ISSN: 2631-2395
Devkota Journal of Interdisciplinary Studies
Vol. 8 | Issue No. 1, 2026

Reframing Sustainable Development in Emerging Economies: An Integrated Analysis of Financial Capability, Inclusive Finance, and Social Connectedness in Nepal's Banking Ecosystem

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Abstracts

This study explores how financial literacy, financial inclusion, and social capital collectively shape sustainable development outcomes within the context of Nepal's commercial banking sector. Drawing on primary data collected from 20 commercial banks, the research adopts a quantitative approach to examine the relationships among these variables using correlation and regression analysis. The findings reveal a strong and statistically significant association between financial inclusion and sustainable development, suggesting that improved access to financial services such as savings, credit, and digital bankingenhances economic participation and overall well-being. This is consistent with emerging evidence from Nepal, where financial inclusion initiatives have contributed to income generation and reduced financial vulnerability among underserved populations.The analysis further demonstrates that financial literacy exerts the most substantial influence on sustainable development, indicating that individuals' ability to understand and manage financial resources plays a decisive role in shaping long-term economic and social outcomes. In the Nepalese setting, where disparities in financial knowledge remain evident across regions and demographic groups, this finding highlights the importance of strengthening financial education as a core development strategy. Social capital, although showing a comparatively smaller direct effect, is found to be positively associated with sustainable development, reflecting the supportive role of trust, networks, and community engagement in facilitating access to financial opportunities.The regression findings demonstrate that financial access, financial capability, and social cohesion collectively contribute to sustainable development in Nepal. The model indicates that these factors are not independent drivers; instead, their combined influence plays a meaningful role in shaping long-term developmental outcomes. The results further imply that isolated policy measures are unlikely to generate substantial progress unless they are supported through integrated and inclusive strategies. Strengthening financial inclusion alongside improving financial literacy and community-level cooperation can create a more balanced and sustainable development framework. These findings offer practical implications for policymakers, development agencies, and financial institutions in formulating contextually relevant initiatives that support Nepal's broader sustainable development agenda and the achievement of the Sustainable Development Goals (SDGs).

Keywords: *Financial Literacy; Financial Inclusion; Social Capital; Sustainable Development; Nepal; Banking Sector; Economic Development; Capability Approach*

Introduction

The interrelationships among financial literacy, social capital and financial inclusion in fostering inclusive and sustainable development has gained considerable attention among researchers and policymakers, particularly in developing nations like Nepal. The literature largely supports a positive relationship between financial literacy, an improved propensity to utilize formal financial systems, improved financial decision making and positive household welfare outcomes in low and middle-income and South Asian countries (Hidalgo-Mayorga & Puente-Riofrio, 2025; Kumar & Ahuja, 2025).Research into social networks and community connections has also shown that these can provide access to financial services like credit, as well as information and economic resilience for marginalized communities (Raharja et al., 2026).

There appears to be some recent support for the theory that financial inclusion has broader impacts if individuals have sufficient financial capability and high levels of social capital. Research from developing countries has concluded that improved access to banking, credit, savings opportunities, and digital financial services are not enough for sustained economic growth without enabling factors like knowledge, self-assertion, and social networks (Sethy et al., 2026). This integrated understanding is highly relevant in the context of South Asian economies, where informal institutions, social trust, and community relations continue to define financial and economic engagement.In Nepal, despite notable progress in microfinance expansion, cooperative movements, and digital banking services, substantial disparities remain in the effective use of financial services. Empirical evidence shows that rural communities, women, and informal sector workers continue to experience lower levels of financial awareness and weaker engagement with formal financial institutions (Sapkota, 2024; Sedhai et al., 2025). Similarly, social and institutional factors such as trust, community participation, and local financial networks significantly influence individuals' ability to access and utilize financial opportunities (Ferdous, 2025). Although financial outreach has expanded in recent years, challenges related to limited awareness, geographical barriers, and uneven social connectivity continue to hinder inclusive and sustainable development outcomes (Shrestha, 2024; Pudasaini, 2024; Ranabhat et al., 2025).

Taking all the research together, it's clear that Nepal's path to sustainable development can't be explained by just one thing, like financial inclusion, financial literacy, or social capital. Instead, these different areas work together, influencing how people participate in the economy, deal with challenges, and achieve long-term well-being. This growing body of evidence shows that we need development strategies that combine multiple approaches, strengthening people's financial abilities, making financial services more accessible, and building support systems within communities, all at the same time.

Amartya Sen's Capability Approach provides a relevant theoretical foundation for this study by emphasizing that development should be understood in terms of individuals' ability to access meaningful opportunities and improve their quality of life, rather than being evaluated solely through economic growth indicators. Talking about freedom, we're not trying to measure it in a deeply philosophical sense. Instead, we're using a simple scale to understand how people feel about their access to opportunities, their ability to participate in financial activities, the support they get from others, and how their well-being is improving. This study see at how being smart about money, being part of a community, and having access to financial services can help people achieve their goals. Being good with money gives people the skills to make informed decisions, while having access to financial services opens up more chances for them to take part in economic activities. At the same time, having strong relationships and trust in our communities is crucial for working together and sharing resources (Raharja et al., 2026). Together, these frameworks provide a comprehensive lens through which the interconnected effects of financial literacy, social capital, and financial inclusion on sustainable development can be understood.

Despite growing academic attention, existing literature largely examines these variables in isolation. Studies in Nepal and broader South Asia often focus separately on financial inclusion or literacy, with limited exploration of their combined or interactive effects on sustainable development outcomes (Bishwakarma et al., 2024; Kumar & Ahuja, 2025). This fragmented approach creates a significant research gap, as the synergistic relationship among these factors remains underexplored, particularly in the context of achieving Sustainable Development Goals (SDGs).

Additionally, empirical discrepancies continue to exist to the extent financial literacy leads to financial inclusion, coupled with the influence social capital has on this connection. Though some studies argue financial knowledge directly correlates to financial inclusion, some studies argue the opposite and claim financial networks and trust act more as social movements in determining financial behavior (Shrestha & Rana, 2024; Ferdous, 2025). These mixed findings underscore the need for a more integrated analytical framework.

While previous studies in Nepal look at the complementary roles of financial literacy and financial inclusion (Chand, Subin, & Katuwal, 2025), little work has been done to understand how these three factors (financial literacy, financial inclusion, and social capital) influence the achievement of sustainable development. In Nepal, social capital has been included as a missing factor of the sustainable development paradigm, and many studies have examined its relationships and interdependencies. This is evident in their attempts to understand the importance of social capital and financial inclusion (and/or financial literacy) for development. For example, in Nepal the inclusion and integration of financial services has been examined in the context of sustainable development. In the absence of financial inclusion, many authors have tried to assess the possible importance of social capital in the achievement of sustainable development. Thus, this study will look at social capital, financial inclusion, and financial literacy, and their roles in the sustainable development of Nepal. Understanding this will lead to the development of more viable policies and programs to improve financial service access levels and increase economic activity.

Taking account these interrelationships in the socio-economic context of Nepal, this research intends to add to the understanding of sustainable development. Insights of this nature are beneficial to policymakers, banking institutions, and developers who advanced to create growth in equality, less disparity, and improve economic resilience in Nepal and similar Asian countries.

Research Objectives

- To examine how the financial literacy of banking service users influences sustainable development outcomes and supports the achievement of Sustainable Development Goals (SDGs) in Nepal.
- To assess the effect of clients' social capital, including trust, social networks, and community engagement, on sustainable development within the Nepalese socio-economic context.
- To evaluate the contribution of financial inclusion practices, particularly access to and utilization of formal financial services, toward sustainable development in Nepal.
- To analyze the combined and interactive influence of financial literacy, clients' social capital, and financial inclusion on sustainable development in the Nepalese context.

Literature Review

Current research has been highlighting the interconnected role of social capital, financial literacy, and financial inclusion in driving sustainable development. This shifts the analysis away from viewing them as disconnected socio-economic phenomena. The case of Nepal shows that while financial inclusion allows people to access various financial services, financial literacy has the potential to bring the capability to use such services (Hidalgo-Mayorga & Puente-Riofrio, 2025; Shrestha, 2024). Accessing financial services is not enough for active social engagement, knowledge and confidence are also needed in order to use such services in a meaningful way (Chand et al., 2025).

social capital plays an crucial role by strengthening trust, information sharing, and community-level cooperation, which influence individuals' financial behavior and access to economic opportunities (Raharja et al., 2026). In Nepal, informal community networks, cooperatives, and social relationships often function as bridges between marginalized populations and formal financial institutions. Such social structures can encourage financial participation, improve awareness of financial services, and support collective economic resilience, particularly in rural and underserved communities.

Moreover, it has been shown in previous studies that higher financial literacy is associated with better saving behaviour, responsible borrowing and higher use of formal financial systems (Jaishi & Mahato, 2025). However, the differences are still visible among women, rural households and people with a lower level of education constraining the broader inclusiveness of economic development (Sapkota, 2024). Similarly, financial outreach has been extended through microfinance institutions and digital banking initiatives. However, uneven utilization still exists because of limited awareness, low institutional trust, and weak social connectivity (Upadhyaya et al., 2026).

Collectively, these findings suggest that the most effective way to achieve sustainable development is to have financial literacy, financial inclusion and social capital complement as each othercomplementary manner. Their integrated influence contributes not only to improved financial participation at the individual level but also to broader outcomes such as economic resilience, social inclusion, and long-term developmental sustainability within the Nepalese context.

Deep in Nepal's villages, everyday life ties closely to group bonds - cooperatives and saving circles pop up everywhere, filling gaps left by distant banks (Ferdous, 2025). Because people know each other, they lend, borrow, help out without contracts. Still, it does not work the same way in every town or district. Where distrust lingers or leaders fail, these networks often weaken. Even strong friendships cannot fix broken systems. Outcomes shift when neighbors stop believing institutions will follow through.

Looking closer, real-world studies show social ties help people access banks and money systems more easily. Because trust moves fast through close groups, news about loans or savings spreads without heavy paperwork slowing things down. Confidence grows too when neighbors vouch for each other. When tough times hit, places rich in these connections often bounce back quicker - group effort makes pooling support possible. Yet it's not all straightforward. Shared trust sometimes deepens divides, favoring insiders while shutting others out. Cooperation might lift some, yet leave behind those outside the circle. Outcomes depend heavily on who holds influence within the network. Take close-knit neighborhoods. They sometimes keep others out - people on the edges - blocking paths to help or chances. That pattern drags inequality along, quietly feeding gaps in wealth and status (Ullah et al., 2023). What looks like strong bonds from one angle can act like barriers up close. So grasping how trust, ties, and belonging work matters not just their presence, but whose advantage they serve. Lately, more scholars and policymakers have started focusing on how money access shapes lasting progress. Getting hold of banking tools helps people back school plans, medical needs, or small ventures slowly lifting communities out of hardship (Sethy et al., 2026). Across Nepal, tiny loan providers alongside online banks now reach spots once left behind. Still, shaky internet lines, unclear rules, and low know-how around managing cash keep many from gaining real benefit (Pudasaini, 2024).

Globally, studies shows that approximately 1.4 billion adults remain unbanked, with a significant proportion residing in developing countries (World Bank, 2022). In South Asia, despite notable progress, financial inclusion gaps persist, particularly among women and rural populations. For example, gender disparities in account ownership and financial access remain a critical issue, reflecting broader socio-economic inequalities (Rani et al., 2025). These challenges highlight the need for integrated approaches that address both supply-side and demand-side barriers.

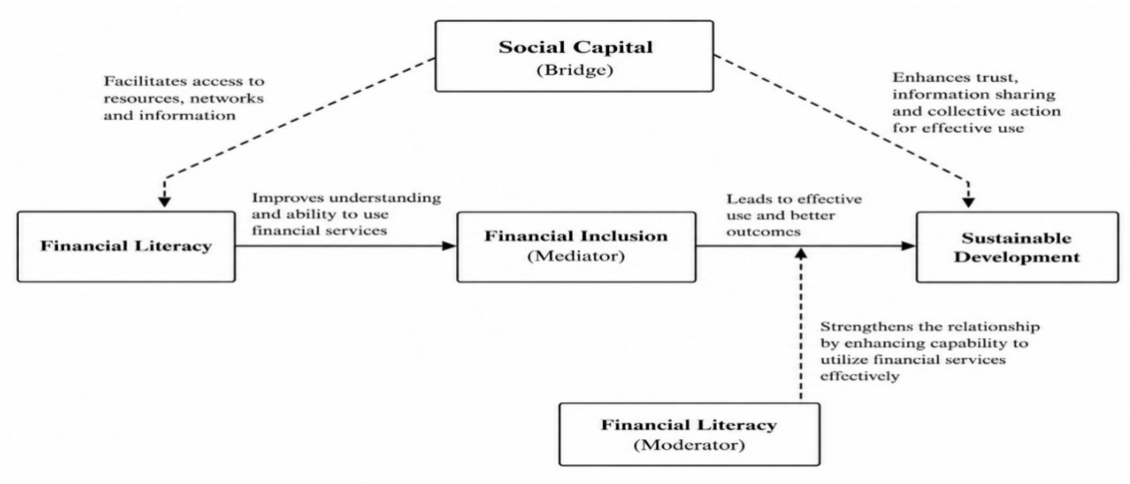
The link between financial inclusion and sustainable development is well established in the literature. Financial inclusion contributes to several Sustainable Development Goals (SDGs), including poverty reduction, gender equality, and economic growth (Nareswari&Tarczyńska-Łuniewska, 2025). By providing individuals with access to financial resources, it enables them to improve their livelihoods, invest in productive activities, and enhance their overall well-being. However, the effectiveness of financial inclusion in achieving these outcomes depends on complementary factors such as financial literacy and social capital.

Looking at progress over time, one idea stands out it involves money matters, people connections, and care for nature all at once. Meeting today's demands while leaving room for tomorrow's lives shapes how we approach lasting growth. With that in mind, knowing how to manage finances, building trust within communities, yet also gaining access to services plays a role just as much as policy or infrastructure. Each piece affects whether someone can join the economy fully, choose wisely, act confidently. These factors don't stand alone; they weave into broader efforts simply by shaping daily choices.

Much like before, trust among people helps lasting progress by boosting how groups handle tough times together. When neighbors know each other well, they find it easier to tackle nature-related issues, use supplies wisely, because shared efforts grow stronger there. Still, as mentioned not long ago, whether those connections help everyone relies heavily on who gets included, along with fair chances to reach what's needed.Financial inclusion also plays a crucial role in sustainable development by enabling individuals to access financial services that support income generation, risk management, and investment. For example, access to credit allows small businesses to expand their operations, while insurance products help individuals mitigate risks associated with health and natural disasters (Tabassum et al., 2023). In Nepal, where agriculture remains a key sector, financial inclusion can support farmers by providing access to credit and insurance, thereby enhancing productivity and resilience.

Despite the growing body of literature on financial literacy, social capital, and financial inclusion, there remains a lack of integrated studies that examine their combined impact on sustainable development. Most existing research focuses on these variables in isolation, limiting our understanding of their interrelationships. In the Nepalese context, this gap is particularly pronounced, as studies tend to address either financial inclusion or literacy without considering the role of social capital.

Moreover, empirical findings on the relationships among these variables are often inconsistent. While some studies suggest a direct positive relationship between financial literacy and financial inclusion, others highlight the mediating role of social capital and institutional factors (Chand et al., 2025). Similarly,



the impact of financial inclusion on sustainable development may vary depending on the quality of financial services and the level of financial literacy among users.

These inconsistencies underscore the need for a comprehensive framework that integrates financial literacy, social capital, and financial inclusion in analyzing sustainable development outcomes. Such an approach would provide a more holistic understanding of the mechanisms through which these factors interact and influence development processes.

In conclusion, the literature suggests that financial literacy, social capital, and financial inclusion are critical components of sustainable development, particularly in developing economies such as Nepal. However, the existing body of research is fragmented, and there is a need for more integrated and context-specific studies. By addressing this gap, the present study aims to contribute to the understanding of how these factors collectively influence sustainable development in Nepal and similar South Asian contexts.

Methodology

This study adopts a deductive research approach, which is grounded in established theoretical frameworks such as the Capability Approach and Social Capital Theory. In line with this approach, the research begins with the formulation of hypotheses derived from prior empirical findings on financial literacy, social capital, financial inclusion, and sustainable development. These hypotheses are then subjected to empirical testing using observed data. The deductive strategy is particularly appropriate in this context, as it allows for the validation or rejection of theoretically grounded relationships through systematic statistical analysis (Kumar & Ahuja, 2025; Rani et al., 2025). By moving from theory to observation, the study ensures logical consistency while contributing to the refinement of existing knowledge within the Nepalese financial and socio-economic setting.

A quantitative research design is employed to ensure objectivity, reliability, and generalizability of findings. Quantitative methods are well suited for examining complex interrelationships among variables such as financial literacy, social capital, financial inclusion, and sustainable development, as they enable the use of statistical tools to identify patterns, correlations, and causal linkages (Hidalgo-Mayorga& Puente-Riofrio, 2025). This approach facilitates the measurement of latent constructs through structured instruments and allows for hypothesis testing using econometric techniques. Given the increasing emphasis on evidence-based policymaking in Nepal, a quantitative framework provides robust empirical insights that can inform financial and development strategies (Shrestha, 2024).

This study focuses on employees of Nepalese commercial banks as the unit of analysis, considering their direct involvement in financial service delivery, financial inclusion initiatives, and institutional decision-making processes. Commercial banks represent the highest tier of the Nepalese financial system and play a major role in credit mobilization, digital banking expansion, and inclusive financial outreach under the regulation of Nepal Rastra Bank (NRB, 2024). As of 2024, Nepal has 20 licensed commercial banks that collectively influence the country's broader financial and economic landscape.

The selection of bankers as respondents is particularly relevant because the study aims to capture perceptions regarding the institutional contribution of the banking sector toward sustainable development rather than measuring sustainable development exclusively at the household or national level. Bank employees possess practical insights into how financial literacy programs, financial inclusion strategies, and client-level social relationships influence access to financial services and economic participation. In addition, bankers are more likely to observe operational barriers, institutional challenges, and the broader social and environmental implications associated with banking activities, including digital access, responsible financing, and inclusive outreach practices.

Accordingly, the commercial banking sector provides an appropriate institutional context for examining the perceived relationship between financial literacy, social capital, financial inclusion, and sustainable development within Nepal's evolving financial ecosystem.

To ensure adequate representation and statistical validity, the study adopts a sample size of 400 respondents, drawn from employees working across the 20 commercial banks. The sample size is determined based on established guidelines for structural equation modeling (SEM) and multivariate analysis, which recommend a minimum of 10–20 observations per variable or at least 200–400 cases for reliable estimation (Hair et al., 2022). Additionally, given the total workforce size of Nepal's banking sector – estimated to exceed 50,000 employees across branches and headquarters – a sample of 400 provides sufficient statistical power while maintaining feasibility (NRB, 2024). Respondents include branch managers, operations officers, and mid-level banking professionals who are directly involved in financial service delivery and customer interaction.

The sampling technique used in this study is a combination of purposive and stratified sampling. Initially, purposive sampling is applied to select commercial banks due to their strategic importance in financial inclusion initiatives. Subsequently, stratified sampling ensures representation across different job roles and hierarchical levels within banks. This approach enhances the reliability of the data by capturing diverse perspectives on financial literacy practices, institutional trust, and financial service utilization.

The study relies primarily on primary data collection, which is gathered through a structured questionnaire administered to banking professionals. Primary data is essential in this context as it captures real-time insights into financial behavior, institutional practices, and perceptions that are not readily available through secondary sources (Chand et al., 2025). The questionnaire is designed using validated scales from prior empirical studies to ensure construct validity and comparability.

The measurement of key variables is operationalized as follows:

Financial Inclusion is measured through three dimensions: access, usage, and barriers. These dimensions are adapted from established frameworks and include approximately 14 items (5 for access, 5 for usage, and 4 for barriers), reflecting the extent to which individuals and institutions engage with financial services (Rahman & Bakar, 2019; Sethy et al., 2026).

Sustainable development in this study is examined through three interrelated dimensions: economic sustainability, social sustainability, and environmental sustainability. Each dimension is measured using four perception-based items that capture respondents' views regarding financial stability, social well-being, inclusive institutional practices, and environmentally responsible banking activities (Shen et al., 2024; Nareswari&Tarczyńska-Łuniewska, 2025). To strengthen contextual relevance and construct validity within the Nepalese banking sector, the environmental sustainability dimension is also aligned with the Green Finance Guidelines issued by Nepal Rastra Bank (NRB), which emphasize responsible financing, environmental risk management, sustainable investment practices, and environmentally conscious banking operations. This alignment enables the study to assess sustainable development not only from a general theoretical perspective but also within the practical regulatory framework guiding Nepalese commercial banks.

Financial Literacy is measured using multi-item constructs (approximately 6–8 items) that evaluate knowledge of financial products, savings behavior, investment decisions, and risk management capabilities (Jaishi&Mahato, 2025). Social Capital is operationalized through indicators of trust, network strength, and community engagement, typically measured using 5–7 items, reflecting both bonding and bridging social capital dimensions (Raharja et al., 2026). All items are measured using a five-point Likert scale, ranging from strongly disagree to strongly agree, to capture the intensity of respondents' perceptions.

Data analysis in this study is carried out using descriptive statistics, correlation analysis, and regression-based analytical techniques to examine the relationships among financial literacy, social capital, financial inclusion, and sustainable development. Since the conceptual framework primarily focuses on examining direct, mediating, and integrated relationships among observed constructs, the analysis emphasizes explanatory and relational assessment rather than a highly complex covariance-based theoretical structure.

To ensure the consistency and appropriateness of the measurement instruments, reliability and validity assessments are conducted using Cronbach's alpha, composite reliability, and item-level validity analysis. In addition, exploratory assessment of construct relationships is performed to examine the degree of association among the study variables and to evaluate the overall robustness of the measurement framework. This analytical approach is considered appropriate for assessing the integrated influence of the selected socio-economic factors within the Nepalese banking context while maintaining alignment between the conceptual framework and the statistical techniques employed in the study.

The methodological framework also emphasizes ethical considerations, including informed consent, confidentiality, and voluntary participation. Respondents are assured that their responses will be used solely for academic purposes, thereby enhancing the credibility and integrity of the data collection process.

In the Nepalese context, this methodological approach addresses a critical gap in existing research by providing empirical evidence based on primary data from the formal banking sector, which remains underexplored despite its central role in financial inclusion and sustainable development. By integrating quantitative rigor with context-specific insights, the study aims to generate findings that are both academically robust and practically relevant for policymakers, financial institutions, and development practitioners.

Data Analysis

Table 1: Reliability Statistics

Cronbach's Alpha	N of Items
0.752	4

The overall reliability coefficient of **0.752** indicates acceptable internal consistency among the constructs. This suggests that the measurement items used in the questionnaire are sufficiently reliable for further statistical analysis.

Table 2: Reliability Statistics

Variable	Cronbach's Alpha	N of Items
Financial Literacy	0.846	7
Financial Inclusion	0.892	14
Sustainable Development	0.857	11
Social Capital	0.918	12

All variables demonstrate strong reliability, with Cronbach's Alpha values exceeding the recommended threshold of 0.70. Social Capital exhibits the highest reliability (**0.918**), indicating strong internal consistency among its measurement items.

Table 3: Correlation Analysis

Variables	Financial Inclusion	Sustainable Development	Financial Literacy	Social Capital
Financial Inclusion	1	0.682**	0.563**	0.245**
Sustainable Development	0.682**	1	0.734**	0.298**
Financial Literacy	0.563**	0.734**	1	0.254**
Social Capital	0.245**	0.298**	0.254**	1

Sig. (2-tailed) = 0.000; N = 400

The correlation results indicate a strong positive relationship between financial inclusion and sustainable development ($r = 0.682$). Financial literacy also shows a strong association with sustainable development ($r = 0.734$), suggesting its critical role in promoting economic and social well-being. Social capital exhibits a weaker yet statistically significant relationship, highlighting its supportive but indirect contribution.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	0.812	0.659	0.655	0.392

The model explains 65.9% of the variance in sustainable development, indicating a strong explanatory power. The adjusted R^2 value confirms that the model is robust and not inflated by unnecessary predictors.

Table 5: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	82.614	3	27.538	178.421	0.000
Residual	42.987	396	0.109		
Total	125.601	399			

The ANOVA results confirm that the regression model is statistically significant (**$p < 0.001$**), indicating that the predictors collectively have a meaningful impact on sustainable development.

Table 6: Regression Coefficients

Variable	B	Std. Error	Beta	t	Sig.
Constant	0.312	0.174	—	1.793	0.074
Financial Inclusion	0.381	0.044	0.392	8.659	0.000
Financial Literacy	0.467	0.047	0.472	9.936	0.000
Social Capital	0.095	0.029	0.112	3.276	0.001

The regression results demonstrate that financial literacy ($\beta = 0.472$) has the strongest positive impact on sustainable development, followed by financial inclusion ($\beta = 0.392$). Social capital, although statistically significant, shows a comparatively smaller effect ($\beta = 0.112$). These findings suggest that improving financial knowledge and expanding access to financial services are key drivers of sustainable development in Nepal.

The empirical findings reveal that financial literacy and financial inclusion are the most influential determinants of sustainable development in Nepal’s banking context. While social capital helps positively, its role appears more complementary than leading one. The results reinforce the argument that enhancing financial education and expanding inclusive financial systems can significantly improve economic resilience and long-term sustainability outcomes.

Discussion

Regression analysis rarely tells a clean story and in this case, it doesn't try to. What the numbers show is something messier and more honest: financial literacy, financial inclusion, and social capital don't work in isolation. They push and pull against each other in ways that are difficult to separate, and their combined effect on sustainable development in Nepal's banking sector is more than the sum of their parts. Understanding what these results actually mean requires stepping outside the model for a moment. Nepal is not a generic developing economy. It carries specific geographic constraints, a deeply rural population, and institutional gaps that shape how financial systems function or fail to. Seen through that lens, the statistics stop being abstract and start pointing toward something actionable.

To begin with, financial inclusion emerges as a strong and statistically significant predictor of sustainable development, which aligns with both the empirical results of this study and the growing body of literature in South Asia. The positive coefficient indicates that improved access to financial services such as savings accounts, credit facilities, and digital payment systems enhances individuals’ capacity to participate in economic activities. In Nepal, financial inclusion has expanded notably over the past decade, with commercial banks and microfinance institutions extending services to rural and previously underserved populations. However, despite these advancements, disparities persist across geography and income groups (Nepal, 2023; Adhikari, 2025).

Empirical studies conducted in Nepal confirm that increased access to financial services contributes to income generation, business development, and poverty reduction, particularly among small entrepreneurs and rural households (Ranabhat et al., 2025). Similar findings have been reported across Asian economies, where financial inclusion has been linked to improved employment opportunities, enhanced resilience to economic shocks, and greater social mobility (Kumar & Ahuja, 2025). These outcomes are closely tied to SDGs related to poverty alleviation, gender equality, and economic growth. Nonetheless, the Nepalese context reveals that access alone is insufficient; utilization and effective engagement with financial services remain key challenges.

In this regard, the study highlights the critical role of financial literacy, which demonstrates the strongest influence on sustainable development among the predictors. The relatively higher regression coefficient indicates that individuals' knowledge, skills, and confidence in managing financial matters significantly shape development outcomes. In Nepal, financial literacy remains unevenly distributed, with rural populations and women often facing informational and educational constraints (Neupane, 2026). This gap limits their ability to benefit fully from available financial services, thereby weakening the overall impact of financial inclusion initiatives.

Supporting evidence from recent Nepalese studies shows that individuals with higher financial literacy are more likely to adopt digital banking, engage in savings behavior, and invest in productive activities (Thapa, 2025; Kandel et al., 2025). Moreover, financial literacy has been linked to improved business sustainability among small and medium enterprises, which play a vital role in Nepal's economy. At a broader level, financially literate populations tend to contribute to macroeconomic stability by fostering a culture of saving and responsible consumption. These findings are consistent with research across Asia, where financial education has been identified as a key driver of inclusive and sustainable economic development (Rani et al., 2025).

Although social capital demonstrates a statistically significant relationship with sustainable development, its direct effect appears comparatively lower than that of financial literacy and financial inclusion. Nevertheless, this finding should be interpreted within the broader socio-economic and institutional context of Nepal. In practice, social capital may not independently generate substantial developmental outcomes; rather, its contribution is often realized through its supportive role in strengthening trust, facilitating information sharing, encouraging community participation, and improving individuals' engagement with financial services. Therefore, the comparatively modest direct coefficient does not diminish the importance of social capital, as its influence may operate indirectly by enhancing the effectiveness of financial literacy and financial inclusion initiatives within the Nepalese banking and community environment. However, interpreting this result requires a more contextual perspective. In Nepal, social capital is deeply embedded in community structures, particularly in rural areas where informal networks, cooperatives, and local associations play a central role in economic life. These networks facilitate trust, information exchange, and mutual support, which are essential for accessing financial services and overcoming institutional barriers (Chand et al., 2025).

Although the regression coefficient for social capital is smaller, its indirect effects. For instance, strong social networks can enhance financial literacy by enabling knowledge sharing and peer learning. Similarly, trust within communities can encourage individuals to engage with formal financial institutions, thereby strengthening financial inclusion. This interconnected nature of social capital suggests that its contribution to sustainable development may operate through mediating or moderating mechanisms rather than direct influence alone. Such findings are consistent with studies conducted in other Asian contexts, which emphasize the enabling role of social capital in fostering inclusive development (Raharja et al., 2026).

Taken together, the results of this study reinforce the idea that financial literacy, financial inclusion, and social capital should be understood as interdependent components of a broader development framework. Strengthening one dimension without addressing the others may yield limited outcomes. For example, expanding financial services without improving financial literacy may lead to underutilization or misuse of financial products. Similarly, promoting financial literacy without ensuring access to financial services may restrict individuals' ability to apply their knowledge in practice.

From a policy perspective, this integrated understanding has important implications for Nepal. Efforts to achieve sustainable development should prioritize coordinated interventions that simultaneously enhance financial access, build financial capability, and strengthen community networks. Such an approach is more likely to generate inclusive and resilient development outcomes, particularly in a country characterized by diverse socio-economic conditions and geographic challenges

Conclusion

This study investigated how financial literacy, financial inclusion, and social capital intersect to drive sustainable development within Nepal's commercial banking sector. Drawing on primary data from banking professionals, the resulting quantitative analysis offers concrete, empirical evidence of how these forces interact. The data shows that financial literacy and financial inclusion act as the primary engines of sustainable growth, while social capital serves as a vital supporting pillar.

These dynamics align closely with recent literature highlighting the link between robust financial systems, human capability, and inclusive growth (Khadka, 2025; Adhikari, 2025). In a landscape like Nepal where economic opportunities are routinely bottlenecked by a lack of resources and information strengthening these core areas is vital. Despite recent strides in expanding bank branches and digital networks, serious roadblocks remain, particularly around financial awareness, digital literacy, and institutional trust. Overcoming these hurdles requires shifting away from purely building infrastructure toward a holistic framework that integrates education, targeted policy reforms, and grassroots community engagement. This approach is what will ultimately help Nepal accelerate its progress toward the SDGs and ensure economic growth is felt equitably across society.

Implications of the Study

These findings offer practical insights for policymakers, financial institutions, and development practitioners in Nepal and similar emerging economies. Crucially, financial inclusion is more than just a matter of physical access; it requires a mix of awareness, capability, and trust. While expanding digital platforms and banking networks is vital, these efforts will likely stall without a parallel push for financial literacy.

Consequently, financial education needs to be woven directly into national development strategies. Local initiatives like digital banking workshops have shown real promise in Nepal, but their current reach remains too narrow (Thapa, 2025). Scaling up these programs is essential to help individuals confidently enter the formal economy and improve their financial well-being. Finally, the data highlights the undeniable power of social capital. In rural areas where informal networks still dominate, the success of any formal financial initiative hinges on strengthening local cooperatives and building genuine trust between institutions and their clients.

Recommendations

Based on the empirical findings, several recommendations can be proposed to support sustainable development in Nepal:

First, policymakers should prioritize the expansion of inclusive financial systems, particularly in rural and underserved regions. Leveraging digital financial technologies, such as mobile banking and branchless banking, can help overcome geographical barriers and improve access to financial services (Adhikari, 2025).

Second, there is a clear need to strengthen financial literacy programs across all segments of society. Educational initiatives should be tailored to different demographic groups, including students, women, and small business owners, and should focus on practical skills such as budgeting, saving, and investment planning (Neupane, 2026).

Third, efforts should be made to enhance social capital through community-based approaches. Supporting cooperatives, local financial groups, and community organizations can foster trust and collaboration, thereby improving the effectiveness of financial inclusion strategies.

Finally, future research should explore the dynamic interactions among these variables using longitudinal data and advanced modeling techniques, particularly in diverse geographic regions of Nepal. Such studies would provide deeper insights into how these relationships evolve over time and inform more targeted policy interventions.

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