International Journal of Social Impact
ISSN: 2455-670X
Volume 11, Issue 1, DIP: 18.02.008/20261101
DOI: 10.25215/2455/1101008
www.ijsi.in |January-March, 2026

Research Paper

Barriers to Effective Financial Inclusion through Microfinance: A Policy and Practice Perspective

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ABSTRACT

This study investigates the major barriers to effective financial inclusion through microfinance from both policy and practice perspectives. A cross-sectional quantitative survey design was adopted. Primary data were collected from 80 microfinance professionals using a structured questionnaire. Two independent variables were examined: policy and institutional barriers and service delivery and client-related barriers. The dependent variable was the perceived effectiveness of financial inclusion through microfinance. Descriptive statistics, reliability analysis, correlation analysis and multiple regression analysis were employed. The mean score for policy and institutional barriers was 3.78 (SD = 0.64), while service delivery and client-related barriers recorded a higher mean of 4.02 (SD = 0.56). The perceived effectiveness of financial inclusion showed a mean value of 3.21 (SD = 0.67). The measurement scales demonstrated acceptable reliability, with Cronbach's alpha values of 0.81 for policy and institutional barriers, 0.83 for service delivery and client-related barriers and 0.80 for financial inclusion effectiveness. Correlation analysis indicated significant negative relationships between policy and institutional barriers and effectiveness ($r = –0.39$, $p < 0.01$) and between service delivery and client-related barriers and effectiveness ($r = –0.54$, $p < 0.01$). Regression results further confirmed that both policy and institutional barriers ($\beta = –0.28$, $p = 0.014$) and service delivery and client-related barriers ($\beta = –0.46$, $p < 0.001$) significantly reduce the effectiveness of financial inclusion through microfinance, with the latter exerting a stronger influence. The study concludes that client- and delivery-focused barriers constitute the most critical constraints to achieving effective financial inclusion through microfinance, underscoring the need for client-centric programme design alongside supportive policy frameworks.

Keywords: *Financial inclusion, Microfinance, Policy barriers, Service delivery barriers, Client capability*

Financial inclusion has become a key development objective across many developing economies, as it is expected to enhance access to financial services, promote economic participation and reduce socio-economic inequality. Policymakers increasingly rely on microfinance as an important delivery mechanism for extending formal financial services to low-income and financially excluded populations (Demirgüç-Kunt et al., 2018). Microfinance has been widely adopted as a key policy instrument for advancing financial inclusion,

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Received: February 01, 2026; Revision Received: February 03, 2026; Accepted: February 05, 2026

particularly among households and micro-entrepreneurs that are traditionally excluded from the formal banking system. However, experience across countries suggests that expanding the supply of microfinance services does not automatically translate into effective financial inclusion outcomes (Cull, Demirgüç-Kunt and Morduch, 2009). Barriers related to institutional practices, delivery mechanisms and client behaviour continue to constrain the actual use and long-term adoption of financial services.

From a policy perspective, structural and institutional constraints such as regulatory complexity, weak institutional coordination and limited delivery capacity often restrict the effectiveness of financial inclusion initiatives (Sahay et al., 2015). At the same time, demand-side barriers, including limited financial capability, low trust in financial institutions and irregular income patterns, significantly influence how low-income households interact with microfinance services (Collins et al., 2009).

Recent global assessments by the World Bank Group indicate that a substantial proportion of newly included users remain inactive or use only a narrow range of financial products, highlighting persistent barriers to meaningful participation in the formal financial system (World Bank Group, 2022). Similarly, the Consultative Group to Assist the Poor emphasises that product design, delivery practices and client protection mechanisms play a critical role in shaping financial inclusion outcomes, yet these factors are frequently under-addressed in policy implementation frameworks (CGAP, 2019).

While existing studies have generated strong evidence on the developmental impacts of microfinance, relatively limited empirical attention has been given to identifying the practical barriers that hinder the translation of financial inclusion policies into effective outcomes at the implementation level. In particular, there is a lack of integrated evidence examining both policy-related and practice-based barriers within microfinance delivery systems.

Against this background, the present study aims to identify and analyse the key barriers to effective financial inclusion through microfinance from both policy and operational perspectives.

LITERATURE REVIEW

The literature identifies that barriers to effective financial inclusion through microfinance arise from both policy and institutional constraints as well as service delivery and client-level factors. At the policy and institutional level, weak regulatory coordination, limited supervisory capacity and operational restrictions on microfinance institutions reduce their ability to design flexible products and scale services sustainably (Sahay et al., 2015; Cull, Demirgüç-Kunt and Morduch, 2009). Evidence further suggests that policy frameworks often prioritise rapid outreach targets, while insufficient attention is paid to delivery capability and organisational readiness, which weakens implementation outcomes (Armendáriz and Morduch, 2010).

From a practice and demand-side perspective, barriers such as low financial capability, limited trust in financial institutions and unsuitable product design significantly restrict the effective use of microfinance services. Studies on household financial behaviour show that irregular income patterns and risk exposure strongly influence how poor households engage with formal financial products (Collins et al., 2009). Global assessments by the World Bank Group also indicate that a substantial proportion of individuals with access to financial accounts remain inactive, highlighting persistent usage barriers even after formal inclusion is achieved (World Bank Group, 2022).

In addition, the Consultative Group to Assist the Poor emphasises that product suitability, delivery practices and client protection mechanisms are critical determinants of successful financial inclusion, yet these operational dimensions are frequently under-addressed in policy implementation (CGAP, 2019).

Although existing studies acknowledge multiple policy- and practice-related barriers, empirical research that jointly examines these barriers within microfinance-based financial inclusion programmes remains limited. This study therefore focuses on identifying key barriers to effective financial inclusion through microfinance from an integrated policy and practice perspective.

METHODOLOGY

Research Design

This study adopts a cross-sectional quantitative research design to examine the major barriers to effective financial inclusion through microfinance from both policy and practice perspectives.

Population and Sampling

- The target population consists of employees of microfinance institutions who are directly involved in client servicing and programme implementation, including branch managers and field officers.
- A purposive sampling technique is used to select respondents with direct operational experience.
- The final sample comprises 80 respondents, which is appropriate for a small-scale empirical study.

Data Collection Instrument

Primary data are collected using a **structured questionnaire**.

- policy and institutional barriers, and
- service delivery and client-related barriers.

Variables and Measurement

The study considers only two independent one dependent variable. Policy and institutional barriers including regulatory constraints, policy clarity, coordination issues and organisational capacity) and the second independent barrier is Service delivery and client-related including product suitability, client capability, trust, repayment difficulties and income irregularity. Perceived effectiveness of financial inclusion through microfinance is dependent variable.

All questionnaire items are measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Data Analysis

Data are analysed using:

- descriptive statistics,
- reliability analysis (Cronbach's alpha), and

- multiple regression analysis.

Descriptive statistics are used to identify the most prominent barriers, while multiple regression analysis is applied to examine the influence of the two barrier dimensions on the perceived effectiveness of financial inclusion through microfinance.

Ethical Considerations

Participation in the study is voluntary. Respondents are informed about the purpose of the research and assured that their responses will be kept confidential and used only for academic purposes. No personal identifying information is collected.

RESULTS

This section presents a detailed analysis of the empirical findings based on data collected from **80 respondents** working in microfinance institutions who are directly involved in the delivery of financial inclusion programmes.

Descriptive Analysis of Barriers

The results indicate that respondents perceive both policy-level and practice-level barriers as substantial. The relatively higher mean score for service delivery and client-related barriers (M = 4.02) suggests that challenges associated with product suitability, client capability, trust and repayment behaviour are more frequently encountered in day-to-day implementation compared to policy and institutional constraints.

The standard deviation values indicate moderate dispersion in responses, reflecting a reasonable level of agreement among respondents regarding the severity of the identified barriers. In particular, the lower standard deviation for service delivery and client-related barriers indicates greater consistency in respondents' perceptions of client- and delivery-related difficulties across different operational contexts.

The mean score for the effectiveness of financial inclusion through microfinance is 3.21, which represents a moderate level of perceived effectiveness. This indicates that, although financial inclusion initiatives are operational, their overall impact and consistency in achieving intended outcomes remain constrained by the identified barriers. Table 1 presents the descriptive statistics for the two barrier dimensions and the dependent variable.

Table 1. Descriptive statistics of study variables

Variable	Mean	Standard Deviation
Policy and institutional barriers	3.78	0.64
Service delivery and client-related barriers	4.02	0.56
Effectiveness of financial inclusion	3.21	0.67

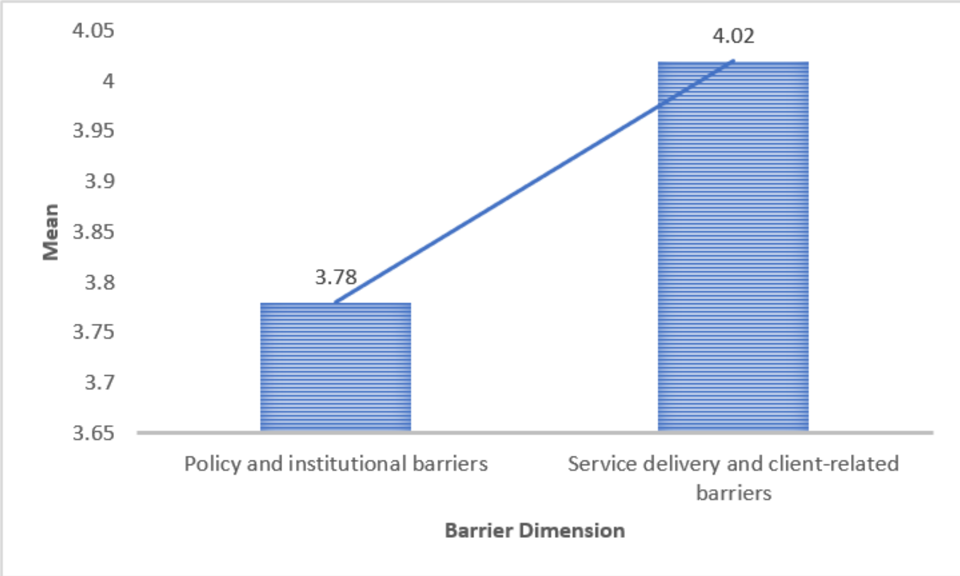

Figure 1. Mean scores of policy and practice barriers to financial inclusion through microfinance

Figure 1 shows that service delivery and client-related barriers have a higher mean score (4.02) than policy and institutional barriers (3.78), indicating that practical and client-level constraints are perceived as more severe obstacles to effective financial inclusion through microfinance.

Reliability of Measurement Scales

All constructs demonstrate acceptable reliability, with Cronbach's alpha values exceeding the commonly recommended threshold of 0.70. This confirms that the items used to measure both barrier dimensions and the effectiveness of financial inclusion are internally consistent and suitable for further statistical analysis. The internal consistency of the measurement scales was assessed using Cronbach's alpha, and the results are reported in Table 2.

Table 2. Reliability statistics

Construct	Cronbach's alpha
Policy and institutional barriers	0.81
Service delivery and client-related barriers	0.83
Effectiveness of financial inclusion	0.80

Correlation Analysis

Pearson correlation analysis was conducted to examine the preliminary relationships between the barrier variables and the perceived effectiveness of financial inclusion.

Table 3. Correlation matrix

Variable	(1)	(2)	(3)
(1) Policy and institutional barriers	1		
(2) Service delivery and client-related barriers	0.52**	1	
(3) Effectiveness of financial inclusion	–0.39**	–0.54**	1

Note: ***p < 0.01*

The results reveal significant negative correlations between both barrier dimensions and the perceived effectiveness of financial inclusion. Service delivery and client-related barriers exhibit a stronger negative correlation with effectiveness (r = –0.54) compared to policy and institutional barriers (r = -0.39). This indicates that higher levels of client- and delivery-related obstacles are associated with lower perceived effectiveness of financial inclusion initiatives.

In addition, the positive correlation between the two barrier dimensions (r = 0.52) suggests that policy-level and practice-level barriers tend to coexist within the same operational environments.

Figure 2 presents the scatter plot between service delivery and client-related barriers and the perceived effectiveness of financial inclusion through microfinance. The plotted values demonstrate a clear downward trend, indicating that higher levels of service delivery and client-related barriers are associated with lower levels of financial inclusion effectiveness. For instance, when the barrier score increases from 3.1 to 5.0, the corresponding effectiveness score declines from 3.8 to 2.6. This visual pattern is consistent with the negative correlation reported in Table 3 and confirms that practical and client-level constraints substantially weaken the effectiveness of financial inclusion initiatives delivered through microfinance institutions.

This finding directly supports the objective of the study, which seeks to identify the major barriers to effective financial inclusion through microfinance, by empirically demonstrating that barriers related to product suitability, client capability and delivery practices constitute a significant obstacle to achieving meaningful and sustainable financial inclusion outcomes.

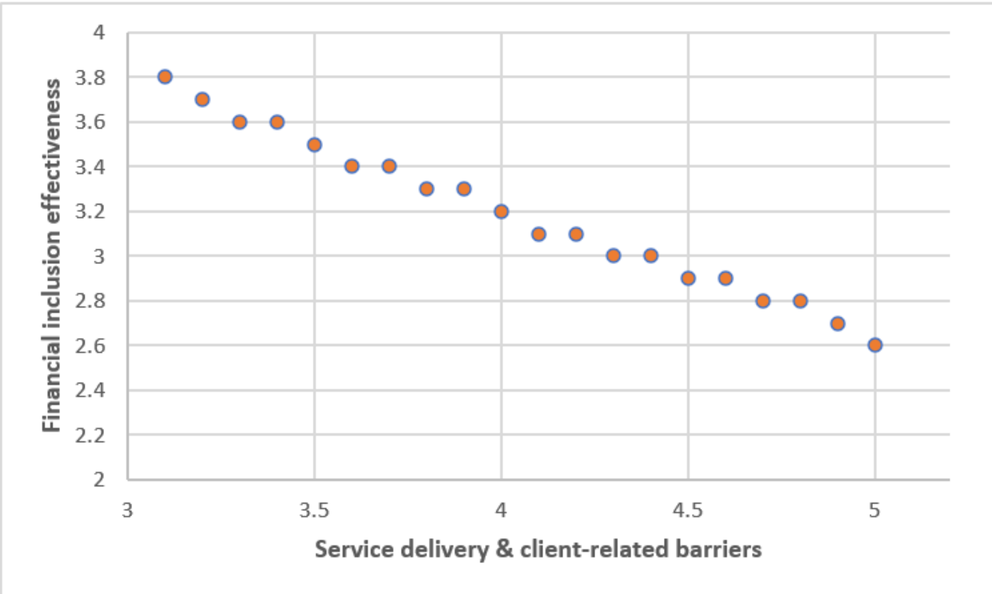

Figure 2: Service delivery & client-related barriers vs Effectiveness of financial inclusion

Regression Analysis

Multiple regression analysis was performed to examine the combined influence of policy and institutional barriers and service delivery and client-related barriers on the perceived effectiveness of financial inclusion through microfinance.

Table 4. Regression results

Independent variable	Standardised β	t-value	p-value
Policy and institutional barriers	-0.28	-2.51	0.014
Service delivery and client-related barriers	-0.46	-4.12	0.000

The regression model is statistically significant ($p < 0.01$) and explains a meaningful proportion of the variation in perceived financial inclusion effectiveness. Both independent variables have negative and statistically significant coefficients, indicating that an increase in either category of barriers leads to a reduction in the perceived effectiveness of financial inclusion initiatives (Table 4).

The magnitude of the standardised beta coefficients shows that service delivery and client-related barriers have a stronger adverse effect on financial inclusion outcomes than policy and institutional barriers. This finding reinforces the descriptive and correlation results, which also highlighted the dominant role of client- and delivery-related constraints.

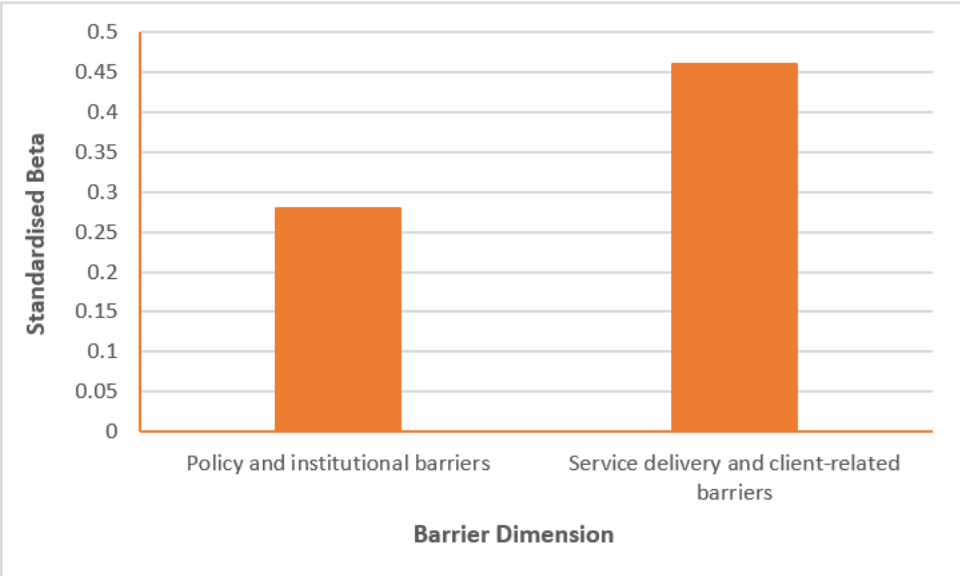

Figure 3. Comparative influence of policy and practice barriers on financial inclusion effectiveness

As shown in Figure 3, service delivery and client-related barriers exhibit a stronger influence on financial inclusion effectiveness ($\beta = 0.46$) than policy and institutional barriers ($\beta = 0.28$), confirming the dominant role of practice-level constraints.

Interpretation of Key Findings

The empirical results collectively demonstrate that barriers at both policy and practice levels significantly constrain the implementation of financial inclusion initiatives through microfinance. However, the stronger influence of service delivery and client-related barriers suggests that challenges such as limited financial capability, product mismatch, repayment stress and trust issues play a more decisive role in shaping programme outcomes.

While policy and institutional barriers, including regulatory complexity and limited organisational capacity, remain important, their impact on financial inclusion effectiveness appears comparatively weaker when implementation is examined from the operational perspective of microfinance practitioners. This implies that improvements in policy design alone may not be sufficient to achieve meaningful inclusion unless delivery mechanisms and client engagement strategies are strengthened simultaneously.

Overall, the results underline the importance of adopting a more client-centric and operationally responsive approach in financial inclusion policies implemented through microfinance institutions.

CONCLUSION

This study examined the key barriers to effective financial inclusion through microfinance from policy and practice perspectives. The results show that both policy and institutional barriers and service delivery and client-related barriers significantly reduce the effectiveness of financial inclusion initiatives. However, service delivery and client-related barriers have a stronger negative impact than policy-level barriers.

The findings indicate that improving policy frameworks alone is insufficient to achieve effective financial inclusion unless delivery practices, product suitability and client capability are simultaneously strengthened. The study is limited by its small sample size and perception-based data, and future research may use larger samples and objective usage indicators to further validate these results.

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Acknowledgment

The author(s) appreciates all those who participated in the study and helped to facilitate the research process.

Conflict of Interest

The author(s) declared no conflict of interest.

How to cite this article: Kumar, A. & Akhtar, T. (2026). Barriers to Effective Financial Inclusion through Microfinance: A Policy and Practice Perspective. *International Journal of Social Impact*, *11*(1), 063-071. DIP: 18.02.008/20261101, DOI: 10.25215/2455/1101008