The OCEM Journal of Management, Technology & Social Sciences, 3(2) [ISSN: 2705-4845]
Recieved: March 23, 2024 | Revised: April 13, 2024 | Accepted: May 23, 2024 | Published: July 15, 2024
DOI: https://doi.org/10.3126/ocemjmtss.v3i2.67878 **Paper Type: Research Article**

Innovative Financial Inclusion Models: Lessons from Tulsipur Sub-Metropolitan City

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Volume 3, Issue 2
ISSN Print:270548-4845
ISSN Online:270548-4845

Abstract

Financial inclusion ensures everyone can easily access affordable financial services, promoting social and economic inclusion. The study's objective was to investigate how financial literacy, financial services, and government regulation influence financial inclusion in Tulsipur Sub Metropolitan City of Dang district, Nepal, employing a convenience sampling method to select one hundred and twenty-five respondents. A quantitative research approach along with the survey study was applied to understand the opinions, ideas and experiences of targeted respondents of financial institutions. Through structured questionnaires, data were collected to assess the extent of financial inclusion among individuals in the region, applying statistical tools like mean, chi-square, and logistic regression for analysis. Findings indicate a predominant level of financial inclusion among respondents, Demographic factors like age, academic qualification, occupation, and monthly income display differences. Government regulation, financial literacy, and the accessibility of financial services from banks emerged as the influential determinants of financial inclusion, emphasizing their crucial role in shaping access to financial services.

The findings indicate significant relationships between financial inclusion and various factors. Firstly, financial literacy, secondly, accessibility and affordability of financial services suggesting that convenient and affordable services increase financial inclusion by a factor of and thirdly, the regulatory environment, particularly banking regulation by the government, significantly impacts financial inclusion, which were found strong predictors of financial inclusion. This research contributes to a deeper understanding of the factors contributing to financial inclusion and underscores the importance of targeted interventions aimed at improving access to financial services, thereby fostering economic empowerment and social inclusion.

Keywords: *financial inclusion, financial literacy, government regulation, financial services, Tulsipur Sub Metropolitan City*

How to cite this paper:
Sharma, S. P. (2024). Innovative financial inclusion models: lessons from Tulsipur Sub-Metropolitan City. *The OCEM Journal of Management, Technology and Social Sciences, 3(2), 125-132.*

Introduction

Financial inclusion, a term garnering increasing attention globally, encompasses efforts to ensure that all members of society have affordable, timely, and adequate access to regulated financial products and services. This includes promoting financial awareness and education to broaden the use of such services. According to the OECD (2005), financial inclusion is vital for economic and social inclusion, as well as for promoting financial well-being. Similarly, Pant (2016) defines financial inclusion as a process aimed at facilitating access, availability, and usage of formal financial services for all members of an economy. The ultimate goal is to enhance people's livelihoods, alleviate poverty, and foster economic development. Wardhono and Indrawati (2016) argue that financial inclusion goes beyond just being a target; it's about achieving inclusive growth where everyone benefits from economic advancement. They emphasize the importance of providing appropriate financial services and access to individuals, particularly those from marginalized societies, which includes services such as payment transactions, micro-credit, insurance, and money transfers. Governments, international development agencies, academia, and the private sector have all prioritized financial inclusion. The World Bank, for instance, had set a goal of achieving universal financial access by 2020, highlighting the global recognition of financial inclusion as a crucial driver of economic development (Pant, 2016). Aduda and Kalunda (2012) emphasised that financial inclusion comprises multiple dimensions, including access, usage, and quality of financial services. They argue that while expanding physical infrastructure for financial services is important, understanding and addressing demand-side factors are equally crucial, which involves assessing individuals' willingness to integrate into the formal financial system and ensuring the relevance and usage of financial products and services provided. Dupas, Karlan, and Robinson (2013) highlight the significance of demand-side factors in boosting financial inclusion. They further argue that expanding existing financial services is insufficient, particularly in rural areas. Instead, policymakers and financial institutions should focus on addressing individual attributes and preferences to make financial services more effective and relevant.

In Nepal, many people still don't have access to basic financial services like banking. Despite some progress, only about 45 percent of adults have bank accounts, and many of those accounts aren't even active, which means that only about 31% of adults are actively using financial services. Access to financial services is crucial for improving the lives of people, especially those with low incomes. But to benefit from these services, they need to be easy to use, good quality, and meet people's needs. While certain studies in Nepal have looked at why people don't have access to financial services, they mostly focus on things like how banks operate, ignoring factors like people's attitudes toward money and their social networks, which also affect financial behavior. Research in Uganda has shown that personal and social factors play a big role in whether people have access to financial services. So, this study will look at how these factors affect financial inclusion in Tulsipur, a newly designated city in Nepal (Dhakal, 2011; Karki, 2019).

Research Objectives

The major intent of the research is to examine the influence of financial literacy, financial service, and regulation of government with financial inclusion among individuals of Tulsipur Sub Metropolitan City of Dang district. More specifically, the present study aims to investigate the accessibility and utilization of formal financial services among residents of Tulsipur Sub Metropolitan City, as well as their perceptions of service quality, to analyze the relationships between financial service availability, levels of financial literacy, and the regulatory environment to better understand their combined impact on financial inclusion in the community and to assess how demographic variables such as gender, age, income, education, and occupation affect individuals' access to financial services and their overall financial inclusion status within Tulsipur Sub

Metropolitan City.

Research Hypothesis

The study aims to explore how households in Tulsipur utilize money and banking services, with a particular focus on literacy levels, attitudes towards money, social networks, and beliefs about money. Additionally, it examines various demographic factors such as gender, age, income, education, and occupation. The research seeks to answer four key questions: Firstly, how do the residents of Tulsipur perceive the quality of banking services? Secondly, does financial literacy influence the utilization of banking services? Thirdly, what is the impact of banking services and government regulations on financial inclusion? Lastly, how do different demographic groups (men and women, various age groups, income levels, education levels, and occupations) experience different levels of access to banking services in Tulsipur? This study provides a comprehensive analysis of the factors influencing financial behavior and banking access in the region.

Literature Review

Including more people in banking in Nepal, there are two main ways: the government making rules, and banks doing more to reach out to everyone (Dhakal, 2011). Nepal Rastra Bank (NRB) is really important in this study. They step in when needed to make sure more people can access banking services (Pant, 2018). Even though there have been some improvements in making rules, problems like not enough people knowing about banking and not having good enough banking services still exist.

The government of Nepal has certain big plans to make banking better. They want to have a bank in every part of the country and make sure everyone can have a bank account by 2021 (Wilson, 2019). But, even with these plans, lots of people still don't have access to banking. This shows that more needs to be done to help everyone.

Understanding money is crucial before using banking services, especially in areas with low literacy rates. Financial education initiatives can enhance people's comprehension of banking services. (Ramakrishnan, 2011). Financial education programs helps people understand how to use banking services better.

Financial inclusion means more than just having a bank account; it's about making sure everyone can use banking services easily (Demirguc-Kunt & Klapper, 2012). Some studies say that just having a bank account isn't enough; people need to know about banking, and it needs to be affordable, and easy to get it (Zulkhibri, 2016).

Different factors can hinder people from accessing banking services in Nepal, including literacy challenges, poverty, and geographical distance from bank branches. (Karki, 2019; Wagle, 2019). To make banking better for everyone, we need to look at things like how many people can access banking services and how good these services are (World Bank, 2015). It's not just about making rules; we also need to make sure people understand how to use banking and that banking services are easy to use. By doing this, Nepal can help more people join the banking system, which can lead to better opportunities for everyone.

Empirically, research on financial inclusion, particularly in developing countries like Uganda and Nepal, highlights the significance of individual capabilities and societal factors in shaping access to financial services (Mindra & Moya, 2017; Pant, 2018). While existing studies primarily focused on the supply side, there's a growing recognition of the importance of demand-side factors such as financial literacy, attitudes, and social networks (Adhikari & Shrestha, 2013; Ramkumar, 2007).

Studies suggest that financial literacy and awareness are crucial for effective financial inclusion, as they enable individuals to understand and utilize available financial products and services (Brownetal, 2016). Moreover, attitudes toward financial management behavior, influenced by social norms and peer pressure, play a significant role in shaping financial inclusion outcomes (Mehmood, 2022).

Social networks emerge as influential determinants of financial behaviour and access to financial services (Nada, 2020). They not only provide access to information but also serve as a screening mechanism in the lending process, thereby facilitating access to formal and informal financial services (Ahlin & Townsend, 2007). Additionally, subjective norms within social networks significantly influence individuals' financial decisions and behaviors (Mbutor & Uba, 2013). The findings of this study are those of previous research, such as Mindra and Moya (2017), who discovered a significant positive correlation between subjective norms and financial inclusion among individuals in Uganda. Similarly, Azam and Lubna (2013) identified a strong positive influence between social norms and both individual behaviour and financial market behaviour, emphasizing the importance of observing the financial practices and values upheld by influential factors, which align with the Theory of Planned Behavior (Ajzen, 1991), which suggests that various individuals and environments influence actions and outcomes differently, particularly in societies like Uganda. Choudhury and Bagchi (2016) conducted a study on financial exclusion in India, revealing several significant findings. They observed that financial exclusion is not solely dependent on income level but also the stability of income. Individuals with stable incomes have greater opportunities to save money and access formal financial services. Additionally, higher levels of education were found to decrease financial exclusion. The study also highlighted how financial exclusion tends to increase from urban to semi-urban to rural areas.

Research Methodology

The research adopted a quantitative descriptive approach to investigate the status of financial inclusion in Tulsipur Sub Metropolitan City, Nepal. Using convenience sampling, one hundred and twenty five (N -125) respondents were selected from wards 5, 6, 8, and 9, chosen for their representation of key characteristics relevant to the study. Primary data were collected through structured questionnaires, supplemented by secondary data obtained from the Nagarpalika office. The questionnaire, developed based on empirical studies, comprised demographic factors, financial inclusion indicators, and factors influencing inclusion. Five Point Likert scales type assessed financial literacy, services, and regulations. Data were analyzed using SPSS version 20, employing descriptive statistics, chi-square tests, binary logistic regression, and correlation analysis to explore relationships between variables like financial literacy, services, regulations, and inclusion. Through these methods, the research aimed to contribute insights into the determinants of financial inclusion in a rapidly evolving urban context. The Chronbach alpha represents the internal consistency of the questionnaire survey on a variable basis. The alpha value of financial literacy and regulation of banks and government variables fall on acceptable criteria and financial service and financial inclusion fall on good criteria (Hayes & Coutts, 2020) (see Table 1).

Table 1: *Variable-wise Reliability*

Variable	Chronbach Alpha
Financial Literacy	0.793
Financial Service	0.843
Regulation of banks and government	0.745
Financial Inclusion	0.825

Results and Discussion

Table 2: *Respondent's Demographic Profile*

Factors	Categories	Frequency (Percent)
Gender	Male	60(48%)
	Female	65(52%)
	Total	125(100%)
Age group	20-30	49(39.2%)
	31-40	31(24.8%)
	41-50	25(20%)
	Above 51	20(16%)
	Total	125(100%)
Education	Illiterate	7(5.6%)
	Below SLC	27(21.6%)
	SLC	24(19.2%)
	Plus two	28(22.4%)
	Bachelor	20(16%)
	Master and above	19(15.2%)
	Total	125(100%)

Occupation	Student	38(30.4%)
	Businessperson	27(21.6%)
	Service holder	30(24%)
	Farming	13(10.4%)
	Unemployed	17(13.6%)
	Total	125(100%)
Monthly Income	Below 20000	56(44.8%)
	20000-30000	42(33.6%)
	30000-40000	14(11.2%)
	40000-50000	7(5.6%)
	50000 and above	6(4.8%)
	Total	125(100%)

One hundred and twenty five (N = 125) individuals surveyed for the study on financial inclusion in Tulsipur Sub Metropolitan City represent a diverse mix. Roughly half were male 48 percent and half were female 52 percent. Most were between 20 to 30 years old 39.2 percent, and their education levels varied widely, from illiterate to master's degree holders. Many were student's 30.4 percent or involved in businesses 21.6 percent, while others worked in services 24 percent or farming 10.4 percent, and some were unemployed 13.6 percent. In terms of income, a significant portion earned less than 20,000 Nepalese Rupees monthly 44.8 percent, reflecting different economic situations within the group. This summary gives a clear picture of the diverse demographics of the participants.

Table 3: *Study of Financial Inclusion*

Particulars	Categories	Frequency (Percent)
Financial inclusion	Yes	107(85.6%)
	No	18(14.4%)
	Total	125(100%)
Accounts in bank	Commercial bank	62(57.9%)
	Development bank	10(9.3%)
	Finance companies	10(9.3%)
	Microfinance	3(2.8%)
	Commercial and Development Bank	5(4.7%)
	Commercial and Finance	7(6.5%)
	Commercial and micro	8(7.5%)
	Commercial, development, and finance	2(1.9%)
	Total	107(100%)
Usage of financial services	Daily	14(13.1%)
	Once a week	31(29%)
	Once in a month	38(35.5%)
	Twice in a year	14(13.1%)
	Once in a year	10(9.3%)
	Total	107(100%)
Products/ services	Deposits	95(88.78%)
	Loan and advances	39(36.44%)
	ATM	56(52.33%)
	Mobile banking	66(61.68%)
	Internet Banking	29(27.1%)
	Locker	17(15.88%)
	Credit card	8(7.69%)
	Others	9(8.41%)
Reasons	For saving money	60(56.1%)
	For receiving remittance	2(1.9%)
	To request for loan	2(1.9%)
	For all	9(8.4%)
	For saving and remittance	9(8.4%)
	For saving and loan	25(23.4%)
	Total	107(100%)

The result shows that the majority of respondents, out of 107 surveyed, have accounts in banks, with 57.9 percent having accounts in commercial banks. Some respondents have accounts in more than one bank. Most of them use financial services either once a month or once a week. Opening an account for savings is more common among respondents than for loans or remittance purposes, although there are a few who open accounts for all three purposes. The most commonly used services among respondents are deposit services, followed by mobile banking, ATMs, loans, and Internet banking (see Table 3).

Table 4: *Analysis of Financial Inclusion with Moderating Variable*

Moderating Variable	Financial Inclusion		Chi square	P-value
	Yes	*No*		
Gender				
Male	52	8	0.012	0.912
Female	55	10		
Age of Respondents				
20-30	49	0	19.546	0
31-40	25	6		
41-50	21	4		
Above 50	12	8		
Qualification				
Illiterate	2	5	49.526	0
Below SLC	26	1		
SLC	24	0		
Plus two	27	1		
Bachelor	10	10		
Master and above	18	1		
Occupation				
Student	36	2	33.404	0
Business person	26	1		
Services	29	1		
Farming	7	6		
Unemployed	9	8		
Monthly income				
Below 20000	47	9	6.352	0.04
20000-30000	33	9		
30000-40000	14	0		
40000-50000	7	0		
50000 and above	6	0		

The analysis reveals that there is no significant association between gender and financial inclusion, indicating that inclusion does not differ based on gender. However, significant associations were found among age group, academic qualification, occupation, and monthly income with financial inclusion. Financial inclusion is notably high among individuals aged 20-30 but declines among those above 50.

Additionally, individuals with lower educational attainment, such as those who are illiterate or have qualifications below SLC, exhibit lower levels of financial inclusion compared to those with bachelor's and master's degrees. Similarly, farmers and the unemployed are more financially excluded than individuals in other occupations. Moreover, respondents with incomes below 20,000 and between 20,000 and 30,000 also have lower financial inclusion compared to those with incomes above 30,000.

Table 5: *Binary Logistic Regression*

Particular	B	SE	Wald	df	Sig.	Exp(B)
Financial literacy	0.911	0.342	7.08	1	0.008	2.486
Financial services	-2.31	0.799	8.37	1	0.004	0.099
Regulation of bank and government	-3.905	0.795	24.14	1	0	0.02
Constant	-0.91	2.256	0.16	1	0.686	0.402

This is converted to the regression equation as

Log [p/ (1-p)] = -0.910 + 0.911(Financial literacy) -2.310 (Financial services) - 3.905 (Regulation of bank and government) + e_i

The analysis reveals significant relationships between financial inclusion and various factors. Firstly, financial literacy demonstrates a notable positive association with financial inclusion, as evidenced by a p-value of 0.008, indicating that financially literate individuals are 2.486 times more likely to be financially included compared to those who are not. Secondly, the accessibility and affordability of financial services also play a crucial role, with a p-value of 0.004, suggesting that convenient and affordable services increase financial inclusion by a factor of 0.099. Lastly, the regulatory environment, particularly banking regulation by the government, significantly impacts financial inclusion, with a p-value of 0.008, indicating that favorable regulations can increase inclusion by a factor of 2.486, which highlight the importance of financial literacy, accessible financial services, and supportive regulatory frameworks in enhancing financial inclusion efforts.

Discussion

This study investigates financial inclusion in Tulsipur Sub-Metropolitan City, focusing on financial literacy, access to services, and regulatory factors. Studies conducted by Wachira and Kihiu (2012) and Berry and Chandan (2019) reveal that while gender doesn't significantly affect inclusion levels, men tend to be more financially literate and aware of banking transactions and investments than women. Similarly, their findings align with this study, indicating that younger individuals, those with higher education levels, and higher-income earners are more financially included. Singh (2017) emphasizes the importance of affordable banking services and efficient documentation processes, reflecting the sentiment of Tulsipur respondents seeking wider banking services and simpler documentation. Furthermore, pant (2016) and Claessens and Rojas-Suarez (2016) focused on the significance of government regulation and financial literacy programs in promoting inclusion, evident in Tulsipur where government provisions and digital payment advances encourage bank account openings. These insights underscore the role of regulation, affordability, and awareness in fostering financial inclusion.

Conclusion

The study concludes that while establishing more banks and financial institutions has increased access to finance in Tulsipur, Dang, having a bank account alone doesn't ensure financial inclusion. Factors such as academic qualification and income level significantly influence inclusion, with government initiatives like the 'one person one bank account' campaign and digital payment advancements aiding access to finance. However, challenges remain, including limited access to government loan schemes and low participation in financial literacy programs. The implications of this research extend to informing future studies and policy-making efforts, highlighting the importance of assessing, promoting, and enhancing financial inclusion through multi-dimensional approaches. Insights from this study can guide policymakers, financial institutions, and regulatory authorities in formulating effective strategies to improve financial inclusion across Nepal, particularly by addressing the needs and preferences of rural populations and enhancing financial literacy programs.

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