

Bachelor's thesis

Degree programme in International Business

NINBOS13

2016

Bipin Bista

# ACCESSIBILITY OF FINANCIAL SERVICE FOR STARTUP AND GROWTH COMPANY

– In context of Nepalese SMEs



BACHELOR'S THESIS | ABSTRACT

TURKU UNIVERSITY OF APPLIED SCIENCES

Degree programme in International Business

2016 | 50

Instructor Ajaya Joshi

Bipin Bista

# ACCESSIBILITY OF FINANCIAL SERVICE FOR STARTUP AND GROWTH COMPANY

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For the attainment of goal of startup and emerging growth company through innovation and market expansion requires huge capital. Those needs for huge capital cannot be met by company internal source therefore they should find appropriate financial sources. Availability of such sources depends upon the development of the financial system. Despite the increase in number of financial institution due to liberalization of the government policies in financial sector, access to finance for startup and emerging growth company is still limited in Nepal. Ten years' internal war and devastating earthquake faced by Nepal drag economic development behind, however, banking & financial institutions as well as other financing sources has grown significantly. However, the service of BFIs and other sources has unable to reach the productive sector for economic prosperity.

This study focused on finding out the commonly used financing source and barriers for having access to such source for startups and growth companies in terms of Nepalese context. During the study, the trend of using personal and friends & family sources to accumulate fund by startups and BFIs by growing companies in Nepal were commonly found. Often personal and friends & family source is unable to generate enough capital to meet all the funding need at different phases of business, most of SMEs in Nepal face difficulties to survive. BFIs are major external player to finance the business in the Nepalese scenario, however, most of startups do not fit in the lending approaches of bank. High interest rates and complex process associated with BFIs often demotivates the entrepreneur to use such sources at the fullest. SBA of Nepal was hardly seen as dealing with the financial issues of startups and growth companies as they do in developed economies. To deal with the BA and VCs requires high business skills and competences; lack of such skill within most Nepalese SMEs was found as a barrier to utilize such financing sources. Revision and amendment in government and BFIs polices and need of effective mechanism was figured out to ensure that startup and growing companies do not die due to limited financial accessibility.

KEYWORDS:

Financial source, Business Angels, Venture Capitalist, Business life cycle, Startup, Growth

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## LIST OF ABBREVIATIONS (OR) SYMBOLS

BA	Business Angel
BFI	Banks and Financial Institutions
FI	Financial Institutions
NRB	Nepal Rastra Bank
NR	Nepalese Rupees
SME	Small and Medium Enterprises
VC	Venture Capitalists
SBA	Small Business Association
FNCSI	Federation of Nepal Cottage and Small Industries

# 1 INTRODUCTION

## 1.1 Background of the study

To start a business, some form of investment is usually required at the outset. This investment may be provided by self, friends and relatives, financial institutions as a resort to borrow the money (Meekin, 2011). To run a business, start up or growth company, it is crucial and challenging for entrepreneur to find the appropriate financial sources. The changing face of financial market in current economy, such as commonly used stocks and bonds have become vital source of finance for companies. Financial institutions have expanded not only in size but also across borders and in the kind of business they do has resulted huge capital flow (Gibson, 2003). With the increase in options, volatility of market and risk for investors have also highly increased. Often entrepreneur rational decision in recognizing the current stage of their business and using the appropriate mix of capital to fund their business in its initial phase can be crucial for company existence, success, and growth (Barrel et al., 2013). Degree of development of domestic financial market has a major impact on business growth and expansion and for most of the startups it becomes key to survive and grow (Stiglitz, 2016). Despite having great business idea and innovation, they required various resources to enter the market. So, when it comes about accumulation of financial resource it become key to start the entrepreneurial journey (Ries, 2011).

Financial institutions facilitate the transfer of funds from surplus units to fund deficit units and provide benefits for both the saving units and deficit units in the societies (Mishkin, 1969). In general terms, financial sources can be a person, group or institution that provide monetary solution. However, accessibility of financial sources form financial institutions is directly linked with economic development. Hinson (2010) states that approximately 90% of people living in developing nation do not have access to financial services. The way money is raised by small to big companies have changed virtually beyond recognition within last three decades; thirty years ago, banks were still the main source of finance however today the banks plays the second fiddle to the equity and bond market (Nigel, 2003). Within the last decade, the diversity of financial institution has increased in terms of geography of operation and functionality where the mobility of fund for the business through bank has diminished (Cetorelli et al., 2012). The availability of numbers of financial sources depend upon the development of financial system in a

region and those sources can vary from one place/country/state/region to another (Stiglitz, 2016). There are many factors that determine the types of financial source such as time, amount, maturity period, control (Macdonald & Cheng, 1997). When talking about the accessibility and control of business on the financial resources it is categorized into two types; internal and external sources (HBR, 2013). Internal sources of finance are related to the generation of fund within the company resources by the owners to establish and build business through trading and other activities (Sassine, 2016). In addition, Internal sources are easy to accumulate and interest free as well as allows full control over the company. External financial sources are individual or group or institution who are engaged mobilization of fund (Sassine,2016). Availability of these external sources are highly correlated to the development of financial system in that state or region or country.

In developing economies, such as Nepal majority of startup and growth company die in the early stage of business due to limited financial accessibility. Unavailability of different option to raise the fund in the under developed and developing economies is the major reason that poor country remains poor (Menkhoff & Rungkruxsirivorn, 2011). Startup and growth companies are the companies which have huge potential to grow and are operating in uncertainty which have yet to gain organizational structure (Ries, 2011; Bridge et al., 2003). Financial access for startups and growing companies' have always become major issues. The limitation of such financial accessibility for such companies are mainly due to: risk associate with small businesses, no record of accomplishment, not cost effective to provide small amounts of money, lacks security for loans, they are equity-averse, increase dependency (Bridge et al. 2003). Nepal stands at 105 in the ranking of 189 economies on the ease of starting a business (World Bank, 2016). According to "Doing business in Nepal" report (WB, 2016), the process for starting a business in Nepal, from registering the company name to enrolling the employee in the provident fund takes approximately 17 days. Nearly  $\frac{3}{4}$  emerging and growth company dies in Nepal due to excessive compliance costs that discourage growth, employment, and competitiveness of the firm by diverting energy and resources of the firm from more productive users (Shrestha, 2007). Other than bad economic and political situation of Nepal and weak financial market development (WB, 2016), financial institution approach towards entrepreneurial loan with high cost levied on it and demand to fulfill the criteria are main reason to such a limitation (Shrestha, 2007).

## 1.2 Motivation

I have always believed in taking a risk for a return. Taking a risk in uncertainties for the good return from the investment you made shows major characteristics of entrepreneurial culture. This was also the reason for choosing Business Administration in my study career. During the last five to seven-year period I have come up with several opportunities and ideas that would have contributed to establish good position in the domestic market (Nepalese). However, availability of funding is a major barrier to enter the market. The experience of running a hostel business where student pays monthly fee for an accommodation was main reason for this research proposal. I accumulated fund through family and collaborating with friend to make the initial investment. Once the business was in growing phase I was out of money for business expansion which was crucial to sustain in the market due to high competition. The cash flow from the business was not sufficient for the further expansion. I looked for other source for financing my business, such as bank and micro finance, but I found hard to meet the criteria and the process was too lengthy. Thus, I had to harvest my business by selling the whole share of it. Therefore, I have planned to do my research on the accessibility of financial resources for startup/growth business.

## 1.3 Objective and Research Question

We see that a firm passes through the different stages from idea, product, market to global expansion. We see this process normally in developed and developing economies, conversely Nepalese startups and growth companies are finding difficulties to go through the similar process. There are many reasons to hinder the long-term success of startup or growing business, however, the objective of this study is to analyze the market of Nepal to find how entrepreneurs are financing their business during the initial phase. A primary objective of this research is to find out the commonly available financial sources in Nepal using different approaches and methodology. In comparisons to developed economies the availability of financial sources for business in Nepal are less, however the other objective to this research will be to find out how easy or difficult is to receive funding from the available different financial sources (key barrier).



This research will focus on the following two questions in context of Nepal:

- How do startup and growth companies finance their business?
- What are the key barriers for these companies from having access to financial services to support their business?

#### 1.4 Thesis Structure

This thesis is built in a way that shows the different financial sources available at the various stages of business life cycle and is mainly focused on the issues of the Nepalese environment at the macro level. The structure of this dissertation is as follows:

Chapter one covers why I raised the issues. I have also included the motivation behind the study. It also includes what will be the key findings of this study through the research question.

Chapter two starts with the situation of Nepal regarding the financial environment. A general review of Nepal is followed by presenting the study of different authors, organizations, and researchers in the field of SMES, startups, growth, flow of funds, business life cycle & different financial sources and their importance.

Chapter three starts with approaches, methods and tools used by researchers to conduct the study/research. It also includes about the approaches, methods, and tools that I have used for the research and the reason behind it.

Chapter four is divided into three parts. The first part is built around the story of a successful company that has faced different financial barriers during the different phases of business in Nepal. The second part is a summary about the banking approach for the business loan which was extracted from the interview with banking personnel. The last part covers the survey that I have conducted through the questionnaire.

Chapter five presents the conclusion of the study and its implications.

## 2 LITERATURE REVIEW

### 2.1 Overview of Nepalese Financial Environment

Nepal's current economic policy to alleviate the widespread poverty is more focused toward achieving sustainable growth through liberalization in financial sector (Ferrari et al., 2007). Although the financial sector has increased significantly in terms of size, stability over the past decade (Nepal Rastra Bank, 2016), access and use of financial services remain limited for households or businesses (UNCDF, 2014). Thus, the new introduction of new market principles has not yielded the desired outcomes. A deep and efficient financial system can contribute robustly to sustained economic growth and lower poverty (Beck et al., 2000). Because of liberalization of the financial sector in recent decade, Nepal has seen the exponential growth in financial Institutions since the establishment of first commercial bank in 1937 (Nepal Bank Ltd). According to Nepal Central Bank financial stability report (2016), known as Nepal Rastra Bank (NRB) in Nepal, there were only 4 licensed financial institutions in 1980. Now there are 30 commercial bank, 76 development bank and 47 finance companies operating under its regulations.

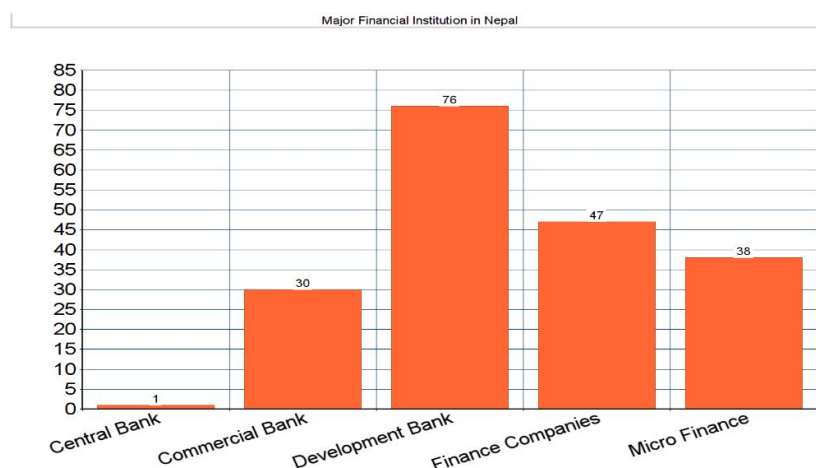


Figure 1 Major financial Institution of Nepal and their numbers. (NRB, 2015)

Nepalese Government efforts to increase the accessibility of financial services to the low-income household, startup companies and small business was implemented through the central bank (NRB,2016). Ten years of war has dragged the economic development

to the lowest and the development of emerging and growing business sector was merely visible. According to the Post Disaster Needs Assessment (PDNA) report published by the National Planning Commission (2015), the recent devastating earthquake of Nepal caused the loss of \$ 6.47 billion (707 billion Nepalese Rupees) and approximately 40% of loss was from the commercial sector. Despite the adverse situation after the war and earthquake, the central bank undertook various efforts by directing the Banking and financial institution to supply certain percentage of their loans/lending to these areas (NRB,2016). Central Bank adopted the policies that encourage BFIs to be more accessible in urban and rural part of country. The strategy to increase the number of commercial banks branches and the non-banking financial institution such as cooperative, postal saving bank, microfinance, rural development bank etc. in different part of country as well as to be more flexible for increasing different financial institution with low capital was adopted in the policy by central bank (NRB, 2016).

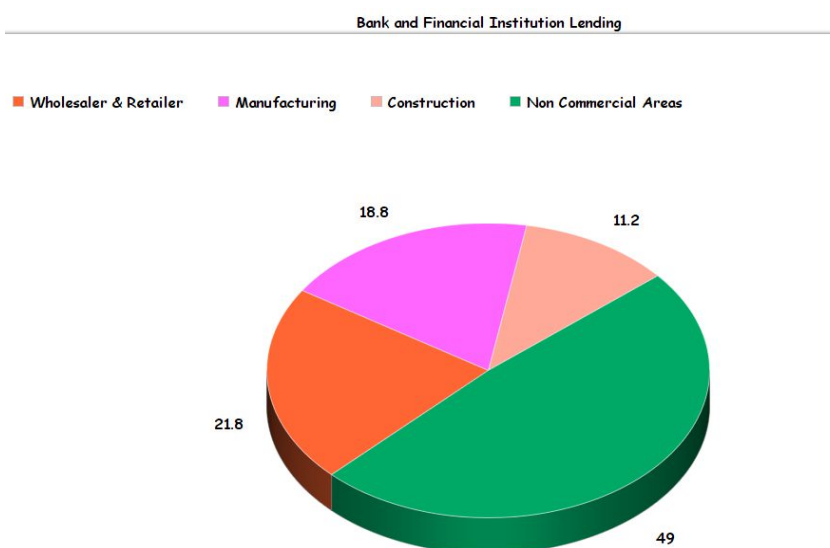


Figure 2 BFIs lending in different sector in Nepal (NRB, 2015)

In 2015 the total lending of the BFIs of Nepal constitutes majorly from wholesaler & retailer 21.8 percentage, manufacturing 18.8 percentage, construction 11.2 and remaining others of the total lending (NRB, 2016). Although the NRB has made the mandatory provision in the agriculture and productive sectors, the lack of capital in the productive sector has been the major problem for the low productivity and sluggish growth (Acharya, 2015).

Ferrari et al. (2007) mentioned that NRB made mandatory requirement for BFIs to lend productive sector such as growth business and startups where class A banks must lend 20 percentage and class B & C banks must lend 15 percentage of their total loan to those sectors. To operate under the regulations as implemented by NRB, Bank should use intermediaries such as micro finance and NGOs to supply stated percentage of borrowings to startup and growth companies (Ferrari et al., 2007). This has resulted increment in microfinance and NGOs accessibility over the financial resources. Despite the government efforts and policy to increase financial solution to startup and growth company, its effectiveness is slumping over the period (UNCD, 2014). Although the real interest rate in deposit is lower than lending rate, the main reasons for this decline are financial intermediaries using non-effective channel for the flow of fund in these sectors, lack of strict policies and lack of Financial Institution technological competencies (Gautam, 2014). Government policies for creating the availability of capital for the startup and growth business has not address the real problem because it has failed to address the real problem of management of efficient and effective channel through which real users can have easy access to these financial resources (Gautam, 2014). Although, the government have made mandatory provision for banks and institution to make these kind of funding, many banks and other financial institution prefers to pay fine because its less costly and easy to handle. These kinds of lending require highly skill and technological competencies. So, lack of skilled manpower in handling these kinds of business lending often drags the financial institution behind from serving the real users (Bhetwal, 2015).

NRB financial stability report (2016) states that finance companies and microfinance are the biggest external financing sources for the small, innovative, and growing company who provide loan or financial solution in Nepal. Cooperatives and NGOs which are registered with the Department of Cooperatives and Local authorities highly engaged in these activities. Their popularity over other loan providers is because they provide loans quicker, criteria to fit in their lending category is simple and they accept movable collateral for loan which other institution don't (Koirala, 2014). Despite this, startup and growth company do not have efficient and effective access to financial sources and services because collateral and regular income serves as a basis for getting fund through most of the financial sources in Nepal (Koirala, 2014). Every business in Nepal do not have all necessary required document to go through the process. Many small businesses are operating in informal & unstructured way because they fail to see the benefits, such as access to finance by conducting business in formal and structured way (Afram & Pero, 2012). Informal financial sources are more effective in providing financial solution as

they provide quick loan with any type of collateral that have liquidity. Government has only able to analyze the needs of access to the financial services, however, they have failed to provide effective solution through proper management of financial system (UNCDF, 2014).

## 2.2 SMEs, Start-Up, and Growth Companies

The SME's is characterized by the number of employees and the cash flow per annum. According to European Commission (2003), to qualify as SME they must meet certain criteria:

Table 1 Category of SMEs (EU recommendation, 2003/361)

Company Category	Number of staff	Turnover (Euros)
Medium-Size	≤250	≤50m
Small	≤50	≤10m
Micro	≤10	≤2m

Small and medium-sized enterprises (SMEs) are a very heterogeneous group of business usually operating in the service, trade, agri-business, and manufacturing sectors (Lukács, 2005). Some SMEs are dynamic, innovative, and growth oriented while other are satisfied to remain small and perhaps family owned (Lukács, 2005). When it comes to SME's of Nepal, Nepal Industrial policy, 1992, defined small-scale industries as the industries that have a fixed asset up to 3 million NRs (25000 €) and medium-scale industries that have fixed assets from 3-10 million NRs (25000-85000€) (NepalB2B, 2015). In addition, Nepal SMEs account for more than 90% of total industrial establishment, generates more than 75% of employment in the industrial sector and shares more than 70% in the industrial sector's contributions to the National GDP. This shows that the SME's contribute to a large proportion for the Nepalese economy, like most of the underdeveloped and developing nations. Government takes SMEs as important element of economy in terms of contribution & job creation and try to formulate policy that facilitates theses enterprise with resources that helps to excel their growth and market expansion (Beck et al., 2006).

Startup companies and emerging growth companies are often categorized into one areas where many people think they both are small business, conversely, they vary in terms of their product features, objective and methods to serve the market. A startup is a human institution designed to delivers a new product or service under conditions of extreme uncertainty (Ries, 2011). However, the organization for economic co-operation (OECD, 2005) define growth company/business as the young, fast growing and higher-risk companies company that generally generate the revenue more than level of overall economy. Growth company can be categorized based on return, company size and employees number (Bridge et al., 2003). Startups are generally a temporary form of an organization who are innovative and continuously striving to find a business model that can serve the changing market need. So, startup has nothing to do with its size, economy, or industrial sector (Ries, 2011). On the other hand, growth companies are independently owned company that has capability to serve the larger portion of market through specialization. A growth company/business is any company whose business generates significant positive cash flows of the earnings and increase at significantly faster rates than the overall economy (Investopedia, 2016). They generally can reinvest their retained earnings for the market expansion and growth for the higher return.

### 2.3 Flow of Funds

Financial sources here are viewed as a source of capital that is used for starting a business and fuel its initial growth. Generally, the availability of financial sources depends upon development of nations, states, regions financial environment (environment regarding the policy and financial institution) but life cycle/phase of the firm determine the available sources to finance or raise the capital for the business (Brooks, 2010; Stiglitz, 2016). Flow of a fund is about nations economic activity takes place in the systematic way/process where financial intermediaries' acts as a central point and government, households, business, overseas are key elements of the system (Samuels, 1990)

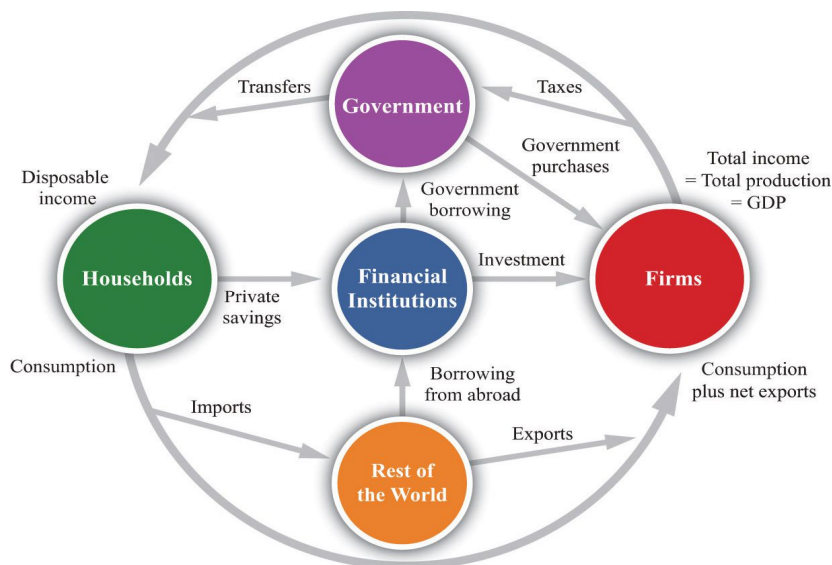


Figure 3 Flow of funds (Cooper & John, 2016)

From the figure 1.1 we can draw general concept about how the fund flows between the various sectors. In the business sector, the fund generally flows from four major sectors of economy; from governmental sector in the form of investment and allowances, from overseas in the form of Investment such as FDI, from households in the form of share transaction and from financial intermediaries in the form private loan and equity loan (Samuels, 1990; Cooper & John, 2016). In the context of startups and growth company, most of the business fulfill their funding need from personal sources and simple bank loan as the level of risk and uncertainty is understood well enough that a loan officer asses its prospects (Ries, 2011).

#### 2.4 Business Life Cycle and Need of Fund

There are many definitions and models generated regarding the business life cycle. Every business passes through each phases of life cycle, such phases bring unique opportunities and threats regarding the management of the business and finance (Brooks, 2010). Every business has a business life cycle and it can be divided into five active phases/stage of start-up, growth, maturity, decline, and closing (Brooks, 2010). To be able to place an organization in the stage model, the whole lifespan of an organization must be researched since every business is unique (Churchill & Lewis

1983). Barrell et al., (2015) have tried to present the business phase in their own way in terms of funding landscape for the business and this study mainly focuses on this funding landscape.

## The Funding 'Ladder'

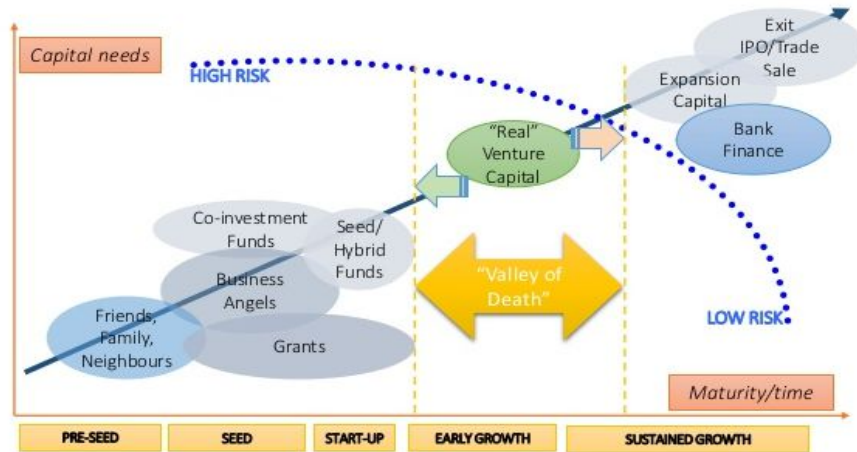


Figure 4 Funding landscape for business (Barell et al., 2015,p.11)

It's crucial to understand the funding landscape to understand the phase of business and determine the available sources for funding. It helps to target the investors that are available at the different phase of business so you can draw the draft for the funding proposal to the potential investor as shown by Barell et al., (2015) in the funding landscape. During the initial/phase of business, commonly used financial sources are personal, friends and family until it reaches the growth and maturity phase where other sources becomes interested such as banks and venture funding's (Bridge et al., 2003; Barell et al. 2015). As the business starts to grow and starts to benefits from the range of product, brand recognition and management experience, the need of funding starts to rise and the firms starts to seek third parties such and bank. The risk level should go down when you seek such funding sources in comparison to initial investment you make because you should have enough knowledge about your business and product that are served to market before approaching such fund. Heinonen (2009) have present universal and simplified approach to describe the business life cycle that fits to this study which are divided in to three stages: start-up, growth, and maturity.



#### 2.4.1 Start-up phase

The birth of a business comes when an idea reaches to the implementation stage (Brooks, 2010). Startup phase is the phase of extreme uncertainty where entrepreneur may not have any idea about market or expertise about the company operations and financial management (Ries, 2011), however, such factors can have small impact in entrepreneurship (Autio et al., 2007). During this phase the company generates some revenue but do not cover the expenses so the need and management of fund can be factors for survival. Barell et al., (2015) has described this phase as a “Death Valley” where firm undergoes a survival stage which determines the potential attributes for growth.

#### 2.4.2 Growth phase

This is the stage where business consistently generates revenue and starts to show presence in the market by adding new customer (Chen, 2014). This phase generally deals with success of company, new resources and building new management team and expanding (Nieman & Pretorius, 2004). When business pass through this phase, company operation must generate profit and business is generally looking different ways for expanding its operations to other sectors (Churchill & Lewis, 1983). The business might face different problems relating to dealing with increasing revenue and customers, management of accounting, market competition (Chen, 2014).

#### 2.4.3 Maturity Phase

After company reach its full potential growth they try to maintain its position in the market by enhancing its competitive advantage through innovation is generally viewed as maturity stage of business (Churchill & Lewis, 1983). This is stage where business have dominating presence in the market and business is still growing but not in the substantial rate (Chen, 2014). This allows business with two option; either to go back to the expansion stage through acquisitions/mergers or prepare for possible exit strategy from the market (Buss, 2001). Business can face challenges such as increased market competition, accounting management, new market expansion, new product

development, exit strategy etc. so business will rely in a financial source to help overcome these challenges (Chen, 2014).

## 2.5 Financial sources for startup and growth business

Every firm needs to understand the financial environment and the flow of fund within the nation's economy for assessing and selection of appropriate financial sources (Samuels et al, 1990). Nations economy is divided in four sector: the business sector, the public sector, household sector and the overseas sector. The key element for raising the fund for any business is to understand the priorities of investors and bankers, as well as the different types of business finance available (Barell et al., 2015). Business life cycle classification and availability of different financing alternatives at different phase of life cycle is not rigid; there can be and often overlap (Brooks, 2010). The life cycle approach is considered appropriate for this study for examining different source of capital in the stage of business development as it is most typical.

Financing is required for starting a business and to increase the profitability through growth and expansion; there are several sources of financing depending on the amount of fund needed (Hoofstrand, 2013). The financing sources for a business whether its startups or growth or big corporation categorized into two group; internal and external. We can assume that to start a business a certain amount of capital is required to an outset. Seed investment in the initial phase of business are generated by internal sources such as own savings or retained earnings. The external sources of financing for business are loan finance which are borrowed from the financial institutions & investors for the interest and equity finance is all about selling a stake in the ownership (Sassine, 2016). Brooks (2010) has explained the different sources for financing in accordance with the different phase of business life cycle and their essence for the SMEs that are in the startup and growth phase such as: personal savings, family & friends, corporate banks, small business administration and angel & venture financing.

### 2.5.1 Personal source

When you believe that your idea or business concept is viable, the first place to look for fund/money is your own savings or equity (Hoofstrands, 2013). Generally personal

resources are used as a seed investment; investment done before bringing product to market and commencing large scale manufacturing which allows a business ideas to be developed such as it is invested for developing the business plan, prototypes, and additional research (Barell et al., 2015). They are often considered as informal, non-contractual and internal sources which are as described below:

#### 2.5.1.1 Personal Savings

Personal savings are most common and economical financial sources used in the initial phase of business which are used by most of the SME's that are proprietorship. Such funding sources allows control over the company as well as the cost for such sources is negligible, however the limitation of capital from such source can hinder the company growth (Bovee & Thill, 2005). Although personal fund is used in the start-up phase of business life cycle, it's also used commonly during the growth stage as some retained earnings during the market and business expansion (Riely, 2015). Even the third-party sources such as banks and other lending institution investment approach in growing SME's are based on such investment (Brooks, 2010).

#### 2.5.1.2 Families, Friends, and Fools

Another common source of financing in the development stage; they are the people around your social circle who knows you and believe in your ideas. They are the quicker and cheaper sources in terms of interest and repayment terms flexibility, however, entrepreneur can face extra stress if business gets into difficulties (Riely, 2015). Loans provided by such sources can be informal agreements or formal contracts with specific repayment schedules (Brooks, 2010).

#### 2.5.1.3 Credit cards

According to the study, one-third of the small business with fewer than 20 employees use credit cards to finance their new business ventures (Bovee & Thill, 2005). The popularity of using credit cards in the startup business can be seen because credit card companies do not care how you spend the money until you pay the bill (Riley, 2015). However, credit card is one of the risky and expensive source of financing available due to higher interest rates (Bovee & Thill, 2005) and often have the interest rates topping 15 % (Bond Street, 2016).

### 2.5.2 Commercial Banks

As the business grow and the need of capital start to rise, the first place to search outside funding for start-up business is the local commercial banks (Brooks, 2010). There are many financial institutions that are engaged in the flow of funds depending upon the development of nations financial market such as, commercial banks, Investment companies, Insurance companies, brokerages, Unit investment trusts, management investment companies, credit unions, shadow bank etc. (Investopedia, 2016). However, when it comes to growing SMEs in developing economies like Nepal, the FIs such as commercial banks, development bank, finance companies, micro finance institution, saving and credit co-operatives and NGOs are the major source of fund for the investment (NRB, 2016). Although SMEs can manage the huge capital through commercial banks to manage the growth, the eligibility criterial required to have access to fund from such intuition can be major drawbacks such as solid history of company, income, and assets (Peavler, 2016). This process is known as rating. The loan manager of a bank evaluates all the financial information and picks the most important financial ration to analyze if business can pay back the loan.

Banks loans are one of the major source for money at the early stage of business and for some start up and growing companies they are only source available (Peavler, 2016). Depending upon the requirements' which may vary from bank to bank, most of the lenders requires a solid business plan, positive record of accomplishment and plenty of collateral (Hofstrads 2013). Generally, startups lacks such requirements and funding to startups from commercial bank to start up are exception which often seek other sources such as small business administration (Brooks, 2010). This types of lending best suits to growing business where company starts to keep profit and loss statement, cash flows budgets and net worth statements.

### 2.5.3 Small Business Administration (SBA)

If you cannot meet the criteria of bank for the loans and do not find an angle to support your start up or fit in the profile of high-powered venture-capital start-ups, SBA can be the right alternative who support such small business to provide the bank loans (Bovee & Thill, 2005). SBA financing source generally back to get the loan from the bank, where you apply to the bank for the business loan and SBA guarantees to repay up to 80 percentage of the loan if you fail to pay (Montgomery, 2016).

In developed economies, such as US, SBA is a government agency who design different loans programs that provide different financial solution for the small and growing businesses (Montgomery, 2016). Such administrations are engaged in the lending the business loans who cannot get financial solutions through normal lending agencies. They provide the funds for long duration with repayment schedule based on evidence of good character, management capability, collateral, viable business plan, personal financial statement, business financial statement (Brooks, 2010). In some nations, there are investment firm created by SBA who finance the minority -owned businesses in the same way venture capital firm do but they make smaller investments and only finance the business that are not financed by VCs (Bovee & Thill, 2005). Federation of Nepal Cottage and Small Industries (FNCSI) is a non-profit, non-political, Business Membership Organization actively operating with a vision to help build sustainable national economy through promotion and development of SMEs sector in Nepal (FNCSI, 2016). The objective of FNCSI is to provide advisory support and advocate & lobby on the behalf of SMEs as well as to conduct market promotion activities, improve productivity, establish cross-industry relationship at national and international level, provide SMEs with different information etc. (FNCSI, 2016). Both SBA of developed economies and FNCSI of Nepal objective is the to promote the emerging business, however, they differ in terms of providing the direct financial solution to the emerging companies. The objective of FNCSI do not include any policy or support for addressing the financial need of business at initial phase of business.

#### 2.5.4 Business Angel and Professional Investor

These financial sources consist of wealthy individual or pool of individuals who invest in the business who does not fit in commercial lending and business that have potential to grow in future (Barell et al, 2015). Angel and professional investor are individual or group of individual who invest their own money in the early stages of business for new and high risk ideas with a goal of higher return (Bovee & Thill, 2005). Private Investor are categorized into three groups: business angels, professional investors, and venture capitalists. Both, business angel and professional investors wants to maintain close relationship with the entrepreneur and can be great source for business expertise and credibility. However, private investor differs from BA in terms of the rate of return where private investor expects higher rate than BA (Lainema, 2011).

Angel and professional investor financing usually limited to the early development stage of the business depending upon their personal wealth (Brooks, 2010). Angel financiers are rare for most business ideas but they are key for startups in terms of flexibility in agreements and knowledge (Barell et al, 2015). Private investors preferred by some entrepreneur because of their connection, personal relations, and expertise in the specific area/sector. As the business starts to grow after the initial phase and success, there will be requirement for huge capital which cannot be fulfilled by angel investors. So, at that stage businesses seek venture capitalist firms or another big source for. They are the corporate entities that provide the funding at a level higher than most angel investors.

### 2.5.5 Venture Capitalist

Venture Capitalist often called investment specialists who raise money from different sources (Private and institutional) to finance new business that have a potential for huge growth and needs huge amount of capital in exchange for proportion of ownership (Bovee & Thill, 2005; Barell et al., 2015). Their main objective is to invest in the high-risk growth firm for considerable profit on the investment. Like BA, venture capitalist is not well defined group. Rather, they are the group of investors that provide the fund at higher level than business angel does (Bovee & Thill, 2005).

Venture capitalist are generally more attracted to invest in the companies that successfully pass the initial two phase (seed and start up) of business lifecycle (Bovee & Thill, 2005; Brooks, 2010). Suppose you come with business idea, and you invest some money from your personal source known as seed money. Most of the business funding requirement rise quickly between the start-up phase and growth phase. So, the company seeks other sources such as commercial banks BA & VC. Most of startup do not fit to commercial lending which drives business with huge potential to attracts investors such as BA & VCs. BA have the limitation to invest because their investment depends upon their wealth. So, if your business is too expensive to angle to fund the whole process of business, VC generally invest in the startups that are in the growth and maturity phase of life cycle.

## 3 RESEARCH METHODOLOGY

### 3.1 Research Approach

Research is often thought of as a process, that is a set of activities unfolding over time (Ghuri & Gronhaug 2005). This is because that research takes time and consideration. Selection of research methodology mainly depends upon the using the right tools for collecting the relevant information. Thus, collected information is further processed and structured in a such a way that all irrelevant information to reach the final objective are discarded and the final pattern or trends are formed to reach the conclusion (Revans,1971; Johnson, 2002).

Financing being a very complicated topic and cover the wide areas, the objective of this study is to accumulate the key understanding about the financial source for company in the startup and development phase. Different theories and universally applied approach is examined regarding the related issues and the scenario of Nepal has been tried to explore using available information and different research tools. This study is mainly focused on finding out the answers of two question as stated in objective and research question:

- How do startup and growth companies finance their business?
- What are the key barrier for these company from having access to financial services to support their business?

In general, there are two approaches applied for conducting the research; deductive and inductive where deductive is about testing the theories and inductive approach is about building the theories (Saunders et al., 2009). Real research is never purely inductive of purely deductive (Bernard, 2011) because induction includes the element of deduction and vice versa (Ghuri & Gronhaug, 2005). Deductive approach best suits the case where already a lot of research have been conducted or data are found abundantly. Deductive approach is the process of analyzing the predetermined theory, explanation of hypothesis and validating its application through developing research strategy (Gratton & Jones, 2010; Saunders et al., 2009). Deductive approach follows more generalization to the more specification, sometimes considered as a top down approach

where research collects data and develop theory as result of data analysis (Saunders et al., 2009). As opposite to deductive, in inductive approach theory is an outcome of research. The purpose of inductive approach is to allow researcher to develop concept or theory over something from the frequent, dominant, and significant themes inherent in raw data without using any fixed methods or approaches (Thomas, 2003). Mixed approaches were implemented as both quantitative and qualitative approaches were found to suit to this study.

### 3.2 Research Methodology

The use of both methods in the study bring advantages because they help to support and verify applicability in the form of knowledge (Burns & Burns, 2008). Qualitative research aims to achieve in-depth understanding of a situation so this study has tried to examine a case of a Nepalese company as well as a policy of bank in Nepal through interview. Interview is commonly used research tool employed by researchers in qualitative research (Bryman & Bell, 2007). This approach provides insight about the real problem of the startup and growing companies regarding the financial issues. There are many approaches for the qualitative research such as: case studies: comparative studies, retrospective studies, snapshots, and longitudinal studies (Flick, 2006). Quantitative data refers data collection techniques or data analysis procedure that helps to generate the numerical data to draw the trend of pattern.

Although the qualitative analysis could have best suits for my study, the time constraints and geographical factor disallowed me to study many cases of company facing the raised issue to draw the clear picture. I planned to interview a company to analyze their case that best suits for my issues. In addition, I used the questionnaire to avoid the fault in the studies as much as possible. One of my main objective of the study was to find out the commonly used financial services, the quantitative methods was most useful in this case. So, I tried to conduct the survey through questionnaire. Use of both method was useful for validating the information generated through different methodologies and to draw the relation.



### 3.3 Questionnaire

During the data collection, questionnaire was useful tool which consist series of question structured in a way with a goal to find answer from respondents (Ghuri & Gronhaug, 2005). Structured questionnaire was best for my study as I am currently living in Finland but my research object can only be met by the study of Nepalese financial market focusing in the key issues. The formation of question, the questionnaire and response format often influence comprehension and response accuracy in different culture (Craig & Douglas, 2000). The questionnaire I have developed must make sure that data generated from response provide the meaningful insight about the situation.

Questionnaire design: The main motive of survey through this questionnaire is to figure out the funding option that are commonly used for the startups and growth company in Nepal. It contains series of multiple choice question. The questionnaire question was formulated by using simple terminology and avoiding complex financial terminology that would be difficult to understand. Some of complex terminology were defined in short phrases for the general understanding which helps to make sure that respondent of questionnaire knows about the context. The data was collected, grouped in terms of different variables, and shown using bar charts to extract the common trends. Apart from that, questionnaire was constructed is such a way that helped to generate the data for validating the information that are generated from another research tool (Interview).

Target Group: The main target group of the survey were individuals, groups and company having basic knowledge about the Nepalese business environment. Investors, business owners, employee of Nepalese company or students and people from other relating sectors were targeted.

Modes: As I am residing in Turku and due to time constraints, the mode of distribution was done via internet to gather maximum number of responses. Deadline of one week was set for the completion of survey. So, use of different Nepalese community website such as Turku Nepal Association oy, friend and family social networks are the priority.

Drawbacks: The major drawback of questionnaire is getting the enough feedback/responses. The strategy of maximum distribution is adopted for addressing this issues. Other drawbacks can be the data collected or conclusion made based on this

questionnaire will not fit each individual case. Information generated with other research tool might provide different view/answers to the problems.

### 3.4 Interview

Interview is a purposeful discussion between two or more people (Khan and Canell, 1957 cited on Saunders et al., 2009). In general terms, Interview is conversation between two or more people takes place to find the answer or to create a concept. Interviews can be categorized in standardized and Non-standardized. Standardized Interviews are highly formalized and structured using standardized questions for each respondent while non-standardized often called informal are unstructured conversation with one or group of people to go to depth of topic (Saunders et al., 2009). The mixed of both are often called semi-structured interviews. Cooper & Schilder (2006) states that semi-structured interviews consist of few specific question and later interviewer formulated the question according to the research objective to consider the depth of subject matters.

I used semi-structured, one to one telephone and intranet-mediated interviews for my study. Telephone and intranet-mediated interviews were best suited to my study because its gives the flexibility in terms of time, money, and area for study. The process for my interview starts with listing few Nepalese companies that best suit to my studies. An email and phone was used for booking an appointment and a brief information about the motive of interview was send in advance. This allow interviewee to give enough time to prepare and give the logical answer to the questions. Since I used semi-structured approach for the interview, pre-structured question was asked in the beginning of the interview followed by some key issues in general.

### 3.5 Reliability and Validity

Often measurement contains errors, however, when we try to measure somethings we want valid measures to the greater extent, that is measure capturing what they are supposed to do (Ghuri and Gronhaug, 2005). This study tried to be practical as much as possible while implementing the research methodologies and have succeeded to answer to the problems to the greater extent. While conducting the qualitative analysis through semi-structured interview, mapping between empirical observations and concepts/theory is taking place. As for the valid mapping between theory and observation

requires considerable conceptual skills (Ghauri and Gronhaug, 2005). So, the conclusion drawn from this method mainly depends upon researcher's conceptual skills which can have some flaws in the study. In addition, use of methods to the limited numbers of cases could not provide the clear picture of the situation in the greater depth. As mentioned in the motivation, personal experience about operating business in Nepal was key for avoiding the fault in the studies as much as possible by focusing on the key issues. In context of survey through questionnaire, the number of responses have influences in the reliability of the study to some extent. Although the terms and terminology in the questionnaire was tried to keep as simpler as possible, the understanding about the survey can vary from one to another respondent. The participant of survey was from different background, if focused to the mainly startups and growth company in greater number would have increase the viability and reliability of the data.

Due to time constraints and subject distance, this study has only able to reflect the solution to the question/problems on the surface level. A research in the greater depth may show the same results however it can raise and address the new issues. A case study of more startups and growing companies and cross-comparison of case studies might reveal the new way of funding in different phase of business. Since BA and VCs are mainly unorganized sources in the Nepalese scenario, the additional research on them can provide the solution on how to trace and approach such funding source. A survey targeting only startup and growth company at greater numbers can helps to find the best trends and approaches that fits all issues regarding the availability and barrier of financial sources in Nepal.

## 4 RESEARCH FINDINGS

This study deploys two methods for the purpose of research; case analysis through interview and survey through structured questionnaire. As mentioned earlier, this study has focused on the funding landscape of Barell et al., (2015) and business life cycle described by Heinonen (2009), to focus our study around the startup and growth companies. The finding from case studies are presented in the beginning followed by the questionnaire and cross comparison between two methods is done at the last part of this section.

### 4.1 Case Study

One Company and One Bank personnel were interviewed during the process with a motive to understand the situation in depth from both side. Due to time constraints, analysis of more company was difficult process. However, company which have passed beginning two phase of business lifecycle as explained by Heinonen (2009) was selected to present the case with more detailed information. The bank personnel were interviewed to figure out the policies and strategy adopted by them and implementation difficulties.

Case A	Wholesaler	Clothes for Kids	2010	8 fulltime employees	Family Business	NRs. 40 million Annual Turnover
Case B	Bank Manager	Nepal Agriculture Bank Ltd.	Ram Shahpath Kathmandu Nepal.	Working since 2007		

#### 4.1.1 Case A

Pathivara enterprise is operating as wholesale business in the eastern region of Nepal, lthari, often known as heart of eastern Nepal. Phone interview was conducted several times with Mr. Rajendra Adhakari, the owner of the enterprise. Questions and interview brief was sent in advance which allowed him to be prepared. Interview consisted of some structured question as well as interviewee was request to tell his story about the issues he faced regarding management of fund during the startup phase and now.

Business owner defines their operation as distributor of all types of clothes to kid's segment, from foot ware, clothes to caps for the retailers. I found this case interesting because this business was started as a family business, operated by two brothers with business plan which they believe had a great market. In addition, this case fits exactly to my studies by presenting the story of transformation of small retail shop which was started with very little capital to one of the top wholesaler in that city. Interviewee believe that their business has almost increase their business size by more than 50 times in terms of seed investment within a period of 7 years. I have presented their cases in two segment Start up and Growth.

##### 4.1.1.1 Startup Phase

Pathivra Enterprise was initially started as a retail shop during the initial phase of their business as a Baby Collection Store. Although the primary purpose of the business was to sell clothing's for kids segment, they were serving product for all types and age of customers. In the initial phase of business, they started the business with initial capital of 2 hundred thousand NRs (€ 1700) which via their personal savings and family money. The company was started by two people(brothers) and they registered their firm in PAN (Permanent Account Number). The initial capital was used to build the physical store, undertake market study, and build the relationship with the supplier. As the business started to operate in the market, the need of fund started to rise in order to increase product supplies form suppliers. After that they start to seek different source of finance to fulfill their increasing demand of the fund to survive in the market.

I asked him "Describe the funding sources that were used in the startup phase of business and reason behind using such sources?. In his words *"the loan/fund you get the money from the family and relatives are most common in the Nepalese scenario as this kind of the loan have simple procedure and flexible in terms of time and cost"*. He

also mentioned that this kind of source can have impact in the management of the company as the use of these source increase their engagement in the business operation. So, they accumulated almost 1.5 million NRs (€ 13000) from family and relatives. The other sources he used was a Finance company. Finance company is C class banking institution operated under the regulation of NRB who provide service to the households and small business operating in their operating areas. He mentioned that as Finance companies only demand the business registration form and daily collection form (daily transaction statement of the business) and the procedure requires small time (1-2 week) depending upon your business transaction. So, they manage to collect 4 hundred thousand NRs (€ 3500) from that source. However, he states that the interest rate is quite high and time for repayment is short depending upon the finance company policy and types of loan. The interest rates charged by finance company is around 16-17 % for the business loan while in the banks its 8 to 10%. He stated that for not choosing the bank was “*all the commercial bank of Nepal wants to take the minimum risk. It's even worst in the case of start up.*” You should have some fixed assets as a mortgage to raise capital from bank, bigger the better. Your business does not matter much to the bank even if you have great business plan or your business growth is visible in the market. He found some personal investors during the startup phase, but they want bigger share in your business. Your business ideas and contribution doesn't count as an asset while creating a partnership with such private investor. Its capital based; the money how much you put in the business and they invest. So, he summarizes his experience during the startup phase as personal source and family were the major investor during the startup phase. Most up the Nepalese startups gets some fund from small financial institution such as Finance companies and saving cooperative but the interest rates are too high. The more you use the third-party source such as bank, finance companies and private investor the risk of getting failure is high due to high cost related with them.

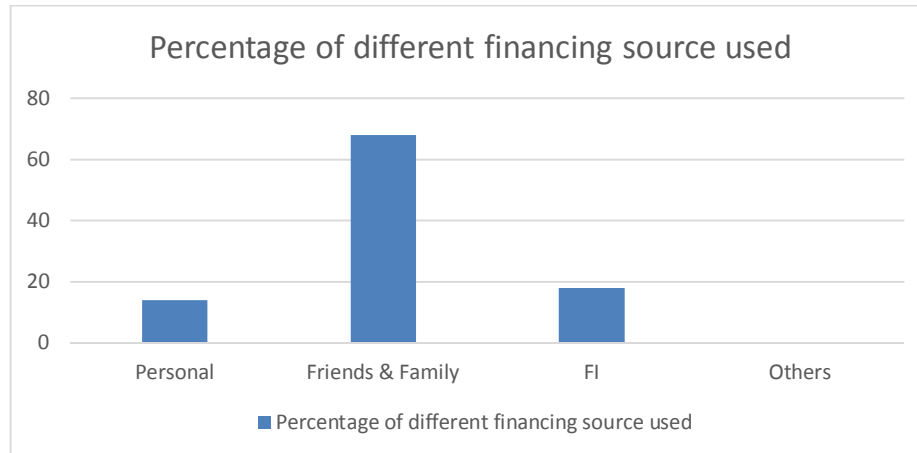


Figure 5 Source of fund used by pathivara enterprise during startup phase (Analysis of question 1)

#### 4.1.1.2 Growth Phase

Pathivara enterprise experienced huge growth in terms of sales suddenly after targeting the kid's section only. However, the need of fund also skyrocketed during that phase due to increasing demand. However, despite making all the investment from the retained profit of business (fund that was generated from business) was insufficient for the expansion; business expansion from retailer to wholesaler for kid's clothes. Financial access from the finance company also increased by the double rate comparison to the startup phase. However due to the high interest rate and the capital amount they were getting from available source was still not profitable and sufficient. At that point, they had some fixed assets which was used as mortgage to apply for the loan from the bank. He stated that *"there are no such loan from any bigger financial institution such as A and B class bank for business which are more economical than other sources based on your business size or business transaction until and unless you have some collateral to put as security"*. So, fixed assets form a basis for the whichever type of loan you apply from the bank of Nepal. He got a loan from a bank up to 6 million NRs. The interest rate was around 9 percentage as he said normally in A class bank interest on the loan for business purpose lies between 8 to 11 %. Due to recent earthquake of Nepal (2015) there was an extra charge of 1% interest per annum to support the earthquake victims. He also stated that there might be small business association, however, their target group are generally minorities citizen of Nepal and the amount of fund provided from them are too small.

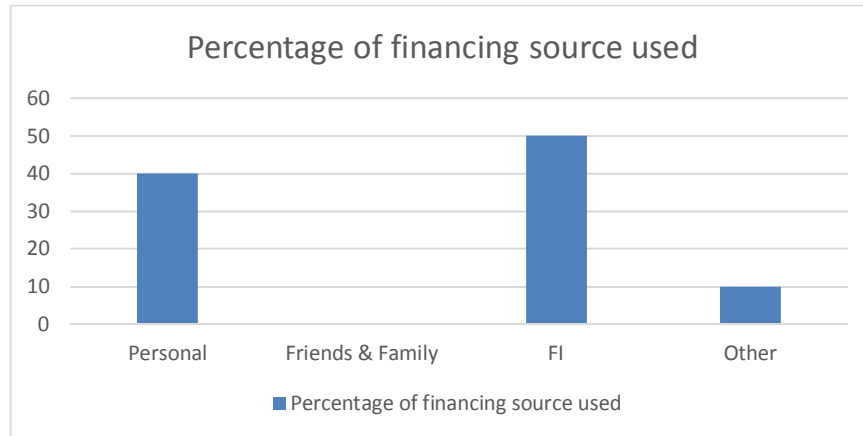


Figure 6 Funding source of pathivara during growth phase (Analysis of question 2)

#### 4.1.2 Case B

Case B covers the phone interview conducted with bank manager “Mr. Dinesh Karki” of Nepal Agriculture Bank situated in Kathmandu. Nepal being known as agriculture country; Nepal agriculture bank is one of the leading bank of Nepal that focus their operation in the development of agriculture and productive sector. During the interview with Dinesh Karki went through with different issues regarding the policy adopted by bank for business.

He stated that, for the documentation process for business loan it depends upon the business types: partnership, single or corporate firm. The business size also mattered in the process of documentation. They are generally categorized into small domestic business firm which have annual turnover less than 2 million NRs (17000 €) and big one having turnover more than 2 million NRs. Almost all the bank demand document such as citizenship, domestic company registration, municipality company registration, Pan Number (Business ID), VAT number, tax clearance certificate etc. depending upon the size of business and amount of the loan needed.

He stated that all types of business loan granted are based on mortgage. The value of mortgage serves as a basis for loan granted where the annual turnover, performance and size of business are not valued much during the process. The most common mortgage accepted by bank are fixed assets such as house, land, gold which have high liquidity in the market. Document of ownership, property tax clearance certificate, four dimensional property description and maps of property location are demanded by the



bank loan officer for the valuation process. The risk taken by bank in most types of loans including business are minimal. Valuation of fixed assets that are eligible for business loan are done by banks own policy which are generally very low comparison to the market price of assets. In addition, after the valuation only 60% amount of the valued assets are eligible for the loan, in some bank cases 50%.

The only difference you find if you apply for any type of loan are the interest rate involved in it. In case of Nepal Agriculture Bank, Agriculture loan are cheaper where interest rate is around 6.5%, while production and trade (business) related are medium category loan which have interest rate around 8.5 % and household loans are the most expensive ones. He also mentioned that some other bank charges lower interest rate for the business purpose but the business loans with small interest often comes with the extra service charge from time to time which makes no difference. The only condition that you do not need mortgage for business is if you are buying some fixed assets for the business such as car or land or house. Still the purchased assets from the loan granted by bank serves as a collateral for the bank. Such loan is called hire and purchase loan where the borrower must put some percentage of money and remaining part the bank will pay to buy assets for the individual or business. In addition, he stated that there are two type of the loan provided based on payment terms and condition: working loan and term loan. Working loan are generally provided for 1 years which can be expandable up to 5 years. You should pay back the loan with interest before the maturity period of the loan with the interest. In case of any default, the bank will seize your property that have used as collateral for loan. The other type of the loan is term loan which is mostly used by the business which have regular cash flow. In this type of loan, you must payback your loan in installment. Installment is based on the time and interests.

Theoretically there might be different types of loans granted by different banks of Nepal for business, practically they all are the same except small interest rates differences in different title of loans. Mortgage serves the main basis for the loan and the valuation process depends upon each bank policy. There are no such loan or financial support from the Nepalese commercial banks on the basis of business idea, growth, and market share. Bank are normally cheaper outer source for the business in Nepalese environment but it is too risky finance your business through outer sources such as bank and finance companies if your business is not expected to do exceptionally well in the market. He concluded his interview by saying that *“the government and banks are continuously looking ways to support the emerging business by making different policies*

*however the process of getting access to business loan is still conventional. Despite the policies, the financial institution is not able to develop the product that satisfies the varying need of emerging business and will not change until they will start to take risk to the acceptable level. Business ideas, plan and growth are second priority of the bank where they assess such things just to verify if the borrower can pay back the loan before maturity period.”*

## 4.2 Questionnaire

Google form was used to collect the data and administer the survey. In addition, it also helped to summarize the findings for quantitative analysis. In total of 52 responses that I received for my survey, majority of respondents (48%) were employees of Nepalese company (present or past) followed by students (33%) who have the at least basic knowledge about financial scenario of Nepal as this survey targeted. In addition, there were also the participation of business owners/investor and people from other sectors.

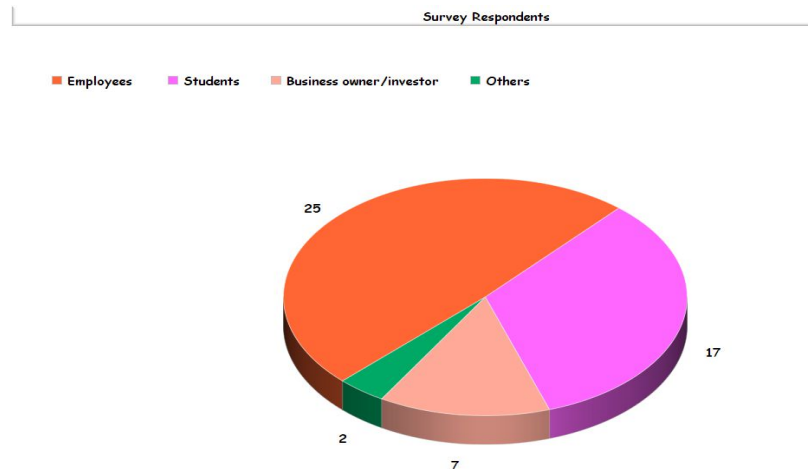


Figure 7 Survey respondents

The survey began with the questions (question no 2 and 3) that helps to analyze the Nepalese financial environment from the respondents view. Most of the respondents (51%) believe that the environment for starting a business in Nepal is getting better and some believe that it's more encouraging than in the past. This may be due to Nepal

undergoing the peace process after 10 years long war and recently formed constitution. Approximately 42 % of respondents believes that financial sources to do business in such a big scale is very limited followed by 40 % of respondents thinks that political situation and policies for business are unsatisfactory so startups and growth companies are unable operate in global scale. As the government is frequently changing in Nepal and the policy for development changes at the same time; political instability (28%) was also figured out as the major reason that hinder Nepalese business growth and expansion. Financial institution incapability to serve the different type of financial need of emerging and growing business by creating different financial product was also viewed equally as other factors that affects business expansion and growth in Nepal.

After collecting the data regarding the use of different financial source (question 4 & 5), I found that Nepalese firm use all types of financial source for starting the company and managing the growth and expansion; personal source, family & friends, commercial banks and other financial institution and BA & VCs.

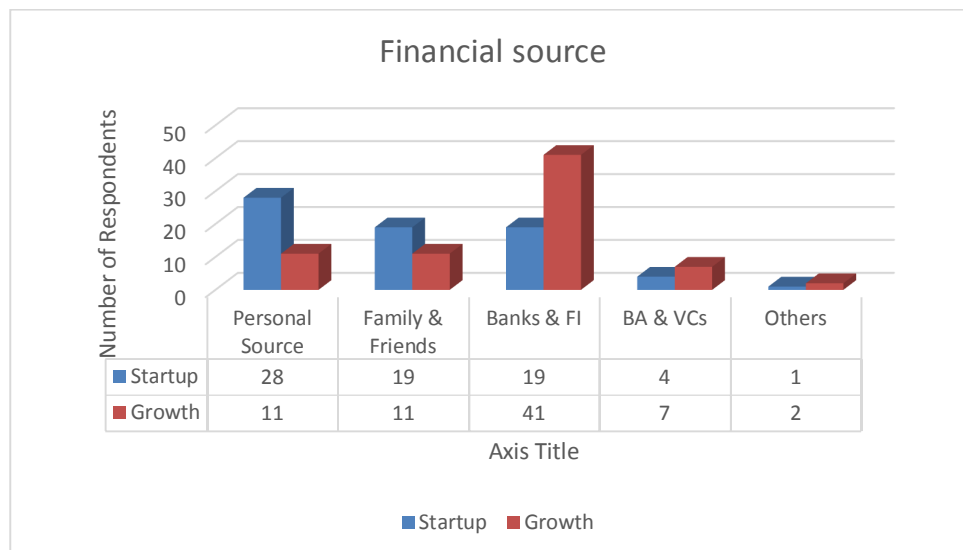


Figure 8 Financial source used by startup and growth (Analysis of question 4 & 5)

Although Nepalese firm used all types of funding sources, use of personal source seems relatively high during the startup phase where 54 % of respondents thinks that personal source is commonly used to fund the business in the initial phase of business in Nepal. This may be due to risk factors is high during the startup phase as explained by Barell (2015) in the funding landscape. Personal source is easy and cost associated with it are null. Your personal investment serves the basis for raising the fund from other sources

such as banks, SBA, BAs & VCs. Most of the respondents were positive about using personal source in the initial phase of business rather than approaching to other sources. Funding startups from family & relatives and FIs seems moderate during the startup phase in both cases; 36.5% of respondents thinks that such financial sources are appropriate to use during the initial phase of business. As the rate of risk is high for startups and do not have any tangible success during startup phase, use of outer sources can complex and risky at the same time. The engagement of BA & VCs and other sources such as SBA during the startup seems relatively small during that phase, 8% for the former and 2 % for the later. In contrast, during the growth phase the need of fund by business is highly fulfilled by banks and financial institution where approximately 80% of respondents viewed BFIs as a good source to accumulate the fund. In addition, 40 % of respondents believed that during growth phase its easy and wise to accumulate fund from BFIs. As the risks factors goes down and process to acquire fund from BFIs during growth phase become less complex, BFIs can be good source in Nepalese context. From the survey, I found that 12 % of respondents thinks that personal sources are still good to use during the growth phase which may be due to control over the management, easy to access and full benefit.

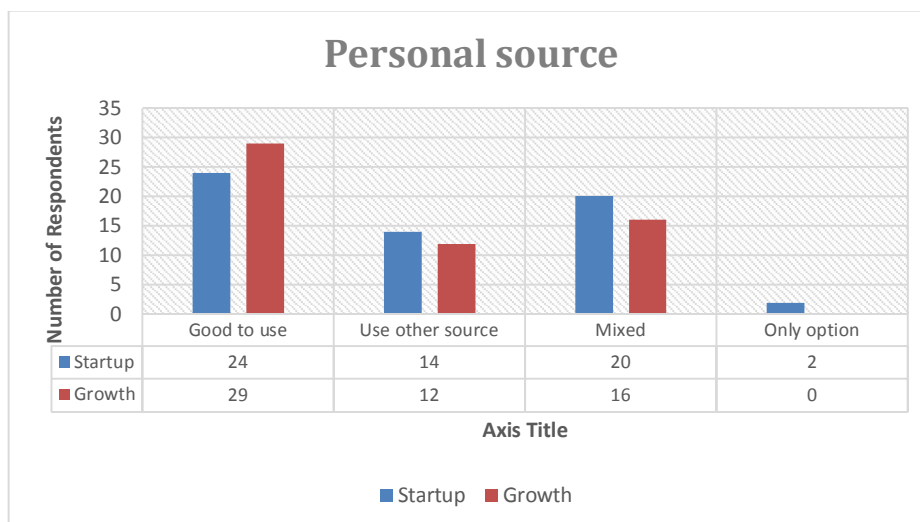


Figure 9 Use of personal source for financing (Analysis of question 6 & 10)

By the analysis of question 6 & 10, I found that personal source was viewed as good option for both startups and growth company where 45 % of respondents thinks it's good to use for startups and 56% of respondents have same view in terms of growth company. As personal source is never enough for startup to manage the growth or growth company

to manage maturity, mixing personally generated fund with other different available sources also helps to get access to huge capital and risk factor is distributed at the same time. During startup and growth phase respondents believes that its appropriate to fulfill the funding need by mixing the personal source with another available source,40 % for the former and 30% for the later.

In most of “We Culture” society like Nepal it common to find engagement of family in the business (Analysis of question 7 & 11). Majority of respondents think that it’s easy and commonly used sources for funding the business weather its startup or growth company, where 43% of respondents have similar thinking for startups and 38% at the growth stage. Mixing family assets with business are common in Nepal.

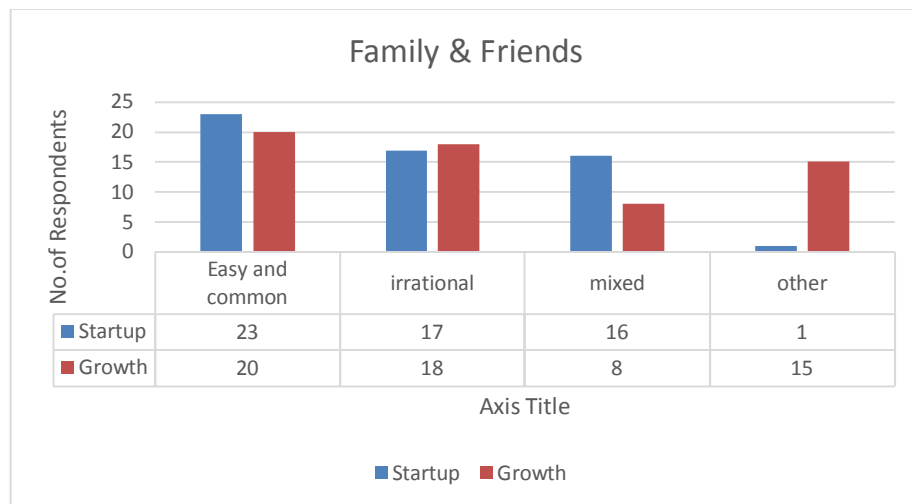


Figure 10 Use of personal source for financing (Analysis of question 7 & 11)

Cost associated with Friends & Family are often low and you can get flexible time amount to repay your loan. However, the engagement of family to manage the funding need is often considered as irrational for both startups and growth as viewed by the respondents, 34% and 35 % respectively. 30% of the respondents believes that it is good to borrow fund from friend and family as well as from other sources at the same time.

In case of growth company, Banks and FI are most preferred source to finance the business during the startups and growth stage as they provide access to huge capital to support growth and expansion (Analysis of question 8 & 12). 60 % of respondents prefer to seek the fund from the bank during the startup phase as well as 40 % for the growth phase. However, high interest rates and complex process was also pointed out by respondents as barriers for the startups to acquire funds. As the business starts to grow

it start to generate continuous revenue as well as the assets of business is more in comparison startup phase which serve the good basis for selecting the FIs.

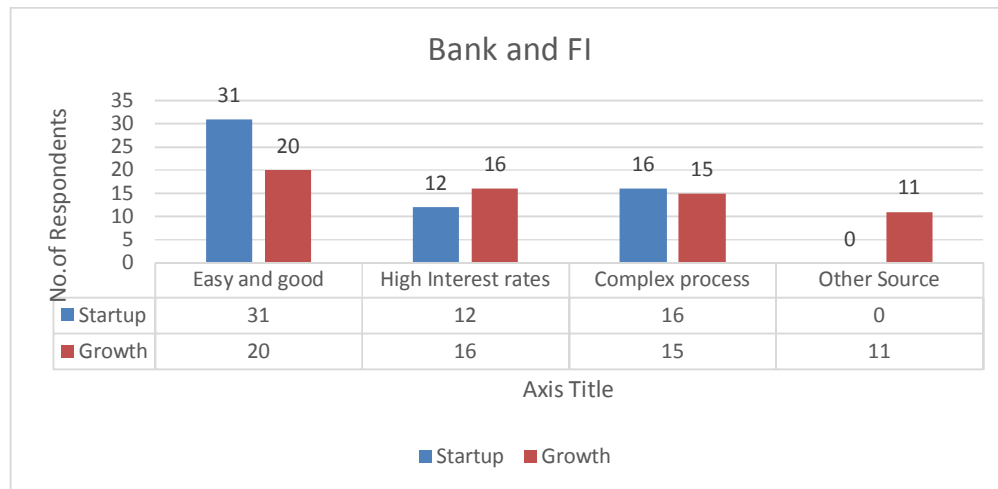


Figure 11 Bank & FIs for financing startups and growth company (Analysis of question 8 & 12)

There is cost associated with every type of funds, so selection of appropriate financial sources is key to the success. Generally, in case of BFIs the cost associated with the loan vary from types of financial institution you choose. 30% of respondents thinks that interest rates are too high to acquire fund from Nepalese FIs for both startups and growth companies. Finance company are domestically operated Institution in Nepalese local market who are one of the major provider of the fund. The process from getting fund from those Finance companies are generally easier in comparison to commercial Banks. However, the interest for the loan borrowed are almost double in comparison to bank. Commercial Bank being one of cheaper sources among the different FIs of Nepal, the process is quiet complex and demanding to fulfill various requirement of bank which can be difficult mainly for startup companies. Growth company generally hold more fixed assets in comparison to startups, as a results bank are the best sources to acquire a fund. Banks policy to operate in minimum risk sectors also finds attractive to invest more in the growth company.

BAs and VCs are not well organized financial sources and it even difficult to trace such sources in Nepalese context which makes it more difficult for Nepalese companies to recognize such source (Analysis of question 9 & 13). Since this types of source are

harder to trace and often demand shares in ownership, very small numbers of Nepalese company use them. When it comes to BA and VCs in Nepalese context, we can find some of personal investors investing in other business ideas or growing business. But for startups which has yet to form any tangible management and organizational shapes finds this types of source harder to trace.

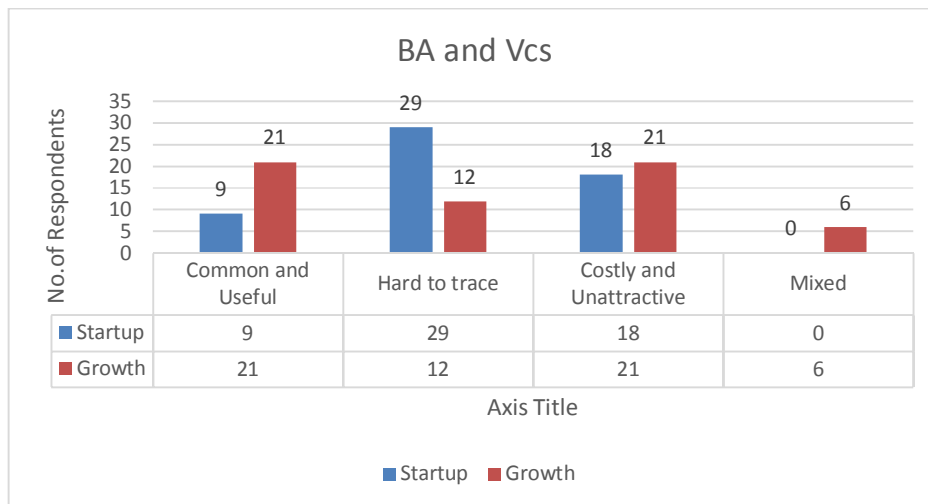


Figure 12 BAs and VCs for financing startups and growth company (Analysis of question 9 & 13)

Although 17% and 41 %of respondents thinks that BA and VCs are good source to fund startups and growth companies respectively, 57% and 47% of respondents believes that they are hard to trace at the both phase of business. Such sources are also viewed as costly sources in the Nepalese context because they are informally operated sources and the cost associated with such sources are mainly based on negotiation between business owner and BA & VCs.

## 5 CONCLUSION AND IMPLICATION

This study focused on finding out the major financial sources and key barrier for having access to such sources for startups and growth companies. Commonly used financing sources startups and growing companies were found to be personal source, friends & family, BFIs, and BA & VCs. SMEs being one of the major sector of Nepalese economy like most of the underdeveloped and developing economies, many efforts have been made and policy have been formulated by government to support the startup and growing companies. Despite the effort from government sector and huge increment of FIs in Nepal the way of financing the business in Nepal is still done in the conventional way.

Although Nepalese startups consider all the available source for financing their business, startups widely used personal sources to fund their business in the seed phase followed by friends & family and FIs as shown by the case A and survey. 54% of respondents believed that Nepalese startups are mainly funded by personal source and 45% of them believes its best to utilize own fund at startup phase. The engagement of family, friends and relatives in business is also common in Nepal as most of business are supported through these sources in the initial phase of business. BFIs being one of most used outer source by startups and growth company in Nepal, they are actively operating to provide different financial solution for business purpose in Nepal. Only 36.5% of respondents viewed BFIs as commonly used source for startups, however, 80% of respondents' present similar view in case of growth companies. Which shows the process of getting fund from commercial banks and other institutions were found to be complex and costly due to various high requirements, especially for startups. BA and VCs often considered as informal and unorganized source, accumulation of fund from such source required business skills, proper channels, and information. In the Nepalese context, most of the small business find BA and VCs hard to trace and some of them are even unknown about their existence (8 % of respondents were positive about BA and VCs during startup phase while only 7% at growth phase).FNCHSI operating as SBA in Nepal, such organization are engaged for promotional, informational activities and addressing minority group issues rather than providing the platform as a formal source to streamline acquisition of fund for startups and growth companies as opposite to SBA of developed economies. As SBA in Nepal are hardly dealing with the financial problem of Nepalese



starts ups and growth company which makes them least used source for financing (In both cases less than 2% of respondents have opposite view).

Personal sources are good to use for both startups or growth companies, however, such sources are limited to fulfill all the funding need at different stage of business. So, entrepreneur seeks other sources and such financing sources possess various factor that acts as a barrier to satisfy all the funding need. Accumulation of fund from friends and family sources can have impacts on the management and decision making process as well as such sources generally holds limited capital. BFIs is considered as commonly used outer financing sources in Nepal, however, the lending approach of bank doesn't allow all SMEs to accumulated fund from such sources, especially startups often find difficulties to fit in the banks' lending criteria. High cost associated to finance business from BFIs also increases the risk and demotivates entrepreneur to accumulate fund from such source. BA and VCs are often considered as a good source of financing, however, to accumulated fund BA and VCs requires high business skills and knowledge because such sources are hard to trace and convince at the same time. Majority of SMEs dies in underdeveloped countries due to limited availability of fund, however, SBA of Nepal (FNCSI) is focusing on other issues rather than serving as a last resort to accumulated fund for startups as they do in developed countries.

So, while accumulating a fund whether for startups or growth companies in Nepalese context for any needs/purposes, its crucial to analyze and evaluate all the available source. The cost associate with each source should properly calculated and only such sources should be considered if the company can manage such cost. Family and Friends are widely used financial sources, however, business should able to minimize the impact of such sources in the management and operation of business activities. BFIs have different requirements and process, so business must decide whether they fit to such lending process or not. The lending process of business loan has not able to address the startups and growth companies real funding need. BFIs should amend such processes if they want to support business to the greater extent. Mixed approach where business use different funding sources for different need can be good alternatives to minimize the risk & cost and maximize during the process of fund accumulation for different business need. BA and VCs can be crucial sources for those startups and growth companies who doesn't fit on other lending source categories. BA and VCs source should be tracked and investment approach should be studied if startups and

growth companies want to accumulate fund from such source. SBA approaches to support financially for startups and growth company should be included in their objectives and vision as most of such companies dies due to lack of fund mostly in underdeveloped countries. Despite the government policy to support startup and growth financially, the effective channel to implement such plans should be adopted and monitored on the regular basis. For the further development of this study, I suggest reader to use qualitative research tool to analyze the issues in greater depth covering more cases of startups and growth companies.

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# Appendix 1: Questionnaire

11/18/2016  
Nepal

Accessibility of Financial Services in

## Accessibility of Financial Services in Nepal

You can choose one or more options for each question and expected to answer according to your understandings /experience about Nepalese Business Scenario. If you have different view regarding the question please check the other section and would be thankful if described in short phrase if possible.

### 1. Select your Occupation

*Tick all that apply.*

- Business Owner/Investor
- Student
- Employee in Nepalese company (present or past)
- Other: .....

### 2. What do you think about starting a new business in Nepal?

*Tick all that apply.*

- Enthusiastic
- Worst
- Environment for doing business is getting better
- Political situation make it worst despite the good polices
- Other: .....

### 3. What do you think about incapability of Nepalese businesses to internationalize?

*Tick all that apply.*

- Business Knowledge (know how problem)
- Financial sources are limited for growth and expansion
- Poltical situation and Policies for business are negative
- Lack of availability of right financial solution/product to address the different need of businesses
- Other: .....

### 4. How do Nepalese business finance their Business in the Initial phase of business?

Initial phase here refers to startup of business before reaching to customers or market or before generating profit (idea to development

to market)

*Tick all that apply.*

Personal Source (Can be personal

- savings, income, credit card) Family,
- friends and Fools
- Commercial Banks and other Financial institution
- Business Angels and Venture Capitalists (individual or
- group of professional investors) Other: .....

5. How do Nepalese firm finance their Business in the Growth Phase?

Growth phase here refers to the stage of business where it starts to generate profit and grow rapidly in terms of sales, market share and customers. Business Angels and Venture capitalists here refers to wealthy people/professional investors or groups who invest in good business ideas or existing business that have huge potential to grow.

*Tick all that apply.*

- Personal Source (Can be personal savings, income, credit card)
- Family, friends and Fools (3Fs)
- Commercial Banks and other Financial institution
- Business Angels and Venture Capitalists
- Other: .....

6. What do you think about investing your personal money in your business ideas (startup process)?

Startup process here refers to development phase where business do not have customers, market or start generating revenue

*Tick all that apply.*

Personal sources gives easy and full benefits and control over the

- company if succeeded Other sources are good as personal
- sources have higher risk and low capital
- Mix of personal and other
- sources, more capital and
- ideas Only options available
- Other: .....

7. What do you think about investing 3Fs (Family, Friends and Fool ) money in your business ideas (startup process)?

*Tick all that apply.*

- Easy and Commonly used
- Not rational, extra
- stress as startups are
- highly risky mixed



- approach, 3Fs with
- other financial source
- Other: .....

8. What do you think about borrowing money from Banks and other financial institutions to support business ideas (startup process)?

*Tick all that apply.*

- Best source if you have good business ideas/plans, huge capital Meeting Bank Criteria is difficult (Mortgages, Policy, time consuming)
- Intrest rates are too high
- Other: .....

9. What do you think about investment from Business Angels and Venture capitalist in your business ideas (startup process)?

*Tick all that apply.*

- Commonly used
- Hard to trace, existence of such investment is hard to find
- May be there are some but costly and unattractive source
- Other: .....

10. What do you think about investing your personal money in for business expansion if it starts to grow?

*Tick all that apply.*

Its good to invest personal money, solo profit and control  
Insufficient, market is changing

- quickly to maintain the growth mix
- approaches (personal +other sources)
- Other: .....

11. What do you think about investing your 3Fs money for business expansion if it starts to grow?

*Tick all that apply.*

- Good option as they provide enough fund and support to maintain the growth rate
- Insufficient, In this stage business requires huge capital  
Family inclusion for long term increases the complexity mixed

- approaches, 3Fs with
- other sources
- Other: .....

12. What do you think about seeking fund from bank and financial institution in for business expansion if it starts to grow?

*Tick all that apply.*

- Easy and good choice at this stage
- Interest rates are still too high
- Process for such type of fund are complex
- again mixed
- approach
- Other:

13. What do you think about the investment from Business Angel and Venture capitalist for business expansion if it starts to grow?

*Tick all that apply.*

- Good source regarding the amount of capital, their business experience and support
- costly
- Hard to trace such investors
- mixed approach
- Other .....