FINANCIAL PREFERENCES AND PRACTICES OF NEPALESE SMEs

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RECOMMENDATION

CERTIFICATION

DECLARATION OF AUTHENTICITY

I, hereby, declare that this GRP is my own original work and that it has fully and specially acknowledged wherever adopted from other sources. I also understand that if at any time it is shown that I have significantly misrepresented material presented to SOMTU, any credits awarded to me on the basis of that material may be revoked.

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Date:

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
ASA	Association for Social Advancement
BAAC	Bank for Agriculture and Agricultural Cooperatives
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
CGAP	Consultative Group to Assist Poor
DISMEMBERS	Distance between Members
DW	Durbin Waston
EEF	External Equity Fund
GO-NGO	Government Organization-Non Government Organization
IEF	Internal Equity Fund
JLL	Joint Liability Lending
LPDs	Lembaga Perkreditan Desa
LTF	Long Term Financing
MFC	Master of Finance and Control
NGOAB	Non-Government Organization Affairs Bureau
NRB	Nepal Rastra Bank
OFF	Other Form of Financing
RDRS	Rangpur Dinajpur Rural Service
SOMTU	School of Management, Tribhuvan University
STF	Short Term Financing

EXECUTIVE SUMMARY

The study aims to analyze the financial preferences and practices of Nepalese SMEs from a clients and institutional perspective. It is a primary data-based research including both questionnaire survey (with clients) and semi-structured interview (with clients and practitioners) of SMEs in Nepal. Though it is descriptive more in nature, it is triangulation. Survey based structured questionnaire was distributed to the 125 SMEs clients. For supporting the survey, semi-structured interview was also carried out among certain clients and certain SMEs practitioners. Collected data were described by frequency, mean, median, percentage, standard deviation, maximum and minimum value, and four hypotheses have been tested using logistic regression analysis. To find out effect on financial preferences and practices in Nepalese SMEs with major independent variables used in present study are SMEs characteristics, such as; core business, age of SMEs, size of SMEs and legal status and owners characteristics, such as; gender, age, education level and experience.

Survey analysis concluded that, despite a firm's legal status, IEF is the highest preferred financing source of Nepalese SMEs. As form grows older, the preference of IEF and OFF increases. As firm size increases, the preference for IEF, STF, and LTF also increases. Similarly, manufacturing SMEs are more likely to obtain financing from EFF. Likewise; women prefer a lower level of IEF, LTF and OFF. The financial preference has no effects ofage of client. However, respondents with more experience in the present business exhibit a stronger preference for IEF but a lesser preference for EEF. The legal status of the SMEs has impact on the financial preferences of SMEs in Nepal, while there is no effect of assets size on financial practices. However, establishment of the firms and core business were mostly practices by Nepalese SMEs in Nepal. The study further found that gender, age, education level and experience of the SMEs clients practice the financial instruments to run the SMEs in Nepalese market.

Therefore, results from both semi-structured interview and survey analysis concluded that financial preferences and practices is highly associated with variables like legal status, establishment, assets size, core business, gender, education and experience of the SMEs clients.. In addition to this, age has no significant impact on financial preference while, education has no impact on financial practices of SMEs in Nepal.

CHAPTER I
INTRODUCTION

1.1 Background of the study

Small and medium firms in general understanding are those firms that operate in certain limited space with limited budget and manpower that generate limited sales. In simple terms we can distinguish SMEs as those organizations that are not publicly traded and are mostly associated to raise funds through the funds generated from owner's equity and the debt market rather than pooling of funds from vast majority of public (Grunert & Norden, 2012). Definition of SME varies across different countries as there is no standard definition. SMEs are categorized on the basis of their qualitative features like legal entity, number of employees, organizational structure as well as their quantitative features like assets size, annual turnover, power utilization, and investment (Berger & Udell, 2006). SMEs can be understood differently in different spectrum, these spectrums can vary from geographical location and economic growth of any country. Small firms of developed country like Germany and England can be regarded as the large firm of developing countries like Nepal and Bhutan. In conclusion SMEs definition can vary from country to country, economic status, legal entity and other qualitative and quantitative factors.

Small and Medium enterprise categorization is country specific or based on various country, sector and economy in which they are segregated. For example, In USA for a manufacturing organization to be considered as SME it must have employee less than 500 whereas the limit of employees is about 100 or less in service. In Canada any organization having less than 100 employee for manufacturing is considered as small enterprise, 50 employee or less in service based organization is small and having less than 500 employee is considered as medium enterprise and any organization having more than those specified in medium enterprise is large organization(International Labour Organization, 2015).In Nepal SME is defined by industry law of the country, according to the Industry Act, 2016 on the basis of investment and fixed assets organization industry is divided in to 5 different segments, mainly micro enterprise, cottage industries, small industries, medium industries and large-scale industries. (Ministry of Industry (MoI), 2010). Small and Medium enterprise are the businesses that operate specific. As per the description these industries are classified on the following basis:

Table 1.1

Classification of Enterprise on the Basis of Capital and Fixed Assets

Industries	Characteristics
Micro Enterprise	➢ Maximum of nine employees including the investor ➢ Annual turnover of maximum amount of NRs. 5 million ➢ Maximum application of 20 KV energy ➢ Maximum fixed asset of NRs. 500,000
Cottage Enterprise	➢ Based on traditional skill and technology ➢ Maximum application of 10 KV energy ➢ Labor intensive, local resource, local technology and culture related industries
Small Enterprise	➢ In addition to micro and cottage industry, maximum fixed asset of 100 million Nepalese rupees
Medium Enterprise	➢ Fixed asset between Rs. 100 to 250 million
Large Enterprise	➢ Fixed asset of more than Rs. 250 million

Source: Industrial Enterprise Act. 2016

Small and medium sized enterprises in both developing and developed countries plays important roles in the process of industrialization and economic growth by significantly contributing to employment generation, income generation and catalyzing development in urban and rural areas (Mashenene, 2014). SMEs are one of the most significant means of financial inclusion to large population especially those who are limited off from the formal sector of financial availability. SMEs as a whole are the largest employers in many low-income countries. But the successful establishment operation and existence of these SMEs are dependent on access to finance through credit and equity. Success of such SME is threatened by lack of access to finance, insurance and risk management tools as savings (McCourtie, 2013). In their research Dobbs and Hamilton (2007) found that SMEs inability in financing their operations may limit their expansion opportunity and also limit their risk capital and innovative practice.

Small and Medium Enterprises (SMEs) contribution to national economy is both qualitatively and quantitatively important for any country to develop. SMEs in a qualitative sense enhance in the development of an economy through generating employment base, provide better facilities to consumer of nation through market competition, being as a stimulus for innovation, business opportunities and wide range of economic wealth distribution (Becchetti & Trovato, 2002). Quantitatively SMEs provide financial output to nation; they are one of the major sources to bring foreign currency in to the nation. Around 99.8% of firms registered in European countries are registered under small and medium enterprise. These organization accounts to 66.8% of total employment in the European Union (Grilli & Murtinu, 2014). In Nepal, small and medium enterprises (SMEs) employ around 1.75 million people and also account for 22 per cent of the nation’s gross domestic product (The Himalayan Times, 2018). SMEs are also the foundation of future generation large companies as growth of small and medium companies leads them to be established as large organizations. Small and medium enterprise also indirectly helps or support in the national economy. Just like large and big companies hundreds and thousands of small and medium enterprises provides goods and services to millions of consumers and business houses throughout the nation.

Financial accessibility is crucial for the development of any business and SMEs are no different. Capital is used for growth, expansion and installation of new technology for the betterment of goods and service provided. Access to finance also smoothen the operation and fluctuation of incomes that arises due to gap in time from production to sales. Insufficient liquidity is a frequently cited cause of small business failure (Coleman, 2000). SME doesn’t have privilege of large corporation of capital market to extract funds to finance their investments. According to Subedi, (2017) smaller firms find it more difficult to get access to finance specially debt financing and when offered are at higher cost than to larger firms. Such practices have discouraged SMEs to vow for external financing. Entrepreneurs who operate such small and medium firms have limited options to choose from to get possible financial support. Availability of helping hands to those SMEs and the choice through which entrepreneurs' desire funds can be different to each other which again hinder the growth of such SMEs as they are highly controlled and operated by their owner. Difference between availability and choice of preference of funds leads to owners/managers dissatisfaction and hinder the operation as well as growth of SMEs. Although Small and Medium enterprise contributes to the creation of added value, new jobs and have a significant role in the economic and social development of a country they face numerous challenges; access to finance is the biggest obstacle that limit the growth of such SMEs. Not only access to finance but the preferable access to financial options is also one of the major challenges faced by SMEs in Nepal. The access to finance is crucial for efficient allocation of financial resources and entrepreneurial development makers.

In the concentration of various disadvantages that SMEs faces with respect to large organization, it also has an advantage, use of informal source of finance which is significantly different from conventional financing practice that is equity and debt financing (Osei-Assibey, Bokpin, & Twerefou, 2012). Since, SMEs have significant impact on national economy through job creation, import-export activities, financial market development, having limitations on access to finance restricts not only the growth of SME but also of entire nation's economic output. Lack of development caused by financial inaccessibility leads to restrictions on social and economic opportunities along with restrained growth of various other enterprises as well as there is a creation of costlier payments in addition to vulnerability and threats (McCourtie, 2013). SMEs require investments for their growth and development. Investments can be on various facilities like technological advancement, assets acquisition, investments in various optimal opportunities, capacity expansion which all requires long term financing. So, SMEs financing preferences can be subjected to their goals being long term or short term.

SMEs contribution to national economic output is significantly vast through different mechanism form employment to export, it is necessary to understand the very basic requirement for development of such SMEs. Choices of source of fund used by SMEs represent its capital structure. Majority of studies related to small and medium enterprise finance are undertaken in USA and UK which revealed that major cause of decline in performance of SMEs is financial leverage. Empirical studies have shown external financing is expensive therefore are avoided by SMEs similarly profitability was negatively related to external financing, tangible assets were significant with long term debt but not with total debt to equity ratio. Existing studies on SMEs financing has largely failed to study the level of financial preference for one type of financing source over another; what are the source SMEs prefers and whether they use preferred financing option or not. Do SMEs prefer one type of financing source but not use it; whether they use one type of financing source but do not prefer it? And whether they neither prefer nor use a particular type of financing source. Choice and use of financing alternatives are widely dependent on both firm specific and owners' specific factors (Psillaki & Daskalakis, 2009). This study attempts to contribute to the existing literature focusing on the financial preference and practice of small and medium business enterprises. Previous studies have drawn conclusion on the issue raised by this topic but there have been very limited studies regarding small and medium enterprise in Nepal let along their financing preferences.

1.2 Statement of Problem

The role of finance has been viewed as a crucial element for the development of SMEs. Lack of sufficient financing option and access to credit are often cited as major anchors for the development of SMEs in many parts of the world. Availability of finance can be associated with the development of SMEs especially through the medium which entrepreneurs' desire. Preferred medium of finance can help SMEs use funds on long term basis and generate return without the burden of immediate payoff. Finance is regarded as the oil for growth, the life blood of the firm. Financial system is the vessel that carries life blood of the enterprise through economic system so the availability of proper vessel helps SMEs to reach desired horizons (Sowah, 2003). According to Gill and Biger (2012) sufficient finance has a significant positive effect on the survival and growth of small business and without which the small business would find it difficult to succeed.

SMEs has limited financing option in comparison to large enterprises so preferred choice among entrepreneurs/managers of SMEs for financing can lead to unprecedented growth of those firms. Preferred choice and actual practice to obtain finance may not be always some due to various factors. Previous studies have revealed that SMEs preferred internal financing option followed by long term loan through formal channel whereas external equity financing is regarded as the last option. This study aims at filling this gap with particular emphasis on Nepal SMEs, by looking the preferences of financing option and actual practice of obtaining finance for establishment and capital-intensive projects that SMEs carryout. Accessibility to finance is a major factor affecting the growth and success of SMEs (Hall, Hutchinson, & Michaelas, 2004). According to Irwin and Scott (2010) the owner's gender doesn't have significant impact on choices of financing option. Whereas (Watson& Wilson, 2002) found that female owners are found to be less likely to use debt capital compared to male owners. In a study Daskalakis (2010) found that size of the firm doesn't affect capital structure determination of the SMEs however Baker, Kumar, and Rao (2017) suggested firm size and time affects the financing preference and practice.

The purpose of this study is to identify the financing preferences and practices of a sample of Nepalese SMEs, to determine how owner/manager characteristics affect preferences and practices, and to explain why Nepalese SMEs select certain types of funding since SMEs are not required to publish financial statements, survey research is the primary source of obtaining data. On a theoretical level, it is difficult to contemplate or identify underlying framework for SMEs financing practice as they do not require the compulsion of presenting financing documents to general public and even more difficult is to acquire information about their financing preference. Lack of Nepalese literature regarding finances of small and medium enterprises has led to a gap in understanding the current scenario, need of appropriate legal services and policy to SMEs of the country. This study tries to minimize that gap and provide empirical findings of financial preference and practice of Nepalese SMEs.

The study deals with followings major research questions.

- Does the financing preferences and practices have impact on SMEs in Nepal?
- Does the SMEs characteristic have the effect on financing preferences of SMEs in Nepal?
- Does the owner's characteristic have the significant impact on financing preferences of SMEs in Nepal?

- What is the relationship between the SMEs characteristics and their financial practices in Nepal?
- What is the relationship between the owner's characteristics and financial practices of SMEs in Nepal?
- Dose the financing preferences has the impact on financial practices of SMEs in Nepal?

1.3 Objectives of the study

The major purpose of the study is to investigate the financing preference by the SMEs of Nepal.

Other specific objectives are:

- To analyze the financing preferences and practices of SMEs in Nepal.
- To evaluate the effect of SMEs characteristics on financing preference of SMEs in Nepal.
- To examine the impact of owner's characteristics on their financing preferences of SMEs in Nepal.
- To find out the relationship between SMEs characteristics and their financing practices in Nepal.
- To find out the relationship between the owner's characteristics and financing practices in Nepal.
- To assess the impact of financing preferences on financing practices of SMEs in Nepal.

1.4 Research Hypothesis

Hypothesis I

Abor (2008) finds that legal status is an important factor in deciding on the type of funds that firms use. Van Auken and Neeley (1996) also find that ownership structure and firm type affect financing. Those research evidence confirms that respondent preferences vary across sole proprietorships, partnerships, and private limited firms. A plausible explanation for the finding is that lending institutions are skeptical of younger firms because of information opacity and less creditworthiness (Berger & Udell, 1998). Therefore, firms in the incubation stage generally prefer personal savings and owner funds. Manufacturing SMEs with tangible assets are more likely to obtain financing from external sources than service firms with fewer tangible assets Kumar and Rao (2016) who find differing financing patterns between Indian SMEs in the manufacturing and service sectors.

H_1a: There is a significant difference in financing preferences among various legal statuses.

H_1b: There is a significant difference in financing preferences among various establishment of the firm.

H_1c: There is a significant difference in financing preferences among various assets size.

H_1d: There is a significant difference in financing preferences among various core businesses.

Hypothesis: II

Male and female business owners have different views about business financing. Verheul and Thurik (2001) classify the impact of gender on SMEs' financing into direct and indirect effects. A direct effect involves how male and female entrepreneurs finance their firms whereas an indirect effect refers to differences in business type, management, and experience. According to Watson, Newby, and Mahuka (2009), females are more risk averse and hesitant to access external sources of funds. Harrison and Mason (2007) find differences in male and female entrepreneurs based on discrimination, abilities and preferences, and competition. According to Briozzo and Vigier (2009), obtaining external funds from formal institutions becomes less difficult with increasing age. Unlike Coleman (2007) and Borgia and Newman (2012), our results do not show a positive relation between the educational level of SME owners/managers and leverage.

H_2a: There is a significant difference in financing preferences among various genders.

H_2b: There is a significant difference in financing preferences among various age group.

H_2c: There is a significant difference in financing preferences among various educations level.

H_2d: There is a significant difference in financing preferences among various experience level.

Hypothesis III

Generally, sole proprietorship and partnership are not incorporated except in cases where partnersh.ips are organized as limited liability partnership (Cassar, 2004). Several studies from Berger and Udell (2006) and Brent and Addo (2012)have established a positive relationship between firm size, its preference and accessibility to financing. With increase in age and business firm assets also increases which can be collateralized for external debt fund (Abor & Biekpe, 2009). A study by Storey and Wynarczyk (1996) reported that SMEs choice and use of finance might be dominated by the sector they are involved in.

H_3a: There is a significant difference in financing Practices among various legal statuses.

H_3b: There is a significant difference in financing Practices among various establishment of the firm.

H_3c: There is a significant difference in financing Practices among various assets size.

H_3d: There is a significant difference in financing Practices among various core businesses.

Hypothesis: IV

Female entrepreneurs are over-represented in the retail and service sectors, particularly in personal services. Male entrepreneurs are over-represented in manufacturing, wholesale trade and financial services (Robb & Wolken, 2002). Previous studies have drawn conclusion that older owner are less likely to focus on gaining wealth which limits their additional financing input in the firm (Bell & Vos, 2009). Human capital is defined as the combination of knowledge and skills gained through experience and formal education. Education helps an individual take his/her financial decision (Hatch & Dyer, 2004). Experience is measure by the numbers of years in an industry or the number of projects worked under both directly and indirectly helps owner of SMEs of prefer the financing source and practice accordingly (Cole, 1998).

H_2a: There is a significant difference in financing Practices among various genders.

H_2b: There is a significant difference in financing Practices among various ages level.

H_2c: There is a significant difference in financing Practices among various education level.

H_2d: There is a significant difference in financing Practices among various experience level.

1.5 Scope and significance of the study

SMEs act as an engine of growth for the economy. It's well recognized and widely accepted that SMEs generate employment and income which brings the development of in the economies, this advantage cannot be underestimated all over the world. Chittenden, and Poutziouris (1999) located poor or imprudent monetary administration as a noteworthy reason for business trouble. Thus, the researchers communicated that there is a distinct need for more data on the strategies utilized by SMEs to aggregate and distribute their assets. A study by Wahab and Buyong (2008) on financing practices and challenges among technology-based SMEs in Malaysia revealed that 84.3% of respondents had experienced difficulties in obtaining external financing. According to these respondents, short loan duration, insufficient amount of finance and difficulty in providing collateral are among difficulties faced by Malaysian SMEs. In comparison to large firms, finances related to administration and operation in SMEs differs to great extent. It requires various arrangements of finance related administration rehearses as their temperament, size and sort of business condition to which they get uncovered are significantly not the same as the large firms. The purpose of this study is to identify the financing preferences and practices of Nepalese SMEs to fund their initiation as well as capital intensive projects. This study is an adaption and combination of several past researches in international scenario but conducted in Nepalese context. There are limited literatures available regarding SMEs especially of their financial preference and practice. Hence, this study will contribute to literature in context of Nepal. The findings will provide insight to policy makers about the need of SMEs that need to be addressed to develop SMEs and economy as a whole. This study will also give insight why there is difference between financial preferences owners' wishes and actual practice of source of finance they have to undertake. Also, the study will help the researcher to improve academic competence.

1.6 Limitations of the study

The study is based on the several assumptions as follows:

- There are many tools of determinants of financial preferences and practices which are used for the study to find out financial preferences and practices in Nepal, but only few are considered for the study.
- The sample size and time period taken for the study is limited so the study could not be generalized.
- The model used in this study is limited on regression. Simple statistical tools are used in order to avoid complexity.
- The study is conducted within the limited geographical area. Therefore, the result obtained from study cannot be generalized.
- Lack of relevant literature particularly in Nepalese perspective is another limitation of this research.

1.7 Outline and structure of the study

The study comprises of three main sections: preliminary sections, body of the report and supplementary section. The preliminary section consists of title page, certificate declaration of authenticity, acknowledgement, and table of contents, list of figures, abbreviations used and executive summary. The body of the report is further divided into five chapters: introduction, related literature and theoretical framework, research methodology, analysis and results and discussion, conclusion and implications. The final section of the report comprises of bibliography, appendix. The introduction chapter under body of study consists of background of the study, problem statement, research questions, research objectives, hypotheses, limitation and structure of study.

The literature review chapter deals with findings of the previous researches related for the current study. Different research works related firm's characteristics along with owners/managers characteristics and its determinants are discussed in order to prepare a base for the study. Further, the chapter consists of theoretical framework defining each variables based on previous literatures.

The third chapter discusses research methodology used for the study. It comprises of research design, population and sample, sources of the data of the research, data analysis and different tools used.

The fourth chapter has included analysis and result of the study. It comprises of various tables, figures intended to answer the objective and research question of the research. The last chapter deals with discussion, conclusion and implication of the study. Under the discussion part, comparisons of previous findings and present study are conducted. At last conclusion and implication were drawn out.

Finally, the supplementary section comprises of references, appendix that has been included and incorporated in the study.

CHAPTER II

RELATED LITERATURE AND THEORETICAL FRAMEWORK

The theoretical review, empirical evidence and literature related to relationship of independent variables and dependent variables are described in this chapter. Discussion begins with review of literature related to financing preference of SMEs. In addition, empirical study done financing practice of SMEs and variables that affect it are also discussed. In addition, variable wise literature is reviewed to understand the relationship between dependent and independent variables. The chapter concludes with a development of conceptual framework and discussion of variables.

2.1 Theoretical Review

According to World Bank enterprise survey it found that smaller firms are less likely to have access to capital which limits their ability to grow and become more productive. Due to lack of financing opportunities small firms have limited their source to gain any form of capital to only from informal sources which often has a negative association with growth and firm performance. It is even worse in least developed countries where 41 percent of SMEs reporting access to finance as a major constraint to their growth and development, by comparison to 30 percent in middle-income countries and only 15 percent in high-income countries (McCourtie, 2013). It suggests that SMEs are overlooked by more in least developed and middle-income countries in comparison to developed countries having better national income.

Capital structure which is defined as the mix of equity and debt proportion in the capital of any organization has been set up into different theories over the history. Most significantly Pecking order theory, Life cycle theory and Agency theory are most relevant in the modern financial world. Pecking order theory developed by Myers and Majluf (1984) states that firms first prioritize use of retained earnings to finance its activities with debt financing as second option when retained earnings is not enough and only if they need more funds, they choose to issue equity. With different theory conclusion varying with each other and also justifying each other pecking order theory draws conclusion that with the availability of financing source for any organization: retained earnings, debt and equity; retained earnings have no adverse selection problem. Whereas equity has serious problem of adverse selection problem and debt finance has a minor possibility of adverse selection. One the basis of that for outsider investor equity is riskier than debt where although both the option has issue of adverse selection risk premium, equity financing involves high range of riskiness. This is the reason an outside investor requires or demand higher return when investing through equity financing instead of debt financing. When the question arises of insider investor who already has investment in the firm retention is far more approachable option than debt and debt financing is more approachable than additional equity, which signifies the conclusion drawn from the Pecking order theory of using retained earnings as foremost option of financing followed by debt financing when retained earnings are not enough and only there comes the option of equity financing. On the basis of this reason of adverse selection SMEs prefer internal financing rather than external financing options. When internal funds are not enough then SMEs turns to gain finance through use of debt option whereas external equity is rarely issued. With reference to pecking order theory (Franka & Goyalb, 2003) suggested SMEs are no different than any other firms and they do follow it.

Along with Pecking order theory, Agency theory also considers the use of different financing option for capital structure which suggests that there exists a conflict between shareholders and debt holders of organization on the choice of decision making considering their risk involved in that decision. The conflict arises due to the issue of incentives equity holders receives to invest in sub-optimal risky projects which can give them massive return whereas debt holders are rarely concerned about the return any equity or return on investment can earn rather they are concern about the return they expect as interest which might be challenged if firm goes on investing in risky projects. Agency conflict between shareholders and managers are quite rare in SMEs as most of small and medium firms are managed by their shareholders (Sogorb-Mira, 2005). Life cycle approach suggests any firm’s preference and practice depends on the life stage of development of the firm. SMEs in their inception period are solely dependent on owner’s initial equity as their inability of showing growth and requirement of collateral restricts debt financing option. With the passes of time along with moderate growth there opens opportunity for short term debt and trade credit for SMEs (Berger & Udell, 1998). Life cycle model assumes the firm in its early stage of development relies significantly on internal finance. As the firm develops, it is able to obtain more external finance due to less information asymmetries. In the later stages of development firms use less debt since the portion of retained earnings increases to meet financial requirements. SMEs carry high information cost more often when they have relatively short historical performance. Life cycle of SMEs cannot be maintained in one model and are not always same with the change of time and growth (Gregory, Rutherford, Gardiner, & Oswald, 2005).

Study carried out by (Ang, 1991) concluded that small SMEs differ with large SMEs on financing practices on the basis of seven distinctive factors. First difference being the source of funds where for a new SMEs primary sources were owner's own savings and personal borrowings different from borrowings of firm, friends and family, other small business, local institutions. Second difference between large SMEs and small SMEs is the value of limited liability where local institutions and banks often require collateral and guarantees which is difficult for emerging SMEs. Family and friends also would expect payback before the bankruptcy of the firm. Third difference is the strategic bargaining and gaming between owners and their source of financing in small business. SMEs which are small in operations find it difficult to access finance which limited their preference to not be as their practice while accessing finance as it involves lot of negotiations and renegotiations to acquire desired finance options. Forth difference is integrated ownership level where the liability and taxes vary on the basis of partnership, proprietorship or being Limited Liability Company. Fifth difference is related to use of debt capital where small SMEs use debt for owners more often than organization which is limited in larger organizations. Sixth difference is concerned with the level of risk or risk tolerance. Seventh difference is related to life cycle of small SMEs transformation into large SMEs.

After separating samples into two different groups based on their employment and financial adequacy to carry out correlation coefficient between financial structure and the main demographic variables (Daskalakis, 2010) found that "Firms seem to rely heavily on their own funds; however, they would not raise new equity from sources from the family. Thus, there is reluctance in using new outside equity (venture capital, business angels and so on)." Preference of internal financing in general and retention financing in particular is drawn from the research. The researcher also suggested that firms have limited access to debt but they would use more debt, specifically long-term debt, than they currently do. There is a gap with firms' choice and availability of funds. The research also reported there lacks of knowledge regarding government grant and funds for small and medium firms. According to Baker, Kumar, and Rao (2017) using of funds generated from the business was the major preference as compare to other options for owners of SMEs while long term debt financing was also a major viable option coming second to retention financing. Internal source of equity financing provides the option of not sharing the portion of earning with other members as well as provides long term financing with minimum or no cash outflow in the form of interest like debt financing. Also, self-funding by owner and retention financing helps to enhance firm's credibility as it indicates the potential of growth opportunities of the business. According to Daskalakis (2010) financing preference of SMEs is according to pecking order theory developed by Myers and Majluf in 1984 which suggested that companies tend to use finance that limits their cost of finance. Small and Medium firms tend to rely on retention as primary source, use lower levels of debt and avoid external equity financing as it increases the cost of equity of the organization. Because ownership concentration is typically high in SMEs compared to large firms, this fact leads SMEs to seek more risk-averse financing sources and avoid debt financing in favor in internal financing (Lappalainen & Niskanen, 2012).

In case of internal funds are not enough, these firms will prefer debt to new equity through external source mainly as debt means lower level of intrusion also most importantly, external financing increases the risk of losing control and decision making power. According to Schiantarelli, and Weiss (1996) shorter-term loans are not conducive to greater productivity while long-term loans may lead to improvements in productivity of small and medium firms. In contrast Githaiga and Kabiru (2015) through empirical study found that both long term debt and short-term debt loans reduces financial performance of the SMEs based on correlation and regression analysis of Profit Margin Ratio, Liquidity Ratio, ROA, Long term Debt Ratio and Short-term Debt Ratio. Empirical study of Indian SMEs suggested that although they prefer internal financing, they also prefer formal short- and long-term funds but don't use formal source for debt financing rather they rely on funds from family, friends, and relatives as well as funds from money lenders. Thus, Indian SMEs use informal financing sources more often than formal ones (Baker, Kumar, & Rao, 2017). In the study of SMEs of Malaysia Adonia, Ahmad, and Zabri (2015) discovered SMEs entrepreneurs are more likely to choose internal financing (in the form of their own capital) and avoid the burden of debt financing. SMEs don't want to be bound by the debts and are afraid if they are unable to pay their loan back. Bureaucracy in external funding applications is also found to be the major factor that cause micro-enterprise to choose self-financing using their own savings. Not only by the SMEs financial institutions also avoids providing funds to SMEs as they have poor record keeping system, lack of credit history and poor cash flow. Lack of third party guarantees and lack of collateral are also the reason banks avoid providing debts to SMEs (Yoshino & Hesary, 2016).

2.2 SMEs Characteristics on financing preference and practice

In this study, selecting characteristics of the firm were executed through reviews of past studies. Age of the SMEs according to life-cycle theory states that with the growth of firm SMEs increases its capacity to take debt which indicates positive relation of age and debt finance. Newly establish SMEs or those SMEs who are operating for very short period has low credit worthiness, low capacity to bear additional cost for capital, lacks collateral to acquire debt but with increase of its age there increases sales and profit of the organization, their capacity to acquire debt to finance their investment. Also rookie SMEs tend to accept more risky investment which increases the risk of credit default with banks. So any loss of organizational existence would be huge burden for banks (Myers & Majluf, 1984). The following sub-sections discuss factors related to firms' characteristics.

2.2.1 Legal status and financing preference & practice

SMEs are registered under the criterion of various legal entities as per the rule of Nepal government. As SMEs are different from traditional company/big organization they are registered under sole proprietorship, partnership and private limited. SMEs choice of legal form defines or shapes their preferences and practice of funds. Legal statuses have an important impact on the choices of finance or capital structure decision of any firm. Legal status of firm or the ownership structure of firm is categorized into sole proprietorship, private limited and partnership companies in Nepal. Proprietorship is normally treated as family owned business where as private limited and partnerships are considered as beyond family companies. Family owned businesses are more restricted towards use of external equity funds as this source will limit the ownership claim. Instead family owned businesses are more open to use of debt finance and use of debt from informal sources like family, friends and relatives. Generally, sole proprietorship and partnership are not incorporated except in cases where partnerships are organized as limited liability partnership (i.e. audit firms). The choice of legal form (i.e. incorporation) is dependent on the trade-off between benefits of credibility and taxation variation and the cost of statutory audits and public information (Cassar, 2004). Relationship of SME capital structures is positive with SME legal status. SMEs legal status of being sole proprietorship, partnership or private limited is one of the major factors of defining capital structure decision of the firm.

In emerging markets with strong financial family background and ties the issue of control of the firm is highly regarded. This issue of control determines the choice of finance even when the borrowing cost is more in relation to the source where control of the firm might slightly loosen up. More external equity brings risk of control with loss of family or owner control also it brings more monitoring cost as increase in the shareholder. Preference of the funds to accumulate in the capital structure of the firm impacts the long-term survival as well as growth opportunities of the firm (Romano, Tanewski, & Smyrnios, 2001).

2.2.2 Size and financing preference & practice

Several studies from Berger and Udell (2006) and Brent and Addo (2012)have established a positive relationship between firm size, its preference and accessibility to financing. Size plays an important role in financial decision making of any organization. Size in the paper is defined as the value of fixed assets the SMEs are holding. Larger the organization more avenues do it receives for financial accessibility. Size has significant implication on the decision of firm as according to size of the firm financial decisions has risks and cost implications. In Nepal the size of any firm is dissected into three main branches. Any organization having assets value less than 25 crore to 10 crore is termed as medium enterprise. Similarly, any organization having its assets value worth 10 crore or less is termed as small enterprise whereas any organization having its assets more than 25 crore is termed as large organization.

Availability of the various financing sources of fund is the major factor to constitute financing preference and size of firm influences the preference among these available firms. Size determines the choices among various options of firms financing preferences as SMEs in Nepalese market are out of scope of issuing equity security due to the scale requirement. Adoption of fixed cost causes transaction cost of small enterprises to be relatively high which also limits the outside option of financing practice (Cassar, 2004). In the previous empirical study where size of the firm was determined by the total assets or by number of employees employed Abor and Biekpe (2009) found that there is a positive relation between firm size and financing leverage they prefer whereas Chittenden et al. (1999) found there is a negative relation. Empirical study conducted by Gregory et al. (2005)concluded that large firm's preference is more aligned towards public equity funds or long-term debt funding over internal funding solely because of the ease in accessibility whereas SMEs preference and practice is more aligned towards to use of internally generated fund. Smaller SMEs may find it relatively to resolve information asymmetries with lenders, and thus might present lower debt ratio. Alternatively, large SMEs might be able to take advantage of economies of scale in issuing long-term debt, and even have bargaining power over creditors. This indicates the cost of issuing debt or equity is negatively related to firm size. (Castanias, 1983). In contrast to this finding Titman and Wessels (1988) suggested that larger SMEs are often diversified and have more stable cash flow than smaller SMEs, which suggests there is less chance of bankruptcy in larger SMEs than smaller ones. This indicated the choice of finance is relatively positive with size of the firm. In their research Myers and Majluf (1984) also suggested that size and leverage a firm can hold shows positive relation in support of asymmetric information. Lenders who provide external funds be equity or debts are also reluctant to provide funds to firms that are more vulnerable to bankruptcy. Smaller SMEs are restricted to use their internal funds whereas larger SMEs have more option form external debt and equity financing.

Empirical study carried out by Cassar (2004) with a sample size of 292 Australian SMEs concluded that small firms rely more on internal funding and larger SMEs rely more on external funds including both equity or debt finance. Similar to this study a study conducted by Storey (1994) also stated that during firms' initial phase SMEs rely on their owner's funds rather than external funds like debt and equity. Firm size effect on finance of the firm was measured by Petersen and Rajan (1994) which stated with firm's growth, they develop their ability to enlarge relation with different banks and institutions form where they can borrow and provided evidence that larger firms have multiple relations with banks and credit institutions and were twice as large as firms who have relation with only one institution. Unlike large firms whose preference and practice of finance are dependent to their tax, income expectation and market orientation SMEs are different. SMEs are not large institutions and are miniature, management, market; targeted customers all are different to large firms. SMEs are specific in nature in form of their business.

2.2.3 Age and financing preference & practice

As the life of SMEs goes on its preference and practice of operation, management and approach also changes so does its financing preference and practice. With the increase in age of the firm capacity of firm to make more profit, retain profit and absorb more external funds also increases. This is possible due to the lack of collateral in its young age. With increase in age and business firm assets also increases which can be collateralized for external debt fund (Abor & Biekpe, 2009). With time firms are able to increase their creditworthiness signals. Age is measured by numbers of years firm is in operation. Various empirical studies have associated that firm age and its financing leverage is positively associated. As young firms have very less bargaining power due to their failure in information opacity which is the consequences of not having established track record which leads to reluctance of banks and financial institutions to lend (Berger & Udell, 1998).There is a positive effect of firm age on the ability to access external finance (Quartey, 2001). Another study by Allende, and Sulla (2016) that younger firm (established under four years), are more dependent on internal financing. In addition, firms that are in operation for longer period are better equipped with the necessities to attract creditors in comparison to recently established SMEs.

Younger firms have less accessibility to bank loans in comparison to established firms (Franka & Goyalb, 2003). Younger firms are associated with high information opacity and loan repayment uncertainty rendering more risk. These factors make it more difficult for younger firm to access finance in debt market which limits them to internal funding. It's been recorded that start-up find it more difficult to access external finding in the market due to lack of inadequate assets and uncertainty risk involved in the business (Caneghem & Campenhout, 2012). Young SMEs relies on closest source of finance which can be achieved without any tedious procedure like family & friends borrowing and money lender (Petersen & Rajan, 1994). Young SMEs who seek external funds in leads to obtain certification of their quality and in hope to acquire credibility submit themselves to banks and financial institutions for monitoring. But with maturity, monitoring becomes as secondary requirement as track record of the SMEs expresses quality and reliability; with it debt level declines (Diamond, 1989). Analyzing prior findings, the new study conducted by Osei-Assibey (2012) also suggested that new firms tend to prefer and use less external financing in their initial stages, mainly due to difficult in borrowing conditions whereas in their later stages these firms tend to acquire a better financial position shifts to external funding.

2.2.4 Core Business and financing preference & practice

SMEs have the maximum representation of overall population in each of the main industry sectors. SMEs mostly account in construction, services, retail and wholesale trade sectors. Business that a SME is involved in directs firm preference and practice of financial options. A study by Storey and Wynarczyk (1996) reported that SMEs choice and use of finance might be dominated by the sector they are involved in. As the sector of any firm is influence by the market in which it is involved so growth and survival rate of the market industry influences the choices of finance for such SMEs. Value of assets and its structure varies across industries from manufacturing to service to trading the industry with highest value of assets were found to the one with highest level of debt finance in their capital structure. Likewise, it seemed financial institutions looked less favorably on sectors that has high default risk. Hence, empirical studies suggest that sectorial classification as a proxy for business risk while establishing its relationship with financial preference and practice (Johnsen & McMahon, 2005).

2.3 Owner/Manager Characteristics on financing preference and practice

Situational factors affect both financing preferences and practices. For SMEs, these factors often depend on the owner's perspective because the owner is a central factor influencing a firm's financing decisions. Thus, identifying the differences between financing preferences and practices requires studying owner characteristics. Management of any firm is the main resource that deals with the overall operations of a firm. Generally, SMEs are operated through owner themselves. So, owner is responsible for all the business operations that SMEs goes through. Owner is the one responsible for overall path of growth including capital structure which is obtained from financing practice that comes from preference (Hamilton & Fox, 1998). There exists very thin line between SME as an organization and the owner of organization due to structure of organization has led to minimization of agency problem and blending of owner's personal goals with organizational goals (Neeley & Auken, 2009). Owner's characteristics like age, gender, managerial experience and education were the factors that directly influence the financing preference and practice of SMEs (Coleman, 2000). Several studies from et al. (2012), Cassar (2004), Baker et al. (2017) have supported from their respective studies that financial preference and practice of SMEs are highly influenced by the socio-economic characteristics of owner along with ownership structure and assets of the company. Research form different scholars has suggested in one way or another that characteristics of owner influence financial decision of SMEs. Owner/manager personal characteristics like education, gender, and ethnicity influence the financing decision of the firm (Irwin & Scott, 2010). Similarly, a research by Bhaird and Lucey (2010) indicated owner's age, race religion, gender, education and experience along with preference, goals and motivations direct the financial practice and preference of SME. Managerial strategy, managerial psychology, managerial human capital and network ties are the four main categories of determinants that are related to owner-managers financial preference and practice in their firm (Newman, 2010). Owners manage, decide and pass final decision for SMEs their decisions are influence by various factors associated with those owners. On the basis of previous empirical studies and findings the following sub-sections discuss reports of earlier studies on the owner-manager's characteristics age of the owner, gender, education level, managerial experience is selected for this particular study of owner-managers' characteristics, for different sources of financing preference and practice.

2.3.1 Gender and financing preference & practice

Gender is one of the characteristics that difference owner's financial decision whilst managing a SME. In comparison to male SME owner female owners are reluctant about external funding and found that strong desire not to be obligated to other was the reason. Similarly, suggested that women owner rely more on their personal saving than taking loans from other to finance their business. This is because they do not avoid taking debt, unless it is necessary to put collateral or personal guarantees. Female entrepreneurs are over-represented in the retail and service sectors, particularly in personal services. Male entrepreneurs are over-represented in manufacturing, wholesale trade and financial services (Robb & Wolken, 2002). In their study found that female owned SMEs were significantly smaller than male owned in different aspect like employment, sales and asserts. Many studies suggest smaller SMEs find it more difficult to access financing option in comparison to larger SMEs most notably banks loans and other debt financing options which limits financing preference of owners and in-turn limits financing practice. There is conflicting evidence on whether male and female owners face different gender specific problems in assessing business overdrafts and loans (Daskalakis, 2010). In a study Muravyev et al. (2009) reported that even in developed economies like the United States of America (U.S) and Europe, there was gender-based disparity in small business lending. The probability of female owners receiving debt was lower than that of the male counterparts. Smaller SMEs has tendency to face greater difficult while securing external finance and even have to pay high interest than large SMEs. Female owned SMEs are more tend to work on service industry rather than manufacturing in comparisons to men owned SMEs (Brau & Woller, 2004).

Several studies from Baker et al. (2017), Coleman (2000) have drawn conclusion that SMEs dominated by male ownership sought for more loan amounts to invest in the business than female owner which suggest financial preference of owners on the basis of gender. In addition, Muravyevet al. (2009) In their study has revealed that female owners who were successful in getting external finance as their preference were charged higher interest rate by lenders compared to male owners. Furthermore, study also revealed women seek not to use debt as financing option as they are more risk averter. The literature therefore indicates the presence of gender disparity in SMEs' ability to access bank financing, where female owners are more credit constrained than male owners.

2.3.2 Age and financing preference & practice

One of major aspect of owner characteristics that determine the financing preference and practice of SMEs is the owner's age. Previous studies have drawn conclusion that older owners are less likely to focus on gaining wealth which limits their additional financing input in the firm (Bell & Vos, 2009). Instead, older owner focus is more on control and independence. Just like education owner's age is considered as one of the factors for debt accessibility, as it created higher value for the firm. Many lenders in absence of quantitative information rely on owner's age to evaluate financial condition to evaluate their repayment capacity (Neeley & Auken, 2009). In a study conducted in 1989 by the researcher established that older owners are more focused on avoiding risk than younger in their SMEs so they limit use of external fund and choose to use retained earnings. Many researchers like concluded that there is a negative relation with external financing preference and owner's age. The research also concluded that older owners of SMEs are more experienced, educated, risk averse and wealthier than younger owners. They prefer more of the funds to be used generated by firm themselves or use their own money to meet financial needs. In contrast, few other researchers found that owner's age is positively correlated with external financial use. Conflicting both the findings Sara and Peter (2006) found that there is no significant relationship between financial preference and age of the owner. Age is regarded with maturity and work experience which adds value to firm financial credibility especially for the lender of external equity and debt. In a research conducted by Sara and Peter (2000) the conclusion stated those young entrepreneurs lack managerial experiences which have a negative effect on firm financial decision which affects firm's potential to grow, which in-turn affects decision of lenders. The managerial competency of SME owners was measured in terms of age, which determined the firm's ability to access debt financing from the bank (Gebru, 2009). Therefore, prior studies have provided empirical evidence that the owner's age is directly proportional to loan accessibility from the banks.

2.3.3 Education and financing preference & practice

Just like age, gender, ethnicity of the owner of SME his/her education achievement is also regarded as the determining factor to choose funds available. Human capital is defined as the combination of knowledge and skills gained through experience and formal education. Education helps an individual take his/her financial decision (Hatch & Dyer, 2004). Empirical research conducted by Cassar (2004) suggested that educational attainment and managerial experience would increase SMEs creditworthiness for potential debt financing, which directly reduces adverse selection costs. Education improves managerial competency. Owners with high level of education have positive effect on performance of the firm. SMEs whose owners are highly educated reduce the reason for creditors to provide external finance which they prefer (Storey & Wynarczyk, 1996). Through the various studies from Altman, G., and Wilson (2010) and Watson and Wilson (2002) confirmed that higher education leads to owners' added value and financial credibility in the market. Higher the education qualifications better the knowledge and capability of owner to manage business and their finances. Owners with higher education qualification preference are more inclined towards external debt financing than owner with lower education background.

SMEs owner who lacks education and financial knowledge can limit the prospective financial decision through the choices of capital which might generate hostile situations, greater risk and concentrated return for the SMEs (Akhtar & Dr. Liu, 2018). Coleman (2000) Examination on years of education, experience and access to finance found that education of the owner is positively related to external loans. Similarly, another study by Irwin and Scott (2010) on some barriers that increase bank loan with SMEs concluded that education level of owner is not significant with financing preference. Use of Spearman's Correlation analysis to find the association between levels of education of owner of SMEs with preference for financing failed to find any association (Dabo, 2006).

2.3.4 Experience and financing preference & practice

Experience is measure by the numbers of years in an industry or the number of projects worked under both directly and indirectly helps owner of SMEs of prefer the financing source and practice accordingly (Cole, 1998). Owner's experience with SMEs can be one of the factors of gaining reputation. Reputed entrepreneur with long history are more likely to prefer and practice formal financing for their SMEs (Zhang, 2008). Owners are the backbone of SMEs as they are ultimate decider of all the undertakings. Owner having years of experience uses his/her years of gained knowledge for better financial decisions. Experience owners are more reliant on overall aspect of future orientation that a financial choice can bring. Experience represents better human capacity, better decision and selection of better financial source. Managers with greater level of business experience are found to be positive and take advantage of formal banking finance. Borgia and Newman (2012) in their research found that owner experiences are significantly and positively related to the level of firm leverage. Work experience is considered as positive for start-ups. Owner experience has positive correlation with the external finance specially debt financing as it is associated with reputation and lender find it more worthy to provide funds to reputed individual or firm (Aris, 2007). In contrast, where experience is founds to have positive correlation with cheap financial options but there has no sign of significance with use of debt (Buferna, 2005). Previous entrepreneurial experience research Zhang, (2008) found to have a positive impact on individual's preference to seek external funding where as another study by (Watson J. , 2005) found that experience of owner-manager is not associated with firm choice of external debt finance and its relation to firm assets along with firm's future potential growth.

2.4 Time horizon of financing preference

Need of finance in time horizon can be classified into three distinctive periods, where short term financing is the period of one-year, medium term financing is the period of one to five years similarly long-term financing is the period of five years and more(Baker, Kumar, & Rao, 2017). In their research conduct among Indian SMEs of Northern states Baker, Kumar, and Rao (2017) found that majority of their respondents around 78 percentage SMEs very high preference was short term financing as their most preferred source of finance with long term financing and medium-term financing as distant second and third. Long term financing provides longer assurance for SMEs to use those funds for their operations or capital investment. Internal financing options provide independence for owners to use their funds for the time of period they desire whereas external finance particularly debt finance comes with time limit which directs owners to manage their funds accordingly. Funds from owners themselves, retention of profit, family and friends' funds are the funds that don't have their time limit in general practice. Funds like debt from banks and financial institutions, money managers provide time limit which have cost of finance particularly more than other options. Research conducted by Bell and Vos (2009) suggested that SMEs tend to be more conservative and prefer lower interest yielding rates, which is associated with short term financing sources. Medium term financing option provides owner advantage of long-term financing which is option to use funds for longer period whereas it also provides disadvantages of short-term financing which is lack of molding finance according to the need (Hamilton & Fox, 1998). SMEs whose owners are not well educated, younger and inexperienced are associated with practice of funds is associated with short term choice rather than longer term financing choice.

2.5 Financing options and SMEs preference and practice

Financing source on which basis SMEs preference and practice is associated is divided into two distinctive variables which are internal source of financing and external source of financing. Based on the need and SME practice in developing countries financing options are divided into five distinctive factors internal equity financing, short term financing, long term financing, other form of financing and external equity financing (Baker, Kumar, & Rao, 2017).

2.5.1 Internal equity financing and SMEs financing preference and practice

Internal source of finance is mainly divided into two distinctive area; owners funds and retained earnings. Owners' funds are the savings of owners whereas retained earnings is the portion of profit kept in SMEs for further investment (Baker, Kumar, & Rao, 2017). Internal equity finance is one of the sources of financing though which firm raises capital. According to Ou and Haynes (2006) equity capital is the capital invested in firm without a specific repayment date and the supplier of the internal equity capital is investing in the business with undertaking all the risk that the firm faces. Internal equity funds are generated through the people involved in the business or from the business itself. Equity financing is suitable for SMEs that have high risk and return portfolio, seeking long-term corporate investment for expansion, enduring innovation and value creation. Equity financing is preferred over debt financing, as debt financing is costly, not suitable for short-term and difficult to access (Watson R. , 2015). SMEs owners financing decision are different from the owners of large organization even when the pattern is consistent with the pecking order theory the desire of control over the institution makes owner of the firm to choose financing options rather different from large organization. Desire of control over most of the firm makes owners of the SMEs to avoid external finance and prefer internal finance is in much more practice than larger firms (Holmes & Kent, 1991).

Previous literatures have indicated convincing evidence that internal finance could be more beneficial for business performance. One of the studies carried out by Ayyagari et al. (2010) concluded that internal sources of finance have larger potential to facilitate the growth of SMEs than external sources and may play the same role as angel investors in the financing and creation of fast-growing SMEs in developing as well as least developed countries. Savings of the owners are considered to be most dominant source of finance for SMEs particularly as their initial capital. Internal equity finance at the beginning of the business is characterized by owners personal saving as its critical source. Subsequently, in the later stages with growth owners tend to reduce the use of personal savings and more focus on the use of retention earnings from the business itself (Abdulsaleh & Worthington, 2013). SMEs pursue financing from internal equity source mainly it provides infinite period for utilization of funds, lack of other sources availability in firm initial stages, intact control over firm. Uncertainty in SMEs future output makes lender reluctance to invest in firm, lack of collateral also makes SMEs high risk investment which limits availability of debt funds (Ou & Haynes, 2006). As mentioned above, equity financing is preferred over debt as a mode of financing for new and young SMEs as they undergo a typical cash shortage and are generally unable to secure loans with collateral during the founding phase. The advantages of equity financing in this regard are twofold. First, unlike debt, equity offers long-term financing with minimum cash outflow in the form of interest. Second, equity capital helps enhance the new/young firm’s creditability by indicating that the firm has the approval of sophisticated financial professionals. Panel of study of Entrepreneurial Dynamic concluded that new SMEs owners prefer to use internal sources of financing instead of external sources (Ou & Haynes, 2006).

2.5.2 Short term financing and SMEs financing preference and practice

Bank credit is a vital lifeline for small businesses, and often ranks as high in importance as equity from the business owner or friends and family. Unlike larger, established corporations, small businesses lack access to public institutional debt and equity capital markets. Moreover, the vicissitudes of small business profits make retained earnings a necessarily less stable source of capital, so they become more dependent on bank credit. Short term financing is divided into three distinctive parts of short-term bank loan, bank overdraft and cash credit available for SMEs by banking industries (Mills & McCarthy, 2016). All the varieties in short term financing are associated with banking institutions.

The perception of SMEs as high risk and commercially unviable proposition due to the lack of proper assets back mortgages, lack of proper financial documents, uncertainty in the future prospect lending has only been available to few SMEs receiving financial assistance (Ambrose, 2012). Short term debt provides the lender a control right as the firm's ability to roll over debt may be issued on the basis of financial ratios and adequate performance. As this mechanism limits managerial discretion it may contribute to the relaxation of financial constraints (Rajan & Andrew Winton, 1995). One of the major factors for providing short term debt is the life of assets of the SMEs. According to García-Teruel and Solano (2007) short term bank loan is positively correlated with firm's growth opportunities which make it more favorable to SMEs owner to make it their preference. In addition, it is best as external finance of its quality of being cheaper to long term debt financing which makes short term bank loan as the preference of both owner of SME and the bank. According to Zoppa and McMahon (2002) when there is an option to choose from debt financing SMEs generally choose short term financing option as it does not require any demand for collateral security. And there is increase preference by particularly less profitable firm for short term debt financing. The less profitable an SME is, and therefore the less self-sufficient it is through the reinvestment of profits, the more likely that it will need to depend upon short-term debt financing for its assets and activities. SMEs choose debt financing when previous credit worthiness is not considered as it is cheaper option than other financing option. Interest in debt finance is fixed early which provides SMEs to evaluate their potential cost as well as provides firm with tax benefits (Onoja & Ovayioza, 2015). However, debt finance also comes with its consequences as their increase the direct and indirect costs, interest, agency and bankruptcy costs which in longer period may lack SMEs flexibility.

According to Cook (2001) Bank Overdrafts have long been the lifeblood of small and medium sized enterprises (SMEs) with almost half of all traditional bank finance products used by SMEs being overdrafts. This is because overdrafts have traditionally been a flexible and cost-effective way to access working capital. However, overdraft has major disadvantage as it can be withdrawn in very short notice by lenders and without much proper discussion. This leaves SMEs under extreme pressure and may face bankruptcy. SMEs capital structure is more associated with long term debt than any other debt financing. Short term debt is also the source of finance but is rarely used especially when SMEs find overdraft funds as easier to access. Overdraft has major advantage over other sources of short-term financing as it is readily available which allows SMEs to use funds that they actually need and pay interest on that fund rather than whole chunk of loan. Similarly, repayments of overdrafts are also much easier than other form of short-term financing and there is no or less settlement fee. In addition to these entire financial aspect overdrafts also helps SMEs to keep proper records like payment history in addition to minimizing the risk of cheque bouncing and direct debit (Carey & Flynn, 2005). Cash credit is another form of short-term debt financing option for small and medium enterprise. As the operations of SMEs are not larger in comparison to large organization cash credit is viable option for SMEs particularly to small SMEs. Requirement of collateral though small in value is a negative for SMEs especially for those who are in their initial phase. In a study done on the SMEs of European Union by Badulescu (2010) found that 30 percentage of SMEs in European Union prefer and has used bank overdraft or cash credit as their short-term financing option.

2.5.3 Long term financing and SMEs financing preference and practice

Financing options provided for more than 5-year period of time is considered as long-term financing (Baker, Kumar, & Rao, 2017). Long term financing is divided into two distinctive sources they are long term bank loan and long-term government scheme. According to Longenecker et al. (2008) SMEs choice between debt and equity must be made early in their life cycle which may have long term financial consequences.

Several researches from Daskalakis (2010) and Lappalainen and Niskanen (2012) suggests that SMEs opt for long term debt to pursue growth rather than equity finance because debt brings a lower level of interruption and at the same time reduces the risk of losing controlling power over the business than equity.

For debt financing banks and financial institution are regarded as trustworthy source of finance. Bank and financial institutions are the formal setting from where SMEs can borrow funds for their use. Although long term bank debt provides SMEs to use funds for longer period and according to the demand of the firm there has been identical problem across the world that SMEs have limited access to external debt finance particularly due to the reason of inherent incapability and the reluctance of external financiers to provide line of credit (Harvie, Oum, & Narjoko, 2011). Although there is reluctance from banks and financial institutions to provide funds to SMEs but multiple report suggests there is a positive relation between bank lending and SMEs growth (Berger & Udell, 2006). Despite having the positive relation between bank lending and firm growth SMEs finds it very difficult to adjust themselves in the criteria for obtaining long term funds from financial institutions. In Nepal government has made compulsion for commercial bank to provide loans for deprived sector which constitute SMEs. Commercial banks need to provide 5 percentage of their funds in deprived sector similarly development banks and finance companies need to provide 4.5 percentage and 4 percentage to deprive sector respectively (Republica, 2019). Despite this regulation SMEs in Nepal are unknown about such facilities provided by government. Lack of awareness among entrepreneurs regarding financial institution providing financial credit is one of the reasons for SMEs inability to raise financial resources. Other reason for such lack of awareness is the practice of financial institution to provide credit on the basis of relationship rather than based on project feasibility. (FNCCI, 2004). The static tradeoff theory emphasizes on the cost/benefit of debt, where benefits should benefit should overweigh its cost so that the revenue generated must be adequate to cover the operational cost, pay interest on debt itself and meet the business owners' investment returns(Hashemi, 2013). SMEs preference is more on long term debt from banks as it provides longer working days facilities, interest on loans are low compared to short term debt and firms can manage it according to the changing market dynamics (Githaiga P. , 2015). Bank loan is considered to be most expensive form of accessing finance for SMEs. But it generates good return for SMEs and also SMEs can perform better at all level under bank credit as bank monitors the activities on time intervals (Keasey & McGuinness, 1990). Bank credit is regularly utilized by small organizations, though traditional bank funding postures difficulties to SMEs, specifically to start-ups, innovative and rapidly growing businesses, with a higher risk-return profile and this may also not be well suited on various life stage of firm's lifecycle.

According to a study conducted by Xiang and Worthington (2017) on Australian SMEs about government assistance and its impact on SMEs using panel data found that government assistance helps SMEs improve financial performance which is why SMEs prefer government grants. The research contrasted with the effect of normal financing where SMEs use new equity or borrowing form institutions. SME that faces financial constraints before assistance will massively be benefited after availability of grants from government. In contrast several studies from Norrman (2010) and Grilli and Murtinu (2014) compared SMEs choice of finance on the basis of performance of SMEs funded by private backing and government grants found that firms backed by private funds are statistically robust and economically relevant on firm sales growth. Government grants not only helps SMEs to improve their business and act as support for development, growth and expansion it also helps in creation of job. The research suggested that impact of government business subsidies on an average improves employment growth for both start-ups and beneficiaries which is one of the reasons why SMEs prefer government financial backing (Kosky & Pajarinen, 2013). Government grants in Nepal are more focused to agriculture-based SMEs which have been supporting different SMEs all over Nepal. According to Collewaert et al. (2010) suggested those public programs that boost the growth of new business are successful when they allow fresh funding to come not only from new investors but also firm government.

2.5.4 Other source of financing and SMEs financing preference and practice

Other source of financing is a form of informal financing which is sub-divided into three segments namely trade credit, money lenders, family and friends. Studies have concluded that SMEs can tap into informal sources of finance instead of relying solely on financial institutions and government agencies. These informal sources of finance are dependent on combination of various factors like social and economic transactions like buying low-cost equipment, delaying in payment to creditors, funds from family & friends, use of informal money lenders (Padachi, Howorth, & Narasimhan, 2012). One of the most important sources of external finance that SMEs prefer and practice is trade credit. Berger and Udell (2006) Estimates around one-third of the total debt

SMEs use are dominated by trade credit. Trade credit is simply delaying in the payment for goods and services after they have been provided to SMEs. This informal source buys time for SMEs to generate income to meet their financial needs. Such subtly and easiness in acquiring trade credit have been a major factor for every SMEs to practice it as their source of finance. Delaying in payment comes under liabilities side of balance sheet for SMEs whereas it comes as assets as account receivable for lenders or suppliers (García-Teruel & Martínez-Solano, 2010). In a study among sample of 11,337 Spanish manufacturing SMEs during the 2000–2007 period by (Martínez-Sola, García-Teruel, & Solano, 2014) using ordinary least square as initial method of estimation in addition to fixed effect estimation as control mechanism for individual heterogeneity the researched find out that there is positive relation between the trade credit and firm profitability which is the main reason SMEs vow for use of trade credit as their financing option. Furthermore, the research showed that financial motive for trade credit among smaller firms obtains extra profitability than larger firms. In contrast some researchers like Wilson and Summers (2002) suggest that trade credit is rather expensive source of financing for SMEs if the buyers delay the payment beyond specified date in agreement especially for younger SMEs. They further explained that trade credit has the ability to provide the desired cushion during credit crunches, contractions of monetary policy or other shocks that may make other funding suppliers unwilling to provide financing to SMEs.

Money lenders are another source of informal finance through which SMEs can obtain funds. Although this money lender provides loan for short period of time its easiness and availability make it more approachable than other formal source of finance. In their research conducted among Indian SMEs Baker and Kumar (2017) found that among all the informal source SMEs prefer trade credit as their main source followed by friends & family borrowing then only money lenders. SMEs use informal source to finance themselves due to difficulty and hectic paper work needed for formal source of financing. Interest rates among money lenders are expensive compared to other informal source and generally trade credit don’t even requires interest based on the agreement between parties involved. Money lenders provide funds to SMEs despite of not having proper financial documents and even collateral where there is only written agreement. In Nepal several gold shops are working as money lenders who require gold as collateral. Although their interest rates range from 24-36 percentages, SMEs finds it more approachable than other formal source of financing. Family & friends borrowing is another source of informal financing for SMEs. The most preferred source of finance for start-ups is often borrowing from family & friends rather than other source of debt financing. It is always easy to get funds from people with whom you are close who know you are reliable and competent (Fanta, 2015). Family & Friends is the first source SMEs goes to when they lack capital. Financing from F&F are considered to be trust financing and the capital obtained is called trust capital. A study carried out by Terungwa (2011) in Nigeria found that 73 percentages of SMEs prefer raising their finances through either themselves or through F&F borrowings and only 2% raise their capital through financial institutions. This is mainly due to the high cost associated with borrowing from financial institutions and also the ease of collecting funds from F&F. whereas a study carried out in SMEs of Pakistan found that SMEs in that region prefer collecting funds from F&F as their primary source and rank banks at 3rd position. Hypothetically, financing from friends and family is very good alternative as the investors solely purpose is not monetary and is ready to accept the lower or no interest on their investments. Financing from friends and family has few downsides; risk remains within the social circle of owner and can affect the relationship in negative way another drawback is such kind of financing is limited (Lee & Persson, 2016).

2.5.5 External equity source of financing and SMEs financing preference and practice

External equity is concern with the use of funds in exchange of partial ownership. SMEs are usually informational opaque compared to large firms, and therefore they are incentivized to solicit for external debt instead of external equity (Ampenberger, Schmid, Achleitner, & Kaserer, 2013). External equity finance in this research has been subjected to two sub division; Venture capital and Business angels as prescribed on the research done among Indian SMEs by H. Kent Baker and Satish Kumar in 2017. Venture capital is an amount of money invested or provided to be invested into a start-up. Venture capital mainly comprises of equity finance which is taking ownership of interested firm with or by buying shares to invest in the organization at their early stages. Venture capital is a subset of private equity and relates to the financing of young early-stage businesses with the potential for high growth (Biney, 2018). Venture capitalists usually invest in businesses with high risks and high returns and do it in exchange of owner equity. Though the definition states that they are invested into start-ups, this is usually not the case. Venture capitalists invest large sums of money and hence the small start-up businesses are too small for them which forces them to invest in medium firms which are already established (Quaye & Sarbah, 2014). In another study conducted by Obeng Y.P. and Amamu (2009) on their study among 29 SMEs concluded that venture capital is an emerging concept on developing countries with high growth potential as evidenced by increasing trend of total capital under management and investment. With the involvement of venture capitalist SMEs normally faces two distinctive problems discussed by many research including (Smolarski & Kut, 2011), (Berger & Udell, 1998) and (Bergemann & Hege, 1998): first being venture capitalist encourages significant adverse selection and second being agency problem which occurs between VC and the entrepreneur which occurs normally when the latter lacks sufficient information and skills to make optimal decisions. Loss of control, agency problem, and adverse selection is the major reason why SMEs are not excited about financial availability from VC (Baker, Kumar, & Rao, 2017).

Similar to VC Business Angels is another source of external equity where BA professionals who invest money in business companies. Like VC, Business Angels also desire to invest in young firm with high growth possibility. BA provide capital to SMEs usually on two different basis one being in exchange of ownership and another being in exchange of convertible bonds which can later be changed into equity(Quaye & Sarbah, 2014). Stats shows that BA offer almost same amount of funds offered by formal financing sector plus with knowledge from financial specialist in various large number of projects. Specialist knowledge is the main factor why SMEs prefer use of BA as financing source in comparison to another formal sector lending (Sohl, 2012). Despite of advantage from other formal financing source BA has some drawbacks like it takes longer to find appropriate BA who are willing to invest in the SMEs, they can be dishonest and most importantly owner have to give some percent of their ownership (Elitzur & Gavious, 2003).

2.6 Research gap and theoretical framework

A theoretical framework is a conceptual diagram that connects variables/construct based on theory and logic researchers imagine and construe theoretical representation in their own way. Different researcher may come with different theoretical framework even though the when variable are same. The theoretical framework demonstrates an understanding of theories and concepts that are relevant to the topic of research and that relate to the broader areas of knowledge being considered. The conceptual framework is the foundation to investigate the financial preference and practice of SMEs in Nepal.

SMEs characteristics

Various characteristics of firm like its core business, age, size and legal status are the independent variables which determine financing preference and practice of SMEs.

Core business:

Different researcher uses different variable to describe the core business of the firm. Nepal enterprise act differentiate core business of firms into 9 different sectors like Argo & forestry, construction, energy based, information technology, manufacturing, mineral, service and tourism. This research used the identification of business sector on the basis used by Baker, Kumar, and Rao (2017) in their study of SMEs in India. Primarily core business of firm is divided into two main sectors manufacturing and service where trading is also regarded as service.

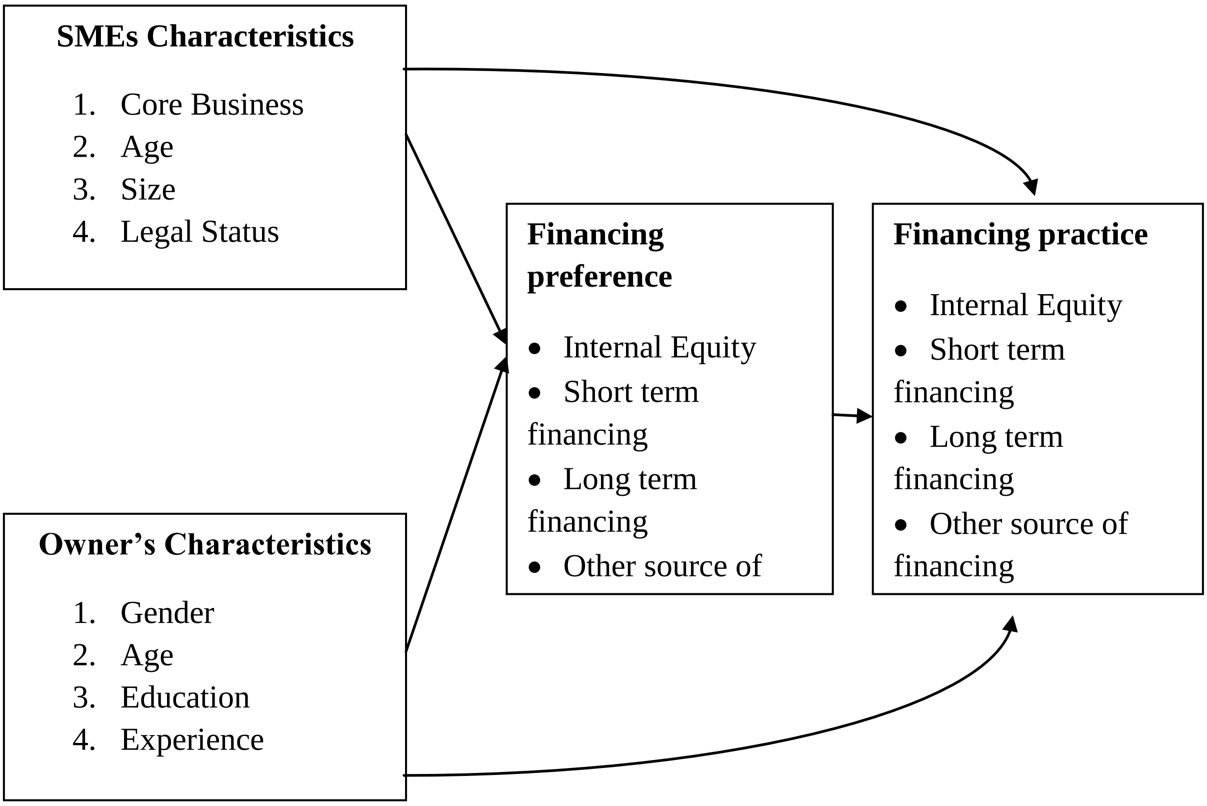

Figure 2.1: Theoretical Framework

Age of SMEs:

Firm age is defined by the year of its establishment to the date of the study period. SMEs whose age has crossed 5 years or more are regarded as older SMEs and the firm whose age is below 5 is regarded as younger SMEs.

SMEs Size:

Size of SMEs is defined by the value of assets firm owns. Different researcher uses different variable to describe the firm size of SMEs. In this research value of asset is regarded as the size of the firm. According to enterprise act of Nepal business owing fixed assets below 100 Nepalese rupees is regarded as small enterprise and firm owing fixed asset form 100 million to 250 million is regarded as medium enterprise.

Legal status:

Profit enterprise in Nepal can be registered under three different heading they are sole proprietorship, partnership and private limited. This study enlists these three features while taking legal status as independent variable.

Owner characteristics

Various characteristics of owner of SMEs are studied to undertake them as independent variables. Variables like gender, age, education and experience of owner is taken as independent variables.

Gender:

Gender is a natural character. This study intake most prominently used male and female gender. All other classification like third gender is avoided in this study.

Age:

Age of owner is defined by the number of years he or she has been living. Age above 20 years is taken in lower end and 50-year age is taken as upper end. Age of the owner is differentiating into gap of ten years with 20-30 years, 30-40 years and 40-50 years for data collection.

Education:

Education level of owner in this study is different into three criterion school level education, college level education and no education at all. SMEs owners' education level can vary the choice of financing option. Education level highly influences the choice and practice of financing option available. Generally, SME owners are not highly educated but still run the business successfully. IC, 2013 report shows that, in 2011 in Canada, the majority of SME owners had some post-secondary education 67% (32% college education, 22% Bachelors and 13% Masters). Almost 24% possess high school education and less than 10% of SME owners had less than a high school diploma.

Experience:

Experience is associated with number of years the owner of the particular firm is associated with the SME or any other firm working. For this research consideration of experience is taken on years. Experience shapes mind of human being through gaining of knowledge and proper execution of decision which can be used to make appropriate decision based on facts, outcome and even anticipation. Total experience is subjected into different range of years in this study. From 0-3 years, 3-6 years, 6-10 years, 10-15 years and 15 years or more are the range of experience taken for study in this research.

Financing preference and practice

Different financing options are discussed in this study. Various options like internal equity, short term financing, long term financing, other sources of financing and external equity financing is studies in this research taking research done by (Baker, Kumar, & Rao, 2017) among north Indian SMEs.

Internal equity financing

Internal equity funds are those funds used from its own sources in essence from its own assets, from its own profits. Funds generated from firm's operation and funds provided by owner are termed as internal equity financing in this research. Internal equity is used when their requirement of funds is limited. It has very low cost of capital and also there is no loss of control of the SMEs. In addition, no collateral is required for this financing option. Internal equity financing sources is divided into two divisions which are owners' equity and retention earnings.

Owner's equity:

Owner's equity is simply the ownership in the business. It is the amount that owner put, invest or use in the business. In other words, it shows the amount the owner has invested in the business minus any money the owner has taken out of the business as withdrawal. Funds provided by the owner of the business for any issue be it working capital issue or capital-intensive issue.

Retained earnings:

RE is the part of earning that SMEs owns from its operation of business. RE is the amount left in the business for future investment after paying certain portion of profit to owner or owners. It is a type of further investment done by owner with injecting funds generated from the business itself.

Short term financing

Short term financing is associated with borrowing of debt funds for short period of time. On the basis of study carried out by H. Kent Baker, Satish Kumar and Purnima Roa in 2017 among the SMEs of northern India this research has divided short term financing into three different sub section which includes short term bank loan, bank overdraft and cash credit.

Short term bank loan:

Short term bank loan in this study is the debt provided to SMEs by bank and financial institution for not more than one-year period. These types of funds provide immediate solution to cash problems for SMEs. Short term loans are usually less in amount compared to other borrowing funds this is the reason why its loan interest is higher compared to other loans. These types of loans are normally unsecured in nature.

Bank overdraft:

It is another form of short-term borrowing for SMEs. This is also provided for short term that is one year or less. Interest is paid on the amount used out of total overdraft. Overdraft is provided to individuals or firm depending on the relationship with the bank. It is a type of extension of monetary limit offered by banking and financial institutions. Overdraft is drawn from the saving amount even when the saving becomes zero.

Cash credit:

Cash credit is a facility to withdraw money from a current bank account without having credit balance but limited to the extent of borrowing limit which is fixed by the commercial bank. The interest on this facility is charged on the running balance and not the borrowing limit which is given by bank. In cash credit interest is charged on the amount borrowed and not the borrowing limit.

Long term financing

Long term financing options are those facilities where debt or funding is provided for minimum of five years. In this research long term financing is divided into two distinctive service; long term bank loan and long-term government grants.

Long term bank loan:

Long term bank loans are carried out by fixed maturities and interest. Payment of such loans is normally made on each month and can vary on customer to customer. In this study loan term bank loans are subjected to 5 years or more. Long term bank loans require collateral of company assets which is one of the major reasons why SMEs don't prefer using such loans (Baker, Kumar, & Rao, 2017). Since long term loans are subjected to pay in long period of time monthly installment are generally less compared to short term loans.

Government Grants:

Government policies are key elements that influence the success and performance of SMEs (Javed Mahmood Jasra, Asif Khan, Dr. Hunjra, & Rehman, 2011). The government business grants do not need to be repaid or accrue interest and have strict guidelines for application. Government funding is linked with efforts such as black economic empowerment, job creation and developing the economy. Mostly governments are determined and focused to support the SME industry, to have a steady economy.

Other source of financing options

Other source of financing options includes unconventional financing or informal financing like money lenders, trade credit and borrowing form F&F which are studied in this research.

Trade credit:

It is one of the essential financing options available to both individual and organization of Nepal. Trade credit is simply a facility provided by supplier to pay later than now. It is informal financing option where SMEs can delay paying to their creditors for a specified period of time. Any time SMEs take delivery of materials, equipment or other valuables without paying cash on the spot, it is using trade credit.

Money lenders:

They are private persons or organization who provides credit to the needed individual or business on the basis of relation normally with collateral which may not be fixed assets. Money lenders lend money; act as money-changers and finance loan trade by means of bills of exchange. They usually use working capital of their own, and do not generally get deposits or solicit savings from the public. They grant loans on personnel recommendation and guarantee to persons well-known to them.

Family & Friends borrowings:

People with whom you have close relationships know you are reliable and competent, provides funds to you so family and friends borrowing is one of the most used sources of financing in SMEs. Borrowing from family & friends provide ease in getting funds without any paperwork and the payment can be scheduled according to the choice of involved parties. SMEs prefer to use funds from the people with whom they are familiar with and can make bargain easily so friends & family borrowing is one of the major used sources of financing (FNCCI, 2004) .

External equity financing

This is another source of financing where SMEs can use funds from different source in exchange of stake in the firm and even the power to control the firm. In this research Venture capital and Business Angels are discussed.

Venture capital:

Venture capital is a form of financing through the pool of funds collected from different organization. Venture capitalist creates a group of companies who pool finance for investing in any organization with huge growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital provides funds to SMEs in exchange to stock in the organization as well as seat in the board of the organization.

Business Angels:

Similar to VC, business angels are also a form of equity finance that provides funds to needed SMEs with high growth potential. Unlike VC business angels doesn’t seek position in board of the organization rather provide market knowledge, supplier, customers information through which SMEs can grow. One of the big advantages of seeking business angels in addition to all these is they invest in high risky firm that are too risky for other source of source of financing to provide funds.

CHAPTER III

RESEARCH METHODS

This chapter explains the methodology employed in this study. This chapter has been divided into five sections. First section provides a description of research design used in this study. Second section deals with the nature and source of data. Third section describes the population and sample along with the selection of SMEs for the purpose of study. Similarly, fourth section describes method of analysis including the empirical models. Fifth section explains the variables and their measurement criteria.

3.1 Research Design

This study is qualitative in nature where primary data has been used. Descriptive research design and casual research design are used to describe the characteristics of the variables used under this study and to reduce the data to manageable form. This research is quantitative research which is achieved through primary data collected from the Kathmandu Valley, Nepal. The research study is an attempted to examine the financing preference and practices of SMEs in Nepal. To achieve the objective, the study has used descriptive, correlation, regression, ranking and other statistical tools to achieve them. Thus, to fulfill the study primary data has been used.

3.2 Population and Sample

Total numbers of SMEs clients are not fixed. So, population of this study is unknown. However, group formed in Kathmandu district and Morang district, are considered as the population of this study. And only group formed by that SMEs that has been operating in Kathmandu district and Morang district for last 10 years are taken as sample of the study on the basis of purposive and judgmental sampling technique. Both Kathmandu and Morang district are selected to get urban and rural data of SMEs. Only those clients are selected, that has been taking the financing services from different financial institutions or sources. Judgment made by consulting with office of the SMEs institutions regarding the place of operation and characteristics of its members. After selecting SMEs, survey had been carried out. There was no preference for having one organization over another. Survey based structured questionnaire was distributed to the 200 SMEs, whereby 125 respondents were collected.

3.3 Nature and Sources of Data

The study is based on the primary (cross sectional) data source taken from the clients at the same period of time. All the data had been collected through primary source. For this purpose, structured questionnaire was undertaken with the clients of SMEs. Pilot testing was also carried out to make questionnaire more reliable and valid. For supporting the survey, semi-structured interview had also been conducted among SMEs clients and practitioners. The major portions of data are collected in Morang district.

3.4 Data collection procedure

Study is based on primary data. Primary data were collected through questionnaire survey. Likert scale-based questionnaires are used, in this regard and some open-end questions are also taken as per requirement after taking permission from the SMEs clients, survey had been undertaken according to the schedule provided by the clients. After the suggestion of clients, the survey-based questionnaire had been carried out with the clients. In addition to this, survey was also conducted in different SMEs clients who have done running SMEs in a regular basis.

3.5 Instrumentation (tools and techniques)

The research instrument has four sections. The first two sections describe the firm features and respondent demographics, respectively. The third section discusses the preferred financing sources. The questionnaire measures the preferences of respondents using a five-point scale where 1 = very low preference, 2 = low preference, 3 = neither high nor low preference, 4 = high preference, and 5 = very high Preference. The next question in this section measures preference about financing terms (i.e., whether they prefer short-, medium- or long- term financing) using the same five-point scale. This section also asks respondents to rank six financing sources: (1) internal funding (owner's fund and retained earnings), (2) bank financing, (3) funding through government schemes, (4) external equity, (5) money lenders, and (6) family friends and relatives. The final section describes the current state of financing. The questionnaire uses a five-point scale to measure the proportion of current financing sources where 1 = not at all used, 2 = somewhat used, 3 = moderately used, 4 = highly used, and 5 = extremely used. This section ends with a question on the proportion of funds procured through short-and long-term liabilities as well as owner's capital. The questionnaire is available from the authors on request.

After the questionnaire is completed, each item was analyzed separately or in some cases item responses are summed to create a score for a group of items. Hence, Likert scales are also known as summative scales.

3.6 Data analysis tools and model

Primary data has been collected and evaluation is done from different perspective which would identify the financial preferences and practices used by SMEs clients. Data were analyzed using SPSS. By using SPSS version 20, descriptive statistics i.e., percentage, mean and standard deviation are calculated. The correlations and regression of variables are also analyzed using SPSS (V 20). The ranking of the variables is done based on the mean; Finally, ANOVA test is carried out for hypothesis testing. Microsoft excels and statistical package for social sciences (SPSS V 20) computer programs are used to process and analyze the data collected.

3.6.1 Descriptive Statistics

The study has used the summary of descriptive statistics associated with dependent and explanatory variables of sample to explain the variables during the sample period. Descriptive analytical tools like mean, median, standard deviation, minimum and maximum values, of different variables such as core business, age, legal status, size, gender, education, experience, internal equity financing, short term financing, long term financing, other form of financing and external form of financing have been used to identify the financial preferences and practices of SMEs in Nepal.

3.6.2 Correlation Analysis

This study has also applied correlation analysis in descriptive research design. In this study, correlation analysis has been basically adopted to identify the direction and magnitude of relationship between different pairs of dependent variables and explanatory variables. It shows the movements of two variables and their association. The relationship has been explained by using bivariate Pearson correlation coefficient. The value of correlation coefficient ranges from – 1 to +1. If correlation coefficient is exactly -1, two variables are said to have perfect negative correlation as such that they move together exactly into opposite directions. On the other hand, if correlation coefficient is +1, the variables are said to be perfectly positively related.

3.6.3 Regression analysis

Regression analysis is used to model the relationship between a response variable and one or more predictor variables. Regression analysis involves identifying the impact between a dependent variable and one or more independent variables. A model of the relationship is hypothesized, and estimates of the parameter values are used to develop an estimated regression equation. Various tests are then employed to determine if the model is satisfactory. If the model is deemed satisfactory, the estimated regression equation can be used to predict the value of the dependent variable given values for the independent variables.

Bivariate regression models

Bivariate regression analysis is a type of statistical analysis that can be used to evaluate the impact of independent variable on dependent variable. The two variables are frequently denoted as X and Y, with one being an independent variable (or explanatory variable), while the other is a dependent variable (or outcome variable). However, these models of study have ten Independent Variables, such as core business, age, legal status, assets size, gender, age, education and experience and four dependent variables such as; internal equity financing, short term financing, long term financing, other form of financing and external equity financing. Therefore, researchers have used simple linear regression. So, the study regressed each independent variable with repayment performance. Linear regression is a way to model the relationship between two variables. The bivariate models used in the study are presented as follows:

Table 3.1

Regression Models

Y = IEF_PRAC	Y = STF_PRAC
$Yi1 = c1 + \sum_{i=1}^{5} bij\ Xij$	$Yi5 = c5 + \sum_{i=1}^{5} bij\ Xij$
$Yi2 = c2 + \sum_{i=1}^{13} bij\ Xij$	$Yi6 = c6 + \sum_{i=1}^{13} bij\ Xij$
$Yi3 = c3 + \sum_{i=1}^{18} bij\ Xij$	$Yi7 = c7 + \sum_{i=1}^{18} bij\ Xij$
$Yi4 = c4 + \sum_{i=1}^{26} bij\ Xij$	$Yi8 = c8 + \sum_{i=1}^{26} bij\ Xij$
Y = LTF_PRAC	**Y = OFF_PRAC**
$Yi9 = c9 + \sum_{i=1}^{5} bij\ Xij$	$Yi13 = cj13 + \sum_{i=1}^{5} bij\ Xij$
$Yi10 = c10 + \sum_{i=1}^{13} bij\ Xij$	$Yi14 = cj14 + \sum_{i=1}^{13} bij\ Xij$
$Yi11 = c11 + \sum_{i=1}^{18} bij\ Xij$	$Yi15 = c15 + \sum_{i=1}^{18} bij\ Xij$
$Yi12 = c12 + \sum_{i=1}^{26} bij\ Xij$	$Yi16 = cj16 + \sum_{i=1}^{26} bij\ Xij$

where Yj = dependent variable for the jth model used in the regression (j = 1 to 16); i = the number of independent variables used in the regression; j = the number of regression models applied in the study; cj = the constant for jth regression model; bij = the regression coefficients for ith variable in jth model; and Xij = the values corresponding to ith independent variable for jth model. The terms X1j, X2j, X3j, X4j, and X5j represent respondents' financing preferences for internal equity, short-term finance, long-term finance, other sources of finance, and external equity, respectively for all values of j. The terms X6j, X7j, X8j, X9j, X10j, X11j, X12j, and X13j represent owner-specific features: Education1, Education2, Age1, Age2, Experience1 Experience2, Gender and Ownership for all values of j except 1, 5, 9, and 13. The terms X14j, X15j, X16j, X17j, and X18j represent modes of acquisition and motives behind a business, namely MA1, MA2, MB1, MB2, and MB3 for all values of j except 1, 2, 5, 6, 9, 10, 11, and 13. The terms X19j, X20j, X21j, X22j, X23j, X24j, X25j, and X26j represent firm features: Legal Status1, Legal Status2, Business Stage1, Business Stage2, Sector, Firm Size1, Firm Size2, and Export Activity for the j models: 4, 8, 12, and 16

3.6.4 ANOVA Test

ANOVA is used to test the goodness of fit of regression line. It helps to identify the overall significance of the regression model. Post hoc tests are used to uncover specific differences between three or more group means when an analysis of variance (ANOVA) F test is significant. Post hoc tests allow researchers to locate those specific differences and are calculated only if the omnibus F test is significant.

3.6.5 Auto correlation test

When correlation exist between the errors in different time period, than there is auto correlation. If auto correlation exists, then it needs to be corrected. To test the auto correlation, the Durbin Watson Test is used.

3.7 Reliability

The reliability of the data for the study purpose and its findings were checked by using the statistical tool, SPSS. The reliability of study has been measured by using consistency and stability of the respondents' response in primary data. The major use of reliability coefficients is to communicate the repeatability of results. Statistically, Cronbach's alpha is a reliability coefficient of internal consistency. Cronbach's alpha is not a statistical test; it is a coefficient of reliability (or consistency). The coefficient of Cronbach's alpha varies from 0 to 1, and a value of 0.60 or less generally indicates unsatisfactory internal consistency reliability and a value of Cronbach's alpha in the range of .90 to .99 is considered excellent internal consistency reliability. The result was reliable and valid with Cronbach's Alpha i.e., 0.832 which is shown in table 3.1.

Table 3.2

Reliability Analysis

Cronbach's Alpha	**Number of Items**
.832	28

Table 3.3

Key Hypothesis

Hypothesis	Key Variables	Test
H1: There is a significant difference in financing preferences among various firms' specific factors.	Legal status, Establishment, Assets and Core business	F- Test
H2: There is a significant difference in financing preferences among various owners/Managers characteristics.	Gender, Age, Education and Experience	F- Test
H3: There is a significant difference in financing practices among various firms' specific factors.	Legal status, Establishment, Assets and Core business	F- Test
H4: There is a significant difference in financing practices among various owners/Managers characteristics.	Gender, Age, Education and Experience	F- Test

CHAPTER IV
ANALYSIS AND RESULTS

Chapter four deals with the systematic presentation, analysis and discussion of the finding of the primary data collected through questionnaire survey. Here the collected data are summarized and presented in tabulated form for the understanding and analysis purpose. The main aim of this chapter is to present the characteristic of the study variables and to interpret the result. This chapter also covers the test of hypothesis, which has been set in the chapter one. Each hypothesis is tested and analyzed to draw the conclusion. Various statistical and econometric model described in the chapter three have been used for the purposed. The data analysis was done through statistical technique like descriptive analysis, correlation analysis, structure of variables, regression analysis, statistical analysis, and other inferential analysis. A detail issue of findings from data analysis has been dealt in the respective sections.

4.1 Descriptive Statistics

Descriptive analysis contains summary of all the independent and dependent variables. Frequency, percentage, means, standard deviation, minimum, and maximum have been calculated in order to describe the respondent profile.

4.1.1 Firm Characteristics

This section explains the firm's characteristics of the respondents. In this section, the respondent's firm's characteristics has been analyzed in term of respondent's legal status, assets of SMEs, establishment of the firms and business activities of SMEs. The firm's characteristics give a picture of the classified information of the male and female respondents in term of the number and percentages.

The respondent's firm's characteristics along with results of the survey are presented in Table 4.1.

Table 4.1 reveals that the firm's characteristics of respondents combined on the basis respondent's legal status. Among the 135 respondent's 40 percent of the respondents were running sole proprietorship business, 28.9 percent of the respondents run partnership firm and 31.1% of the total respondents run private limited companies.

Similarly, out of the total respondents71.9 percent of the total respondents run their business having the assets of less than 10 crore and remaining 28.1 percent of the total respondents have the assets between 10 to 25 crore.

Table 4.1

Firm's characteristics

	Characteristics	Number/ Percentage
Legal Status	Sole proprietorship	54 (40%)
	Partnership	39 (28.9%)
	Private limited	42 (31.1%)
Assets of SMEs	Less than 10 Crore	97 (71.9%)
	10-25 Crore	38 (28.1%)
Establishment of firm	0-5 Years	38 (28.1%)
	5-10 Years	42 (31.1%)
	10-15 Years	23 (17%)
	15 Years or more	32 (23.7%)
Business activity of SME	Manufacturing	47 (34.8%)
	Service	52 (38.5%)
	Trading	36 (26.7%)

On the other hand, out of the total respondents' 28.1 percent of the respondents run their business from 0 to 5 years, 31.1 percent respondents run the business for more than 5 years and less than 10 years. Likewise, 17 percent of the total respondents were engaged in the business for more than 10 years and less than 15 years and 23.7 percent of the respondents were engaged in the business from more than 15 years. Similarly, 34.8% of the total respondents were engaged in manufacturing business, 38.5 percent of the total respondents engaged in service activities and remaining 26.7% of the total respondents were engaged in trading business activities of operation through their SMEs.

4.1.2 Owners/Managers characteristics

This section explains the owners/managers characteristics of the respondents. In this section, the respondent's owners/managers characteristics have been analyzed in term of gender, education, age and experience. The firm's characteristics give a picture of the classified information of the male and female respondents in term of the number and percentages.

Table 4.2

Owners/Managers characteristics

	Characteristics	Number/ Percentage
Gender	Male	81 (60%)
	Female	54 (40%)
Education	None	5 (3.7%)
	School	23 (17%)
	University	107 (79.3%)
Experience	0-3 Years	35 (25.9%)
	3-6 Years	23 (17%)
	6-10 Years	31 (23%)
	10-15 Years	28 (20.7%)
	15 Years and above	18 (13.3%)
Age	20-30	45 (33.3%)
	30-40	58 (43%)
	40-50	32 (23.7%)

Among the 135 respondent 60 percentage of the respondent were male and remaining 40 percentage of the respondents were female. Similarly, 3.7 percent of the respondents who run the business were uneducated, 17 percent of the respondents completed the school level and remaining 79.3 percent of the respondents had pursued the university level education. On the other hand, 25.9 percent of the respondents have the working experience up to 3 years, 17 percent of the respondents have the working experience between 3 to 6 years, 23 percent of the respondents have the working experience of 6 to 10 years, 20.7 percent of the respondents have the working experience of 10 to 15 years and remaining 13.3 percent of the respondents have the working experience of 15 years and above. Out of the total respondents, 33.3 percent of the total respondents were the age group of 20 to 30 years, 43 percent of the respondents were falls under the age group of 30 to 40 years and remaining 23.7 percent of the respondents falls under the age group of 40 to 50.

4.1.3 Mode of acquisition and motive behind starting the business

This section explains the mode of acquisition and motive behind starting the business characteristics of the respondents. In this section, the respondent's mode of acquisition and motive behind starting the business characteristics have been analyzed in term of mode of acquisition and motive behind starting the business. The firm's characteristics give a picture of the classified information of the male and female respondents in term of the number and percentages.

Table 4.3

Mode of acquisition and motive behind starting the business

	Characteristics	Number/ Percentage
Mode of acquisition	Inherited	22 (16.3%)
	Purchased	50 (37%)
	Start from scratch	63 (46.7%)
Motive behind starting the business	Entrepreneurship	60 (44.4%)
	Expansion	47 (34.8%)
	After college social pressure	23 (17%)
	Sustainability	3 (2.2%)
	Monetary Support	2 (1.5%)

Among the 135 respondent 16.3 percentage of the respondent were inherited for acquisition of the business activities, 37 percent of the respondents were purchased the business and remaining 46.7 percent have start from scratch for the mode of acquisition of the business. Similarly, 44.4 percent of the respondents were run entrepreneurship business by generating own ideas and activities, 34.8 percent of the total respondents have the motive of expanding the business, 17 percent of the total respondents were influenced by social pressure after completion of their college, 2.2 percent of the total respondents have the sustainability motive to run the business and remaining 1.5 percent have a monetary support to run the business.

4.1.4 Financing preferences of Nepalese SMEs for different sources

This table presents the percentage of responding Nepalese SMEs expressing preferences for different financing sources where1 =very low preference, 2= low preference, 3 =neither low nor high preference, 4= high preference, and 5= very high preference. The sources are IEF= internal equity financing, STF =short-term financing, LTF = long-term financing, OFF = other forms of financing, and EEF=external equity financing.

From the table, most of the respondents were highly preferred to the owner's fund, which is the source of internal equity financing and very highly preferred to the retained earnings, obtained from previous business transaction. Out of the two sources of internal equity financing, the respondents mostly preferred to retain earning. Similarly, the sources of short-term financing are short- term bank loan, bank overdrafts and cash credit. The total respondents neither low preferred nor high preferred to short term bank loans, bank overdrafts and cash credit. Out of the sources of short-term financing, most of the respondent preferred the bank overdrafts to run the business.

The sources of long-term financing are long term bank loan and long-term government financing schemes. Out of the total respondents, most of the respondents are highly preferred to long term bank loan and long-term government financing schemes. Similarly, the most of the respondents preferred long term government financing schemes. On the other hand, the sources of other forms of financing are trade credit, money lenders and family, friends and relatives. Out of the sources of other form of financing, most of the respondents preferred money lenders. Finally, there two sources of external equity financing; venture capital and business angels. The most of the respondents preferred, business angels for long-term financing.

Table 4.4

Financing preferences of Nepalese SMEs for different sources

Source	Financing practices	Preference scale					Mean	Std. Dev.	Rank
		1	2	3	4	5			
		%	%	%	%	%			
IEF	Owner funds	8.14	20.0	25.9	29.6	16.3	3.3	1.2	2
	Retained earnings	7	9.6	14.1	30.4	45.2	4.1	1.02	1
STF	Short-term bank loans	20.0	22.20	28.9	23.0	5.9	2.73	1.193	3
	Bank overdrafts	8.10	14.10	28.90	40.0	8.9	3.27	1.075	1
	Cash credit	17.78	22.20	28.10	23.70	8.10	2.82	1.215	2
LTF	Long term bank loans	11.9	14.10	22.20	33.30	18.50	3.33	1.263	2
	Long- term government financing schemes	14.8	16.30	12.60	25.90	20.40	3.41	1.442	1
OFF	Trade credit	4.4	20.0	20.0	22.2	33.4	3.60	1.259	3
	Money lenders	23.7	21.50	25.90	18.50	10.40	2.70	1.299	1
	Family, friends and relatives	9.6	14.80	28.10	23.0	24.40	3.38	1.269	2
EEF	Venture capital	20.0	11.10	31.10	28.90	8.90	2.96	1.251	2
	Business angels	20.0	13.30	25.90	30.40	10.40	2.98	1.290	1

4.1.5 Financing practices of Nepalese SMEs for different sources

This table presents the percentage responding Nepalese SMEs using various financing sources where1=not at all used, 2= somewhat used, 3= moderately used, 4 =highly used, and 5= extremely used. The financing sources are IEF =internal equity financing, STF = short-term financing, LTF =long-term financing, and OFF = other forms of financing.

From the table, most of the respondents were highly used to the owner's fund, which is the source of internal equity financing and very highly used to the retained earnings, obtained from previous business transaction. Out of the two sources of internal equity financing, the respondents mostly used retain earning. Similarly, the sources of short-term financing are short- term bank loan, bank overdrafts and cash credit. The total respondents mostly, not at all used short- term bank loan and cash credit. On the other hand, most of the respondents are highly used bank overdrafts. Out of the sources of short-term financing, most of the respondent mostly used the bank overdrafts to run the business.

The sources of long-term financing are long term bank loan and long-term government financing schemes. Out of the total respondents, most of the respondents are not at all used long term bank loan and long-term government financing schemes. Similarly, the most of the respondents used long term bank loans. On the other hand, the sources of other forms of financing are trade credit, money lenders and family, friends and relatives. Out of the sources of other form of financing, most of the respondents used trade credit and family, friends and relative sources of long-term financing while not at all used the money lender of long-term sources of financing. Therefore, it is found that, trade credit is used by most of the respondents for other forms of financing.

Finally, there are two sources of external equity financing; venture capital and business angels. The most of the respondents not at all used venture capital and business angels of long-term sources of financing. Similarly, out of the total respondents, venture capital is mostly used by the most of the respondents.

Table 4.5

Financing practices of Nepalese SMEs for different sources

Source	Financing practices	Used scale					Mean	Std. Dev.	Rank
		1	2	3	4	5			
		%	%	%	%	%			
IEF	Owner funds	12.6	11.9	11.8	31.8	31.9	3.59	1.373	2
	Retained earnings	5.9	14.1	19.3	24.2	36.3	3.71	1.257	1
STF	Short-term bank loans	30.4	10.4	24.4	29.6	5.2	2.69	1.318	3
	Bank overdrafts	11.9	10.4	29.6	41.5	6.7	3.21	1.107	1
	Cash credit	26.7	16.3	24.4	20.0	12.6	2.76	1.374	2
LTF	Long term bank loans	35.6	12.6	16.3	25.9	9.6	2.61	1.435	1
	Long- term government financing schemes	52.6	10.4	17.0	11.1	8.9	2.13	1.392	2
OFF	Trade credit	14.8	5.2	19.3	28.1	32.6	3.59	1.379	1
	Money lenders	38.5	10.4	23.7	14.8	12.6	2.53	1.445	3
	Family, friends and relatives	11.9	10.4	28.9	29.6	19.3	3.34	1.241	2
EEF	Venture capital	36.3	11.9	16.3	20.7	14.8	2.66	1.507	1
	Business angels	40.7	10.4	17.8	23.0	8.1	2.47	1.424	2

4.1.6 Terms of financing for Nepalese SMEs

This table presents the percentage of responding Nepalese SMEs expressing a preference for short-, medium-, and long-term financing where 1= very low preference, 2= low preference, 3 =neither low nor high preference, 4= high preference and 5 =very high preference.

The term financing was classified as short- term financing, medium term financing and long-term financing. In the given table 4.6, the preferences of the different source of financing were categorized. Out of the total respondents, majority of the preferred low short-term financing, the majority of the respondent highly preferred medium-term financing and the majority of the respondent highly preferred long-term financing. So, the long-term financing was ranked as first while preferring the term financing to run the business.

4.1.7 Ranking of financing preferences by Nepalese SMEs

This table 4.7 presents the percentage of responding Nepalese SMEs assigning a rank to their preferred financing sources. Out of total 135 respondents more than 80 percent of the respondents given a first choice to the internal funding, 14.2 percent of the total respondent give second choices to internal funding, 2.6 percent of the respondent give third choices to internal funding and gradually less respondents do not give priority to the internal funding. Similarly, 19.3 percent of the respondent give first priority to bank financing, 50.9 percent gives the second choices, 15.4 percent gives the third choices, 12.2 percent gives the third choices, 0.9 percent of the total respondent gives the fifth choices and 1.4 percent of the total respondents give the less priority to bank financing.

Similarly, majority of the respondents have given fourth choices for government funding schemes, while only 5.9 percent of the total respondents gives the first priority to the government funding schemes. 24.9 percent of the total respondents give the third priority to the government funding schemes and 8.5 percent of the total respondents give the less priority to the government funding schemes. Likewise, majority of the respondents gives third choices for the family, friends and relative money, 24.9 percent gives the fifth choices, o.6 percent gives the first choices, 18 percent gives the second choices and 10 percent gives less priority to the family, friends and relative money.

Table 4.6

Terms of financing for Nepalese SMEs

S. No.	Term of financing	Preference scale					Mean	Std. Dev.	Rank
		1	2	3	4	5			
		%	%	%	%	%			
1	Short- term financing	17.8	31.9	22.2	14.1	14.1	2.75	1.297	3
2	Medium term financing	3.7	17.0	31.9	40.0	7.4	3.30	.964	2
3	Long- term financing	7.4	8.1	14.8	33.3	36.3	3.83	1.219	1

Table 4.7

Ranking of financing preferences by Nepalese SMEs

S. No.	Term of financing	Ranking of financial sources					
		First choice	Second choice	Third choice	Fourth choice	Fifth choice	Sixth choice
		%	%	%	%	%	%
1	Internal funding	80.3	14.2	2.6	2.2	0.1	0.5
2	Bank financing	19.3	50.9	15.4	12.2	0.9	1.4
3	Government funding schemes	5.9	8.4	24.9	26.7	21.6	8.5
4	Family, friends and relatives	0.6	18.0	27.8	0 .6	24.9	10
5	Money lenders	3.6	4.6	13	17.9	35.2	25.3
6	External equity	4.9	1.6	0.6	4.5	21.2	67.2

Similarly, majority of the respondents gives less priority to money lenders. Only 3.6 percent of the total respondents give the first priority to the money lenders. 4.6 percent gives the second choices, 13 percent gives the third choices and 17.9 percent gives the fourth choices for money lenders. Likewise, more than 67 percent of the total respondents do not give priority to external equity. Only 4.9 percent of the total respondent's gives first choices to external equity, 1.6 percent gives second choices, 0.6 percent gives third choices, 4.5 percent gives fourth choices and 21.2 percent of the total respondents give fifth choices for external equity.

4.2 Correlation analysis

Table 4.8

Correlation between financing preferences and practices of Nepalese SMEs

`	IEF- PREF	STF- PREF	LTF- PREF	OFF- PREF	EFF- PREF
IEF- PRAC	.646***	-.005	.274***	.309***	-.076
STF- PRAC	-.029	.545***	-.054	.333***	.228***
LTF- PRAC	-.322***	.383***	.053	.291***	.293***
OFF- PRAC	.174**	.245***	.070	.591***	.193**
EFF- PRAC	-.284***	.286***	.129	.233***	.493***

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

**. Correlation is significant at the 0.05 level (2-tailed).

This table reports the correlation between financing preferences (PREF) and practices (PRAC) of responding Nepalese SMEs. The financing sources are IEF =internal equity financing, STF = short-term financing, LTF =long-term financing, OFF = other forms of financing, and EEF= external equity financing.

The table shows that, there is a significant positive relationship of internal equity financing practices with IEF- PREF, LTF- PREF and OFF- PREF at 1percent level of significance. Therefore, the IEF practice is correlated with IEF- PREF, LTF- PREF and OFF- PREF. But, IEF- PRAC has no relationship with the STF- PREF and EFF- PREF. Similarly, STF- PRAC has significant positive correlation with the STF- PREF, OFF- PREF and EFF- PREF at 1 percent level of significant but there is no any relationship of STF- PRAC with IEF- PREF and LTF- PREF.

Similarly, LTF- PRAC has significant positive relationship with IEF- PREF, STF- PREF, OFF- PREF and EFF- PREF but there is no correlation of LTF- PRAC with LTF- PREF. On the other hand, OFF- PRAC is significantly positively correlated with STF- PREF and OFF- PREF at 1 percent level of significant and it is positively correlated with IEF- PREF and EFF- PREF at 5 percent level of significance but it is not correlated with the LTF- PREF.

Finally, EFF- PRAC is significantly positively correlated with STF- PREF, OFF- PREF and EFF- PREF at 1 percent level of significance and negatively correlated with IEF- PREF at 1 percent level of significant, but it is not correlated with the LTF- PREF.

4.3 Inferential analysis

Table 4.9

Mean differences between financing preferences and practices of Nepalese SMEs

Pairs	Mean differences	Standard deviation	t-statistics
IEF- PREF - IEF- PRAC	3.67	1.09	46.692***
STF- PREF- STF-PRAC	2.94	0.8	42.224***
LTF- PREF- LTF-PRAC	3.37	1.13	34.517***
OFF- PREF- OFF-PRAC	2.67	1.63	38.32

This table reports the results of paired t-tests based on the mean difference between comparable financing sources. The financing sources are IEF =internal equity financing, STF =short-term financing, LTF =long-term financing, and OFF = other forms of financing. Note that PREF =Preferences and PRAC= Practices.

This table shows that, there is a positive significant impact on IEF- PRAC of IEF- PREF at 1 percent level of significant with a mean difference of 3.67 and standard deviation 1.09. Therefore, it is concluded that, internal equity financing preferences has influenced the internal equity financing practices. Similarly, STF- PREF has significant impact on STF- PRAC at 1 percent level of significance with a mean difference of 2.94 and standard deviation of 0.8. So, it is concluded that, STF_ PREF influence the STF- PRAC.

Similarly, LTF- PREF has the positive significant impact on STF- PRAC at a significance level of 1 percent, with mean differences of 3.37 and standard deviation of 1.63. Therefore, it is concluded that, LTF- PREF has influenced LTF- PRAC. Likewise, OFF- PREF has no significant impact on OFF- PRAC at any level of significant. So, there is no any influence of OFF- PREF on OFF- PRAC. The mean difference is 2.67 and the standard deviation is 1.63.

Table 4.10

Financing preferences across firm-specific factors

			Financing preferences				
			IEF	STF	LTF	OFF	EFF
Legal status	Sole proprietorship	Mean	3.643	3.958	3.465	4.388	3.564
	Partnership		3.967	3.214	2.623	2.932	3.845
	Private limited		4.241	2.857	2.647	2.947	2.453
	Leven's test for equity of variance	Levene's statistic	4.566***	6.836***	3.747**	12.7847***	4.848
	One-way ANOVA	F- statistic	6.747**	12.373**	13.737***	5.938**	6.838
Establishment	0-5 Years	Mean	2.475	4.374	3.857	2.947	2.756
	5-10 Years		3.758	3.757	2.583	3.037	4.732
	10-15 Years		3.873	2.94	3.37	3.67	2.476
	15 Years or more		4.764	3.757	2.848	3.747	3.474
	Leven's test for equity of variance	Levene's statistic	6.834***	9.473**	4.858***	12.746**	7.747**
	One-way ANOVA	F- statistic	4.747***	4.757***	3.858**	10.747***	13.747
Assets	Less than 10 Crore	Mean	4.738	2.857	3.859	6.747	3.757
	10-25 Crore		5.858	3.848	4.748	4.875	3.755
	Leven's test for equity of variance	Levene's statistic	6.737**	7.679**	4.834*	8.646***	9.773
	One-way ANOVA	F- statistic	9.646***	5.747**	7.747	5.757**	4.937*
Core business	Manufacturing		3.848	5.765	3.757	5.747	4.747
	Service		3.747	4.764	2.747	4.747	3.747
	Trading		2.784	4.646	2.784	3.674	4.757
	Leven's test for equity of variance	Levene's statistic	6.747	4.747**	8.838**	5.838***	7.838
	One-way ANOVA	F- statistic	6.939	3.949***	2.848*	4.646**	3.929

** and *** indicates statistical significance at the 0.05 and 0.01 level, respectively

Table 4.11

Financing preferences across Owners/Managers characteristics

			Financing preferences				
			IEF	STF	LTF	OFF	EFF
Gender	Male	Mean	4.374	3.757	2.94	3.757	2.747
	Female		2.848	3.747	2.784	4.764	3.757
	Leven's test for equity of variance	Levene's statistic	6.489***	8.939***	5.993**	12.958**	-9.432***
	Independent t- test	F- statistic	5.345**	5.747	3.848*	4.747	2.484**
Age	0-5 Years	Mean	2.489	5.765	4.764	4.646	4.747
	20-30		3.455	3.857	2.947	3.949	2.848
	30-40		3.575	2.623	2.647	3.747	2.747
	40-50		5.484	3.747	3.747	4.757	2.848
	Leven's test for equity of variance	Levene's statistic	9.488**	4.747***	15.737	10.674*	12.763**
	One-way ANOVA	F- statistic	5.848	48.747	21.738	6.636	3.646
Education	None	Mean	3.843	4.747	3.474	2.478	3.846
	School		2.484	3.874	4.747	2.347	3.472
	University		4.893	4.746	3.844	3.848	4.747
	Leven's test for equity of variance	Levene's statistic	7.483**	9.636**	14.838*	3.747***	6.737
	One-way ANOVA	F- statistic	3.484**	3.646	8.737	10.373**	11.377
Experience	0-3 Years	Mean	4.848	2.484	3.548	3.579	4.858
	3-6 Years		5.484	2.497	3.747	3.847	4.237
	6-10 Years		5.794	3.747	3.848	4.373	3.838
	10-15 Years		6.484	3.884	3.978	4.847	2.488
	15 Years and above		6.993	4.473	4.848	5.484	2.383`
	Leven's test for equity of variance	Levene's statistic	8.938*	12.737***	23.747**	4.747**	8.838
	One-way ANOVA	F- statistic	12.848***	11.737**	3.773**	10.737***	5.728***

** and *** indicates statistical significance at the 0.05 and 0.01 level, respectively.

Financing preferences across firm-specific factors

This table 4.10 examines the difference in financing preferences across firm-specific factors: legal status, business stage, firm size, sector, and export activity. As table shows, the F-statistics indicate statistically significant differences among sole proprietorships, partnerships, and private limited firms for IEF, STF, LTF, and OFF. For each of these financing preferences, the means become increasingly higher when moving from a sole proprietorship to a partnership and then to a private limited firm. However, despite a firm's legal status, IEF is the highest preferred financing source among the responding Nepalese SMEs. Our results are consistent with Abor (2008) who finds that legal status is an important factor in deciding on the type of funds that firms use. Van Auken and Neeley (1996) also find that ownership structure and firm type affect financing. Their evidence confirms that respondent preferences vary across sole proprietorships, partnerships, and private limited firms.

Table 4.10 also shows that financing preferences differ across the establishment of the firm: (1) 0 to 5 years, (2) 5 to 10 years, (3) 10- 15 years and (4) 15 years and above. As firms grow older, their financing preference for IEF and OFF increases. As companies move out of the 5 years and above, their preferences for both STF and LTF increase. A plausible explanation for this finding is that lending institutions are sceptical of younger firms because of information opacity and less creditworthiness (Berger & Udell, 1998). Therefore, firms in the incubation stage generally prefer personal savings and owner funds.

Financing preferences also vary across the assets size of less than 10 crore and 10 to 25 crores. Micro-and small-size firms require relatively less funds than their medium-size counterparts. The one-way ANOVA shows statistically significant size differences in respondent preferences for IEF, STF, OFF, and EFF. As firm size increases, the preference for IEF, STF, and LTF also increases, as indicated by their means. Thus, increasing a firm's size requires greater levels of funding to finance the business.

The independent t-tests in Table 4.10 show that preferences for STF, LTF, and OFF differ significantly between manufacturing and service firms. Specifically, manufacturing firms prefer higher levels of these financing sources than do service firms. Such preferences could depend on the accessibility of such funds. Manufacturing SMEs with tangible assets are more likely to obtain financing from external sources than service firms with fewer tangible assets. Our findings are generally consistent with Kumar and Rao (2016) who find differing financing patterns between Nepalese SMEs in the manufacturing and service sectors.

Financing preferences across Owners/ Managers characteristics

Financing preferences are not only governed by firm characteristics but also by management behavior toward the source of financing (Nguyen & Ramachandran, 2006). This section deals with the difference in financing preferences across respondent demographics including gender, age, education, and experience.

Male and female business owners have different views about business financing. Verheul and Thurik (2001) classify the impact of gender on SMEs' financing into direct and indirect effects. A direct effect involves how male and female entrepreneurs finance their firms whereas an indirect effect refers to differences in business type, management, and experience. Harrison and Mason (2007) find differences in male and female entrepreneurs based on discrimination, abilities and preferences, and competition.

Our study highlights financing preferences across owner/manager characteristics. Table 4.11 reports statistically significant differences between male and female preferences for IEF, LTF, OFF, and EEF. Contrary to Watson et al. (2009), our results show that females prefer a higher level of EEF than their male counterparts. However, women prefer a lower level of IEF, LTF, and OFF than men.

The F-statistics reported in Table 4.11 indicate that age has no significantly affects financing preferences for IEF, STF, LTF, OFF, and EEF. Of these preferences, the most consistent pattern involves age and EFF. Specifically, the financing preference for IEF increases with each successively older age category. Respondents who are older than 65 years of age indicate the strongest preference among the age groups for EEF. According to Briozzo and Vigier (2009), obtaining external funds from formal institutions becomes less difficult with increasing age.

Table 4.11 also reveals a statistically significant difference between educational level and financing preference for IEF and OFF. As Table 4.11 shows, financing preferences of respondents with 0-3 years, 3- 6 years, 6- 10 years, 10- 15 years and 15 years and above experience of running their current businesses differ significantly for IEF, STF, LTF, OFF, and EEF. Respondents with more experience in the present business exhibit a stronger preference for IEF but a lesser preference for EEF. The preferences for STF, LTF, and OFF increase with business experience.

Table 4.12

Financing practices across firm-specific factors

			Financing practices				
			IEF	STF	LTF	OFF	EFF
Legal status	Sole proprietorship	Mean	4.243	2.574	4.756	2.647	3.474
	Partnership		4.467	2.735	3.657	2.874	4.756
	Private limited		5.341	1.436	3.748	3.472	4.847
	Leven's test for equity of variance	Levene's statistic	4.575***	5.747***	4.746	9.463***	3.746**
	One-way ANOVA	F- statistic	4.585**	6.858**	9.748	5.768**	4.858***
Establishment	0-5 Years	Mean	3.758	3.757	3.857	2.947	2.756
	5-10 Years		4.574	4.145	2.583	3.037	4.732
	10-15 Years		4.773	5.145	2.957	2.671	3.673
	15 Years or more		4.784	4.867	4.567	3.958	2.474
	Leven's test for equity of variance	Levene's statistic	5.498***	8.567**	5.372***	10.643**	6.362**
	One-way ANOVA	F- statistic	3.273***	4.736***	5.736**	9.647***	12.764
Assets	Less than 10 Crore	Mean	2.463	3.636	3.857	4.572	2.472
	10-25 Crore		3.734	4.525	4.923	3.127	2.471
	Leven's test for equity of variance	Levene's statistic	4.737**	3.474**	5.382*	7.383***	8.463
	One-way ANOVA	F- statistic	8.352	3.272	6.183	4.272	5.123
Core business	Manufacturing		3.526	4.747	3.452	6.152	3.193
	Service		3.762	3.737	2.351	4.261	2.361
	Trading		2.736	3.283	2.182	2.473	5.383
	Leven's test for equity of variance	Levene's statistic	8.363	5.282**	7.373**	6.252***	5.282
	One-way ANOVA	F- statistic	5.362	4.373***	3.272*	3.272**	4.262

** and *** indicates statistical significance at the 0.05 and 0.01 level, respectively

Table 4.13

Financing practices across Owners/Managers characteristics

			Financing practices				
			IEF	STF	LTF	OFF	EFF
Gender	Male	Mean	5.484	2.497	3.747	3.847	4.237
	Female		5.794	3.747	3.848	4.373	3.838
	Leven's test for equity of variance	Levene's statistic	6.747	4.747**	8.838**	5.838***	7.838
	Independent t- test	F- statistic	6.939	3.949***	2.848*	4.646**	3.929
Age	0-5 Years	Mean	4.848	2.484	3.548	3.579	4.858
	20-30		5.484	2.497	3.747	3.847	4.237
	30-40		5.794	3.747	3.848	4.373	3.838
	40-50		6.484	3.884	3.978	4.847	2.488
	Leven's test for equity of variance	Levene's statistic	6.737**	7.679**	4.834*	8.646***	9.773
	One-way ANOVA	F- statistic	9.646***	5.747**	7.747	5.757**	4.937*
Education	None	Mean	4.374	3.757	2.94	3.757	2.747
	School		2.848	3.747	2.784	4.764	3.757
	University		3.747	4.764	2.747	4.747	3.747
	Leven's test for equity of variance	Levene's statistic	6.834***	9.473**	4.858***	12.746**	7.747**
	One-way ANOVA	F- statistic	4.747***	4.757***	3.858**	10.747***	13.747
Experience	0-3 Years	Mean	2.489	5.765	4.764	4.646	4.747
	3-6 Years		3.455	3.857	2.947	3.949	2.848
	6-10 Years		3.575	2.623	2.647	3.747	2.747
	10-15 Years		5.484	3.747	3.747	4.757	2.848
	15 Years and above		6.993	4.473	4.848	5.484	2.383`
	Leven's test for equity of variance	Levene's statistic	4.566***	6.836***	3.747**	12.7847***	4.848
	One-way ANOVA	F- statistic	6.747**	12.373**	13.737***	5.938**	6.838

** and *** indicates statistical significance at the 0.05 and 0.01 level, respectively.

Financing practices across firm-specific factors

This table 4.12 examines the difference in financing practices across firm-specific factors: legal status, business stage, firm size, sector, and export activity. As table shows, the F-statistics indicate statistically significant differences among sole proprietorships, partnerships, and private limited firms for IEF, STF, OFF, and EFF. For each of these financing practices, the means become increasingly higher when moving from a sole proprietorship to a partnership and then to a private limited firm.

However, despite a firm's legal status, IEF is the highest practices financing source among the responding Nepalese SMEs. Table 4.12 also shows that financing practices differ across the establishment of the firm: (1) 0 to 5 years, (2) 5 to 10 years, (3) 10-15 years and (4) 15 years and above. As firms grow older, their financing practices for IEF and STF increases. As companies move out of the 5 years and above, their practices for both IEF and STF increase.

Financing practices also vary across the assets size of less than 10 crore and 10 to 25 crores. Micro-and small-size firms require relatively less funds than their medium-size counterparts. The one-way ANOVA shows no statistically significant size differences in respondent practices for IEF, STF, LTF, OFF, and EFF. As firm size increases, the preference for IEF, and OFF also increases, as indicated by their means. Thus, increasing a firm's size requires greater levels of funding to finance the business.

The independent t-tests in Table 4.12 show that practices for STF, LTF, and OFF differ significantly between manufacturing and service firms. Specifically, manufacturing firms practices higher levels of these financing sources than do service firms. Such practices could depend on the accessibility of such funds. Manufacturing SMEs with tangible assets are more likely to obtain financing from external sources than service firms with fewer tangible assets.

Financing practices across Owners/ Managers characteristics

This section deals with the difference in financing practices across respondent demographics including gender, age, education, and experience.

Our study highlights financing practices across owner/manager characteristics. Table 13 reports statistically significant differences between male and female preferences for STF, LTF and OFF. However, a woman practices a lower level of IEF, STF, LTF, and OFF than men.

The F-statistics reported in Table 4.13 indicate that age significantly affects financing practices for IEF, STF, OFF, and EEF. Of these practices, the most consistent pattern involves age and LTFF. Specifically, the financing practices for IEF, STF, LTF and OFF increases with each successively older age category. Respondents who are older than 65 years of age indicate the strongest practices among the age groups for IEF.

Table 4.13 also reveals a statistically significant difference between educational level and financing practices for IEF, STF, LTF and OFF.

As Table 4.13 shows, financing practices of respondents with 0-3 years, 3- 6 years, 6-10 years, 10- 15 years and 15 years and above experience of running their current businesses differ significantly for IEF, STF, LTF and OFF. Respondents with more experience in the present business exhibit a stronger preference for IEF but a lesser preference for EEF. The preferences for STF and EFF increase with business experience.

Table 4.14

Coding of variables used in the regression.

This table presents the coding of the variables used in regression.

S. No.	Variables	Symbol	Reference category	Coding of variables
1	Gender (Nominal)	Gen	Female	Male = 1 Female = 0
2	Age (Ordinal)	Age	Above 56 years	$Age_1 \leq$ 25-35 years Age_2 = 36–55 years
3	Education (Ordinal)	Edu	Post graduate	Edu_1 = School certificate Edu_2 = Bachelor's degree
4	Experience (Ordinal)	Exp	High experience (> 10 years)	Exp_1 = Low (< 3 years) Exp_2 = Moderate (4–10 years)
5	ownership (nominal)	Own	Manager/employee	Owner = 1 Manager/Employee =
6	Legal status	LS	Private limited	LS_1 = Sole Proprietorship LS_2 = Partnership
7	Sector	Sec	Service	Manufacturing = 1 Service = 0
8	Business stage	BS	Incubation	BS_1 = Growth BS_2 = Maturity and Expansion
9	Firm size	FS	Medium	FS_1 = Micro FS_2 = Small
10	Export activity	EA	Non exporters	EA_1 = Exporters EA_2 = Non exporters
11	Mode of acquisition	MA	Inherited	MA_1 = Started from Scratch MA_2 = Purchased
12	Motives behind business	MB	No job after college	MB_1 = Entrepreneurial ability MB_2 = Led of retrenchment of job MB_3= Growth MB_4 = After college joined the business

Table: 4.15

Results of the regression analysis. This table shows the results of hierarchical regression models used in the study.

	Variables	IEF- PRAC				STF- PRAC			
		M1	M2	M3	M4	M5	M6	M7	M8
	Constant	2.648***	1.757***	1.858***	2.867***	1.574**	2.646***	3.752***	2.592***
FP	IEF_PREF	0.317***	0.638***	0.656***	0.651***	− 0.044	−0.118**	− 0.154***	− 0.190***
	STF_PREF	− 0.029*	−0.028	− 0.009	− 0.146***	0.674***	0.605	0.601***	0.698***
	LTF_PREF	0.019	0.018	0.011	0.057*	0.056	0.077*	0.047	− 0.040
	OFF_PREF	0.306***	0.106**	0.076*	− 0.012	0.111*	0.037	− 0.007	− 0.008
	EEF_PREF	− 0.228	−0.036	− 0.071**	− 0.068**	− 0.166**	−0.086**	− 0.050	− 0.070**
RF	Edu_1		0.037	0.039	0.114		0.176*	0.115	0.204**
	Edu_2		0.033	0.072	0.183**		0.104	0.098	0.132
	Age_1		0.007	0.1	0.393**		−0.591***	− 0.565***	− 0.560***
	Age_2		0.074	0.088	0.281**		−0.209	− 0.278**	− 0.344**
	Exp_1		0.313***	0.183*	0.074		−0.124	− 0.299***	− 0.313***
	Exp_2		0.055	0.036	− 0.013		−0.326***	− 0.535***	− 0.373***
	Gen		0.127*	0.180**	0.311***		0.177*	0.233**	0.320***
	Own		−0.040	− 0.031	− 0.043		−0.437**	− 0.429**	− 0.515***
MA & MB	MA_1			− 0.059	− 0.050			− 0.047	− 0.009
	MA_2			0.123	0.2			1.048***	1.116***
	MB_2			0.068	0.096			− 0.167	− 0.165
	MB_3			− 0.237**	− 0.191**			0.092	− 0.004
	MB4			− 0.308**	− 0.310***			0.129	0.067
FF	LS_1				− 0.168***				− 0.336***
	LS_2				0.023				− 0.052
	BS_1				0.105				0.255***
	Sec				0.029				− 0.214***
	FS1				− 0.132				0.098
	S2				-0.362				0.103
	EA				− 0.309***				− 0.360***
	F Stats	50.120***	21.544***	18.145***	0.329***	46.201***	28.307	27.947***	24.937***
	R Square				16.880***				0.688***
	Adjusted R Square	0.453***	0.487***	0.530***	0.599***	0.433***	0.555***	0.634***	0.660***
	Durbin Watson	0.444***	0.464***	0.500***	0.563***	0.423***	0.535***	0.612***	2.012
	VIF	< 10 for all variables in all models				< 10 for all variables in all models			

Table: 4.16

Results of the regression analysis. This table shows the results of hierarchical regression models used in the study.

	Variables	LTF- PRAC				OFF- PRAC			
		M9	M10	M11	M12	M13	M14	M15	M16
	Constant	3.231***	2.411^{***}	3.627^{***}	2.306^{***}	1.865^{***}	3.156^{***}	2.618^{***}	1.489^{***}
FP	IEF_PREF	− 1.643	-0.532	-0.753^{***}	-0.342^{***}	0.216	0.143^{**}	0.075	2.077
	STF_PREF	0.234	0.353	0.123	0.03	0.086^{**}	0.06	0.079^{**}	0.118^{**}
	LTF_PREF	0.755^{***}	0.966	0.255^{**}	0.186^{**}	− 0.065*	− 0.037	-0.063^{**}	-0.106^{***}
	AFF_PREF	− 0.064	-1.018	− 0.082	-0.123^{**}	0.637^{***}	0.551^{***}	0.519^{***}	0.535^{***}
	EEF_PREF	-0.021^{*}	-0.561	− 0.037	− 0.056	− 0.091***	-0.085^{***}	-0.088^{***}	-0.079^{***}
RF	Edu$_1$		0.233	0.088	0.163		0.279^{***}	0.164^{**}	0.240^{***}
	Edu$_2$		− 1.003	− 0.007	0.044		0.233^{***}	0.186^{***}	0.162^{**}
	Age$_1$		-2.726^{***}	-0.771^{***}	− 0.675***		− 0.149	− 0.157	− 0.194
	Age$_2$		-3.575^{***}	-0.702^{***}	-0.676^{***}		− 0.011	− 0.024	− 0.114
	Exp$_1$		1.147	0.082	0.171		− 0.028	-0.177^{*}	-0.259^{**}
	Exp$_2$		2.654	− 0.027	0.015		-0.188^{***}	-0.255^{***}	-0.345^{***}
	Gen		1.543	0.149	0.295^{***}		-0.433^{***}	-0.535^{***}	-0.404^{***}
	Own		− 0.455	− 0.004	0.106		0.109	0.148	− 0.064
MA & MB	MA$_1$			0.009	− 0.016			-0.235^{***}	-0.235^{***}
	MA$_2$			0.619^{***}	0.558^{***}			− 0.180	− 0.062
	MB$_2$			-0.417^{***}	-0.378^{***}			0.491^{***}	0.533^{***}
	MB$_3$			0.272^{**}	0.209^{*}			0.170^{*}	0.16*
	MB4			-0.280^{**}	-0.369^{***}			− 0.008	0.02
FF	LS$_1$				− 0.043				-0.230^{***}
	LS$_2$				0.007				− 0.065
	BS$_1$				0.440^{***}				0.247^{***}
	Sec				0.139^{*}				0.109*
	FS1				-0.330^{**}				0.331^{***}
	S2				− 0.181				0.121
	EA				-0.432				-0.232
	F Stats	11.838***	6.573^{***}	7.888	7.618***	23.817***	32.063	29.428^{***}	-0.182^{**}
	R Square	12.353***	21.827***	12.674***	7.618^{***}	61.737***	42.182***	23.459***	25.545^{***}
	Adjusted R Square	31.648***	0.225^{***}	0.329^{***}	0.402^{***}	12.7847***	0.586^{***}	0.646^{***}	0.693^{***}
	Durbin Watson	0.298***	0.190^{***}	0.287^{***}	0.349^{***}	48.271***	0.567^{***}	0.624^{***}	0.666^{***}
	VIF	< 10 for all variables in all models				< 10 for all variables in all models			

*, **, *** indicates the statistically significant at 0.10, 0.05 & 0.01 respectively= Financial Preferences, RF= Respondent Features, MA & MB= Mode of acquisition & motive behind the business, and FF= Firm Features; M1 to M16 represents the model. Table... defines all variables

4.4 Results of the regression analysis

Regression results for IEF_PRAC

Model 1 shows that IEF_PREF and OFF_PREF exhibit a statistically significant positive relation with IEF_PRAC. The findings imply that owners who have a high preference for internal equity and other forms of financing are more likely to use retained earnings and their own funds than to rely on external financing sources. Model 2 reveals that respondents with little experience (< 4 years) use more internal equity than more experienced respondents.

Model 3 introduces MA and MB in the regression equation. The results show that EEF_PREF exhibits a negative relation with IEF_PRAC indicating a reluctance of SME owners or managers toward external equity. Model 3 predicts that male respondents use more internal financing than females. Those who want to expand the business and joined the business after college exhibit a negative relation with IEF_PRAC compared to those who started a business due to the unavailability of jobs after college (MB3 and MB4).

Model 4 contains all four set of predictor variables and also includes firm-specific features. The results show that younger respondents with moderate experience are positively associated with IEF_PRAC as compared to older (> 55 years) respondents with high experience. Further, sole proprietors and small firms exhibit a negative relation with IEF_PRAC as compared to private limited firms and medium-sized firms, respectively. A positive association exists between using internal funds by export-oriented firms compared to non-exporters.

Regression results for STF_PRAC

Models 5 to 12 depict the formal external sources of debt financing. The following discusses the key results for each model. Model 5 reveals a positive relation between STF_PREF, OFF_PREF, and STF_PRAC and a negative association for EEF_PREF and STF_PRAC. Model 6 indicates a statistically significant inverse relation of IEF_PREF with STF_PRAC and a positive association with LTF_PREF. Respondents with less education exhibit a positive relation with STF_PRAC compared to respondents with higher education. A negative association exists between STF _PRAC and younger respondents relative to older respondents. Less experienced respondents exhibit a negative association with STF_PRAC when compared to those with more experience. Owners exhibit a negative association with STF_PRAC compared to non-owners or managers.

Model 7 documents a positive association between STF_PRAC and those who bought firms compared to those who inherited them. Model 8 also incorporates firm features such as sole proprietorship, manufacturing sector, and export-orientation along with the other three sets of independent variables, namely financing preferences (FP), respondent features (RF), and modes of acquisition and motives behind doing business (MA & MB). The results reveal a negative association with STF_PRAC compared to private limited firms, service sector, and non-exporters, respectively. Firms in the incubation stage show a positive relation with STF_PRAC compared to established and mature firms.

Regression results for LTF_PRAC

Models 9 to 12 help to explain the influence of predictor variables on LTF_PRAC. Model 9 involves the influence of financing preferences only. It shows that LTF_PREF and EEF_PREF are positively and negatively associated with the LTF_PRAC, respectively.

Model 10 includes owner-specific variables. It reveals that EEF_PREF becomes statistically insignificant and younger respondents exhibit a negative association with LTF_PRAC compared to older respondents.

Model 11 documents that respondents who bought firms show a positive association with LTF_PRAC. Model 12 for LTF_PRAC includes all the independent variables. It reveals a negative association of IEF_PREF and OFF_PREF with LTF_PRAC. The findings also indicate a positive association between males and LTF_PRAC compared to females. Further, firms in the incubation stage and operating in the manufacturing sector show a positive relation with LTF_PRAC compared to mature and service sector SMEs. However, micro firms are negatively related with LTF_PRAC compared to medium-sized firms.

Regression results for OFF_PRAC

Models 13 to 16 incorporate the analysis of OFF_PRAC. Model 13 reveals the statistically significant predictors of OFF_PRAC are STF_PREF (+), LTF_PREF (−), OFF_PREF (+), and EEF_PREF (−). However, when including owner-specific features in model 14, IEF_PREF show a positive association with OFF_PRAC and STF_PREF; LTF_PREF becomes insignificant unlike in model 13. Model 14 explicitly depicts the effect of adding owner features in the model. It also shows that less educated respondents show a positive relation with OFF_PRAC compared to highly educated respondents. By contrast, more experienced respondents and females exhibit a positive relation with OFF_PRAC compared to less experienced and male respondents, respectively.

Model 15 adds variables including modes of acquisition and motives behind the business. The findings reveal that those who started their business are negatively related with OFF_PRAC compared to those who inherited their business. Further, respondents whose main motive is to expand the business or those who started a business because of retrenchment or being lay off from a previous job exhibit a positive association with OFF_PRAC compared to those who started a business due to job unavailability. MB2 and MB3 are positively related with OFF_PRAC. This result implies that using OFF _PRAC increases if a SME owner/manager wants to expand or if the owner started the business due to retrenchment or being laid off from a previous job.

Model 16 includes firm features and documents that sole proprietorships are inversely related with OFF_PRAC compared to private limited firms. Manufacturing, small-size, and new firms show a positive association with OFF_PRAC compared to service, medium-sized, and mature firms. Exporters exhibit an inverse relation with OFF_PRAC as compared to non-exporters.

Table 4.17

Result of hypothesis

S. No.	Alternative Hypothesis	Accept/ reject
H_1a	There is a significant difference in financing preferences among various legal statuses.	Accept
H_1b	There is a significant difference in financing preferences among various establishment of the firm.	Accept
H_1c	There is a significant difference in financing preferences among various assets size.	Accept
H_1d	There is a significant difference in financing preferences among various core businesses.	Partially Accept
H_2a	There is a significant difference in financing preferences among various genders.	Partially Accept
H_2b	There is a significant difference in financing preferences among various ages of the clients.	Reject
H_2c	There is a significant difference in financing preferences among various educations of the clients.	Partially Accept
H_2d	There is a significant difference in financing preferences among various experiences of the clients.	Accept
H_3a	: There is a significant difference in financing Practices among various legal statuses.	Accept
H_3b	There is a significant difference in financing Practices among various establishment of the firm.	Accept
H_3c	There is a significant difference in financing Practices among various assets size.	Reject
H_3d	There is a significant difference in financing Practices among various core businesses.	Partially Accept
H_4a	There is a significant difference in financing Practices among various genders.	Partially Accept
H_4b	There is a significant difference in financing Practices among various ages of the clients.	Accept
H_4c	There is a significant difference in financing Practices among various educations of the clients.	Accept
H_4d	There is a significant difference in financing Practices among various experiences of the clients.	Accept

4.5 Summary of findings

- Among the 135 respondent's 40 percent of the respondents were running sole proprietorship business, 28.9 percent of the respondents run partnership firm and 31.1% of the total respondents run private limited companies. Similarly, out of the total respondents71.9 percent of the total respondents run their business having the assets of less than 10 crore and remaining 28.1 percent of the total respondents have the assets between 10 to 25 crore.

- Out of the total respondent's 28.1 percent of the respondents run their business from 0 to 5 years, 31.1 percent respondents run the business for more than 5 years and less than 10 years. Likewise, 17 percent of the total respondents were engaged in the business for more than 10 years and less than 15 years and 23.7 percent of the respondents were engaged in the business from more than 15 years. Similarly, 34.8% of the total respondents were engaged in manufacturing business, 38.5 percent of the total respondents engaged in service activities and remaining 26.7% of the total respondents were engaged in trading business activities.

- Among the 135 respondent 60 percentage of the respondent were male and remaining 40 percentage of the respondents were female. Similarly, 3.7 percent of the respondents who run the business were uneducated, 17 percent of the respondents completed the school level and remaining 79.3 percent of the respondents has pursued the university level education.

- On the other hand, 25.9 percent of the respondents have the working experience up to 3 years, 17 percent of the respondents have the working experience between 3 to 6 years, 23 percent of the respondents have the working experience of 6 to 10 years, 20.7 percent of the respondents have the working experience of 10 to 15 years and remaining 13.3 percent of the respondents have the working experience of 15 years and above.

- Out of the total respondents, 33.3 percent of the total respondents were the age group of 20 to 30 years, 43 percent of the respondents were falls under the age group of 30 to 40 years and remaining 23.7 percent of the respondents falls under the age group of 40 to 50.

- Among the 135 respondent 16.3 percentage of the respondent were inherited for acquisition of the business activities, 37 percent of the respondents were purchased the business and remaining 46.7 percent have start from scratch for the mode of acquisition of the business.

- Similarly, 44.4 percent of the respondents were run entrepreneurship business by generating own ideas and activities, 34.8 percent of the total respondents have the motive of expanding the business, 17 percent of the total respondents were influenced by social pressure after completion of their college, 2.2 percent of the total respondents have the sustainability motive to run the business and remaining 1.5 percent have a monetary support to run the business.

- Most of the respondents were highly preferred to the owner’s fund, which is the source of internal equity financing and very highly preferred to the retained earnings, obtained from previous business transaction. Out of the two sources of internal equity financing, the respondents mostly preferred to retain earning.

- Similarly, the sources of short-term financing are short- term bank loan, bank overdrafts and cash credit. The total respondents neither low preferred nor high preferred to short term bank loans, bank overdrafts and cash credit. Out of the sources of short-term financing, most of the respondent preferred the bank overdrafts to run the business.

- The sources of long-term financing are long term bank loan and long-term government financing schemes. Out of the total respondents, most of the respondents are highly preferred to long term bank loan and long-term government financing schemes. Similarly, the most of the respondents preferred long term government financing schemes.

- On the other hand, the sources of other forms of financing are trade credit, money lenders and family, friends and relatives. Out of the sources of other form of financing, most of the respondents preferred money lenders

- There are two sources of external equity financing; venture capital and business angels. The most of the respondents preferred, business angels of long-term sources of financing.

- Most of the respondents were highly used to the owner’s fund, which is the source of internal equity financing and very highly used to the retained earnings, obtained from previous business transaction. Out of the two sources of internal equity financing, the respondents mostly used retain earning.

- Similarly, the sources of short-term financing are short- term bank loan, bank overdrafts and cash credit. The total respondents mostly, not at all used short-term bank loan and cash credit. On the other hand, most of the respondents are highly used bank overdrafts. Out of the sources of short-term financing, most of the respondent mostly used the bank overdrafts to run the business.

- The sources of long-term financing are long term bank loan and long-term government financing schemes. Out of the total respondents, most of the respondents are not at all used long term bank loan and long-term government financing schemes. Similarly, the most of the respondents used long term bank loans.

- On the other hand, the sources of other forms of financing are trade credit, money lenders and family, friends and relatives. Out of the sources of other form of financing, most of the respondents used trade credit and family, friends and relative sources of long-term financing while not at all used the money lender of long-term sources of financing.

- There are two sources of external equity financing; venture capital and business angels. The most of the respondents not at all used venture capital and business angels of long-term sources of financing. Similarly, out of the total respondents, venture capital is mostly used by the most of the respondents.

- Out of the total respondents, majority of the preferred low short-term financing, the majority of the respondent highly preferred medium-term financing and the majority of the respondent highly preferred long-term financing. So, the long-term financing was ranked as first while preferring the term financing to run the business.

- Out of total 135 respondents more than 80 percent of the respondents given a first choice to the internal funding, 14.2 percent of the total respondent give second choices to internal funding, 2.6 percent of the respondent give third choices to internal funding and gradually less respondents do not give priority to the internal funding.

- Similarly, 19.3 percent of the respondent give first priority to bank financing, 50.9 percent gives the second choices, 15.4 percent gives the third choices, 12.2 percent gives the third choices, 0.9 percent of the total respondent gives the fifth choices and 1.4 percent of the total respondents give the less priority to bank financing.

- Similarly, majority of the respondents have given fourth choices for government funding schemes, while only 5.9 percent of the total respondents gives the first priority to the government funding schemes. 24.9 percent of the total respondents give the third priority to the government funding schemes and 8.5 percent of the total respondents give the less priority to the government funding schemes.

- Likewise, majority of the respondents gives third choices for the family, friends and relative money, 24.9 percent gives the fifth choices, o.6 percent gives the first choices, 18 percent gives the second choices and 10 percent gives less priority to the family, friends and relative money.

- Similarly, majority of the respondents gives less priority to money lenders. Only 3.6 percent of the total respondents give the first priority to the money lenders. 4.6 percent gives the second choices, 13 percent gives the third choices and 17.9 percent gives the fourth choices for money lenders.

- Likewise, more than 67 percent of the total respondents do not give priority to external equity. Only 4.9 percent of the total respondent’s gives first choices to external equity, 1.6 percent give second choices, 0.6 percent gives third choices, 4.5 percent gives fourth choices and 21.2 percent of the total respondents give fifth choices for external equity.

- There is a significant positive relationship of internal equity financing practices with IEF- PREF, LTF- PREF and OFF- PREF at 1percent level of significance. Therefore, the IEF practice is correlated with IEF- PREF, LTF- PREF and OFF- PREF. But, IEF- PRAC has no relationship with the STF- PREF and EFF- PREF. Similarly, STF- PRAC has significant positive correlation with the STF- PREF, OFF- PREF and EFF- PREF at 1 percent level of significant but there is no any relationship of STF- PRAC with IEF- PREF and LTF- PREF.

- Similarly, LTF- PRAC has significant positive relationship with IEF- PREF, STF- PREF, OFF- PREF and EFF- PREF but there is no correlation of LTF- PRAC with LTF- PREF. On the other hand, OFF- PRAC is significantly positively correlated with STF- PREF and OFF- PREF at 1 percent level of significant and it is positively correlated with IEF- PREF and EFF- PREF at 5 percent level of significance but it is not correlated with the LTF- PREF.

- EFF- PRAC is significantly positively correlated with STF- PREF, OFF- PREF and EFF- PREF at 1 percent level of significance and negatively correlated with IEF- PREF at 1 percent level of significant, but it is not correlated with the LTF- PREF.

- There is a positive significant impact on IEF- PRAC of IEF- PREF at 1 percent level of significant with a mean difference of 3.67 and standard deviation 1.09. Therefore, it is concluded that, internal equity financing preferences has influenced the internal equity financing practices. Similarly, STF- PREF has significant impact on STF- PRAC at 1 percent level of significance with a mean difference of 2.94 and standard deviation of 0.8. So, it is concluded that, STF_ PREF influence the STF- PRAC.

- Similarly, LTF- PREF has the positive significant impact on STF- PRAC at a significance level of 1 percent, with mean differences of 3.37 and standard deviation of 1.63. Therefore, it is concluded that, LTF- PREF has influenced LTF- PRAC. Likewise, OFF- PREF has no significant impact on OFF- PRAC at any level of significant. So, there is no any influence of OFF- PREF on OFF- PRAC. The mean difference is 2.67 and the standard deviation is 1.63.

- The F-statistics indicate statistically significant differences among sole proprietorships, partnerships, and private limited firms for IEF, STF, LTF, and OFF. For each of these financing preferences, the means become increasingly higher when moving from a sole proprietorship to a partnership and then to a private limited firm. However, despite a firm's legal status, IEF is the highest preferred financing source among the responding Nepalese SMEs.

- The financing preferences differ across the establishment of the firm: (1) 0 to 5 years, (2) 5 to 10 years, (3) 10- 15 years and (4) 15 years and above. As firms grow older, their financing preference for IEF and OFF increases. As companies move out of the 5 years and above, their preferences for both STF and LTF increase.

- The one-way ANOVA shows statistically significant size differences in respondent preferences for IEF, STF, OFF, and EFF. As firm size increases, the preference for IEF, STF, and LTF also increases, as indicated by their means. Thus, increasing a firm's size requires greater levels of funding to finance the business.

- Specifically, manufacturing firms prefer higher levels of these financing sources than do service firms. Such preferences could depend on the accessibility of such funds. Manufacturing SMEs with tangible assets are more likely to obtain financing from external sources than service firms with fewer tangible assets.

- The financing preferences across owner/manager characteristics. Table 10 reports statistically significant differences between male and female preferences for IEF, LTF, OFF, and EEF.

- The F-statistics reported in Table 4.11 indicate that age significantly affects financing preferences for IEF, STF, OFF, and EEF. Of these preferences, the most consistent pattern involves age and EFF. Specifically, the financing preference for IEF increases with each successively older age category. Respondents who are older than 65 years of age indicate the strongest preference among the age groups for EEF.

- There is a statistically significant difference between educational level and financing preference for IEF and OFF. However, the relation between education level and these financing preferences varies.

- The financing preferences of respondents with 0-3 years, 3- 6 years, 6- 10 years, 10- 15 years and 15 years and above experience of running their current businesses differ significantly for IEF, STF, LTF, OFF, and EEF. Respondents with more experience in the present business exhibit a stronger preference for IEF but a lesser preference for EEF. The preferences for STF, LTF, and OFF increase with business experience.

- IEF_PREF and OFF_PREF exhibit a statistically significant positive relation with IEF_PRAC. The findings imply that owners who have a high preference for internal equity and other forms of financing are more likely to use retained earnings and their own funds than to rely on external financing sources.

- The results show that EEF_PREF exhibits a negative relation with IEF_PRAC indicating a reluctance of SME owners or managers toward external equity. Male respondents use more internal financing than females. Those who want to expand the business and joined the business after college exhibit a negative relation with IEF_PRAC compared to those who started a business due to the unavailability of jobs after college (MB3 and MB4).

- The results show that younger respondents with moderate experience are positively associated with IEF_PRAC as compared to older (> 55 years) respondents with high experience. Further, sole proprietors and small firms exhibit a negative relation with IEF_PRAC as compared to private limited firms and medium-sized firms, respectively. A positive association exists between using internal funds by export-oriented firms compared to non-exporters.

- There is a positive relation between STF_PREF, OFF_PREF, and STF_PRAC and a negative association for EEF_PREF and STF_PRAC. There is a statistically significant inverse relation of IEF_PREF with STF_PRAC and a positive association with LTF_PREF. Respondents with less education exhibit a positive relation with STF_PRAC compared to respondents with higher education. A negative association exists between STF _PRAC and younger respondents relative to older respondents. Less experienced respondents exhibit a negative association with STF_PRAC when compared to those with more experience. Owners exhibit a negative association with STF_PRAC compared to non-owners or managers.

- There is a positive association between STF_PRAC and those who bought firms compared to those who inherited them. Model 8 also incorporates firm features such as sole proprietorship, manufacturing sector, and export-orientation along with the other three sets of independent variables, namely financing preferences (FP), respondent features (RF), and modes of acquisition and motives behind doing business (MA & MB). The results reveal a negative association with STF_PRAC compared to private limited firms, service sector, and non-exporters, respectively. Firms in the incubation stage show a positive relation with STF_PRAC compared to established and mature firms.

- LTF_PREF and EEF_PREF are positively and negatively associated with the LTF_PRAC, respectively. Similarly, that EEF_PREF becomes statistically insignificant and younger respondents exhibit a negative association with LTF_PRAC compared to older respondents.

- There is a positive association with LTF_PRAC. Model 12 for LTF_PRAC includes all the independent variables. It reveals a negative association of IEF_PREF and OFF_PREF with LTF_PRAC. The findings also indicate a positive association between males and LTF_PRAC compared to females. Further, firms in the incubation stage and op- erating in the manufacturing sector show a positive relation with LTF_PRAC compared to mature and service sector SMEs. However, micro firms are negatively related with LTF_PRAC compared to medium-sized firms.

- There is a statistically significant predictors of OFF_PRAC are STF_PREF (+), LTF_PREF (−), OFF_PREF (+), and EEF_PREF (−). However, when including owner-specific features in model 14, IEF_PREF show a positive association with OFF_PRAC and STF_PREF; LTF_PREF becomes insignificant. It also shows that less educated respondents show a positive relation with OFF_PRAC compared to highly educated respondents. By contrast, more experienced respondents and females exhibit a positive relation with OFF_PRAC compared to less experienced and male respondents, respectively.

- Those who started their business are negatively related with OFF_PRAC compared to those who inherited their business. Further, respondents whose main motive is to expand the business or those who started a business because of retrenchment or being lay off from a previous job exhibit a positive association with OFF_PRAC compared to those who started a business due to job unavailability. MB2 and MB3 are positively related with OFF_PRAC. This result implies that using OFF _PRAC increases if a SME owner/manager wants to expand or if the owner started the business due to retrenchment or being laid off from a previous job.

- The sole proprietorships are inversely related with OFF_PRAC compared to private limited firms. Manufacturing, small-size, and new firms show a positive association with OFF_PRAC compared to service, medium-sized, and mature firms. Exporters exhibit an inverse relation with OFF_PRAC as compared to non-exporters.

CHAPTER V
DISCUSSION, CONCLUSION AND IMPLICATION

This chapter presents the discussion of the results and findings which has been obtained from data analysis, conclusion and implications that could be drawn from the study. The chapter has been divided into three segments. The first segment is driven towards discussing which involves comparison of the findings of this study and to give answer for the research question to meet the objective of the research. Likewise, the conclusion is drawn in the second segment from the result obtained from the data analysis inferred in the study whereas an implication of the study is in the third segment.

5.1 Discussion

The general objective of the study is to identify the financing preferences and practices of SMEs in Nepal. A number of hypotheses examined the relationship of different variables that could helps to identify the financing preferences and practices of SMEs in Nepal.

The study found that, there is a statistically significant difference among sole proprietorships, partnerships, and private limited firms for IEF, STF, LTF, and OFF. For each of these financing preferences, the means become increasingly higher when moving from a sole proprietorship to a partnership and then to a private limited firm. However, despite a firm's legal status, IEF is the highest preferred financing source among the responding Nepalese SMEs. Our results are consistent with Abor (2008) who finds that legal status is an important factor in deciding on the type of funds that firms use. Van Auken and Neeley (1996) also find that ownership structure and firm type affect financing. Their evidence confirms that respondent preferences vary across sole proprietorships, partnerships, and private limited firms.

The study found that preferences for STF, LTF, and OFF differ significantly between manufacturing and service firms. Specifically, manufacturing firms prefer higher levels of these financing sources than do service firms. Such preferences could depend on the accessibility of such funds. Manufacturing SMEs with tangible assets are more likely to obtain financing from external sources than service firms with fewer tangible assets. Our findings are generally consistent with Kumar and Rao (2016) who find differing financing patterns between Nepalese SMEs in the manufacturing and service sectors.

Financing preferences are not only governed by firm characteristics but also by management behavior toward the source of financing (Nguyen & Ramachandran, 2006). This section deals with the difference in financing preferences across respondent demographics including gender, age, education, experience, and ownership.

Male and female business owners have different views about business financing. Verheul and Thurik (2001) classify the impact of gender on SMEs' financing into direct and indirect effects. A direct effect involves how male and female entrepreneurs finance their firms whereas an indirect effect refers to differences in business type, management, and experience. According to Watson, Newby, and Mahuka (2009), females are more risk averse and hesitant to access external sources of funds. Harrison and Mason (2007) find the differences in male and female entrepreneurs based on discrimination, abilities and preferences, and competition. Our study highlights financing preferences across owner/manager characteristics. Our study reports statistically significant differences between male and female preferences for IEF, LTF, OFF, and EEF. Contrary to Watson et al. (2009), our results show that females prefer a higher level of EEF than their male counterparts. However, women prefer a lower level of IEF, LTF, and OFF than men.

The study indicates that age has no significant affects financing preferences for IEF, STF, LTF, OFF, and EEF. Of these preferences, the most consistent pattern involves age and IEF. Specifically, the financing preference for IEF increases with each successively older age category. Respondents who are older than 65 years of age indicate the strongest preference among the age groups for EEF. According to Briozzo and Vigier (2009), obtaining external funds from formal institutions becomes less difficult with increasing age.

The study also reveals a statistically significant difference between educational level and financing preference for IEF and OFF. However, the relation between education level and these financing preferences varies. Unlike Coleman (2007) and Borgia and

Newman (2012), our results do not show a positive relation between the educational level of SME owners/managers and leverage.

As young firms have very less bargaining power due to their failure in information opacity which is the consequences of not having established track record which leads to reluctance of banks and financial institutions to lend (Berger & Udell, 1998).There is a positive effect of firm age on the ability to access external finance (Quartey, 2001). The study is contradictory with the study of (Berger & Udell, 1998) and (Quartey, 2001)

A study by Storey and Wynarczyk (1996) reported that SMEs choice and use of finance might be dominated by the sector they are involved in. As the sector of any firm is influence by the market in which it is involved so growth and survival rate of the market industry influences the choices of finance for such SMEs. The study supports the study of Storey and Wynarczyk (1996).

5.2 Conclusion

The purpose of this study was to identify the financing preferences and practices of SMEs of Nepal. Clients of SMEs from Kathmandu Valley have been chosen as sample for the study to identify the financing preferences and practices of SMEs of Nepal.

The results show that respondents prefer internally generated funds. Although they also prefer formal short- and long-term funds, they often do not use these sources. Instead, they rely on trade credit, funds from family, friends, and relatives as well as funds from money lenders. Thus, Nepalese SMEs use informal financing sources more often than formal ones. A statistically significant difference exists between financing preferences and practices of Nepalese SMEs, especially involving formal and informal lending.

Respondents indicate a preference for short-term financing over medium- and long-term financing. Because Nepalese SMEs often lack liquidity and need funds for their daily operations, they rely on short-term sources. Liquidity constraints may also curtain focusing on long-term financing for expansion and growth. Ranking of preferred internal and external financing sources. Although the financing preferences of SMEs vary for different sources, respondents express a preference for internal funding followed by funding from commercial banks and the government. The majority of respondents rank external equity last.

Statistically significant differences exist between the financing preferences and practices involving internal equity financing as well as short- and long-term financing. Firm characteristics including legal status, business state, firm size, sector, and export activity affect financing preferences. Private limited firms exhibit a higher preference for all types of financing sources than do sole proprietorships and partnerships. Business state also affects financing preferences. For example, the preference for IEF increases as a firm moves from the incubation and growth stages to the maturity and expansion stage but the preference for EEF decreases. Financing preferences for IEF, STF, and LTF increase with firm size. Respondents from export-oriented firms exhibit a greater preference for STF, OFF, and EEF than non-exporters.

Financing preferences also differ based on owner/manager characteristics. Females exhibit a high preference for EEF whereas males show a stronger preference for IEF, LTF, and OFF. The preference for IEF increases with each age group and the preference for using EEF generally increase with higher education levels. Greater business experience is associated with higher preferences for IEF, STF, LTF, and OFF but a lower preference for EEF. Compared to non-owners, owners show a lesser preference for using EEF but a greater preference for using OFF.

Among the significant variables that influence the financing practices of Nepalese SME are age, experience, and gender. Older owner/managers use more formal debt (STF and LTF) than their younger counterparts. Respondents with high work experience use more STF and OFF. Male owner-manages are more inclined toward using IEF and debt financing but female respondents use more OFF. Further, exporters mainly use IEF. Manufacturing SMEs use LTF and OFF while service SMEs use STF. These findings highlight the influence of firm’s features in predicting the financing sources used by Nepalese SMEs.

The F-statistics indicate statistically significant differences among sole proprietorships, partnerships, and private limited firms for IEF, STF, OFF, and EFF. For each of these financing practices, the means become increasingly higher when moving from a sole proprietorship to a partnership and then to a private limited firm. However, despite a firm's legal status, IEF is the highest practices financing source among the responding Nepalese SMEs.

As firms grow older, their financing practices for IEF and STF increases. As companies move out of the 5 years and above, their practices for both IEF and STF increase. As firm size increases, the preference for IEF, and OFF also increases, as indicated by their means. Thus, increasing a firm's size requires greater levels of funding to finance the business.

Specifically, manufacturing firms practices higher levels of these financing sources than do service firms. Such practices could depend on the accessibility of such funds. Manufacturing SMEs with tangible assets are more likely to obtain financing from external sources than service firms with fewer tangible assets. There is a statistically significant differences between male and female preferences for STF, LTF and OFF. However, a woman practices a lower level of IEF, STF, LTF, and OFF than men.

Of these practices, the most consistent pattern involves age and LTFF. Specifically, the financing practices for IEF, STF, LTF and OFF increases with each successively older age category. Respondents who are older than 65 years of age indicate the strongest practices among the age groups for IEF. Respondents with more experience in the present business exhibit a stronger preference for IEF but a lesser preference for EEF. The preferences for STF and EFF increase with business experience.

The study also reveals the inability of SME owners to use formal financing sources such as term loans and financing through government schemes and financial institutions, despite their preference to use these sources. Although few owners prefer external equity for meeting their financing requirements, those who do cannot obtain it due to complicated listing procedures or their inability to meet compliance requirements. Further, owners rely on internal sources and generally refrain from using external funds.

5.3 Implication

The study results may provide a useful reference document to SMEs practitioners, experts, policy makers and scholars. The findings of the study might be helpful to

SMEs in developing overall credit management like loan disbursement, credit appraisals systems, and loan repayment procedures. The study is one of the latest topics in case Nepalese financial market because of SMEs being in its early stage. Thus, this study has attempted to open door to investigate further in the arena of different variables like loan duration, same education, loan size, outreach, experience of credit office and many other variables regarding financing preference and practices. In this study, only limited SMEs have been selected. There is a lot of space for further research on other enterprises.

Findings from the study can be used to find out the pattern of financing by the SMEs of Nepal. The managers and credit officers can use the findings relevant in controlling over-indebtness and loan delinquency management with the help of predicting variables like institutional and economic. For this, practitioners can focus on skills development trainings to clients on regular basis to increase their number of financing and the amount of fund financing.

Though there had been few research regarding financial preferences and practices of SMEs outside Nepal, it is highly unsearched from clients and institutional perspective in Nepalese context. Therefore, this study has attempted to open door to investigate further in the field of determinants regarding the financing preferences and practices. Researchers and scholars can also use this study to build on the existing literature on SMEs clients' financing behavior and its significant variables. The findings of this study can used as a source of reference and as a basis for further research to those interested in this area or other related topics. The study will provide background information to other researchers or scholars who would like to investigate more on factors contributing to client's attitude towards SMEs financing. The finding will further provide secondary material for student in SMEs and will encourage and motivate on diverse issues on financing behavior.

There has been number of studies about the financial preferences and practices in case of other countries but very few in the context of Nepal. Hence, this research gives the insight about the financial preferences and practices of SMEs in context of Nepal. The study also gives the valuable suggestions to the researchers, to think about the variables that are to be taken for the study. Because, some variables used for the study may not have any implication. This research provides supporting roles for the future studies that can be carried out by selecting other SMEs companies from other regions of Nepal to grab more evidence about the financial preferences and practices of Nepal.

Finally, the present study is conducted in a place called Kathmandu Valley. All of respondents are from Kathmandu Valley. There is a need for future research to replicate and extend the existing study to other contexts. Replication and extension of existing study to investigate respondents in various areas and countries with different cultures are required for the results to be generalized across different places.

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APPENDIX

Questionnaire:

Financing Preference and Practice of Nepalese SMEs

Dear Respondent,

I am Bhabish Thapa, a student of Masters of Finance & Control degree in School of Management, Tribhuvan University (SOMTU). As a part of course requirement, I am conducting survey on, "Financing Preference and Practice of Nepalese SMEs" for my Graduate Research Project. The survey requires information filled in the questions asked below. I highly appreciate your cooperation and also kindly request you to provide answers as accurately as possible so that the research results will be accurate and its findings are valuable for all. I assure you your responses will be highly confidential and will be used only for the research purpose. The time for your response would be tentatively 3-4 minutes.

Socio Demographic Profile

1. Age in years: please (□) the appropriate option

a) 20-30☐ b) 31-40☐ c) 41- 50☐

2. Gender of the respondent

a) Male ☐ b) Female ☐

3. Education?

a) School☐ b) University Certificate☐ c) None☐

4. Total Experience of running a business firm? (In years)

a) 0-3 Years☐ b) 3-6 Years☐

c) 6-10 Years☐ d) 10-15 Years☐

e) More than 15 Years☐

General Characteristics of the Firm.

Basic Information of your organization.

1. Legal Status of your firm? *

a) Sole Proprietorship ☐ b) Partnership☐

c) Private Limited ☐

2. Establishment of the firm?

a) 0-5 Years ☐ b) 5-10 Years ☐

c) 10-15 Years ☐ d) 15 Years and more ☐

3. Approximate value of your Firm Assets?

a) Less than 10 Crore ☐ b) 10-25 Crore ☐

4. Core Business of your firm?

a) Manufacturing ☐ b) Service ☐ c) Trading ☐

Your Involvement in SME

(Mode of acquisition and motive of starting/involving in the business)

1. Legal Status of your firm? *

a) Inherited ☐ b) Purchased☐

c) Started from scratch☐

2. Your motive for involvement in business?

a) Entrepreneurship ☐ b) Expansion ☐

c) After college with social pressure ☐ d) other ☐

Rank the preferences

1= Very low preference, 2= Low Preference, 3= neither low or high preference, 4= Highpreference, 5= Very high preference

1. Preference of Financing.

(Short term= Less than 1-year, Medium term= 1-5 years, Longterm= 5 years and more) *

S.N		1	2	3	4	5
1	Short term financing (Less than 1year)	12	24	33	35	31
2	Medium term financing (1-5 years)	32	11	25	31	26
3	Long term finance (5 years andmore)	12	31	25	30	27

2. Financing Preference of SMEs.

		1	2	3	4	5
1	Owner's Fund	34	21	14	23	33
2	Retained Earnings	42	23	13	26	21
3	Short Term Bank Loan	52	26	21	12	10
4	Bank Overdraft	12	19	24	34	36
5	Cash Credit	26	21	23	13	42
6	Long-Term Bank Loan	15	20	24	32	34
7	Long Term Government Scheme	12	20	25	26	42
8	Trade Credit	19	16	30	22	38
9	Money Lenders	12	15	27	34	25
10	Family and Friends	14	16	23	42	30
11	Venture Capital	12	18	21	40	34
12	Business Angels	16	14	19	34	42

3. Financing practice by your firm.

Click on the box according to your usage. 1=not at all used, 2=somewhat used, 3=moderatelyused, 4=highly used, 5=extremely used.

		1	**2**	**3**	**4**	**5**
1	Owner's Fund	22	12	27	24	40
2	Retained Earnings	21	18	24	26	36
3	Short Term Bank Loan	22	25	17	14	25
4	Bank Overdraft	12	21	23	32	37
5	Cash Credit	14	23	15	37	36
6	Long-Term Bank Loan	21	13	17	24	49
7	Long Term Government Scheme	16	12	24	31	42
8	Trade Credit	16	14	25	27	43
9	Money Lenders	27	23	12	31	32
10	Family and Friends	31	22	13	23	36
11	Venture Capital	22	12	17	29	45
12	Business Angels	13	23	12	17	60

4. Please specify your level of agreement and disagreement associated with following statements. Please (□) the appropriate option.

S. N	Statements (Practice)	Not at all used	Somewhat used	Moderately used	Highly used	Extremely used
		1	**2**	**3**	**4**	**5**
1	I am using my own fund to run my business.	22	21	35	24	23
2	I am using income from business for my organization.	24	23	22	35	21
3	Short terms loans are my source of finance for my business.	16	19	25	29	36
4	I am using Bank Overdraft funding for my business.	14	21	12	31	47
5	I am using Cash Credit for my business.	17	21	24	26	37
6	I am using Bank Loan fund for my business.	27	23	12	31	32
7	I am using Government Grant scheme funds for my business.	31	22	13	23	36
8	I am using Trade Credit funding for my business.	22	12	17	29	45
9	I am using Money Lenders funds for my business.	22	12	27	24	40
10	I prefer to use borrowings from Family & Friends for my business.	12	15	27	34	25
11	I prefer to use Venture Capital funding for my business.	14	16	23	42	30
12	I prefer to use Business Angels funding for my business.	12	18	21	40	34

1. Please specify your level of agreement and disagreement associated with followingstatements. Please (□) the appropriate option.

S. N	Statements (Preferences)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	I mostly prefer my own fund to run my business.	34	21	14	23	33
2	I prefer to use income from business for my organization.	42	23	13	26	21
3	Short terms loans are best funding source for my business.	52	26	21	12	10
4	I prefer to use Bank Overdraft funding for my business.	12	19	24	34	36
5	I prefer to use Cash Credit funding for my business.	26	21	23	13	42
6	I prefer to use Bank Loan funding for my business.	15	20	24	32	34
7	I prefer to use Government Financing Scheme funds for my business.	12	20	25	26	42
8	I prefer to use Trade Credit funding for my business.	19	16	30	22	38
9	I prefer to use Money Lenders funds for my business.	12	15	27	34	25
10	I prefer to use borrowings from Family & Friends for my business.	14	16	23	42	30
11	I prefer to use Venture Capital funding for my business.	16	14	19	34	42