

“Financial Inclusion and Entrepreneurship Intention among Youth in Butwal Sub Metropolitan City, Nepal”

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Abstract

This study aims to explore the relationship between financial literacy, credit availability, microfinance programs, digital financial services, and Entrepreneurship intention. Specifically, it seeks to identify how different dimensions of financial inclusion namely financial literacy, credit availability, microfinance programs, and digital financial services influence Entrepreneurship intention among youth. A quantitative research approach was employed, collecting data from 384 youth participants in Butwal Sub-Metropolitan City using a structured questionnaire. Convenience sampling was utilized to select respondents. The data were analyzed using PLS-SEM software, incorporating various techniques such as measurement model assessment, model fit evaluation, Importance-Performance Map Analysis (IPMA), and bootstrapping for hypothesis testing. The results indicate that key dimensions of financial inclusion (digital financial services, financial literacy, and insurance) are significant predictors of Entrepreneurship intention among youth. The findings highlight that digital financial services, financial literacy, and insurance substantially contribute to Entrepreneurship intention among youth. Therefore, stakeholders including local government bodies, financial institutions, and entrepreneurship development centers in Butwal Sub-Metropolitan City should prioritize these factors to foster Entrepreneurship intention. By understanding and revising policies based on these insights, there is a greater potential to enhance youth entrepreneurship in the region.

Keywords: *Financial Inclusion, Entrepreneurship intention, Digital Financial service, financial literacy, Youth Entrepreneurship.*

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I. Introduction

In today's fast-changing economy, young people's desire to start businesses is seen as an important driver for creating jobs, bringing new ideas, and supporting long-term growth. However, many young people in Nepal, especially in semi-urban areas like Butwal Sub-Metropolitan City, face many financial challenges that stop them from turning their business ideas into reality. Even though entrepreneurship is getting more attention in the country, the lack of easy and affordable financial services remains a big problem, making it hard for young entrepreneurs to succeed and slowing down economic progress (World Bank, 2017).

Financial inclusion means making sure that people and businesses can use financial services like savings, loans, insurance, and digital payments in a way that is affordable and reliable (Claessens, 2006). In this study, financial inclusion includes five main parts:

- Financial literacy: knowing how to manage money well, including budgeting, investing, and handling credit.
- Credit availability how easy it is for people to get loans or credit from banks or other formal lenders.
- Microfinance programs: small loans and financial services designed especially for low-income or underserved people.
- Digital financial services: using technology like mobile banking and online payments to access financial services beyond traditional banks.
- Insurance: protection against financial risks, such as health, property, or business insurance, which helps reduce uncertainty and losses.

Entrepreneurship intention means the clear plan or motivation that drives young people to think about and prepare to start their own businesses (Krueger et al., 2000). It is the first step before actually starting a business and depends on personal qualities as well as outside factors like access to money and financial services.

Entrepreneurship has been around for a long time. It started with traders and businesspeople in the 18th century (Cantillon, 1755) and later was seen as a key force for economic growth and change (Schumpeter, 1934). In Nepal, entrepreneurship used to be mostly farming and small shops, but recently more young people are starting tech-based businesses and connecting with global markets (Sharma, 2020).

Financial inclusion became important worldwide in the early 2000s when leaders realized that giving more people access to financial services could help reduce poverty and support economic growth (Claessens, 2006). In Nepal, microfinance and cooperative banks have helped many people, but young people in places like Butwal still often cannot access formal financial services (Nepal Rastra Bank, 2018).

Many young people in Nepal want to start businesses but face big problems. Banks often require collateral (something valuable to guarantee the loan), which most young people don't have. Many also lack financial knowledge or do not know about the financial services available to them. Additionally, digital financial services are still new and not widely used in areas like Butwal.

Insurance, which can protect young entrepreneurs from risks, is also not well understood or used (World Bank, 2017; Banerjee & Duflo, 2014).

The government has tried to help through programs like the Youth and Small Entrepreneurs Self-Employment Fund and by promoting digital banking (Ministry of Finance, 2023; Ministry of Communication and Information Technology, 2019). But these programs sometimes don't reach everyone who needs help, and the process can be slow and complicated. This shows the need to better understand how financial inclusion including insurance affects young people's plans to start businesses in Butwal.

Some of the main problems are:

- Difficulty getting loans because banks want collateral and are careful about risks.
- Low financial knowledge, which leads to poor money management and less use of financial products.
- Not enough use of microfinance, digital financial services, and insurance due to lack of awareness or technology.
- Weak government support and policies for young entrepreneurs.
- Cultural reasons like fear of risk and not having business role models.

These problems limit young people's ability to start businesses and slow down economic growth in the area (Nepal Rastra Bank, 2020).

Most studies about financial inclusion and entrepreneurship in Nepal focus on big cities like Kathmandu. There is little research on smaller cities like Butwal and their special challenges (Shrestha & Acharya, 2019). Also, many studies only look at microfinance and ignore digital financial services, insurance, and the role of government and private companies in helping young entrepreneurs (ADB, 2021).

This study aims to fill these gaps by looking closely at how financial literacy, credit availability, microfinance, digital financial services, and insurance affect young people's plans to start businesses in Butwal. The goal is to find the best ways to support youth entrepreneurship in this area.

The results will help policymakers, banks, and organizations create better programs and policies to improve financial inclusion and encourage young people to start businesses. By removing financial barriers, this study hopes to help Butwal's economy grow and give young people more opportunities.

The objectives of the study are as follows:

- To determine the relationship between financial literacy, credit availability, microfinance, digital financial services, insurance and Entrepreneurship intention among youth.
- To analyze the effect of financial literacy, credit availability, microfinance, digital financial services, insurance on Entrepreneurship intention among youth.

I. Literature Review

This section provides a review of existing literature, covering both theoretical and empirical aspects relevant to the ongoing research. The theoretical review explores key theories that establish connections between the variables in the study framework. Additionally, the empirical review highlights findings from past studies conducted on the same subject.

Financial Literacy and Entrepreneurship Intention

The link between financial literacy and Entrepreneurship intention is strongly supported by several theories. Notably, Financial Capability theory explains that financial inclusion improves financial capability, which encompasses knowledge, skills, and confidence necessary to manage financial resources effectively. Financially capable individuals are more likely to engage in Entrepreneurship activities due to their enhanced understanding of financial products, budgeting, and investment strategies (Lusardi & Mitchell, 2014). Human Capital theory highlights that individuals invest in their skills and knowledge to enhance their economic productivity. Financial literacy acts as a component of human capital that equips potential entrepreneurs with the necessary competencies to navigate the financial landscape. As financial institutions broaden their services in Butwal, entrepreneurs gain access to crucial financial education, which ultimately influences their Entrepreneurship success (Becker, 1993).

Empirical studies have consistently demonstrated a positive relationship between financial literacy and Entrepreneurship Intention. For instance, a study conducted by Empirical studies indicate a strong correlation between financial inclusion and Entrepreneurship Intention. Fatoki (2014) demonstrated that financial literacy significantly influences the Entrepreneurship intentions of individuals. The study concluded that individuals with higher financial literacy were more likely to pursue Entrepreneurship opportunities and effectively manage their businesses, contributing to economic development. Zohir and Rahman (2005) examined microfinance programs in Bangladesh, noting that access to microfinance led to improved financial literacy among entrepreneurs, which was closely tied to business performance. The findings suggest that financial

inclusion initiatives, such as microfinancing in Butwal, can enhance financial literacy, resulting in increased Entrepreneurship success rates in the region.

Based on these studies, the following hypothesis can be formulated:

H1: There is a significant relationship between Financial Literacy and Entrepreneurship Intention

Credit availability and Entrepreneurship Intention

The link between credit availability and Entrepreneurship Intention is strongly supported by several theories. Notably, Financial intermediation theory suggests that financial institutions play a pivotal role in facilitating the flow of funds from savers to borrowers. In the context of financial inclusion, technology such as digital banking can enhance the efficiency of these financial intermediaries, thereby improving access to credit for entrepreneurs. This is particularly significant in Butwal, where traditional banking infrastructure may be lacking. Increased financial intermediation can lead to broader credit availability, promoting Entrepreneurship activities (Demirgüç-Kunt & Klapper, 2013). Human capital theory emphasizes the importance of education and skills in fostering entrepreneurship. Financial inclusion improves access to financial literacy and business training programs, which can empower potential entrepreneurs with the knowledge needed to successfully navigate the business landscape. Programs aimed at enhancing financial literacy and providing access to financial services are essential in fostering an Entrepreneurship culture in Butwal (Servon & Kaestner, 2008).

Empirical studies have consistently demonstrated a positive relationship between credit availability and Entrepreneurship Intention. For instance, Koomson et al. (2020) found that rising financial inclusion diminishes poverty levels among Ghanaian households, especially those headed by women, suggesting that improved access to financial services can drive Entrepreneurship endeavours. Similarly, in the context of Nigeria, Adeola and Evans (2017) demonstrated that financial inclusion could facilitate economic diversification and promote shared prosperity by empowering local entrepreneurs. Research by Jabir et al. (2017) illustrates that mobile banking and other technology-enabled financial services can significantly reduce poverty levels among low-income households by enhancing their access to credit. This evidence resonates with the potential impacts in Butwal, where introducing mobile banking can facilitate funding options for entrepreneurs who previously struggled to secure financial support.

Based on these studies, the following hypothesis can be formulated:

H2: There is a significant relationship between credit availability and Entrepreneurship Intention.

Microfinance program and Entrepreneurship Intention

The link between microfinance program and Entrepreneurship Intention is strongly supported by several theories. Microfinance theory state that microfinance institutions (MFIs) provide small loans and financial services to individuals who lack access to traditional banking. According to Armendariz & Morduch (2005), microfinance is designed to support low-income entrepreneurs by offering them financial products tailored to their needs, which enables them to start or grow their businesses. By alleviating capital constraints, microfinance can significantly increase Entrepreneurship activity among marginalized groups. Theories of Financial Literacy and Entrepreneurship asserts that rising financial literacy among microfinance clients significantly improves their ability to manage their business finances effectively. According to Servon & Kaestner (2008), those who have been educated about financial management through microfinance programs tend to engage in more productive Entrepreneurship activities, indicating that financial literacy plays a critical role in translating financial access into Entrepreneurship success.

Empirical studies have demonstrated the positive impact of microfinance on Entrepreneurship Intention. A meta-analysis by the Consultative Group to Assist the Poor (CGAP, 2010) found that microfinance has a positive effect on small enterprise growth and creation. The study revealed that microcredit clients reported higher business revenues and greater business expansion compared to those without access to microfinance. Such findings can be applied to the context of Butwal, where microfinance is expected to improve local entrepreneurship. Similarly, A study conducted by Rahman et al. (2015) in South Asia, including Nepal, examined the effects of microfinance on entrepreneurship. Their findings indicated that microfinance access led to an increase in self-employment rates among beneficiaries, reinforcing the argument that microfinance serves as a crucial tool for empowering local entrepreneurs and creating jobs in their communities.

Based on these studies, the following hypothesis can be formulated:

H3: There is a significant relationship between microfinance program and Entrepreneurship Intention.

Digital Financial Service and Entrepreneurship Intention

The relationship between microfinance program and Entrepreneurship Intention is strongly supported by several theories. The Technology Acceptance Model (TAM) state that perceived ease

of use and perceived usefulness significantly influence individuals' willingness to adopt new technologies, including digital financial services. Davis (1989) suggests that individuals who perceive digital financial tools as useful in reducing transaction costs and enhancing business efficiency are more likely to utilize them for Entrepreneurship activities. This is applicable in Butwal, where ease of access to financial services can drive Entrepreneurship growth. Diffusion of Innovations theory, proposed by Rogers (1962), explains how new ideas and technologies spread within a community. The adoption of digital financial services can significantly enhance financial inclusion by reaching underserved populations. As DFS becomes more prevalent within the Butwal sub-metropolitan city, entrepreneurs will increasingly utilize these tools for business operations, enhancing their chances of success through improved financial access.

The link between digital financial services and Entrepreneurship intention has been examined through various empirical studies. A study by Aker and Mbiti (2010) found that mobile money services significantly improve the financial situation of small business owners in East Africa, leading to increased investment in their ventures. This implies that similar developments in digital financial services within Butwal could empower local entrepreneurs, expanding their business opportunities and growth potential. Empirical evidence from a survey by GSMA (2016) indicated that digital financial services not only provide access to capital but also improve financial literacy among entrepreneurs, support in better business management practices. Increased financial literacy, driven by access to digital platforms, can significantly enhance Entrepreneurship competencies, which is essential for success in Butwal's competitive environment.

Based on these studies, the following hypothesis can be formulated:

H4: There is a significant relationship between digital financial service and Entrepreneurship Intention.

Insurance and Entrepreneurship Intention

The link between Insurance and Entrepreneurship intention is strongly supported by several theories. Risk Management Theory explains that entrepreneurs face various uncertainties that can affect their business viability. Insurance serves as a vital tool for entrepreneurs to manage these risks by providing financial protection against potential losses. According to Bevan and Estrin (2000), entrepreneurs with access to insurance are likely to take bolder business risks, knowing they have a safety net to mitigate the adverse effects of unforeseen events. In Butwal sub-metropolitan city, as financial inclusion improves and access to insurance increases,

entrepreneurs can be more willing to invest in new ventures and innovations, thereby promoting entrepreneurship. The Liquidity Preference Theory, introduced by Keynes (1936), suggests that individuals prefer liquid assets. Entrepreneurs often encounter cash flow issues, particularly in the startup phase. Access to insurance alleviates liquidity constraints by allowing entrepreneurs to secure their investments against unforeseen risks. Thus, access to insurance products empowers entrepreneurs in Butwal sub-metropolitan city, facilitating better financial planning and business sustainability.

Empirical studies have shown that access to insurance positively influences business performance and sustainability. For instance, a study by Santos and Pacheco (2016) indicated that small businesses with insurance coverage reported higher rates of survival and profitability. This finding is significant for Butwal, as the introduction of insurance products through financial inclusion initiatives can enhance Entrepreneurship resilience and growth. Research has demonstrated the efficacy of microinsurance in promoting entrepreneurship among low-income populations. A study by Gine and Mansuri (2018) found that microinsurance significantly improved the business operations of low-income entrepreneurs, leading to increased investment in business activities. In Butwal, similar initiatives can provide security to emerging entrepreneurs, encouraging them to expand their operations without the fear of catastrophic losses.

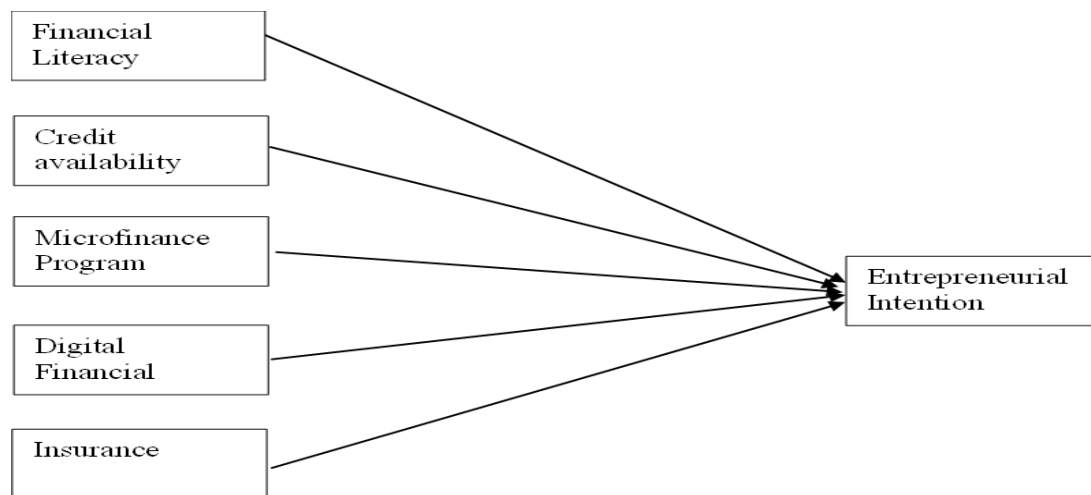
Based on these studies, the following hypothesis can be formulated:

H5: There is a significant relationship between insurance and Entrepreneurship Intention.

Research Framework

The research framework is the structure that illustrates the relationship among various variables. In this context, two variables are employed. Financial Inclusion is measured by five indicators: financial literacy, Credit availability, Microfinance program, Digital financial service and Insurance as independent variables while Entrepreneurship Intention is used as the dependent variable. The research framework of the study is outlined below:

Figure 1 - Research Framework



Note: Adapted from Felix Zogning (2023)

Research Methodology

This section deals with the research methods adopted by the researcher in conducting the research. It looks at the various methods and procedures of the research study adopted in conducting the study in order to address and answer the research problems and questions stipulated by the researcher. In this regard, it deals with different components of research design which guides researcher to decide the population and sample from the desired research area, techniques of approaching the sampled respondent, sources of data collection, research instrument used for data collection and different types of tools used to analyze the collected data. Thus, this section is organized in the following structure: research design, population, sample size, sampling technique, sources of data collection, data collection methods, tools used for data analysis.

Research design:

A research design is a structured plan that guides data collection and analysis, shaping the study (Cooper & Schindler, 2003). This study adopts Descriptive Research Design and Explanatory Research Design to achieve its objectives.

Descriptive Research Design systematically presents characteristics, behaviors, or phenomena without altering variables. It identifies trends, patterns, and relationships within a population (Creswell, 2014). Explanatory research design seeks to explain the cause-and-effect relationships between variables by investigating how and why certain phenomena occur. It aims to provide a deeper understanding of the interactions between independent and dependent variables, often through hypothesis testing and systematic analysis (Fraenkel & Wallen, 2009). Likewise, Kerlinger (1986) highlights ex post facto research, where past independent variables are analyzed

to assess their effects on dependent variables (Kerlinger, 1986; Pant, 2012). Common statistical methods include the Spearman Rank Order Coefficient, Phi Correlation Coefficient, Regression, t-test, Chi-square, and Analysis of Variance (Isaac, 1978; Pant, 2012).

By combining descriptive and explanatory designs, this study effectively examines variable relationships and their impact (Kerlinger, 1986), ensuring a structured and systematic approach.

Population and sample size

The research area for this study is Butwal Sub-metropolitan city. The population consists of entrepreneurs (who are having business or planning to have business) on how they avail themselves by using financial services (financial inclusion) to supports their businesses in Butwal Sub-metropolitan city. However, the total number of entrepreneurs using these services cannot be precisely determined, making the population unknown. To address this, the sample size for an unknown population is calculated using Cochran's formula (Cochran, 1977).

$$n = \frac{Z^2 p (1 - p)}{e^2}$$

Where,

- Z = Given Z value based on confidence level ($z = 2.576$ for 99% level of confidence, 1.96 for 95% level of confidence, 1.645 for 90% level of confidence)
- p = Proportion of event of interest for the study (0.5)
- e = margin of error (it depends upon confidence level)

Thus, the calculated sample size of the study $n = 384$

Sampling method

The sampling method is chosen to select sample respondents from the overall population for data collection. In this context, the convenience sampling method is specifically employed to approach the sample respondents. Given that the study focuses on the role of financial inclusion in promoting entrepreneurship in Butwal sub-metropolitan city, the convenience sampling technique is deemed appropriate. This choice is made because the number of entrepreneurs is relatively low, allowing for the identification and random selection of individuals from the list of entrepreneurs to mitigate bias among respondents.

Nature and Sources of Data Collection

This study primarily relies on quantitative data, which were collected from primary sources. A structured questionnaire was designed to gather first-hand information directly from respondents.

Survey Instrument

A self-structured questionnaire was used as the survey instrument for data collection. It was developed based on operational definitions from previous literature. The questionnaire employs a seven-point Likert scale (1= Strongly Disagree (SD), 2= Disagree (D), 3= Somewhat Disagree (SWD), 4= Neutral(N), 5= Somewhat Agree (SWA), 6 = Agree (A), 7= Strongly Agree (SA) to gather responses from participants.

A set of questions was designed to measure each independent and dependent variable, totaling 30 items. To ensure clarity and accuracy, a pilot test was conducted by distributing the questionnaire to a sample of 30 respondents. Out of 384 distributed questionnaires, 273 were fully completed, yielding a response rate of 80%.

Statistical Tools

The study utilized various statistical tools based on the nature of the data. Descriptive statistics, including mean and standard deviation (SD), were computed to analyze and interpret customer responses. Additionally, a reliability test was conducted to assess the consistency of the research instrument. A normality test, specifically the Kolmogorov-Smirnov (K-S) test, was performed to evaluate the data's distribution.

After assessing normality, parametric and non-parametric tests were applied in inferential statistics. Furthermore, correlation analysis was used to measure the relationship between variables, while regression analysis examined the effect of independent variables on the dependent variable.

II. Results and Analysis

Measurement Items Assessment

Table 1 - *Assessment of measurement scale items*

Variables	Items	Outer loadings	VIF	Mean	Standard Deviation
Credit Availability	CA1	0.826	2.098	4.264	1.751
	CA2	0.887	2.893	4.022	1.681
	CA3	0.706	1.728	4.311	1.742
	CA4	0.838	2.247	4.469	1.695
	CA5	0.853	2.459	4.601	1.69
Digital Financial Service	DFS1	0.783	1.66	5.579	1.428
	DFS2	0.789	2.004	5.553	1.263
	DFS3	0.796	1.986	5.626	1.329
	DFS4	0.796	1.817	5.322	1.439

	DFS5	0.807	2.101	5.821	1.177
	EI1	0.737	1.676	5.366	1.526
Entrepreneurship Intention	EI2	0.75	1.826	5.432	1.481
	EI3	0.707	1.988	4.78	1.549
	EI4	0.853	2.635	4.912	1.679
	EI5	0.787	1.744	5.399	1.328
	FL1	0.807	2.002	5.242	1.541
Financial Literacy	FL2	0.807	2.171	5.634	1.371
	FL3	0.777	1.87	5.227	1.298
	FL4	0.809	1.933	5.41	1.502
	FL5	0.79	1.622	5.407	1.475
	I1	0.681	1.948	5.121	1.709
Insurance	I2	0.76	2.21	4.623	1.599
	I3	0.742	1.917	4.337	1.994
	I4	0.744	1.856	4.996	1.663
	I5	0.712	2.093	4.172	2.175
	MP1	0.837	2.037	4.63	1.888
Microfinance Program	MP2	0.637	1.421	4.821	1.574
	MP3	0.887	3.333	4.725	1.629
	MP4	0.834	2.534	4.81	1.574
	MP5	0.868	2.582	4.853	1.725

Table 1 presents the standardized outer loading and Variance Inflation Factor (VIF) of the scale items employed to measure the variables pertinent to this investigation. In accordance to Sarstedt et al. (2017), the outer loading of an item must exceed 0.708 to signify a substantial contribution of that item in assessing the associated variable. Nonetheless, an outer loading value surpassing 0.70 may also be deemed acceptable, provided that the Average Variance Extracted (AVE) value of the related variable exceeds 0.50. Within Table 1, two items, specifically I1 and MP2, exhibit values below 0.70; however, the variable linked to these items demonstrates AVE values greater than 0.50. Therefore, all 30 scale items are preserved for subsequent analysis. Furthermore, the VIF values for each item are less than 5, thereby indicating no multicollinearity within the scale items (Sarstedt et al., 2014). Likewise, the mean values are more than 4 which indicates that all the items are in higher side which reflects that most of the respondent are towards the side of agreeable list. The standard deviation values are small indicates less deviation in response that shows the data is suitable for further analysis.

For standard deviation values are small indicating less dimension in the respondents therefore, data are suitable for further analysis.

Quality Criteria Assessment

Table 2 - Construct Reliability and Validity

Variables	Alpha	CR (rho_a)	CR (rho_c)	(AVE)
Credit availability	0.882	0.902	0.913	0.679
Digital Financial Service	0.855	0.862	0.895	0.631
Entrepreneurship Intention	0.825	0.83	0.878	0.591
Financial Literacy	0.859	0.87	0.898	0.637
Insurance	0.779	0.78	0.849	0.53
Micro Finance Program	0.873	0.894	0.909	0.669

Table 2 contains the values of Cronbach’s Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) to evaluate the convergent validity of the variables employed in this study. The Cronbach’s Alpha coefficients for all items exceed the threshold of 0.705, signifying the adequate contribution of each scale item in the assessment of related constructs (Bland & Altman, 1997). Furthermore, the CR values for rho_A and rho_C surpass the minimum criterion of 0.70, denoting a robust measure of internal consistency (Saari et al., 2021; Hair et al., 2022). The AVE values also exceed the pivotal threshold of 0.50, suggesting that each variable accounts for more than 50 percent of the explained variance. This finding confirms the establishment of convergent validity (Hair et al., 2022). Subsequently, the outcomes depicted in the table as mentioned above satisfy all requisite of quality criteria measures.

Discriminant Validity

Table 3 - Hetrotrait- Monotrait ratio of correlation

	Credit Availability	Digital Financial Service	Entrepreneurship Intention	Financial Literacy	Insurance	Micro Finance Program
Credit Availability						
Digital Financial Service	0.263					
Entrepreneurship Intention	0.455	0.726				
Financial Literacy	0.256	0.578	0.51			
Insurance	0.393	0.65	0.716	0.197		
Micro Finance Program	0.55	0.502	0.65	0.557	0.654	

Table 3 contains the HTMT ratio of the correlation matrix, which evaluates the discriminant validity of the latent variables. The values of the HTMT ratio vary from 0.197 to 0.726. The HTMT ratio values need to remain below the critical threshold of 0.85; nevertheless, a range extending up

to 0.90 is deemed acceptable, as posited by Henseler et al. (2015). Consequently, the presence of discriminant validity is confirmed among the reflective constructs (Hair & Alamer, 2022).

Table 4 - Fornell – Larcker Criterion

	Credit Availability	Digital Financial Service	Entrepreneurship Intention	Financial Literacy	Insurance	Micro Finance Program
Credit Availability	0.824					
Digital Financial Service	0.246	0.794				
Entrepreneurship Intention	0.403	0.623	0.768			
Financial Literacy	0.223	0.503	0.442	0.798		
Insurance	0.336	0.556	0.584	0.145	0.728	
Micro Finance Program	0.488	0.449	0.562	0.492	0.544	0.818

Table 4 displays the Fornell-Larcker Criterion, an important discriminant validity assessment in a structural equation model (SEM) (Fornell & Larcker, 1981). This criterion is satisfied when the average variance extracted (AVE) for every construct is higher than the squared correlation between that construct and any other construct in the model. The diagonal entries, the square root of AVE of every construct, are to be higher than the off-diagonal values for their corresponding columns and rows. As evident in Table 4, diagonal values (in bold) of Credit Availability (0.824), Digital Financial Service (0.794), Microfinance Program (0.818), Financial Literacy (0.798), Insurance (0.728) and Entrepreneurship Intention (0.768) are all higher than their inter-construct correlations. This means the measurement model's discriminant validity is assured, implying that each construct is unique and taps into a distinct segment of variance (Hair et al., 2010). This ensures that the constructs do not overlap and that the measures are measuring what they should measure.

Model Fit Assessment

The SRMR evaluate the model's explanatory efficacy. The model's SRMR value is 0.096, below the acceptable threshold of 0.10 (Bollen & Stine, 1992). Consequently, this finding suggests that the model exhibits adequate explanatory capability.

Moreover, the effect sizes of Credit Availability, Digital Financial Service, Financial Literacy, Insurance and Micro Finance Program on Entrepreneurship Intention are quantified as 0.031,0.097,0.030,0.084 and 0.029 respectively. This reveals that Credit Availability, Digital

Financial Service, Financial Literacy, Insurance and Micro Finance Program weakly influences Entrepreneurship Intention (Cohen, 1988).

Finally, the r-square values corresponding to Entrepreneurship Intention is 0.546 respectively. This signifies that Entrepreneurship Intention possess demonstrates moderate predictive ability (Hair et al., 2013).

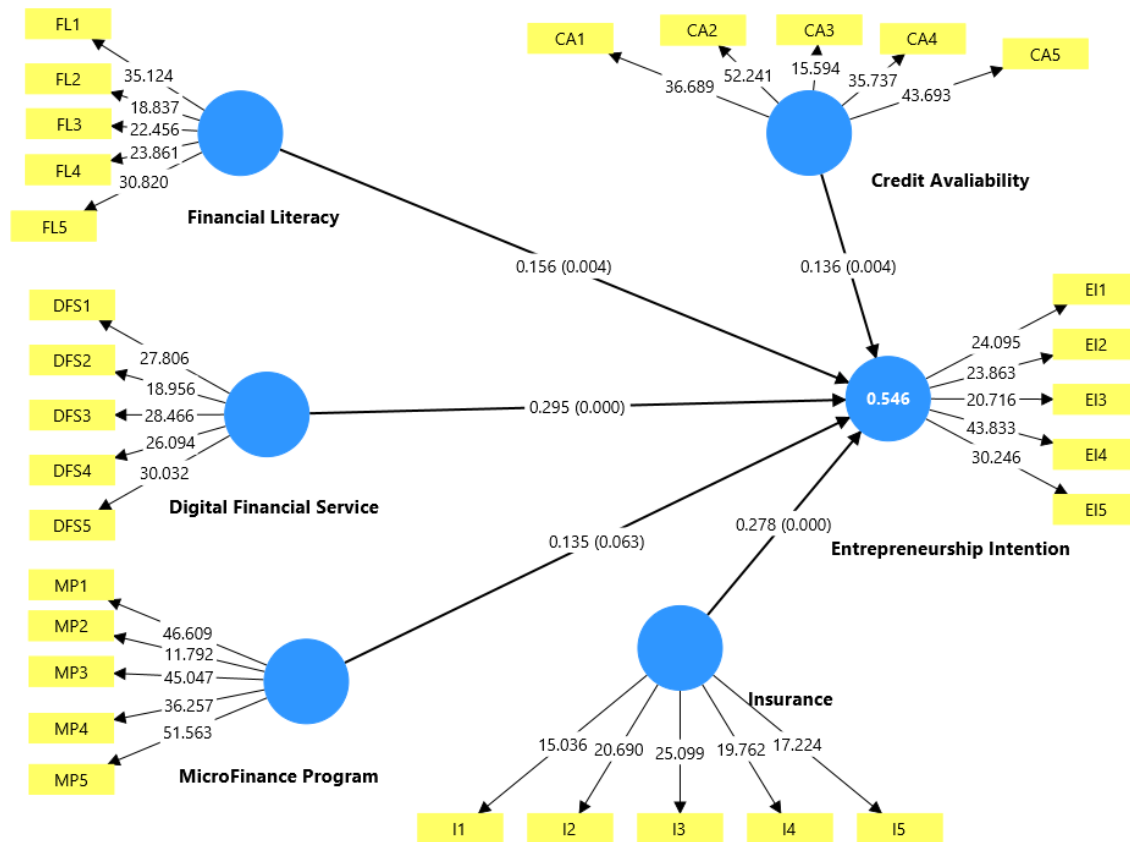


Figure 2: Path Relationship Diagram

Table 6 - Hypotheses Testing Using Bootstrapping

Hypotheses	B	Mean	STDEV	Confidence Interval		T Stat.	P Values	Decision
				2.50%	97.50%			
H1: Financial Literacy -> Entrepreneurship Intention	0.156	0.159	0.054	0.056	0.271	2.88	0.004	Accepted
H2: Credit Availability -> Entrepreneurship Intention	0.136	0.136	0.047	0.044	0.232	2.89	0.004	Accepted
H3: MicroFinance Program ->	0.135	0.137	0.073	0	0.289	1.856	0.063	Rejected

Entrepreneurship Intention								
H4: Digital Financial Service -> Entrepreneurship Intention	0.295	0.292	0.067	0.16	0.422	4.388	0	Accepted
H5: Insurance -> Entrepreneurship Intention	0.278	0.282	0.072	0.138	0.422	3.843	0	Accepted

Figure 2 and Table 5 report the results of a bootstrapping analysis performed with 10,000 subsamples, which examine decisions regarding the proposed hypotheses. Hypotheses H1, H2, H4 and H5 have achieved acceptance at a significance threshold 0.05. However, H3 is rejected as their p-value is above 0.05. There is a positive and significant impact of Financial Literacy, Credit availability, Digital Financial service and Insurance on Entrepreneurship Intention. However, there is positive and insignificant impact of Microfinance program on Entrepreneurship Intention.

Table 7 - Importance Performance Map Analysis

	LV performance	Importance
Credit Availability	52.432	0.136
Digital Financial Service	75.51	0.295
Financial Literacy	70.625	0.156
Insurance	61.899	0.278
Micro Finance Program	62.76	0.135
Mean	64.6452	0.2

Table 7 shows the total effects of Credit availability, Digital Financial Service, Financial Literacy, Insurance, and Microfinance Program on Entrepreneurship Intention for the unstandardized effects. These effects are the same as the unstandardized weights of ordinary least square regression modelling (Hair et al. 2010). Furthermore, the performance of Entrepreneurship Intention was calculated as 68.579.

Notably, we derived the four quadrants successfully based on the mean values of the constructs' importance and performance value. As per Fig. 3, if we increase 1 unit in microfinance program performance from 62.76 to 63.76, Entrepreneurship intention increases from 68.579 to 68.714. Similarly, if we increased 1 unit in performance of digital financial service from 75.51 to 76.51, then Entrepreneurship intention grew to increase from 68.579 to 68.874. Therefore, out of the five determinants of Entrepreneurship intention, the most critical factor was noted to be digital financial service.

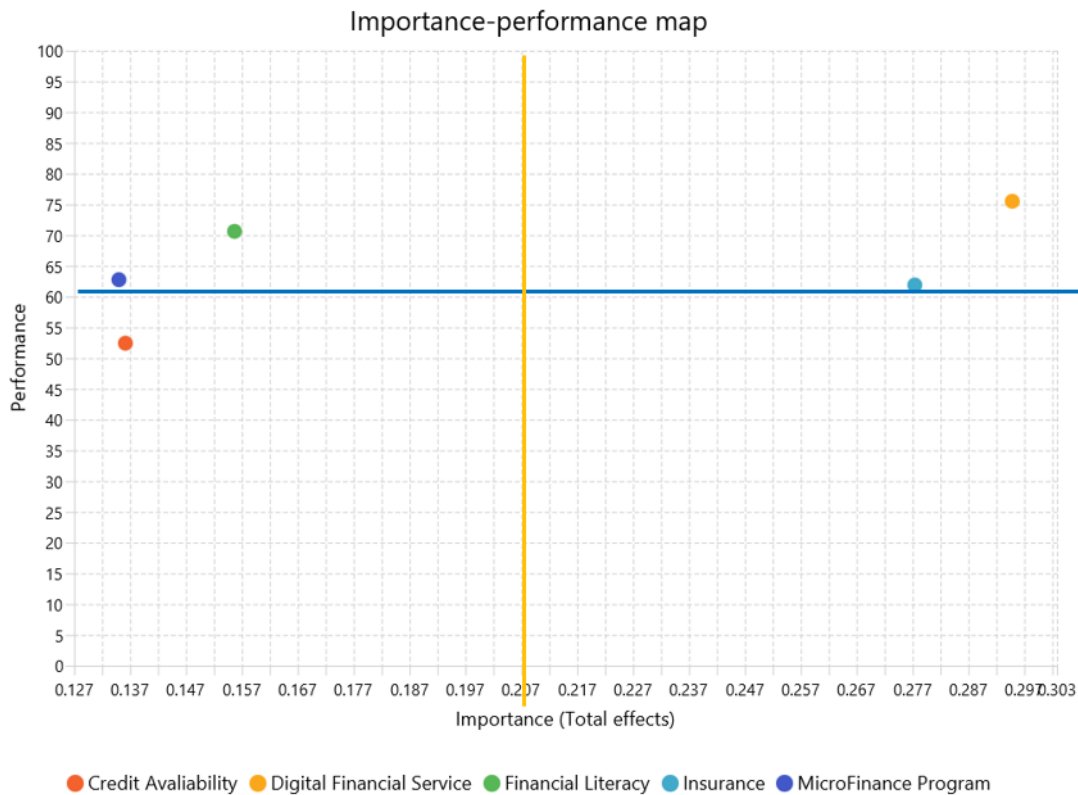


Figure 3: Importance Performance Map Analysis

Table 8 - Necessary Condition Analysis (NCA)-Bottleneck Values

	LV scores – Entrepreneurship Intention	LV scores - Credit Availability	LV scores - Digital Financial Service	LV scores - Financial Literacy	LV scores -Insurance	LV scores – Micro Finance Program
0.00%	37%	NN	37%	NN	NN	NN
10.0%	43%	NN	38%	43%	28%	NN
20.0%	50%	NN	38%	43%	28%	NN
30.0%	56%	NN	38%	43%	28%	NN
40.0%	62%	NN	38%	43%	28%	20%
50.0%	69%	29%	38%	54%	28%	20%
60.0%	75%	29%	38%	59%	28%	20%
70.0%	81%	30%	68%	66%	28%	20%
80.0%	87%	30%	68%	66%	28%	20%
90.0%	94%	30%	80%	68%	66%	54%
100.0%	100%	57%	100%	74%	69%	54%

Table 8 represent the bottleneck values of the latent variables using Necessary Condition Analysis (NCA). To achieve 37% of Entrepreneurship intention ,37% of digital financial service is required. Further, to achieve 43% of Entrepreneurship intention,38% of digital financial service,43% of

financial literacy and 28% of insurance is required. Similarly, to achieve 62% of Entrepreneurship intention, 38% of digital financial service, 43% of financial literacy, 28% of insurance and 20% of microfinance program is required. Likewise, to achieve 69% of Entrepreneurship intention, 29% of Credit availability, 38% of digital financial service, 54% of financial literacy, 28% of insurance and 20% of microfinance program is required. Furthermore, to achieve 100% of Entrepreneurship intention, 57% of Credit availability, 100% of digital financial service, 74% of financial literacy, 69% of insurance and 54% of microfinance program is required.

III. Discussion

The findings of this study indicate that credit availability, financial literacy, insurance, and digital financial services have a positive and significant impact on Entrepreneurship intention among youth in Butwal Sub-Metropolitan City, Nepal, while microfinance programs show a positive but statistically insignificant effect. These results align with recent literature emphasizing the critical role of accessible credit in empowering young entrepreneurs. Devkota et al. (2025) highlight that access to finance remains a major barrier for youth entrepreneurship in Nepal, with credit availability enabling youths to overcome initial capital constraints and pursue business opportunities effectively. Financial literacy is also widely recognized as essential for Entrepreneurship success, as it equips youth with the necessary skills to manage finances, assess risks, and make informed decisions (Bhandari & Sthapit, 2023). The positive influence of insurance on Entrepreneurship intention, though less frequently studied, is gaining attention; insurance reduces uncertainty and financial risk, thereby encouraging youth to engage in Entrepreneurship ventures (Chalise, Timilsena, & Bhandari, 2023). Digital financial services, including mobile banking and digital payments, further facilitate entrepreneurship by improving access to financial products and streamlining transactions, which is particularly important in semi-urban areas like Butwal (IFC, 2023).

Conversely, the insignificant impact of microfinance programs on Entrepreneurship intention may reflect limitations in outreach, loan size, or the relevance of services to youth needs. While microfinance has historically supported small-scale entrepreneurship in Nepal, recent studies suggest that its effect on youth entrepreneurship intention is less pronounced compared to other financial inclusion components (Khadka, 2024; Devkota et al., 2025). This finding underscores the need to tailor microfinance products better and integrate them with other support mechanisms such as financial education and digital services to enhance their effectiveness.

Overall, the evidence suggests that enhancing credit availability, financial literacy, insurance coverage, and digital financial access should be prioritized to foster Entrepreneurship intentions among youth in Butwal. Policymakers and financial institutions need to address the gaps in microfinance programs to make them more youth-friendly and impactful. Such integrated financial inclusion strategies can significantly contribute to youth entrepreneurship development and, by extension, economic growth in Nepal.

IV. Conclusion and Implications

This empirical study investigated the relationship between financial inclusion and Entrepreneurship intention among youth in Butwal Sub-Metropolitan City, Nepal. Drawing on theoretical frameworks such as the Technology Acceptance Model, Diffusion of Innovations Theory, Human Capital Theory, and Self-Determination Theory, the study focused primarily on the impact of digital financial services alongside other financial inclusion components including credit availability, financial literacy, insurance, and microfinance programs. The key finding reveals that digital financial services have a significant and positive impact on Entrepreneurship intention among youth, highlighting the transformative role of digital platforms in improving access to financial resources, reducing transaction costs, and enhancing financial management capabilities. This finding is consistent with recent reports by the International Finance Corporation and Nepal Rastra Bank, which emphasize how digital financial services have expanded rapidly in Nepal, especially in semi-urban areas, facilitating greater economic participation among youth (IFC & NRB, 2024; Spotlight Nepal, 2024).

While other components of financial inclusion such as credit availability, financial literacy, insurance, and microfinance programs were considered, their impacts were less pronounced or statistically insignificant in this study, suggesting the need for further investigation into their roles and effectiveness in the local context. The use of a descriptive and explanatory research design with convenience sampling enabled efficient data collection but limits the generalizability of the findings to the broader youth population in Butwal and similar settings. Future research should employ probability sampling techniques and longitudinal designs to better capture the dynamics of financial inclusion and Entrepreneurship intention over time. Additionally, exploring the interplay between different financial inclusion components and contextual factors such as gender, education, and socio-cultural influences would provide a more comprehensive understanding of youth entrepreneurship in Nepal.

Practically, the study's findings offer valuable guidance for policymakers, financial institutions, and entrepreneurship support organizations in Nepal. Enhancing financial literacy programs, expanding affordable credit and insurance products, and promoting user-friendly digital financial services can significantly boost Entrepreneurship intentions among youth. Tailoring financial inclusion initiatives to address the specific needs and motivations of young entrepreneurs will foster a more vibrant Entrepreneurship ecosystem in Butwal. Moreover, integrating technology-driven solutions and risk management tools can reduce barriers and uncertainties faced by youth entrepreneurs, thereby encouraging more sustainable business ventures. This integrated theoretical and practical understanding supports Nepal's broader goals of inclusive economic growth and youth empowerment through entrepreneurship.

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