences and raw material sourcing strategies of the surveyed SMEs by providing data on the primary market segments targeted by SMEs (retail vs. wholesale) and the types of raw materials they utilize (animal-based, mineral-based, and vegetable-based). Its detail is presented in Table 4.2

**Table 4.2**

*Market and Raw Materials*

Items	Category	Frequency	Percent
Market gets it	Retail Market	155	51.7
	Wholesale Market	145	48.3
SMEs Raw Materials	Animal Based	94	31.3
	Mineral Based	80	26.7
	Vegetable based	126	42

*Source: Survey, 2023*

Out of the total respondents, 51.7 percent target the retail market, indicating a significant presence in consumer-facing sectors, while the remaining 48.3 percent operate within the wholesale market, suggesting a focus on bulk sales or intermediary trade. Regarding raw material procurement, 31.3 percent of SMEs rely on animal-based resources, 26.7 percent utilize mineral-based inputs, and the majority, constituting 42 percent, depend on vegetable-based materials. These numbers underscore the diverse sourcing strategies adopted by SMEs within the surveyed area, reflecting variations in their production processes, product offerings, and market positioning. The distribution across different market segments and raw material types highlights the adaptability and

flexibility of SMEs in responding to market demands and leveraging available resources to sustain their operations and competitiveness.

### 4.2.3 Employment and Finance

The respondents of SMEs have heterogenous employment dynamics and financial strategies. The study aims to provide valuable information on the employment dynamics and financial strategies adopted by SMEs within the surveyed area, the significance of skilled labor, and the diverse approaches to managing labor costs in alignment with business objectives. Its detail is presented in Table 4.3.

**Table 4.3**

*Employment and Finance*

Items	Category	Frequency	Percent
No of employee	Below 10	217	72.3
	11-50	55	18.3
	51-100	23	7.7
	100 Above	5	1.7
Type of Employee	Skilled	154	51.3
	Semi-skilled	98	32.7
	Unskilled	41	13.7
	Others	7	2.3
Labor Cost	Below 1 Lakh	161	53.7
	1-5 Lakh	106	35.3
	6-10 Lakh	18	6
	10 Lakh Above	15	5

*Source:* Survey, 2023

Additionally, 18.3 percent of the surveyed SMEs have 11-50 employees, while 7.7 percent employ 51-100 individuals, and only 1.7 percent have over 100 employees, highlighting a concentration of SMEs in the small to medium-sized category.

In terms of employee skill levels, 51.3 percent of the total workforce is classified as skilled, followed by 32.7 percent as semi-skilled, and 13.7 percent as unskilled. This distribution underscores the importance of skilled labor in SME operations, likely reflecting the need for specialized expertise in various production processes.

Regarding labor cost, a significant portion of SMEs (53.7%) report labor costs below 1 lakh, indicative of cost-conscious practices prevalent among these businesses. Furthermore, 35.3 percent incur labor costs ranging from 1-5 lakhs, while only a smaller percentage allocate budgets of 6-10 lakhs (6%) and over 10 lakhs (5%) for labor expenses. This distribution suggests a balance between cost-efficiency and investment in human resources, with SMEs managing their labor expenses relative to their financial capacities and operational needs.

The data reflects the employment dynamics and financial strategies adopted by SMEs within the surveyed area, showcasing the predominance of small-scale enterprises, the significance of skilled labor, and the diverse approaches to managing labor costs in alignment with business objectives.

#### 4.2.4 Market Demand and Outlet

The respondents of SMEs have majority of products demand. The study aims to provide insights into market demand, market share, outlet distribution, ownership of outlets, and the nature of SMEs as family businesses. Its detail is presented in Table 4.4.

**Table 4.4**

*Market Demand and Outlet*

Items	Category	Frequency	Percent
Demand in Market	Below 10000 units	164	54.7
	11000-50000 units	88	29.3
	51000- 1 lakh units	11	3.7
	1 lakh units	37	12.3
Market Share	Below 1%	123	41
	2-5%	112	37.3
	6-10%	23	7.7
	10% Above	42	14
Outlet if yes	Kathmandu Valley	260	86.7
	Kathmandu Valley and outside valley	2	7
	Outside Valley	38	12.7
Own Outlet	Yes	94	31.3
	No	206	68.7
Family business or not	Yes	147	49
	No	153	51

*Source:* Survey, 2023

Regarding market demand, the majority of products exhibit demand below 10000 units (54.7%), followed by 11000-50000 units (29.3%), while only a small fraction requires quantities ranging from 51000 to 1 lakh units (3.7%), and 1 lakh units (12.3%). This distribution indicates a diverse market landscape with varying product demands, suggesting the need for tailored production strategies.

In terms of market share, the majority of SMEs hold market shares below 1% (41%) or between 2-5% (37.3%). However, a notable percentage of SMEs (14%) have a market share exceeding 10 percent, indicating a significant presence and influence in their respective markets. Regarding outlet distribution, the data shows that the majority of SMEs (86.7%) have outlets in the Kathmandu Valley, with a smaller percentage having outlets both in and outside the valley (7%) or solely outside the valley (12.7%). This highlights the concentration of business activity within the Kathmandu Valley, which serves as a pivotal hub for commercial operations.

Moreover, a significant portion of SMEs (68.7%) do not own outlets, relying instead on other distribution channels. However, 31.3 percent of SMEs own outlets, indicating a degree of vertical integration or direct customer engagement within their business model.

Finally, the data reveals that almost half of the SMEs (49%) are family-owned businesses, while the remaining 51 percent are not, suggesting a balance between traditional family enterprises and other forms of ownership structures within the SME sector. The data underscores the nuanced dynamics of market demand, market share, outlet distribution, and ownership structures prevalent among SMEs in the surveyed area.

#### **4.2.5 Product Profile**

The respondents of SMEs have heterogenous product profile. The study aims to present the product profile of the surveyed SMEs, detailing the quantity of items produced and the distribution of product categories. Its detail is presented in Table 4.5.

**Table 4.5***Product Profile*

Items	Category	Frequency	Percent
Item produce	0-2	103	34.3
	3 -5	84	28
	6-10	39	13
	11 and above	74	24.7
Name of Products	Chemicals and materials	20	6.7
	Consumer Goods	117	39
	Electronic and electrical components	60	20
	Others	93	31

*Source:* Survey, 2023

In terms of the quantity of items produced, the data indicates that a significant portion of SMEs produce between 0-2 items (34.3%) and 3-5 items (28%), with fewer SMEs producing 6-10 items (13%) and 11 items or more (24.7%). This distribution reflects the varying scales of production among SMEs in the surveyed area.

Regarding product categories, the majority of SMEs are engaged in producing consumer goods (39%), followed by electronic and electrical components (20%), and others (31%). A smaller percentage of SMEs are involved in producing chemicals and materials (6.7%). This distribution highlights the diverse range of products manufactured by SMEs, catering to different consumer needs and market segments.

#### **4.2.6 Nature and Operations**

The respondents of SMEs have different nature and operate differently. The study aims to provide insights into the nature and operations of the SMEs surveyed based on various aspects such as their nature, funding sources, operational methods, technology usage, and production quantities. Its detail is presented in Table 4.6.

**Table 4.6***Nature and Operations*

Items	Category	Frequency	Percent
Nature of SMEs	Farm related	48	16
	Non-Farm related	159	53
	Others	93	31
Source of Fund	Debt	23	7.7
	Equity	63	21
	Debt and Equity	163	54.3
Method of Land Use	Lease	193	64.3
	Own Land	107	35.7
Technology used in Production	Capital Intensive	101	33.7
	Labour Intensive	199	66.3
Quantity needed per annum	Below 10000 units	165	55
	10000-20000 units	83	27.7
	21000-50000 units	34	11.3
	Above 50000 units	18	6

*Source:* Survey, 2023

In terms of the nature of SMEs, the data reveals that a majority are non-farm related (53%), followed by those categorized as farm-related (16%), with the remaining falling under others (31%). This indicates a diverse range of businesses operating within the surveyed area.

Regarding funding sources, the majority of SMEs rely on a combination of debt and equity (54.3%), while a smaller percentage utilize solely equity (21%) or debt (7.7%). This suggests that SMEs adopt different financing strategies to support their operations.

The method of land use shows that a significant proportion of SMEs operate on leased land (64.3%), while the rest own their land (35.7%). This highlights the varying approaches SMEs take in securing land for their operations.

In terms of technology usage in production, a notable portion of SMEs are labour-intensive (66.3%), indicating a reliance on manual labor, while others are capital-intensive (33.7%), employing advanced technology and machinery.

Regarding production quantities, the data reveals that the majority of SMEs require below 10,000 units per annum (55%), followed by those needing 10,000-20,000 units (27.7%), 21,000-50,000 units (11.3%), and above 50,000 units (6%). This distribution reflects the scale of production among SMEs in the surveyed area, catering to different market demands and business capacities.

#### 4.2.7 Financial Metrics and Contributions

The respondents of SMEs have varied financial metrics and contributions. The study aims to describe the financial metrics and contribution of respondents surveyed, shedding light on various aspects such as operational costs, tax contributions, annual scale, and annual profit. Its detail is presented in Table 4.7.

**Table 4.7**

*Financial Metrics and Contributions*

Items	Category	Frequency	Percent
Operational Cost	Below 1 Lakh	122	40.7
	1-5 Lakh	95	31.7
	6-10 Lakh	52	17.3
	10 Lakh Above	31	10.3
Tax Contribution Per Annum	Below 10000	108	36
	11000-50000	111	37
	50000-1 lakh	40	13.3
	1 lakh above	41	13.7
Annual scale (in Rs.)	Below 10 Lakh	120	40
	11-50 Lakh	141	47
	51-100 Lakh	14	4.7
	1 crore above	25	8.3
	Others	51	17
Annual Profit	Below 2 Lakh	96	32
	3-10 Lakh	118	39.3
	10-50 Lakh	56	18.7
	50 Lakh Above	30	10

*Source: Survey, 2023*

Operational costs are distributed across different categories, with 40.7 percent of SMEs reporting costs below 1 lakh, followed by 31.7 percent in the range of 1-5 lakhs, 17.3 percent in the range of 6-10 lakhs, and 10.3 percent reporting costs above 10 lakhs. This indicates a varied scale of operational expenses among the surveyed SMEs.

Tax contributions per annum exhibit a diverse distribution as well, with 36 percent contributing below 10,000, 37 percent contributing in the range of 11,000-50,000, 13.3 percent contributing in the range of 50,000-1 lakh, and 13.7 percent contributing above 1 lakh. This illustrates the tax compliance behavior and financial capacities of the SMEs.

The annual scale of SMEs' business operations shows that 40 percent operate below 10 lakhs, 47 percent operate in the range of 11-50 lakhs, 4.7 percent operate in the range of 51-100 lakhs, and 8.3 percent operate above 1 crore. Additionally, 17 percent fall under the category of others, indicating a miscellaneous range of annual scales.

Annual profit distribution among SMEs reveals that 32 percent report profits below 2 lakhs, 39.3 percent report profits in the range of 3-10 lakhs, 18.7 percent report profits in the range of 10-50 lakhs, and 10 percent report profits above 50 lakhs. This reflects the profitability and financial performance of SMEs across different scales and sectors within the surveyed area.

#### **4.2.8 Legal Status**

The respondents of SMEs have heterogenous legal status. The study aims to present the legal status of the surveyed SMEs along with their tax payments to the government. The data underscores the diverse legal structures and tax obligations faced by SMEs within the surveyed area. Its detail is presented in Table 4.8.

**Table 4.8***Legal Status*

Items	Category	Frequency	Percent
Registration of Firm	Company	211	70.3
	Cottage Industry	68	22.7
	Others	21	7
Tax Payment to Government	Corporate tax	21	7
	Income tax	127	42.3
	Vat	157	50.7

*Source:* Survey, 2023

Regarding the registration of firms, the majority (70.3%) are registered as companies, indicating a significant presence of formally established entities. Cottage industries represent 22.7 percent of the registered firms, while 7 percent fall under the category of others, suggesting a diverse range of legal classifications.

In terms of tax payments, 7 percent contribute to corporate tax, 42.3 percent to income tax, and the majority (50.7%) to VAT. This distribution highlights the different tax obligations faced by SMEs, with VAT being the most prevalent tax type. These numbers underscore the compliance behavior of SMEs with regard to their legal obligations and tax responsibilities.

#### **4.2.9 Investment Related**

The respondents of SMEs outline various aspects related to investments. The study aims to reveal a substantial portion of SMEs operating with relatively modest capital providing valuable insights into the investment strategies, financial health, and growth trajectories. Its detail is presented in Table 4.9.

**Table 4.9***Investment Related*

Items	Category	Frequency	Percent
Investment Mode	Credit finance	105	35
	Self-Finance	165	55
	Share finance	30	10
Payback Period	Less than 2 years	117	57
	3-5 years	114	38
	More than 6 Years	15	5
Years of business operation	Less than one year	46	15.3
	1-5 years	167	55.7
	5-10 years	66	22
	More than 10 years	21	7
Total capital of Business	Below Rs. 1 million	165	55
	More than Rs. 2 million	70	23.3
	More than Rs. 2 million	65	21.7

*Source:* Survey, 2023

The data reveals that 55 percent of SMEs rely on self-finance, indicating a significant proportion of businesses financing their operations through internal resources. Credit finance is utilized by 35 percent of SMEs, while share finance represents 10 percent of the investment modes. This distribution reflects the diverse funding sources accessed by SMEs for their investment activities.

Regarding the payback period, the majority (57%) of SMEs expect a payback period of less than 2 years, while 38 percent anticipate payback within 3-5 years. A small fraction (5%) foresees a longer payback period exceeding 6 years. This suggests that SMEs generally aim for relatively short-term returns on their investments.

In terms of business longevity, 55.7 percent of SMEs have been operational for 1-5 years, indicating a relatively high turnover or entry rate within the SME sector. Meanwhile, 22 percent have operated for 5-10 years, and 7 percent for more than 10 years, reflecting a mix of both new and established enterprises in the market. The data illustrates that 55 percent of SMEs have a total capital below Rs. 1 million, while 23.3 percent possess capital exceeding Rs. 2 million. Interestingly, there seems to be a

discrepancy in the presentation, as more than Rs. 2 million appears twice, likely indicating a data entry error. Nonetheless, it showcases the varying capital sizes among SMEs, with a significant portion operating with relatively modest capital amounts.

### 4.3 Factors influencing Credit Accessibility on SMEs Performance

Regarding the factors influencing credit accessibility on SMEs performance, respondents are questioned to rank the different measurement base statements. The influencing factors on credit accessibility on SMEs performance have been analysed on the basis of various statements related to Collateral security, presence of lending institutions, literacy level, interest rate charged, credit accessibility and SMEs performance. Influencing factors measurement-base statement and their mean score are shown in Table 4.3.1 to Table 4.3.2 This study model has 36 observed variables of questionnaires thirty from five influencing factors on SMEs performance and six from SMEs performance. To get the required sample size, 300 questionnaires were filled up by the respondents and authors collected all 300 questionnaires met the requirement on size of samples and opinion of respondents from data collected was refined and processed by SPSS 25.0 software systematically.

#### 4.3.1 Collateral Security

In the realm of descriptive statistics, a comprehensive analysis of collateral security-related perceptions is presented (as detailed in Table 4.10).

**Table 4.10**

*Statistical Analysis of Collateral Security (CS)*

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Loan repayment capacity (CS-1)	300	1	5	3.14	1.12
Group Loan Approach. (CS-2)	300		5	2.90	1.06
Risk-averse approach for small businesses. (CS-3)	300	1	5	3.02	1.09
Reliability towards borrower (CS-4)	300	1	5	2.82	1.21
Alternative funding sources (CS-5)	300	1	5	2.79	1.16
Collateral security (CS) Average	300	1.00	4.80	2.93	0.81

*Source:* Survey, 2023

This analysis is pivotal for understanding the nuanced viewpoints held by SMEs towards the concept of collateral security within the financial landscape. A total of 300 respondents were engaged in this assessment, with their responses providing insights into various aspects of collateral security.

For the statement, loan repayment capacity is now prioritized over collateral by financial institutions in our business (CS-1), the responses span from a minimum score of 1 to a maximum of 5. The mean score of 3.7 suggests a somewhat moderate inclination towards prioritizing loan repayment capacity over collateral, with a standard deviation of 1.122 signifying a certain level of variation in responses.

Addressing the notion of group loan applications, we apply for loans as a group from time to time since we can simply co-guarantee each other's repayment (CS-2), garnered scores ranging from 1 to 5. The mean score of 2.90 implies a relatively moderate agreement with this approach, and the standard deviation of 1.060 indicates a moderate spread in responses.

The statement financial institutions assess loan repayment possibility rather than revenue generation capability, taking a risk-averse approach for small businesses (CS-3) yielded scores spanning 1 to 5. The mean score of 3.02 showcases a moderate agreement with the notion that institutions prioritize loan repayment assessment, displaying a risk-averse stance. The standard deviation of 1.091 underscores the diversity of opinions on this matter.

For the assertion, financial institutions are hesitant to provide loans to us, and it is difficult for us to give acceptable proof of our earnings to them (CS-4), the scores extended from 1 to 5. With a mean score of 2.82, this statement suggests a moderate level of agreement with the challenges faced by SMEs in providing acceptable proof of earnings. The standard deviation of 1.210 reveals notable variability in responses.

Lastly, addressing the impact of lack of collateral on funding exploration, lack of collateral forced me to explore alternative funding sources for my company (CS-5) yielded scores between 1 and 5. The mean score of 2.79 indicates moderate agreement with the idea of seeking alternative funding sources due to collateral constraints. The standard deviation of 1.163 reflects variance in perspectives.

### 4.3.2 Presence of Lending Institutions

The statistical analysis delves into the presence of lending institutions and the associated perceptions held by SMEs.

**Table 4. 11**

*Statistical Analysis of Presence of Lending Institutions*

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Personal connection (Pli-1)	300	1	4	2.77	1.03
Increased Asset (Pli-2)	300	1	5	3.24	1.11
Financial institutions' efforts (Pli-3)	300	1	5	3.29	1.03
Lack of suitable products (Pli-4)	300	1	5	3.26	1.02
Fostered enterprise investment (Pli-5)	300	1	5	3.01	1.08
Presence of Lending Institution (Pli) Average	300	1.40	4.80	3.11	0.74

*Source:* Survey, 2023

This analysis, as depicted in Table 4.11, encapsulates a comprehensive assessment of various statements related to the interaction between SMEs and lending institutions. The responses from a total of 300 respondents were examined, offering insights into their viewpoints on the presence and impact of these institutions.

Regarding the statement, I have developed a personal connection with the banker, which has resulted in increased credit availability for my business (Pli-1), the scores span from a minimum of 1 to a maximum of 4. The mean score of 2.77 indicates a moderate level of agreement with the notion that personal connections with bankers contribute to enhanced credit availability. The standard deviation of 1.031 reflects the dispersion in responses and viewpoints.

Examining the influence of increased financial institution availability on business growth, increased availability of financial institutions has led to the growth of small and medium-sized businesses (Pli-2), received scores ranging from 1 to 5. The mean score of 3.24 signifies a moderately positive perception of the link between institution availability and SME growth. The standard deviation of 1.117 showcases variability in opinions.

For the statement, financial institutions' efforts have enabled most entrepreneurs to integrate access to financial services successfully (Pli-3), scores encompass 1 to 5. With a mean score of 3.29, this statement suggests a relatively favorable agreement with institutions facilitating successful access to financial services. The standard deviation of 1.038 indicates a certain degree of variability in responses.

Turning to the tailored nature of financial products, many financial institutions do not provide products that are specifically designed to meet our demands (Pli-4), scores range from 1 to 5. The mean score of 3.26 indicates a moderate agreement with the perception that institutions often lack products aligned with SME needs. The standard deviation of 1.028 underscores differing viewpoints on this matter.

Assessing the role of institutions in savings mobilization, financial institutions in the study area have facilitated saving mobilization, leading to increased enterprise investment (Pli-5), garnered scores between 1 and 5. The mean score of 3.01 suggests a moderate alignment with the notion that institutions contribute to increased investment through savings mobilization. The standard deviation of 1.083 portrays diversity in responses.

Collectively, the average score across these statements related to the presence of lending institutions (Pli) is 3.11, indicative of a moderate overall sentiment. This analysis underscores the multifaceted relationship between SMEs and lending institutions, capturing both positive and critical perceptions. It highlights the multifarious impact these institutions have on the SME landscape, offering valuable insights into their role in fostering growth and access to financial services.

### **4.3.3 Literacy Level**

The statistical analysis presented in Table 4.12 delves into the impact of literacy levels on SMEs, investigating various statements related to literacy and its association with business management, financial interactions, and training benefits.

**Table 4.12***Statistical Analysis of Literacy Level*

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Support in business management and growth (L1-1)	300	1	5	3.58	1.30
Increased likelihood of accessing loans (L1-2)	300	1	5	3.51	1.13
Networking opportunities and improved customer service by lender (LL-3)	300	1	5	3.28	1.11
Capacity building by financial institutions (LL-4)	300	1	5	3.11	1.23
Performance improvement through trainings (LL-5)	300	1	5	3.02	1.34
Literacy Level (L1) Average	300	1.40	5.00	3.30	0.96

*Source:* Survey, 2023

This analysis draws insights from the responses of 300 participants, offering a comprehensive overview of their perceptions regarding the connection between literacy and business outcomes.

Starting with the statement, my education has enhanced my ability to manage our business and increase productivity (L1-1), the scores range from a minimum of 1 to a maximum of 5. The mean score of 3.58 suggests a moderately positive agreement that education contributes to improved business management and productivity. The standard deviation of 1.302 showcases a notable variability in opinions.

Moving to the role of higher education in loan acquisition, higher education level increases the likelihood of obtaining loans to expand or grow a business (L1-2), scores span from 1 to 5. With a mean score of 3.51, this statement indicates a moderate alignment between higher education and the likelihood of securing loans for business growth. The standard deviation of 1.138 reflects varying viewpoints on this correlation.

Assessing financial institutions' bundling of credit with services, financial institutions bundle credit with other services to establish ties and improve customer service (LL-3), received scores ranging from 1 to 5. The mean score of 3.28 suggests a moderate agreement with the notion that institutions use bundling to enhance relationships and service quality. The standard deviation of 1.113 indicates diversity in opinions.

For the statement, financial institutions offer training to promote awareness of their products, which benefits SME operations (LL-4), scores encompass 1 to 5. The mean score of 3.11 signifies a moderately positive alignment with institutions offering training to boost product awareness and SME operations. The standard deviation of 1.231 underscores differing viewpoints on this topic.

Turning to the impact of training sessions on management and outcomes, training sessions improved my company's management, resulting in increased sales and profits (LL-5), scores range from 1 to 5. The mean score of 3.02 indicates a moderate agreement with the view that training enhances management and profitability. The standard deviation of 1.344 highlights diverse perceptions.

In summary, the average score across these literacy-related statements (L1) is 3.30, suggesting a moderate overall sentiment. This analysis underscores the multifaceted relationship between literacy and SME success, highlighting the positive impacts of education on business management, financial interactions, and training benefits. It provides valuable insights into the role of literacy in fostering enhanced business practices and outcomes for SMEs.

#### **4.3.4 Interest Rate Charged**

The statistical analysis presented in Table 4.13 delves into the perception of interest rates charged by financial institutions and their potential impact on borrowing behavior and business operations.

**Table 4.13***Statistical Analysis of Interest Rate Charged*

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Determinant of Interest Rate (Irc-1)	300	1	5	3.23	1.09
High Interest Rate discourage Borrowing (Irc-2)	300	1	5	3.35	1.32
Trust towards borrower's capacity to pay interest (Irc-3)	300	1	5	3.07	1.08
Consequences of Late loan payment (Irc-4)	300	1	5	3.31	1.21
Interest Rate Charged (Irc) Average	300	1.50	4.75	3.240	0.80

*Source:* Survey, 2023

This analysis is based on responses from 300 participants, shedding light on the participants' views regarding the dynamics of interest rates and their implications for borrowing and business sustainability.

The type of security provided or the nature of the company can determine the interest rate on loans (Irc-1) received scores ranging from 1 to 5. The mean score of 3.23 suggests a moderate alignment with the notion that interest rates are influenced by factors such as security and company characteristics. The standard deviation of 1.096 indicates varying perceptions on this relationship.

Concerning the discouragement due to high interest rates, high interest rates charged by financial institutions discourage borrowing from them (Irc-2) received scores spanning 1 to 5. The mean score of 3.35 indicates a moderately negative sentiment toward high interest rates impacting borrowing behavior. The standard deviation of 1.327 highlights diverse viewpoints on this discouragement factor.

Exploring the consideration of ability to pay interest, I hesitate to borrow from financial institutions since they don't consider my ability to pay interest (Irc-3) received scores ranging from 1 to 5. The mean score of 3.07 suggests a moderately cautious sentiment regarding financial institutions' consideration of borrowers' repayment capabilities. The standard deviation of 1.084 underscores diverse opinions on this concern.

Examining the consequence of late loan payment on operations, late loan payment led to asset seizure, hurting daily operations and deterring future borrowing (Irc-4) received scores spanning 1 to 5. The mean score of 3.31 indicates a moderate concern that late payments could lead to asset seizure, impacting daily operations and future borrowing prospects. The standard deviation of 1.219 reflects varying viewpoints on this potential consequence.

In summary, the average score across these interest rate-related statements (Irc) is 3.2408, suggesting a moderate overall sentiment. This analysis underscores the multifaceted nature of interest rates in shaping borrowing behavior, business operations, and future borrowing prospects. It provides insights into participants' perceptions regarding the influence of interest rates on financial decisions and business sustainability.

#### 4.3.5 Credit Accessibility

The statistical analysis presented in Table 4.14 delves into the perceptions surrounding credit accessibility for small and medium-sized enterprises (SMEs) and the various factors that might influence their ability to access credit.

**Table 4.14**

*Statistical Analysis of Credit Accessibility*

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Role of business plan on SMEs (Ca-1)	300	1	5	3.50	1.20
Credit Risk Knowledge (Ca-2)	300	1	5	3.02	1.09
Collateral availability (Ca-3)	300	1	5	3.39	1.25
Willingness to pay higher interest rates (Ca-4)	300	1	5	3.34	1.12
Credit Accessibility (Ca) Average	300	1.50	5.00	3.310	0.93

*Source:* Survey, 2023

The analysis is based on responses from 300 participants, shedding light on the participants' viewpoints on credit-related dynamics and their impact on SMEs.

SMEs with a business plan are more likely to be successful in their credit application than those that do not have a business plan (Ca-1) received scores ranging from 1 to 5. The mean score of 3.50 indicates a moderate alignment with the notion that having a well-structured business plan increases the chances of credit approval. The standard deviation of 1.209 reflects varying perceptions on the relationship between business plans and credit success.

Regarding credit risk knowledge, small businesses have better credit risk knowledge than their lenders (Ca-2) received scores spanning 1 to 5. The mean score of 3.02 suggests a moderate sentiment that small businesses possess a reasonable understanding of credit risk compared to their lenders. The standard deviation of 1.091 underscores differing opinions on this matter.

Exploring the significance of collateral, collateral availability increases the likelihood of a company receiving funding from a financial institution (Ca-3) received scores ranging from 1 to 5. The mean score of 3.39 indicates a moderately positive sentiment that collateral availability enhances the likelihood of securing funding. The standard deviation of 1.253 highlights varying viewpoints on the impact of collateral.

Examining the willingness to pay higher interest rates, entrepreneurs who are willing to pay higher interest rates have easier access to credit facilities from financial institutions (Ca-4) received scores spanning 1 to 5. The mean score of 3.34 suggests a moderate sentiment that a willingness to pay higher interest rates could facilitate credit access. The standard deviation of 1.126 reflects diverse opinions on this potential trade-off.

In summary, the average score across these credit accessibility-related statements (Ca) is 3.3108, indicating a moderate overall sentiment. This analysis provides insights into participants' perceptions regarding the complex interplay of factors affecting credit accessibility for SMEs. It underscores the varying viewpoints on business plans, credit risk knowledge, collateral, and interest rate considerations as they pertain to SMEs' ability to access credit facilities from financial institutions.

### 4.3.6 SMEs Performance

The statistical analysis presented in Table 4.15 offers insights into the perceptions of small and medium-sized enterprises (SMEs) regarding the impact of credit accessibility on their overall performance.

**Table 4.15**

*Statistical Analysis of SMEs Performance*

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Credit accessibility leads to improved profitability of the business. (Sp-1)	300	1	5	2.75	1.14
SMEs depend mostly on bank financing to boost the business and to carry out new investments and projects. (Sp-2)	300	1	5	2.90	1.01
Access for credit by SMEs have been identified as a necessary condition for job creation and economic growth. (Sp-3)	300	1	5	3.01	1.06
External finance availability and accessibility favorably influence business development and success. (Sp-4)	300	1	5	2.93	1.14
Access to credit is crucial for SMEs as it helps with cash flow and resource allocation. (Sp-5)	300	1	5	3.33	1.09
Lack of financial flow, collateral, capital, info access, and management hinder SME growth. (Sp-6)	300	1	5	3.41	1.17
SMEs Performance (SP) Average	300	1.50	5.00	3.06	0.87

*Source:* Survey, 2023

Based on responses from 300 participants, this analysis delves into various aspects related to SME performance and the role of credit accessibility.

The statement, credit accessibility leads to improved profitability of the business (Sp-1) received scores ranging from 1 to 5. The mean score of 2.75 suggests a moderately positive sentiment that credit accessibility can contribute to enhanced profitability. The standard deviation of 1.143 indicates varying opinions on the degree of this influence.

Regarding the dependency on bank financing, SMEs depend mostly on bank financing to boost the business and to carry out new investments and projects (Sp-2) received scores spanning 1 to 5. The mean score of 2.90 suggests a moderate sentiment that bank financing plays a significant role in supporting business growth and expansion. The standard deviation of 1.019 reflects differing viewpoints on this dependence.

Exploring the broader economic impact, access to credit by SMEs has been identified as a necessary condition for job creation and economic growth (Sp-3) received scores ranging from 1 to 5. The mean score of 3.01 indicates a moderate alignment with the notion that credit accessibility is crucial for job creation and economic development. The standard deviation of 1.060 highlights diverse opinions on this correlation.

Considering external finance availability, external finance availability and accessibility favorably influence business development and success (Sp-4) received scores spanning 1 to 5. The mean score of 2.93 suggests a moderate sentiment that external finance availability positively contributes to business development and success. The standard deviation of 1.149 underscores varying viewpoints on this influence.

Addressing the significance of credit for cash flow and resource allocation, access to credit is crucial for SMEs as it helps with cash flow and resource allocation (Sp-5) received scores ranging from 1 to 5. The mean score of 3.33 indicates a moderately positive sentiment that credit access aids in managing cash flow and allocating resources effectively. The standard deviation of 1.097 reflects diverse opinions on this role.

Finally, the statement, lack of financial flow, collateral, capital, info access, and management hinder SME growth (Sp-6) received scores spanning 1 to 5. The mean score of 3.41 suggests a moderately strong sentiment that various factors including financial constraints, lack of collateral, limited capital, information access, and management challenges hinder SME growth. The standard deviation of 1.172 underscores differing viewpoints on these inhibiting factors.

The average score across these statements related to SME performance (SP) is 3.06, indicating a moderate overall sentiment. This analysis provides insights into participants' perceptions on how credit accessibility intersects with various dimensions of SME performance, including profitability, economic impact, job creation, external finance influence, cash flow management, and growth barriers.

#### 4.4 Analysis of Credit Accessibility and SME Performance

The correlation matrix provided offers insights into the relationships between the study variables.

**Table 4.16**

*Correlation Analysis*

	CS	PLI	LL	IRC	CA	SP
CS	1					
PLI	.462**	1				
LL	.589**	.671**	1			
IRC	.677**	.712**	.595**	1		
CA	.682**	.604**	.584**	.808**	1	
SP	.780**	.634**	.603**	.757**	.727**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficients, which range from -1 to 1, indicate both the strength and direction of these relationships. Collateral Security (CS) and Presence of Lending Institutions (PLI) display a correlation coefficient of 0.462. This moderate positive correlation suggests that as collateral security improves, there tends to be a rise in the presence of lending institutions. There is a moderate positive correlation of 0.589 between Collateral Security (CS) and Literacy Level (LL). This indicates that SMEs with stronger collateral security often have owners with higher levels of literacy. Collateral Security (CS) and Interest Rate Charged (IRC) exhibit a strong positive correlation of 0.677. This suggests that businesses with better collateral security might face higher interest rates. The correlation between Credit Accessibility (CA) and Collateral Security (CS) is 0.682, indicating a strong positive relationship. This implies that businesses with higher collateral security tend to have better access to credit. Credit Accessibility (CA) and SMEs Performance (SP) are strongly positively correlated at 0.780. This suggests that businesses with improved credit accessibility often experience

better overall performance. Presence of Lending Institutions (PLI) and Interest Rate Charged (IRC) have a correlation coefficient of 0.634, indicating a moderate positive correlation. This implies that businesses with a higher presence of lending institutions might face higher interest rates. These correlation coefficients highlight certain trends. It appears that businesses with solid collateral security and a greater presence of lending institutions are more likely to have improved credit accessibility. Furthermore, enhanced credit accessibility strongly correlates with better SMEs performance. It's important to interpret these relationships with care, as there could be underlying factors that contribute to these associations and warrant further investigation.

#### 4.5 Impact of variables on Performance of SMEs

##### 4.5.1 Factors Influencing the Credit Accessibility of SMEs

In this section of the study, a regression analysis was conducted to examine the relationship between credit accessibility (CA) for small and medium-sized enterprises (SMEs) in the Kathmandu Valley and several key variables.

$$CA = \beta + \beta_1CS + \beta_2PLI + \beta_3LL + \beta_4IRC + e$$

**Table 4.17**

*Regression Analysis with Study Variables and Credit Accessibility*

Model		Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	-.025	.143	-.174	.862
	CS	.253	.054	4.643	.000
	PLI	.028	.066	.420	.675
	LL	.086	.047	1.838	.067
	IRC	.686	.064	10.654	.000
	R <sup>2</sup>	0.692			
	F	165.98			0.000

*Where, CA= Credit Accessibility, SP= SMEs Performance, CS= Collateral Security, PLI= Presence of Lending Institutions, LL= Literacy Level, IRC= Interest Rate Charged*

The regression equation used for analysis was:  $CA = \beta + \beta_1CS + \beta_2PLI + \beta_3LL + \beta_4IRC + e$  Where CS represents Collateral Security, PLI represents Presence of Lending Institutions, LL represents Literacy Level, and IRC represents Interest Rate Charged. The coefficients  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$  correspond to the impact of these respective variables on credit accessibility.

The analysis outcomes are presented in Table 14, and several key findings emerge:

Firstly, the constant term ( $\beta$ ) is -0.025, reflecting the expected value of credit accessibility when all independent variables are at zero. This term helps establish a baseline for the analysis.

Secondly, the coefficient for Collateral Security (CS) is 0.253. This positive coefficient implies that as collateral security increases, credit accessibility tends to increase as well. The associated t-value of 4.643 is highly significant ( $p < 0.001$ ), indicating a strong relationship between collateral security and credit accessibility.

Thirdly, the coefficient for Presence of Lending Institutions (PLI) is 0.028. While positive, the t-value of 0.420 suggests that this relationship is not statistically significant ( $p > 0.05$ ), indicating that the presence of lending institutions may not significantly affect credit accessibility.

Fourthly, the coefficient for Literacy Level (LL) is 0.086. Although positive, the t-value of 1.838 ( $p < 0.1$ ) suggests only a marginally significant association between literacy level and credit accessibility.

Lastly, the coefficient for Interest Rate Charged (IRC) is 0.686. This positive coefficient is accompanied by a highly significant t-value of 10.654 ( $p < 0.001$ ), indicating that higher interest rates charged are significantly associated with greater credit accessibility.

The overall explanatory power of the model, indicated by the R-squared value of 0.692, implies that approximately 69.2 percent of the variation in credit accessibility is explained by the combined influence of the independent variables in the model.

The F-statistic of 165.98, with a p-value of 0.000, indicates that the model is statistically significant as a whole, suggesting that at least one of the independent variables significantly contributes to explaining credit accessibility.

The regression analysis reveals that collateral security, interest rate charged, and, to a lesser extent, literacy level play significant roles in influencing credit accessibility for SMEs in the Kathmandu Valley. The findings underscore the importance of collateral security and its positive relationship with credit accessibility. While the presence of lending institutions and literacy level may have comparatively less influence, the model as a whole contributes to understanding the dynamics of credit accessibility for SMEs, providing valuable insights for policymakers and stakeholders.

#### 4.5.2 Factors impacting the Performance of SMEs

The regression analysis reveals several significant determinants of SMEs' performance in the Kathmandu Valley. Collateral Security (CS) shows a highly significant positive coefficient of 0.502 ( $t = 10.229$ ,  $p < 0.001$ ), indicating that an increase in collateral security by one unit is associated with a 0.502-unit increase in SME performance.

$$SP = \beta + \beta_1 CA + \beta_2 CS + \beta_3 PLI + \beta_4 LL + \beta_5 IRC + e$$

**Table 4.18**

*Regression Analysis with Study Variables and SMEs Performance*

Model	Coefficients		T	Sig.	
	B	Std. Error			
1	(Constant)	-0.233	0.125	-1.871	0.062
	CS	0.502	0.049	10.229	0.000
	PLI	0.239	0.058	4.152	0.000
	LL	0.002	0.041	0.044	0.965
	IRC	0.201	0.066	3.050	0.002
	CA	0.125	0.051	2.475	0.014
	R <sup>2</sup>	0.732			
	F	161.26			0.000

Where, CA= Credit Accessibility, SP= SMEs Performance, CS= Collateral Security, PLI= Presence of Lending Institutions, LL= Literacy Level, IRC= Interest Rate Charged

This underscores the critical role of collateral in enhancing business performance by providing secure access to finance, enabling SMEs to invest in growth and operational efficiency. Presence of Lending Institutions (PLI) also demonstrates a significant positive impact, with a coefficient of 0.239 ( $t = 4.152$ ,  $p < 0.001$ ), suggesting that the availability of accessible lending institutions positively influences SME performance by facilitating easier access to credit. This highlights the importance of a supportive financial infrastructure in fostering SME growth and economic development.

In contrast, Literacy Level (LL) among SME owners shows a non-significant coefficient of 0.002 ( $t = 0.044$ ,  $p > 0.05$ ), indicating that literacy levels may not significantly affect SME performance in this context. This finding suggests that while financial literacy is crucial, other factors such as operational efficiency and market conditions may have a more pronounced impact on SME outcomes. Interest Rate Charged (IRC) displays a moderately significant positive coefficient of 0.201 ( $t = 3.050$ ,  $p = 0.002$ ), indicating that higher interest rates are associated with slightly better SME performance. This unexpected result could imply that SMEs willing to accept higher borrowing costs may do so strategically to access necessary capital, despite the financial burden.

Moreover, Credit Accessibility (CA) exhibits a positive coefficient of 0.125 ( $t = 2.475$ ,  $p = 0.014$ ), indicating that improved credit accessibility is associated with enhanced SME performance. This highlights the critical role of credit availability in driving business growth and operational capabilities among SMEs in the Kathmandu Valley.

The R-squared value of 0.732 indicates that approximately 73.2 percent of the variance in SMEs Performance can be explained by the combined influence of the independent variables in the model. This suggests a reasonably good fit of the model to the data.

The F-statistic of 161.26, with a p-value of 0.000, demonstrates that the model as a whole is statistically significant. This indicates that at least one of the independent variables significantly contributes to explaining SMEs Performance.

These findings underscore several policy implications for enhancing SME performance and economic growth in Nepal. Policies should focus on improving collateral frameworks to enable SMEs to access secure financing, enhancing the presence and accessibility of lending institutions in underserved areas, and promoting financial literacy programs tailored to SME owners. Additionally, measures to regulate interest

rates and ensure fair lending practices could mitigate the potential negative impacts of high borrowing costs on SME profitability and sustainability.

#### **4.6. Discussion**

To achieve the research objectives, author use primary data based on a semi-structured questionnaire. Using convenience sampling, 300 useable responses were grouped. This study examined the credit accessibility and SMEs performance at Kathmandu valley. collateral security, lending institution presence, literacy level, interest rate charged, credit accessibility and SMEs performance were used variables in this study. The present study delves into the intricate relationships between key variables affecting credit accessibility and small and medium-sized enterprises (SMEs) performance within the context of the Kathmandu Valley. By employing both correlation and regression analyses, the study sheds light on the multifaceted dynamics that govern these relationships and offers valuable insights for stakeholders, policymakers, and researchers. The correlation analysis shows trends in the data. The observed moderate positive correlation between Collateral Security (CS) and the Presence of Lending Institutions (PLI) suggests that businesses with stronger collateral security might attract a greater presence of lending institutions. This emphasizes the interconnectedness between the availability of collateral and the confidence lenders have in extending credit. The correlation between Collateral Security (CS) and Literacy Level (LL) introduces an intriguing angle business with robust collateral security seem to coincide with higher literacy levels among their owners. This connection highlights the potential influence of education and financial literacy on credit-related decisions.

The strong positive correlation between Collateral Security (CS) and Interest Rate Charged (IRC) raises important questions regarding the relationship between collateral and interest rates. The finding contradicts the intuitive assumption that businesses with better collateral security would receive lower interest rates. This discrepancy underscores the intricate interplay of market forces, risk assessment, and economic conditions that impact interest rate determination. The strong positive correlation between Credit Accessibility (CA) and Collateral Security (CS) reiterates the crucial role of collateral in obtaining credit. This alignment between correlation and real-world practices emphasizes the importance of a solid collateral base for SMEs seeking financial support. Moreover, the strong positive correlation between Credit Accessibility (CA) and SMEs Performance (SP) highlights a significant trend enhanced

credit accessibility correlates with improved overall SMEs performance. This finding underscores the role of financial resources in driving business growth and underscores the potential positive impact of credit availability on business outcomes.

The relationship between the Presence of Lending Institutions (PLI) and Interest Rate Charged (IRC) shows on the complexities of lending dynamics. The moderate positive correlation indicates that regions with a higher presence of lending institutions might face higher interest rates. This finding suggests the need for a nuanced understanding of market competition and regulatory influences on interest rate determination. The result further shows the relationships by quantifying their effects. The regression equation for credit accessibility reveals the significant positive impact of Collateral Security (CS) on credit accessibility. This finding aligns with the correlation analysis and substantiates the notion that collateral security is a key determinant of credit availability. This relation is consistent with Masdupi, Rasyid and Darni (2024). The non-significant coefficient for Presence of Lending Institutions (PLI) in the credit accessibility model provides a counterintuitive result, suggesting that the mere presence of lending institutions might not directly influence credit accessibility. This underscores the need for further investigation into the specific mechanisms that drive credit access. This finding is consistent with Chandrayanti et al. (2019), Haritone and Mirie (2016) and Pearce and Bah (2024).

The positive coefficient of Credit Accessibility (CA) in the regression analysis suggests a significant relationship between improved credit accessibility and enhanced SME performance in the context of the Kathmandu Valley, Nepal. Firstly, improved credit accessibility directly addresses one of the primary challenges faced by SMEs: limited access to affordable financing. SMEs often struggle to obtain sufficient credit from formal financial institutions due to stringent collateral requirements or high interest rates. When credit becomes more accessible, SMEs can secure the necessary funds to invest in equipment, technology upgrades, or expansion projects. This injection of capital allows SMEs to enhance their operational capabilities, increase production efficiency, and explore new market opportunities, all of which contribute to improved overall performance. Enhanced credit accessibility fosters business resilience and sustainability among SMEs. In the face of economic uncertainties or market fluctuations, SMEs with better access to credit can better weather financial shocks by maintaining cash flow, fulfilling orders, and meeting operational expenses. This

financial stability not only supports day-to-day operations but also enables SMEs to capitalize on growth opportunities that may arise, such as expanding product lines or entering new markets. Consequently, SMEs that can access credit when needed are better positioned to grow steadily over time, contributing positively to economic growth and job creation in the region. Moreover, improved credit accessibility promotes innovation and competitiveness within the SME sector. Access to financing allows SMEs to invest in research and development, adopt new technologies, or implement sustainable practices that improve efficiency and reduce costs. This innovation-driven approach not only enhances productivity but also enables SMEs to differentiate themselves in the market, attract more customers, and build stronger brand equity. Ultimately, SMEs that innovate and adapt to changing market demands are more likely to achieve long-term success and contribute to the overall economic development of Nepal. This outcome solidifies the idea that credit availability contributes significantly to SMEs' ability to achieve better performance outcomes. This finding is similar with Ogoi (2019) and Choudhary and Alam (2017). While the coefficients for Literacy Level (LL) and Interest Rate Charged (IRC) in both models provide nuanced insights, their impacts underscore the multifaceted nature of SMEs' financial landscape. This result is similar with Hussein (2015), Heo (2023) and Krishnakumar and Arul (2024).

The overall model significance and R-squared values in both regression models signify the explanatory power of the chosen variables, indicating their collective influence on credit accessibility and SMEs performance. These findings align with theoretical expectations and empirical evidence, enhancing the credibility of the study's outcomes.

This result of correlation and regression analyses shows valuable insights into the relationships between key variables shaping credit accessibility and SMEs performance in the Kathmandu Valley. The findings highlight the multifaceted nature of these relationships, providing actionable insights for policymakers, lenders, and SMEs owners alike. The research methodology and findings contribute to the broader body of knowledge surrounding SMEs' financial dynamics and underscore the importance of collateral security, credit accessibility, and other influencing factors in driving SMEs' growth and success.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

#### **5.1 Introduction**

This chapter presents the overall content of the study incorporated in the summary section, the conclusion of the study with policy implications and recommendation for future research. The summary section provides the overview of the study through brief information on the objectives of the study, methodology applied, tools used to collect data and analyse them and the results observed. Likewise, the conclusion section illuminates on the objective wise findings and their interpretation on the ways various factors influence credit accessibility and SMEs performance in Kathmandu Nepal. Lastly, recommendations for future research are given.

#### **5.2 Summary**

The study specifically aimed to assess the influence of different factors like collateral security, presence of lending institutions and entrepreneurs' literacy level in credit accessibility, effect of interest rates and credit accessibility in SMEs' performance. To achieve these objectives, data were collected through semi-structured questionnaire survey in the Kathmandu valley using convenience sampling where, 300 useable responses were grouped. Collateral security, lending institution presence, literacy level, interest rate charged, credit accessibility and SMEs performance were used variables in this study. SPSS was used to statistically analyse the data.

Through both correlation and regression analyses, the study sheds light on the multifaceted dynamics that govern these relationships and offers valuable insights for stakeholders, policymakers, and researchers. The correlation analysis shows trends in the data. The observed moderate positive correlation between Collateral Security (CS) and the Presence of Lending Institutions (PLI) suggests that businesses with stronger collateral security might attract a greater presence of lending institutions. This emphasizes the interconnectedness between the availability of collateral and the confidence lenders have in extending credit. The correlation between Collateral Security (CS) and Literacy Level (LL) introduces an intriguing angle business with robust collateral security seem to coincide with higher literacy levels among their

owners. This connection highlights the potential influence of education and financial literacy on credit-related decisions.

### **5.3 Key Findings of the Study**

- Respondents are fairly evenly distributed between genders (49.3 percent male, 50.7 percent female).
- Majority of respondents fall within the 24-40 age range, with 49 percent aged 24-30 and 35.3 percent aged 30-40.
- Family sizes mainly range from 4 to 6 members (70.3 percent).
- Education levels are predominantly +2 and above (97.3 percent).
- SMEs exhibit diverse product portfolios, with 34.3 percent producing 0-2 items and 39 percent focusing on consumer goods.
- Market demand varies, with 54.7 percent catering to demand below 10,000 units.
- Market share varies widely, from below 1 percent (41%) to above 10 percent (14%).
- A significant majority of SMEs operate within Kathmandu Valley (86.7%).
- Different funding sources are observed, with 54.3 percent relying on both debt and equity.
- Operational costs vary, ranging from below 1 lakh (40.7%) to above 10 lakhs.
- Tax contributions show diversity, ranging from below 10,000 to above 1 lakh.
- Employee structures vary, with 72.3 percent of SMEs employing below 10 individuals and 51.3 percent employing skilled workers.
- SMEs are categorized as farm-related (16%) and non-farm related (53%).
- Annual business scales range from below 10 lakhs to above 1 crore.
- A substantial proportion of SMEs (70.3%) are registered as companies.
- Raw material sourcing varies, with 42 percent relying on vegetable-based materials and 31.3 percent on animal-based inputs.
- There is a moderate positive correlation (0.462) between Collateral Security (CS) and the Presence of Lending Institutions (PLI), indicating that as collateral security improves, the presence of lending institutions tends to increase.

- Collateral Security (CS) and Literacy Level (LL) have a moderate positive correlation (0.589), suggesting that SMEs with better collateral security tend to have owners with higher literacy levels.
- Collateral Security (CS) and Interest Rate Charged (IRC) exhibit a strong positive correlation (0.677), implying that businesses with better collateral security might face higher interest rates.
- Credit Accessibility (CA) and Collateral Security (CS) are strongly positively correlated (0.682), indicating that businesses with higher collateral security tend to have better access to credit.
- Credit Accessibility (CA) and SMEs Performance (SP) show a strong positive correlation (0.780), suggesting that improved credit accessibility is associated with better overall SMEs performance.
- Presence of Lending Institutions (PLI) and Interest Rate Charged (IRC) display a moderate positive correlation (0.634), indicating that businesses with more lending institutions might experience higher interest rates.
- Businesses with solid collateral security and a greater presence of lending institutions tend to have improved credit accessibility.
- Enhanced credit accessibility strongly correlates with better SMEs performance.
- Collateral Security (CS) has a positive coefficient (0.253) indicating that as collateral security increases, credit accessibility tends to increase as well.
- Presence of Lending Institutions (PLI) has a non-significant coefficient (0.028) suggesting that its impact on credit accessibility may not be statistically significant.
- Literacy Level (LL) has a marginally significant positive coefficient (0.086), indicating a weak association with credit accessibility.
- Interest Rate Charged (IRC) has a positive coefficient (0.686) accompanied by high significance, suggesting that higher interest rates are significantly associated with greater credit accessibility.
- The overall model explains around 69.2 percent of the variation in credit accessibility.

- Credit Accessibility (CA) exhibits a positive coefficient of 0.125 ( $t = 2.475$ ,  $p = 0.014$ ), indicating that improved credit accessibility is associated with enhanced SME performance
- The overall model explains about 73.2 percent of the variance in SMEs Performance.
- The model is statistically significant as a whole, indicating that at least one independent variable significantly contributes to explaining SMEs Performance.

#### **5.4 Conclusion**

This study set out to unravel the intricate web of relationships that define credit accessibility and SMEs performance within the unique context of the Kathmandu Valley. Through a correlation and regression analysis, this study has unveiled valuable insights that contribute to the understanding of the factors that shape SMEs' financial landscape.

The correlation analysis provided a foundational understanding of the interrelationships among key variables. The findings highlighted the nuanced connections between collateral security, lending institution presence, literacy levels, interest rates, credit accessibility, and SMEs performance. These correlations underscored the importance of collateral security as a precursor to credit accessibility, while also shedding light on unexpected dynamics, such as the positive association between interest rates and credit accessibility. These insights remind us of the multifaceted nature of financial ecosystems and the need for a comprehensive perspective.

The subsequent regression analysis took these relationships to a deeper level by quantifying their impacts. The results reinforced the significance of collateral security in influencing credit accessibility, offering empirical evidence that supports the theoretical assumptions. The presence of lending institutions, while not statistically significant, has raised intriguing questions about the dynamics between institutions and credit access. Furthermore, the positive link between credit accessibility and SMEs performance underscores the catalytic role of financial access in bolstering businesses' overall success. Enhanced Credit Accessibility (CA) significantly benefits SMEs, emphasizing the potential of policies to stimulate regional economic growth. Collateral

security (CS) plays a crucial role in accessing credit, suggesting the need for strengthened collateral mechanisms. While lending institutions' (PLI) impact was not significant, improving their effectiveness could broaden SME access to financial services. Additionally, promoting financial literacy (LL) and regulating interest rates (IRC) are essential to mitigating financial challenges SMEs face, fostering sustainable growth.

The models' explanatory power, as indicated by the R-squared values, suggests that the chosen variables collectively contribute significantly to understanding credit accessibility and SMEs performance. These models offer valuable tools for policymakers, lenders, and business owners seeking to make informed decisions to foster SMEs growth and stability.

The study's findings resonate with both theoretical foundations and practical observations, reinforcing the importance of financial considerations in SMEs' journey. These insights hold implications not only for the Kathmandu Valley but also for similar economies facing challenges in SMEs' access to credit and their subsequent performance. The study serves as a stepping stone for future research, encouraging deeper dives into the underlying mechanisms driving these relationships and the potential for interventions to amplify SMEs' contributions to economic development.

This study shows the intricate pathways that connect collateral security, lending institutions, literacy levels, interest rates, credit accessibility, and SMEs performance. By weaving together empirical evidence and theoretical concepts, this study advances our comprehension of the financial dynamics that shape the SME landscape. As the Kathmandu Valley continues to evolve, the findings of this study can serve as a compass guiding policymakers and stakeholders towards fostering an environment where SMEs can thrive, driving prosperity and economic growth.

#### **5.4 Policy Implications**

The findings of this study have far-reaching implications for multiple stakeholders, including policymakers, lending institutions, SME owners, and researchers. For policymakers, the study underscores the critical role of collateral security in facilitating credit accessibility and SMEs performance. Policymakers should focus on creating an enabling environment that encourages SMEs to build robust collateral assets, possibly

through financial literacy programs and targeted support mechanisms. Additionally, the non-significant impact of lending institution presence on credit accessibility prompts policymakers to reassess the effectiveness of current institutional frameworks and explore innovative ways to enhance lending institutions' contributions to credit availability.

Lending institutions can utilize the study's insights to refine their risk assessment models. The finding that higher interest rates are associated with greater credit accessibility prompts lenders to reevaluate their pricing strategies and explore ways to offer competitive rates without compromising profitability. Additionally, lenders should consider collaborating with educational institutions to enhance financial literacy among SME owners, potentially reducing risk and facilitating better credit terms.

SME owners benefit from understanding the pivotal role of collateral security and credit accessibility in their businesses' success. This knowledge encourages them to proactively build collateral assets and establish creditworthiness. Businesses can seek partnerships with lending institutions and work towards improving their financial literacy, thereby increasing their chances of obtaining favorable credit terms and expanding their operations.

Researchers can use the study's framework to conduct similar analyses in different contexts, contributing to the broader understanding of SME financing dynamics. The study's focus on the Kathmandu Valley opens avenues for cross-country comparisons and enriches the body of knowledge on SMEs' financial behaviors. Further research could delve into qualitative aspects, exploring the reasons behind the unexpected relationship between interest rates and credit accessibility, thus offering deeper insights into market mechanisms.

The study's implications underscore the need for a holistic approach to enhancing SMEs' access to credit and subsequent performance. By recognizing the multifaceted nature of these relationships and aligning policies, practices, and research efforts accordingly, stakeholders can collectively contribute to fostering a vibrant SME ecosystem that drives economic growth and resilience in the Kathmandu Valley and beyond.

## 5.5 Recommendation

The following recommendations were made based on the findings of the study:

- Future research could explore the underlying mechanisms that drive the relationships among the studied variables and investigate potential interventions to enhance SMEs' access to credit and overall performance.
- The Ministry of Industry, Commerce and Supply has approved 'Start-Up Enterprises Loan Operation Procedure, 2081' and brought it into effect where business proposals will be considered as collateral. The effectiveness of such interventions in relation to variables like literacy level and interest rates can be further assessed.
- Apart from the studied variables, the external factors impacting the performance of SMEs like foreign trade policy of the country could also be an important subject of study.
- The Government should induce policy and program that facilitate broad group of entrepreneurs, widespread financial literacy and motivate the lending institutions to invest in the SMEs and develop control mechanism on the interest rates.

## REFERENCES

- Adhikari, J. (2022). Expanding access to finance for small and medium enterprises: An analysis of demand and supply side constraints of Nepal. *The Journal of Economic Concerns*, 13(1).
- Adhikari et al. (2021). Financial hurdles in small business enterprises in Kathmandu valley. *Modern Economy*, 12(6). DOI: [10.4236/me.2021.126058](https://doi.org/10.4236/me.2021.126058)
- Alhassan, F., & Sakara, A. (2014). Socio-economic determinants of small and medium enterprises' (SMEs) access to credit from the Barclays Bank in Tamale-Ghana. *International Journal of Humanities & Social Science Studies*, 1(1), 26-36.
- Aminkeng et al. (2024). Impact of credit constraints on financial performance of small and medium size enterprises. *The European Journal of Development Research*, 1-29. <https://doi.org/10.1057/s41287-023-00615-8>
- Chandrayanti et al. (2019). Credit accessibility model of small enterprises based on firm characteristics and business performance: Case study at small enterprises in West Sumatera Indonesia. *International Journal of Entrepreneurship*, 23(Special Issue), 1-14.
- Chandrayanti et al. (2020). Impact of entrepreneurial characteristics on credit accessibility: Case study of small businesses in West Sumatera–Indonesia. *Entrepreneurship and Sustainability Issues*, 7(3), 1760. DOI:[10.9770/jesi.2020.7.3\(21\)](https://doi.org/10.9770/jesi.2020.7.3(21))
- Cobbinah et al. (2020). Relationship between determinants of financial assistance and credit accessibility of small and medium-enterprises (SMEs): A case study of SMEs in Takoradi metropolis in the Western region of Ghana. *Open Journal of Business and Management*, 9(1), 430-447.
- Erdogan, A. (2019). Determinants of perceived bank financing accessibility for SMEs: Evidence from an emerging market. *Economic Research-Ekonomska Istraživanja*, 32(1), 690-716. DOI: [10.1080/1331677X.2019.1578678](https://doi.org/10.1080/1331677X.2019.1578678)

- Ghimire, R. (2021). Micro and small enterprises in Nepal: Prospects and challenges. *Journal of Finance and Management Review*, 2(2), 257-269.
- Haritone, S., & Mirie, M. (2016). Determinants of lending to small and medium enterprises by commercial banks in Kenya. *IOSR Journal of Economic and Finance*, 7(4), 57-63. DOI: [10.48550/arXiv.2010.12550](https://doi.org/10.48550/arXiv.2010.12550)
- Haron et al. (2013). Factors influencing small medium enterprises (SMEs) in obtaining loan. *International Journal of Business and Social Science*, 4(15), 182-195.
- International Finance Corporation World Bank Group. (2024, June 27). *Empowering Women Entrepreneurs in the Himalayas*.  
<https://www.ifc.org/en/stories/2024/empowering-women-entrepreneurs-himalayas>
- Khan et al. (2023). Characteristics of better performing Nepali SMEs and implications for policy. *Policy Entrepreneur Incorporated*.  
<https://eprints.soas.ac.uk/39532/1/Characteristics-of-better-performing-Nepali-SMEs-and-implications-for-policy.pdf>
- Khan, S. N. (2024). How bank-specific factors affect access to financing for small and medium enterprises: Evidence from an emerging economy. *International Journal of Finance & Economics*, 29(2), 2095-2115. DOI: [10.1002/ijfe.2771](https://doi.org/10.1002/ijfe.2771)
- Krishnakumar, K., & Arul, M. (2024). Effect of bank credit on the business performance of unorganised event management firms in Salem District. *International Journal of Banking, Risk & Insurance*, 12(1). DOI: <https://doi.org/10.21863/ijbri/2024.12.1.003>
- Ma, S., Wu, X., & Gan, L. (2019). Credit accessibility, institutional deficiency and entrepreneurship in China. *China Economic Review*, 54, 160-175. DOI: [10.1016/j.chieco.2018.10.015](https://doi.org/10.1016/j.chieco.2018.10.015)
- Masdupi, E., Rasyid, R., & Darni, M. O. (2024). Financial literacy and sustainability in SMEs: Do financial risk attitude, access to finance, and organizational risk-taking tolerance mediate? *Asian Economic and Financial Review*, 14(1), 43-58. DOI: [10.55493/5002.v14i1.4959](https://doi.org/10.55493/5002.v14i1.4959)

- Modigliani, F., & Miller, M. (1963). Corporate income taxes and the cost of capital: A correction. *American Economic Review*, 53(1), 433-444. <http://www.jstor.org/stable/1809167>
- Munguti, M. J., & Wamugo, L. (2020). Microfinance credit accessibility and financial performance of small and medium enterprises in Machakos County, Kenya. *Integrated Journal of Business and Economics*, 4(1), 71-79. DOI: [10.33019/ijbe.v4i1.250](https://doi.org/10.33019/ijbe.v4i1.250)
- OECD (2005). Improving financial literacy: analysis of issues and policies. *OECD Publishing, Paris*. <https://doi.org/10.1787/9789264012578-en>.
- Ogoi, H. (2019). Strategies for accessing credit by small and medium enterprises. *International Journal of Academic Research in Business and Social Sciences*, 7(6), 429-448. DOI: [10.6007/IJARBS/v7-i6/3000](https://doi.org/10.6007/IJARBS/v7-i6/3000)
- Oke, L., Sanni, M., & Ijaiya, M. (2019). Firm characteristics and access to bank financing: Evidence from SMEs in North Central Nigeria. *Amity Journal of Finance*, 4(2), 70-87.
- Pandey, K. B. (2016). Impact of Commercial Banks' Lending to Small and Medium Scale Enterprises on Economic Growth of Nepal. *Economic Journal of Development Issues*, 21 & 22(1-2).
- Pearce, R. E., & Bah, A. (2024). Estimation of efficiency and the effect of access to finance on efficiency of small and medium enterprises (SMEs) in the Western area of Sierra Leone. *Journal of Applied Finance & Banking*, 14(1), 1-23. DOI: [10.47260/jafb/1411](https://doi.org/10.47260/jafb/1411)
- Raju, D., & Thillai Rajan, A. (2019). SME performance and access to export markets: The role of institutional credit in Transnational entrepreneurship. *Issues of SME internationalization in the Indian context* (263-280). DOI: [10.1007/978-981-10-6298-8\\_12](https://doi.org/10.1007/978-981-10-6298-8_12)
- Roscoe, J. (1975). *Fundamental research statistics for the behavioral sciences*. New York: Holt, Rinehart and Winston.

- Sanni, M., Adebayo, L., & Alayande, I. (2020). Bank credit accessibility and performance of SMEs in Kwara State, Nigeria: A PLS-SEM analysis. *Copernican Journal of Finance & Accounting*, 9(2), 45-64. DOI: [10.12775/CJFA.2020.007](https://doi.org/10.12775/CJFA.2020.007)
- Sanni, M., Oke, L. A., & Alayande, I. T. (2020). Bank credit accessibility and performance of SMEs in Kwara State, Nigeria: A PLS-SEM analysis. *Copernican Journal of Finance & Accounting*, 9(2), 45-64. <https://doi.org/10.12775/CJFA.2020.007>
- Schicks, J. (2013). The sacrifices of micro-borrowers in Ghana – A customer-protection perspective on measuring over-indebtedness. *The Journal of Development*, 49(9), 1238-1255.
- Shakya, B., Karki, D., Prajuli, S., Bhandari, U., & Kayestha, M. (2024). Determinants Affecting Small Business Financially in Nepal: A Structural Equation Modelling Analysis. *Quest Journal of Management and Social Sciences*, 6(2), 323-337. <https://doi.org/10.3126/qjmss.v6i2.69103>
- Silwal, P. P. (2024). Financial Constraints and Corporate Finance: Insights from Nepalese Firms. *Journal of Business and Social Science Research*, IX(1). <https://doi.org/https://doi.org/10.3126/jbssr.v9i1.67991>
- Silwal, P., & Mool, S. (2020). Small-medium enterprises and credit accessibility in Kathmandu Valley. *International Research Journal of Management Science*, 5(1), 110-129. DOI: [10.3126/irjms.v5i1.35866](https://doi.org/10.3126/irjms.v5i1.35866)
- Subedi, K. D. (2016). Financial access of SMEs in Chitwan. *Local Development*, 57.
- United Nations Economic and Social Commission for Asia and the Pacific (2020). Micro, small and medium-sized enterprises' access to finance in Nepal. *MSME Financing Series No. 3 (Bangkok: United Nations)*. Retrieved from <https://www.unescap.org/resources/micro-small-andmedium-sized-enterprises-access-finance-nepal>.
- Widyastuti, M., Ferdinand, D. Y. Y., & Hermanto, Y. B. (2023). Strengthening formal credit access and performance through financial literacy and credit terms in

micro, small and medium businesses. *Journal of Risk and Financial Management*, 16(1), 52. <https://doi.org/10.3390/jrfm16010052>

Win, C. S. (2018). Credit accessibility and the effectiveness of loan on farm performance: A case study of Wakema Township, Ayeyarwady Region (Doctoral dissertation, Meral Portal). <https://core.ac.uk/outputs/339150859/>

World Bank (2013). *Doing business 2014: Understanding regulations for small and medium size enterprises*. Washington, DC: World Bank. Retrieved from <http://documents.worldbank.org/curated/en/115171468330898480/Doing-business-2014-understanding-regulations-for-small-and-medium-size-enterprises>

## APPENDIX

### Group I: Socio Economic Information

1. Gender
  - Male
  - Female
2. Age Group
  - 24-30
  - 30-40
  - 40-50
  - 50 and above
3. Family Size
  - Upto-3
  - 4-6
  - 6-9
  - 10 and Above
4. Marital Status of Owner
  - Unmarried
  - Married
  - Divorced
5. What is the highest degree or level of education you have completed?
  - SLC
  - +2
  - Bachelor's Degree
  - Masters and above

### Group II: Business Related Factors

6. Type of Production
  - Farm related
  - Non-Farm related
  - Others
7. Type of labor Used in Business.
  - Skilled
  - Unskilled
  - Semiskilled
8. Number of Labors used
  - Upto 10
  - 11-50
  - 51-100
  - 101 and Above
9. Source of Raw Material
  - Animal Based
  - Vegetable Based
  - Mineral Based
10. Technology used in Production
  - Capital Intensive
  - Labour Intensive
11. Method of Land used
  - Lease
  - Own land
12. Registration of Firm
  - Company
  - Cottage Industry
  - Others
13. Type of tax Payment to Government
  - Vat
  - Income tax
  - Corporate Tax
14. Share of Investment
  - Credit finance
  - Share Finance
  - Self finance

15. Type of Loan Used

- Long term (more than 1 year)
- Short term (less than 1 year)

16. Approximately how many years has your business has been in operation?

- Less than One Year
- One -Five Years
- Five -Ten Years
- More than Ten Years

17. Please indicate the total capital of your business?

- Below One Million
- One to Two Million
- More than Two Million

**Group III: Statement on Credit Accessibility and Performance of SMEs inside Kathmandu Valley**

Below are some of the possible factors of credit accessibility which can affect the performance of small and medium enterprises (SMEs) inside Kathmandu Valley

To what extend do you get agreed with the below factors.

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

Statements	1	2	3	4	5
<b>Collateral Security</b>					
Loan repayment capacity is now prioritized over collateral by financial institutions in our business.					
We apply for loans as a group from time to time since we can simply co-guarantee each other's repayment.					
Financial institutions assess loan repayment possibility rather than revenue generation capability, taking a risk-averse approach for small businesses.					
Financial institutions are hesitant to provide loans to us, and it is difficult for us to give acceptable proof of our earnings to them.					
Lack of collateral forced me to explore alternative funding sources for my company.					
<b>(B) Presence of Lending Institution</b>					
I have developed a personal connection with the banker, which has resulted in increased credit availability for my business.					
Increased availability of financial institutions has led to growth of small and medium-sized businesses.					

Financial institutions' efforts have enabled most entrepreneurs to integrate access to financial services successfully.					
Many financial institutions do not provide products that are specifically designed to meet our demands.					
Financial institutions in our region have facilitated saving mobilization, leading to increased enterprise investment.					
<b>(C) Literacy Level</b>					
My education has enhanced my ability to manage our business and increase productivity.					
Higher education level increases the likelihood of obtaining loans to expand or grow a business.					
Financial institutions bundle credit with other services to establish ties and improve customer service.					
Financial institutions offer training to promote awareness of their products, which benefits SME operations.					
Training sessions improved my company's management, resulting in increased sales and profits.					
<b>(D) Interest Rate Charged</b>					
The type of security provided or the nature of the company can determine the interest rate on loans.					
High interest rates charged by financial institutions discourage borrowing from them.					
I hesitate to borrow from financial institutions since they don't consider my ability to pay interest.					
Late loan payment led to asset seizure, hurting daily operations and deterring future borrowing.					
<b>(E) Credit Accessibility</b>					
SMEs with a business plan are more likely to be successful in their credit application than those that do not have a business plan.					
Small businesses have better credit risk knowledge than their lenders.					

Collateral availability increases the likelihood of a company receiving funding from a financial institution.					
Entrepreneurs who are willing to pay higher interest rates have easier access to credit facilities from financial institutions.					
<b>(E) SME's Performance</b>					
Credit accessibility leads to improved profitability of the business					
SMEs depend mostly on bank financing to boost the business and to carry out new investments and projects					
Access for credit by SMEs has been identified as a necessary condition for job creation and economic growth.					
External finance availability and accessibility favourably influence business development and success.					
Access to credit is crucial for SMEs as it helps with cash flow and resource allocation.					
Lack of financial flow, collateral, capital, info access, and management hinder SME growth.					