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Banking Services and Business Growth of Micro and Small Enterprises in Kageshwori Manohara Municipality

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Abstract
Micro and Small Enterprises (MSEs) are an important source of jobs, income and for overall economic development in Nepal. Despite their importance, there is limited research examining how different banking services affect the performance of MSEs at the municipal level, specifically in Kageshwori Manohara Municipality. Therefore, this study fills this void with its analysis of the impact of credit availability, interest rates, digital banking, financial advisory service provision and repayment periods on MSE performance. The study has employed a positivistic research paradigm employing descriptive, correlational and explanatory research designs. Structured questionnaires were completed by 186 MSE owners on behalf of the researcher as primary data collection method using a Five Point Likert Scale. The data were analyzed by the use of the three statistical methods which include; descriptive statistics, correlation and multiple regression analysis. The findings from this analysis show that each variable related to banking services have a positive relationship with business growth. Through the regression results, it has been found out that access to credit, interest rate (the rate at which an individual or entity borrows money), financial advisory services, and loan repayment period have a statistically significant impact on business growth while digital banking does not. also, through the regression results, it has also been identified that among all the variables used in this model, loan repayment period is the most influential factor of business growth. In conclusion, this study finds that MSEs need flexible financing options and effective financial advisory support for their sustainable growth. Practically, the findings of this study will be useful for banks and policymakers who design entrepreneur-friendly financial services. Academically, this study enriches the literature on banking service variables and enterprise growth in Nepalese context and provides a base for future research.

Keywords: *Access to credit, digital banking, financial advisory services, loan repayment period and business growth*

Introduction

In Nepal MSEs have a very important contribution for job creation, reducing poverty and developing economy. The survival and expansion of MSEs are mostly dependent on good banking services like having access to credits, low cost loans, electronic banking, good financial advice and flexible payment terms. Beck et al. (2005), stated that lack of access to funding is among the most significant barriers to SME's growth and competitive position. Amadasun & Mutezo (2022) also indicated that low level of financing accessibility and excessive collateral demands have an adverse impact on both the operation and sustainability of SMEs.

Access to credit can be viewed as a very important financial tool for businesses to grow their business, invest, and produce more. As noted by Tmava et al. (2013), bank lending is directly related to the amount of money invested and expanded by Small Medium Enterprises (SMEs). Likewise, Beck & Cull (2024) indicated that when banks provide access to finance to Small Medium Enterprises, these firms are able to use it to enhance the efficiency and longevity of their operation. In addition, micro and small businesses in developing countries have been struggling with obtaining formal loans from banks, largely due to the stringent lending requirements imposed on them and lack of sufficient collateral.

Enterprise development depends on many factors including the cost of borrowing which can affect enterprise development and financial stability. Low interest rates make it cheaper for a small entrepreneur to borrow money in order to develop his or her business activity. In contrast, high interest rates reduce an enterprise's ability to take advantage of loan opportunities by increasing its costs and burdening the finances of an enterprise. Fatoki & Asah (2011) indicated that low-cost and reasonable interest rates will have a positive impact on Small- and Medium-sized Enterprises' (SMEs') decision to accept debt financing as well as increase their sustainable capacity to do business. Additionally, Amadasun & Mutezo (2022) demonstrated that both high lending costs and insufficient banking service for supporting SMEs are obstacles to their continued development and competitive position.

The digital banking system is a fundamental part of contemporary banking as it provides enhanced access to finance for all entities, enhances transactional speed, and manages operational activities in better way. According to Nagy et al. (2025), the use of fintech and development of digital financial services can considerably enhance the ability of SMEs to be operationally resilient and increase their level of financial inclusion. Additionally, Zulqarnain et al. (2025) reported that SME's digital finance and technology adaptation positively impact their ability to efficiently operate their businesses, thus improving long term sustainability. Finally, Onaigbe and Ezeliora (2025) emphasized that mobile banking and digital payment systems improve the overall convenience of transactions and also decrease the cost of operations for enterprise.

Financial advisory services provided by banks have a great impact on enterprise development through improving the entrepreneurs' financial literacy, business planning and investment decisions. As explained in Berger and Udell (2006), bank support for small and medium-sized enterprises is not only limited to financing; they also offer managerial and advisory assistance. Similarly, paliwal (2025) observed that entrepreneurs who received financial literacy and advisory services were able to make better decisions regarding their businesses and were more likely to sustain them.

Flexible loan repayment periods are a key aspect of other banking products that can enhance the long-term viability and development potential of an enterprise. Flexible payment terms help alleviate the burden on small business finances and help with managing their cash flow. Favorable repayment conditions will have a positive effect on SMEs' ability to invest in or expand their operations as reported by Tmava et al., (2013). On the other hand, as pointed out by Scott, (1972), inflexible repayment conditions will add to financial burdens, which may be detrimental to business sustainability. Therefore, banks need to offer flexible loan repayment plans to allow for effective use of bank services and to sustain the financial position of the enterprise.

Growth of a business refers to an increase in size or scope of a company. The growth of a business can be evaluated using several different metrics including revenue/ sales, profit, efficiency, growth into new markets, as well as how sustainable the business model is. Banking services have a significant role in supporting the growth of a business; specifically through providing financing options as well as improving overall financial management. According to Delos Reyes & Ortiz (2026), banking services enhance operational stability and the capacity of small businesses to expand. Similarly, Beck et al. (2005) stated that access to finance is important for increasing the competitive advantage and long-term success of SMEs. As such, this study will assess the relationship between banking services and the growth of Micro and Small Enterprises in Kageshwori Manohara Municipality.

Micro and Small Enterprises (MSMEs) are significant contributors to employment and local economies in Nepal, as they represent one of the largest segments of the private sector. Although MSMEs are important to both employment generation and local economies, the challenges facing them in accessing formal financial services remain a significant barrier to many MSMEs. A variety of studies have been conducted by organizations such as the Asian Development Bank (ADB), the World Bank, and the Central Bank of Nepal (Nepal Rastra Bank) on the issue of finance availability to MSMEs in Nepal. The research indicates a large portion of the Nepalese MSMEs find it difficult to obtain sufficient funds because of the need for collateral, lack of knowledge about how to manage money effectively, and time-consuming loan processes. Additionally, there is a large financing gap for MSMEs in Nepal, which limits businesses' ability to grow and be productive. The main challenge is that there are very few studies, so it will be a big contribution to research for NRB (and other related organizations) and local communities to show whether banking services can grow enterprises in municipalities like Kageshwori Manohara. This study is a valuable resource for understanding how banking services support sustainable development of MSEs in Nepal. The primary purpose of the current study was to investigate the effect of bank services on enterprise growth of MSEs in Kageshwori Manohara Municipality.

MSEs are very important for generating jobs, creating income, and increasing economic activity in Nepal. However, despite being vital to the economy of Nepal, the majority of MSEs in Kageshwori Manohara Municipality continue to be hampered by their inability to obtain sufficient banking services that will support the continued operation and growth of these businesses. Credit is not easily accessible; interest rates are too high; MSEs do not receive adequate guidance or advice on how to use financial products and services properly; MSEs lack knowledge about using digital banking systems and therefore cannot benefit from it as much as they would like to; and most MSEs also find it difficult to make timely payments due to the inflexibility of the time allowed to repay loans. Many MSEs continue to struggle with obtaining financial assistance from banks and other financial organizations because they either lack sufficient funds or other resources for investing in additional equipment, technology or other means that may improve efficiency and productivity, and thus contribute to greater profitability..

This study adds to the literature by examining the effect that certain bank services have on the development of the micro and small enterprises (MSME) located in Kageshwori Manohara Municipality. The municipality is a good location for studying MSME financing issues because of the rapid increase in entrepreneurship in this area; the urban/rural combination of businesses; and there are few studies regarding MSMEs and their access to finance in the local literature.

Previous studies have found that limited access to funds can hinder SME development and performance (Beck et al., 2005; Tmava et al., 2013). Likewise, Delos Reyes and Ortiz (2026), stated that banks provide crucial services to stabilize and expand businesses. Henceforth, it is required to investigate on the effects of bank service on growth of micro and small enterprises in Kageshwori Manohara Municipality. The main issue of the study is:

i. What is the status of to examine the impact of banking services on business growth of micro and small enterprises in Kageshwori Manohara Municipality?

The main objective of the study is to examine the impact of banking services on business growth of micro and small enterprises in Kageshwori Manohara Municipality.

Literature Review

The technology acceptance model (TAM), the pecking order theory (Pecking Order Theory) and the financial intermediation theory (Financial Intermediation Theory) provide a foundation to develop this research. The financial intermediation theory was developed by Gurley & Shaw (1960). It illustrates how banks create relationships between lenders and borrowers by acting as an intermediary, thereby reducing transactional costs associated with finding funding sources. Furthermore, Gurley & Shaw (1960) indicate that banks support economic development by providing access to credit and other financial services. Digital banking is an effective way for small business owners to improve their cash flow management through a range of functions, including online invoicing, payment tracking, and automated accounting. Enterprise Resource Planning (ERP) system is software that enables organizations to manage all aspects of their business electronically. According to Tamkin et al., (2006) it has been proven that ERP can help companies streamline processes and improve overall productivity

Access to Credit

Credit has a major impact on the growth and development of all types of Micro and Small Enterprises; by allowing these companies to spend money on operating costs, purchasing materials and improving efficiency. As stated by Beck et al. (2005), access to credit improves the competitive position of many SMEs. The study carried out by Tmava et al. (2013) showed that when enterprises have greater levels of access to loans they are able to increase their investments and expand their operations. The restrictions placed on SMEs' ability to gain access to traditional formal credit facilities due to the stringent collateral conditions imposed and lengthy time consuming nature of bank lending practices. Due to limited financial access it limits the growth potential and profit margins for businesses within Kageshwori Manohara Municipality, Nepal.

H1: Access to credit has a positive and significant influence on the business growth of micro and small enterprises.

Interest Rate

Interest Rates have an important effect on how small businesses borrow money and their overall performance. Low interest rates can encourage entrepreneurs to borrow money for investments or to run their businesses, while high interest rates can make it difficult for them to get loans and thus limit profitability. Beck & Cull (2014), indicated that when lending rates are too high; they will negatively affect both the ability of Small Medium Enterprises (SME's) to finance themselves and grow as businesses. Similarly, Fatoki and Asah (2011) stated that low cost borrowing positively affects the ability of enterprises to be sustainable and competitive. High interest rates, especially in developing countries such as Nepal create uncertainty for many entrepreneurs about using bank services to start or expand their businesses. Therefore, most micro and small enterprises are limited by this lack of access to stable finances.

Hypothesis 2

H2: Favorable interest rates have a positive and significant influence on the business growth of micro and small enterprises.

Digital Banking

Electronic or Digital Banking is an example of how electronic banking can be accomplished through Mobile Banking, Internet Banking, and digital payment systems which are able to provide improvements in transactional efficiency and access to financial services to companies. The use of digital banking and Fintech adoption by SMEs has a positive effect on their operational resilience and financial inclusion according to Nagy et al. (2025). Moreover, Zulqarnain et al. (2025) demonstrated that the provision of Digital Financial Services has a positive impact on enterprise efficiency and business performance. Additionally, Digital Banking provides companies with reduced transactional costs, improved utilization of time and better ability to manage company finances. Despite its benefits, lack of knowledge about technology and lower level of digital literacy continue to hinder the number of small enterprises in Nepal who will adopt this type of service. Therefore, Digital Banking is significantly beneficial to business development and operational efficiency.

Hypothesis 3

H3: Digital banking has a positive and significant influence on the business growth of micro and small enterprises.

Financial Advisory Services

Banks provide a variety of financial advisory services, including advice on how best to utilize bank products and services for investing and making other financial decisions. The primary role of these services is to aid companies with all aspects of managing their finances, which includes budgeting, loans, risk management, and planning. Banks are able to support the growth of small and medium-sized enterprise (SMEs), as well as provide some level of managerial and advisory support in addition to providing financing. Paliwal (2025) also noted that financial education and advisory support can lead to improved business decision making and increased sustainable operations. There are many SME owners and entrepreneurs who do not have sufficient knowledge about finance; therefore, having access to good quality advisory service from a bank will allow them to develop better financial management skills and assist in creating stable long term businesses.

Hypothesis 4

H4: Financial advisory services have a positive and significant influence on the business growth of micro and small enterprises.

Loan Repayment Period

Flexible loan repayment arrangements are beneficial for entrepreneurs because they can help to avoid a number of potential problems including; creating financial pressures and poor cash flow for businesses. According to Tmava et al. (2013), favorable repayment periods have been shown to contribute positively towards SME investment and sustainabilty. In addition, Scott (1972) indicated that inflexible repayment terms may also cause financial difficulties which in turn will affect enterprise performance. Micro and small enterprises in Nepal often experience difficulty with repayment as a result of inconsistent incomes and uncertainties associated with the marketplace.

Hypothesis 5

H5: Loan repayment period has a positive and significant influence on the business growth of micro and small enterprises.

3. Empirical review

Previous research has emphasized that banking service availability, financial inclusion, and digital finance can contribute to the sustainable development of SMEs. Research by Amadasun & Mutezo (2022), as well as Beck & Cull (2024), demonstrated that enterprises are hindered from growing due to a lack of access to financing, restrictions on collateral, and underdeveloped banking systems. The findings of Vega-Pascual et al. (2025) and Damane & Ho (2025) demonstrate that financial ecosystems with a diverse array of financial products and greater levels of financial inclusion promote the competitive position and resilience of SMEs. Furthermore, research conducted by Nagy et al. (2025), Zulqarnain et al. (2025), and Onaigbe & Ezeliora (2025) illustrate how the use of digital banking platforms and fintech technologies improve both the operational efficiency and financial accessibility of SMEs. Additionally, Paliwal (2025) illustrated that improved business sustainability for SMEs is dependent upon having better access to financial knowledge and business advisory support.

Meta table of Empirical Review

Table 1

Meta table of Empirical Review

S.N.	Author and Date	Methods	Variables (DV and IV)	Findings
1	Amadasun & Mutezo (2022)	Descriptive and quantitative research design; regression analysis	DV: Competitive growth of SMEs IV: Access to finance, collateral requirement, bank support services	Limited access to finance and high collateral requirements negatively affect SME growth and competitiveness.
2	Vega-Pascual et al. (2025)	Panel data analysis	DV: Growth of young SMEs IV: Financial ecosystem, external finance	Strong financial ecosystems positively improve SME growth and sustainability.
3	Damane & Ho (2025)	Fixed effects and panel quantile regression	DV: Financial stability IV: SME financial inclusion	Financial inclusion improves SME sustainability but excessive inclusion may reduce financial stability.
4	Nagy et al. (2025)	Quantitative method using PLS-SEM	DV: Fintech adoption and SME performance IV: Technological, organizational, environmental factors	Digital banking and fintech adoption significantly improve SME efficiency and financial inclusion.
5	Paliwal (2025)	Literature review and empirical analysis	DV: SME sustainability IV: Financial literacy, financial inclusion	Financial literacy and advisory services improve SME decision-making and sustainability.

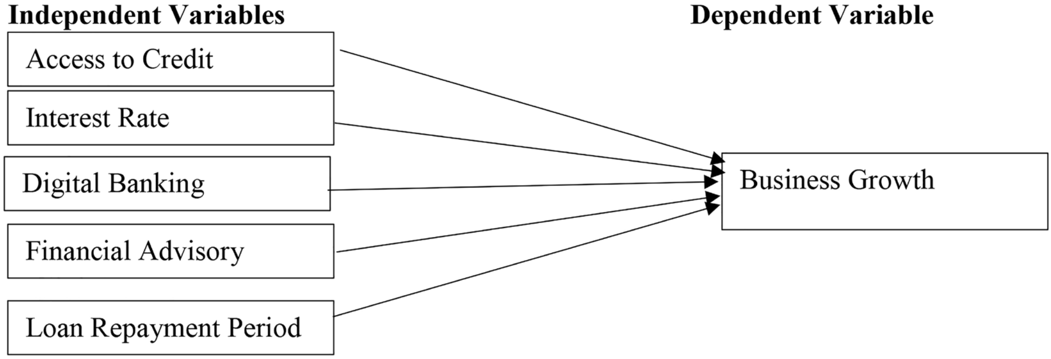
S.N.	Author and Date	Methods	Variables (DV and IV)	Findings
6	Zulqarnain et al. (2025)	Quantitative research; regression analysis	DV: SME performance IV: Financial inclusion, digital finance	Digital finance positively influences operational efficiency and business growth.
7	Beck & Cull (2024)	Empirical and comparative analysis	DV: SME growth IV: Access to finance, banking accessibility	Inclusive banking systems positively affect SME productivity and development.
8	Onaigbe & Ezeliora (2025)	Survey and descriptive analysis	DV: SME growth IV: Mobile banking, fintech adoption	Mobile banking improves transaction efficiency and business flexibility among SMEs.
9	Fatoki & Asah (2022)	Quantitative survey research	DV: Access to debt finance IV: Firm characteristics, collateral, business experience	Limited collateral and firm size negatively affect SMEs' access to finance.
10	Moro & Fink (2023)	Empirical analysis	DV: Credit access for SMEs IV: Trust, banking relationship	Strong banking relationships and trust improve SMEs' access to loans and financial sustainability.

There are very few researches that investigated the combination effect of banking services on micro and small enterprise (MSE) business growth in Nepal, especially in Kageshwori Manohara Municipality. As such, this has created a sizeable research void. The same can be stated for other cities across Nepal as well.

Research Framework

Matharu et al. (2016) indicate that enterprise's sustainable operation in the market, as well as its' operation with high level of competition, profitability and efficiency are measured by the enterprise's ability to grow; therefore, this research study measures the development of business through banking services which can contribute to the increase of productiveness of the enterprises, improvement of their position in the competitive environment, establishment of strong relationship with the customers and also increase of sale and profits of the enterprises within Kageshwori Manohara Municipality.

Figure 1
Conceptual Framework



Source: (*Bello, 2024*).

Materials and Methods

This was an empirical study that used a positivist methodology and three types of research design: Descriptive, Correlational, Explanatory. It was designed to investigate how banking service affects business development amongst Micro and Small Enterprises located in Kageshwori Manohara Municipality. Using Convenience Sampling from a total population of 8,762 registered businesses (KMM, 2083), 186 were selected as the sample; this method has been found by Saunders, et al. (2019) to be suitable for surveying populations where access is readily available but also limited. Primary data was obtained by using a structured survey based on a five point liker scale where respondents had to indicate their level of agreement or disagreement from strongly disagreeing to strongly agreeing. A total of six areas of measurement were included in this area; access to credit, interest rates, online banking, financial advice, length of time for repayment of loans and growth of businesses. Descriptive statistics were used to analyze the collected primary data. Additionally, Cronbach's alpha was also used as a means to determine the reliability of the survey instrument. Also, Pearson correlation was applied to establish relationship between the variables that were measured in this study. Furthermore, multiple regression analysis was applied to determine the impact of various banking service features on the growth of businesses. All statistical analyzes were conducted using SPSS.

Measurement of Variables

Table 2 presents the operational definition, measurement approach, and supporting citation for each variable examined in this study.

Table 2

Measurement of Variables

Variable	Operational Definition	Measurement	Citation
Financial Advisory	SME owners' access to and use of financial guidance from banks or intermediaries for budgeting, loan structuring, and financial planning.	Perceived frequency and usefulness of advisory support received from financial institutions, rated on a Likert-type scale.	*Berger & Udell (1998)*
Digital Banking	The extent of SME adoption and usage of electronic/mobile financial platforms for transactions, savings, and credit applications.	Adoption status, usage frequency, and perceived ease of use of digital/mobile banking platforms.	*Nagy et al. (2025); Davis (1989)*
Interest Rate	The perceived or actual cost of borrowed capital charged by lenders to SMEs.	SME owners' ratings of interest rate affordability, or documented loan rates relative to market benchmarks.	*Stiglitz & Weiss (1981)*
Access to Credit	The degree to which SMEs are able to obtain external financing needed for operations and growth.	Binary measure (access/no access), proportion of financing needs met, or a perceived financing-constraint scale.	*Beck & Demirgüç-Kunt (2006); Beck et al. (2006)*
Loan Repayment Period	The contractual duration over which SMEs are required to repay borrowed funds.	Duration measured in months or years, or categorized as short-, medium-, or long-term repayment structures.	*Myers & Majluf (1984)*
Business Growth	The dependent variable, reflecting overall expansion in SME size, output, or financial performance over time.	Sales, revenue, employment, or asset growth over a defined period, using subjective and/or objective indicators.	*Birch (1979); Amadasun & Mutezo (2022)*

Presentation and Analysis

Demographic Profile of Respondents

The demographic data of respondents were assessed to understand how the views of micro and small enterprise owners concerning banking products and business development measured in this research would be appropriate to view based upon the background information of entrepreneurs and managers that run enterprises. Enterprise owners/managers' background characteristics provide a basis to evaluate their views on access to credit, the interest rate of loans, digital banking, the availability of financial advisory services, and the length of time it takes to repay loans.

Table 3

Respondents' Profile

Variables	Categories	Frequency	Percentage (%)
Gender	Male	118	63.4
	Female	68	36.6
Age Group	Below 30 years	73	39.3
	30–50 years	97	52.2
	50 years and above	16	8.5
Educational Qualification	SLC/SEE	28	15.1
	Plus Two/Intermediate	52	28.0
	Bachelor's Degree	71	38.2
	Master's Degree and above	35	18.7
Type of Business	Retail	73	39.2
	Service	49	26.3
	Production	42	22.6
	Agricultural	22	11.9
Duration of Business	Below 1 year	17	9.1
	1–5 years	105	56.5
	Above 5 years	64	34.4
Enterprise Size	Micro Enterprise	129	69.4
	Small Enterprise	57	30.6

Note: Questionnaire survey, 2026.

Table 3 presents an overview of the demographics of the sample population with regard to gender, age group and degree of education. As can be seen from the table most of the respondents are males and therefore have been in their working lives (the economically active age) for many years which will have given them significant professional experience in all aspects of banking operations. Additionally, there is a very large number of respondents that have achieved at least a bachelors' degree. Therefore it can reasonably be assumed that this represents a highly qualified respondent base with appropriate educational background and technical capability to produce valid and reliable answers relative to loan management practices and efficiency of credit risk management.

Reliability analysis

Reliability pertains to the consistent and stable nature of measurement outcomes whereas validity reflects the degree to which an instrument measures the appropriate research variable(s) accurately. An alpha value of 0.70 or greater is a satisfactory measure according to Nunnally (1997).

Table 4

Reliability analysis

Variables	Cronbach's Alpha
Access to Credit	.930
Interest Rate	.916
Digital Banking	.912
Financial Advisory Services6	.910
Loan Repayment Period	.908
Business Growth	.908

Table 4 shows an evaluation of reliability with Cronbach's Alpha in order to determine the level of internal consistency among the variables of the study. All of the variables used in this research had Cronbach's Alpha values greater than or equal to .90, which indicates high levels of reliability and a solid basis for developing and testing theories based on these measurements. The reliability of Access to Credit was found to be highest (.930) while Interest Rate was second at .916, then Digital Banking (.912), Financial Advisory Services (Financial Advisor) (.910), Loan Repayment Period (Length of Time for Paying Back Loans) (.908), and finally Business Growth (Growth of Business) (.908) showed the same reliability score.

Descriptive Statistic of Variables

The mean values, standard deviations, and responses for the micro/small enterprises' owner perceptions about banking services (credit (AC), Interest Rate (IR), Digital Banking (DB), Financial Advisory Services (FAS), Loan Repayment Period (LRP), Business Growth (BG)) were examined using the descriptive statistical techniques so as to understand the perception of MSEs regarding the banking services provided by them and also to analyze the overall growth of businesses in Kageshwori Manohara Municipality.

Table 5

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Access to Credit	186	1.00	5.00	2.927	.7042
Interest Rate	186	1.00	5.00	2.928	.645
Digital Banking	186	1.00	5.00	3.022	.608
Financial Advisory Services	186	1.00	5.00	3.085	.615
Loan Repayment Period	186	1.00	5.00	3.011	.616
Business Growth	186	1.00	5.00	3.058	.617
Valid N (listwise)	186				

TThe descriptive statistics for the study variables were calculated using data collected from 186 participants. The average scores for all items ranged from 2.927 to 3.085, suggesting that micro and small businesses in Kageshwori Manohara Municipality have moderately positive perceptions about banking services and enterprise development. Respondents indicated they agreed most with financial advisory services (mean= 3.085) as a result of the higher means compared to other service types; and least with access to credit (mean= 2.927). Also, the standard deviations are between 0.608 and 0.704 which show little variability in responses and a consistent view held by the respondents concerning banking services and enterprise development.

Correlation between Independent and Dependent Variables

The interrelation between banking service and a business' development has been researched for the purpose of determining the level of association as well as the positive or negative association of the association between access to credit, the interest rate charged by banks, the extent of use of digital banking, availability of financial advisory services from banks, length of time required to repay loans and total growth of an entrepreneur's business based upon perception of Micro and Small Enterprise (MSE) owner-operators located in Kageshwori Manohara Municipality. The relationship amongst these variables are shown below.

Table 6

Relationship among Independent and Dependent Variables

SN	Variables	1	2	3	4	5	6
1	Access to Credit	1					
2	Interest Rate	.612**	1				
3	Digital Banking	.567**	.708**	1			
4	Financial Advisory Services	.609**	.656**	.734**	1		
5	Loan Repayment Period	.589**	.679**	.761**	.777**	1	
6	Business Growth	.642**	.708**	.701**	.749**	.795**	1

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

Table 6 presents a correlation analysis of access to credit, interest rates, digital banking services, financial advisory services, loan repayment periods and business growth. All independent variables are positively related to business growth at the 0.01 level of significance. The variable most strongly positively correlated with business growth is loan repayment periods (r=.795), followed in order by; Financial Advisory Services (r= .749) and Interest Rates (r= .708); Digital Banking Services (r= .701) and Access to Credit (r= .642) were also found to be positively related to business growth. Overall, these research findings demonstrate that appropriate banking service offerings contribute significantly to sustaining business success and development.

Regression Analysis

This study analyzed how access to credit; an interest rate; a digital banking service; financial advisory services; and repayment terms for loans affect perceptions of micro- and small-enterprise (MSE) owners about their MSE's growth based on data collected from MSEs located within Kageshwori Manohara Municipality. The results will help to identify how bank services impact MSE growth as well as MSE productivity, profitability and sustainability.

Table 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.849a	.720	.713	.33096	.720	92.707	5	180	.000

Predictors: Loan Repayment Period, Access to Credit, Interest Rate, Digital Banking, Financial Advisory Services

Dependent Variable: Business growth

The summary table for this model was presented as shown in Table 7. A strong and positive correlation exists between the independent variables included in the model and business growth based upon the results provided from the regression analysis which were calculated using a Pearson Correlation Coefficient (R = .849). The R-Square (or R-Sq) value (.720) indicated that 72 percent of all variance found in the dependent variable of business growth was accounted for by access to credit; the interest rates charged on loans; the availability of digital banking products or services; financial advisory services offered by banks; and the length of time required to repay bank loans. The Adjusted-R-Square (Adj. R2) (.713) showed there is an extremely large amount of explanation provided by the model once adjustments have been made. Lastly, the F-Statistic (.092707) at a p-value of .000 confirmed that the model used to estimate or predict business growth is valid, reliable and can be used as a predictor.

Table 8

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.776	5	10.155	92.707	.000b
	Residual	19.717	180	.110		
	Total	70.493	185			

a. Dependent Variable: Business Growth

b. Predictors: (Constant), Loan Repayment Period, Access to Credit, Interest Rate, Digital Banking, Financial Advisory Services

The ANOVA results presented in Table 8 for the regression model measuring the impact of banking services on business development, indicate that there was a high degree of explanatory power from the independent variables in explaining the variation in business development (regression Sum of Squares = 50.776). In addition, the calculated F-value of 92.707 at a p-level of .000 demonstrates that the overall regression model has statistical significance. Thus, collectively as a group, access to credit, interest rates, availability of digital banking, financial advisory services and loan repayment periods have a statistically significant joint impact on business growth for micro and small businesses located within Kageshwori Manohara Municipality. As such, the regression model is suitable and valid for analysis.

Table 9

Regression Coefficients

Variables	B	Std. Error	Beta	t	Sig.	VIF
(Constant)	.222	.136		1.629	.105	
Access to Credit	.132	.047	.151	2.816	.005	1.848
Interest Rate	.186	.059	.194	3.147	.002	2.451
Digital Banking	.030	.070	.030	.435	.664	3.061
Financial Advisory Services	.201	.069	.200	2.893	.004	3.078
Loan Repayment Period	.396	.072	.396	5.521	.000	3.313

The regression coefficients of all the independent variables influencing business development are shown in Table 9. The table shows that credit availability, interest rates, financial advisory services, and duration of a loan repayment positively influence business development at statistical significance levels of less than .05. Loan repayment time has the greatest standardized beta coefficient (β = .396) and also shows the greatest influence upon business development when compared to the other variables; such as financial advisory service (β = .200); loan interest rate (β = .194); and credit availability (β = .151). Digital banking was found to have no significant impact on business development, with a p-value of .664. Overall, this research suggests that offering businesses flexible terms for loan repayment and providing them with relevant financial information can be instrumental to their success.

So the regression Model: BG=$0.222+0.132(AC)+0.186(IR)+0.030(DB)+0.201(FAS)+0.396(LRP)+\varepsilon$ *can be* defined from the tests.

Hypothesis Results

Table 10

Hypothesis Test

Hypothesis	Relationship	Sig. (p)	Decision
H1	Access to Credit → Business Growth	0.005	Rejected
H2	Interest Rate → Business Growth	0.002	Rejected
H3	Digital Banking → Business Growth	0.664	Accepted
H4	Financial Advisory Services → Business Growth	0.004	Rejected
H5	Loan Repayment Period → Business Growth	0.000	Rejected

Overall, the findings confirm that banking services play an important role in promoting enterprise growth and sustainability.

Discussion

TThis research showed through descriptive, correlational, and regression analyses that micro- and small-enterprise owner's perception of availability of banking services is moderate and mostly positive. Furthermore, it was demonstrated through the results of this analysis that as follows; credit availability, interest rates, access to bank-provided financial advice, and loan repayment periods all have a significant positive relationship with business development, however loan repayment terms has the greatest impact. In addition to being in line with prior international literature that have shown that banks provide critical support for SME sustainability and competitive advantage through the provision of accessible finance (Vega-Pascual et al., 2025), Amadasun & Mutezo (2022) also demonstrate that the same type of banking environments can provide similar support for increased enterprise development and operating performance within their enterprises.

This study's finding of a strong association between an entrepreneur's access to credit and their business' ability to grow is consistent with Beck et al. (2005) that stated that one of the primary factors for SME growth and long term success are financial resources available. Tmava et al. (2013) also highlighted how banking provides funding for investments and increases enterprise growth as well. This study's finding of a positive correlation between access to financial advice provided by banks or other financial institutions supports Berger & Udell (2006) argument that while banks can help develop businesses primarily through lending; they can also assist through managerial and advisory skills.

It appears from these results that interest rates have an impact upon the business development of micro and small businesses as positive and statistically significant. This is at odds with conventional finance theory, which states that higher interest rates will raise the cost to borrow for businesses, and ultimately reduce their incentive to invest in their own companies (Beck & Cull, 2014) The interest rate variable used in this research represents the opinion of entrepreneurs regarding how reasonable and suitable they believe lending rates offered by banks are; therefore it does not represent the actual interest rates. The positive association indicates that if enterprises believe interest rates are fair and can be managed well, there will be a higher probability of them utilizing bank financing to carry out their business development, investments or other commercial operations. This finding corresponds to the findings of Fatoki and Asah (2011) that favorable lending conditions make SME's use of outside financing possible and lead to better performance. Consequently, the results do not refute theoretical models but support the argument that policy on interest rates that are both acceptable and friendly to an enterprise contribute positively to the economic growth and viability of micro-enterprises and SME's.

While there is partial support for prior research regarding the findings on digital banking, there were two main discrepancies. First, although the correlation analysis was positively correlated between digital banking and business growth, the regression results indicated no statistically significant prediction between digital banking and business growth. Second, unlike the studies by Nagy et al. (2025) and Zulqarnain et al. (2025) which found that use of fintech applications and digital financial services improved operational efficiency, financial inclusion, and SME competitiveness; our study could have had some limitations in terms of digital literacy among micro and small businesses, lack of technological adaptation by these firms, or lack of adequate digital infrastructure. In addition to these issues, Onaigbe and Ezeliora (2025) stated that SMEs from developing countries face problems including their ability to protect themselves from cybercrime and the lack of technology-based skills required to effectively utilize digital banking services.

The most significant impact on a businesses ability to grow as seen by this research is the loan repayment time frame. Therefore, it can be said that flexible repayment terms are essential to an enterprise's long-term viability and operation. As stated above, the results from this research support those of Tmava et al. (2013), which states that SMEs with favorable repayment options will have increased investment opportunities and ultimately will expand their businesses. Additionally, the results of this research also support Scott (1972), which indicated that the rigidity of repayment terms increases financial pressure and decreases the performance of an enterprise.

Although many of the prior studies have similar to the current study in terms of their conceptual framework, they differ analytically. Most of the prior studies have concentrated on the ability to access capital or obtain an external source of funds to finance a small to medium sized enterprise's (SME) growth potential. The current study, however, identifies flexible loan repayments and financial advisory services as being more predictive of enterprise growth than is digital banking adoption. Therefore, this finding indicates that the availability of financial support to sustain operations and/or convenient ways to make loan payments may be far more important to sustainable economic development in underdeveloped local economies than the innovative use of technology to improve banking services.

Beginning with the fact that there is a large body of research dealing with the impact of banking services on small- and medium-sized-enterprises (SMEs) in both Nepal and internationally; however, little attention has been given to the actual day-to-day aspects of banking services as they relate to the success or failure of micro-, small- and medium-sized-enterprises. The current study extends Nepali and International SME literature concerning the relationship between banking services and enterprise growth, particularly through an emphasis on the operational dimensions of these services. Prior studies have primarily examined financial inclusion, access to finance and digital banking systems (Zulqarnain et al., 2025; Nagy et al., 2025); whereas, the results of this study demonstrate empirically that the flexibility associated with bank repayment terms, financial advice from banks, and lower-cost banking services represent the most significant elements influencing business growth for micro-, small- and medium-sized-enterprises.

Conclusion

The conclusion is that there are considerable influences from banking services upon business development of micro and small businesses in Kageshwori Manohara Municipality. Of all the factors examined, the loan repayment time was found to be the greatest influencing factor for enterprise sustainability and continued operation. In addition to showing positive and significant impacts upon business growth were access to loans, interest rates and financial advice, which suggest that financial support can have an impact upon both profitability and performance of enterprises when supported by supportive financial systems and good quality banking guidance. Digital Banking however had no significant impact on business development. This suggests that there may be issues with technology adoption and digital literacy for micro and small enterprises.

Implication

This research is important because it extends knowledge of both SMEs and banking about how banking services affect business development (growth) for businesses in developing countries. In addition, these findings provide evidence supporting financial intermediary theory and SME growth theory by showing that all three types of banking services (credit, advisory services, and flexibility with payments) have a significant effect on enhancing the sustainability, competitive nature and operating ability of micro/small size enterprises in Nepal.

Practical applications of the study are relevant to banking; policymakers and other entities who offer financial support to micro and small businesses. In particular, based on these results, it is recommended that by enhancing access to credit, providing quality and efficient financial advice, and implementing a variety of lending terms (i.e., flexible loan repayment options) will have a significant positive effect on the growth, profit margin, and long term viability of the business as well as contribute to the development of the local economy in Nepal.

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