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Financial Literacy and the Sustainability of Rural SMEs in Nepal: Examining the Mediating Effects of Access to Finance and Risk Attitude

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Abstract

This study investigates how financial literacy impacts the sustainability of small and medium enterprises (SMEs) in rural Nepal. It specifically examines whether access to finance and the owners' financial risk attitude act as mediating mechanisms in this relationship.

A structured questionnaire was used to collect data from 403 SME owners in Lumbini and Gandaki provinces. The data were analyzed using Structural Equation Modeling (SEM) with SmartPLS software to test the direct and mediating relationships.

The results show that financial literacy has a direct positive effect on SME performance. Furthermore, it strongly improves both access to finance and financial risk attitudes. A key finding is that while financial risk attitude is a significant mediator, access to finance is not. This means that getting loans alone does not automatically lead to better SME performance; what matters more is the owners' knowledge and their willingness to take calculated risks.

For policymakers and banks, the findings suggest that simply improving loan access is insufficient. Support programs should instead prioritize providing basic financial education for rural SME owners. Training should focus on budgeting, saving, prudent loan use, and risk management to build a foundation for sustainable business practices.

This study is one of the first in rural Nepal to develop and test an integrated model that includes financial literacy, access to finance, and risk attitude simultaneously. It provides new evidence on the limited direct role of finance access and highlights the critical importance of risk attitude as a pathway to SME sustainability.

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Keywords: Access to Finance, Financial Literacy, SME Sustainability, Risk Attitude, Rural Nepal

1. Introduction

In rural Nepal, small and medium enterprises are the backbone of local communities, generating employment and supporting families. Individuals are establishing small businesses in rural areas to earn a living and sustain their families. These SMEs create jobs and contribute to poverty reduction. However, many of them sadly shut down within a few years due to owners' difficulties with financial management and challenges in securing loans from banks. Why does this occur? One significant reason is that owners often lack sufficient knowledge regarding financial management, budget planning, or making informed decisions about loans (González-Prida et al., 2025; Wijekoon et al., 2024). This raises an important question: Can financial literacy aid these small businesses in surviving and thriving?

Financial literacy refers to understanding how to manage money, create budgets, save, borrow, and make financial decisions (Remund, 2010). The concept gained popularity in the 1990s when researchers and policymakers began examining its impact on individuals' lives and business outcomes. Across the globe, numerous studies have found that inadequate financial literacy is a significant reason why small businesses struggle to thrive or endure. This issue is particularly pronounced in rural areas, where business owners often have limited education and restricted access to banking or financial training (Jacobs et al., 2020; Lusardi & Mitchell, 2014). Many global efforts have focused on financial inclusion, providing people with access to banks, credit, and mobile banking. However, these efforts often fail when business owners do not understand how to use financial tools effectively (Allen et al., 2021; Hassan et al., 2011). In rural areas, many entrepreneurs fail to keep records, plan for cash flow, and lack the skills necessary to apply for credit or manage debt (Luan et al., 2023; Zada et al., 2021). In Nepal, small and medium enterprises (SMEs) play a key role in creating jobs and supporting local economies. However, very few studies in Nepal have clearly demonstrated how financial literacy assists SME owners in accessing finance and growing their businesses (Chaulagain, 2015). Therefore, this study address this gap by examining how financial literacy influence access to finance and sustainability of SMEs in rural Nepal.

Many studies from countries like Indonesia, India, Pakistan, Bangladesh, and Sri Lanka show that financial literacy helps small business owners get better access to finance and improve their business performance (Hussain et al., 2018). When business owners understand how to manage money and use banking services, they are more likely to get loans and run their businesses well. Hussain et al., (2018) also finds that access to finance can act as a bridge between financial literacy and business success. For example, studies in India and Nepal found that financial literacy not only improves business performance but also helps owners get loans and manage risks (Karki et al., 2024). In Sri Lanka, financial literacy makes it easier for business owners to use digital banking, which also leads to better business results (Thathsarani & Jianguo, 2022).

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However, there are very few studies in Nepal that examine how financial literacy leads to better access to finance and how both together improve SME performance, especially in rural areas. Most research in Nepal focuses only on the problems of obtaining loans or the general level of financial literacy, but not on how these factors work together (Khadka et al., 2024). This is concerning because many small business owners in rural Nepal still have limited financial knowledge and face numerous barriers when seeking finance from banks and other institutions (Adhikari et al., 2016). If these issues are not addressed, it could result in business failure, loss of income, and fewer job opportunities in rural communities. Many small and medium-sized businesses in rural areas are struggling. A major reason is that business owners lack sufficient knowledge about managing money or using financial services. They often do not keep accurate records, fail to plan their spending, and are unaware of how to borrow wisely. Consequently, they encounter difficulties in securing loans or support from banks and financial institutions, weakening their businesses and sometimes leading to early failure. Despite ongoing efforts, small businesses in rural Nepal still face significant challenges. It remains difficult to obtain loans because banks require extensive paperwork and collateral. Many business owners lack sufficient knowledge of digital tools or banking. Infrastructure such as roads and internet connectivity is still weak in many villages. Due to these issues, more initiatives are needed to support the growth and success of small businesses in rural areas.

Even though global research shows strong links between financial literacy, access to finance, and SME performance (Quarshie et al., 2025), Nepal still lacks enough evidence, especially for rural areas (Khadka, 2025). This study aims to fill that gap by examining the combined impact of financial literacy and access to finance on the success and sustainability of rural SMEs in Nepal.

This study aims to find out how financial literacy affects the performance and sustainability of SMEs in rural Nepal. It also looks at the roles of access to finance and financial risk attitude in this relationship. Specifically, the study aims to understand how financial literacy directly impacts SME performance, whether access to finance and risk attitude influence this effect, and to provide practical suggestions for policymakers, banks, and rural entrepreneurs on improving SME sustainability through enhanced financial education and services.

This study is important because there are few studies from rural Nepal that examine the combined impact of financial literacy and access to finance on small businesses. Most research comes from other countries. By focusing on Nepal, this study provides new insights that are useful for local policymakers and banks. If the study finds that financial literacy is truly beneficial, then training programs can be developed for SME owners, and banks can create more effective products for them.

2. Review of Literature

2.1. Theoretical Foundation

The Resource-Based View (RBV) explains that a business can perform better if it has valuable and rare internal resources (Newbert, 2008). For small and medium enterprises (SMEs), these resources are often the owner's knowledge and skills. Financial literacy is a key internal

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resource. It is valuable because it helps individuals manage their money effectively. It is rare in rural areas where education levels are often low. This makes it a source of competitive advantage that is difficult for competitors to replicate.

The Dual Process Theory explains how people make decisions using two systems (Evans & Stanovich, 2013). System 1 is fast, intuitive, and emotional. System 2 is slow, deliberate, and logical. SME owners with low financial literacy may rely too much on System 1. They might make quick, gut-feeling decisions about loans or investments without careful calculation. However, owners with high financial literacy are more likely to use System 2. They will take time to analyze interest rates, compare loan terms, and plan their budgets. This leads to better financial decisions.

Together, these theories provide a strong framework. RBV shows *why* financial literacy is a critical resource for SMEs. Dual Process Theory explains *how* this resource enhances the quality of financial decision-making, ultimately leading to improved business performance.

2.2. Antecedents of Financial Literacy

Financial literacy means the knowledge and skills that help business owners understand and manage money well (Hussain et al., 2018). It includes knowing how to budget, save, borrow, and make smart decisions about interest rates and loans. Many small business owners, especially in rural areas, do not have this knowledge because they never received formal education in money management. Anwar et al. (2020) studies show that businesses owned by financially literate people perform better than others. These owners know how to keep accurate records, plan cash flow, and avoid unnecessary debt. In developing countries like Nepal, most small businesses fail not because of bad ideas, but because owners do not understand basic money concepts (Abe et al., 2015). Financial literacy helps owners recognize opportunities, manage risks, and grow their businesses sustainably. Without this knowledge, even hardworking entrepreneurs struggle to succeed, especially when dealing with banks or making investment decisions. Good financial knowledge gives small business owners confidence and skills needed to survive tough economic times.

Financial literacy does not develop in a vacuum (Bay et al., 2014). Formal education provides the basic skills for financial management. Owners with more years of schooling are better at reading loan documents, understanding interest rates, and keeping business records (Yakob et al., 2021). Studies from countries like Kuwait and Vietnam show that educated business owners do better financial planning and make fewer mistakes. Education is valuable because it teaches owners how to think critically and solve problems systematically(Pithers & Soden, 2000). It is rare in rural areas of Nepal where many people stopped school early. Education is hard to copy because each person must invest time learning and building understanding. In rural Nepal, where many owners have limited education, schooling becomes a valuable and rare resource that directly improves financial literacy. Practical experience is a powerful teacher (Feiman-Nemser & Buchmann, 1985). Owners who have run their businesses for many years learn about money management through real-life situations. They face challenges like cash flow shortages and loan repayments. This experience builds practical financial knowledge that is hard to gain from books alone. Kabonga et al. (2021) studies from Zimbabwe show that experienced

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entrepreneurs understand money management much better than new business owners. Experience is a valuable resource because it cannot be hurried or bought. Experienced owners also become community leaders who guide younger entrepreneurs (Guzman et al., 2020). Entrepreneurial experience creates knowledge that is specific to each business and local market, making it difficult for others to replicate. Therefore, more experienced owners typically have higher financial literacy.

Financial, organized training programs directly teach money management skills (Huisamen & Weyers, 2014). These programs, often offered by banks or NGOs, cover topics like budgeting, saving, and debt management. Agyei and Nsiah (2018) studies from Ghana show that owners who attend such training make better financial decisions than those who do not. Even short training programs help owners understand basic concepts that improve their business performance. Training is valuable as a resource because it gives owners confidence to try new things and use financial services (Gibb, 1997a). It is rare in rural areas where few owners have received formal training. For owners with little formal education, training is a crucial way to build financial literacy. In today's world, digital literacy, knowing how to use digital tools, is linked to financial knowledge (Koskelainen et al., 2023a). Owners who use mobile banking apps learn to check balances, transfer money, and understand bank charges. This practical interaction with financial technology improves their overall financial understanding (Au & Kauffman, 2008). In India, digital financial services helped small business owners keep better records and reach new customers (Rana et al., 2019). Digital literacy is valuable as a resource because it gives owners faster access to information and services. When rural areas get better internet and mobile phone service, owners who learn digital skills gain significant advantages (Morris et al., 2022). As digital services expand in rural Nepal, digital literacy is becoming an increasingly important driver of financial literacy.

2.3. Financial Literacy and SME Performance

Strong evidence links financial literacy directly to better SME performance (Eniola & Entebang, 2015). When owners understand finance, they can plan cash flow, control expenses, and avoid unnecessary debt. They make informed decisions about investments and growth. Research from various Asian countries confirms that entrepreneurs with good financial knowledge are more successful and their businesses are less likely to fail (Mayr et al., 2021). Raj Kharel et al. (2024) in Nepal, businesses owned by financially literate people can analyze whether a loan offer is good or bad, and they know how to negotiate better terms. Financial literacy directly improves business performance by helping owners make smart decisions every day (Akinyede, 2023). Businesses with financially literate owners easy to take a decision to make a plan in favour of organization better to market changes and economic challenges (Hussain et al., 2018). Without financial literacy, owners make mistakes that damage their businesses, like taking high-interest loans or mismanaging working capital. Financial knowledge helps owners build sustainable businesses that can survive difficult periods and grow when opportunities appear (Babajide et al., 2023).

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2.4. The Mediating Role of Access to Finance

Access to finance is the ability of SMEs to obtain loans and use banking services (Rajamani et al., 2022). It is widely seen as essential for business growth. Studies from India and Uganda show that SMEs with better access to finance can invest in inventory and equipment, leading to faster growth (Eton et al., 2021).

However, access alone may not be enough. Our study proposes that financial literacy is a key that unlocks this access. Financially literate owners can prepare proper loan applications, communicate effectively with bank officers, and understand complex financial terms. This makes them more trustworthy in the eyes of lenders(Widyastuti & Hermanto, 2022).

The direct link between access to finance and performance is a critical point of investigation. While theory suggests that more capital should lead to better performance, the reality in challenging environments like rural Nepal may be different. If owners lack the skills to use loans wisely, simply having access to credit may not improve performance. This study will test this important relationship.

2.5. The Mediating Role of Financial Risk Attitude

Financial risk attitude is an owner's willingness to take calculated financial risks for business growth (Rasheed & Siddiqui, 2019). Some business owners avoid all risks, which can prevent growth. Others take reckless risks, which can lead to failure. A balanced, confident attitude towards risk is vital for success (Hillson & Murray-Webster, 2017).

However, financial literacy shapes this attitude. When owners understand how loans and investments work, their fear of the unknown decreases. They feel more confident to take calculated risks, such as borrowing to expand the business (Huang & Pearce, 2015). Therefore, we expect that higher financial literacy leads to a more positive and proactive financial risk attitude. We also expect that this improved risk attitude will directly lead to better business decisions and, consequently, better SME performance.

2.6. The Integrated Model and Research Gap

The existing literature shows that financial literacy, access to finance, and risk attitude are all important for SMEs. Many studies have looked at these factors in pairs. For example, some have linked financial literacy to access to finance, and others have linked financial literacy to risk attitude.

However, there is a lack of research that puts all these pieces together in one model, especially in the context of rural Nepal. It is not clear how these factors interact simultaneously to influence SME sustainability. Does financial literacy work mostly by helping owners get loans? Or does it work mostly by giving them the confidence to take smart risks? Or is it a combination of both?

This study aims to fill this gap. We develop an integrated model where financial literacy influences SME performance through two parallel pathways: by improving access to finance and by fostering a better financial risk attitude. This approach provides a more complete understanding of how financial knowledge actually translates into business success in rural settings. By testing this model, we can offer clearer guidance to policymakers and practitioners in Nepal.

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2.7. Policy Review

The Nepal Rastra Bank (NRB) implemented the Financial Literacy Framework 2022, which requires banks to spend 1% of their net profits on financial education programs (Bank, 2022). These programs aim to improve skills in saving, budgeting, loan management, and digital finance. Similarly, NRB has also promoted financial inclusion by encouraging mobile banking, digital wallets, and branchless banking to help rural people access finance more easily. Nepal Rastra Bank (NRB) has made rules to help small businesses in rural areas get loans more easily. Banks must give a certain part of their loans to small and medium businesses, especially in farming and cottage industries. NRB also gives loans at lower interest rates to women, farmers, and other groups who need support. During the COVID-19 pandemic, NRB helped small businesses by giving special loans so they could keep running and pay their workers. NRB is also working to teach people about money and banking, and it supports microfinance and cooperatives to reach people in remote villages.

The Micro, Cottage, and Small Industry Promotion Policy 2015, introduced by the Ministry of Industry, Commerce, and Supplies, provides training, subsidies, and concessional loans to rural entrepreneurs. The Concessional Loan Policy, offered by NRB, gives low-interest loans to small businesses, especially for youth, women, and farmers. These policies are meant to improve access to finance and help businesses grow. However, many small business owners are not fully aware of these programs or struggle with the paperwork and requirements.

In addition, the Inland Revenue Department (IRD) of Nepal has simplified tax procedures for SMEs. It promotes PAN and VAT registration and encourages separate accounting. The IRD also conducts training on tax systems and financial record-keeping, which helps improve financial literacy among entrepreneurs. Despite these efforts, the impact of these policies in remote areas is still limited. Therefore, this study aims to understand how financial literacy and access to finance, supported by these national policies, affect SME performance and sustainability in rural Nepal.

The Digital Nepal Framework is a government initiative designed to help people access the internet and digital tools. It aims to make it easier for everyone, including small businesses in villages, to use online banking, digital payments, and e-commerce. This plan also promotes training so people can learn how to operate smartphones and computers for their businesses. However, many rural areas still lack reliable internet and sufficient training.

The Ministry of Industry, Commerce, and Supplies (MoICS) has enacted laws and programs to support small business growth. The Industrial Enterprise Act offers tax incentives and simplified registration processes, especially for women. The MEDPA Program assists poor and marginalized people in establishing small businesses by providing training and small loans. Other initiatives, such as the SME Finance Programmed, help small businesses access loans and business advice.

Groups like the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Nepal Udyog Banijya Sangh help small businesses by giving training, supporting new business ideas, and helping solve business problems. They also work with the government to make better rules for small businesses and help connect them to bigger markets.

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2.8. Research Hypothesis

Education helps business owners better to manage overall business and banking knowledge (Staniewski, 2016). When owners have educated, they understand how interest rates work, how to read loan papers, and how to keep business records. This is a valuable resource for SMEs because educated owners make fewer mistakes with money. RBV theory, education is a resource that is hard to copy and helps businesses compete better (Assensoh-Kodua, 2019). In rural Nepal, where many owners unable to finished school, having education becomes even more important. Klapper and Lusardi (2020) studies from Kuwait and Vietnam show that educated owners plan better and avoid money mistakes. So education is a key resource that leads directly to stronger financial literacy for small business owners.

H_1: The education level of SME owners is positively related to their financial literacy.

SME owners have run businesses for many years, they learn how to handle money through real practice (Deakins & Freel, 1998). Experienced owners have faced situations like borrowing loans, paying workers, and managing shortages of cash. These real situations teach them how to budget, save, and avoid common money mistakes. Coyte et al. (2012) experience SMEs says that this kind of experience is a valuable internal resource because it comes from actually doing the work, and competitors cannot easily copy what owners learned through years of practice. Adhikari et al. (2021) In rural Nepal, many successful businesses are run by people with long experience rather than formal school education. Research from Zimbabwe shows that experienced business owners understand money better than new entrepreneurs (Kabonga et al., 2021). So years of running a business builds financial literacy that newer owners do not yet have.

H_2: Entrepreneurial experience is positively associated with financial literacy.

Financial training teaches business owners money management skills in a simple, organized way (Kirsten, 2018). Financial training covers important topics like keeping records, making budgets, taking loans, and understanding interest rates. Banks, NGOs, and government offices offer these training programs in rural areas. Training creates valuable skills that owners can use again and again, and these skills help owners compete better than businesses without trained owners (Gibb, 1997). Training is especially important in Nepal where many owners have never had formal financial education in school. Robb et al. (2014) studies from Ghana show that business owners who receive training make better money decisions than those without training. Even short training helps owners understand how to keep business money separate from personal money. So training programs directly improve the money knowledge and skills of small business owners.

H_3: Participation in financial training programs improves the financial literacy of SME owners.

Digital literacy means knowing how to use phones, apps, and internet to manage money (Koskelainen et al., 2023). SME owners who are digitally skilled can check bank balances on mobile phones, make payments, and even apply for loans online. When owners use these digital tools, they also learn about interest rates, saving options, and bank charges. RBV theory sees digital skills as valuable resources because using technology helps owners make faster, better

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financial decisions and compete effectively in modern business (Willie, 2024). Shaikh et al. (2015) research from South Africa and India shows that business owners using mobile banking understand how to manage money better. In Nepal, more villages now have internet and mobile phones, so digital skills become more useful. When owners learn digital tools, they also learn better money management. So digital skills directly improve financial literacy by giving owners access to real financial information and banking services.

H_4: Digital literacy is positively associated with financial literacy among SME owners.

Business owners understand how to manage money well their businesses perform better. Financially literate helps to owners make better decisions about spending, saving, and borrowing money (Jappelli & Padula, 2013). They keep accurate records, plan how much cash they will need, and avoid unnecessary debt. Kulathunga et al. (2020) RBV theory, financial knowledge is a valuable internal resource that helps SMEs succeed. Hussain et al. (2018) studies from Asian countries show that business owners with good financial knowledge are more successful and less likely to fail. In rural Nepal, many businesses fail because owners do not understand financial management (Khadka et al., 2024b). Owners with better financial knowledge run their businesses better, keep more profits, and grow more successfully. So financial literacy directly leads to better business performance and helps SMEs survive longer.

H_5: Financial literacy has a direct positive effect on SME performance.

When business owners can easily borrow money, open bank accounts, or use mobile banking, their businesses grow better. Access to finance means owners can buy more inventory, pay workers on time, and expand operations (Beck & Demirguc-Kunt, 2006). Studies from India show that firms with better access to loans and financial services grow faster and become more stable (Kaur et al., 2022). In rural Nepal, lack of bank access is a major problem for small businesses. Many owners cannot get loans because banks want documents they do not have or collateral they cannot provide. But when access to finance improves through microfinance or digital banking, SMEs can invest and grow. So better access to finance directly leads to stronger business performance and stability for rural SMEs.

H_6: Access to finance has a direct positive effect on SME performance.

SME owners who understand financial concepts are more likely to get bank loans or use financial services (Song et al., 2018). Financial knowledge helps owners fill out loan applications correctly, understand interest rate terms, and communicate clearly with bank workers. According to Dual Process Theory, literate owners think carefully about loan options and compare costs rather than making quick decisions (Glaser & Walther, 2012). Studies from Europe show that entrepreneurs with good financial knowledge are more confident about using credit and opening bank accounts (Alperovych et al., 2024). In rural Nepal, many business owners avoid banks because they feel confused or unprepared (Thapa et al., 2021). But when owners learn basic money concepts from training, they feel more comfortable approaching banks and using services like mobile money. So financial literacy directly increases a business owner's ability to access formal financial services that help their businesses grow.

H_7: Financial literacy has a positive effect on access to finance.

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Financial risk attitude means how comfortable a business owner feels about taking financial risks (Onyeanu et al., 2022). Some entrepreneurs avoid all risks, while others are willing to borrow and invest when opportunities come. Owners with a healthy risk attitude are more likely to take smart loans, try new ideas, and expand their business. Research shows that SME owners willing to take calculated risks often make better business decisions and grow faster (Crovini et al., 2021). If owners are too afraid of risk, they miss good opportunities for growth. If they are too risky, they might make bad decisions and fail. Dual Process Theory, owners with good financial knowledge feel more secure taking reasonable risks because they understand options (Reyna, 2004). In rural Nepal, a healthy balance of risk attitude helps small businesses grow. So the right attitude toward financial risk directly improves how well small businesses perform.

H_8: Financial risk attitude has a direct positive effect on SME performance.

Financial literacy shapes how SME owners think about taking business risks (Liu et al., 2021). Business owners who understand finance are more likely to take smart risks and avoid bad ones. Financial knowledge use careful thinking to evaluate risk options instead of making emotional choices. Studies show that financially educated entrepreneurs are more confident in making investment decisions (Kappal & Rastogi, 2020). When SME owners learn about interest rates, loan terms, and budgeting, they understand financial risks better. This knowledge reduces fear and builds trust in financial decisions. In Nepal, many rural entrepreneurs avoid banks because they fear taking loans and worry about not being able to repay (Gyawali & Acharya, 2023). But if owners understand how loans work and how interest is calculated, they feel more confident. So better financial literacy improves risk attitudes by helping owners feel more secure in their financial decisions and choices.

H_9: Financial literacy has a positive effect on financial risk attitudes.

Financial literacy helps SME owners think carefully about risks, and this thinking affects how well their business performs (Eniola & Entebang, 2017). When owners understand finance, they are more likely to take useful risks, like borrowing at the right time or investing in new tools. These smart decisions improve business growth. Studies show that financially literate entrepreneurs have better risk control and are more successful. Financial literacy improves risk attitudes, and better risk attitudes lead to improved business performance (Yang et al., 2018). This shows that financial risk attitude works as a bridge between knowledge and business success. In rural Nepal, where SMEs often avoid loans out of fear, this connection is very important. Understanding finance through good training can help improve both decision-making and business performance for small enterprises.

H_{10}: Financial literacy affects SME performance indirectly through financial risk attitude.

Financial knowledge helps SME performance (Abdallah et al., 2025) but this often happens through getting better access to finance first. When business owners understand finance, they can apply for loans better and build good relationships with banks. This access allows them to invest in their business and improve results. Studies from Bangladesh show that financial literacy improves business growth by helping owners get loans (Hossain et al., 2023). But without money to invest, even knowledgeable owners cannot grow their business. In Nepal, many SMEs fail not because owners lack ideas, but because they lack capital to invest.

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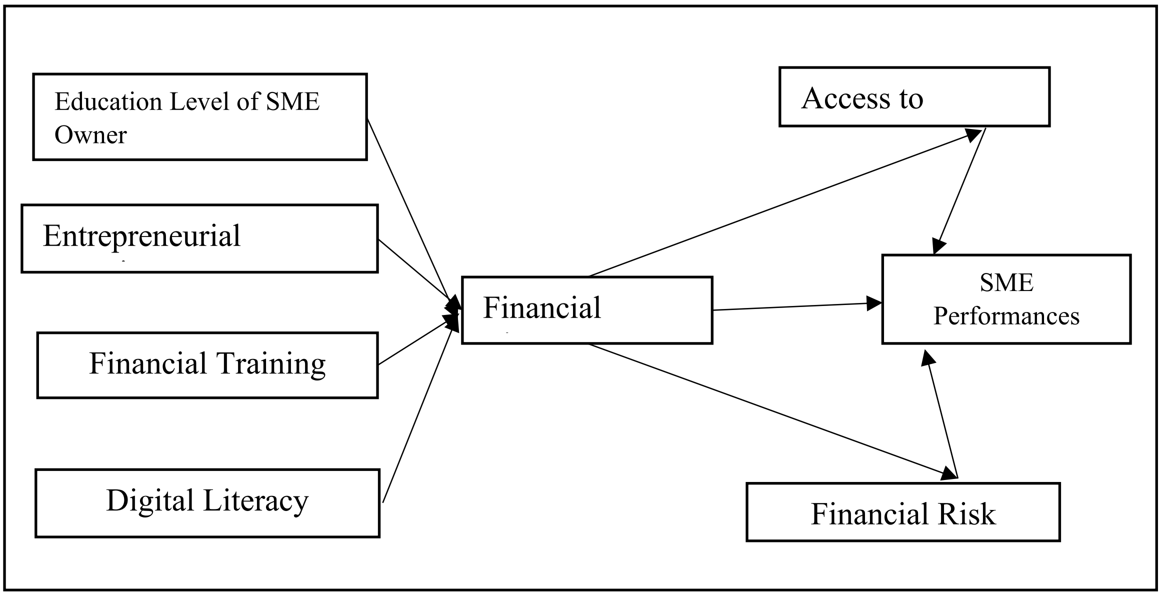
Financial literacy helps owners qualify for loans, and these loans help businesses improve performance. RBV and Dual Process theories together explain this: knowledge leads to access to resources, and these resources lead to better business results (Nayak et al., 2023). So access to finance works like a bridge connecting knowledge to business success.

H_{11}: Financial literacy affects SME performance indirectly through access to finance.

Figure 1 *Conceptual Research Model*



3.0. Research Design

This study used a cross-sectional research design to collect data at a single point in time. A structured questionnaire was the main tool for gathering information. The survey questions were adapted from previous, well-established studies to ensure they were reliable and valid for measurement. The questionnaire had two main parts. The first part contained questions on the key research topics. The second part collected background information about the business owners and their enterprises.

3.1. Study Population and Sample Size

The study focused on small and medium enterprise (SME) owners in rural areas of Lumbini and Gandaki provinces in Nepal. A total of 403 SME owners participated in the survey. This sample size is considered sufficient for the statistical analysis used in this study. The businesses were selected from various rural municipalities within these provinces to get a representative view.

3.2. Socio-Economic Context

The SMEs in this study operate in a challenging socio-economic environment. They face common problems like inflation, shrinking local markets, and ongoing economic pressures from the COVID-19 pandemic. These factors directly influence their financial decisions and their ability to sustain their businesses. Many owners struggle with high interest rates, a lack of collateral for loans, and complex bank procedures. Poor infrastructure, such as unreliable

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electricity and internet, further hampers their growth. Understanding this context is crucial to interpreting the study's findings.

3.3. Data Collection Instrument

The questionnaire included eight main constructs with a total of 54 questions. Questions measuring SME sustainability were taken from Adomako et al. (2016). Items for financial knowledge, access to credit, and financial risk mindset came from Ye and Kulathung (2019). Questions on risk-taking tolerance were adopted from Ye and Kulathunga (2019). Most responses were recorded on a five-point Likert scale, from 1 (strongly disagree) to 5 (strongly agree). The questionnaire was checked by academic experts and tested with a few local SME owners beforehand to ensure the questions were clear and made sense in the local context.

The questionnaire was first reviewed by two academic experts for clarity. It was then pilot-tested with 20 local SME owners. Based on their feedback, some financial terms were simplified and local examples were added to make the questions easier to understand. No major changes to the constructs were needed after the pilot test.

3.4. Data Analysis Method

The data collected from the questionnaires were analyzed using Structural Equation Modeling (SEM) with SmartPLS software. This method is powerful for testing complex relationships between multiple variables at once. It was used to test the hypothesized links between financial literacy, access to finance, risk attitude, and SME performance. The analysis involved checking the reliability and validity of the data through Confirmatory Factor Analysis (CFA). Key statistics like path coefficients, t-values, and p-values were examined to determine which hypotheses were supported by the data.

3.5. Ethical Considerations

This study followed standard ethical practices in research. Participation was voluntary, and respondents were informed about the purpose of the study. The privacy and anonymity of the SME owners were protected. No identifying personal or business information was shared in the research report. The data was used solely for the purpose of this academic research.

Table 1 *Demographic Characteristics*

S.No	Profile of Entrepreneur	Number	Percentage
1	**Gender**		
	Male	203	50.37
	Female	200	49.63
	Total	403	100
2	**Age**		
	Below – 29	61	15.14
	30 – 39	94	23.32
	40 - 49	124	30.77
	50 – 60	103	25.56
	Above 60	21	5.21
	Total	403	100
3	**Qualification**		
	Illiterate	8	1.99
	Primary	53	13.15

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	Secondary	194	48.14
	Graduate	142	35.23
	Post Graduate	6	1.49
	Total	403	100
4	**Length of Time**		
	01 - 04 Years	201	49.88
	05 - 09 Years	142	35.23
	10 - 14 Years	43	10.67
	15 - 19 Years	12	2.98
	More Than 20 Years	5	1.24
	Total	403	100
5	**Region**		
	Galyang MCP	93	23.08
	Chapakot MCP	120	29.78
	Waling MCP	70	17.37
	Ramba RMCP	120	29.77
	Total	403	100
6	**Profile of Enterprise Firms of Owner**		
	Sole Proprietor	350	86.85
	Partnership	53	13.15
	Total	403	100
7	**Nature of Business Base on Investment Amount**		
	Small (50,000 to 5,00,000)	240	59.55
	Medium (5,00,001 to 20,00,000)	163	40.45
	Total	403	100
8	**Types of Enterprise**		
	Daily Consumption Goods	63	15.64
	Metal Industries	13	3.23
	Agriculture Firm	59	14.64
	Meat Product	46	11.41
	Wood and Wood Product	36	8.93
	Fancy, Tailor & Cosmetics Product	76	18.86
	Beauty Parlor	62	15.38
	Hardware & Construction	35	8.68
	Diary, Poultry and Fisheries	13	3.23
	Total	403	100

Sources: Field Survey 2025

This study explored the backgrounds of small and medium-sized business owners in rural Nepal, focusing on Lumbini and Gandaki provinces, where most businesses are small and run by individuals. The majority of entrepreneurs were men between 40 and 49 years old, with nearly half having completed secondary school and most operating their businesses for 1 to 9 years. Most businesses were sole proprietorships, and small shops like tailor, cosmetic, daily goods, and beauty parlours were common, along with agriculture-based firms. The study also looked at how many business owners could get loans or financial support, finding that access to finance was a major challenge many wanted to grow but struggled with high interest rates, lack of collateral, and complicated loan processes. Poor infrastructure, unreliable electricity

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and internet, and weak local markets made it even harder for these businesses to expand. The demographic information helps show that, while rural entrepreneurs are motivated and experienced, they face big barriers in getting the money and resources they need. By understanding these details, the study highlights the need for better financial services, improved infrastructure, and supportive policies to help rural SMEs in Lumbini and Gandaki provinces grow and contribute more to local development.

3.6. Measurement Model

The measurement model was used to access the latent constructs and their observed indicators, using survey items adapted from established sources. All measurement items met the required thresholds, confirming that the model accurately represents the underlying constructs for further analysis.

Table 2 *Descriptive Statistic and Correlation*

Constructs	No	Items	CA	FL	VIF	CR	AVE
Access to Finance(FA)	6	AF1	0.817	0.756	1.737	0.868	0.523
		AF2		0.710	1.705		
		AF3		0.707	1.560		
		AF5		0.757	1.695		
		AF6		0.751	1.832		
		AF7		0.653	1.392		
Digital Literacy(DL)	5	DL2	0.758	0.778	1.534	0.846	0.579
		DL4		0.787	1.467		
		DL6		0.776	1.542		
		DL7		0.70	1.353		
Entrepreneurs Experience(EE)	5	EE1	0.834	0.738	1.701	0.882	0.600
		EE3		0.813	2.039		
		EE4		0.739	1.534		
		EE5		0.805	2.008		
		EE6		0.776	1.696		
Education Level(EL)	5	EL1	0.778	0.769	2.003	0.848	0.527
		EL2		0.721	1.348		
		EL3		0.708	1.842		
		EL4		0.721	1.375		
		EL6		0.711	1.461		
Financial Literacy(FL)	8	FL10	0.837	0.661	1.603	0.877	0.506
		FL11		0.678	1.453		
		FL2		0.740	1.712		
		FL4		0.780	2.003		
		FL6		0.696	1.734		
		FL7		0.757	1.882		
		FL9		0.658	1.453		
Financial Risk Attitude(FRA)	6	FRA1	0.804	0.702	1.588	0.859	0.505
		FRA2		0.702	1.62		
		FRA3		0.757	1.706		
		FRA4		0.660	1.410		
		FRA5		0.726	1.612		

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		FRA7		0.713	1.442		
Financial Training (FT)	4	FT1	0.804	0.834	1.984	0.872	0.632
		FT3		0.866	2.201		
		FT4		0.735	1.477		
		FT5		0.737	1.423		
Small & Medium Entrepreneurship (SMEP)	5	SMEP1	0.788	0.662	1.394	0.855	0.542
		SMEP2		0.752	1.526		
		SMEP3		0.782	1.625		
		SMEP4		0.714	1.481		
		SMEP5		0.766	1.641		

Sources: Survey Report 2025

Table 2 demonstrates that all measurement factors of the construct meet the minimum established threshold for reliability and validity. Factor loadings above 0.60, along with Cronbach's alpha and composite reliability above 0.70 (Hair et al., 2014), are considered acceptable. All AVE values for the different constructs exceeded 0.50, confirming that the measurement model is valid. The model also shows good discriminant validity. VIF values below 5 (Hair et al., 2017) indicate no problem with multicollinearity. Since all VIF values are under 5, multicollinearity is not a concern in this study.

Table 3 *Heterotrait-Monotrait ratio*

	AF	DL	EE	EL	FL	FRA	FT	SMEP
AF								
DL	0.737							
EE	0.820	0.786						
EL	0.792	0.721	0.796					
FL	0.853	0.903	0.809	0.758				
FRA	0.883	0.718	0.783	0.807	0.758			
FT	0.887	0.886	0.945	0.782	0.919	0.734		
SMEP	0.751	0.623	0.699	0.726	0.694	0.723	0.649	

Sources: Survey Report 2025

Table 4 *Fornell–Larcker criterion.*

	AF	DL	EE	EL	FL	FRA	FT	SMEP
AF	0.723							
DL	0.586	0.761						
EE	0.680	0.623	0.775					
EL	0.647	0.559	0.651	0.726				
FL	0.710	0.701	0.692	0.638	0.711			
FRA	0.707	0.560	0.641	0.644	0.642	0.710		
FT	0.723	0.694	0.780	0.635	0.762	0.593	0.795	
SMEP	0.603	0.482	0.564	0.581	0.583	0.835	0.523	0.737

Sources: Survey Report 2025

The measurement model was tested for reliability and validity. The higher values of the construct meet the criteria for reliability and validity. All other constructs exhibit acceptable

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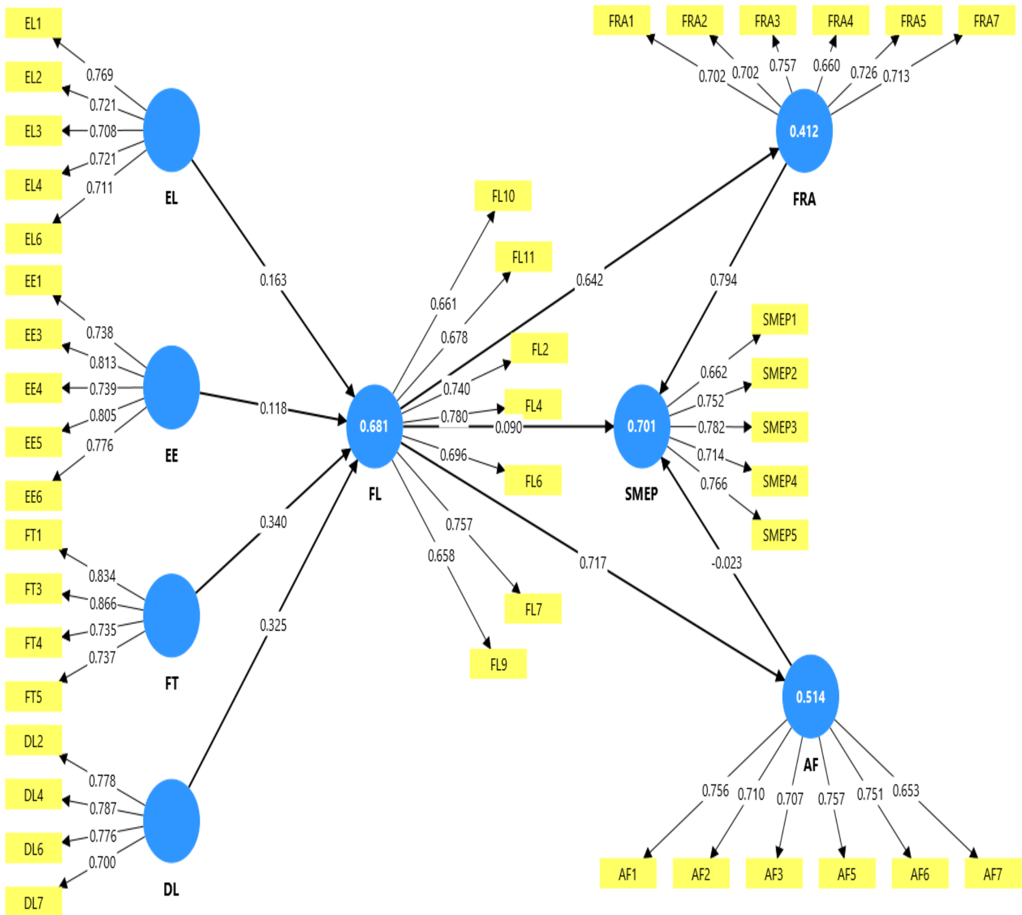
reliability greater than 0.70 and convergent validity greater than 0.50. The F&L higher-order discriminant validity requirement is met. The square root of the AVE exceeds its correlations with other model constructs (Fornell & Larcker, 1981). HTMT confirms discriminant validity. All paired HTMT ratios are below 0.90, and the Fornell-Larcker value is less than all diagonal values of all constructs, which meet the minimum thresholds, indicating discriminant validity for higher-order constructs. (Table 3 & 4)

Figure 2: *Path Analysis*



Structure Model

Sarstedt et al. (2022), a structural model based on the significance of paths hypothesis testing, predictive capability of the model (R2), and effect size (f2) the path analysis shows the structural model's path coefficient estimates.

Table 5 *Hypothesis*

		Bita	S.D	T-value	p-values	2.50%	97.50%	Decision
EL > FL	H_1	0.163	0.049	3.335	0.001	0.064	0.257	Supported
EE > FL	H_2	0.118	0.059	1.991	0.047	0.004	0.236	Supported
FT > FL	H_3	0.34	0.065	5.253	0.001	0.207	0.462	Supported
DL > FL	H_4	0.325	0.051	6.371	0.001	0.226	0.426	Supported
FL > SMEP	H_5	0.09	0.044	2.031	0.042	0.007	0.181	Supported
AF > SMEP	H_6	-0.023	0.046	0.499	0.617	-0.11	0.069	Not supported
FL > AF	H_7	0.717	0.027	26.566	0.001	0.653	0.762	Supported

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FRA > SMEP	H_8	0.794	0.038	21.059	0.001	0.713	0.863	Supported
FL > FRA	H_9	0.642	0.03	21.15	0.001	0.576	0.696	Supported

Sources: Survey Report 2025

Table 5 presents nine hypotheses that are tested about how financial literacy, education, experience, digital tools, and business practice affect small businesses in rural Nepal. These nine hypotheses are using real data from 403 business owners.

Eight hypotheses are supported by the data. H_1 shows that education level improves financial literacy, with a beta of 0.163 and p-value 0.001. The p-value 0.001 means we are 99.9% sure this is true and not just by chance. The confidence interval 0.064 to 0.257 shows the range of possible values. Since this range does not include zero, we know the relationship is real. H_3 shows the strongest positive effect: financial training improves financial literacy with beta 0.340. This means training helps owners learn about money management better than education or experience alone. H_8 shows that financial risk attitude has the strongest effect on business performance, with beta 0.794. This means owners who are willing to take smart business risks succeed better. H_7 shows that financial literacy very strongly increases access to finance, with beta 0.717. This means owners who understand money can more easily get loans from banks. H_9 shows that financial literacy improves how owners think about risk, with beta 0.642. All these supported hypotheses work together: training and education build financial knowledge, this knowledge helps owners access loans and think wisely about risk, and both of these lead to better business performance.

Only one hypothesis is not supported, H_6, which asks if access to finance directly improves business performance. The beta is -0.023, which is negative and very close to zero. The p-value is 0.617, meaning we are only 38% sure this relationship exists and 62% uncertain. The confidence interval -0.110 to 0.069 includes zero, confirming there is no real relationship. This finding is critical and surprising. It suggests that simply giving a business owner a loan does not automatically make their business better.Therefore, access to finance alone is not enough. What matters more is whether owners have the knowledge to manage the borrowed money. This is why financial literacy comes first. An owner with financial knowledge can use a loan correctly and make their business stronger. Without knowledge, even access to free money will not help. This shows that banks and policymakers should not just give loans but should provide financial training first. Training should teach owners how to use loans wisely, manage cash, and avoid debt problems. In rural Nepal, many owners want loans but lack knowledge. The solution is not just better access but better knowledge combined with access.

The supported hypotheses reveal a clear pathway to business success. It starts with learning: education, training, and experience build financial knowledge. This financial knowledge then opens two important doors. First, it helps owners access finance more easily because banks trust owners who understand money. Second, it improves owners' attitudes toward business risk, helping them make bolder but wiser decisions. These two results better access to finance and better risk attitude then lead to improved business performance. Therefore, the real message is that financial knowledge is the foundation. Investment in teaching rural business owners about money, budgeting, record keeping, and loan management will have large effects.

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When owners understand finance, they naturally become better at accessing finance, they feel more confident taking smart risks, and their businesses perform better. The study of 403 rural SME owners proves this clearly. For Nepal's rural areas, the priority should be training programs that teach basic financial skills, because this builds everything else that follows. Policymakers should require financial education as part of business support programs.

Table 6: *Mediating Analysis*

	Bita	S.D	T-value	p-values	2.50%	97.50%	Decision
FL > FRA > SMEP H_{10}	0.509	0.036	14.086	0.001	0.437	0.577	Supported
FL > AF > SMEP H_{11}	-0.016	0.033	0.497	0.619	-0.08	0.049	Not supported

Sources: Survey Report 2025

The mediating analysis table tests two hypotheses about how financial literacy affects SME performance through other factors: financial risk attitude and access to finance. H_{10} tests whether financial literacy improves SME performance by making business owners better at handling financial risk. The beta value is 0.509, which means the effect is strong and positive. The confidence interval (0.437–0.577) confirms this effect because it stays positive and does not include zero. This means that when business owners know more about money, they become better at dealing with risk, and this helps their businesses do well. This pathway shows that learning about finance gives owners confidence to take smart risks, solve money problems, and succeed in their businesses. The study proves that financial knowledge is not just important on its own it creates better attitudes and skills that lead to higher business performance.

H_{11} checks if financial literacy improves SME performance by helping owners get better access to loans and financial help. The beta value is -0.016, which is negative and very close to zero, showing almost no effect. The confidence interval -0.080 to 0.049 includes zero, so the result is not reliable. This means that even when owners know more about finance and get access to loans, this pathway does not directly improve their businesses. Just getting money from banks or other sources does not automatically lead to business success. Owners need more than access they need skill and knowledge to use the money wisely. The data shows that helping owners with loans is not enough if they lack proper financial skills.

The mediating analysis supports the idea that financial knowledge is powerful, but it works best when it teaches owners to handle financial risks. Training and education that build risk awareness and smart decision-making create strong business performance. Helping owners get loans or financial support does not work unless they also know how to manage funds, take risks, and solve problems. The findings suggest that training programs should focus more on building risk skills, not just loan access. Banks and policymakers should help owners learn about risk and financial management, so future loans will have better results. In summary, the key pathway to SME success is financial literacy that creates smarter attitudes and better risk management, not just access to cash.

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Table 7 *R^2 and Adjusted R^2*

Construct	Original Sample	
	R-square	Adjusted R-square
AF	0.514	0.513
FL	0.681	0.678
FRA	0.412	0.410
SMEP	0.701	0.699

Sources: Survey Report 2025

Table 8 shows the R-square for SME Performance (SMEP) is 0.701, which means that about 70.1% of the changes in SME performance can be explained by the variables like Financial Literacy, Access to Finance, and Financial Risk Attitude. Similarly, Financial Literacy (FL) has an R-square of 0.681**,** meaning the model explains 68.1% of its changes. According to Ramayah et al. (2018), if the R-squared is above 0.50, it shows a good prediction strength, so that this model is working well in explaining the results.

In the table, the adjusted R-square for SME Performance is 0.699, which is very close to the R-square value 0.701. This shows that even after adjusting, the model still strongly explains SME performance. R-square value access to finance **is** 0.513, which is also very close to the original R-square of 0.514, meaning the independent variables, like financial literacy factors, are still doing a good job. As explained by Ramayah et al. (2018), when adjusted R-squared and R-squared are close, it means the model is stable and reliable.

Table 8 *f^2 Table*

Indicator	P-value
AF > SMEP	0.001
DL > FL	0.162
EE > FL	0.015
EL > FL	0.043
FL > AF	1.057
FL > FRA	0.700
FL > SMEP	0.012
FRA > SMEP	0.975
FT > FL	0.113

Sources: Survey Report 2025

Table 8 describes the f^2 results showed that Financial Literacy had a very large effect on Access to Finance $f^2 = 1.057$ and Financial Risk Attitude $f^2 = 0.700$, suggesting that Financial Literacy plays a major role in influencing both variables. Similarly, Financial Risk Attitude had a very large effect on SME Performance $f^2 = 0.975$, highlighting its critical importance (Hair et al., 2014). Digital Literacy showed a moderate effect on Financial Literacy $f^2 = 0.162$, while Financial Training $f^2 = 0.113$ and Education Level $f^2 = 0.043$ had small but meaningful effects. Other variables such as Entrepreneurial Experience $f^2 = 0.015$**,** Financial Literacy to SME Performance $f^2 = 0.012$, and Access to Finance to SME Performance $f^2 = 0.001$ had negligible

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effects. These findings help to prioritize which factors are most influential and should be focused on in future policy and training interventions for SMEs.

Table 9 *Quadratic Test*

	P values
QE (AF) -> SMEP	0.782
QE (DL) -> FL	0.392
QE (EE) -> FL	0.717
QE (EL) -> FL	0.988
QE (FL) -> AF	0.286
QE (FL) -> FRA	0.000
QE (FL) -> SMEP	0.553
QE (FRA) -> SMEP	0.732
QE (FT) -> FL	0.964

Sources: Survey Report 2025

Table 9 shows that the quadratic effect test was employed to examine whether the relationships between key variables followed a non-linear pattern (Ramayah et al., 2018). However, the path from Financial Literacy to Financial Risk Attitude ($p = 0.000$) exhibited a significant quadratic relationship. This finding implies that both excessive and insufficient financial literacy may not always enhance risk handling, with an optimal level likely existing. No other quadratic paths reached significance, indicating that, for most variables, the relationships are straightforward rather than curved.

Table 10 *Flamix Analysis*

	5	4	3	2	1
AIC (Akaike's information criterion)	**2499.834**	2542.427	2582.229	2918.209	3148.511
AIC3 (modified AIC with Factor 3)	**2568.834**	2597.427	2623.229	2945.209	3161.511
AIC4 (modified AIC with Factor 4)	**2637.834**	2652.427	2664.229	2972.209	3174.511
BIC (Bayesian information criterion)	2775.76	2762.368	**2746.186**	3026.18	3200.497
CAIC (consistent AIC)	2844.76	**2817.368**	2787.186	3053.18	3213.497
HQ (Hannan-Quinn criterion)	**2609.072**	2629.501	2647.139	2960.954	3169.092
MDL5 (minimum description length with factor 5)	4431.467	4082.135	3730.011	3674.065	**3512.441**
LnL (LogLikelihood)	**-1180.92**	-1216.21	-1250.12	-1432.1	-1561.26
EN (normed entropy statistic)	0.715	0.673	**0.728**	0.656	0
NFI (non-fuzzy index)	0.667	0.643	**0.708**	0.696	0
NEC (normalized entropy criterion)	114.732	131.965	109.525	**138.827**	0

Sources: Survey Report 2025

Table 10 FIMIX-PLS was used to check if different groups of SME owners exist with different response patterns. The analysis compared models with 1 to 5 segments using fit criteria. Based on BIC, CAIC, and entropy values, the three-segment model was selected as optimal. This means rural SME owners fall into three distinct groups that respond differently to financial literacy interventions. Segment 1 includes less educated owners needing basic training.

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Segment 2 has moderate experience requiring digital skills support. Segment 3 comprises highly educated owners benefiting from advanced financial services.

Discussion

This study examined how financial knowledge helps small and medium businesses in rural Nepal. Our goal was to see if this knowledge works by helping owners get loans or by changing how they think about risk.

The results show a clear path. We found that financial literacy does improve SME performance. However, it does not work alone. Its power comes from changing the owner's mindset and skills. First, we looked at what builds financial literacy. We found that education, business experience, financial training, and digital skills all help owners understand money matters better. Training and education teach the theory, while real business experience provides practical lessons. Digital skills, like using mobile banking, give owners direct access to financial information. Together, these factors create a strong foundation of financial knowledge for rural entrepreneurs. Gal et al. (2020) also found that formal education provides the critical numeracy and literacy skills needed for financial management. Furthermore, our finding that practical experience is a powerful teacher echoes the work of Iwu et al. (2025), who showed that experienced entrepreneurs in Zimbabwe gained superior financial understanding through real-world practice. This convergence of findings confirms that financial literacy is not an innate skill but a capability built through both formal learning and hands-on experience, especially in resource-limited settings.

The most important finding of this study is that financial literacy greatly improves a business owner's access to finance. Owners who understand finances can approach banks confidently, complete forms accurately, and appear more trustworthy. This leads to more loans and better financial services. This is a surprising but critical discovery. It tells us that just giving money to a business owner is not enough. If the owner does not know how to use the loan wisely, for example, to purchase the right equipment or manage cash flow, the loan may not be beneficial and could even lead to debt problems. A central finding of our study is that financial risk attitude is the strongest direct driver of SME performance and the most significant mediator for financial literacy. This provides strong support for the work of Caliendo et al. (2010), who identified risk attitude as a key predictor of entrepreneurial survival. Our discovery that financial literacy shapes this attitude aligns perfectly with Liu et al. (2021), who found that financial knowledge builds the confidence needed for calculated risk-taking. Essentially, we have empirically validated a chain of events proposed by earlier theorists: financial knowledge reduces fear and uncertainty (Townsend et al., 2018), which leads to a healthier risk attitude, which in turn directly translates into better business decisions and outcomes.

Instead, the real power of financial literacy is in changing how owners think about risk. When owners understand finance, they become more confident. They are less afraid of taking calculated risks, like borrowing money to expand at the right time. They can distinguish between a good opportunity and a bad one. Our study proves that this improved risk attitude is the strongest driver of better business performance. It is the main bridge between knowledge and success. Perhaps our most critical finding is that access to finance, although improved by financial literacy, does not, by itself, directly lead to better SME performance. This result challenges a common assumption but is not without precedent. Our data confirms the concerns raised by Charfeddine et al. (2024), who identified that access to finance alone is an insufficient solution without the underlying skills to utilize it. This finding also resonates with Hussain et al. (2018), who argued that knowledge is powerful precisely because it enables the effective use of financial resources, not just their acquisition. Therefore, our study offers concrete evidence that simply providing capital, without building the owner's capability to manage it, is unlikely to yield the desired results for rural SMEs.

Financial literacy is the foundational resource, as suggested by the Resource-Based View. This resource then works in two ways. First, it unlocks doors to formal finance, a relationship shown in studies from Ghana (Adomako et al., 2016). Second, and more importantly, it builds the owner's courage and decision-making skill, a psychological shift explained by Dual Process Theory.

The conclusion for rural Nepal is clear. While global efforts often focus on financial inclusion access, our research, supported by the cumulative work of past scholars, shows that the highest priority should be financial capability knowledge and attitude. Training programs that combine practical financial education with risk management guidance will create more sustainable businesses than those that focus solely on providing credit.

Theoretical Implications

First, it provides strong empirical support for the Resource-Based View (RBV). We demonstrate that financial literacy is a valuable and scarce internal resource, as RBV proposes. However, we add a crucial nuance: the value of this resource is not automatic. It must be activated. Its economic value is realized through its ability to secure other resources, such as finance, and to enhance the decision-making capability of the owner by influencing their risk attitude. This answers the "how" of RBV in the context of rural SMEs.

Second, our findings bring Dual Process Theory to life in a practical business setting. We demonstrate that financial literacy causes a measurable shift from intuitive, often fear-based decision-making (System 1) to a more analytical and deliberate approach. When an owner learns to calculate interest and plan a budget. This theoretical framework powerfully explains why financially literate owners are better at avoiding bad loans and seizing good opportunities they have the tools to override their initial gut reactions.

Third, this study extends beyond examining isolated relationships. By integrating RBV and Dual Process Theory, we provide a more comprehensive understanding. We demonstrate that financial literacy, as a resource, enhances performance by altering the owner's cognitive process, which in turn leads to more effective strategic actions and better outcomes. This integrated model had not been tested in the unique context of rural Nepal, where barriers such as low education and poor infrastructure are particularly pronounced. Therefore, our work confirms that these theories are not just for large firms in developed countries; they are equally relevant for small entrepreneurs in some of the most challenging business environments.

Practical Implementation

The findings of this study call for a coordinated shift in strategy among all stakeholders supporting rural SMEs. Policymakers and Nepal Rastra Bank should prioritize funding and delivering practical financial literacy programs in local communities, moving beyond a sole focus on loan disbursement. These programs must teach essential skills like budgeting, record-keeping, and loan management. Concurrently, banks should design simpler loan products and couple them with mandatory financial training to ensure borrowed capital is used effectively. For their part, SME owners must proactively seek out this knowledge, adopt digital tools, and practice disciplined financial habits. Ultimately, by aligning efforts where policymakers enable training, banks provide educated access to finance, and owners build their skills and confidence rural SMEs can achieve the sustainability needed to drive local economic development.

Suggestions for Future Researchers

This study has helped us understand how financial knowledge, access to finance, and risk attitude affect the success of small businesses in rural Nepal. However, there are still many areas that future researchers can explore to make the findings even stronger and more useful.

Study Different Regions: This research focused on a few rural areas. Future studies can include more regions or even compare rural and urban areas to see if the results are the same everywhere.

Use Different Methods: Most of the data in this study came from surveys. Future researchers can use interviews, group discussions, or case studies to get deeper insights into how business owners think and act.

Look at Other Factors: This study mainly looked at financial literacy, access to finance, and risk attitude. Future research can include other important factors like government policies, family support, technology use, or market conditions.

Focus on Women and Minority Groups: Future research can pay special attention to women entrepreneurs or people from minority groups to understand their unique challenges and needs.

By exploring these areas, future researchers can help policymakers, banks, and training organizations create better support for small businesses in Nepal and similar countries.

Limitations of the Study

This study has some limitations that should be considered. First, the research was done only in a few rural areas of Nepal, so the results may not show the situation in all parts of the country. Many small business owners in other regions might have different experiences or face other problems. Second, most of the information was collected through surveys and questionnaires. Sometimes, people may not remember everything correctly or may not want to share all details about their business, which can affect the accuracy of the answers.

Another limitation is that the study focused mainly on small and medium businesses, so the findings may not apply to very large companies or to businesses in big cities. Also, the research looked at only a few factors, like financial knowledge, access to finance, and risk attitude. There may be other important things, such as government rules, family support, or market conditions, that also affect business success but were not included in this study.

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Conclusion

This study shows that financial literacy is very important for the success and sustainability of small and medium businesses in rural Nepal. When business owners know how to manage money, make budgets, and use banking services, they are more likely to run their businesses well and avoid mistakes. The research found that financial literacy helps owners get loans, plan for the future, and take smart risks, which together improve business performance and help businesses survive in tough times.

Overall, the study suggests that to help small businesses grow and last longer, it is important to provide financial education, make it easier to get loans, and encourage owners to take smart risks. Policymakers, banks, and training organizations should work together to offer support and training, especially in rural areas. By improving financial knowledge and access to finance, more small businesses in Nepal can become successful and support their communities.

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