ANTECEDENTS OF SMALL BUSINESS LOAN DECISION IN KATHMANDU VALLEY, NEPAL

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Abstract

The study aims to analyze the factors affecting small business loan decision in Kathmandu Valley, Nepal. The descriptive and analytical research designs have been adopted in the study. The population of the study is the owners of small business transacting through bank and financial institutions for the purpose of small business loan. Using purposive and convenience sampling method, the usable samples have been confined to 216 samples. The data obtained through self structured and administered questionnaire based on 5-Point Likert Scale have been analyzed using SPSS software. The descriptive analysis, internal consistency test, association test and significance test have been conducted using statistical tools mean, standard deviations, standard error, Cronbach Alpha, ANOVA, t-test, correlation and regression analysis. The study concludes that the awareness of funding opportunities, seasonal factor, collateral, interest and business stance have significant influence over small businesses' loan decision, whereas business owners' disposition was not found to have statically significant influence on small businesses' loan decision.

Keywords: *Awareness; season; collateral; interest; business stance; small business*
JEL Classification: *D70; D81; E43; F65*

Introduction

Nepalese economy has been shifting agricultural sector to service one as the contribution of agriculture is gradually decreasing and service sector is constantly increasing. When it comes in running business, people of Nepal are quite skeptical about this. Unavailability of different option to raise the fund in under developed and developing economies is the major reason that poor country remains poor. Starting a new business in Nepal is not for the ones who lack boldness and courage. Nepal has the capacity in various sectors especially in small businesses. No business is self-sufficient when it comes to capital. The investment may be provided by self, friends and relatives, financial institutions as a resort to borrow the money. As such, companies take out business loans to gain the financial assistance they need. Loans are in high demand, but not every company that applies for a loan will receive one. In most cases of Nepal, business and loan go hand in hand and considered as two parts of single coin. Nepalese entrepreneur cannot supply all the required funds by themselves and as a matter of fact, loan becomes the fundamental part of the small business in context of Nepal. Hence, it is clear that the role of loan in the small businesses in Nepal cannot be denied. Since loans can be so critical to any business success, it is worth learning the most common factors borrowers face when looking to secure a business loan. One major obstacle to entry or expansion of small business in Nepal is the availability of sufficient intermediate and long-term capital to support the working capital and fixed-assets requirements. People are engaging in their own jobs either small or large. In the context of Nepal, small businesses are affordable by the people if they get proper guidance and assistance. Small businesses have been the dominant factor in order to provide the employment opportunities and the betterment of economy as well. Shortage of access to finance is observed as one of the major constraints of small business growth. One of the alternative ways to solve the problem of capital is the loans access from financial institutions and other informal sources. Thus, an important question always arises on the factors determining success of the small businesses. These can be ascertained through the careful examination of the problems. Hence, the research paper presents the issues that small business owner faces in the borrowing process from both formal and informal sources.

Literature Review

The literal meaning of small business is an independently owned and operated company with limited in size and in revenue depending on the industry. A small business could be defined as business with a maximum of 250 employees or a maximum of 1,500 employees. They're privately owned corporations, partnerships, or sole proprietorships that have less revenue than larger businesses (McIntyre, 2017). In United States, the legal definition of a small business is determined by the U.S. Small Business Administration (SBA), which sets the criteria to be used by the SBA in making small business determinations. Scott and William (2001) concluded the clear relation between regulatory restriction, interference of the government on the process of intermediation and banking system's competitiveness and small businesses' access to finance. Berger and Udell (2002) concluded that smaller and younger firms were more likely to incur higher cost of financing and at the same time they required to offer collateral. As a consequence, any financial innovations that reduced the need for collateral eased credit constraints on small firms' more than large ones. It was believed that access to finance by small business has been closely affected by the differences in commercial banks or the practices and the policies of the supply side of finance (Watanabe, 2002). World Bank (2003) identified the number of factors that included distortions of financial sectors, lack of know-how on the banking part, information asymmetry that lead to the high risk in lending to small businesses. Furthermore, the level of competition in the financial sector provided and determined the price of financial products and the level of access to finance by small businesses (Thorsten, Kunt and Maksimovic, 2004). Kaufmann and Wilhelm (2006) found that the major problems concerning access to finance for small businesses were basically related with high interest rate charged on financial products and the inefficient banking services. Gomes, Yaron and Zhang (2006) concluded that lending institutions had certain eligibility criteria and documentation to assess the small business loan. Deakins (2008) concluded that in order to access to finance for small businesses, there were two external financing equity and debt. Indeed, access of debt financing become very limited especially for small businesses due to the requirements for the provision of debt. Olomi and Urassa (2008) identified the capacity, under-developed culture of business, non-separation of the business between personal issues and family, credit history of small businesses and lack of knowledge of available finance services determinants as the constraints of access to finance by small businesses. Agostino (2008) pointed out small businesses were unable to get the loan because of the number of credit problems such as the imperfection of the information in the risk presences and costly to screen credit applicants. Small businesses in particular provided security in form of properties in case of default on loans (Garrett, 2009). Falkena and Othieno (2011) concluded that awareness of funding opportunities was one of the factors that determine small business loan. Diagne and Zeller (2011) concluded that the business information, collateral, networking, and managerial competences were the internal factors and the legal environment, crime and corruption, ethical perceptions, and macro-economy were the external factors that affected the small business loan decision. Cetorelli and Michele (2011) stated that the ownership structure of banks might influence the relation between access to finance, market power, and costs of external financing. Pandula (2011) pointed out that location had influenced on both the cost and availability of finance, especially for small firms. Black and Philip (2012) concluded that the banking system regulatory structure should have the greater implication between concentration of the market and access to finance. Mullei and Bokea (2012) concluded that in most banks, in order to finance small businesses and to accept loan proposals, the collateral must be hundred percent or more, equal to the amount of credit extension or finance product. Carabelli (2012) concluded that the proper use of small business loans could consolidate debt, provide capital and allow for expansion. Kira and He (2012) concluded that size and age of the enterprise were the key determinants of access to external sources of finance. Kihimbo, Haron, Said, Jayaraman and Ismali (2013) concluded that collateral had affected the likelihood of loan approval by the financial institutions. Ayako and Omoka (2015) demonstrated that meeting collateral requirement had the major positive significant contribution on access to debt financing. Chmielewski & Pirraglia (2015) found the fact that ability to pay, business history of cash flow, credit report, income tax returns, business plan, financial statements, personal resumes, legal documents and Collateral were the important determining factors for small business loan decision. Rampton (2016) found that credit history, loan proposal detailing, business plan and profile, collateral and financial statements, projections legal considerations were the determinants of small business loan decision. Nila (2016) concluded that credit score, time in business, monthly revenue and collateral were the factors affecting small business loan decision. Hall (2016) concluded that the loan amount, urgency of business loan, credit score, available alternatives of small business loan and understanding the terms and conditions were the determinants taken in consideration while signing for small business loan. Laponsie (2016) stated that proof of income, investment statements, employment history, debt-to-income ratio, credit history; mortgage and credit scores were the determining factors while taking small business loan decision. Thuku (2017) concluded that the firm characteristics, financial characteristics and entrepreneur characteristics had the significant effect on access to finance. Barno (2017) concluded that owner education, skills, and awareness of financing opportunities were deemed to have influence on the ability of a firm to access credit. Boushnak, Mohammed and Aiman (2018) concluded the relation between owner-managers character, capacity, firm capital size, credit bureau report, and the availability and credibility of financial statements with credit decision for lending small business loan.

Small Business in Nepal

In Nepal where unemployment is a serious issue, small businesses gains a special position in the industrial structure because of their ability to utilize labor and create employment. Small businesses are either services or retail operations like grocery stores, medical stores, trades people, bakeries and small manufacturing units. These businesses are ideally suited to operate on a small scale to serve a local community and to provide profits to the company owners. Ancient and medieval Nepal witnessed the growth of small business related to arts, crafts, and cottage industries. About 90 percentages of manufacturing establishments are small businesses. Small manufacturing establishments account for about 60 percentages of industrial employment (Industrial Data 2018/19).They are largely labor-intensive. They create self-employment and employment to others. Small businesses are the stepping stones for entrepreneurship development in Nepal. Small business supply inputs to large business and distribute their products. Small businesses are playing the major role in exports of woolen carpets, handicrafts, garments, and agricultural products. To promote and foster various kinds of cottage and small industries enhancing their industrial productivity increment along with making congenial environment for industrial investment in accordance with policy, Department of Cottage and Small Industries (DCSI) have been constituted. Eighth Plan had focused on export promoting and import substituting industries specially emphasizing the role of cottage and small industries. In Ninth Plan the contribution of industry sector in GDP was confined to 9.1 percentages however the target was 14 percentages set for the Ninth Plan. Tenth Plan (2002-2007) emphasized the development of industrial sector. Most of Nepalese small businesses are involved in processing and manufacturing of food items, consumer and household goods, and textiles and related products, both for exports as well as the domestic market. Rice, pulses, oil and flour mills, dairy, aerated soft drinks, fruit juices and processed products, noodles, biscuits and light snack products, chocolates and candy, mineral water, dried vegetables, and some other household utilitarian and consumption goods have dominated small businesses activities in Nepal. Other areas of small businesses' involvement include forest fiber based industries, wooden and metal handicrafts, handmade paper and products, apparels and garments, woolen carpets, pasmina shawls and rugs and leather. Small business involvement is also high in metal and plastic household utensils, wooden, plastic and metal furniture, printing press, polythene pipes, utensils, jute products, poultry products, livestock products, wire drawing, nail and iron rod, sheet metal, gig and black pipes, rubber tires and tubes, plywood and boards, color paint products and zinc oxide. Agro-based industries like tea, vegetables and horticulture products, dairy and milk products, animal husbandry and floriculture are other areas where small businesses have started to invest. According to Economic Survey (2018/19), the share of large, medium and small industries of foreign investment have been 13.8 percentages, 21.7 percentages and 64.5 percentages respectively by mid-March of the fiscal year 2018/19. By investment, the share of small, medium and small industries of foreign investment has been 86.5 percentages, 64 percentages and 4.6 percentages respectively. Employment generation per industry is expected to stand at 75 on an average. Likewise, in Nepal, small and medium businesses contribute around 22 percentages of GDP and generate around 17 lakh employments. By the end of the fiscal year 2074/75, there were 275,433 SMEs registered in Nepal (Industrial Data, 2018/19). The multiple financing institutions are banks, financial institutions and cooperatives in Nepal.

Conceptual Framework

Based on the existing literature reviewed the conceptual framework had been developed where the independent variables were awareness of funding opportunities, seasonal factor, collateral, interest, business owners' disposition and business stance, whereas small businesses' loan decision had been taken as the dependent variable of the study.

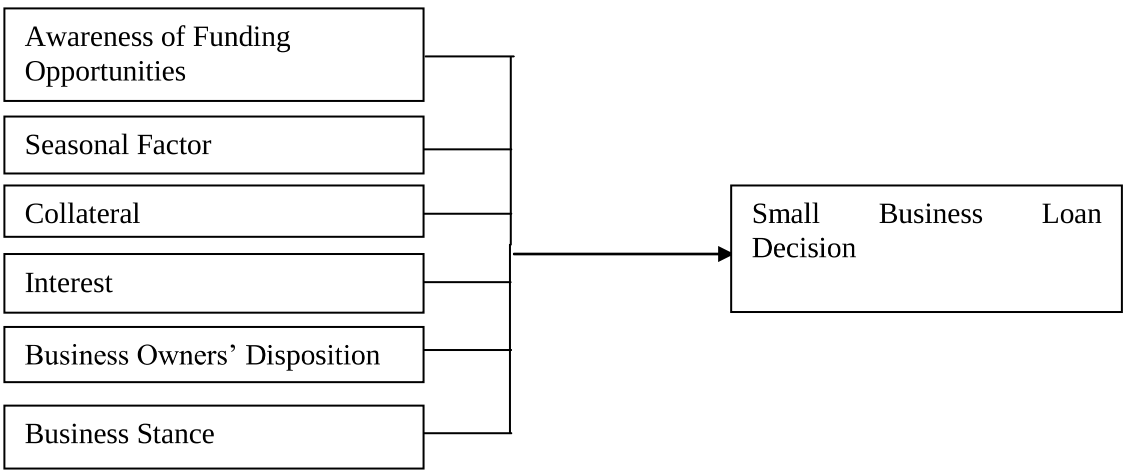

Figure 1: Conceptual Framework

Research Methodology

A quantitative research approach was adopted in the research study. The exploratory and descriptive research designs had been adopted in the study. The population was businesses owners running small businesses who financed their business through loans from formal and informal sources in Kathmandu Valley. The sample was taken from all around the Kathmandu Valley. The sampling method used was purposive and convenience sampling method. The 225 individuals were approached with the self administered structured questionnaires. The sample size was confined to 216 usable samples. The effects of different perceived factors were measured using a 5-point Likert Scale with “5” being “strongly agree” and “1” being “strongly disagree”. The reliability and internal consistency were tested through pilot testing; a set of questionnaire was distributed to 20 respondents, via which the constructs that needed to be altered were revised and Cronbach’s alpha was determined. The mean, standard deviation and summated mean score had been calculated as per the requirement of the analysis. ANOVA test was conducted to test the model fit. The correlation and regression analysis were conducted to analyze the degree of relationship and association between the variables. The SPSS software package was used to encode, decode, tabulate and analyze the data.

Model Specifications

$$Y = \beta_0 + \beta_1 X + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + E$$

Where, Y = dependent variable (i.e. Small businesses’ loan decision), β_0 = constant, $\beta_{1\text{-}6}$= the coefficient of the respective independent variable, X_1= Awareness of funding opportunities, X_2= Seasonal factor, X_3= Collateral, X_4= Interest, X_5 = Business owners’ disposition, X_6= Business stance, E = the error or the difference between the predicted and the observed value of Y.

Results

Reliability Analysis

The analysis based on Cronbach’s alpha had shown that the values indicated the selected items have high internal consistency thus the variables would be used for further analysis as shown in Table 1. The recommended alpha coefficient ranged between 0.65 and 0.80. That meant, the higher the alpha coefficient, the more the items have shared covariance and probably measured the same underlying concept.

Table 1: Test of Internal Consistency

Variables	Cronbach’s Alpha
Awareness of funding opportunities (AFO)	.783
Seasonal factor (SEAS)	.803
Collateral (COLL)	.791
Interest (INT)	.697
Business owners’ disposition (BODS)	.692
Business stance (BS)	.713
Small businesses’ loan decision (LD)	.778

Demographic Results

Table 2 shown that two third of the respondents were male. More than seventy percentages of the respondents were aged from 31-50 years. More than half of the respondents only had school level education whereas the minority was found to have higher level education. More than fifty percentages of the respondents earned up to 40000 rupees, the minorities were found to earn less than around 100,000 rupees. More than half of the respondents were involved in the business sector for more than decade. The demographic analysis had indicated that male were more prone to small businesses even though they had only lower level of education. The respondents earned based on their experiences and satisfied with lower level of income from the investment.

Table 2: Demographic Profile of Respondents **(Decimal Rounding)*

Demographic factors	**Particulars**	**Frequency**	***Percentage**
Gender	Male	136	63
	Female	80	37
Age Group	21-30 years	26	12
	31-40 years	62	29
	41-50 years	90	41
	Above 50 years	38	18
Educational Background	School level education	122	56
	Intermediate level education	84	39
	Bachelor's Degree	6	3
	Master's Degree	4	2
Net Monthly Income	Below Rs. 20,000	14	6
	Rs. 20,001- 40,000	116	54
	Rs. 40,001- 60,000	64	30
	Rs. 60,001- 80,000	18	8
	Rs. 80,001- 100,000	4	2
	Above Rs. 100,000	0	0
Tenure of Business	1-3 years	16	7
	4-5 years	34	16
	6-10 years	54	25
	More than 10 years	112	52

Analysis of Awareness of Funding Opportunities (AFO)

The summated mean score on 5 items calculated based on 5-Point Likert Scale shown in Table 3 enumerated that item AFO3 had the highest mean score, whereas item AFO5 had low mean scores; items AFO5 had the most dispersed responses with coefficient of variation approximately 49 percentages, whereas item AFO3 was the least dispersed responses with coefficient of variation 26 percentages. The grand mean score was 3.06 meaning the awareness of funding opportunities had influenced over the small business loan decisions. It had indicated that prior to the loan decisions; business owners should be well-informed regarding the interest rates, collateral requirements, loan regulations, loan procedure, duration of loan, credit risk, eligibility and other documents requirements. The appropriate and adequate market knowledge and skill help in small business loan decision.

Table 3: Summated Mean Score on Awareness of Funding Opportunities

Items	**Mean Score**	**Standard Deviation**	**Coefficient of**	**Rank**	**Grand Mean**

			Variation		Score
Well informed on interest rates and collateral requirements (AFO1)	3.25	1.29	0.42	2	
Familiar with time duration, loan sources, whole loan procedure and approval (AFO2)	2.92	1.27	0.43	3	3.06
Aware of consequences of credit risks associated with loan sources (AFO3)	3.98	1.04	0.26	1	
Familiar with the eligibility and documents requirements for the loan sources (AFO4)	2.65	1.71	0.48	4	
Aware of fees and penalties associated with loan sources (AFO5)	2.52	1.34	0.49	5	

Analysis of Seasonal Factor (SEAS)

Table 4 outlined that item SEAS1 had highest mean score, whereas item SEAS3 had lowest mean scores. The item SEAS3 had most dispersed responded with coefficient of variation 48 percentages, whereas item SEAS1 was the least dispersed responses with coefficient of variation 36 percentages. The grand mean score was 3.35 which meant the seasonal factor had influenced over the loan decision of small businesses. It had indicated that whether small or not, the business cycles might not be the same for all. The weather, festive, holiday, culture etc., had influenced on small business loan decisions.

Table 4: Summated Mean Score of Seasonal Factor

Items	Mean Score	Standard Deviation	Coefficient of Variation	Rank	Grand Mean Score
Business's typical seasonal time duration is considered while considering the requirements of loan sources (SEAS1)	3.61	1.28	0.36	1	3.35
Pay extra charge and slightly higher interest rate on the loan amount rather than pledge collateral for short-term seasonal lending (SEAS2)	3.39	1.52	0.44	2	
Pay extra charge and slightly higher interest rate on the loan amount rather than lengthy loan procedure and uncertainty of obtaining loan for short-term seasonal lending (SEAS3)	3.04	1.40	0.48	3	

Analysis of Collateral Factor (COLL)

Table 5 shown that item COLL2 had highest mean score, and item COLL3 had lowest mean scores. The item COLL1 had most dispersed responses with coefficient of variation 43 percentages and item COLL2 had least dispersed responses with coefficient of variation 41 percentages. The grand mean score was 3.26 which meant that the collateral contributed to the loan decision of small businesses. It had indicated that the collateral verification and requirement could be taken as the determinants of small business loan decision.

Table 5: Summated Mean Score of Collateral Factor

Items	Mean Score	Standard Deviation	Coefficient of Variation	Rank	Grand Mean Score
Review the collateral requirements of loan sources prior applying for the loan	3.29	1.36	0.43	2	

(COLL1)					3.26
Prefer collateral inclusive loan source for subsequently longer period loan (COLL2)	3.39	1.39	0.41	1	
Prefer collateral inclusive loan source for subsequently larger sum of loan amount (COLL3)	3.12	1.27	0.42	3	

Analysis of Interest Factor (INT)

Table 6 had shown that item INT3 had highest mean score, and item INT1 had lowest mean scores. The item INT1 had more dispersed responses with coefficient of variation 38 percentages and item INT3 had least dispersed responses with coefficient of variation 28 percentages. The grand mean score was 3.58 which meant the interest as one of the factors influencing loan decision of small businesses. It had indicated that increased in interest rate lowered the demand of loan in the small businesses.

Table 6: Summated Mean Score of Interest Factor

Items	**Mean Score**	**Standard Deviation**	**Coefficient of Variation**	**Rank**	**Grand Mean Score**
Compare the interest rates of loan sources prior applying for the loan (INT1)	3.31	1.27	0.38	3	3.58
I have preconceived interest rate for secured and unsecured loans over that has an impact on my loan source selection decision (INT2)	3.37	1.08	0.31	2	
Prefer higher interest rate bearing loan source over lower interest loan source inclusive of collateral (INT3)	4.05	1.22	0.28	1	

Analysis of Business Owners' Disposition (BODS)

Table 7 shown that item BODS1 had highest mean score and item BODS2 had lowest mean scores. The item BODS2 had more dispersed responses with coefficient of variation 45 percentages and item BODS1 had the least dispersed response with coefficient of variation forty percentages. The grand mean score was 3.13 that meant business owners' disposition of business owner had contribution to the loan decision of small businesses. It had indicated that the mind and action behind every organization become crucial in loan decision. The risk assessment, loan period, loan type, mode of payment, mode of repayment etc., would be performed by the business owner in making the loan decision.

Table 71: Summated Mean Score of Business Owners' Disposition

Items	**Mean Score**	**Standard Deviation**	**Coefficient of Variation**	**Rank**	**Grand Mean Score**
I don't want to go for newer loan source than the usual one(s) (BODS1)	3.33	1.42	40	1	
Finalize the loan source with confidence to bear the consequences in case of loan default (BODS2)	2.99	1.30	45	4	3.13
Managerial skills have influence over decisions on loan source (BODS3)	3.09	1.29	43	3	
I am biased towards certain loan source(s) because I I might benefit from the personal	3.12	1.33	41	2	

ties with certain personnel(s) of the said loan source (BODS4)	

Analysis of Business Stance (BS)

Table 8 presented that item BS2 was found to have the highest mean score, and item BS4 had lowest mean scores. The item BS4 was more dispersed responses with coefficient of variation 37 percentages and item BS3 had least dispersed responses with coefficient of variation 25 percentages. The grand mean score was 3.65 that meant business stance as the factor that had influenced to the loan decision of small businesses. It had indicated that the financial condition, managerial condition, years of existence, reputation, relationship with its stakeholders, goodwill in the market, and performance of the business mattered the loan decision.

Table 8: Summated Mean Score of Business Stance

Items	**Mean Score**	**Standard Deviation**	**Coefficient of Variation**	**Rank**	**Grand Mean Score**
Lender evaluate the business performance and credit history (BS1)	3.53	1.01	0.28	3	
The financial health of a business gives more leverage to the borrower on negotiation (BS2)	3.88	1.10	0.27	1	3.65
The reputed business and recommendation from the creditable personalities have positive influence on lender (BS3)	3.81	1.09	0.25	2	
The credit facility given on purchased goods by the creditors make easy in the burden of the loan amount (BS4)	3.35	1.31	0.37	4	

Overall Analysis of Mean Score of Selected Independent Variables

Amongst the six perceived determinants assigned with scale items used to confirm the degree of influence within the respondents Table 9 had shown that the business stance had highest grand mean and awareness of funding opportunities had least grand mean scores. The respondents had ranked highest to business stance followed by interest factor, seasonal factor, collateral factor, business owner disposition and awareness on funding opportunities. The overall grand mean score was found to be 3.34 indicated the selected independent variables had influenced on the small business loan decisions.

Table 9: Overall Score and Ranking

Variables	**Grand Mean**	**Standard deviation**	**Overall Rank**	**Grand Mean Score**
AFO	3.06	1.32	6	
SEAS	3.35	1.43	3	
COLL	3.26	1.37	4	
INT	3.58	1.29	2	
BODS	3.13	1.39	5	
BS	3.65	1.12	1	3.34

Analysis of Small Business Loan Decision

Table 10 presented that item SBLD3 had highest mean score and item SBLD5 had lowest mean scores. The item SBLD1 was found to have the most dispersed responses with coefficient of variation 41 percentages and item SBLD3 was found to have the least dispersed responses with coefficient of variation 24 percentages. The grand mean score was 3.60 indicated that the perceived determinants of the study had been considered by the respondents for making small businesses' loan decision.

Table 10: Summated Mean Scores of Small Businesses Loan Decisions (SBLD)

Items	Mean Score	Standard Deviation	Coefficient of Variation	Rank	Grand Mean Score
Awareness of funding opportunities has influenced over business's loan decisions (SBLD1)	3.42	1.39	0.41	4	3.60
Business's loan decision is influenced by the business's seasonal factor (SBLD2)	3.35	1.28	0.39	5	
Collateral requirements of the loan sources have influenced over loan decision in business (SBLD3)	4.31	0.97	0.24	1	
Loan decision for the business influenced the interest factor of the loan sources (SBLD4)	3.78	0.98	0.27	2	
Business owner disposition affects the businesses loan decision (SBLD5)	3.22	1.19	0.35	6	
Business owner business stance has influenced the loan decision in the business (SBLD6)	3.49	1.11	0.28	3	

Correlation Analysis

Table 11 had shown the strength of the association between the dependent and independent variables. AFO, COLL and BS had positive and significant relationship with small businesses' loan decision at 5 percentages level of significance. SEAS had significant positive relationship with small businesses' loan decision at 1 percentage level of significance. INT had significant negative association with small business loan decision at 1 percentage level of significance. The multicollinearity problem had not been found in the analysis. The business owners' disposition variable had been ruled out due to insignificant association with the small businesses' loan decision. Thus further regression analysis could be run between dependent and remaining five independent variables.

Table 11: Correlations Matrix

Variables	AFO	SEAS	COLL	INT	BODS	BS	SBLD
AFO	1						
SEAS	.175	1					
COLL	.227	.594	1				
INT	.158	.377	-.616	1			
BODS	.168	.310	.372	-.114	1		
BS	.287	-.440	.352	.434	-.321	1	
SBLD	.581*	.534**	.562*	-.611**	.347	.513*	1

***. Correlation is significant at the 0.01 level (2-tailed).*
**. Correlation is significant at the 0.05 level (2-tailed).*

Regression Analysis

The F-value predicted from ANOVA test was found to be 38.71 and significant at 1 percentage level of significant proved the model was fit. The model was the good descriptor of the relationship between AFO. SEAS, COLL, INT and BS with SBLD. The BODS had been excluded in the model as the correlation was found insignificant. Table 12 showed that the 74.50 percentage variation in SBLD had been explained by AFO, SEAS, COLL, INT and BS after adjusting the degree of freedom. Furthermore, the standard error of the estimate was 0.389 indicated that the variability of the observed value of SBLD from the regression line is 0.389 units. The analysis had shown the significant and positive impact of AFO, SEAS, COLL and BS on SBLD. The significant negative impact of interest rate on small business loan decision was found. It had indicated that increased in interest rate affected the loan demand and decision. The analysis had indicated that one percentage increase in awareness in funding opportunities lead to 0.271 percentage increased in small business loan decision. Likewise, SEAS, COLL and BS impact could be explained for SBLD. The seasonal factor had lower impact on small business loan decision among other independent variables. The analysis had indicated that the awareness on funding opportunities, seasonal business nature, uses of collateral, interest rate and business stance were proved to be the major antecedents of small business loan decision in Kathmandu Valley, Nepal.

Table 12: Regression Coefficient (Dependent Variable: SBLD)

Model	Coefficient	Standard Error	t-value	P-value
Constant	0.487	0.251	1.931	0.510
AFO	0.271	0.061	6.129	0.000
SEAS	0.082	0.032	2.853	0.002
COLL	0.157	0.058	4.392	0.000
INT	-0.159	0.051	-2.155	0.021
BS	0.177	0.071	2.572	0.011
Adj.R-Square 0.745				
SE of Estimate 0.389				
F-value 38.71 (0.000)				

Discussion

The number of financial institutions and conventional method of funding through friends, family, and relatives with their online profiles widespread and accessible, for the businesses to sustain and thrive, business owners in Kathmandu Valley have been entailed to have a good funding awareness. However, in reality, owners might not have digital knowledge and eased with their regular lender as well as familiarized with other alternatives. Seasonality has influenced over most businesses. An increase in sales means business needs more products in the inventory; for that business loans are predominant just before the season of the business. During the duration of seasons, small businesses would not prefer collateral to get loan from financial institutions and non formal sources. They would not interest to enter in lengthy procedure. Secured loan offers lower interest rate with requirement of collateral. If provided the opportunity to obtain loan with lower interest rate, but if the collateral is inserted into the process then borrowers would not be able to agree because of not having the sufficient collateral, not huge loan amount, short loan period and the willingness to pay higher interest than go through all the extensive procedure of pledging the asset for small and short period loan. For many of these reasons, the borrower may choose loan with higher interest rate. Whether newly or well established business; its finances, creditability, reputation, business performance, relationships with the creditors and debtors, and credit history are essential to the lenders for contemplating the loan alternatives.

Conclusions

Many businesses still prefer conventional way of external financing through friends, family, relatives and acquaintances as per their convenience. The awareness of funding opportunities has significant influenced on small businesses' loan decision. Most of the small businesses in Kathmandu Valley have seasonal dependency; the buying behavior of customers during the season has an impact on small businesses' loan decision. Not only most of them intensively take part in business loans during the seasons, but have their highest income too. The confirmations on influence of collateral over small businesses' loan decision have been shown in the study. The collateral plays a vital significance on the selection of loan amongst the various alternatives. The interest has influenced over small businesses' loan decision. There is no significant influence of disposition on the small businesses' loan decision. There is a positive relationship between business stance and small businesses' loan decision. Finally, the study concludes that awareness of funding opportunities, seasonal factor, interest, collateral, and business, itself, have influence on small businesses' loan decision in Kathmandu Valley.

Implications

The bank and financial institutions can revise, restructure and reformulate the lending policy considering the factors of small businesses loan decision. Government of Nepal shall focus on the informal and formal financial sector movement to secure the financial system based on further research on the conclusion of this study. The study further contributes to bank and financial institutions to simplify the lending procedures as per the requirements of the small business loan borrowers. The further analysis with more factors of small business loan decisions will produce the results that have policy implications to make strategic framework on small business promotion and in its efficiency and effectiveness. The effect of moderating variables analysis have been left as a ground to further research as the limitation of the study.

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