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IMPACT OF FINANCIAL INCLUSION ON TOURISM DEVELOPMENT IN POKHARA, NEPAL

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ABSTRACT

Financial inclusion, broadly defined as the provision of affordable and appropriate financial services, is increasingly recognized as a critical driver of tourism development, particularly in developing countries like Nepal. However, empirical evidence specific to Pokhara, Nepal's major tourism hub, remains limited. This study investigates the impact of financial inclusion on tourism development in Pokhara, focusing on three dimensions – access, quality, and usage of financial services. A descriptive and analytical research design was employed. Primary data were collected through a structured questionnaire from 160 tourism-related entrepreneurs, including hotels, restaurants, tour operators, transportation services, and local artisans, using purposive sampling. Data were analyzed using descriptive statistics, exploratory factor analysis (EFA), correlation, and multiple regression analysis to assess relationships between financial inclusion and tourism development. Results indicate generally positive perceptions toward financial inclusion, with higher ratings for quality and usage compared to access. Correlation analysis revealed significant positive associations between all financial inclusion dimensions and tourism development. Regression analysis demonstrated that quality ($\beta = 0.400$, $p < 0.001$) and usage ($\beta = 0.201$, $p < 0.001$) significantly predict tourism development, while access showed no significant effect. The model explained 48.3% of the variance in tourism development. The study concludes that financial inclusion positively contributes to tourism development in Pokhara, with quality and usage emerging as critical drivers, whereas access alone is insufficient. Policymakers and financial institutions should prioritize enhancing service quality, tailoring products to entrepreneurs' needs, and promoting active usage of financial tools – especially digital services – to foster tourism development in Nepal.

JEL Classification: G21, Z32, C30, O16

KEYWORDS:

Financial inclusion, Nepal, regression, tourism development

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INTRODUCTION

Financial inclusion, in a broad sense, refers to the availability of affordable and suitable formal financial services that effectively address the needs of both households and enterprises (ADB, 2015). Financial inclusion plays a critical role in the development of the tourism sector across both emerging and advanced economies. By ensuring individuals and enterprises have access to financial services, financial inclusion helps facilitate better investment in tourism infrastructure, enhance service delivery, and ultimately bolster economic growth within the sector.

The link between financial inclusion and tourism development is underscored by empirical research that identifies financial services as fundamental to improving tourism dynamics. For instance, Shi et al. (2020) mentioned how financial inclusion significantly contributes to tourism development in advanced and emerging economies, providing evidence that higher inclusion leads to increased investment in tourism infrastructure, which can enhance tourist experiences and increase visitor numbers. Moreover, Islam et al. (2023) demonstrated that financial inclusion rates positively correlate with tourism and economic growth particularly in contexts like Bangladesh where governance and financial inclusiveness boost tourism development.

Financial inclusion is increasingly recognized as a vital enabler for tourism development, particularly in developing country like Nepal. The relationship between financial inclusion and tourism is multifaceted, influencing not just economic growth but also societal factors and community livelihoods. Firstly, financial inclusion facilitates access to financial services, allowing entrepreneurs and small business owners, especially in the tourism sector, to invest, innovate, and sustain their operations. Shi et al. (2020) emphasize that financial inclusion significantly promotes tourism development across both advanced and emerging economies. This assertion aligns with the observations of Khatiwada et al. (2022), who note that the Nepalese government has actively supported the development of tourism-related businesses through tailored financial policies, thereby boosting local economies in regions like Pokhara. Furthermore, the interplay between financial services and tourism can result in enhanced livelihoods for local communities; as tourism activities grow, they yield income opportunities that attract more investment.

Pokhara is the major tourism destinations in Nepal, offering natural beauty, cultural diversity, religious sites, adventure activities, and community-based homestays. Tourism here contributes to economic, social, cultural, and environmental development. Financial inclusion plays a critical role in supporting this growth by providing tourism entrepreneurs and local communities with access to essential financial services such as credit, savings, and insurance. These services empower small and medium tourism enterprises to invest, expand, and innovate, thereby enhancing tourism offerings. Banking and financial institutions thus serve as key enablers of tourism development, contributing to job creation, business growth, and sustainable socio-economic progress. Previous studies (Shi et al., 2021; Zhang et al., 2023; Islam et al., 2023; Gopalan & Khalid, 2024) highlight that financial inclusion significantly influences tourism development by fostering entrepreneurship and increasing consumer spending. Further, Qu and Wang (2025), Luo et al. (2024) demonstrate that digital finance development is a significant driver of tourism consumption growth.

While global and regional studies emphasize the positive relationship between financial inclusion and tourism development, there is limited empirical evidence focusing on Pokhara, a region heavily dependent on tourism. This study explores the critical relationship between financial inclusion and tourism development in Pokhara, Nepal. By assessing the role of financial services, the study identifies how accessibility, quality, and usage of financial products influence tourism growth. The findings aim to inform policymakers and financial institutions in Nepal on developing targeted strategies to improve financial inclusion, thereby strengthening the tourism sector.

REVIEW OF LITERATURE

Financial inclusion is the process that ensures the accessibility, availability and usage of an official financial system for all society members of an economy (Sarma, 2008). It includes credit, savings and payments methods. Financial inclusion helps people and

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businesses to engage in the economy and develop financial stability, which is crucial for economic growth and eradication of poverty (World Bank, 2021). Financial inclusion is a multidimensional concept which is measured using different dimensions including accessibility, availability, usage, relevance/quality, welfare of financial services (Sarma, 2008; Yadav & Sharma, 2016; Ranabhat et al., 2022; Ranabhat et al., 2023). In this study, the researchers have taken three dimensions such as access, quality and usage. And to measure these dimensions there are different indicators. Tourism development is the process of planning, implementing, and managing tourism-related activities to enhance the economic, social, and cultural benefits of tourism while minimizing its potential negative impacts on the environment and society (Sharpley & Telfer, 2014). In this study, different indicators were taken from the literature to measure tourism development. It includes access to finance for tourism enterprises, infrastructure development, smooth payment system, enhanced productivity, facility upgradation, investment support, etc. (Sriniwas et al., 2024). The financial services provided by institutions enable tourism businesses to run and expand their operations, access to affordable loans helps tourism entrepreneurs invest in infrastructure development, payment services provided by financial institutions facilitate smooth transactions for tourists, enhancing their experience, financial services from institutions allow tourism businesses to diversify their services and increase productivity, loan products offered by financial institutions help tourism businesses upgrade their facilities to attract more tourists.

The connection between financial inclusion and tourism development can be theoretically explained through the Capability Approach, and Institutional Theory. The Capability Approach (Sen, 1999) suggests that financial inclusion expands people's freedoms and capabilities, suggesting that financial inclusion provides individuals with the essential capabilities to launch tourism enterprises, diversify income, and enhance their livelihoods. Further, Institutional Theory (North, 1990) argues that formal and informal financial systems such as banks, cooperatives, regulations, and financial infrastructure provide access to finance and determine how effectively tourism businesses can utilize financial resources. In weak financial systems, barriers like strict collateral rules or other barriers can hinder this access, ultimately restricting the growth of the tourism sector.

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The relationship between financial inclusion and tourism development has gained growing scholarly attention in recent years. Evidence from diverse contexts illustrates that financial access not only drives economic development but also provides an enabling foundation for the tourism sector. Hasan and Hoque (2021) demonstrated that financial inclusion drives significant economic benefits including income growth, poverty reduction, and job creation, particularly in marginalized rural communities in Bangladesh. Islam et al. (2023) extends this foundation by establishing the interconnected relationship between financial inclusion, governance quality, and environmental sustainability in tourism growth. Their longitudinal analysis (1991-2019) reveals that while environmental degradation constrains tourism development, financial inclusion combined with strong institutional frameworks positively drives tourism growth in Bangladesh. Nguyen et al. (2024) demonstrates similar patterns in Vietnam, where financial inclusion shows particularly strong tourism support effects in regions with well-developed financial infrastructure. This research highlights the importance of addressing regional financial infrastructure gaps to achieve uniform tourism development benefits. Khanna and Sharma (2023) provide broader international perspective through analysis of 50 countries over two decades, examining how financial system development – including capital markets, loan availability, and banking efficiency – supports tourism sector growth. The study emphasizes that access to capital is critical for tourism infrastructure development, including hotels, transport networks, and facilities, particularly in emerging economies. Gopalan and Khalid (2023) analyzes 85 emerging markets and developing economies (EMDEs), identifying a clear positive correlation between financial inclusion and outbound tourism expenditures. This research reveals how improved financial access not only enables local tourism development but also integrates populations into the global tourism economy. Shi et al. (2021) provides comparative analysis across 80 countries over 15 years, concluding that financial inclusion positively impacts tourism in both developed and developing contexts, with stronger effects in developing countries. This differential impact is attributed to the transformative nature of mobile banking and digital services in previously underserved environments. Likewise, Yazid et al. (2025) posit that Islamic microfinance institutions (MFIs) are instrumental in advancing MSME sustainability within the halal tourism sector.

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Their research underscores that by providing Sharia-compliant capital and holistic support, these MFIs empower MSMEs to enhance the quality of halal products and services.

The literature also demonstrated strong evidence for digital financial inclusion (DFI) as a transformative force in tourism development. Qu and Wang (2025) mentioned that digital finance directly increase the household tourism spending. Their research further identifies that household wealth positively moderates this relationship, amplifying the effect, whereas the age of the household head serves as a negative moderator. Luo et al. (2024) analyzed 281 Chinese cities and found that digital financial tools significantly improve tourism indicators by facilitating business credit access and consumer spending. However, the research reveals a concerning urban-rural digital divide that may limit inclusive tourism development in rural areas. Zhang et al. (2023) provide robust panel data evidence from over 250 Chinese cities, confirming that DFI substantially enhances tourism revenue, enterprise growth, and consumer spending. Their research identifies two critical mechanisms: enterprise development facilitation and consumption upgrading as primary drivers of tourism growth through financial inclusion.

In Nepal, few studies have been conducted on financial inclusion and tourism. Shrestha (2020) and Pant (2016) offer crucial insights into Nepal's financial inclusion landscape and its tourism implications. Both studies document considerable progress through microfinance institutions and mobile banking expansion into rural and low-income populations. However, they identify persistent urban-rural access disparities and barriers including limited digital infrastructure, low financial literacy, and regulatory constraints that hinder full financial system participation and limit tourism development potential in underserved areas. Furthermore, the studies conducted by Pokharel and Bhattarai (2022), Kadayat and Upadhyay (2024), Regmi et al. (2023) demonstrated that how tourism enhances sustainable development.

Although global studies consistently highlight the positive role of financial inclusion in fostering tourism development through economic empowerment, digital transformation, and infrastructure investment, there remains a significant gap in context-specific evidence from Nepal. Existing research in Nepal largely emphasizes the importance of tourism and

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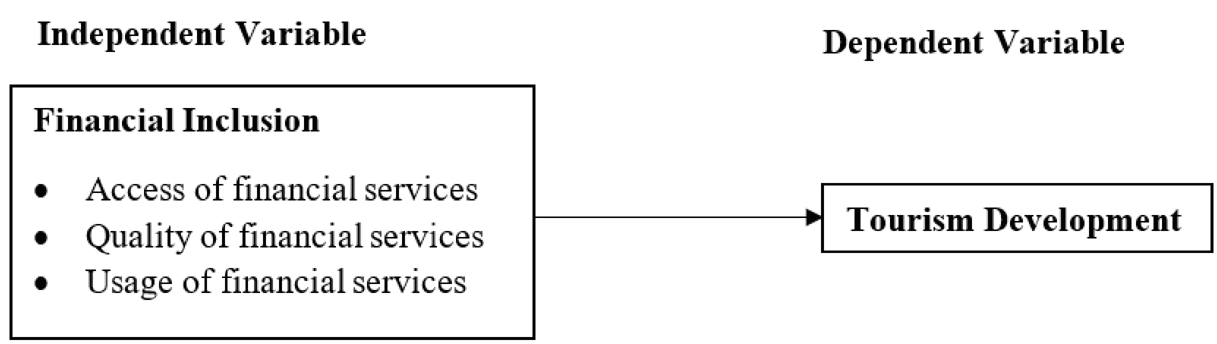
lack to connect tourism development to financial inclusion. Therefore, there is a need to investigate how financial inclusion shapes tourism development in Nepal, particularly in tourism-dependent regions like Pokhara.

CONCEPTUAL FRAMEWORK

In this study, financial inclusion is considered as independent variables which have three dimensions: access of financial services, quality of financial services, and usage of financial services. Similarly, tourism development is considered as dependent variable in this study. The conceptual framework for this study is presented in Figure 1.

FIGURE 1



Conceptual Framework of the Study

Hypotheses

H1: There is a significant impact of access to financial services on tourism development.

H2: There is a significant influence of quality of financial services on tourism development.

H3: There is a significant impact of usage of financial services on tourism development.

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MATERIALS AND METHODS

The research design for this study was descriptive and analytical. A descriptive design allows to capture detailed information about the accessibility, quality and usage of financial services as well as overview related to tourism development. The analytical design goes beyond mere description by examining the relationships between variables. It analyzes how financial services have influenced the growth of tourism-related businesses. The sample consists of several key groups involved in the tourism sector such as hotels, restaurants, tour operators, transportation services, local craftsman etc. The targeted sample size was 170 at 7.5 percentage margin of error and a confidence level of 95 percentage assuming unknown population. But the valid data of 160 was received and which were used for further analysis. The sampling method was purposive as the respondents who are involved in the tourism sector were only selected. The survey questionnaire was used to collect the primary data in this study which incorporated a variety of questions, such as demographic and Likert scale items. The collected data were analyzed using descriptive statistics, correlation analysis, and multiple regression analysis. As part of a descriptive analysis, frequency percentage distributions were used to summarize the socio-demographic variables and mean score analysis were used to summarize the main variables. Likewise, correlation tests were used to examine the relationship between financial inclusion and the growth of the tourism industry. Multiple regression analysis was used to evaluate the influence of financial inclusion on the growth of the tourism sector.

Cronbach's Alpha was used to check the reliability of the scale. The Cronbach's Alpha values are presented in Table 1. All the Cronbach's alpha values are above 0.7, which confirms the reliability of the scale.

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Table 1: Results of Reliability Test

Constructs	No. of items	Cronbach's Alpha
Access of financial service	8	0.875
Quality of financial service	8	0.830
Usage of financial service	8	0.722
Tourism development	9	0.875
Overall	33	0.910

RESULTS AND DISCUSSION

This section presents and interprets the collected data through descriptive statistics, correlation analysis and multiple regression analysis.

Demographic Profile of Respondents

This includes the frequency distribution of age group, gender, monthly income, marital status, ethnicity and education level of the respondent.

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Table 2: Socio-Demographic Profile

Variable	Categories	Frequency	Percent
Age Group	20 or less	1	0.6
	21-30	17	10.6
	31-40	52	32.5
	41-50	58	36.3
	51-60	30	18.8
	Above 60	2	1.3
Gender	Male	115	71.9
	Female	45	28.1
Education Level	No formal education	4	2.5
	Basic level (up to 8 class)	36	22.5
	Secondary education (9 to 12 class)	84	52.5
	Bachelor's degree and above	36	22.5
Marital Status	Unmarried	30	18.8
	Married	127	79.4
	Others	3	1.9
Income Level	Up to 25000	20	12.5
	25001 to 50000	33	20.6
	50001 to 100000	63	39.4
	Above 100000	44	27.5
Ethnicity	Brahmin	59	36.9
	Chhetri	57	35.6
	Janajati	40	25
	Others	4	2.5
Total		**160**	**100**

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Table 2 presents the socio-demographic distribution of 160 survey participants. The majority of respondents are middle-aged, with 32.5% between the ages of 31 and 40, and 36.3% between 41 and 50. The gender distribution shows that the majority of respondents are male, with 115 participants (71.9%), while female respondents number 45 (28.1%). This indicates a significant gender disparity, with males entrepreneur being more involved in tourism enterprises. Regarding education level, the majority (52.5%) have completed secondary education (classes 9 to 12). An equal proportion of respondents (22.5%) have either basic education (up to class 8) or higher education (a bachelor's degree or above). Only a small fraction (2.5%) has no formal education. The majority of respondents (79.4%) are married, while 18.8% are unmarried. In terms of income distribution, the largest group (39.4%) earns between 50,001 and 100,000. A significant portion (27.5%) earn above 100,000, while 20.6% earn between 25,001 and 50,000. This suggests that most respondents fall into the middle to upper-income brackets. Finally, the ethnic distribution indicates that the majority of respondents belong to the Brahmin (36.9%) and Chhetri (35.6%) ethnic groups, together comprising 72.5% of the sample. A smaller proportion (25%) identify as Janajati, while a very small group (2.5%) belong to other ethnicities. This suggests that the Brahmin and Chhetri groups are the most represented among the respondents.

Perception Toward Financial Inclusion and Tourism Development

The perceptions of respondents toward different dimensions of financial inclusion—access, quality, and usage—and tourism development were measured using a six-point Likert scale. Each independent variable (access, quality, and usage) had eight indicators, while the dependent variable, tourism development, had nine indicators. The average mean scores and standard deviations are presented in Table 3.

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Table 3: Mean Score

Variables	Mean	Std. Deviation
Access	4.13	0.80
Quality	4.58	0.64
Use	4.63	1.22
TD	4.60	0.67

The data indicates generally positive perceptions among respondents. Access to financial services is perceived as relatively good (Mean = 4.13), with strength in service availability and affordability, though some concerns remain regarding documentation and loan processing time. Quality of services received high ratings (Mean = 4.58), particularly regarding product safety, security, and suitability for tourism business needs, with minor concerns over loan sufficiency. Usage of financial services was also high (Mean = 4.63), especially through digital and mobile banking channels, reflecting active engagement in business transactions. Finally, respondents perceive that financial services substantially contribute to tourism development (Mean = 4.60), particularly in facilitating business expansion, infrastructure development, and risk management through insurance products. Overall, the findings reflect a positive outlook on financial inclusion and its role in supporting sustainable tourism development in the study area.

Exploratory Factor Analysis

The exploratory factor analysis (EFA) was conducted with 33 items: access (8 items), quality (8 items), usages (8 items), and tourism development (9 items). The primary objective of conducting EFA is this study is to filter out the unrelated items which are not related to the underlying factors. The results of EFA are presented in Table 4.

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Table 4: Results of EFA

Variables	Items	Loading	% of Variance	KMO	Bartlett's Test of Sphericity	
					Chi-Square	Sig.
Access	ACC3	.801	67.59	0.86	409.84	0.00
	ACC4	.891				
	ACC5	.826				
	ACC6	.779				
	ACC7	.809				
Quality	QLT1	.778	59.26	0.73	171.80	0.00
	QLT2	.830				
	QLT3	.762				
	QLT4	.705				
Use	USE4	.920	78.90	0.89	725.49	0.00
	USE5	.931				
	USE6	.882				
	USE7	.928				
	USE8	.769				
Tourism Development	TD1	.835	60.83	0.85	438.21	0.00
	TD2	.790				
	TD3	.771				
	TD4	.754				
	TD5	.790				
	TD6	.736				

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The exploratory factor analysis (EFA) results in Table 4 were obtained after removing some items that were not related to the parent construct. It demonstrates that the measurement items for access, quality, usage, and tourism development are valid and reliable indicators of their respective constructs. All items show strong factor loadings ranging from 0.705 to 0.931, indicating that each item is highly associated with its underlying factor. The cumulative variance explained by the factors is substantial – access (67.59%), quality (59.26%), usage (78.90%), and tourism development (60.83%) – showing that a large proportion of the variability in the data is captured by these constructs. The Kaiser-Meyer-Olkin (KMO) values range from 0.73 to 0.89, exceeding the recommended threshold of 0.6, confirming sampling adequacy, while Bartlett's test of sphericity is significant for all constructs ($p < 0.001$), indicating sufficient correlations among items for factor analysis. Overall, these results confirm that the constructs are both valid and reliable for use in subsequent analyses.

Correlation Analysis

The correlation analysis between independent variables and dependent variable is presented in Table 5.

Table 5: Correlation Coefficient

	Access	Quality	Usage	TD
Access	1			
Quality	.430**	1		
Usage	.474**	.424**	1	
TD	.441**	.585**	.579**	1

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The correlation analysis shows that all dimensions of financial inclusion – access, quality, and usage – are positively and significantly related to tourism development (TD) at the $p < 0.01$ level. Specifically, access has a moderate positive correlation with TD ($r = 0.441$), indicating that greater availability of financial services is associated with higher tourism development, though its effect is relatively weaker. Quality ($r = 0.585$) and usage ($r = 0.579$) demonstrate stronger positive relationships with TD, suggesting that the reliability, suitability, and active utilization of financial services by tourism entrepreneurs play a more substantial role in promoting tourism growth.

Regression Analysis

Regression Analysis is used to examine the model's overall relevance based on the study. Multiple linear regression is conducted on tourism development as the dependent variables in connection to independent variables like access, quality, usage. Table 6 presents the results obtained from multiple regression analysis.

Table 6: Regression Output

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	1.486	.287		5.180	.000	
Access	.085	.056	.101	1.505	.134	1.406
Quality	.400	.068	.386	5.888	.000	1.329
Usage	.201	.037	.367	5.466	.000	1.396

(Model summary: $R^2 = .483$, Adjusted $R^2 = .473$, F-stat = 49.808, $p < .001$.)

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The results indicates that the model significantly predicted tourism development, F-stat = 49.808, $p < .001$, explaining 48.30 % of the variance ($R^2 = .483$, Adjusted $R^2 = .473$). As shown in Table X, both quality ($\beta = .400$, $p < .001$) and usage ($\beta = .201$, $p < .001$) were significant positive predictors. This indicates that higher quality of financial services and greater usage of such services contribute substantially to tourism development. In contrast, access ($\beta = .10$, $p = .134$) was not a significant predictor, suggesting that mere availability of financial services does not strongly influence sustainable tourism when quality and usage are accounted for. The Variance Inflation Factor (VIF) values (1.329 – 1.406) were well below the common threshold of 5, indicating no multicollinearity concerns.

Descriptive analysis reveals positive perceptions of financial services, including affordability, digital tools, and accessibility, which support business expansion and infrastructure development. This aligns with the studies by Shi et al. (2021) and Luo et al. (2024). Further, the study found positive and significant role in quality and usage of financial services on tourism development; however, access has no significant impact on tourism development. This indicates that if there is accessibility in financial inclusion then this is not sufficient to have tourism development. To develop tourism, financial services should be as per the needs of the businessmen. Further, the financial service should be used by the tourism businessmen, then only there will be tourism development. Overall, this study shows financial inclusion positively affects tourism development. The findings of this study align with prior research on financial inclusion and tourism development. Consistent with Hasan and Hoque (2020), who demonstrated that financial inclusion drives economic benefits in marginalized rural communities, Islam et al. (2023), who highlighted the positive interplay between financial inclusion, governance, and environmental sustainability in tourism growth, and Yazid et al. (2025), who highlighted that Islamic microfinance services are instrumental in advancing MSME sustainability within the halal tourism sector, this study shows that financial services significantly support tourism development when they are of high quality and actively used.

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Similarly, research in Vietnam by Nguyen et al. (2024) and across emerging economies (Khanna, 2021; Gopalan, 2023; Shi et al., 2021) emphasizes that mere access is insufficient—financial services must be relevant and utilized to foster tourism growth. Evidence from digital financial inclusion studies in China (Luo et al., 2024; Zhang et al., 2023) further corroborates that active usage of financial tools enhances tourism outcomes. In the Nepalese context, previous studies (Shrestha, 2020; Pant, 2016) similarly report that accessibility alone does not ensure tourism benefits, highlighting persistent infrastructure, literacy, and regulatory gaps. Overall, this study reinforces the broader literature by demonstrating that quality and usage of financial services, rather than access alone, are key drivers of tourism development in Nepal, emphasizing the importance of tailored and actively utilized financial solutions for tourism entrepreneurs.

CONCLUSION AND SUGGESTIONS

The primary aim of this research was to investigate the impact of financial inclusion on tourism development in Pokhara. The study found positive perception towards financial inclusion shows including accessible, quality and usage of financial services among the tourism entrepreneurs. Further, this study found that quality and usage of financial services significantly predict tourism development. In conclusion, this study demonstrates that financial inclusion positively contributes to tourism development in Nepal, with quality and usage of financial services emerging as key drivers, while mere access alone is insufficient. The findings underscore that financial services must be tailored to the needs of tourism entrepreneurs and actively utilized to support business expansion, infrastructure development, and risk management. Further, this study highlights that effective financial inclusion – especially when combined with digital tools and strong institutional frameworks – enhances tourism growth in the targeted area. Policymakers and financial institutions should therefore focus not only on expanding access but also on improving service quality and promoting active usage among tourism businesses to maximize the sector’s development potential.

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Conflict of Interest

The authors declare that they have no conflict of interest regarding this research work.

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