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# **FINANCING PRACTICES OF BANKS AND FINANCIAL INSTITUTIONS IN NEPAL**

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**FINANCING PRACTICES OF  
BANKS AND FINANCIAL INSTITUTIONS IN NEPAL**  
**A Study on Analysis and Appraisal of Credit Proposals  
in Tourism Sector Loans**

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**ABSTRACT**

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*Proposal analysis and credit appraisal includes the examination of business and financial aspects with respective importance to measure economic, financial and technical feasibility of the project and repayment capacity of the borrowing firm. Such analysis has far reaching implication on the mobilization of resources as well as on the earning and soundness of the banks and financial institutions (BFIs). We examine this process in the context of bank lending to tourism business enterprises through a survey. The result incorporates the importance accorded by BFIs on business and financial aspects of the proposal. Using Phi-Coefficient ( $r_\phi$ ) the study finds a strong relationship between various aspects examined during the proposal analysis and credit appraisal. Further, we also examine the cross significance of business and financial aspects and find a significant relationship between business prospects with most of the financial aspects. The findings are relevant for both bankers and beneficiaries to ensure the suitability of tourism sector loan processing and significance of credit appraisal.*

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Key words: Credit analysis and appraisal, tourism financing, tourism business enterprises, banks and financial institutions, lending in tourism, business and financial aspects, cross relationship.

JEL Classification: C 13, E 44, G 21, G32, L 83

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## **FINANCING PRACTICES OF BANKS AND FINANCIAL INSTITUTIONS IN NEPAL:**

### **A Study on Analysis and Appraisal of Credit Proposals in Tourism Sector**

#### **1. INTRODUCTION**

Proper finance is necessary for the establishment, nursing and growth of the business. It is required to commence and to operate the business. The financing requirement of the tourism business enterprises and its composition heavily depends upon the business prospects and borrowing need. Borrowing need depends upon the potential business opportunities. Business opportunities of tourism business enterprises depend on the growth and development of the tourism industry and economy. Therefore, there is a revolving relationship between all these activities and economic variables.

Financing incorporates several activities related to acquisition, utilization and management of funds (Siddiqui and Siddiqui, 2005: 273). The actual financing depends upon various factors such as the availability of funds, cost of funds, repayment capacity of the borrower etc. Precisely, it depends on the project itself, its viability and suitability.

The discussion about the lending practices of banks and financial institutions (BFIs) certainly provides essential information on various aspects of proposal analysis and credit appraisal. It provides information for both bankers and beneficiaries and ultimately aims to improve access to finance and loan quality. While there are no guaranteed procedures for ensuring loans do not go bad, certain circumstances can go against the normal expectation. BFIs can take a range of initiatives to assess the credit proposal and financial aspects of the proposed borrower.

The primary purpose of this article is to examine the lending practices of BFIs related to loan processing, proposal analysis and credit appraisal. Other purposes are to inquire about the perception and practice of banks and financial institutions regarding the significance of various business and financial aspects examined during proposal analysis and credit appraisal. In addition, we will examine the cross significance of business and financial aspects to inquire about the real lending practices.

The rest of paper proceeds as follows. Section II briefly reviews theoretical underpinnings and Section III introduces our data set and method of analysis. Section IV describes the result of analysis and section V summarizes the result of analysis and concludes.

## 2. THEORETICAL PERSPECTIVE

Credit appraisal simply refers to the analysis of business plans to decide the reasonableness of the proposal, appropriate finance mechanism and the ability of borrowers to repay loans. It is also to analyze and evaluate detailed financial projections, operating agreements, financial statements, credit reports, title reports, environmental reports, project development contracts, legal descriptions, maps and property management plans. In addition, it is to evaluate financing policies and programs, ability of applicants to complete the project and finally to prepare written or oral recommendation to loan committee or management. There are several techniques for the analysis of credit proposals including Shadow pricing, Cost-benefit analysis, Financial analysis, Management analysis.

In fact, credit appraisal is a process to assess the creditworthiness of the borrower. This normally involves appraising the borrower's payment history and establishing the quality and sustainability of his/her income. It is required as a formality for the lender to be satisfied for the good intentions of the borrower, through the documents, an interview and credit information.

One of the most enduring questions in financing can be posed as what determines the quality of the project as well as that of the company. Does profitability of the company ensures the repayment capacity or the good cash inflow guarantees the success of the project? In fact, there is no proper answer for such questions. However, such type of information is critical to the activity of lending. BFIs analyze business prospects considering the economic outlook and their commercial lending policies (Price Waterhouse Coopers, 2003; Berger, et al, 2002).

Lending Risk Analysis (LRA) is one of the modern techniques of credit appraisal that provides a systematic procedure for analyzing and quantifying the potential credit risk. The objective of LRA is to assess the credit risk in quantifiable manner and then find out ways and means to cover the risk. Broadly, LRA package divides the credit risk into two categories, namely, Business Risk and Security Risk (Bangladesh Bank, 2009).

The analysis of the credit proposal has far reaching implication on the earning and soundness of the lending institutions. The credit appraisal has to take into consideration, certain general aspects of the business as well as the financial strength of the proposed borrower. BFIs typically ask for 3-5 year business financials, income statement, account receivables and payables, business and personal tax (including the returns). After they receive a set of financial statements from a borrower they look particularly for income statement, balance sheet, liquidity, composition and or quality of assets etc (Gautam, 2007).

In making commercial loan decisions how much importance they give for cash flow, financial position, collateral and other if any (Capital Knowledge Group, 2005). Various factors have been identified with reference to business in general viz. business prospects, market position, management of the company, relation with affiliated company and labor relation. With reference to financial aspects, factors identified are profitability, capital structure, liquidity position, working capital and cash flow and ability to pay (Gautam, 2007).

Credit appraisal necessarily undertakes the examination of loan proposal in order to find out the economic viability and financial feasibility (Kantawala, 1996). It is required to ensure that the purpose for which the loan is sanctioned is economically feasible and the maturities of the loan should be consistent with the economic life of assets being funded. In addition, it is important to ensure the repayment of the loan in time and for this purpose the repayment schedule and projected inflows should be matched with<sup>2</sup>.

After the dawn of subprime and financial crisis in the west, BFIs pointed out to a less favorable or more uncertain economic outlook. BFIs have imposed tougher standards on business loans (Price Waterhouse Coopers, 2003). They perceive inferior growth opportunities and consider the market for tourism sector to be competitive.

The primary purpose of this article is to examine the lending practices of BFIs related to loan processing, proposal analysis and credit appraisal. Other purposes are to inquire about the perception and practices of banks and financial institutions regarding the loan processing ranging from examination of business aspects to financial aspects.

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<sup>2</sup> Technical feasibility and suitability of the project in the national interest is also important. The purpose of the loan and its likely benefit or otherwise to the country is an important feature to be weighted. Sometimes the project becomes essential for an economic progress or national interest despite the heavy risk entailed and is beyond the principles of safety.

### 3. DATA SOURCES AND METHOD OF ANALYSIS

Credit appraisal in financial sector inhibits some crucial factors that most traditional practices do not capture. Therefore, in this paper we develop a model of analysis which incorporates information on business and financial aspects of the borrowing firm. We examine these financial and business aspects and their significance in the proposed projects to be financed by the BFIs. We apply the model to data on financing practices from the “Survey on tourism financing” conducted by Gautam (2007). The data set contains information not only about the BFIs but also about their borrowers-tourism business enterprises (TBEs). The survey had concentrates for those banks and financial institutions which were licensed and report to Nepal Rastra Bank and were engaged in the financing<sup>3</sup> of tourism business enterprises in order to incorporate the real lending practices. Thus, it had selected all (17) commercial banks and 17 financial institutions consisting 4 development banks and 13 finance companies (refer Appendix: A).

Our starting point is the model in Kantawala (1996). This model adopts basic insight about the lending practices of banks in a more specific Indian context particularly for the management accounting practices. It uses the response from the selected banks and assesses the importance accorded to various aspects during the analysis.

To examine the degree of association, in the importance assigned to various business aspects, the tool of Phi-Coefficient ( $r_\phi$ ) is applied (Edwards, 1958: 162-163). The point of examination is when ‘business prospects’ is considered extremely important for proposal analysis whether ‘market position’ is considered extremely important or not.

The methodology for the calculation of the Phi-Coefficient ( $r_\phi$ ) is as follows:

$$r_\phi = \frac{(X_1Y_1)(X_0Y_0) - (X_0Y_1)(X_1Y_0)}{\sqrt{(X_0Y_1 + X_0Y_0)(X_1Y_1 + X_1Y_0)(X_1Y_1 + X_0Y_1)(X_1Y_0 + X_0Y_0)}}$$

where  $r_\phi$  = Phi-Coefficient, X and Y represent two responses (aspects) in which the relationship is being examined and 1 and 0 suffix to X and Y represent the ‘yes’ or the ‘no’ i.e. application or otherwise of the techniques (aspects). It is to be mentioned here that the ‘yes’ for one factor is compared with

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<sup>3</sup> In July 2005, there were 17 commercial banks, 26 development banks, 59 finance companies, 20 financial cooperatives, and 47 financial non government organizations.

‘yes’ or ‘no’ for another factor and the ‘no’ for one factor with the ‘no’ or the ‘yes’ for another factor. Thus, the combination of the responses will be (i) Yes, Yes (ii) Yes, No (iii) No, Yes (iv) No, No.

The analysis is undertaken considering the response for the factor as ‘extremely important.’ Here, the ‘yes’ means it is extremely important and ‘no’ means it is not extremely important (rather may it be largely important, average or otherwise). Further, the calculation is undertaken employing the following formula.

$$r_{\phi} = \frac{bc - ad}{\sqrt{(a+c)(b+d)(a+b)(c+d)}}$$

where,  $r_{\phi}$  = Phi-Coefficient, a, b, c and d are represented in following manner:

	<u>X<sub>0</sub></u>	<u>X<sub>1</sub></u>	
Y <sub>0</sub>	A	b	(a+b)
Y <sub>1</sub>	C	d	(c+d)
	<u>(a+c)</u>	<u>(b+d)</u>	<u>N</u>

Further, to examine whether the value of  $r_{\phi}$  (Phi-Coefficient) represents significant degree of association between the attributes or not, the test of  $\chi^2$  is applied. This  $\chi^2$  is given by  $n r_{\phi}^2$ . In the case of Phi-Coefficient as the possibility is only ‘Yes’ or ‘No’, the degree of freedom (d.f.) will be 1 and if the calculated value of  $\chi^2$  is higher than the table value of  $\chi^2$  one has to reject the null hypothesis i.e. two variables (techniques) are independent (refer Edwards, 1958: 162-163).

#### **4. ANALYSIS OF THE DATA AND RESULTS**

##### **A. Profile of the Respondents**

The response of the survey comprised commercial banks with 54.0 percent share followed by finance companies with 32.0 percent share. Likewise, the development banks have 14.0 percent share in total distribution. However, the distribution indicates the majority share of

commercial banks. It is in line with the importance of such transaction and level of credit exposure, too (Gautam, 2007).

Appendix B summarizes the distribution of the sample and respondents whereas the Figure 1 and Figure 2 present such information in terms of percentage.

Figure: 1  
Sample of the BFI

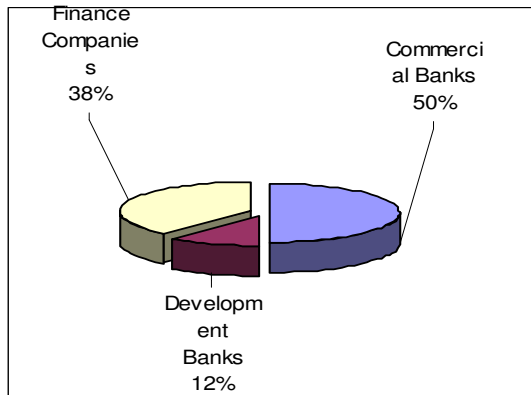
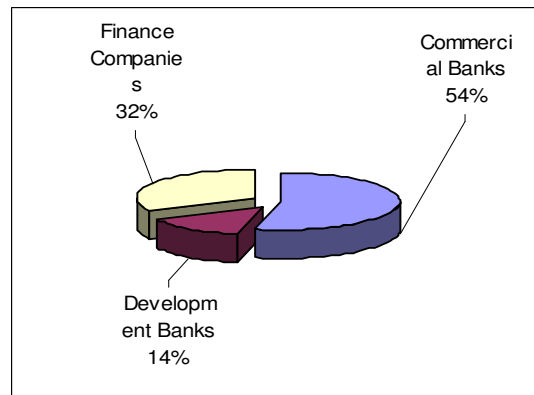


Figure: 2  
Response of the BFI



## B. Loan Processing

The majority of the banks and financial institutions (85.7 percent) use the specific format for the loan application in contrast to 14.3 percent respondents that do not use such format. Among the BFIs using the specific format, about 36 percent use it as per the amount whereas 67.9 percent use it as per loan type. However, the majority i.e. 53.6 percent use the specific application as per both amount and type of the loan. Notwithstanding the above, 53.6 percent and 28.6 percent of respondents did not provide the comment on the usage of specific format as per loan amount and loan type respectively. Further, 35.7 percent respondents also did not provide the comment for the use of format as per both the amount and type of loan.

The overwhelming majority of the BFIs (above 90 percent) responded that they require feasibility report during the loan processing. When they were asked about the type of loan that requires the feasibility report, only 39.3 percent told that it is required in all loans. More specifically, 32.1 percent and 28.6 percent respondents mentioned that it was required in project loan and term loan respectively.



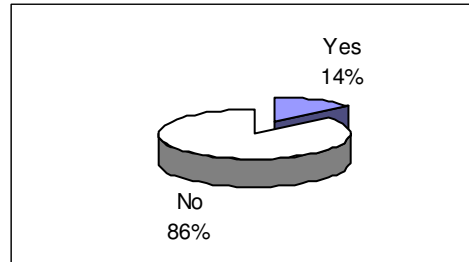
This being specific study with reference to tourism sector loan, a further inquiry was made about the difference in the processing of tourism loan proposal.

Table: 6.9

Figure: 6.5

**Difference in Loan Processing between Tourism and Other Loans**

Difference	Frequency	Percent
Yes	4	14.3
No	24	85.7
Total	28	100



Source: Primary Survey, 2006

Only 4 respondents (14.3 percent) stated that they process the loan differently because of the down turn in tourism industry in recent years. Here, three commercial banks and one finance company also provided the points of difference in loan processing for the tourism. They mentioned that they consider the category of tourism business, market survey, peculiarity of the hotel business and the factors related to the security situation.

**C. Proposal Analysis and Credit Appraisal**

Business prospects and management of the company stood as most important factors during the analysis of the credit proposals whereas market position and relation with affiliated company stood at largely important position. Similarly, labor relation received more than average importance whereas collateral did not receive much importance as the majority of BFIs did not provide the comment. Appendix C depicts the result along-with the level of importance accorded by the banks and financial institutions during the analysis of the proposal for business aspects in general.

Another question was designed to enquire about the views of BFIs for the financial aspects of the borrowing company during the credit appraisal. Appendix D depicts the result along-with the level of importance accorded by the banks and financial institutions. Cash flow and ability to pay received overwhelming importance (82.1 percent) and stood at the apex position whereas profitability and liquidity position received remarkable importance (57.1

percent and 50.0 percent respectively) to stay also at the extremely important position. However, capital structure and working capital stood at largely important position though capital structure also maintained almost similar ranking in the distribution i.e. extremely important position.

**D. Relationship between Various Business Aspects**

Table 1 presents the calculated value of Phi-Coefficient. Since, the calculated value is greater than the tabulated  $\chi^2$  value (3.84) there is significant relationship between business prospects and market position as well as between business prospects and management of the company. However, the relationship is not significant between market position and management of the company.

Table: 1  
**Relationship between the Factors Related to Proposal Analysis**  
 (Result of the Phi-Coefficient for Extremely Important)

<u>Techniques</u>	Business Prospects	Market Position	Management of the Company
Business Prospects	1		
Market Position	0.397* (3.895)	1	
Management of the Company	0.386* (4.173)	0.242 (1.638)	1

Note: Figures in the brackets represent the estimated value of  $\chi^2$  and ‘\*’ indicates the significant relationship at 5 percent level of significance.

The second calculation was undertaken considering the response as largely important and more (taking both the response for extremely and largely important) for all the factors related to the Proposal Analysis by the banks and financial institutions. Table 2 summarizes the results.

Table: 2

**Relation between the Aspects Related to Proposal Analysis**  
(Result of the Phi-Coefficient for Largely Important and More)

<u>Factors</u>	Business Prospects	Market Position	Management of the Company	Relation with Affiliated Com.	Labor Relation
Business Prospects	1				
Market Position	0.519* (7.529)	1			
Management of the Company	0.801* (17.949)	0.679* (12.923)	1		
Relation with Affiliated Company	0.167 (0.778)	0.265 (1.969)	0.320 (2.872)	1	
Labor Relation	0.115 (0.373)	0.204 (1.167)	0.277 (2.154)	0.722* (14.583)	1

Note: Figures in the brackets represent the estimated value of  $\chi^2$  and ‘\*’ indicates the significant relationship at 5 percent level of significance.

From the table, it is clear that there exists a significant relationship between (a) business prospects and market position and (b) business prospects and management of the company. Similarly, there also exists significant relationship between (c) market position and management of the company as well as (d) labor relation and relation with affiliated company. However, the relationship of business prospects with relation with affiliated company and labor relation is found insignificant. Further, a weak relationship is found for both of market position with relation with affiliated company and labor relation followed by that of labor relation with market position and management of the company.

### **E. Relationship between Various Financial Aspects**

In order to examine the degree of relationship between the application of various tools to examine the financial position of the borrowing company by banks and financial institutions, Phi-Coefficient is undertaken. It analyzes the association between the financial aspects.

Table 3 depicts that there exists a significant relationship in importance assigned to the application of various tools to examine financial position in eight situations out of 10. This

implies that when the profitability is considered extremely important as a credit appraisal techniques; liquidity position, working capital and ability to pay are also considered extremely important for credit appraisal. Similarly, when capital structure is considered extremely important for credit appraisal; liquidity position, working capital and ability to pay are also considered extremely important for credit appraisal. Further, when liquidity position is considered extremely important; working capital and ability to pay are also considered to be extremely important.

Table: 3  
**Relationship between the Aspects Related to Credit Appraisal**  
 (Result of the Phi-Coefficient for Extremely Important)

<u>Aspects</u>	Profitability	Capital Structure	Liquidity Position	Working Capital	Cash Flow/ Ability to Pay
Profitability	1				
Capital Structure	0.167 (0.778)	1			
Liquidity Position	0.433* (5.250)	0.433* (5.250)	1		
Working Capital	0.495* (6.857)	0.409* (4.680)	0.596* (9.956)	1	
Cash Flow/Ability to Pay	0.538* (8.116)	0.404* (4.565)	0.466* (6.087)	0.348 (3.382)	1

Note: Figures in the brackets represent the estimated value of  $\chi^2$  and “\*” indicates the significant relationship at 5 percent level of significance.

Further calculation is also undertaken considering the response as largely important and more (taking both the response for extremely and largely important from Appendix: D) for all the aspects related to the credit appraisal. Table 4 summarizes the result. From the table, it is clear that there exists a significant relationship between the techniques of financial analysis in four situations out of ten. This implies that when the profitability is considered largely important as a credit appraisal technique; liquidity position and ability to pay are also considered largely important for credit appraisal. Similarly, when the liquidity position is considered largely important; working capital and ability to pay are also considered to be largely important.

Table: 4  
**Relationship between the Aspects Related to Credit Appraisal**  
 (Result of the Phi-Coefficient for Largely Important and More)

<u>Aspects</u>	Profitability	Capital Structure	Liquidity Position	Working Capital	Cash Flow/ Ability to Pay
Profitability	1				
Capital Structure	(-)0.141 (0.560)	1			
Liquidity Position	0.548* (8.400)	(-)0.242 (1.638)	1		
Working Capital	0.253 (1.797)	(-) 0.141 (0.560)	0.548* (8.400)	1	
Cash Flow/Ability to Pay	0.801* (17.949)	(-) 0.113 (0.359)	0.439* (5.385)	(-) 0.096 (0.258)	1

Note: Figures in the brackets represent the estimated value of  $\chi^2$  and ‘\*’ indicates the significant relationship at 5 percent level of significance.

However, the relationship is not significant between the techniques of credit appraisal in majority of the situations (six out of ten). Not only this, a negative relationship is also found between some techniques of financial analysis. This implies that when a technique is considered largely important or more, another technique is not considered largely important in all cases.

## **F. Cross Relationship between Business and Financial Aspects**

For the purpose of credit appraisal, both business aspects and financial aspects are important. It is also found that most of the business aspects are considered ‘extremely important’ with other. This is also observed for the financial aspects. In the next stage, cross verification is carried out to examine, with which business aspects, which of the financial aspects is considered ‘extremely important.’ Here, again the tool of Phi-Coefficient ( $r_\phi$ ) is applied. The results are presented in Table 5.

From the table it is clear that there exists a significant relationship between business prospects and all financial aspects (profitability, capital structure, liquidity and cash flow) except working capital. This implies that when the ‘business prospects’ is considered ‘extremely important’ for credit analysis; the financial aspect such as profitability, capital

structure, liquidity position and ability to pay is also considered ‘extremely important’ for credit appraisal.

The relationship is insignificant for both ‘market position’ and ‘management of the company’ with the financial aspects (except that with cash flow). Similarly, the relationship was poor between labor relations with all financial aspects except with working capital. However, there is significant relationship between market position and cash flow/ability to pay because banks/FIs particularly look for this situation (cash-cow)<sup>4</sup>. Thus, it is important to note that the importance assigned to some of the business aspects and the financial aspects behave independently.

Table: 5  
**Relationship between Proposal Analysis and Financial Aspects**  
 (Result of the Phi-Coefficient for Extremely Important case)

<u>Aspects</u>	Profitability	Capital Structure	Liquidity Position	Working Capital	Cash Flow and Ability to Pay
Business Prospects	0.486* (6.604)	0.442* (5.458)	0.535* (8.023)	0.353 (3.497)	0.677* (12.850)
Market Position	0.106 (0.312)	0.190 (1.011)	0.219 (1.348)	0.011 (0.003)	0.375* (3.939)
Management of the Company	0.251 (1.768)	0.276 (2.139)	0.174 (0.848)	0.208 (1.207)	0.438* (5.379)
Relation with Affiliated Company	0.067 (0.124)	(-) 0.067 (0.124)	(-) 0.115 (0.373)	0.224 (1.402)	0.162 (0.730)
Labor Relation	0.240 (1.615)	0.320 (2.872)	0.277 (2.154)	0.372* (3.877)	0.129 (0.468)

Note: Figures in the brackets represent the estimated value of  $\chi^2$  and ‘\*’ indicates the significant relationship at 5 percent level of significance.

## 5. SUMMARY OF FINDINGS AND CONCLUSION

Proposal analysis and credit appraisal practices of banks and financial institutions are crucial and provide with basic impetus for effective financing. We surveyed the real practices and perception of BFIs and processed them to get into the conclusion. We faced the dearth of literature in this specific case and could not compare with sizeable empirical literature on the

<sup>4</sup> It is called cash-cow in BCG Matrix when market share is high and cash flow is low (Robins and Coulter, 2002: )

banking industry. The profile of respondents showed that most of them have furnished the information for the study and were engaged in financing of tourism business. The majority of the respondents use specific formats for the loan application though it largely depends upon the amount and type of the loan or both. They usually require feasibility report or project proposal and take 1-2 weeks for loan processing, on an average. They usually negotiate for the interest rate, amount and repayment schedule and intimate the customers about the loan processing and decision. They generally disburse the loan 'phase-wise' and treat the tourism sector loan similarly as others. They carry the credit appraisal considering the factors related to the business affairs and financial aspects of the borrowing company. The analysis concludes that proposal analysis and credit appraisal has far-reaching consequences in the repayment of the loan as well as on the overall performance of the company.

The result of Phi-Coefficient ( $r_\phi$ ) clearly showed that there exists strong relationship between various aspects examined during the proposal analysis and credit appraisal. It also showed that there exists a significant relationship between business prospects with most of the financial aspects. Similarly, market position, management of the company and labor relation has positive relationship with the financial factors (though not significant except for one in each combination). However, the negative relationship from the calculation proved that there does not exist a relationship between affiliated company and capital structure as well as that with liquidity position.

These findings are similar with Kantawala (1996) and are relevant for both bankers and beneficiaries to ensure the suitability of tourism sector loan processing and significance of analysis. These results are valid and can be generalized because the survey covered majority of respondents and incorporated the views of credit managers/officers performing real lending practices. This is also consistent with the notion that the small banks rely on the information provided by the borrowing company (HIER, 2002). Of course, the hope is that by shedding light on the specific underlying mechanism, we can draw inferences that can be generalized in the whole banking industry and even beyond that. Though, these BFIs gradually started tougher lending practices in the light of uncertain economic outlook both inside and outside the country, still perceive growth opportunities and consider the market for this sector to be growing and competitive.

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**Appendix: A**  
**Population and Sample of Banks and Financial Institutions**

<b>Financing Institutions</b>	<b>Population</b>		<b>Sample</b>	
	<b>Number</b>	<b>Percentage on Total</b>	<b>Number</b>	<b>Percentage on Population</b>
Commercial Banks	17	16.7	17	100.0
Development Banks	26	25.5	4	15.4
Finance Companies	59	57.8	13	22.0
Total	102	100.0	34	33.3

Source: Data compiled from Primary Survey (Gautam, 2008)

**Appendix: B**  
**Distribution of Respondents (Banks and Financial Institutions)**

<b>Institutions</b>	<b>Sample</b>		<b>Response</b>		<b>Response Rate</b>
	<b>Number</b>	<b>Percentage of Total Sample</b>	<b>Number</b>	<b>Percentage of Total Respondents</b>	<b>Percentage of Sample</b>
Commercial Banks	17	50	15	54	88
Development Banks	4	12	4	14	100
Finance Companies	13	38	9	32	69
Total	34	100	28	100	82

Source: Data compiled from Primary Survey (Gautam, 2008)

Appendix: C  
**Proposal Analysis**

Particulars	Extremely Important	Largely Important	Average	Fairly Important	Least Important	Total
<b>Business Prospects</b>						
No. of Agencies	19	6	1	2	0	28
<i>Percentage</i>	<i>67.9</i>	<i>21.4</i>	<i>3.6</i>	<i>7.1</i>	<i>0.0</i>	<i>100</i>
<b>Market Position</b>						
No. of Agencies	11	13	2	2	0	28
<i>Percentage</i>	<i>39.3</i>	<i>46.4</i>	<i>7.1</i>	<i>7.1</i>	<i>0.0</i>	<i>100</i>
<b>Management of the Company</b>						
No. of Agencies	22	4	2	0	0	28
<i>Percentage</i>	<i>78.6</i>	<i>14.3</i>	<i>7.1</i>	<i>0.0</i>	<i>0.0</i>	<i>100</i>
<b>Relation with Affiliated Company</b>						
No. of Agencies	3	13	9	3	0	28
<i>Percentage</i>	<i>10.7</i>	<i>46.4</i>	<i>32.1</i>	<i>10.7</i>	<i>0.0</i>	<i>100</i>
<b>Labor Relation</b>						
No. of Agencies	2	12	10	3	1	28
<i>Percentage</i>	<i>7.1</i>	<i>42.9</i>	<i>35.7</i>	<i>10.7</i>	<i>3.6</i>	<i>100</i>
<b>Collateral/security</b>						
No. of Agencies	3	4	2	2	17*	28
<i>Percentage</i>	<i>10.7</i>	<i>14.3</i>	<i>7.1</i>	<i>7.1</i>	<i>60.7</i>	<i>100</i>

\* No comment.

Source: Data compiled from Primary Survey (Gautam, 2008)

Appendix: D  
**Credit Appraisal**

Particulars	Extremely Important	Largely Important	Average	Fairly Important	Least Important	Total
<b>Profitability</b>						
No. of Agencies	16	9	1	2	0	28
Percentage	57.1	32.1	3.6	7.1	0.0	100
<b>Capital Structure</b>						
No. of Agencies	12	12	3	1	0	28
Percentage	42.9	42.9	10.7	3.6	0.0	100
<b>Liquidity Position</b>						
No. of Agencies	14	6	7	1	0	28
Percentage	50.0	21.4	25.0	3.6	0.0	100
<b>Working Capital</b>						
No. of Agencies	10	15	1	2	0	28
Percentage	35.7	53.6	3.6	7.1	0.0	100
<b>Cash Flow and Ability to Pay</b>						
No. of Agencies	23	3		2	0	28
Percentage	82.1	10.7	0.0	7.1	0.0	100

Source: Data compiled from Primary Survey (Gautam, 2008)