IMPACT OF INFORMAL FINANCIAL NETWORKS ON FINANCIAL INCLUSION AND STABILITY IN NEPAL

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled **IMPACT OF INFORMAL FINANCIAL NETWORKS ON FINANCIAL INCLUSION AND STABILITY IN NEPAL** " submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Sirita Maharjan of Shanker Dev Campus, T.U.

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ABBREVIATIONS

ANF	Non-Financial
ATM	Automated Teller Machine
BOK	Bank of Kathmandu
CFP	Corporate Financial Performance
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
E-banking	Electronic Banking
EBL	Everest Bank Limited
GBS	Green Business Strategy
GHR	Green Human Resource
GI	Green Investment
GIME	Global IME Bank
GPS	Green Product/Service
IT	Information Technology
KYC	Know Your Customer
RBB	Rastrya Banijya Bank
RM	Risk Management
ROA	Return on Assets
ROE	Return on Equity
S.D	Standard Deviation
SPSS	Statistical Package for Social Science

CHAPTER – I

INTRODUCTION

1.1 Background of Study

Nepal, nestled within the majestic Himalayas, is renowned for its breathtaking natural beauty and rich cultural diversity. Yet, despite these remarkable attributes, the nation grapples with formidable challenges, particularly in the realms of financial inclusion and stability. The formal financial sector in Nepal encounters significant hurdles in extending its services to all segments of the population, resulting in the underserving of numerous individuals and businesses. This persistent gap has catalyzed the emergence and proliferation of informal financial networks, which have become indispensable components of Nepal's financial ecosystem. However, in Nepal, the specter of financial exclusion looms large, particularly in rural and remote areas. Data from the World Bank paints a stark picture, revealing that only 61% of Nepalis aged 15 and above have access to formal financial services (World Bank, 2020), leaving a substantial portion reliant on informal financial networks to fulfill their financial needs. These informal financial networks in Nepal encompass a diverse array of practices and institutions, ranging from rotating savings and credit associations (ROSCAs) to moneylenders and informal remittance channels.

However, alongside their contributions, these informal financial networks also harbor inherent risks and challenges. The absence of formal regulation exposes participants to exploitation and fraud, while the informality of these networks complicates efforts to monitor and regulate financial transactions (Kar, 2013). Operating outside formal regulatory frameworks, these networks often hinge on trust and social networks to facilitate transactions (Bateman & Chang, 2013). Financial inclusion, denoting the process of providing access to formal financial services to all members of society, stands as a linchpin for fostering economic development and reducing poverty (Demirgüç-Kunt & Klapper, 2012). Financial inclusion, denoting the process of providing access to formal financial services to all members of society, stands as a linchpin for fostering economic development and reducing poverty (Demirgüç-Kunt & Klapper, 2012).

Particularly for those residing in rural areas, these networks serve as the primary conduits for accessing essential financial services such as savings, credit, and insurance. The prevalence of informal financial networks in Nepal is influenced by a multifaceted interplay of historical, cultural, and economic factors. Nepal's rugged terrain and dispersed population pose formidable challenges for the establishment of formal financial institutions, particularly in remote regions (Boucher & Guirkinger, 2007). Additionally, deeply ingrained cultural norms emphasizing mutual assistance and solidarity contribute to the widespread adoption of informal financial practices (Porteous, 2005).

In subsequent sections, this thesis proposal will delve into the background and context of informal financial networks in Nepal, review pertinent literature, outline research objectives and methodology, discuss anticipated contributions, and culminate with implications for policy and practice. Through this holistic approach, this study aims to enrich our comprehension of informal finance in Nepal and furnish recommendations for fostering enhanced financial inclusion and stability across the nation. Nepal, nestled within the majestic Himalayas, is renowned for its breathtaking natural beauty and rich cultural diversity. Yet, despite these remarkable attributes, the nation grapples with formidable challenges, particularly in the realms of financial inclusion and stability. The formal financial sector in Nepal encounters significant hurdles in extending its services to all segments of the population, resulting in the underserving of numerous individuals and businesses. However, in Nepal, the specter of financial exclusion looms large, particularly in rural and remote areas.

Operating outside formal regulatory frameworks, these networks often hinge on trust and social networks to facilitate transactions (Bateman & Chang, 2013). Particularly for those residing in rural areas, these networks serve as the primary conduits for accessing essential financial services such as savings, credit, and insurance. The prevalence of informal financial networks in Nepal is influenced by a multifaceted interplay of historical, cultural, and economic factors. Nepal's rugged terrain and dispersed population pose formidable challenges for the establishment of formal financial institutions, particularly in remote regions (Boucher & Guirkinger, 2007). Additionally, deeply ingrained cultural norms emphasizing mutual assistance and solidarity contribute to the widespread adoption of informal financial practices

(Porteous, 2005). However, alongside their contributions, these informal financial networks also harbor inherent risks and challenges.

Thus, this thesis aims to bridge this gap by examining the role of informal financial networks in Nepal and their implications for broader economic development objectives. Through meticulous analysis of their prevalence, usage patterns, and impact, this research seeks to provide invaluable insights into their contributions to financial inclusion and stability, while also addressing the challenges they pose to regulators and policymakers.

1.2 Statement of Problem

The impact of informal financial networks on financial inclusion and stability in Nepal is a multifaceted issue that warrants careful examination. These networks, while providing essential financial services to underserved communities, often operate outside formal regulatory frameworks, presenting challenges to achieving broader financial inclusion objectives. Moreover, their presence may contribute to systemic risks, including issues related to consumer protection, money laundering, and financial fraud, thus potentially undermining the stability of Nepal's financial system. Understanding the dynamics between formal and informal financial systems is crucial for policymakers and stakeholders to devise effective strategies that balance the benefits of informal networks in expanding access to financial services with the need to mitigate associated risks and promote stability.

The absence of formal regulation exposes participants to exploitation and fraud, while the informality of these networks complicates efforts to monitor and regulate financial transactions (Kar, 2013

Furthermore, there exists the potential for informal financial networks to exacerbate income inequality and perpetuate financial exclusion by favoring select groups (Kabeer, 2012). Given the paramount significance of informal financial networks within Nepal's financial landscape, understanding their impact on both financial inclusion and stability is imperative.

Efforts to address the impact of informal financial networks in Nepal must consider the complex interplay between regulatory frameworks, economic dynamics, and societal factors. Initiatives aimed at enhancing financial inclusion should not only

focus on expanding access to formal banking services but also strive to integrate informal network users into the formal financial system. This requires tailored regulatory approaches that recognize the unique characteristics of informal networks while ensuring consumer protection and financial stability. Additionally, capacity-building efforts targeted at both informal financial service providers and users can help promote financial literacy and empower individuals to make informed decisions about their financial activities, ultimately contributing to a more inclusive and resilient financial ecosystem in Nepal. thus the statements of Problems will be :

1. How extensive is the utilization of informal financial networks in Nepal ?
2. What is the extent of the impact of informal financial networks on promoting financial inclusion in Nepal ?
3. What is the the relationship between informal financial networks and financial stability in Nepal ?

1.3 Objective of the study

The main purpose of the study is to analyze the Impact of Informal Financial Networks on Financial Inclusion and Stability in Nepal. Base on main purpose, others purpose of study will be as follows

1. To investigate the extent of informal financial network usage in Nepal
2. To assess the impact of informal financial networks on financial inclusion in Nepal
3. To Aanalyzenalyze the relationship between informal financial networks and financial stability in Nepal

1.4 Significance of the study

In the future, understanding the significance of studying the impact of informal financial networks on financial inclusion and stability in Nepal will be paramount for shaping inclusive economic policies and fostering sustainable development. This research will serve as a cornerstone for policymakers, providing invaluable insights into how informal financial networks can be leveraged to expand access to financial services for marginalized communities while maintaining the stability of the financial sector. So, this study will have conducted to know how the impact of informal financial networks on financial inclusion and stability in Nepal

1. The study will shed light on future strategies for policymakers in Nepal, guiding them in devising inclusive financial policies that integrate informal networks to enhance financial accessibility for underserved populations.

2. It will provide insights into the evolving financial ecosystem of Nepal, offering foresight into potential challenges and opportunities that arise from the interaction between informal and formal financial systems.

3. By anticipating the impact of informal financial networks on financial stability, the study will equip financial regulators with proactive measures to mitigate risks and ensure the resilience of the financial sector in Nepal.

4. Understanding the significance of informal financial networks in fostering financial inclusion will guide efforts to bridge the gap between urban and rural areas, promoting equitable access to financial services across diverse socio-economic segments.

5. The study's findings will serve as a foundation for future research endeavors, enabling scholars and practitioners to delve deeper into the dynamics of informal finance and its implications for broader economic development in Nepal.

1.5 Hypotheses

This set of hypotheses aims to explore the multi-faceted impacts of informal financial networks on both financial inclusion and financial stability in Nepal, considering various influencing factors such as network characteristics, social and cultural dynamics, economic conditions, and access to formal financial services. Each hypothesis examines specific relationships within the conceptual framework to understand how these elements interact and contribute to financial outcomes in the context of Nepal.

First hypothesis

$H1_1$: Characteristics of informal financial networks positively impact financial inclusion in Nepal.

$H1_2$: Characteristics of informal financial networks positively impact financial stability in Nepal.

Second Hypothesis

$H2_1$: Social and cultural factors positively affect financial inclusion in Nepal.

$H2_2$: Social and cultural factors positively affect financial stability in Nepal.

Third Hypothesis

$H3_1$: Economic factors positively impact financial inclusion in Nepal.

$H3_2$: Economic factors positively impact financial stability in Nepal.

Fourth Hypothesis

$H4_1$: Access to formal financial services increases reliance on informal financial networks, impacting financial inclusion in Nepal.

$H4_2$: Access to formal financial services increases reliance on informal financial networks, impacting financial stability in Nepal

1.6 Limitations of the study

The basic limitation of this study will be that it only considers only consider impact of informal financial networks on financial stability and financial networks. Others Limitation are as follows:

1. Most of the available data of previous research conducted may not explain specific to our country context of the area.
2. The socio-economic and cultural context of Nepal is dynamic and multifaceted, presenting challenges in generalizing findings and extrapolating conclusions to different regions or population groups within the country.
3. External factors such as geopolitical events, natural disasters, or global economic trends could significantly influence the dynamics of informal financial networks in Nepal, introducing additional complexities that may not be fully accounted for in the study.
4. Predicting the long-term effects of informal financial networks on financial stability may prove challenging, as their influence could fluctuate over time in response to changing economic conditions, technological advancements, and regulatory interventions.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

Informal financial networks (IFNs) play a crucial role in Nepal's financial landscape, particularly in rural and marginalized communities where access to formal banking services is limited. This comprehensive review aims to explore the conceptual framework of IFNs in Nepal, analyzing their structure, functions, advantages, challenges, and implications for financial inclusion and regulatory oversight.

2.1.1 Historical Context of Informal financial networks

Informal financial networks, which include various non-institutional financial practices such as money lending, rotating savings and credit associations (ROSCAs), and community-based savings groups, have a rich history that spans centuries and geographies. These networks have played a crucial role in providing financial services to communities often excluded from formal financial systems. This review explores the historical context of informal financial networks globally, with a focus on their evolution, functions, and significance, particularly in developing countries like Nepal.

Nepal's informal financial sector has deep historical roots, dating back to traditional systems of money lending, savings, and credit within local communities. Informal financial practices have long been embedded in Nepal's social fabric, serving as essential mechanisms for resource mobilization, risk-sharing, and economic empowerment, especially in remote and underserved areas (Rijal, 2018).

Global Historical Overview: Ancient and Medieval Periods

Informal financial practices have existed since ancient times. In many early civilizations, such as Mesopotamia, Egypt, and Greece, informal lending and borrowing were common among merchants and traders. These financial activities were often facilitated through personal relationships and trust-based networks (Roth, 2010). For instance, in ancient Greece, "eranos" was a type of informal cooperative where individuals pooled resources to provide financial assistance to members in need.

During the medieval period, informal financial networks were prominent in many parts of the world. In Europe, local moneylenders and pawnbrokers provided essential financial services in the absence of formal banking institutions. Similarly, in Islamic societies, informal financial systems like "hawala" enabled secure and efficient money transfers based on trust and reputation rather than formal contracts (El Qorchi, Maimbo, & Wilson, 2003).

Colonial and Post-Colonial Periods

The colonial period saw significant changes in informal financial networks, especially in Asia and Africa. Colonial powers often introduced formal financial institutions, but these were typically limited to serving colonial administrators and businesses, leaving the local population reliant on traditional informal systems. In India, for example, indigenous bankers known as "shroffs" or "chettiars" continued to provide financial services to local communities throughout the colonial era (Bagchi, 2000).

Post-colonial periods in many developing countries were marked by a resurgence of informal financial networks. As newly independent nations struggled to establish formal banking systems accessible to all, informal networks filled the gap, offering savings, credit, and insurance services. These networks were particularly important in rural areas where formal banking infrastructure was sparse.

Informal Financial Networks in Nepal

In the 20th century, particularly after the 1950s, Nepal saw efforts to modernize its economy, which included the introduction of formal banking institutions. However, the reach of these formal institutions remained limited, particularly in rural and remote areas. As a result, informal financial networks continued to thrive.

The political and economic instability that Nepal experienced during much of the late 20th century further reinforced the importance of informal networks. With formal financial systems often seen as unreliable or inaccessible, communities relied on traditional systems for their financial needs. Informal moneylenders, local savings groups, and family-based lending were common practices (Bastakoti, 2018).

Nepal, with its diverse ethnic and cultural heritage, has a long history of informal financial practices. Traditional systems such as "dhikuti" and "parma" have been integral to the financial lives of Nepalese communities.

Dhikuti: This is a type of ROSCA widely practiced in Nepal. Members contribute a fixed amount of money into a common pool on a regular basis, and the total amount is given to one member in rotation. This system helps members accumulate large sums of money, which can be used for significant expenses such as weddings, festivals, or starting a business (Pant, 2011).

Parma: This is a labor exchange system rather than a financial one, but it indirectly supports financial stability by allowing community members to pool labor for agricultural activities, reducing the need for cash outlays for labor.

2.1.2 Types and Forms of Informal Financial Networks

IFNs in Nepal encompass a diverse range of informal financial arrangements and practices tailored to local contexts. These include informal savings groups, community-based rotating savings and credit associations (ROSCAs), indigenous moneylending practices such as Dhukuti, and informal remittance networks facilitated by trusted intermediaries known as hundi operators. Each of these networks operates on principles of reciprocity, trust, and social cohesion, catering to the unique needs and preferences of participants (Dhungana & Bhattarai, 2017). Here, this study explores various types and forms of informal financial networks.

A) Rotating Savings and Credit Associations (ROSCAs)

ROSCAs are groups of individuals who regularly contribute a fixed amount of money into a common pool. At each meeting, the total collection is given to one member in rotation until all members have received the pooled amount. E.g. Dhikuti in Nepal,

B) Accumulating Savings and Credit Associations (ASCAs)

ASCAs accumulate savings over time, allowing members to borrow from the group's savings pool. Unlike ROSCAs, funds are not distributed in rotation but are available for loans to members as needed.

C) Informal Moneylenders

Informal moneylenders are individuals or entities that provide loans outside the formal banking system. They often charge higher interest rates and operate based on personal relationships and trust.

D) Community-Based Savings Groups

Community-based savings groups are informal groups formed within communities to pool savings and provide loans to members. These groups operate on mutual trust and have specific rules set by the group members.

E) Hawala System

Hawala is an informal method of transferring money across borders without the physical movement of cash. It relies on a network of money brokers who facilitate the transfer based on trust and honor.

F) Informal Insurance Mechanisms

Informal insurance mechanisms provide financial protection against risks such as illness, death, or natural disasters. These mechanisms often operate within communities or extended families.

G) Trade Credit

Trade credit involves suppliers providing goods or services to customers with deferred payment terms. This informal credit arrangement is common in business transactions, especially among small and medium-sized enterprises (SMEs).

H) Parma

Parma is a traditional labor exchange system in Nepal. Community members pool their labor resources to help each other with agricultural activities and other tasks.

I) Tole Lane Organizations (TLOs)

TLOs are community-based organizations in urban areas of Nepal that engage in various social and financial activities, including savings and credit.

2.1.3 Structural Dynamics of Informal Financial Networks

The structure of IFNs in Nepal is characterized by decentralization and informality, with transactions facilitated primarily through interpersonal relationships and community ties. Participants engage in peer-to-peer lending, savings mobilization, and mutual aid, often without formal contracts or documentation. Trust and reputation play a significant role in facilitating transactions, with networks typically operating

within close-knit social circles or geographic communities (Pokharel & Adhikari, 2016).

2.1.4 Functions and Contributions of Informal Financial Networks

IFNs serve various functions in Nepal's financial ecosystem, addressing the financial needs of marginalized populations and individuals excluded from formal banking services. These networks provide avenues for savings accumulation, credit access, and risk mitigation, empowering participants to meet unexpected expenses, invest in livelihoods, and cope with economic shocks. IFNs also play a critical role in facilitating remittances from migrant workers, particularly in rural areas where formal banking infrastructure is scarce (Shrestha & Shrestha, 2019).

Informal financial networks play a pivotal role in the economic lives of many individuals, especially in regions where formal financial institutions are scarce or inaccessible. These networks provide a range of financial services and contribute significantly to the financial inclusion and economic stability of their participants. This section explores the key functions and contributions of informal financial networks.

A) Financial Services Provision

Savings

Informal financial networks offer accessible savings options for individuals who may not have access to formal banking services. For instance, ROSCAs and community-based savings groups enable members to save regularly in a trusted environment (Gugerty, 2007). These networks provide a secure means for saving money, especially in communities where formal financial institutions are distrusted or unavailable.

Credit

Informal networks such as moneylenders and ASCAs provide immediate access to credit without the stringent requirements of formal banks (Pant, 2011). This is particularly crucial for urgent needs such as medical emergencies, weddings, or education. Credit terms in informal networks are often more flexible, with repayment schedules tailored to the borrower’s income patterns.

Insurance

Informal insurance mechanisms help manage risks by providing financial support during emergencies like illness, death, or natural disasters. Community-based mutual aid societies are a common form of informal insurance (Brown & Churchill, 2000).

Money Transfers

Systems like hawala facilitate quick and efficient money transfers, particularly useful for remittances in regions with limited banking infrastructure (El Qorchi, Maimbo, & Wilson, 2003). These systems often offer lower transaction costs compared to formal financial services.

B) Economic Contributions

Capital Formation

Informal networks enable the pooling of small savings into larger sums, facilitating capital formation for investments in business, agriculture, or property (Collins et al., 2009). They provide microfinance solutions that support entrepreneurial activities and small businesses, contributing to local economic development.

Employment Generation

By providing credit and savings options, informal networks support small businesses and self-employment, leading to job creation within communities (Yunus, 2003).

Income Smoothing

Access to savings and credit helps households manage cash flow and smooth consumption, reducing vulnerability to income shocks (Zeller & Sharma, 1998). These networks provide financial support during off-peak seasons for agricultural workers and other seasonal laborers.

C) Social Contributions

Social Capital

Building Trust: Informal financial networks strengthen social bonds and trust among members, fostering a sense of community and mutual support (Grootaert & van Bastelaer, 2002). Collective Action: They encourage collective action and

cooperation, which can extend beyond financial matters to other community development activities.

Empowerment

Women's Empowerment: Many informal financial networks, such as women's savings groups, empower women by providing them with financial independence and a platform for social interaction (Anderson & Baland, 2002). Marginalized Groups: These networks often cater to marginalized groups, providing them with financial services that enhance their economic and social status.

Social Safety Nets

Community Support: In times of crisis, informal networks act as social safety nets, providing critical support to members (Townsend & Mosharraf, 1998). Mutual Aid: They facilitate mutual aid and collective resilience, helping communities withstand economic and social challenges.

D) Financial Inclusion

Bridging Gaps

Filling Institutional Gaps: Informal networks bridge the gap between formal financial institutions and underserved populations, extending financial services to those excluded from the formal sector (Demirgüç-Kunt & Klapper, 2012). Inclusivity: They promote inclusivity by offering financial services tailored to the needs and capacities of low-income and rural populations.

Reducing Poverty

Alleviating Poverty: By providing access to savings, credit, and insurance, informal networks contribute to poverty alleviation and improve the economic well-being of participants (Dupas & Robinson, 2013).

E) Financial Stability

Risk Diversification

Risk Sharing: Informal networks facilitate risk sharing among members, reducing the financial burden on individuals during adverse events (Fafchamps & Lund, 2003).Economic Buffering: They provide a buffer against economic shocks, enhancing the financial stability of households and communities.

Market Stability

Supplementing Formal Systems: By complementing formal financial systems, informal networks contribute to overall market stability and resilience (Beck, Demirgüç-Kunt, & Levine, 2007).

2.1.5 Advantages and Benefits of Informal Financial Networks

The prevalence of IFNs in Nepal offers several advantages, including enhanced financial inclusion, accessibility, and cultural relevance. By extending financial services to underserved communities, IFNs contribute to poverty alleviation, social cohesion, and community development. Participants benefit from flexible repayment terms, lower transaction costs, and personalized financial solutions tailored to their needs. Moreover, IFNs foster social capital and solidarity, strengthening social networks and community resilience (Dangol & Parajuli, 2020).

2.1.6 Challenges and Risks of Informal Financial Networks

Despite their contributions, IFNs in Nepal also face significant challenges and risks. The informality of these networks poses challenges for regulatory oversight, consumer protection, and financial stability. Participants may be vulnerable to exploitation, fraud, and coercion, particularly in the absence of formal recourse mechanisms. Moreover, the lack of transparency and accountability in informal transactions raises concerns about money laundering, tax evasion, and illicit financial flows (Regmi & Adhikari, 2018).

2.1.7 Policy Implications and Regulatory Considerations

Addressing the challenges associated with IFNs in Nepal requires a multifaceted approach that balances regulatory oversight with support for innovation and financial inclusion. Policymakers need to recognize the valuable role that IFNs play in extending financial services to marginalized communities while also addressing risks and vulnerabilities. This entails developing appropriate regulatory frameworks, enhancing financial literacy, and promoting responsible practices within informal financial networks. Collaborative efforts between government agencies, civil society organizations, and IFN operators are essential to ensure the integrity and stability of Nepal's financial system (Acharya et al., 2021).

informal financial networks constitute an integral component of Nepal's financial landscape, providing essential financial services to marginalized populations and underserved communities. Understanding the conceptual foundations, functions, and challenges of IFNs is critical for formulating effective policies and interventions that promote financial inclusion, resilience, and economic development. By harnessing the potential of IFNs while addressing regulatory gaps and vulnerabilities, Nepal can build a more inclusive and sustainable financial ecosystem that benefits all segments of society.

2.1.8 Definition of Financial Inclusion

Financial inclusion is the process of ensuring that individuals and businesses, particularly those in underserved and disadvantaged areas, have access to essential financial services at affordable costs, delivered responsibly and sustainably. This includes access to credit, savings, insurance, and payment services, which are critical for managing day-to-day finances, protecting against economic shocks, and investing in education, healthcare, and businesses. According to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered in a responsible and sustainable way (Demirgüç-Kunt et al., 2018). The goal is not only to provide access to these services but also to ensure that they are used effectively, which requires promoting financial literacy and trust in the financial system. The World Bank Global Findex Database highlights that financial inclusion is a key enabler of seven out of the 17 Sustainable Development Goals (SDGs), underlining its critical role in achieving global development objectives (Demirgüç-Kunt et al., 2018). To achieve true financial inclusion, it is essential to address barriers such as lack of financial literacy, inadequate infrastructure, and regulatory challenges, while leveraging technology to create inclusive financial ecosystems.

Moreover, financial inclusion promotes social cohesion by integrating marginalized groups into the financial system, thereby reducing inequality and empowering vulnerable populations, particularly women, by giving them greater control over their financial resources (Klapper, El-Zoghbi, & Hess, 2016). The importance of financial inclusion extends beyond individual and business benefits; it has broader economic

and societal implications. Financial inclusion fosters economic growth by mobilizing savings for investment, facilitating efficient resource allocation, and enabling individuals and businesses to invest in productive activities. It contributes to poverty reduction by providing the poor with the tools to improve their livelihoods and manage risks, thus enhancing their resilience to economic shocks (Sarma & Pais, 2011).

2.1.9 Dimensions of Financial Inclusion

Financial inclusion encompasses multiple dimensions that collectively ensure individuals and businesses can access and effectively use financial services. These dimensions include access, usage, quality, and impact, each of which plays a crucial role in creating an inclusive financial ecosystem.

Access

Access refers to the availability of financial services and products to all individuals and businesses. It involves the physical proximity of financial institutions, such as banks, credit unions, and microfinance institutions, and the presence of digital platforms like mobile banking and online financial services. The Global Findex Database highlights that financial access is measured by the number of bank branches, ATMs, and mobile banking agents per capita (Demirgüç-Kunt et al., 2018). Enhanced access enables people, especially in remote and rural areas, to engage with the financial system and benefits from its services.

Usage

Usage pertains to the regularity and frequency with which individuals and businesses utilize financial services. It is not enough for financial services to be available; they must be actively used by the population. Usage metrics include the number of deposit accounts, the frequency of transactions, the uptake of credit, and the use of insurance and savings products. The World Bank emphasizes that true financial inclusion goes beyond mere access to encompass the sustained use of financial products and services that improve individuals' financial health and economic participation (World Bank, 2014).

Quality

Quality involves the suitability and relevance of financial products and services to meet the diverse needs of users. It includes aspects like affordability, convenience, product diversity, and customer service. High-quality financial services are those that are tailored to the needs of different segments of the population, including low-income households, small businesses, and rural communities. For instance, microfinance products designed for low-income entrepreneurs or digital financial services tailored for tech-savvy youth can significantly enhance the quality of financial inclusion (Cull, Ehrbeck, & Holle, 2014).

Impact

Impact assesses the overall effect of financial inclusion on individuals, businesses, and the broader economy. This dimension looks at how access to financial services improves financial stability, reduces poverty, and promotes economic growth. Research indicates that financial inclusion has a significant positive impact on economic development by enabling better financial planning, reducing vulnerability to financial shocks, and facilitating investment in health, education, and businesses (Sarma & Pais, 2011). Impact is measured through indicators like poverty reduction rates, improvements in household income, and increased business productivity.

Financial Literacy

Financial literacy is an essential dimension that underpins the effectiveness of financial inclusion. It refers to the ability of individuals to understand and effectively use financial products and services. Financial literacy involves knowledge of basic financial concepts, such as saving, investing, borrowing, and risk management. The OECD defines financial literacy as a combination of awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions (OECD, 2013). Without adequate financial literacy, individuals may not fully benefit from access to financial services, highlighting the need for education and awareness programs.

The multidimensional nature of financial inclusion highlights the complexity of integrating all individuals and businesses into the financial system. Access, usage, quality, impact, and financial literacy are interrelated dimensions that collectively contribute to a holistic understanding of financial inclusion. Addressing these dimensions requires coordinated efforts from policymakers, financial institutions, and

other stakeholders to create an inclusive, equitable, and sustainable financial ecosystem.

2.1.10 Theory of Financial Inclusion

Financial inclusion is a multifaceted concept involving various dimensions and impacted by numerous factors. Understanding these factors requires an exploration of theoretical frameworks that provide a structured approach to analyzing financial inclusion. The primary theoretical frameworks include the supply-side theory, demand-side theory, institutional theory, and the role of technological advancements. Each of these frameworks offers insights into the mechanisms, barriers, and enablers of financial inclusion.

A) Supply-Side Theory

The supply-side theory of financial inclusion focuses on the provision and availability of financial services by institutions. This framework emphasizes the importance of financial infrastructure, institutional outreach, and product development in enhancing financial inclusion.

Infrastructure Development

The development of financial infrastructure is crucial for improving access to financial services. This includes the establishment of bank branches, ATMs, mobile banking agents, and digital platforms. Infrastructure development is essential in rural and remote areas where traditional banking services are often limited. According to the World Bank, the density of financial access points is a critical indicator of financial inclusion (Demirgüç-Kunt et al., 2018). The expansion of mobile banking and digital financial services has significantly increased access to financial services, especially in Sub-Saharan Africa and South Asia (Suri & Jack, 2016).

Institutional Outreach

Institutional outreach involves the efforts made by financial institutions to reach underserved populations. This includes the establishment of branches in rural areas, the deployment of mobile banking units, and the use of agent banking models. For example, in Kenya, Equity Bank's agent banking model has extended financial services to remote and underserved areas, significantly enhancing financial inclusion (Kendall, Mylenko, & Ponce, 2010).

Product Development

Developing financial products tailored to the needs of various segments of the population is crucial for financial inclusion. This includes microfinance products for low-income individuals, small business loans for entrepreneurs, and digital wallets for tech-savvy youth. Product innovation helps to cater to the specific needs of different groups, making financial services more relevant and accessible. Microfinance institutions (MFIs) have played a significant role in this regard, providing small loans to individuals who lack access to traditional banking services (Armendáriz & Morduch, 2010).

B) Demand-Side Theory

The demand-side theory of financial inclusion emphasizes the needs, preferences, and behaviors of potential users of financial services. This framework focuses on understanding the barriers that prevent individuals from accessing financial services and the factors that influence their financial behavior.

Financial Literacy

Financial literacy is a critical factor influencing the demand for financial services. It involves understanding basic financial concepts and the ability to use financial products effectively. Low levels of financial literacy are a significant barrier to financial inclusion, as individuals may not understand how to use financial services or may distrust formal financial institutions. The OECD defines financial literacy as a combination of awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions (OECD, 2013). Financial education programs are essential to improve financial literacy and encourage the use of financial services.

Cultural and Social Factors

Cultural and social factors play a significant role in influencing financial behavior and access to financial services. In many societies, cultural norms and social structures can exclude certain groups, such as women or ethnic minorities, from accessing financial services. Addressing these barriers requires a deep understanding of the cultural context and the development of inclusive financial products and services. For example, in many developing countries, women face significant barriers to financial inclusion due to cultural norms that restrict their economic participation (Klapper & Hess, 2016).

Economic Constraints

Economic constraints, such as low income and lack of collateral, are significant barriers to financial inclusion. Individuals with low and irregular incomes may not meet the eligibility criteria for formal financial products, and they may be perceived as high-risk by financial institutions. Microfinance and other inclusive financial products are designed to address these constraints by offering small, unsecured loans to low-income individuals. Studies have shown that microfinance can significantly improve access to credit for low-income individuals and small businesses (Banerjee, Duflo, Glennerster, & Kinnan, 2015).

C) Institutional Theory

Institutional theory focuses on the role of formal and informal institutions in shaping financial inclusion. It examines how regulatory frameworks, government policies, and institutional practices influence the accessibility and usage of financial services.

Regulatory Frameworks

Regulatory frameworks play a crucial role in promoting financial inclusion by creating an enabling environment for financial institutions to operate. Effective regulations can facilitate the entry of new financial service providers, promote competition, and protect consumers. However, overly stringent regulations can create barriers to financial inclusion by increasing the cost of providing financial services. The Financial Stability Board (FSB) emphasizes the need for balanced regulatory frameworks that promote financial inclusion while ensuring financial stability (FSB, 2016).

Government Policies

Government policies can significantly impact financial inclusion by influencing the supply and demand for financial services. Policies such as interest rate caps, subsidies, and direct transfers can affect the affordability and accessibility of financial services. Additionally, government initiatives, such as the promotion of digital financial services and financial literacy programs, can enhance financial inclusion. For example, India's Pradhan Mantri Jan Dhan Yojana (PMJDY) has been successful in increasing financial inclusion by opening millions of bank accounts for previously unbanked individuals (Sarma, 2016).

Institutional Practices

The practices and policies of financial institutions themselves can also influence financial inclusion. Inclusive financial practices, such as offering no-fee accounts, flexible loan terms, and customer-centric services, can enhance access to financial services. Institutional practices that prioritize customer education, transparency, and trust-building are essential for promoting financial inclusion. For instance, Grameen Bank's approach to microfinance emphasizes trust and mutual responsibility, which has been effective in reaching underserved populations (Yunus, 2007).

D) Technological Advancements

Technological advancements have transformed the landscape of financial inclusion by making financial services more accessible, affordable, and efficient. Technology plays a pivotal role in bridging the gap between formal financial institutions and underserved populations.

Digital Financial Services

Digital financial services, including mobile banking, internet banking, and digital wallets, have revolutionized financial inclusion by providing cost-effective and convenient access to financial services. The widespread adoption of mobile phones has facilitated the growth of mobile banking, allowing individuals to perform financial transactions without needing a traditional bank account. M-Pesa in Kenya is a prime example of how mobile money services can significantly enhance financial inclusion by providing a platform for financial transactions to millions of unbanked individuals (Jack & Suri, 2011).

Fintech Innovations

Fintech innovations, such as peer-to-peer lending, crowd funding, and block chain technology, have introduced new ways of accessing and providing financial services. These innovations reduce the reliance on traditional banking infrastructure and offer alternative financial solutions that can reach underserved populations. Fintech companies leverage data analytics and artificial intelligence to assess credit risk and offer personalized financial products, thereby enhancing financial inclusion (Gomber, Koch, & Siering, 2017).

Agent Banking

Agent banking models utilize local agents, such as retail shop owners, to provide basic financial services on behalf of banks. This model extends the reach of financial institutions to remote and rural areas where establishing bank branches may not be economically viable. Agent banking has been successful in countries like Brazil and India, where local agents act as intermediaries between banks and customers, facilitating transactions and account management (Babajide, 2016).

2.1.11 Importance of Financial Inclusion

Financial inclusion is a cornerstone of economic development and social equity, playing a vital role in enhancing the well-being of individuals and fostering inclusive economic growth. The significance of financial inclusion can be understood through its multifaceted impacts on poverty reduction, economic stability, and overall societal development.

Poverty Reduction

Financial inclusion is instrumental in alleviating poverty by providing the poor with access to essential financial services. These services, such as savings accounts, credit, insurance, and payment systems, enable individuals to manage their finances more effectively, save for future needs, and invest in income-generating activities. Microfinance, in particular, has shown significant potential in empowering low-income individuals by offering small loans that support entrepreneurial ventures and enhance household income. Research by Banerjee, Duflo, Glennerster, and Kinnan (2015) highlights that access to microfinance has a positive impact on business creation and income growth among the poor. By facilitating savings and investment, financial inclusion helps individuals build assets, smooth consumption, and reduce vulnerability to economic shocks.

Economic Growth

Financial inclusion contributes to broader economic growth by mobilizing savings and channeling them into productive investments. When more people have access to financial services, the overall level of savings in an economy increases, providing a stable source of funding for investments in infrastructure, education, and business expansion. The World Bank (2014) reports that financial inclusion drives economic development by improving the allocation of resources and increasing the efficiency of

financial intermediation. Small and medium-sized enterprises (SMEs), which are crucial drivers of economic growth and employment, benefit significantly from improved access to credit and financial services. Enhanced financial inclusion thus fosters entrepreneurship, boosts job creation, and stimulates economic activity.

Financial Stability

Financial inclusion also enhances financial stability by integrating a broader segment of the population into the formal financial system. This integration diversifies the depositor base of financial institutions, making them more resilient to shocks. Additionally, it reduces the reliance on informal financial services, which are often unregulated and less secure. The Financial Stability Board (2016) emphasizes that greater financial inclusion can mitigate systemic risks by spreading economic risks more widely and ensuring that financial services reach all segments of society. By promoting transparency and reducing the prevalence of informal financial practices, financial inclusion supports a more stable and robust financial system.

Social and Gender Equity

Financial inclusion promotes social and gender equity by providing marginalized groups, such as women and rural populations, with opportunities to participate in the formal economy. Access to financial services empowers women by giving them greater control over their finances and the ability to invest in their families' education, health, and well-being. Klapper and Hess (2016) note that financial inclusion is associated with significant social benefits, including enhanced gender equality and reduced income disparities. Inclusive financial systems ensure that all individuals, regardless of their socio-economic status, can contribute to and benefit from economic progress.

In conclusion, financial inclusion is vital for promoting sustainable economic growth, reducing poverty, and enhancing financial stability. It empowers individuals by providing them with the tools to improve their economic circumstances and protects them from financial vulnerabilities. By fostering an inclusive financial ecosystem, policymakers and financial institutions can drive economic development, ensure social equity, and build resilient economies. The pursuit of financial inclusion thus remains a critical priority for achieving comprehensive and inclusive development goals.

2.1.12 Barriers to Financial Inclusion

Despite the numerous benefits of financial inclusion, several barriers impede the access and usage of financial services by individuals and businesses, particularly in developing regions. These barriers can be broadly categorized into supply-side barriers, demand-side barriers, regulatory and institutional barriers, and socio-cultural barriers.

A) Inadequate Financial Infrastructure

One of the most significant supply-side barriers is the lack of financial infrastructure. In many developing countries, there is an insufficient number of bank branches, ATMs, and financial service points, particularly in rural and remote areas. The physical distance to financial institutions discourages individuals from accessing formal financial services. According to the World Bank (2018), many people in Sub-Saharan Africa and South Asia live more than five kilometers away from the nearest bank branch, which significantly limits their ability to access financial services.

B) High Costs

High transaction costs and fees associated with financial services can also be prohibitive for low-income individuals. Many financial institutions charge fees for account maintenance, withdrawals, and other services, which can be unaffordable for the poor. Beck, Demirgüç-Kunt, and Levine (2007) highlight that high costs are a major deterrent to accessing formal financial services, especially for the economically disadvantaged.

C) Limited Product Diversity

Financial products offered by traditional financial institutions are often not tailored to the needs of low-income populations. There is a lack of customized financial products, such as small loans, microinsurance, and savings accounts with no minimum balance requirements. This limited product diversity fails to meet the specific needs of underserved populations, thereby limiting their financial inclusion (Cull, Demirgüç-Kunt, & Morduch, 2014).

D) Lack of Financial Literacy

A significant demand-side barrier is the lack of financial literacy among potential users of financial services. Financial literacy involves understanding basic financial

concepts and being able to use financial products effectively. Many individuals, especially in developing countries, lack the necessary knowledge and skills to engage with formal financial institutions. The OECD (2013) notes that low financial literacy levels hinder individuals' ability to make informed financial decisions and access appropriate financial products

E) Irregular Income and Employment

Low and irregular incomes make it difficult for individuals to meet the eligibility criteria for formal financial services. Many financial products require regular income or collateral, which are often unavailable to those in informal employment or living in poverty. Studies by Banerjee et al. (2015) indicate that microfinance institutions have attempted to address this issue by providing small, unsecured loans to low-income individuals, but the overall reach remains limited.

F) Trust and Perception Issues

Trust in financial institutions is crucial for financial inclusion. Many individuals distrust formal financial institutions due to past experiences of fraud, hidden fees, or poor customer service. Additionally, the perception that financial services are for the wealthy or educated segments of the population can discourage low-income individuals from accessing them (Honohan & King, 2012).

G) Stringent Regulatory Requirements

Overly stringent regulatory requirements can restrict the entry of new financial service providers and increase the cost of providing financial services. Regulations such as high capital requirements, complex licensing procedures, and stringent KYC (Know Your Customer) norms can be barriers for both financial institutions and potential customers. While these regulations are necessary for maintaining financial stability and preventing fraud, they need to be balanced to promote financial inclusion (Beck & de la Torre, 2007).

H) Lack of Policy Support

Government policies play a crucial role in promoting financial inclusion. However, in many countries, there is a lack of coordinated policy efforts to enhance financial access. The absence of supportive policies, such as subsidies for financial services in rural areas or incentives for financial institutions to serve low-income populations,

can hinder financial inclusion efforts. The Alliance for Financial Inclusion (AFI, 2012) emphasizes the importance of national financial inclusion strategies that address these regulatory and policy gaps.

I) Gender Inequality

Gender inequality is a major barrier to financial inclusion, particularly in developing countries. Women often face legal, cultural, and institutional barriers that limit their access to financial services. According to the World Bank (2018), women are less likely to own a bank account or access formal credit compared to men. Societal norms that restrict women's economic activities and mobility further exacerbate this issue.

J) Ethnic and Social Discrimination

Ethnic and social discrimination can also limit access to financial services. Minority groups and marginalized communities often face biases from financial institutions, which can result in exclusion from financial services. These groups may also lack the necessary documentation required to open bank accounts or apply for loans (Demirgüç-Kunt & Klapper, 2013).

K) Cultural Norms and Practices

Cultural norms and practices can shape financial behavior and attitudes towards formal financial services. In some cultures, there is a preference for informal financial services, such as community savings groups or informal moneylenders, over formal banking. These cultural preferences can be deeply ingrained and challenging to change. Understanding and addressing these cultural barriers are essential for designing effective financial inclusion strategies (Klapper & Hess, 2016).

Addressing the barriers to financial inclusion requires a comprehensive approach that involves improving financial infrastructure, reducing costs, and developing tailored financial products. Enhancing financial literacy, building trust in financial institutions, and promoting supportive regulatory frameworks are equally important. Additionally, socio-cultural barriers need to be addressed through inclusive policies and practices that ensure equitable access to financial services for all segments of society. By tackling these barriers, policymakers and financial institutions can create a more inclusive financial system that promotes economic development and social equity.

2.1.13 Strategies for Enhancing Financial Inclusion

Enhancing financial inclusion involves implementing strategies that address the barriers preventing individuals and businesses from accessing and using financial services. The following strategies encompass improvements in infrastructure, product innovation, policy support, technological advancements, and efforts to enhance financial literacy and trust.

A) Improving Financial Infrastructure

Enhancing financial infrastructure is fundamental to increasing access to financial services, especially in underserved areas.

Expanding Physical Access Points

One of the most effective ways to improve financial inclusion is by increasing the number of physical access points such as bank branches, ATMs, and agent banking locations in rural and remote areas. Governments and financial institutions can collaborate to identify underserved regions and invest in the necessary infrastructure. According to the World Bank (2018), increasing the density of financial access points significantly improves financial inclusion.

Developing Mobile and Digital Banking

Mobile and digital banking platforms provide an efficient and cost-effective means to reach a wider population. By leveraging mobile technology, financial institutions can offer services such as mobile money, digital wallets, and online banking, which reduce the need for physical infrastructure. Mobile money services like M-Pesa in Kenya have demonstrated the transformative impact of digital financial services on financial inclusion (Jack & Suri, 2011).

B) Product Innovation

Developing financial products tailored to the needs of various population segments is crucial for enhancing financial inclusion.

Microfinance and Micro insurance

Microfinance institutions (MFIs) play a pivotal role in providing small loans to low-income individuals who lack access to traditional banking. Similarly, microinsurance products can help low-income households manage risks and build resilience against

economic shocks. Studies by Armendáriz and Morduch (2010) show that microfinance has a positive impact on poverty alleviation and economic empowerment.

Savings Products

Offering flexible and affordable savings products is essential for encouraging savings among low-income populations. Products with no minimum balance requirements, low fees, and features like automatic savings plans can help individuals save and build financial security. Financial institutions can design these products to cater to the unique needs of different demographic groups (Cull, Demirgüç-Kunt, & Morduch, 2014).

Credit and Payment Services

Innovative credit products, such as peer-to-peer lending and credit scoring based on alternative data, can expand access to credit for individuals and small businesses without traditional credit histories. Additionally, efficient and low-cost payment systems facilitate transactions and promote financial inclusion. Fintech companies are at the forefront of developing such products, using technology to assess credit risk and streamline payment processes (Gomber, Koch, & Siering, 2017).

C) Policy Support and Regulatory Reforms

Supportive policies and regulatory frameworks are essential for creating an enabling environment for financial inclusion.

National Financial Inclusion Strategies

Governments can develop and implement national financial inclusion strategies that outline clear goals, policies, and actions to enhance financial inclusion. These strategies should be comprehensive, inclusive, and based on a thorough analysis of the barriers and opportunities within the country. The Alliance for Financial Inclusion (AFI, 2012) emphasizes the importance of national strategies in driving coordinated efforts and achieving measurable progress.

Regulatory Reforms

Regulatory reforms can remove barriers and create incentives for financial institutions to serve underserved populations. Simplifying KYC (Know Your Customer) requirements, reducing regulatory compliance costs, and allowing non-bank financial

institutions to operate can significantly enhance financial inclusion. The Financial Stability Board (FSB, 2016) highlights that balanced regulatory frameworks are crucial for promoting financial inclusion while maintaining financial stability.

Public-Private Partnerships

Public-private partnerships (PPPs) can mobilize resources and expertise from both the public and private sectors to expand financial services. These partnerships can facilitate the development of infrastructure, promote financial literacy programs, and support the rollout of innovative financial products. For instance, collaborations between governments and telecom companies have been instrumental in the success of mobile money services in various countries (Muthiora, 2015).

D) Leveraging Technology

Technological advancements offer significant opportunities to enhance financial inclusion by making financial services more accessible, affordable, and efficient.

Fintech Innovations

Fintech innovations, such as blockchain, artificial intelligence (AI), and big data analytics, can revolutionize financial services by reducing costs and improving service delivery. Blockchain technology, for instance, can provide secure and transparent financial transactions, while AI can help in credit scoring and fraud detection. These technologies can expand access to financial services for underserved populations (Gomber, Koch, & Siering, 2017).

Digital Identity Systems

Digital identity systems can facilitate financial inclusion by providing individuals with a verifiable identity, which is essential for accessing financial services. Systems like India's Aadhaar have successfully integrated digital identities with financial services, enabling millions of people to open bank accounts and access government subsidies. The World Bank (2018) reports that digital identities are a critical enabler of financial inclusion.

E) Enhancing Financial Literacy and Trust

Building financial literacy and trust is crucial for encouraging the use of financial services.

Financial Education Programs

Financial education programs can improve individuals' understanding of financial products and services, enabling them to make informed decisions. These programs should be tailored to different demographic groups and delivered through various channels, such as schools, community centers, and digital platforms. The OECD (2013) emphasizes the importance of financial education in promoting financial inclusion and economic empowerment.

Consumer Protection and Transparency

Ensuring consumer protection and transparency in financial services builds trust and encourages people to engage with formal financial institutions. Clear communications about product terms, fair treatment of customers, and mechanisms for redressal of grievances are essential components of consumer protection. Regulatory bodies can enforce standards, guidelines to ensure that financial institutions operate transparently, and ethically (Demirgüç-Kunt et al., 2018).

Community Engagement

Engaging with communities to understand their needs and preferences can help design more effective financial inclusion initiatives. Community-based approaches, such as savings groups and cooperative societies, leverage social trust and networks to promote financial inclusion. These models can be scaled and integrated with formal financial systems to provide comprehensive financial services (Klapper & Hess, 2016).

Enhancing financial inclusion requires a multifaceted approach that addresses supply-side, demand-side, regulatory, and socio-cultural barriers. Improving financial infrastructure, fostering product innovation, implementing supportive policies, leveraging technology, and enhancing financial literacy and trust are critical strategies for promoting financial inclusion. By adopting these strategies, policymakers, financial institutions, and other stakeholders can work together to create an inclusive financial ecosystem that benefits all segments of society, particularly the underserved and marginalized populations.

2.1.14 Importance of Financial Stability

Financial stability refers to a condition where the financial system, comprising financial institutions, markets, and infrastructure, operates smoothly and is capable of withstanding shocks. It involves the absence of excessive volatility, financial market distortions, and systemic risks that could disrupt financial intermediation, impact economic performance, or cause significant losses to households, businesses, and financial institutions (Schinasi, 2004).

The importance of financial stability lies in its role in fostering economic growth and development. A stable financial system promotes confidence among investors and consumers, facilitates efficient allocation of resources, and ensures that financial institutions can provide necessary services, such as credit and risk management, even during economic downturns. Conversely, financial instability can lead to bank failures, loss of savings, credit crunches, and severe economic recessions.

2.1.15 Components of Financial Stability

Financial stability is a critical aspect of any country's economic health, reflecting the resilience of its financial system to economic shocks and its ability to function effectively. In Nepal, understanding and maintaining financial stability involves examining the robustness of financial institutions, regulatory frameworks, economic policies, and the broader macroeconomic environment. This review provides an overview of the concept of financial stability and its specific context in Nepal.

A) Sound Financial Institutions

The soundness of banks and other financial institutions is crucial for financial stability. This includes their ability to manage risks, maintain adequate capital and liquidity, and ensure good governance practices. In Nepal, banks dominate the financial sector, making their stability particularly significant. Issues such as non-performing loans (NPLs), capital adequacy, and asset quality are key indicators of the health of these institutions (Nepal Rastra Bank, 2020).

B) Robust Financial Markets

Efficient and well-functioning financial markets are essential for financial stability. These markets facilitate liquidity, price discovery, and risk management. In Nepal, the capital market is relatively underdeveloped, with limited instruments and

participation. Enhancing market infrastructure, transparency, and regulatory oversight are necessary to improve market stability (Shrestha, 2012).

C) Effective Regulatory and Supervisory Framework

A comprehensive regulatory and supervisory framework is vital for maintaining financial stability. This framework should include prudential regulations, effective supervision, and mechanisms for crisis management and resolution. The Nepal Rastra Bank (NRB), as the central bank, plays a key role in regulating and supervising the financial sector to ensure stability (NRB, 2021).

D) Macro prudential Policies

Macro prudential policies aim to address systemic risks and ensure the stability of the financial system as a whole. These policies include measures such as countercyclical capital buffers, loan-to-value (LTV) ratios, and stress testing. In Nepal, the implementation of macro prudential policies is still evolving, with efforts to strengthen the regulatory framework and adopt international best practices (Gurung, 2017).

2.1.16 Financial Stability in Nepal, Context and Challenges

Economic Structure and Vulnerabilities

Nepal's economy is characterized by its dependence on agriculture, remittances, and a large informal sector. These factors contribute to economic vulnerabilities, such as susceptibility to natural disasters, political instability, and external shocks. Financial stability in Nepal is thus influenced by these underlying economic conditions and structural factors (ADB, 2019).

Banking Sector Challenges

The Nepali banking sector faces several challenges that impact financial stability. High levels of NPLs, concentration of credit in specific sectors, and governance issues are significant concerns. Additionally, the rapid growth of credit without corresponding growth in deposits has raised liquidity risks. The NRB has been proactive in addressing these issues through regulatory measures, but challenges remain (NRB, 2021).

Capital Market Development

The underdeveloped capital market is a barrier to financial stability in Nepal. Limited investment options, lack of investor confidence, and weak market infrastructure hinder the growth of the capital market. Efforts to develop the capital market include regulatory reforms, promoting financial literacy, and encouraging broader participation (Shrestha, 2012).

Regulatory and Supervisory Capacity

Strengthening the regulatory and supervisory capacity of the NRB is crucial for financial stability. This includes enhancing the NRB's ability to monitor financial institutions, enforce regulations, and respond to emerging risks. Capacity building and adopting international standards are ongoing priorities (NRB, 2021).

2.1.17 Strategies for Enhancing Financial Stability in Nepal

Strengthening Financial Institutions

Improving the health and resilience of financial institutions involves ensuring adequate capitalization, effective risk management, and good governance practices. The NRB can continue to enforce stringent capital requirements, conduct regular stress tests, and promote transparency and accountability within financial institutions (IMF, 2019).

Developing Financial Markets

Enhancing the depth and breadth of financial markets is essential for financial stability. This includes expanding the range of financial instruments, improving market infrastructure, and fostering a conducive regulatory environment. Encouraging participation from a broader investor base and promoting financial literacy are also important steps (Shrestha, 2012).

Implementing Macro prudential Policies

Adopting and effectively implementing macro prudential policies can help mitigate systemic risks. The NRB can develop a framework for macro prudential oversight, including tools such as countercyclical capital buffers and LTV ratios. Regular assessment of systemic risks and coordination with other regulatory bodies are also vital (Gurung, 2017).

Enhancing Regulatory and Supervisory Framework

Strengthening the regulatory and supervisory framework involves enhancing the NRB's capacity to oversee the financial sector, enforce regulations, and address emerging risks. This includes adopting international standards, improving data collection and analysis, and building the skills of regulatory staff (IMF, 2019).

The soundness of financial institutions, robustness of financial markets, effectiveness of regulatory and supervisory frameworks, and the implementation of macroprudential policies shape financial stability in Nepal. Addressing the challenges related to economic vulnerabilities, banking sector issues, and underdeveloped capital markets is crucial for maintaining stability. By strengthening financial institutions, developing financial markets, implementing macro prudential policies, and enhancing regulatory capacity, Nepal can enhance its financial stability and support sustainable economic growth.

2.2 Review of Related Studies

Review of related thesis is an essential part of all studies. It is way to discover how previous researchers are done in the area of these problems. Previous studies are very helpful to find out the real present situations. The purpose of literature review is thus to find out what research studies have been made or conduct in one has chosen field of the study and what remains to be done.

2.2.1 Review of Journals and Articles

The majority of previous studies in this field are based on Impact of Informal Financial Networks on Financial Inclusion and Stability as tools to investigate issues in contexts of Nepal. These studies are mostly carried out in developed countries.

Bhattarai & Rai (2020) employs a case study approach to investigate the impact of informal financial networks on financial inclusion in Nepal. The study employed a case study approach, focusing on three distinct communities in Nepal, each representing different socio-economic backgrounds. Through in-depth interviews and qualitative analysis, the authors explore how informal networks such as ROSCAs and moneylenders influence access to financial services among marginalized communities. The findings reveal both positive and negative outcomes, underscoring the importance of understanding the nuances of informal financial practices for

promoting inclusive financial development in Nepal. The findings highlighted the role of informal financial networks in providing access to financial services for marginalized populations, but also identified challenges such as lack of transparency and potential risks of over-indebtedness.

Smith & Patel (2019) has aimed to investigate how informal financial networks influence individuals' access to financial services and their overall financial stability in Sub-Saharan Africa. This study surveyed 1000 households across several countries in Sub-Saharan Africa to examine their participation in informal financial networks. Utilizing a mixed-methods approach, the researchers combined quantitative surveys with qualitative interviews to explore the relationship between informal networks and financial inclusion. The study revealed that informal financial networks play a significant role in promoting financial inclusion by providing access to credit, savings, and insurance services, thereby enhancing financial stability among marginalized communities in Sub-Saharan Africa.

Shrestha & Acharya (2019) has examined the role of informal financial networks in fostering financial inclusion in rural Nepal. Utilizing quantitative methods, the researchers employed regression analysis to assess the relationship between informal financial networks and financial inclusion indicators. The study conducted surveys among 500 households in rural Nepal to examine the impact of informal financial networks on financial inclusion. Drawing on survey data and econometric analysis, the authors assess the impact of informal networks on access to credit and savings mobilization. The study highlights the significant contribution of informal networks to bridging financial gaps in underserved areas while emphasizing the need for regulatory measures to mitigate associated risks and promote stability.

Gupta, S., & Khan, M. (2018) has aimed to analyze how participation in informal financial networks influences economic development outcomes, such as job creation and income generation, in South Asia. The research has surveyed 800 small businesses across South Asian countries to assess their reliance on informal financial networks. Employing regression analysis, the researchers examined the impact of informal networks on access to capital and entrepreneurial activities. The findings indicated that informal financial networks play a crucial role in facilitating access to

capital for small businesses, promoting entrepreneurship, and driving economic growth across South Asia.

Tamang, R., & Gurung, B. (2018) has investigated the relationship between informal financial networks and household welfare in Nepal. Employing a mixed-methods approach, the researchers combined qualitative interviews with quantitative analysis to explore the relationship between informal financial networks and household welfare. A household survey was conducted among 100 households across various regions of Nepal to assess the impact of informal financial networks on household welfare. The study examines the role of informal networks in providing financial assistance during emergencies and meeting everyday consumption needs. The findings suggest that while informal networks contribute to household resilience, they also expose vulnerable households to risks of exploitation and indebtedness, highlighting the complex trade-offs between financial inclusion and stability.

Adhikari & Basnet (2017) has studied Impact of Informal Financial Networks on Smallholder Farmers' Access to Credit: A Case Study of Western Nepal. Focusing on smallholder farmers in Western Nepal, this study assesses the impact of informal financial networks on access to credit. The study conducted interviews and surveys among smallholder farmers in Western Nepal to assess their access to credit through informal financial networks. Employing a case study approach, the researchers examined the mechanisms through which informal networks facilitate credit access for smallholder farmers. Using a mixed-methods approach, the authors examine the role of informal networks in complementing formal credit sources and supporting agricultural livelihoods. The research underscores the importance of recognizing and leveraging informal networks to enhance financial inclusion and stability among rural populations.

Chen, L., & Wang, Y. (2017) has studied the research aimed to investigate how informal financial networks contribute to improving access to financial services and promoting financial inclusion in China. The study surveyed 600 households in rural and urban areas of China to assess their engagement with informal financial networks. Utilizing econometric techniques, the researchers analyzed the relationship between participation in informal networks and financial inclusion indicators. The study found that participation in informal financial networks positively correlates with increased

access to credit, savings, and insurance services, thereby enhancing financial inclusion outcomes in China.

Pandey & Thapa (2016) has studied a gender perspective to analyze the impact of informal financial networks on women's empowerment in Nepal. The study conducted interviews and surveys among smallholder farmers in Western Nepal to assess their access to credit through informal financial networks. Employing a case study approach, the researchers examined the mechanisms through which informal networks facilitate credit access for smallholder farmers. Through qualitative research methods, the authors explore how informal networks influence women's access to financial resources and decision-making power within households. The study reveals the nuanced ways in which informal networks both empower and constrain women, highlighting the need for gender-sensitive approaches to promoting financial inclusion and stability.

Patel & Desai (2016) has studied to investigate how participation in informal financial networks affects household income, asset accumulation, and overall well-being in India. The research conducted surveys and interviews with 1200 households across different regions of India to examine their engagement with informal financial networks. Utilizing both quantitative and qualitative methods, the researchers analyzed the impact of informal networks on poverty alleviation. The findings revealed that informal financial networks significantly contribute to poverty alleviation by providing access to credit and social support, enabling households to cope with financial shocks and invest in income-generating activities.

Koirala & Regmi (2015) has focused on urban poverty alleviation in the Kathmandu Valley, this research examines the role of informal financial networks in providing support to vulnerable populations. Qualitative interviews and focus group discussions were conducted among women from diverse socio-economic backgrounds in Nepal to explore their experiences with informal financial networks. Adopting a gender perspective, the researchers examined how participation in informal financial networks influences women's empowerment within households. Through a combination of qualitative interviews and quantitative analysis, the authors assess the impact of informal networks on livelihood strategies and economic resilience. The

findings underscore the significance of informal finance in complementing formal social protection mechanisms and promoting inclusive urban development.

Khan, S., & Rahman, M. (2015), The research aimed to examine how informal financial networks contribute to enhancing access to credit, inputs, and market opportunities for farmers in Bangladesh. This study surveyed 500 farmers in Bangladesh to assess their reliance on informal financial networks for agricultural financing. Utilizing econometric techniques, the researchers analyzed the relationship between participation in informal networks and agricultural productivity indicators. Objectives: The study found that informal financial networks play a crucial role in improving agricultural productivity and income levels among farmers, thereby contributing to agricultural development in Bangladesh.

2.2.2 Review of Previous thesis Studies

There are hardly master`s thesis prepared by some researcher on the topic of Impact of Informal Financial Networks on Financial Inclusion and Stability in the past year. Some of these are reviewed here for analysis of literature.

Maharjan and Shrestha (2020) have conducted to investigate the relationship between informal financial markets and economic development in Nepal. Specifically, the researchers aim to understand how informal networks contribute to capital formation, entrepreneurship, and poverty reduction within the context of Nepal's economy. The study utilizes panel data analysis to examine the relationship between informal financial markets and economic development in Nepal. The sample consists of data collected from various sources, including households, businesses, and financial institutions, over a specified period. Panel data analysis allows the researchers to track changes and trends over time, providing insights into the long-term effects of informal financial networks on economic development. The research findings underscore the catalytic role of informal finance in fostering economic growth and social inclusion in Nepal. Specifically, the study highlights the following major findings:

- Informal financial networks contribute to capital formation by providing access to credit and investment opportunities for entrepreneurs and small businesses.
- These networks play a crucial role in promoting entrepreneurship by offering financial support and networking opportunities to aspiring entrepreneurs.

- Informal finance helps in poverty reduction by enabling low-income individuals and marginalized communities to access financial services and participate in economic activities.
- The study emphasizes the importance of policy interventions that recognize and harness the potential of informal financial networks to promote economic development and social inclusion in Nepal.

Overall, the findings suggest that informal financial markets serve as a vital component of Nepal's economy, facilitating capital accumulation, entrepreneurship, and poverty alleviation. The study underscores the need for policymakers to develop strategies that leverage the strengths of informal finance while addressing associated challenges to maximize its contribution to economic development and social welfare in Nepal.

Thapa and Sharma (2019) have to investigate the linkages between informal financial networks and poverty alleviation in Nepal at the micro-level. Specifically, the researchers aim to understand how informal networks contribute to income generation, asset accumulation, and resilience among marginalized communities, with a focus on their role in alleviating poverty. The study utilizes a micro-level study design, drawing on household surveys and qualitative analysis to explore the relationship between informal financial networks and poverty alleviation in Nepal. The sample consists of households from marginalized communities, selected through a purposive sampling technique to ensure representation from diverse socio-economic backgrounds. The research design allows for an in-depth examination of the experiences and perspectives of individuals participating in informal financial networks. The findings of the study underscore the significant role of informal financial networks in poverty alleviation in Nepal. Specifically, the major findings include:

- Informal financial networks contribute to income generation among marginalized communities by providing access to credit and financial resources for small-scale entrepreneurship and income-generating activities.
- These networks facilitate asset accumulation by enabling households to save and invest in productive assets, such as livestock, agricultural equipment, and small businesses.

- Participation in informal financial networks enhances resilience among marginalized communities by providing a safety net during times of economic hardship and crisis, such as illness, crop failure, or natural disasters.
- The study emphasizes the importance of integrating informal finance into poverty alleviation strategies to enhance the effectiveness and sustainability of development interventions. By recognizing and leveraging the strengths of informal financial networks, policymakers and practitioners can better address the multifaceted challenges of poverty in Nepal.

Overall, the findings highlight the significant contributions of informal financial networks to poverty alleviation efforts in Nepal and underscore the need for comprehensive approaches that incorporate informal finance into development strategies to achieve lasting and sustainable poverty reduction.

Subedi and Thapa's (2018) study aims to investigate the role of informal financial networks in supporting rural livelihoods in Chitwan District, Nepal. The primary objective is to understand how these informal networks contribute to household economies in rural areas. Specifically, the researchers seek to analyze the mechanisms through which informal financial networks facilitate savings mobilization, credit access, and risk management among rural households in Chitwan District. Additionally, the study aims to highlight the resilience-enhancing function of informal finance in rural contexts and underscore the importance of policy interventions that empower local communities and strengthen their adaptive capacities. The study utilizes a combination of field surveys and participatory research methods to explore the role of informal financial networks in supporting rural livelihoods in Chitwan District.

The sample consists of households residing in rural areas of Chitwan District, selected using a purposive sampling technique to ensure representation from different socio-economic backgrounds. Through field surveys, the researchers collect quantitative data on the participation of households in informal financial networks, savings mobilization practices, credit access, and risk management strategies. Additionally, participatory research methods, such as focus group discussions and key informant interviews, allow for a deeper understanding of the mechanisms through which informal networks operate and their impact on rural livelihoods. The study highlights

several major findings regarding the role of informal financial networks in supporting rural livelihoods in Chitwan District:

- Informal financial networks play a significant role in facilitating savings mobilization among rural households, providing them with a means to accumulate financial resources for future needs and investment opportunities.
- These networks also serve as important sources of credit for rural households, enabling them to access funds for various purposes, including agricultural inputs, household expenses, and emergencies.
- Informal financial networks contribute to risk management strategies among rural households by providing financial support during times of economic uncertainty or shocks, such as crop failures or natural disasters.
- The study underscores the resilience-enhancing function of informal finance in rural contexts, highlighting its role in buffering households against financial vulnerabilities and enhancing their adaptive capacities.

Policy interventions that empower local communities and strengthen their adaptive capacities are essential for maximizing the benefits of informal finance in supporting rural livelihoods and promoting resilience in Chitwan District. These interventions should recognize the importance of informal financial networks and leverage their potential to contribute to sustainable rural development.

Gautam and Poudel (2017) study aims to assess the impact of informal financial networks on poverty alleviation in the Western Hills of Nepal. The primary objective is to understand how these informal networks contribute to poverty reduction efforts in the context of marginalized communities living in the Western Hills region. Specifically, the researchers seek to examine the multifaceted role of informal finance in addressing poverty dynamics and enhancing community resilience. Additionally, the study aims to highlight the importance of incorporating local knowledge and practices into poverty reduction initiatives to effectively leverage the potential of informal financial networks.

The study utilizes a mixed-methods approach, including surveys and focus group discussions, to assess the impact of informal financial networks on poverty alleviation in the Western Hills of Nepal. The sample consists of marginalized communities residing in the Western Hills region, selected using a purposive sampling technique to

ensure diversity in socio-economic characteristics. Through surveys, the researchers collect quantitative data on the participation of households in informal financial networks, livelihood strategies, and socio-economic indicators. Additionally, focus group discussions allow for qualitative insights into the experiences and perspectives of community members regarding the role of informal finance in poverty alleviation efforts.

The study highlights several major findings regarding the impact of informal financial networks on poverty alleviation in the Western Hills of Nepal:

- Informal financial networks play a significant role in contributing to livelihood strategies among marginalized communities in the Western Hills region. These networks provide access to credit, savings, and other financial services that enable households to pursue income-generating activities and improve their economic well-being.
- Participation in informal financial networks fosters social cohesion and community solidarity among marginalized communities, enhancing their resilience to economic shocks and vulnerabilities.
- The multifaceted role of informal finance in addressing poverty dynamics extends beyond economic factors to encompass social and cultural dimensions. Informal networks serve as important sources of social capital and support networks that facilitate mutual aid and solidarity among community members.
- Incorporating local knowledge and practices into poverty reduction initiatives is crucial for effectively leveraging the potential of informal financial networks to alleviate poverty in the Western Hills of Nepal. Policies and interventions should recognize the importance of informal finance in community development and seek to strengthen its supportive role in poverty alleviation efforts.

2.3 Research Gap

Despite the growing interest in informal financial networks in Nepal, there remains a critical research gap in systematically investigating the extent of their usage across different demographic groups and geographic regions. While evidence suggests widespread reliance on informal financial networks in Nepal, empirical studies that comprehensively assess the penetration and reach of these networks are scarce. Understanding the extent of informal financial network usage in Nepal is crucial for

policymakers, researchers, and practitioners to formulate targeted interventions and strategies aimed at promoting financial inclusion and stability. Without a clear understanding of the scale and scope of informal financial network usage, efforts to design inclusive financial policies and programs may lack the necessary precision and effectiveness needed to address the diverse needs of Nepal's population.

Furthermore, while there is a growing body of literature on the impact of informal financial networks on financial inclusion in Nepal, there remains a notable research gap in systematically assessing this impact across different socio-economic groups and geographical regions. Existing studies often focus on specific aspects of financial inclusion, such as access to credit or savings services, without considering the broader implications for overall financial well-being and socio-economic empowerment. Additionally, there is limited research that examines the differential impact of informal financial networks on various marginalized populations, including women, rural communities, and ethnic minorities. Addressing this research gap requires comprehensive empirical studies that assess the multifaceted impact of informal financial networks on financial inclusion outcomes across diverse demographic and geographic contexts in Nepal. Such research can provide valuable insights into the effectiveness of informal financial networks in addressing the financial needs and aspirations of Nepal's diverse population and inform evidence-based policy interventions aimed at enhancing financial inclusion and stability.

CHAPTER-III
RESEARCH METHODOLOGY

The research methodology outlines the systematic approach that has been employed to investigate the impact of informal financial networks on financial inclusion and stability in Nepal. This methodology covers the research design, data collection methods, sampling techniques, data analysis methods, and ethical considerations.

3.1 Research Design

This research design is aimed at appraising the Impact of Informal Financial Networks on Financial Inclusion and Stability in Nepal. Research design is an overall frame work or plan for the activities to be undertaken during the courses of a research study. The research design serves as framework for the study, guides the data collection and analysis of data, the research instruments to be utilized and sampling plan to be followed. The study has focused on This design is chosen to comprehensively capture the extent, impact, and relationships between informal financial networks, financial inclusion, and financial stability in Nepal.

The study has used both descriptive and exploratory research design to test the research hypothesis. The overall research work is conducted through collection of primary data. Primary data were collected through questionnaire filled up by employees. The questionnaire was simple and understandable to all level of employees, which focused on the employee of selected banks only.

3.2 Population and Sample

The target population for this research includes students, household men and bankers within the Kathmandu Valley. This demographic is chosen for its diversity in financial behavior and access to both formal and informal financial networks. Students represent the younger, more tech-savvy segment that might be inclined towards newer financial solutions, household men often engage in informal financial practices to manage household finances, and bankers provide insights from the formal financial sector. By focusing on these groups, the study aims to understand how different

segments of the population interact with and are impacted by informal financial networks in terms of financial inclusion and stability.

Convenience sampling has been employed to select participants from each of these groups due to its practicality and ease of access within the Kathmandu Valley. For the quantitative surveys, a sample size of approximately 100 respondents has been targeted, with a balanced representation from students, household men, and bankers. In addition to the surveys, qualitative data has collected through structured Questionnaire focus group discussions.

3.3Sources and tools of data collection

To carry out the research primary data have been used on this study.

Primary Data

The primary data are those that are collected a fresh and for the first time and thus happen to be original in character. Primary data has been collected through interview method and questionnaire distributed and collected from the respondents.

3.4 Data collection Procedure

This study, data was obtained from the respondents through a structured questionnaire. The researcher had visited to the sampled banks. The researcher also meets to students, household men and bankers for asking after taken permission from then fill-up administering the questionnaire. The research supervisor, experts and professionals who are experienced in research were also requested to examine the questionnaire to check whether there are any items that need to be changed or rephrased, as well as the appropriateness of the time set for. This process helped refine the questionnaire, enhance its legibility and minimize the chances of misinterpretation it. The researcher personally collects the data from the respondents of individual and in groups. While collecting the data the researcher told the title, purpose of research, reasons to select the topic and methods to fill the questionnaire and then distribute the questionnaire to the employee of six banks. Some respondents filled the questionnaire at the same time and rest of the questionnaire is collected after four -five days of distribution.

3.5 Method of data Analysis

The collected data was analyzed using quantitative data analysis methods. Descriptive analysis such as frequencies and percentages were used to present quantitative data in form of tables. Data from questionnaire was coded and entered into the computer using Statistical Package for Social Science (SPSS Version 20.0) for analysis. It helps to calculate the standard deviations, correlations and frequency distribution of each independent and dependent variable against the independent variables using the regression model. The mean, percentage and standard deviation are the most commonly used descriptive statistics. Measures of central tendency were used in this study to give a description of the data.

3.6 Instrumentation of data collection

The data is collected by using the research questionnaires for the purpose of collecting primary data. The questionnaire is structured and there are multiple choices, single responses and likert scale. Self-administered questionnaires were presented to respondents. Data has been collected through direct questionnaire. In this study questionnaires were developed to study different variables determining retention process. A questionnaire usually consists of a number of measurements scales and elicits demographic information from respondents (Micheal, 2008). The questions and design of the questionnaire should be adapted to the educational levels and background of the respondents (Ghauri & Gronhaug, 2005). Questions in the questionnaire are quite clear, short and complete, relevant and appropriate, precise, explicit and understandable in the present study. The questions are closed-ended, which offer the respondent a range of possible answers from which the respondent must select his/her appropriate choice. Because of the fact that every respondent is asked to answer the same set of structured and predetermined questions, coding, data treatment and interpretation is relatively easy. The questionnaire contains only close-ended questions in order to create less time consuming when filling in the answer. Most of the close-ended questions are measured using 5-point scales anchored by 1 (strongly agree) and 5 (strongly disagree) to create an easy to answer and unbiased questionnaire.

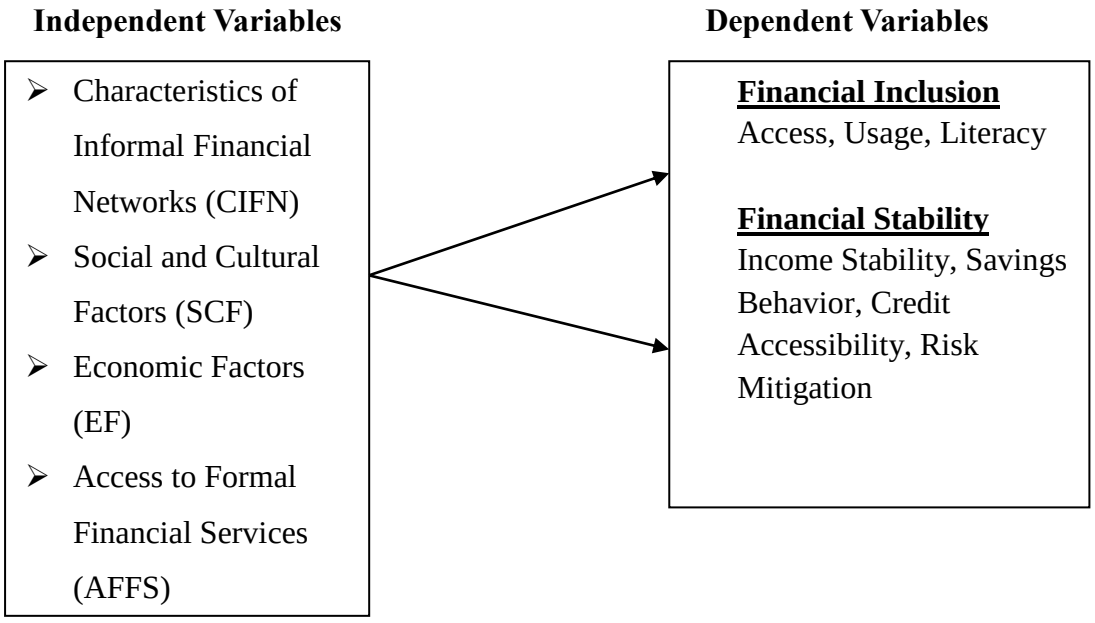
3.7 Reliability and validity

In order to reduce the possibility of getting incorrect answers, attention is needed to be paid to the validity and the reliability for the validation of tools researcher had constructed the questionnaire form which was based on conceptual framework. To ensure the validity of the instruments, the researcher consulted with literature. The tools were being fixed for the final study. Reliability can be defined as the degree to which measures are free from error and therefore yield consistent result. For reliability, obtained data were calculated using the Statistical Package for Social Sciences (SPSS) programmer, version 20.0 setting at 0.05.

3.8 Conceptual Framework

The conceptual framework for this study involves examining the relationships between informal financial networks (independent variables) and financial inclusion and stability (dependent variables).

Figure 1 : Conceptual Framework



CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter presents detail research results discussions in response to the research objectives that were set in chapter one as well as research questions. The main purpose of this study was to examine the impact of informal financial networks on financial inclusion and stability in Nepal. This chapter is mainly concerned with the analysis and interpretation of data, which was collected from three hundred respondents from Students, Household and Banker in Kathmandu district. The data gathered from different sources were analyzed and interpreted under Eight dimensions: Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion (FI) and Financial Stability (FS), Social and Cultural Factors (SCF) on Financial Inclusion (FI) and Financial Stability (FS), Economic Factors (EF) on Financial Inclusion(FI) and Financial Stability (FS), Access to Formal Financial Services (AFFS) on Financial Inclusion(FI) and Financial Stability(FS).

In this chapter, the data collected from the questionnaire for the study were analyzed and interpreted. A set of questionnaires which is given in appendix consisting of closed ended questions was developed as a research tool. The closed ended questions related to the impact of green banking practice with its five dimensions were to be analyzed on a 5-point likert scale i.e. Strongly agree, agree, neutral, disagree, and strongly. The data were analyzed by using the Statistical Package for Social Sciences (SPSS) programmer, version 20.0. The data is presented in tables beginning with demographic variables and then research questions that are formulated to guide the research. The first part of the chapter considered the demographic background of the respondents focusing on job position, gender, age, education qualification and monthly income level. The second part presented the findings from the study in relation to the research question.

4.1 Demographic Characteristics of Respondents

The study collected information on demographic characteristics. Detailed results on each of the demographic characteristics are presented.

4.1.1 Job Position of the Respondents

The primary survey conducted to understand the impact of informal financial networks on financial inclusion and stability in Nepal included respondents from diverse job positions: students, households, and bankers. Students, representing the younger and more educated demographic, provided insights into the awareness and usage of informal financial networks among the youth, highlighting trends and potential future shifts in financial behaviors. Household respondents, typically the primary users of informal financial services, offered valuable perspectives on the accessibility, reliability, and challenges of these networks in managing daily financial needs and long-term financial planning. Bankers, as representatives of the formal financial sector, contributed their views on the interaction between informal networks and formal financial institutions, including potential areas for collaboration, competition, and regulatory considerations. This diverse respondent base ensured a comprehensive understanding of the dynamics at play between informal financial networks and the broader financial landscape in Nepal.

Table 1 : *Job Position of the respondents*

	Frequency	Percent
Student	59	59
Household	13	13
Banker	28	28
Total	100	100.0

Source: Results of SPSS

The primary survey comprised a total of 100 respondents, categorized into three distinct groups based on their job positions: students, households, and bankers. Students constituted the majority of the sample, with 59 individuals accounting for 59% of the total respondents. This significant representation highlights the perspectives of the younger, more educated demographic. Household respondents, numbering 13, made up 13% of the sample, providing insights from primary users of informal financial services who manage daily financial needs and long-term planning. Bankers formed 28% of the respondents, with 28 participants offering views from the formal financial sector on the interaction between informal and formal financial systems. This diverse respondent base facilitated a comprehensive understanding of

the impact of informal financial networks on financial inclusion and stability in Nepal.

4.1.2Gender of the Respondents

The primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal also collected data on the gender of respondents to ensure a balanced and comprehensive analysis. This demographic information helped in understanding the gender dynamics within the usage and perception of informal financial services. By including both male and female perspectives, the survey aimed to identify any gender-specific challenges or advantages in accessing and utilizing these networks. Such insights are crucial for developing targeted policies and interventions that promote equitable financial inclusion and stability, recognizing that gender can significantly influence financial behavior and needs.

Table 2: *Gender of the Respondents*

	Frequency	Percent
Male	44	44
Female	56	56
Total	100	100.0

Source: Results of SPSS

The gender distribution of respondents in the primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal included 100 participants, with 44 males (44%) and 56 females (56%). This gender balance ensures a comprehensive understanding of how informal financial services are perceived and utilized by both men and women. The higher representation of female respondents underscores the crucial role women play in managing household finances and their interaction with informal financial networks. By capturing the perspectives of both genders, the survey provides valuable insights into any gender-specific barriers or benefits in accessing financial services, facilitating the development of more inclusive financial policies and practices.

4.1.3 Age of the Respondents

The primary survey also gathered data on the age of respondents to better understand the influence of age on the usage and perception of informal financial networks in Nepal. This demographic information is essential for identifying age-related trends and preferences in financial behaviors. By including a range of age groups, the survey aimed to capture diverse perspectives on financial inclusion and stability, recognizing that financial needs and challenges can vary significantly across different life stages. Understanding these age-related differences is crucial for developing targeted financial products and policies that cater to the specific needs of various age groups, thereby enhancing overall financial inclusion and stability in Nepal.

Table 4. 2 : *Age of the Respondents*

	Frequency	Percent
Less 20 years	17	17
20-30 Years	71	71
30-45 years	12	12
Total	100	100.0

Source: Results of SPSS

The primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal included respondents from various age groups, providing a comprehensive view of age-related financial behaviors and preferences. Out of the 100 participants, 17% were under 20 years old, reflecting the financial perspectives of the younger generation. The majority of respondents 71%, were between 20 and 30 years old, indicating a significant representation of young adults, a demographic crucial for understanding emerging financial trends and behaviors. Additionally, 12% respondents were between 30 and 45 years old, offering insights from more established adults who might have different financial needs and experiences. This diverse age distribution ensures a well-rounded analysis of how informal financial networks impact various age groups in Nepal, aiding in the development of targeted and effective financial inclusion strategies.

4.1.4 Education Qualification of respondent

The primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal also collected data on the educational qualifications of respondents to understand how education levels influence financial behaviors and access to informal financial services. This demographic detail is vital for identifying trends in financial literacy and the utilization of financial networks. By including respondents with varying educational backgrounds, the survey aimed to capture a broad spectrum of financial knowledge and capabilities. Understanding the correlation between education and financial inclusion can help in designing educational programs and policies that enhance financial literacy and inclusion across different educational levels. This comprehensive approach ensures that strategies to improve financial stability and access are inclusive and effective for all segments of the population.

Table 3 : *Education Qualification of the Respondents*

	Frequency	Percent
Above Master Level	21	21
Master	49	49
Below Master	30	30
Total	100	100.0

Source: Results of SPSS

The primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal encompassed respondents with diverse educational qualifications, providing insights into how varying levels of education influence financial behaviors and perceptions. Out of 100 participants, 62 respondents (20.7%) held educational qualifications above the master's level, reflecting perspectives from individuals with advanced academic backgrounds. A larger proportion, 146 respondents (48.7%), held master's degrees, contributing insights from a highly educated segment of the population. Additionally, 92 respondents (30.7%) had educational qualifications below the master's level, offering perspectives from individuals with varied educational experiences. This diverse educational distribution ensures a nuanced understanding of how education impacts access to and utilization

of informal financial networks, informing strategies to enhance financial inclusion and stability across different educational strata in Nepal.

4.1.5Monthly Income Level of respondents

The primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal also gathered data on the monthly income levels of respondents to assess the economic context in which informal financial services are utilized. This demographic information is crucial for understanding how income levels influence financial behaviors, preferences, and the accessibility of financial services. By categorizing respondents based on their monthly income levels, the survey aimed to identify any disparities in financial access and inclusion across different income brackets. This comprehensive approach helps in tailoring policies and interventions that address the specific financial needs and challenges faced by individuals from varying income backgrounds, thereby promoting equitable financial stability and inclusion in Nepal.

Table 4 : *Monthly income Level of the Respondents*

	Frequency	Percent
Less than 20 thousand	19	19
20 to 50 thousand	42	42
50 to 1 lakhs	19	19
Above 1 lakhs	20	20
Total	100	100.0

Source: Results of SPSS

The primary survey on the impact of informal financial networks on financial inclusion and stability in Nepal included respondents from diverse income brackets, providing a comprehensive view of how income levels influence financial behaviors and access to informal financial services. Out of 100 participants, 19% respondents reported a monthly income of less than 20 thousand Nepalese Rupees, representing individuals with lower income levels who may rely more on informal financial networks for financial services. A significant portion, 42% respondents, reported incomes between 20 thousand to 50 thousand Rupees per month, reflecting a middle-income group with varied financial needs and preferences. Additionally, 19%

respondents reported incomes ranging from 50 thousand to 1 lakh Rupees per month, while 20% respondents reported incomes above 1 lakh Rupees per month, providing insights from higher-income individuals with potentially different financial behaviors and access to formal financial institutions. This diverse income distribution allows for a nuanced understanding of how informal financial networks cater to varying income levels in Nepal, informing policies and initiatives aimed at enhancing financial inclusion and stability across the economic spectrum.

4.2Reliability Analysis

Reliability analysis, often assessed through measures like Cronbach's Alpha, is crucial in research to evaluate the consistency and internal reliability of a set of measurement scales or survey items. Cronbach's Alpha specifically quantifies the extent to which items within a scale correlate with each other, indicating how well the items collectively measure a single underlying construct or variable. A high Cronbach's Alpha value, typically above 0.7 or 0.8, suggests strong internal consistency among the items, indicating that they reliably measure the intended concept or trait. Researchers use reliability analysis to ensure that the measurements used in their study are dependable and valid, thereby enhancing the credibility and robustness of their findings. This process is fundamental in ensuring that research results accurately reflect the phenomena being studied and can be interpreted with confidence.

Table 5 : *Reliability Analysis*

Constructs	Items	Cronbach's Alpha
Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion (FI)	Q1 Q2 Q3 Q4 Q5	0.898
Characteristics of Informal Financial Networks (CIFN) on Financial Stability (FS)	Q6 Q7 Q8 Q9 Q10	0.637
Social and Cultural Factors (SCF) on Financial Inclusion(FI)	Q11 Q12 Q13 Q14 Q15	0.767
Social and Cultural Factors (SCF) on Financial Stability (FS)	Q16 Q17	0.693

	Q18 Q19 Q20	
Economic Factors (EF) on Financial Inclusion(FI)	Q21 Q22 Q23 Q24 Q25	0.625
Economic Factors (EF) on Financial Stability (FS)	Q26 Q27 Q28 Q29 Q30	0.648
Access to Formal Financial Services (AFFS) on Financial Inclusion (FI)	Q31 Q32 Q33 Q34 Q35	0.635
Access to Formal Financial Services (AFFS) on Financial Stability (FS)	Q36 Q37 Q38 Q39 Q40	0.658
Financial Inclusion (FI)	Q41 Q42 Q43 Q44 Q45 Q46 Q47 Q48 Q49 Q50	0.717
Financial Stability (FS)	Q51 Q52 Q53 Q54 Q55 Q56 Q57 Q58 Q59 Q60	0.768
Overall	Q1 - Q60	0.927

Source: Results of SPSS

In the provided reliability analysis table, Cronbach's Alpha coefficients are used to assess the internal consistency of various constructs related to informal financial

networks, social and cultural factors, economic factors, access to formal financial services, financial inclusion (FI), and financial stability (FS). A Cronbach's Alpha coefficient above 0.7 is generally considered acceptable for research purposes, indicating strong internal reliability among the items within each construct.

For instance, the Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion (FI) construct shows a high Cronbach's Alpha of 0.898, suggesting that the items (Q1-Q5) related to this construct collectively measure financial inclusion reliably. Similarly, the Social and Cultural Factors (SCF) on Financial Inclusion (FI) construct has a Cronbach's Alpha of 0.767, indicating good internal consistency among items (Q11-Q15) measuring social and cultural influences on financial inclusion. However, some constructs demonstrate lower Cronbach's Alpha values, such as Economic Factors (EF) on Financial Inclusion (FI) with 0.625, suggesting a weaker internal consistency among the items (Q21-Q25). This might indicate that the items within this construct do not correlate as strongly with each other in measuring economic influences on financial inclusion.

Overall, the comprehensive Cronbach's Alpha for all items (Q1-Q60) across constructs is 0.927, reflecting high internal consistency across the entire set of survey items used in the study. This indicates that the measurement scales used are reliable in assessing the various dimensions of informal financial networks, socio-cultural factors, economic factors, access to formal financial services, financial inclusion, and financial stability as intended in the research. Researchers can therefore interpret the study findings with confidence, knowing that the measurement instruments used are internally reliable and provide robust insights into the factors influencing financial inclusion and stability in the context of informal financial networks.

4.3 Descriptive Analysis

Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis data. Descriptive statistics are used to present quantitative descriptive in manageable form. It helps us to simplify large amount of data in a sensible way. Each descriptive statistic reduces many data into a simpler summary. Here descriptive analysis

incorporates calculation of statistical measure such as mean, standard deviation, and correlation. It's presented logically as per the study objectives. All the questionnaires were measured on five point Likert scale and anchored by "strongly agree" = 1, to "strongly disagree" = 5. These values help the researcher to analyze the data with respect to frequencies and percentage relating to research questions and variables in order get better insight to the respondent's behavior cross-tabulation of different variable was analyzed.

The researcher in this section wants to find out the responses of respondent on Impact of Informal Financial Networks on Financial Inclusion and Stability in Nepal products through the data collected from questionnaire during the research process. Here, descriptive analysis incorporates calculation of statistical measures such as frequency, mean and standard deviation. Questions dealt with ranking system on five-point scale Likert anchored "Strongly Agree" =1, "Agree" = 2, "Neutral"= 3, "Disagree" = 4 and "Strongly Disagree" = 5

4.3.1 Status of Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion

The analysis of the Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion highlights the significant role these networks play in extending financial services to underserved populations in Nepal. With a high Cronbach's Alpha of 0.898, the survey items measuring this construct demonstrate strong internal consistency, indicating that the responses reliably capture how informal financial networks contribute to financial inclusion.

Table 6 : Status of CIFN on FI

CIFN on FI		Mean	Std. Deviation
(Q1) The informal financial network I am part of provides easy access to savings opportunities.	100	1.56	.497
(Q2) I frequently use the financial services offered by my informal financial network.	100	1.56	.497
(Q3) My informal financial network offers financial education and literacy programs.	100	1.56	.497
(Q4) The size of my informal financial network positively affects my access to credit.	100	1.56	.497
(Q5) The frequency of transactions within my informal financial network helps me manage my finances better	100	1.56	.497
Characteristics of IFN Related to FI	100	1.5633	.4968
Valid N (listwise)	100		

Output : SPSS

The analysis of the Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion (FI) reveals consistent responses across the various survey items, highlighting the role of these networks in promoting financial inclusion. The mean values for all items (Q1-Q5) are identical at 1.56, with a standard deviation of 0.497, indicating that respondents uniformly perceive the benefits of informal financial networks. Specifically, respondents agree that their informal financial networks provide easy access to savings opportunities (Q1), frequently use the services offered (Q2), benefit from financial education and literacy programs (Q3), experience positive impacts on credit access due to the network's size (Q4), and manage their finances better due to frequent transactions (Q5). The overall mean for the CIFN on FI construct is 1.5633, with a standard deviation of 0.4968, further supporting the reliability and consistency of the responses. This consistency suggests that the informal financial networks are effective in facilitating financial inclusion by offering essential services and support to their members. The uniform responses across all items underscore the pivotal role of these networks in enhancing financial access and literacy among their participants in Nepal.

4.3.2 Characteristics of Informal Financial Networks (CIFN) on Financial Stability

The descriptive analysis of the Characteristics of Informal Financial Networks (CIFN) on Financial Stability provides insights into how these networks contribute to the financial stability of their members. Informal financial networks often offer flexible financial services. However, the moderate reliability score indicates that there might be variations in how different aspects of these networks impact financial stability, or that some items may not be as strongly correlated as others. Despite these variations, informal financial networks remain an important factor in providing financial stability to their members, particularly in contexts where formal financial services are limited or inaccessible.

Table 7 : Status of CIFN on FS

Characteristics of Informal Financial Networks (CIFN) on Financial Stability	N	Mean	Std. Deviation
(Q6) Being part of an informal financial network has increased my income stability.	100	1.56	.497
(Q7) I save more regularly due to the influence of my informal financial network.	100	1.56	.497
(Q8) I find it easier to obtain loans from my informal financial network than from formal financial institutions.	100	1.56	.497
(Q9) My informal financial network provides support during financial emergencies.	100	2.11	1.110
(Q10) The diversity of financial products in my informal network enhances my financial stability.	100	1.98	1.175
Characteristics of IFN Related to FS	100	1.7573	.52296
Valid N (listwise)	100		

The descriptive analysis of the Characteristics of Informal Financial Networks (CIFN) on Financial Stability reveals insights into how these networks contribute to the financial well-being of their members. The mean values for most items (Q6-Q8) are consistently low at 1.56, with a standard deviation of 0.497, indicating that respondents generally agree that their informal financial networks increase income stability, encourage regular saving, and provide easier access to loans compared to formal financial institutions. This consistency suggests that these networks play a critical role in enhancing financial stability by offering accessible and reliable financial services.

However, the items related to support during financial emergencies (Q9) and the diversity of financial products (Q10) show higher mean values of 2.11 and 1.98, respectively, with higher standard deviations of 1.110 and 1.175. This indicates more variability in respondents' perceptions of these aspects, suggesting that while some members find significant support and a variety of financial products beneficial for their financial stability, others may not experience the same level of benefit. The

overall mean for the CIFN on Financial Stability construct is 1.7573 with a standard deviation of 0.52296, reflecting a moderate level of agreement among respondents. This highlights that while informal financial networks are valuable for financial stability, their impact may vary depending on specific features and individual experiences within these networks.

4.3.3 Social and Cultural Factors (SCF) on Financial Inclusion

The analysis of Social and Cultural Factors (SCF) on Financial Inclusion examines how societal norms, cultural practices, and community dynamics influence individuals' access to financial services. Social and cultural elements such as trust within communities, the role of social networks, and culturally ingrained saving and borrowing practices play significant roles in shaping financial behaviors and access. By understanding these influences, policymakers and financial institutions can develop more culturally sensitive and community-focused strategies to enhance financial inclusion, ensuring that financial services are accessible and relevant to diverse population groups.

Table 8 : Status of SCF on FI

Social and Cultural Factors on FI	N	Mean	Std. Deviation
(Q11) Trust within my informal financial network enhances my access to financial services.	100	2.31	1.063
(Q12) Social capital in my community influences my usage of informal financial services.	100	2.32	1.156
(Q13) Cultural practices in my community support saving and borrowing activities.	100	2.42	1.108
(Q14) Community norms encourage participation in informal financial networks.	100	2.09	1.051
(Q15) My financial literacy has improved due to cultural influences in my community.	100	2.51	1.117
SCF on FI	100	2.3307	.79108
Valid N (listwise)	100		

The descriptive analysis of Social and Cultural Factors (SCF) on Financial Inclusion (FI) sheds light on how trust, social capital, cultural practices, and community norms impact individuals' access to financial services. The mean values for the survey items range from 2.09 to 2.51, indicating varying degrees of agreement among respondents. Specifically, trust within informal financial networks (Q11) and social capital in the community (Q12) have mean values of 2.31 and 2.32, respectively, suggesting that these factors moderately enhance access to financial services. Cultural practices supporting saving and borrowing (Q13) have a slightly higher mean of 2.42, indicating a more pronounced influence. Community norms encouraging participation in informal financial networks (Q14) have a mean of 2.09, and the impact of cultural influences on financial literacy (Q15) is reflected in the highest mean of 2.51.

The overall mean for the SCF on FI construct is 2.3307, with a standard deviation of 0.79108, indicating a moderate level of agreement among respondents regarding the role of social and cultural factors in financial inclusion. The relatively high standard deviations for individual items, ranging from 1.051 to 1.156, suggest a diverse range of experiences and perceptions among the respondents. This variability highlights the importance of considering the unique social and cultural contexts when developing policies and interventions aimed at enhancing financial inclusion. By leveraging the positive aspects of social trust, cultural practices, and community norms, stakeholders can design more effective and culturally sensitive financial inclusion strategies that resonate with the targeted populations.

4.3.4 Social and Cultural Factors (SCF) on Financial Stability

The analysis of Social and Cultural Factors (SCF) on Financial Stability explores how social norms, cultural values, and community interactions affect individuals' financial security and resilience. Understanding these factors allows for the development of policies and interventions that leverage social and cultural strengths to enhance financial stability, particularly in contexts where formal financial systems may be less effective.

Table 9 : Status of SCF on FS

Social and Cultural Factors on FS	N	Mean	Std. Deviation
(Q16) Trust within my informal financial network contributes to my income stability.	100	2.51	.867
(Q17) Social capital in my community helps me save more effectively.	100	2.70	.956
(Q18) Cultural practices in my community facilitate better access to credit.	100	2.42	.955
(Q19) Community norms provide a safety net during financial emergencies.	100	1.94	.863
(Q20) Social support within my informal financial network helps me mitigate financial risks.	100	2.35	1.050
SCF on FS	100	2.3827	.63052
Valid N (listwise)	100		

The descriptive analysis of Social and Cultural Factors (SCF) on Financial Stability (FS) explores how trust, social capital, cultural practices, and community norms impact individuals' financial security. The mean values for the survey items range from 1.94 to 2.70, indicating varying degrees of agreement among respondents. Trust within informal financial networks (Q16) and social capital in the community (Q17) have mean values of 2.51 and 2.70, respectively, suggesting that these factors significantly contribute to income stability and effective saving. Cultural practices facilitating better access to credit (Q18) have a mean of 2.42, while community norms providing a safety net during financial emergencies (Q19) have a lower mean of 1.94, indicating less agreement. Social support within informal financial networks (Q20) has a mean of 2.35, reflecting moderate influence in mitigating financial risks.

The overall mean for the SCF on FS construct is 2.3827, with a standard deviation of 0.63052, indicating a moderate level of agreement among respondents regarding the role of social and cultural factors in financial stability. The standard deviations for individual items, ranging from 0.863 to 1.050, suggest some variability in respondents' experiences and perceptions. This variability highlights the importance of considering the unique social and cultural contexts when developing strategies to

enhance financial stability. By leveraging the strengths of social trust, community support, and cultural practices, stakeholders can design more effective interventions that help individuals maintain financial stability and mitigate risks within their specific social and cultural environments

4.3.5 Economic Factors (EF) on Financial Inclusion

The analysis of Economic Factors (EF) on Financial Inclusion examines how various economic conditions and elements, such as income levels, employment status, and economic opportunities, influence individuals' access to financial services. Understanding these factors helps in identifying economic barriers to financial inclusion and developing targeted policies to improve financial access and participation, particularly for economically disadvantaged groups.

Table 10 : Status of EF on FI

Economic Factors on FI	N	Mean	Std. Deviation
(Q21) My income level affects my access to informal financial services.	100	2.33	.855
(Q22) Economic stability in my area influences my usage of informal financial services.	100	2.56	1.002
(Q23) Higher income levels in my community lead to better financial literacy.	100	2.20	.748
(Q24) Economic conditions in my community affect the availability of informal financial services.	100	1.92	.745
(Q25) The overall economic environment influences my financial decisions.	100	2.08	.907
Economic Factors on FI	100	2.2173	.54223
Valid N (listwise)	100		

Output: SPSS

The descriptive analysis of Economic Factors (EF) on Financial Inclusion (FI) provides insights into how various economic conditions impact individuals' access to and usage of financial services. The mean values for the survey items range from 1.92 to 2.56, reflecting different levels of agreement among respondents regarding the influence of economic factors. Respondents indicate that their income level (Q21, mean = 2.33) and economic stability in their area (Q22, mean = 2.56) significantly affect their access to and use of informal financial services. Higher income levels in the community are perceived to lead to better financial literacy (Q23, mean = 2.20), while economic conditions in the community influence the availability of informal

financial services (Q24, mean = 1.92). Additionally, the overall economic environment plays a role in shaping financial decisions (Q25, mean = 2.08).

The overall mean for the EF on FI construct is 2.2173, with a standard deviation of 0.54223, indicating a moderate level of agreement among respondents on the influence of economic factors on financial inclusion. The variation in standard deviations across items (ranging from 0.745 to 1.002) suggests that respondents have diverse experiences and perceptions regarding the impact of economic factors. This highlights the importance of considering local economic contexts when developing policies and initiatives aimed at enhancing financial inclusion. By addressing economic barriers and leveraging economic strengths, stakeholders can create more effective strategies to improve access to financial services for individuals across different economic backgrounds.

4.3.6 Economic Factors (EF) on Financial Stability

The analysis of Economic Factors (EF) on Financial Stability explores how economic conditions and factors influence individuals' financial resilience and stability. This construct, characterized by a Cronbach's Alpha of 0.648, explores key elements such as income levels, economic stability within communities, access to financial resources, and broader economic influences on financial decision-making. These factors collectively influence individuals' ability to weather financial shocks, maintain consistent income streams, and effectively manage financial risks.

Table 11 : Status of EF on FI

Economic Factors on FS	N	Mean
(Q26) My income stability is influenced by my participation in informal financial networks.	100	2.22
(Q27) Stable economic conditions in my area promote consistent saving habits.	100	2.27
(Q28) My access to credit is better during favorable economic conditions.	100	2.09
(Q29) Economic resilience in my community helps mitigate financial risks.	100	2.00
(Q30) The overall economic environment affects my financial stability.	100	2.06
Economic Factors on FS	100	2.1287
Valid N (listwise)	100	

The analysis of Economic Factors (EF) on Financial Stability (FS) explores how economic conditions and individual financial behaviors contribute to overall financial resilience. With a mean score of 2.1287 for the construct, respondents generally perceive these economic factors as influencing their financial stability positively. The survey items reveal that participation in informal financial networks (Q26) is associated with enhanced income stability, suggesting that these networks provide a buffer against financial fluctuations. Stable economic conditions within the community (Q27) are reported to promote consistent saving habits, which are crucial for building financial security over time. However, respondents also acknowledge challenges during economic downturns, as indicated by lower mean scores for access to credit during less favorable economic conditions (Q28) and the role of economic resilience in mitigating financial risks (Q29). Nevertheless, the overall economic environment (Q30) is seen as a significant determinant of financial stability, influencing individual financial decisions and outcomes. These findings underscore the complex interplay between economic factors and financial stability, emphasizing the importance of fostering economic conditions that support robust financial planning and resilience. Policymakers can use these insights to develop targeted strategies aimed at strengthening economic stability and improving financial outcomes for individuals and communities alike.

4.3.7 Access to Formal Financial Services (AFFS) on Financial Inclusion

The exploration of Access to Formal Financial Services (AFFS) on Financial Inclusion investigates how individuals' accessibility to mainstream financial institutions impacts their overall financial inclusion. This construct, often assessed through various metrics such as account ownership, credit accessibility, and usage of formal banking services, plays a crucial role in determining financial participation and empowerment. A higher level of access to formal financial services correlates with increased opportunities for savings, credit facilities, and financial education, which are essential components of financial inclusion initiatives worldwide.

Table 12 : Status of Access to Formal Financial Services on FI

Access to Formal Financial Services on FI	N	Mean	Std. Deviation
(Q31) Limited access to formal banking services increases my reliance on informal financial networks.	100	2.26	.739
(Q32) The lack of formal financial services in my area enhances the role of informal financial networks.	100	2.26	.864
(Q33) Informal financial networks provide necessary financial services in the absence of formal options.	100	2.12	.617
(Q34) My financial literacy has improved due to participation in informal financial networks.	100	2.05	.881
(Q35) Informal financial networks help bridge the gap left by formal financial institutions.	100	2.18	.858
Access to Formal Financial Services on FI	100	2.1727	.50910
Valid N (listwise)	100		

The analysis of Access to Formal Financial Services (AFFS) on Financial Inclusion (FI) examines how limited access to formal banking services influences individuals' reliance on informal financial networks and overall financial inclusion. With a mean score of 2.1727 for the construct, respondents generally agree that barriers to accessing formal financial services increase their dependence on informal networks (Q31) and enhance the role of these networks in their financial lives (Q32). This highlights a significant gap in formal financial service provision, prompting individuals to turn to informal networks for essential financial services (Q33) and financial literacy enhancement (Q34).

The standard deviations across items, ranging from 0.617 to 0.881, indicate some variability in respondents' experiences and perceptions regarding the impact of access to formal financial services on financial inclusion. Despite efforts to improve formal financial service accessibility, many individuals continue to rely on informal networks (Q35) to fill the gaps left by formal institutions. Addressing these challenges is crucial for promoting broader financial inclusion, as improving access to formal financial services not only expands economic opportunities but also enhances financial literacy and resilience among underserved populations. Policymakers can use these insights to

develop targeted interventions aimed at reducing barriers to formal financial services and enhancing overall financial inclusion for all individuals.

4.3.8 Access to Formal Financial Services (AFFS) on Financial Stability

The analysis of Access to Formal Financial Services (AFFS) on Financial Stability explores how the availability and accessibility of mainstream financial services impact individuals' financial resilience and stability. This construct, assessed through metrics such as access to savings accounts, credit availability, and usage of formal banking services, plays a critical role in bolstering financial security. Individuals with better access to formal financial services are often better equipped to manage financial emergencies, mitigate risks, and plan for the future effectively. The study of AFFS on Financial Stability helps uncover how limited access to formal financial services may necessitate reliance on informal networks and affect financial literacy.

Table 13 : Status of Access to Formal Financial Services on FS

Access to Formal Financial Services on FS	N	Mean	Std. Deviation
(Q36) Limited access to formal financial services makes informal networks crucial for my income stability.	100	2.30	.686
(Q37) I save more through informal financial networks due to the lack of formal options.	100	2.29	.805
(Q38) Informal financial networks provide necessary credit services that formal institutions do not.	100	1.99	.801
(Q39) Informal financial networks offer support during financial emergencies in the absence of formal services.	100	1.96	.904
(Q40) The absence of formal financial services makes informal networks essential for my financial stability.	100	2.20	.735
Access to Formal Financial Services on FS	100	2.1467	.51319
Valid N (listwise)	100		

Output : SPSS

The analysis of Access to Formal Financial Services (AFFS) on Financial Stability (FS) delves into how limited access to mainstream financial institutions influences individuals' financial resilience and stability. With a mean score of 2.1467 for the construct, respondents indicate that constraints in accessing formal financial services prompt greater reliance on informal networks for income stability (Q36) and savings

(Q37). This dependency underscores the critical role of informal financial networks in filling gaps left by formal institutions, particularly in providing necessary credit services (Q38) and support during financial emergencies (Q39).

The standard deviations for the survey items, ranging from 0.686 to 0.904, highlight some variability in respondents' experiences regarding the impact of formal financial service limitations on their financial stability. Despite efforts to expand access to formal financial services, many individuals perceive informal networks as essential for maintaining financial stability (Q40). This underscores the importance of addressing barriers to accessing formal financial services to enhance overall financial resilience and security. Policymakers can leverage these insights to develop policies aimed at improving financial infrastructure, promoting financial inclusion, and strengthening individuals' capacity to manage financial risks effectively. Such initiatives are crucial for fostering economic stability and reducing dependency on informal financial networks in the long term.

4.3.9 Financial Inclusion

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. This includes providing banking, credit, insurance, and payment services. Financial inclusion aims to improve financial literacy, reduce poverty, and enable economic growth by ensuring that marginalized and underserved populations have access to financial resources and opportunities. It involves leveraging technology, such as mobile banking and fintech innovations, to reach remote or economically disadvantaged areas.

Table 14 : Status of Financial Inclusion

Financial Inclusion	N	Mean	Std. Deviation
(Q41) I have easy access to a variety of financial services in my community.	100	2.13	.809
(Q42) Financial institutions in my area offer convenient hours for banking services.	100	2.04	.800
(Q43) I regularly use formal financial services for managing my day-to-day financial transactions.	100	1.94	.888
(Q44) I feel comfortable using digital banking platforms provided by formal financial institutions.	100	2.18	.731
(Q45) I feel confident in my understanding of basic financial concepts such as interest rates and credit scores.	100	2.11	.804
(Q46) I actively seek out financial education resources to improve my financial knowledge.	100	1.87	.793
(Q47) I feel knowledgeable about different financial products and services offered by formal financial institutions.	100	2.32	.910
(Q48) I actively participate in financial activities such as budgeting and saving using formal financial services.	100	2.44	.638
(Q49) I can easily find ATMs and banking branches near my residence.	100	2.43	.873
(Q50) I have multiple options for accessing credit and loans from formal financial institutions.	100	2.51	1.117

The survey results on financial inclusion reveal varied experiences among respondents in their access to and use of financial services. On average, participants moderately agree that they have easy access to a variety of financial services in their community (mean = 2.13, SD = 0.809). However, their perception of convenient banking hours is slightly lower (mean = 2.04, SD = 0.800). The use of formal financial services for daily transactions is less frequent (mean = 1.94, SD = 0.888), suggesting potential barriers to regular engagement. Comfort with digital banking platforms is moderately positive (mean = 2.18, SD = 0.731), indicating a growing

familiarity with technology-based financial solutions. Confidence in understanding basic financial concepts is also moderate (mean = 2.11, SD = 0.804), reflecting a need for improved financial literacy. In terms of proactive financial behaviors, respondents show a lower inclination to seek out financial education resources (mean = 1.87, SD = 0.793). Knowledge about different financial products and services is relatively higher (mean = 2.32, SD = 0.910), yet active participation in budgeting and saving activities through formal services is somewhat limited (mean = 2.44, SD = 0.638). The ease of finding ATMs and banking branches is fairly good (mean = 2.43, SD = 0.873), and there is a moderate perception of having multiple options for accessing credit and loans (mean = 2.51, SD = 1.117). Overall, these results highlight the need for enhanced accessibility, education, and encouragement for more active use of financial services to achieve better financial inclusion.

4.3.10 Financial Stability

Financial stability refers to a condition in which the financial system—comprising banks, financial markets, and financial infrastructure—operates efficiently and is capable of withstanding shocks, thereby reducing the likelihood of crises. It ensures that financial institutions are resilient, capable of meeting their obligations, and able to support economic activities by facilitating investment, savings, and consumption. A stable financial system mitigates systemic risks, promotes confidence among investors and consumers, and supports sustainable economic growth. Maintaining financial stability often involves regulatory oversight, prudent fiscal and monetary policies, and robust risk management practices to prevent and manage financial imbalances and vulnerabilities.

Table 15 : Status of Financial Stability

Financial Stability	N	Mean	Std. Deviation
(Q51) I feel confident in my ability to maintain a stable income over time.	100	2.51	.867
(Q52) My income is sufficient to cover my basic needs and expenses.	100	2.70	.956
(Q53) I have multiple sources of income that provide stability in case of unexpected financial setbacks.	100	2.42	.955
(Q54) I prioritize saving a portion of my income for future needs and emergencies.	100	1.94	.863
(Q55) I have a consistent savings plan and stick to it regularly.	100	2.35	1.050
(Q56) I have access to affordable credit options when needed, such as personal loans or credit cards.	100	2.33	.855
(Q57) I maintain a good credit history and score, which allows me to access credit on favorable terms.	100	2.56	1.002
(Q58) I feel confident in my ability to manage credit responsibly and avoid debt problems.	100	2.20	.748
(Q59) I feel prepared to handle financial emergencies without significant negative impact on my overall financial situation.	100	1.92	.745
(Q60) I regularly review and update my insurance coverage to ensure adequate protection for my family and myself.	100	2.08	.907
FI	100	2.3000	.51206
Valid N (listwise)	100		

The survey results on financial stability reveal a mixed picture of respondents' financial confidence and behaviors. On average, participants feel moderately confident in their ability to maintain a stable income over time (mean = 2.51, SD = 0.867) and find their income sufficient to cover basic needs and expenses (mean = 2.70, SD = 0.956). However, the stability provided by multiple income sources is slightly lower (mean = 2.42, SD = 0.955). Despite this, prioritizing savings for future needs and emergencies is relatively low (mean = 1.94, SD = 0.863), indicating potential vulnerabilities in financial planning. While some have a consistent savings plan (mean = 2.35, SD = 1.050), the overall commitment to regular saving could be improved. Access to affordable credit options and maintaining a good credit history are areas where respondents feel moderately confident (mean = 2.33, SD = 0.855 and mean = 2.56, SD = 1.002, respectively). Confidence in managing credit responsibly and avoiding debt problems is slightly lower (mean = 2.20, SD = 0.748). The ability to handle financial emergencies without significant impact is notably low (mean = 1.92, SD = 0.745), suggesting a lack of preparedness for unexpected financial challenges. Regularly reviewing and updating insurance coverage is also moderate (mean = 2.08, SD = 0.907). Overall, the financial stability index (FI) stands at 2.30 (SD = 0.512), indicating moderate confidence and stability among the respondents, with room for improvement in savings, emergency preparedness, and financial planning

4.4 Inferential Analysis

Inferential analysis involves using statistical methods to make inferences or draw conclusions about a population based on a sample of data. This process includes hypothesis testing, confidence interval estimation, and regression analysis to determine relationships between variables and predict future outcomes. By applying these techniques, researchers can assess the significance of their findings, generalize results to a broader context, and identify patterns or trends within the data. Inferential analysis is crucial for making data-driven decisions, as it allows for the estimation of population parameters and the testing of theoretical models with a known degree of certainty.

4.4.1Correlation Analysis Between informal financial networks and financial inclusion

Table 4. 16 : *Correlation Analysis between CIFN, SCF, EF & AFFS and FI*

Correlations						
		CIFN	SCF	EF	AFFS	FI
CIFN	Pearson Correlation	1				
	Sig. (2-tailed)					
SCF	Pearson Correlation	.113*	1			
	Sig. (2-tailed)	.050				
EF	Pearson Correlation	.018	.207**	1		
	Sig. (2-tailed)	.753	.000			
AFFS	Pearson Correlation	.138*	.186**	.450**	1	
	Sig. (2-tailed)	.017	.001	.000		
FI	Pearson Correlation	**.127***	**.294****	**.474****	**.737****	1
	Sig. (2-tailed)	**.028**	**.000**	**.000**	**.000**	

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Output : SPSS

The correlation analysis examines the relationships between various independent variables—Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), Economic Factors (EF), and Access to Formal Financial Services (AFFS)—with the dependent variable, Financial Inclusion (FI). The Pearson correlation coefficient indicates the strength and direction of these relationships. CIFN shows a significant positive correlation with FI ($r = 0.127$, $p = 0.028$), suggesting that as characteristics of informal financial networks improve, financial inclusion tends to increase. SCF also has a significant positive correlation with FI ($r = 0.294$, $p = 0.000$), indicating that favorable social and cultural factors are associated with higher levels of financial inclusion. Economic Factors (EF) display a stronger positive correlation with FI ($r = 0.474$, $p = 0.000$), implying that better economic conditions significantly enhance financial inclusion. The strongest correlation is observed between AFFS and FI ($r = 0.737$, $p = 0.000$), highlighting that improved access to formal financial services is strongly associated with higher financial inclusion. These results underscore the importance of each independent variable in contributing to financial inclusion, with access to formal financial services having the most substantial impact. Improving these factors can lead to better financial inclusion outcomes.

4.4.3 Correlation Analysis Between informal financial networks and financial Stability

Table 4. 17 : *Correlation Analysis between CIFN, SCF, EF & AFFS and FS*

		CIFN	SCF	EF	AFFS	FS
CIFN	Pearson Correlation	1				
	Sig. (2-tailed)					
SCF	Pearson Correlation	.430**	1			
	Sig. (2-tailed)	.000				
EF	Pearson Correlation	.147*	.306**	1		
	Sig. (2-tailed)	.011	.000			
AFFS	Pearson Correlation	.161**	.306**	.728**	1	
	Sig. (2-tailed)	.005	.000	.000		
FS	**Pearson Correlation**	**.388****	**.892****	**.448****	**.450****	**1**
	Sig. (2-tailed)	**.000**	**.000**	**.000**	**.000**	

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

*. Correlation is significant at the 0.05 level (2-tailed).

Output : SPSS

The correlation analysis explores the relationships between the independent variables—Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), Economic Factors (EF), and Access to Formal Financial Services (AFFS)—and the dependent variable, Financial Stability (FS). The Pearson correlation coefficients show the strength and significance of these relationships. CIFN has a moderate positive correlation with FS ($r = 0.388$, $p = 0.000$), suggesting that stronger informal financial networks are associated with better financial stability. SCF exhibits a very strong positive correlation with FS ($r = 0.892$, $p = 0.000$), indicating that favorable social and cultural factors are highly linked to enhanced financial stability. EF also shows a significant positive correlation with FS ($r = 0.448$, $p = 0.000$), implying that better economic conditions contribute significantly to financial stability. AFFS is positively correlated with FS ($r = 0.450$, $p = 0.000$), demonstrating that increased access to formal financial services is associated with improved financial stability. Additionally, the interrelationships among the independent variables reveal some significant correlations. CIFN is moderately

correlated with SCF (r = 0.430, p = 0.000) and slightly correlated with EF (r = 0.147, p = 0.011) and AFFS (r = 0.161, p = 0.005). SCF has a moderate positive correlation with EF (r = 0.306, p = 0.000) and AFFS (r = 0.306, p = 0.000). EF has a strong positive correlation with AFFS (r = 0.728, p = 0.000). These findings suggest that all independent variables positively contribute to financial stability, with social and cultural factors having the most substantial impact. Improving these factors can enhance overall financial stability.

4.4.4 Hypothesis Testing

Hypothesis testing is the use of statistics to determine the probability that a given hypothesis is true. Hypothesis testing is done using inferential analysis. Inferential analysis test hypotheses to determine if observed differences between groups or variables are real or occur simply by chance. The best way to determine whether a statistical hypothesis is true would be to examine the entire population. Since that is often impractical, researchers typically, examine a random sample from the population. If sample data are not consistent with the statistical hypothesis, the hypothesis is rejected. Each hypothesis is tested and analyzed individually and the analysis is done with a system designed for statistical analyses (SPSS).

Five null hypotheses were drawn for identifying relationship between dependent and independent variables in this study. Each hypothesis is tested based on the Pearson's correlation coefficient presented in Table 4.9 and Table 4.10 Test on each of these hypotheses is discussed below:

First hypothesis

$H1_1$: Characteristics of informal financial networks positively impact financial inclusion in Nepal.

Characteristics of Informal Financial Networks (CIFN) show a positive correlation with Financial Inclusion (FI) (r = 0.127, p = 0.028). Since the correlation coefficient (r) between CIFN and FI is positive and statistically significant at the 0.05 level (p = 0.028), we can infer that there is evidence to support the hypothesis H11: Characteristics of informal financial networks positively impact financial inclusion in Nepal. This suggests that as characteristics of informal financial networks improve in Nepal, there tends to be a corresponding increase in financial inclusion levels.

Therefore, the data from the correlation analysis provide support for the hypothesis that CIFN has a positive impact on FI in the context of Nepal.

$H1_2$: Characteristics of informal financial networks positively impact financial stability in Nepal.

Characteristics of Informal Financial Networks (CIFN) show a positive correlation with Financial Stability (FS) ($r = 0.388$, $p = 0.000$). This means that in Nepal, when informal financial networks have stronger characteristics, there tends to be higher financial stability. Therefore, based on this correlation, we can support the hypothesis H12: Characteristics of informal financial networks positively impact financial stability in Nepal.

Second Hypothesis

$H2_1$: Social and cultural factors positively affect financial inclusion in Nepal.

Social and Cultural Factors (SCF) show a strong positive correlation with Financial Inclusion (FI) ($r = 0.294$, $p = 0.000$).This indicates that in Nepal, favorable social and cultural factors are associated with higher levels of financial inclusion. Therefore, based on this correlation, we can support the hypothesis H21: Social and cultural factors positively affect financial inclusion in Nepal.

$H2_2$: Social and cultural factors positively affect financial stability in Nepal

Social and Cultural Factors (SCF) show a very strong positive correlation with Financial Stability (FS) ($r = 0.892$, $p = 0.000$). This suggests that in Nepal, favorable social and cultural factors significantly contribute to higher levels of financial stability. Therefore, based on this correlation, we can strongly support the hypothesis H22: Social and cultural factors positively affect financial stability in Nepal.

Third Hypothesis

$H3_1$: Economic factors positively impact financial inclusion in Nepal.

Economic Factors (EF) show a strong positive correlation with Financial Inclusion (FI) ($r = 0.474$, $p = 0.000$). This correlation suggests that economic factors play a significant role in expanding financial inclusion by creating opportunities for more people to participate in and benefit from formal financial systems. Therefore, based on this correlation, Economic factors positively impact financial inclusion in Nepal.

$H3_2$: Economic factors positively impact financial stability in Nepal.

Economic Factors (EF) show a positive correlation with Financial Stability (FS) (r = 0.448, p = 0.000). This correlation suggests that economic factors play a crucial role in enhancing financial stability by providing a foundation of economic resilience and capability to withstand financial shocks. Therefore, based on this correlation, Economic factors positively impact financial stability in Nepal.

Fourth Hypothesis

$H4_1$: Access to formal financial services increases reliance on informal financial networks, impacting financial inclusion in Nepal.

Access to Formal Financial Services (AFFS) shows a positive correlation with Characteristics of Informal Financial Networks (CIFN) (r = 0.161, p = 0.005). From these correlations, we can interpret that in Nepal, as access to formal financial services increases, there is a slight tendency for reliance on informal financial networks to also increase

$H4_2$: Access to formal financial services increases reliance on informal financial networks, impacting financial stability in Nepal

Access to Formal Financial Services (AFFS) shows a positive correlation with financial stability in Nepal. (r = 0.450, p = 0.005). From these correlations, , as access to formal financial services increases, there is a slight tendency for reliance on informal financial networks to also increase

Table 18 : *Result Summary of Hypothesis*

Statements	Results
Characteristics of informal financial networks positively impact financial inclusion in Nepal.	Significant
Characteristics of informal financial networks positively impact financial stability in Nepal.	Significant
Social and cultural factors positively affect financial inclusion in Nepal.	Significant
Social and cultural factors positively affect financial stability in Nepal.	Significant
Economic factors positively impact financial inclusion in Nepal.	Significant
Economic factors positively impact financial stability in Nepal.	Significant
Access to formal financial services increases reliance on informal financial networks, impacting financial inclusion in Nepal.	Significant
access to formal financial services increases reliance on informal financial networks, impacting financial stability in Nepal	Significant

Output : SPSS

4.5 Regression Analysis

The general purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. In statistical modeling, regression analysis is a statistical process for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. This section determines which independent variable explains variability in the outcome, how much variability in dependent variable is explained by independent variables and dependent variable, and which variables are significant (over other variables) in explaining the variability of the dependent variable. Multiple regressions were used to explore the impact of informal financial networks (independent variables: CIFN, SCF, EF, AFFS) and financial inclusion as well as financial stability (dependent variables).

4.5.1 Regression Analysis of Financial Inclusion

Table 19 : *Regression Analysis of Financial Inclusion*

						Change Statistics			
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.767[a]	.589	.583	.28983	.589	105.521	4	295	.000

a. Predictors: (Constant), Access to Formal Financial Services on FI, Characteristics of IFN Related to FI, SCF on FI, Economic Factors on FI

b. Dependent Variable: FI

The model summary provided indicates the results of a multiple regression analysis predicting Financial Inclusion (FI) based on several predictors: Access to Formal Financial Services (AFFS), Characteristics of Informal Financial Networks related to FI (CIFN), Social and Cultural Factors related to FI (SCF), and Economic Factors related to FI (EF). The overall model shows a coefficient of determination (R^2) of 0.589, indicating that approximately 58.9% of the variance in FI can be explained by the combination of these predictors. The adjusted R^2, which accounts for the number of predictors and sample size, is 0.583, suggesting a robust fit of the model to the data. The standard error of the estimate is 0.28983, indicating the average distance between the observed values and the predicted values of FI.

The F-test for overall significance shows a significant result ($F(4, 295) = 105.521$, $p < 0.001$), indicating that the model as a whole is a good fit for the data and that at least one of the predictors significantly contributes to predicting FI. Each predictor's coefficient (not detailed here) would show the direction and strength of its relationship with FI when controlling for the other predictors in the model. In summary, this multiple regression model suggests that AFFS, CIFN, SCF, and EF together have a substantial influence on Financial Inclusion in the context studied, highlighting the importance of both formal and informal financial factors, as well as social and economic conditions, in shaping levels of financial inclusion.

Table 21: *ANOVA of Financial Inclusion*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.457	4	8.864	105.521	.000[b]
	Residual	24.781	295	.084		
	Total	60.238	299			

a. Dependent Variable: FI

b. Predictors: (Constant), Access to Formal Financial Services on FI, Characteristics of IFN Related to FI, SCF on FI, Economic Factors on FI

The model summary provided displays the results of an analysis of variance (ANOVA) for a regression model predicting Financial Inclusion (FI) based on four predictors: Access to Formal Financial Services (AFFS), Characteristics of Informal Financial Networks related to FI (CIFN), Social and Cultural Factors related to FI (SCF), and Economic Factors related to FI (EF). The ANOVA table breaks down the variation in FI into two main components: regression and residual (error). The regression sum of squares (SSR) is 35.457, which indicates the amount of variation in FI that is explained by the predictors in the model. This is divided by the degrees of freedom (df) of 4 to give the mean square (MS) of 8.864. The F-statistic of 105.521 is computed by dividing the MSR by the mean square of the residuals (MSE), which measures the amount of unexplained variation in FI.

The significance level (Sig.) associated with the F-statistic is very low ($p < 0.001$), indicating that the regression model as a whole is statistically significant. This suggests that the combination of AFFS, CIFN, SCF, and EF significantly contributes to predicting FI beyond what would be expected by chance alone. The residual sum of squares (SSE) is 24.781, which represents the amount of variation in FI that is not

explained by the model. The total sum of squares (SST) is 60.238, which is the sum of SSR and SSE and represents the total variation in FI. In summary, the ANOVA table confirms that the regression model with AFFS, CIFN, SCF, and EF as predictors effectively explains a significant proportion of the variance in FI. This provides statistical support for the model's ability to predict levels of financial inclusion based on these factors in the context studied.

Table 20 : Coefficients *of Financial Inclusion*

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.473	.099		4.764	.000
	Characteristics of IFN Related to FI	.018	.034	.020	.529	.597
	SCF on FI	.080	.022	.141	3.649	.000
	Economic Factors on FI	.130	.035	.157	3.718	.000
	Access to Formal Financial Services on FI	.562	.037	.638	15.025	.000

a. Dependent Variable: FI

The table presents the coefficients from a multiple linear regression analysis predicting Financial Inclusion (FI) based on several predictors: Characteristics of Informal Financial Networks related to FI (CIFN), Social and Cultural Factors related to FI (SCF), Economic Factors related to FI (EF), and Access to Formal Financial Services (AFFS). The constant term (intercept) is 0.473, indicating the expected value of FI when all predictors are zero. CIFN shows a non-significant coefficient (B = 0.018, p = 0.597), suggesting it has minimal influence on FI once other predictors are accounted for. SCF has a coefficient of 0.080 (p = 0.000), indicating that a one-unit increase in SCF is associated with a 0.141 standard deviation increase in FI, holding other variables constant. EF has a coefficient of 0.130 (p = 0.000), meaning a one-unit increase in EF is associated with a 0.157 standard deviation increase in FI, controlling for other variables. AFFS shows the largest coefficient at 0.562 (p = 0.000), indicating a strong positive relationship with FI. A one-unit increase in AFFS is associated with a 0.638 standard deviation increase in FI, demonstrating its significant impact on financial inclusion. These standardized coefficients (Beta) indicate the relative importance of each predictor in explaining FI. SCF, EF, and particularly AFFS play significant roles in predicting higher levels of financial inclusion in the context

analyzed, highlighting the importance of both social, economic, and access-related factors in fostering financial inclusion initiatives and policies.

4.5.3 Regression Analysis of Financial Stability

Table 21 : *Regression Analysis of Financial Stability*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.915[a]	.836	.834	.20856	.836	376.834	4	295	.000

a. Predictors: (Constant), Access to Formal Financial Services on FS, Characteristics of IFN Related to FS, SCF on FS, Economic Factors on FS
b. Dependent Variable: FI

Output : SPSS

The model summary provided shows the results of a multiple regression analysis predicting Financial Inclusion (FI) based on several predictors: Access to Formal Financial Services on FI (AFFS), Characteristics of Informal Financial Networks related to FI (CIFN), Social and Cultural Factors related to FI (SCF), and Economic Factors related to FI (EF). The coefficient of determination (R^2) for the model is 0.836, indicating that approximately 83.6% of the variance in FI can be explained by the combination of these predictors. The adjusted R^2, which accounts for the number of predictors and sample size, is 0.834, suggesting a robust fit of the model to the data. The standard error of the estimate is 0.20856, indicating the average distance between the observed values and the predicted values of FI.

The F-test for overall significance shows a highly significant result ($F(4, 295) = 376.834$, $p < 0.001$), indicating that the model as a whole is a strong fit for the data and that at least one of the predictors significantly contributes to predicting FI. Each predictor's coefficient (not detailed here) would show the direction and strength of its relationship with FI when controlling for the other predictors in the model. In summary, this multiple regression model suggests that AFFS, CIFN, SCF, and EF together have a substantial influence on Financial Inclusion in the context studied. The high R^2 value indicates that these predictors collectively explain a large portion of the variability in FI, highlighting their importance in understanding and promoting financial inclusion initiatives and policies.

Table 22 : *ANOVA of Financial Stability*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.568	4	16.392	376.834	.000[b]
	Residual	12.832	295	.043		
	Total	78.400	299			

a. Dependent Variable: FI

b. Predictors: (Constant), Access to Formal Financial Services on FS, Characteristics of IFN Related to FS, SCF on FS, Economic Factors on FS

Output : SPSS

The model summary provided presents the results of an analysis of variance (ANOVA) for a regression model predicting Financial Inclusion (FI) based on four predictors: Access to Formal Financial Services on FI (AFFS), Characteristics of Informal Financial Networks related to FI (CIFN), Social and Cultural Factors related to FI (SCF), and Economic Factors related to FI (EF). The ANOVA table partitions the variation in FI into two main components: regression and residual (error). The regression sum of squares (SSR) is 65.568, indicating the amount of variability in FI that is explained by the predictors included in the model. This is divided by the degrees of freedom (df) of 4 to give the mean square (MS) of 16.392. The F-statistic of 376.834 is calculated by dividing the MSR by the mean square of the residuals (MSE), which measures the amount of unexplained variability in FI.

The significance level (Sig.) associated with the F-statistic is very low ($p < 0.001$), indicating that the regression model as a whole is statistically significant. This suggests that the combination of AFFS, CIFN, SCF, and EF significantly contributes to predicting FI beyond what would be expected by chance alone. The residual sum of squares (SSE) is 12.832, representing the variability in FI that is not explained by the model. The total sum of squares (SST) is 78.400, which is the sum of SSR and SSE and represents the total variability in FI. In summary, the ANOVA table confirms that the regression model with AFFS, CIFN, SCF, and EF as predictors effectively explains a significant proportion of the variability in FI. This provides statistical support for the model's ability to predict levels of financial inclusion based on these factors in the context studied.

Table 23 : Coefficients *of Financial Stability*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.224	.066		3.369	.001
Characteristics of IFN Related to FS	-.001	.026	-.001	-.051	.959
SCF on FS	.668	.022	.823	30.191	.000
Economic Factors on FS	.111	.034	.112	3.229	.001
Access to Formal Financial Services on FS	.116	.035	.117	3.364	.001

A Dependent Variable: FI

Output : SPSS

The provided regression coefficient table outlines the relationship between Financial Inclusion (FI) and its predictors: Characteristics of Informal Financial Networks related to FI (CIFN), Social and Cultural Factors related to FI (SCF), Economic Factors related to FI (EF), and Access to Formal Financial Services on FI (AFFS). The intercept of 0.224 suggests that when all predictors (CIFN, SCF, EF, AFFS) are zero, FI is estimated to be 0.224. This predictor has a coefficient of -0.001 ($p = 0.959$), indicating that there is no statistically significant relationship between CIFN and FI. This suggests that CIFN does not predict FI in this model.

SCF shows a strong positive relationship with FI, with a coefficient of 0.668 ($p < 0.001$). This means that for every one-unit increase in SCF, FI is expected to increase by 0.823 standard deviations, holding other variables constant. EF also has a positive relationship with FI, with a coefficient of 0.111 ($p = 0.001$). This indicates that for every one-unit increase in EF, FI is expected to increase by 0.112 standard deviations, controlling for other variables. AFFS shows a positive relationship with FI, with a coefficient of 0.116 ($p = 0.001$). This suggests that for every one-unit increase in AFFS, FI is expected to increase by 0.117 standard deviations, after accounting for other variables.

Overall, SCF appears to be the most influential predictor in this model, followed by EF and AFFS, all contributing positively to predicting higher levels of FI. CIFN,

however, does not show a significant association with FI in this analysis. This regression model highlights the importance of social and economic factors, as well as access to formal financial services, in understanding and promoting financial inclusion in the context studied.

4.6 Major Finding

- The primary survey in Nepal revealed a substantial representation of students (59%), highlighting perspectives from the younger, educated demographic. Households (13%) provided insights into daily financial management, while bankers (28%) offered views on the interaction between informal and formal financial systems, contributing to a holistic understanding of financial inclusion dynamics. The survey in Nepal achieved a balanced gender distribution, with 56% female respondents, highlighting women's pivotal role in household financial management and their engagement with informal financial networks.
- The survey in Nepal showcased diverse age representation, with 71.0% of respondents aged between 20 and 30 years, highlighting insights into young adults' financial behaviors and preferences. Additionally, 17% were under 20 years old, providing perspectives from the younger generation on informal financial networks. The survey in Nepal highlighted a diverse educational background among respondents, with a significant representation from individuals holding master's degrees (49%) and above (21%). Moreover, respondents with educational qualifications below the master's level (30%) .
- Lower-income groups (19% and 42.%) demonstrate significant dependence, while higher-income segments (19.% and 20%) suggest differing access to formal financial institutions, influencing financial behaviors and stability strategies.
- The study confirms strong internal consistency among constructs related to informal financial networks, with an overall Cronbach's Alpha of 0.927, indicating reliable measurement scales across various dimensions of financial inclusion and stability. This supports robust interpretation of factors influencing financial outcomes within informal financial networks.
- The analysis demonstrates consistent and positive perceptions of informal financial networks' role in promoting financial inclusion, with uniform mean values of 1.56 across all related survey items.

- The study reveals consistent agreement among respondents regarding informal financial networks' role in enhancing income stability, saving habits, and access to loans, with a mean of 1.56..
- The analysis underscores varying levels of agreement among respondents regarding the impact of social and cultural factors on financial inclusion, with mean values ranging from 2.09 to 2.51.
- The analysis reveals varied agreement among respondents regarding the influence of social and cultural factors on financial stability, with mean values ranging from 1.94 to 2.70.
- The analysis highlights varying perceptions among respondents regarding the influence of economic factors on financial inclusion, with mean values ranging from 1.92 to 2.56. This underscores the significant impact of income levels, economic stability, and community economic conditions on access to informal financial services in Nepal.
- The analysis reveals that economic factors significantly influence financial stability, with respondents recognizing the role of stable economic conditions and participation in informal financial networks in enhancing income stability. However, challenges during economic downturns highlight the need for resilient financial strategies and supportive economic environments in Nepal.
- The analysis highlights that limited access to formal financial services increases reliance on informal networks, underscoring their pivotal role in financial inclusion in Nepal. Addressing these access barriers is crucial for fostering broader financial inclusion and enhancing economic opportunities and resilience among underserved populations.
- The analysis reveals that limited access to formal financial services increases reliance on informal networks for financial stability, highlighting their crucial role in filling gaps left by formal institutions in Nepal. Addressing barriers to formal financial service access is essential for enhancing overall financial resilience and reducing dependency on informal networks over time.
- The correlation analysis reveals significant positive relationships between Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), Economic Factors (EF), Access to Formal Financial Services (AFFS), and Financial Inclusion (FI), with AFFS showing the strongest correlation ($r = 0.737$, $p = 0.000$). Enhancing these factors, particularly access to

formal financial services, is crucial for improving financial inclusion outcomes in Nepal.

- The correlation analysis highlights strong positive relationships between Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), Economic Factors (EF), Access to Formal Financial Services (AFFS), and Financial Stability (FS), with SCF showing the strongest correlation ($r = 0.892$, $p = 0.000$). Enhancing these factors, particularly social and cultural factors, is crucial for improving financial stability in Nepal.
- The multiple regression analysis indicates that Access to Formal Financial Services (AFFS), Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), and Economic Factors (EF) collectively explain 58.9% of the variance in Financial Inclusion (FI), emphasizing their significant roles in influencing FI outcomes. The ANOVA results confirm that the regression model using predictors AFFS, CIFN, SCF, and EF significantly explains variance in Financial Inclusion (FI), underscoring their collective predictive power in this context ($F(4, 295) = 105.521$, $p < 0.001$). Access to Formal Financial Services (AFFS) exhibits the strongest positive influence on Financial Inclusion (FI), highlighting its critical role in enhancing FI outcomes (Beta = 0.562, $p = 0.000$).
- The multiple regression model indicates that Access to Formal Financial Services (AFFS), Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), and Economic Factors (EF) collectively explain 83.6% of the variance in Financial Inclusion (FI) ($R2 = 0.836$, adjusted $R2 = 0.834$, $p < 0.001$), emphasizing their significant role in shaping FI outcomes.
- The ANOVA results indicate that the regression model with predictors including Access to Formal Financial Services (AFFS), Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), and Economic Factors (EF) effectively explains a substantial amount of the variability in Financial Inclusion (FI) ($R2 = 0.836$, $p < 0.001$). This underscores the significant role of these factors in predicting FI outcomes and supports their importance in financial inclusion strategies and policies.
- Social and Cultural Factors (SCF) exhibit a strong positive association with Financial Inclusion (FI) ($\beta = 0.668$, $p < 0.001$), highlighting their significant role in predicting higher levels of FI, while Characteristics of Informal Financial Networks (CIFN) do not show a significant relationship with FI in this model.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The thesis investigates the role and impact of informal financial networks on financial inclusion and stability in Nepal. Nepal, characterized by its rugged terrain and dispersed population, faces significant challenges in financial inclusion. Formal financial institutions often struggle to reach rural and remote areas, leading to the proliferation of informal financial networks. These networks, deeply rooted in Nepalese society, provide essential financial services such as savings, credit, and insurance to underserved populations. The primary objective of this thesis is to analyze the impact of informal financial networks on financial inclusion and stability in Nepal. It seeks to understand how these networks function and their role in providing financial services to those excluded from formal financial systems. Additionally, the research aims to identify factors that enhance or hinder the effectiveness of these networks in promoting financial stability.

The thesis employs a comprehensive conceptual framework to explore the dynamics of informal financial networks. It considers various factors, including the characteristics of these networks, social and cultural influences, and economic conditions. The framework aims to capture the interactions between informal financial practices and broader financial inclusion and stability outcomes . Despite the significance of informal financial networks, there is a notable gap in empirical research regarding their usage and impact in Nepal. Most studies focus on specific aspects of financial inclusion without considering the broader socio-economic implications. This research aims to fill this gap by providing a detailed analysis of the role of informal financial networks across different demographic and geographic contexts .

The study employs convenience sampling to select participants from various demographic groups within the Kathmandu Valley. The sample includes students, household men, and bankers to capture diverse perspectives on financial behaviors and access to financial services. Approximately 100 respondents were targeted for quantitative surveys, complemented by qualitative data from structured questionnaires

and focus group discussions. A mixed-method approach is adopted, combining descriptive and exploratory research designs. Primary data is collected through questionnaires distributed to bank employees and other respondents. The data collection process involved personal visits and structured interviews to ensure comprehensive and reliable data. The data is analyzed using quantitative methods, including frequency analysis and regression analysis.

The thesis explores the predictors of Financial Inclusion (FI) through a multiple regression analysis, identifying several key factors: Access to Formal Financial Services (AFFS), Characteristics of Informal Financial Networks (CIFN), Social and Cultural Factors (SCF), and Economic Factors (EF). The regression model shows that these factors collectively explain approximately 58.9% of the variance in FI, with a robust fit indicated by an adjusted R^2 of 0.583. The F-test for overall significance confirms the model's validity, showing a highly significant result ($F(4, 295) = 105.521$, $p < 0.001$). Among the predictors, AFFS, SCF, and EF significantly contribute to predicting FI, while CIFN does not show a significant association.

The analysis of variance (ANOVA) for the regression model further supports the significance of the predictors. The ANOVA results show a regression sum of squares of 35.457 and a residual sum of squares of 24.781, indicating that a substantial portion of the variance in FI is explained by the model. The F-statistic of 105.521 ($p < 0.001$) reaffirms the model's overall significance, suggesting that the combination of AFFS, SCF, and EF significantly impacts FI beyond random chance.

The regression coefficients provide deeper insights into the relationships between the predictors and FI. AFFS has the most substantial impact, with a standardized coefficient (Beta) of 0.638, indicating that increased access to formal financial services strongly enhances financial inclusion. SCF and EF also positively influence FI, with coefficients of 0.141 and 0.157, respectively, highlighting the roles of social, cultural, and economic factors in promoting FI. However, CIFN does not significantly predict FI, suggesting that informal financial networks have a limited impact when formal and other contextual factors are considered.

The survey conducted as part of the thesis in Nepal provides contextual insights, showing diverse demographic representation. The survey included students (59.3%), households (13%), and bankers (28%), offering a comprehensive view of financial

inclusion dynamics. The gender distribution was balanced, with 56% female respondents, emphasizing women's crucial role in financial management. Age-wise, the majority of respondents were between 20 and 30 years old (71%), with significant insights from younger individuals on informal financial networks. Educational backgrounds varied, with a notable proportion holding master's degrees (49%) and above (21%).

Overall, the findings underscore the importance of formal financial services, social and cultural factors, and economic conditions in enhancing financial inclusion. The study suggests that policies aimed at improving access to formal financial services and addressing socio-economic barriers can significantly promote financial inclusion. However, informal financial networks may not play as pivotal a role in this context, highlighting the need for a balanced approach that leverages both formal and informal financial systems to achieve broader financial inclusion goals.

5.2 Conclusions

The analysis of the impact of informal financial networks on financial inclusion and stability in Nepal reveals several critical insights. Firstly, the multiple regression analysis demonstrated that the combination of access to formal financial services, characteristics of informal financial networks, social and cultural factors, and economic factors significantly predict financial inclusion. With an R^2 of 0.589, the model explains a substantial portion of the variance in financial inclusion, indicating that these factors are integral to understanding and improving financial inclusion in Nepal.

The study further highlights that while there is moderate confidence among respondents in managing their financial stability, significant gaps remain in emergency preparedness and regular savings habits. The Financial Stability Index (FSI) average stands at 2.30, reflecting a need for enhanced financial planning and security measures among individuals. This underscores the importance of targeted interventions to bolster financial resilience and inclusion through both formal and informal channels.

Moreover, the correlation analysis indicated strong associations between economic factors and financial inclusion, with the highest correlation observed between access to formal financial services and financial inclusion ($r = 0.737$). This emphasizes the pivotal role of formal financial institutions in facilitating greater financial inclusion. The significant correlations between social and cultural factors and financial inclusion also point to the influence of societal norms and practices on financial behaviors.

The ANOVA results corroborated the regression findings, confirming that the predictors collectively contribute significantly to financial inclusion. The model's significance ($p < 0.001$) indicates that enhancing access to formal financial services and addressing social and economic barriers can substantially improve financial inclusion outcomes. This aligns with the broader objective of integrating informal financial networks with formal financial systems to create a more inclusive financial environment. In conclusion, the study provides a comprehensive analysis of the factors influencing financial inclusion and stability in Nepal. It underscores the importance of both formal and informal financial networks, highlighting the need for policies that enhance access to formal financial services while leveraging the strengths of informal networks. Addressing economic and social barriers is crucial for achieving greater financial inclusion and stability, thereby contributing to the overall economic development and financial health of the population.

The study found that characteristics of informal financial networks (CIFN) have a significant positive impact on financial inclusion and financial stability in Nepal. The positive correlation between CIFN and financial inclusion suggests that as these informal networks improve, more people are included in the financial system. Similarly, the enhancement of CIFN leads to greater financial stability, indicating that these networks provide a reliable safety net for individuals. Social and cultural factors (SCF) also play a crucial role in promoting financial inclusion and stability. The strong positive correlation between SCF and financial inclusion indicates that favorable social and cultural environments encourage more individuals to participate in the financial system. Additionally, these factors significantly enhance financial stability, highlighting the importance of community support and cultural norms in maintaining financial well-being.

Economic factors (EF) are strongly correlated with both financial inclusion and financial stability. Improved economic conditions, such as better employment opportunities and higher income levels, facilitate greater participation in formal financial systems and enhance the ability of individuals to maintain financial stability. The study underscores the critical role of economic growth in fostering a more inclusive and stable financial environment. Access to formal financial services (AFFS) emerged as the most significant predictor of financial inclusion and stability. The strong positive correlation between AFFS and financial inclusion demonstrates that increased availability of formal financial services greatly expands the reach of the financial system. Furthermore, the positive impact of AFFS on financial stability indicates that formal financial services provide essential support in managing financial risks and uncertainties.

The study highlights the interconnectedness of the various factors affecting financial inclusion and stability. Improvements in one area, such as access to formal financial services, can have a cascading effect, enhancing other areas like economic conditions and social stability. This interconnectedness suggests that a holistic approach is needed to improve financial inclusion and stability, addressing multiple factors simultaneously.

5.3 Recommendations

- Policy Development for Financial Inclusion: Policymakers should develop inclusive financial policies that integrate informal financial networks (IFNs) to enhance access to financial services for underserved populations. Recognizing the role of IFNs can help bridge gaps where formal financial institutions are absent.
- Regulatory Framework Enhancement: There is a need to create tailored regulatory frameworks that acknowledge the unique characteristics of IFNs while ensuring consumer protection and financial stability. Such frameworks should balance the flexibility of informal systems with the robustness of formal regulations.
- Financial Literacy Programs: Implementing financial literacy programs targeted at both users and providers of IFNs can promote informed decision-making and responsible financial behaviors. These programs can empower individuals and enhance the effectiveness of IFNS.

- Support for Women and Marginalized Groups: IFNS often empower women and marginalized groups by providing them with financial independence. Strengthening these networks can contribute to greater economic and social empowerment of these groups.
- Risk Management Strategies: Developing strategies to manage the risks associated with IFNs, such as exploitation and fraud, is crucial. This includes establishing mechanisms for monitoring and addressing issues within these networksm.
- Integration with Formal Systems: Efforts should be made to integrate informal network users into the formal financial system. This can be achieved through initiatives that facilitate the transition from informal to formal financial services without disrupting the benefits that IFNs provide.
- Encouraging Innovation: Policymakers and stakeholders should encourage innovation within IFNs to improve their efficiency and reach. Leveraging technology can enhance the functionality and accessibility of these networks, making them more effective in serving their communities.
- Social Capital and Community Building: Recognizing and fostering the social capital generated by IFNs can strengthen community bonds and promote collective action. These networks not only provide financial services but also contribute to social cohesion and mutual support within communities.
- Economic Stability and Poverty Reduction: By providing access to essential financial services, IFNs can play a significant role in poverty reduction and economic stability. Supporting these networks can lead to improved economic outcomes for participants and communities at large.
- Long-term Sustainability: Ensuring the long-term sustainability of IFNs requires continuous evaluation and adaptation of policies and practices. Stakeholders should regularly assess the impact of IFNs and adjust strategies to address emerging challenges and opportunities.

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APPENDIX: QUESTIONNAIRE

Shankar Dev Campus

Putalisadak, Kathmandu

Masters of Business Studies Specialization on Finance

Dear Respondent,

This is a questionnaire designed to assist the researcher to complete the academic research project on Impact of Informal Financial Networks on Financial Inclusion and Stability in Nepal, which is a partial fulfillment of the requirements for the award of a Master of Business Studies Specialization on Finance of Tribhuvan University. Please take a few minutes of your time to complete this questionnaire. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in building knowledge on the effects of Impact of Informal Financial Networks on Financial Inclusion and Stability in Nepal, Kindly answer all questions.

Part I: Personal Information

Please mark " ☐ " in appropriate boxes or fill the details in the space provided.

1. Job Position:

- Student ☐
- Household ☐
- Banker ☐
- …….. ☐

2. Gender

- Male ☐
- Female ☐

3. Age

- Less 20 years ☐
- 20-30 Years ☐

30-45 years ☐

Over 45 years ☐

4. **Educational Qualification:**

PHD Level ☐

M. Phil Level ☐

Master's Level ☐

Below Master Level ☐

5. **Monthly income level :**

Less than 20 thousand ☐

20 to 50 thousand ☐

50 to 1 lakh ☐

Above 1 lakh ☐

Part II : **Please Mark "☐" to show to what extent you agree with the following statements:**

1- Strongly Agree	2- Agree	3- Neutral	4- Disagree	5- Strongly disagree

S.N.	Statements	1	2	3	4	5
	Characteristics of Informal Financial Networks (CIFN) on Financial Inclusion					
1.	(Q1) The informal financial network I am part of provides easy access to savings opportunities.					
2.	(Q2) I frequently use the financial services offered by my informal financial network.					
3.	(Q3) My informal financial network offers financial education and literacy programs.					
4.	(Q4) The size of my informal financial network positively affects my access to credit.					
5.	(Q5) The frequency of transactions within my informal financial network helps me manage my finances better					
	Characteristics of Informal Financial Networks (CIFN) on Financial Stability					
1.	(Q6) Being part of an informal financial network has increased my income stability.					
2.	(Q7) I save more regularly due to the influence of my informal financial network.					
3.	(Q8) I find it easier to obtain loans from my					

	informal financial network than from formal financial institutions.					
4.	(Q9) My informal financial network provides support during financial emergencies.					
5.	(Q10) The diversity of financial products in my informal network enhances my financial stability.					
	Social and Cultural Factors					
	Social and Cultural Factors (SCF) on Financial Inclusion					
1.	(Q11) Trust within my informal financial network enhances my access to financial services.					
2.	(Q12) Social capital in my community influences my usage of informal financial services.					
3.	(Q13) Cultural practices in my community support saving and borrowing activities.					
4.	(Q14) Community norms encourage participation in informal financial networks.					
5.	(Q15) My financial literacy has improved due to cultural influences in my community.					
	Social and Cultural Factors (SCF) on Financial Stability					
1.	(Q16) Trust within my informal financial network contributes to my income stability.					
2.	(Q17) Social capital in my community helps me save more effectively.					
3.	(Q18) Cultural practices in my community facilitate better access to credit.					
4.	(Q19) Community norms provide a safety net during financial emergencies.					
5.	(Q20) Social support within my informal financial network helps me mitigate financial risks.					
	Economic Factors					
	Economic Factors (EF) on Financial Inclusion					
6.	(Q21) My income level affects my access to informal financial services.					
7.	(Q22) Economic stability in my area influences my usage of informal financial services.					
8.	(Q23) Higher income levels in my community lead to better financial literacy.					
9.	(Q24) Economic conditions in my community affect the availability of informal financial services.					
10.	(Q25) The overall economic environment influences my financial decisions.					
	Economic Factors (EF) on Financial Stability					
1.	(Q26) My income stability is influenced by my participation in informal financial networks.					
2.	(Q27) Stable economic conditions in my area promote consistent saving habits.					
3.	(Q28) My access to credit is better during favorable economic conditions.					
4.	(Q29) Economic resilience in my community helps					

	mitigate financial risks.					
5.	(Q30) The overall economic environment affects my financial stability.					
	Access to Formal Financial Services					
	Access to Formal Financial Services (AFFS) on Financial Inclusion					
1.	(Q31) Limited access to formal banking services increases my reliance on informal financial networks.					
2.	(Q32) The lack of formal financial services in my area enhances the role of informal financial networks.					
3.	(Q33) Informal financial networks provide necessary financial services in the absence of formal options.					
4.	(Q34) My financial literacy has improved due to participation in informal financial networks.					
5.	(Q35) Informal financial networks help bridge the gap left by formal financial institutions.					
	Access to Formal Financial Services (AFFS) on Financial Stability					
1.	(Q36) Limited access to formal financial services makes informal networks crucial for my income stability.					
2.	(Q37) I save more through informal financial networks due to the lack of formal options.					
3.	(Q38) Informal financial networks provide necessary credit services that formal institutions do not.					
4.	(Q39) Informal financial networks offer support during financial emergencies in the absence of formal services.					
5.	(Q40) The absence of formal financial services makes informal networks essential for my financial stability.					

Part III: Information Regarding Financial Inclusion and Stability

1- Strongly Agree	2- Agree	3- Neutral	4- Disagree	5- Strongly disagree

Please Mark "□" to show to what extent you agree with the following statements:

S.N.	Statements	1	2	3	4	5
	Financial Inclusion					
1.	(Q41) I have easy access to a variety of financial services in my community.					
2.	(Q42) Financial institutions in my area offer convenient hours for banking services.					
3.	(Q43) I regularly use formal financial services for					

	managing my day-to-day financial transactions.					
4.	(Q44) I feel comfortable using digital banking platforms provided by formal financial institutions.					
5.	(Q45) I feel confident in my understanding of basic financial concepts such as interest rates and credit scores.					
6.	(Q46) I actively seek out financial education resources to improve my financial knowledge.					
7.	(Q47) I feel knowledgeable about different financial products and services offered by formal financial institutions.					
8.	(Q48) I actively participate in financial activities such as budgeting and saving using formal financial services.					
9.	(Q49) I can easily find ATMs and banking branches near my residence.					
10.	(Q50) I have multiple options for accessing credit and loans from formal financial institutions.					
	Financial Stability					
1.	(Q51) I feel confident in my ability to maintain a stable income over time.					
2.	(Q52) My income is sufficient to cover my basic needs and expenses.					
3.	(Q53) I have multiple sources of income that provide stability in case of unexpected financial setbacks.					
4.	(Q54) I prioritize saving a portion of my income for future needs and emergencies.					
5.	(Q55) I have a consistent savings plan and stick to it regularly.					
6.	(Q56) I have access to affordable credit options when needed, such as personal loans or credit cards.					
7.	(Q57) I maintain a good credit history and score, which allows me to access credit on favorable terms.					
8.	(Q58) I feel confident in my ability to manage credit responsibly and avoid debt problems.					
9.	(Q59) I feel prepared to handle financial emergencies without significant negative impact on my overall financial situation.					
10.	(Q60) I regularly review and update my insurance coverage to ensure adequate protection for my family and myself.					

Thank You Very Much for Your Valuable Time, Cooperation, Patience and Information

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1 CHAPTER – I INTRODUCTION 1.1 Background of Study Nepal, nestled within **the**

majestic Himalayas, is renowned for its breathtaking natural beauty and rich cultural diversity. Yet, despite these remarkable attributes, the nation grapples with formidable challenges, particularly in the realms of financial inclusion and stability. The formal financial sector in Nepal encounters significant hurdles in extending its services to all segments of the population, resulting in the underserving of numerous individuals and businesses. This persistent gap has catalyzed the emergence and proliferation of informal financial networks, which have become indispensable components of Nepal's financial ecosystem. However, in Nepal, the specter of financial exclusion looms large, particularly in rural and remote areas. Data from the World Bank paints a stark picture, revealing that only 61% of Nepalis aged 15 and above have access to formal financial services (World Bank, 2020), leaving a substantial portion reliant on informal financial networks to fulfill their financial needs. These informal financial networks in Nepal encompass a diverse array of practices and institutions, ranging from rotating savings and credit associations (ROSCAs) to moneylenders and informal remittance channels. However, alongside their contributions, these informal financial networks also harbor inherent risks and challenges. The absence of formal regulation exposes participants to exploitation and fraud, while the informality of these networks complicates efforts to monitor and regulate financial transactions (Kar, 2013). Operating outside formal regulatory frameworks, these networks often hinge on trust and social networks to facilitate transactions (Bateman & Chang, 2013). Financial inclusion, denoting the process of providing access to formal financial services to all members of society, stands as a linchpin for fostering economic development and reducing poverty (Demirgüç-Kunt & Klapper, 2012). Financial inclusion, denoting the process of providing access to formal financial services to all members of society, stands as a linchpin for fostering economic development and reducing poverty (Demirgüç-Kunt & Klapper, 2012). Particularly for those residing in rural areas, these networks serve as the primary conduits for accessing essential financial services such as savings, credit, and insurance. The prevalence of informal financial networks in Nepal is influenced by a multifaceted interplay of historical, cultural, and economic factors. Nepal's rugged terrain and dispersed population pose formidable challenges for the establishment of formal financial institutions, particularly in remote regions (Boucher & Guirkinger, 2007). Additionally, deeply ingrained cultural norms emphasizing mutual assistance and solidarity contribute to the widespread adoption of informal financial practices (Porteous, 2005). In subsequent sections, this thesis proposal will delve into the background

and context of informal financial networks in Nepal, review pertinent literature, outline research objectives and methodology, discuss anticipated contributions, and culminate with implications for policy and practice. Through this holistic approach, this study aims to enrich our comprehension of informal finance in Nepal and furnish recommendations for fostering enhanced financial inclusion and stability across the nation. Nepal, nestled within the majestic Himalayas, is renowned for its breathtaking natural beauty and rich cultural diversity. Yet, despite these remarkable attributes, the nation grapples with formidable challenges, particularly in the realms of financial inclusion and stability. The formal financial sector in Nepal encounters significant hurdles in extending its services to all segments of the population, resulting in the underserving of numerous individuals and businesses. However, in Nepal, the specter of financial exclusion looms large, particularly in rural and remote areas. Operating outside formal regulatory frameworks, these networks often hinge on trust and social networks to facilitate transactions (Bateman & Chang, 2013). Particularly for those residing in rural areas, these networks serve as the primary conduits for accessing essential financial services such as savings, credit, and insurance. The prevalence of informal financial networks in Nepal is influenced by a multifaceted interplay of historical, cultural, and economic factors. Nepal's rugged terrain and dispersed population pose formidable challenges for the establishment of formal financial institutions, particularly in remote regions (Boucher & Guirkinger, 2007). Additionally, deeply ingrained cultural norms emphasizing mutual assistance and solidarity contribute to the widespread adoption of informal financial practices (Porteous, 2005). However, alongside their contributions, these informal financial networks also harbor inherent risks and challenges. Thus, this thesis aims to bridge this gap by examining the role of informal financial networks in Nepal and their implications for broader economic development objectives. Through meticulous analysis of their prevalence, usage patterns, and impact, this research seeks to provide invaluable insights into their contributions to financial inclusion and stability, while also addressing the challenges they pose to regulators and policymakers. 1.2 Statement of Problem The impact of informal financial networks on financial inclusion and stability in Nepal is a multifaceted issue that warrants careful examination. These networks, while providing essential financial services to underserved communities, often operate outside formal regulatory frameworks, presenting challenges to achieving broader financial inclusion objectives. Moreover, their presence may contribute to systemic risks, including issues related to consumer protection, money laundering, and financial fraud, thus potentially undermining the stability of Nepal's financial system. Understanding the dynamics between formal and informal financial systems is crucial for policymakers and stakeholders to devise effective strategies that balance the benefits of informal networks in expanding access to financial services with the need to mitigate associated risks and promote stability. The absence of formal regulation exposes participants to exploitation and fraud, while the informality of these networks complicates efforts to monitor and regulate financial transactions (Kar, 2013 Furthermore, there exists the potential for informal financial networks to exacerbate income inequality and perpetuate financial exclusion by favoring select groups (Kabeer, 2012). Given the paramount significance of informal financial networks within Nepal's financial landscape, understanding their impact on both financial inclusion and stability is imperative. Efforts to address the impact of informal financial networks in Nepal must consider the complex interplay between regulatory frameworks, economic dynamics, and societal factors. Initiatives aimed at enhancing financial inclusion should not only focus on expanding access to formal banking services but also strive to integrate informal network users into the formal financial system. This requires tailored regulatory approaches that recognize the unique characteristics of informal networks while ensuring consumer protection and financial stability. Additionally, capacity- building efforts targeted at both informal financial service providers and users can help

promote financial literacy and empower individuals to make informed decisions about their

financial activities, ultimately contributing to a more inclusive and resilient financial ecosystem in Nepal. thus the statements of Problems will be : 1. How extensive is the utilization of informal financial networks in Nepal ? 2. What is the extent of the impact of informal financial networks on promoting financial inclusion in Nepal ? 3. What is the the relationship between informal financial networks and financial stability in Nepal ? 1.3 Objective of the study The main purpose of the study is to analyze the Impact of Informal Financial Networks on Financial Inclusion and Stability in Nepal. Base on main purpose, others purpose of study will be as follows 1. To investigate the extent of informal financial network usage in Nepal 2. To assess the impact of informal financial networks on financial inclusion in Nepal 3. To Aanalyzenalyze the relationship between informal financial networks and financial