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Financial Inclusion among the Female Customers of Microfinance: An Evidence from Pokhara Metropolis

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Abstract

This paper aims to examine financial inclusion among the female customers of microfinance in Pokhara metropolis. The study employed quantitative research design with a descriptive approach. Primary data was collected through a structured questionnaire to microfinance clients in Pokhara. A convenience sampling method was used, and data was collected from 110 participants. The results revealed that microfinance products have not significantly impacted financial inclusion (β= 0.015, p= 0.879) among female customers in Pokhara. While most participants were middle-aged, married, and involved in business, their financial literacy levels were basic and it is positively correlated with financial inclusion (p=0.006) and socio-economic factors significantly impact financial inclusion (β = 0.254, p=0.007). Key factors influencing their choice of microfinance included collateral-free loans and immediate access to funds. The findings suggest that achieving effective financial inclusion requires a broader approach beyond microcredit alone. Financial literacy empowers people to make better financial choices and access formal financial services. Additionally, socio-economic factors, such as education and income stability, positively influence financial inclusion. To enhance financial inclusion, it is essential to provide affordable financial products, digital services, and convenient access to financial services.

Keywords: Financial inclusion, Financial literacy, Microfinance institutions, Socio-economic factors

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Introduction

Financial inclusion has become a pivotal concern in the development discourse, particularly in enhancing economic opportunities for underserved populations. Among these populations, women often face unique challenges and barriers in accessing financial services. Financial inclusion is the process of ensuring that individuals, households and businesses in a community have adequate access to formal financial services and products such as transactions, credit cards, payments, savings and insurance, and that these are delivered in a sustainable way (Singh & Singh Kondan, 2011). The primary goal of financial inclusion is to make financial services easily accessible to low- income earners, which is where microfinance plays a key role. Achieving financial inclusion involves ensuring banking facilities are available in unbanked areas and providing financial services to all households (Agarwal, 2016). Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. Microfinance has emerged as an economic development approach to benefit the low-income section of the society. It is a kind of service product viz. savings, credits, training, insurance and social intermediation services such as group formation, development of self-confidence, training in financial literacy and management capabilities among members of a group. (Gnawali, 2018). These services empower impoverished households and microenterprises by promoting financial inclusion and creating income-generating opportunities, particularly for marginalized groups like women, the disabled, and Dalits (Asian Development Bank [ADB], 2011; Shrestha, 2007)

Despite the global and national efforts to promote financial inclusion, women in many parts of Nepal still encounter substantial obstacles in accessing financial resources. These barriers include socio-cultural constraints, limited financial literacy, and inadequate outreach of formal financial institutions. Women continue to face greater financial exclusion and vulnerability than men. While microfinance serves as a tool for financial inclusion, poverty reduction, and women's empowerment, its role may vary in different contexts.

Financial inclusion for women has been shown to bring multiple benefits, including more influence over their household's spending priorities, less dependence on riskier income sources, and more resilience to weather unexpected expenses. This research focuses on assessing the impact of microfinance services on financial inclusion among women in Pokhara Metropolis. It explores the effectiveness of these services, evaluates the correlation between financial literacy and inclusion, and examines how socio-economic factors influence women's financial access. The study provides insights for policymakers and practitioners to improve financial inclusion initiatives in similar contexts.

Literature Review

Financial inclusion means making financial services accessible to low-income families and MSMEs through microfinance institutions (Chen, Chang & Bruton, 2017). There are varying perspectives on who benefits from financial inclusion. Some studies argue that it primarily benefits the poor (Bhandari, 2018), while others focus on women as the main beneficiaries (Demirguc-Kunt, Klapper, & Singer, 2013). Others claim that financial inclusion supports broader economic growth and strengthens the financial system (Kim, Yu, & Hassan, 2018; Mehrotra & Yetman, 2015; Ozili, 2018).

Demirgüç-Kunt et al. (2018) provides an overview of global financial inclusion where different theories are linked with female financial inclusion. Behavioral economics is a field that explores the psychological, cognitive, and emotional factors that influence the economic decisions of individuals and groups. Similarly, the financial literacy theory of financial inclusion argues that improving financial literacy increases people's willingness to engage with the formal financial system. However, it addresses willingness more than capacity, meaning that financial literacy alone does not solve the issue for those lacking financial resources. Financial inclusion has a significant role for effective implementation of monetary policy (Dhungana et al., 2023).

Nguyen and Kim (2023) employed qualitative interviews and focus group discussions to explore the perceptions and experiences of microfinance clients regarding the accessibility and suitability of microfinance products. The study revealed that microfinance clients valued the flexibility and convenience of microfinance products, which allowed them to meet their financial needs and pursue entrepreneurial opportunities. Furthermore, Nguyen et al. (2023) explore the perceptions and experiences of microfinance clients regarding financial literacy interventions in Southeast Asia using qualitative interviews and focus group discussions. They revealed that microfinance clients who received financial literacy training reported greater confidence in managing their finances, accessing formal financial services, and pursuing entrepreneurial opportunities.

Shrestha and Mishra (2019) investigate the factors affecting financial inclusion in Nepal using data from a national household survey. Through empirical analysis, the authors identify key determinants such as income level, education, and geographic location that influence access to financial services in Nepal. The findings contribute to understanding the dynamics of financial inclusion and inform policy interventions aimed at promoting greater financial access and participation in Nepal. Chen et al. (2023) employed qualitative interviews and focus group discussions to explore the socio-economic factors influencing the effectiveness of microfinance interventions in Sub-Saharan Africa. They identified several socio-economic factors, such as education levels, access toinfrastructure, and social networks, that influenced the impact of microfinance interventions on entrepreneurial success and economic empowerment in Sub-Saharan Africa.

Khatiwada and Paudel (2018) assess the impact of microfinance institutions (MFIs) on financialinclusion in Nepal. Through empirical analysis, the authors examine the relationship between MFI outreach and access to financial services among different socio-economic groups in Nepal. The findings contribute to understanding the significant role of MFIs in promoting financial inclusion and suggest policy implications for enhancing their effectiveness in reaching marginalized communities. The study conducted by Dhungana and Kumar (2015) examine financial inclusion in Nepal using central bank and World Bank data. It finds that most people lack formal bank accounts, with lower levels of access in remote areas. The analysis suggests that microfinance institutions (MFIs) are needed to reach these areas and promote financial inclusion. Government support for infrastructure, MFI policies, and regulations is crucial to create a more inclusive financial system in Nepal.

Dhungana (2013) finds while government-initiated Grameen Bikas Banks (GBBs) play a vital role in bringing financial services to rural Nepal, their reach is limited (52 districts) due to geography and capacity. Restructuring GBBs could expand their reach and strengthen financial inclusion, particularly for marginalized and poor rural communities. The study also highlights microfinance as a powerful tool for empowering women entrepreneurs and fostering inclusive economic growth.

Based on a report published by NRB mentioning major indicators of financial inclusion and literature review made by researchers following conceptual framework has been derived.

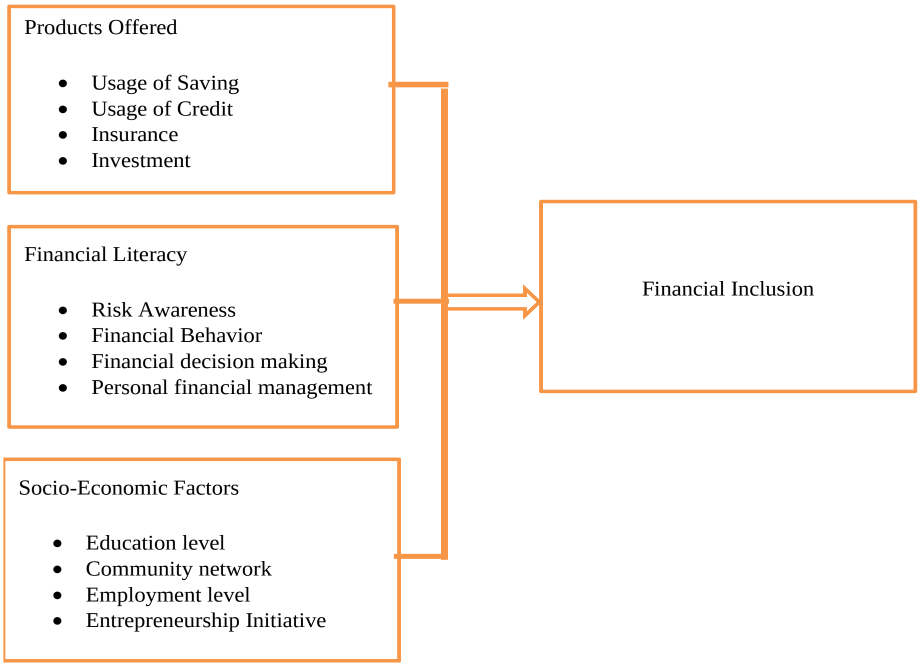

Figure 1: Conceptual Framework

The following hypotheses are based on the above conceptual framework which aims to test the influence of independent variables on financial inclusion within the microfinance context.

H_1: There is a significant impact of microfinance products on financial inclusion building.

H_2: There is a significant effect of financial literacy level on financial inclusion building.

H_3: There is a significant impact of socio-economic factors on financial inclusion building.

Data and Methods

The study focused on two microfinance institutions in Pokhara Metropolis that have adopted the Grameen Model: Grameen Bikas Laghubitta Bittiya Sanstha Limited and Chhimek Laghubitta Bittiya Sanstha Limited. The primary focus was on female clients with at least five years of experience in microfinance activities. A convenience sampling method was employed to select 55 respondents from each institution, totaling 110 participants (Table 1).

Table 1: Socio-Demographic Profile

Factors	Demographic Variables	Frequencies	Percentage
Age	25-34 years	8	7.3
	35-44 years	30	27.3
	45-54 years	57	51.8
	55 and above	15	13.6
Marital Status	Married	102	92.7
	Divorced	6	5.5
	Widow/Widower	2	1.8
Education	Illiterate	12	10.9
	Basic	58	52.7
	Secondary level	32	29.1
	Above Secondary Level	8	7.3
Income Source	Agriculture	17	15.5
	Business	67	60.9
	Service	5	4.5
	Daily Wage	3	2.7
	Others	18	16.4

A descriptive research design was utilized to analyze primary data collected through a 5-point Likert scale questionnaire. The questionnaire was administered to the respondents physically and the collected data was analyzed using SPSS software. A pilot test was conducted to ensure the reliability of the questionnaire.

The Cronbach alpha value for microfinance products, financial literacy, socioeconomic factors, and financial inclusion were found to be 0.794, 0.682, 0.664, and 0.687, respectively. The study was conducted over three months, from April to June 2024.

Results and Discussion

Key Information on Financial Inclusion

In this section, various aspects of financial inclusion are discussed including the understanding of financial concept, accessibility of financial services, management of finances and reason for choosing microfinance products. It is presented in Table 2.

Table 2: Involvement years of respondents in the program

Years	Frequency	Percent
3-6 years	7	6.4
7-10 years	10	9.1
Above 10 years	93	84.5
Total	110	100

Table 2 indicates that the vast majority have been participating for over 10 years, accounting for 84.5% of the total respondents (93 out of 110). A smaller portion, 9.1%, has been involved for 7-10 years, while only 6.4% have been involved for 3-6 years.

Table 3: Understanding of financial concepts

Rating	Frequency	Percent
Fair	14	12.7
Good	76	69.1
Excellent	20	18.2
Total	**110**	**100**

Table 3 shows data on the understanding of financial concepts among respondents reveals that the majority have a good grasp of these concepts, with 69.1% (76 out of 110) rating their understanding as good. Additionally, 18.2% (20 respondents) rate their understanding as excellent. A smaller portion, 12.7% (14 respondents), rate their understanding as fair. Overall, the data indicates that most respondents have a solid or better understanding of financial concepts.

Table 4: Accessibility of financial services

Level of Accessibility	Frequency	Percent
A little	10	9.1
To some extent	12	10.9
Yes, a lot	88	80
Total	**110**	**100**

Table 4 indicates that the vast majority of respondents (80%) find these products highly accessible ("Yes, a lot"). A smaller proportion finds them accessible to some extent (10.9%), while a minimal fraction (9.1%) reports only a little accessibility.

Table 5: Helpful in management of finances

Helpful	Frequency	Percent
To some extent	33	30
Yes, significantly	77	70
Total	**110**	**100**

Table 5 shows, among the respondents, 70% reported that they have significant access to financial services, while 30% reported having access to some extent.

Table 6 shows that individuals select microfinance products primarily due to collateral-free lending, cited by all respondents (100.0% of cases) and comprising 45.3% of the total responses. Providing immediate funds is the second most important reason, noted by 86.4% of respondents and making up 39.1% of the responses. Lack of access to traditional banking services, while significant, is a less common reason, mentioned by 34.5% of respondents and accounting for 15.6% of the responses. This indicates that the flexibility and quick access to funds offered by microfinance are the main drivers for its popularity, while banking access issues are a secondary concern.

Table 6: Reason for choosing microfinance products

Reason for selecting microfinance products	Responses		Percent of Cases
	N	Percent	
Lack of access to traditional banking services	38	15.6	34.5
Collateral free lending	110	45.3	100.0
Providing immediate funds	95	39.1	86.4
Total	243	100.0	220.9

Table 7 shows the average mean scores indicating respondents have a moderately positive perception of microfinance products, with a mean score of 3.44. Financial literacy, with a higher mean of 4.14, suggests that respondents feel confident in their financial knowledge. Similarly, socio-economic factors are viewed positively or considered significant, reflected by a mean of 4.14. Lastly, financial inclusion, with a mean score of 3.90, shows a fairly strong agreement regarding its importance or impact.

Table 7: Descriptive Statistics

Constructs	Average Mean
Microfinance Products	3.44
Financial Literacy	4.14
Socio-economic factors	4.14
Financial Inclusion	3.90

(N= 110; Scales: 1 = Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5=Strongly Agree)

Inferential Analysis

Table 8 shows a correlation between independent variables (microfinance products, financial literacy, socioeconomic factors) and financial inclusion. The results of correlation analysis reveal that there is a significant positive correlation between independent variables (financial literacy, socio-economic factors) and financial inclusion but an insignificant correlation between independent variable microfinance products and financial inclusion at a 1 % level of significance.

Table 8: Correlation Analysis

Variables	Financial Inclusion
Financial Inclusion	1
Microfinance Products	0.015
Financial Literacy	0.259**
Socio-Economic Factors	0.254**

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

Regression Model

In this study, regression analysis was used to show the impact of independent variables on a dependent variable. The results of the regression analysis are presented as:

Table 9: Coefficients of the Regression Model (Dependent variable: Financial Inclusion)

Model	B (Beta)	St. Error	T	Sig.
(Constant)	3.828	0.506	7.571	0
Microfinance Product	0.022	0.146	0.153	0.879
(Constant)	2.699	0.444	6.081	0
Socio-Economic Factors	0.291	0.106	2.735	.007

Table 9 shows the results of a regression analysis with two independent variables: Microfinance Product and Socio-Economic Factors. Microfinance Product has a very small and statistically insignificant effect on the dependent variable ($B = 0.015$, $p = 0.879$). In contrast, Socio-Economic Factors have a significant positive effect ($B = 0.254$, $p = 0.007$), indicating that as socio-economic factors improve, the dependent variable increases. This study undertakes variables such as microfinance products, financial literacy, socio-economic factors to investigate the impact and relation with financial inclusion of female customers of microfinance in Pokhara. A key finding is the predominance of middle-aged and married clients, indicating greater economic stability due to dual incomes, which enhances their financial attractiveness to institutions (Shrestha & Mishra, 2019). It aligns with finding that stable family structures further support financial inclusion through better financial management (Nawai et al., 2012).

The data shows that most respondents have been involved in microfinance for over 10 years and possess solid financial knowledge. While microfinance products are perceived as widely accessible and popular (Nguyen & Kim, 2023), the study found no strong correlation between these products and financial inclusion, contrasting with previous findings (Adeola & Evans, 2017; Banerjee & Duflo, 2019). Instead, the study aligns with Chakrabarti and Sanyal (2016), suggesting that microfinance should extend beyond microcredit. Financial literacy, obtained through microfinance, shows a positive link with financial inclusion by enhancing budgeting, decision-making skills, and understanding of financial risks (Agarwal, 2016; Camara & Tuesta, 2015). Socio-economic factors, including education, infrastructure, and social networks, also significantly influence financial inclusion and entrepreneurial success (Khatiwada & Paudel, 2018; Ajide, 2020; Chen et al., 2023).

Conclusion and Implications

This research examined the impact of microfinance products and socio-economic factors on financial inclusion and the role of financial literacy. It found that most participants are middle-aged, married, with basic education, and involved in business with microfinance for over 10 years, rating their financial knowledge as good. Key reasons for choosing microfinance include collateral-free loans, immediate funds, and lack of traditional banking access. Despite expectations, microfinance products did not significantly impact financial inclusion for female customers in Pokhara, aligning with prior studies that suggest additional measures like additional emphasize on microfinance products other than credit, financial education are needed. Financial literacy theory of financial inclusion states that financial inclusion should be achieved through education that increases the financial literacy of citizens. Financial literacy seems crucial for better financial management and participation in formal financial systems. Socio-economic factors positively influenced financial inclusion, with stable income and formal employment making it easier to access financial products. Overall, respondents stressed the importance of affordable financial products, digital services, tailored financial solutions, and convenient access to financial services for better inclusion, offering valuable implications for microfinance institutions, policymakers, financial institutions, academic and research institutions aiming to enhance the financial inclusion among microfinance institutions. This study is limited to few microfinance institutions targeting only female customers with reference to Pokhara Metropolis, Nepal.

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