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Role of Self-Help Groups (SHGS) in Promoting Financial Inclusion

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Abstract

Introduction

Financial inclusion has become one of the most significant components of socio-economic development in modern economies. It refers to ensuring that individuals, particularly those belonging to disadvantaged and marginalized sections of society, have affordable and convenient access to formal financial services such as savings accounts, credit facilities, insurance coverage, and remittance systems. In developing countries like India, limited access to formal banking services has historically restricted economic opportunities for rural populations, women, and low-income households. As a result, many people continue to depend on informal lenders who often charge excessive interest rates, thereby trapping borrowers in cycles of poverty and financial insecurity.

In response to these challenges, Self-Help Groups (SHGs) have emerged as an important grassroots mechanism for promoting financial inclusion and social empowerment. SHGs are generally small voluntary groups, primarily consisting of women, who collectively save money, access loans, and participate in income-generating activities. The SHG movement gained considerable momentum in India during the 1990s with support from government initiatives, non-governmental organizations, and financial institutions such as the National Bank for Agriculture and Rural Development (NABARD). Over the years, SHGs have evolved into effective instruments for strengthening financial discipline, improving access to institutional finance, and enhancing the socio-economic status of their members.

The contribution of SHGs to financial inclusion is multidimensional. At the individual level, SHGs encourage regular savings, facilitate access to affordable credit, and promote productive investment activities. At the community level, these groups create solidarity, trust, and mutual accountability among members, which are essential for sustaining collective financial practices. From an institutional perspective, SHGs serve as intermediaries between rural communities and formal banking systems, thereby reducing operational costs and credit risks for financial institutions. In addition, SHGs have contributed significantly toward women's empowerment by improving financial literacy, strengthening decision-making abilities, and encouraging entrepreneurial participation.

Despite these achievements, SHGs continue to face several operational and structural challenges. Irregular savings patterns, weak organizational management, dependence on external facilitators, and limited

awareness regarding digital financial services remain major concerns. Furthermore, administrative delays, inadequate infrastructure, and technological barriers often affect the efficiency of SHG-bank linkages. In the present era of digital transformation, the sustainability and effectiveness of SHGs will increasingly depend on their ability to adopt digital financial tools and integrate into the evolving financial ecosystem.

This study therefore aims to critically analyze the role of SHGs in promoting financial inclusion, with particular emphasis on their achievements, challenges, and future potential. By examining both quantitative and qualitative dimensions, the research seeks to provide a comprehensive understanding of how SHGs function as instruments of inclusive growth and socio-economic development.

Objectives of the Study

To evaluate the contribution of SHGs toward enhancing financial inclusion among marginalized communities.
To examine how SHGs improve access to savings, credit, insurance, and other financial services.
To analyze the extent to which SHG participation reduces dependence on informal sources of finance.
To study the impact of SHGs on women's empowerment and socio-economic development.
To assess the influence of SHGs on household decision-making, entrepreneurship, and income generation.
To identify the major organizational, financial, and infrastructural challenges affecting SHGs.
To examine the effectiveness of SHG-Bank Linkage Programs in expanding financial outreach.
To analyze the role of digital financial services in improving SHG operations and accessibility.
To recommend policy measures and institutional strategies for strengthening SHGs as sustainable instruments of financial inclusion.

Findings: The findings show that SHGs are essential to improving financial inclusion. Members reported better saving practices, easier access to official credit, and enhanced financial understanding. In households and communities, women in particular had more influence over decisions. Additionally, SHGs promoted collective bargaining, which allowed members to bargain with financial institutions for better terms. However, issues like inconsistent savings, reliance on outside facilitators, low levels of digital literacy, and administrative barriers to government programs were noted. Despite these obstacles, SHGs made a substantial contribution to encouraging financial discipline and lowering dependency on unofficial moneylenders.

Suggestions: The study recommends using more digital platforms to improve accessibility and streamlining processes to boost SHG bank connections. Priority should be given to capacity building initiatives that emphasise digital skills, entrepreneurship, and financial literacy. To guarantee sustainability, the government and non-governmental organisations should work together to offer ongoing training and oversight. Financial inclusion can be further enhanced by promoting diversification of SHG operations beyond lending and savings, such as microinsurance and livelihood projects.

Implications: This research has a variety of consequences. The results emphasise the significance of incorporating SHGs within national financial inclusion policies for policymakers. SHGs are a good way for financial institutions to contact more people in rural areas. SHGs provide communities with forums for social cohesion and empowerment in addition to acting as financial intermediaries Academically, the study contributes to the discourse on community-based financial models and their role in inclusive development.

Keywords: Self-Help Groups; Financial Inclusion; Women Empowerment; Rural Development; Microfinance; Community Participation; Financial Literacy

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Literature Review

Several researchers and institutions have highlighted the significant contribution of Self-Help Groups toward financial inclusion and rural development in India. Karmakar (2015) emphasized that SHGs function as grassroots-level institutions that reduce dependence on informal moneylenders and improve access to formal credit facilities in rural areas. Similarly, the NABARD Report (2016) documented the success of SHG-Bank Linkage Programs in connecting millions of rural households with banking services, savings accounts, and microcredit opportunities.

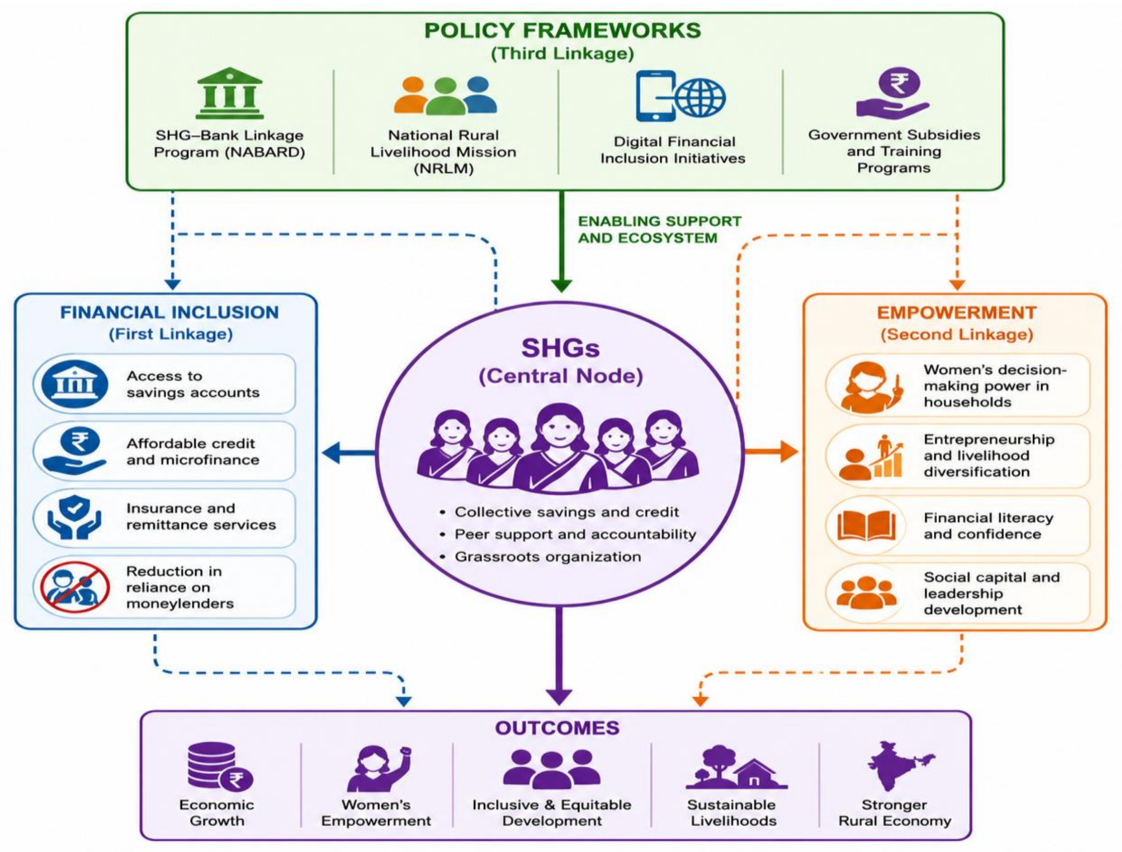
Reddy and Manak (2017) observed that SHGs play an important role in mobilizing women's savings and strengthening their bargaining power with financial institutions. However, the study also pointed out sustainability-related issues such as irregular savings and weak organizational management. Tripathi (2018) highlighted the positive impact of SHGs on women's financial literacy and participation in household decision-making processes, thereby linking financial inclusion with social empowerment.

Kumari and Singh (2019) found that SHGs encourage entrepreneurship among rural women by enabling them to establish small-scale enterprises and contribute to household income. Likewise, the World Bank (2019) reported that SHGs not only improve access to financial services but also strengthen social capital, collective responsibility, and community participation.

With the rapid expansion of digital technology, recent studies have examined the role of SHGs in promoting digital financial inclusion. Gupta (2020) analyzed the adoption of mobile banking and digital payment systems among SHG members and concluded that although digital platforms increase accessibility, inadequate digital literacy remains a major challenge. Chakraborty (2021) further noted that SHGs played a crucial role during the COVID-19 pandemic by facilitating access to digital transactions and government relief schemes.

Government initiatives have also increasingly recognized SHGs as key instruments of financial inclusion. The National Rural Livelihood Mission (NRLM) Report (2022) emphasized the importance of SHGs in linking rural households with formal banking institutions and promoting inclusive development. Patel and Sharma (2023) argued that SHGs act as effective intermediaries between banks and rural communities by reducing transaction costs and minimizing credit-related risks.

Recent studies continue to highlight both the opportunities and challenges associated with SHGs. Bhausaheb (2024) emphasized the dual role of SHGs in encouraging grassroots entrepreneurship and financial inclusion while identifying issues related to irregular savings and dependency on facilitators. Raj and Rao (2025) observed that SHGs significantly improve women's economic independence and decision-making power but stressed the need for continuous capacity-building initiatives and digital skill development programs to sustain long-term impact.



Data Analysis:

Contribution of SHGs to Financial Inclusion

Table 1: Access to Financial Services among SHG Members vs. Non-Members

Financial Service	SHG Members (%)	Non-Members (%)
Savings Account Access	85	40
Credit from Banks	70	25
Insurance Coverage	45	15
Use of Digital Payments	55	20

SHG members show significantly higher access to savings, credit, and insurance compared to non-members. Reliance on informal moneylenders dropped from 60% (non-members) to 20% (members).

Impact of SHGs on Women's Empowerment and Socio-Economic Development

Table 2: Women's Empowerment Indicators

Indicator	Before SHG (%)	After SHG (%)
Participation in Household Decisions	35	75
Ability to Start Micro-Enterprise	20	60
Contribution to Household Income	25	65
Confidence in Public Speaking	15	55

SHG membership substantially improved women's decision-making power, entrepreneurial activity, and confidence.

Challenges Faced by SHGs in Promoting Financial Inclusion

Table 3: Reported Challenges by SHG Members

Challenge	Percentage Reporting (%)
Irregular Savings	40
Dependency on External Facilitators	35
Limited Digital Literacy	50
Bureaucratic Delays in Bank Linkage	30
Sustainability Issues	25

The most pressing challenges are limited digital literacy and irregular savings, which hinder SHG sustainability and integration with modern financial systems.

Role of SHG Bank Linkage Programs in Strengthening Financial Inclusion

Table 4: Effectiveness of SHG–Bank Partnerships

Indicator	SHG-Linked Groups (%)	Non-Linked Groups (%)
Access to Formal Credit	72	28
Average Loan Size (INR)	25,000	8,000
Loan Repayment Rate	90	65
Savings Account Ownership	85	40

HG–Bank linkages significantly improve access to formal credit, increase loan sizes, and enhance repayment discipline.

Table-5 Reduction in Transaction Costs and Risks for Banks

Parameter	With SHG Linkage	Without SHG Linkage
Average Transaction Cost (INR)	150	500
Default Rate (%)	8	22
Outreach (Households per Branch)	1,200	450

SHG linkages reduce transaction costs and default risks for banks while expanding outreach to rural households.

Potential of Digital Financial Services in Enhancing SHG Operations

Table 6: Readiness of SHGs to Adopt Digital Tools

Digital Tool Adoption	High Readiness (%)	Moderate Readiness (%)	Low Readiness (%)
Mobile Banking	40	35	25
Digital Payments (UPI, Wallets)	45	30	25
Financial Apps	30	40	30

While SHGs show moderate readiness for mobile banking and digital payments, adoption of financial apps remains relatively low due to digital literacy gaps.

Opportunities and Challenges in Digital Integration

Opportunities	Challenges
Faster transactions	Limited digital literacy
Transparency in financial records	Poor internet connectivity
Access to government schemes	Fear of fraud and cyber risks
Reduced dependency on facilitators	High initial training requirements

Digital tools offer efficiency and transparency, but literacy, connectivity, and trust issues hinder full integration.

Suggested Measures for Capacity Building

Area of Focus	Recommended Action
Financial Literacy	Regular workshops and training
Skill Development	Vocational and entrepreneurship programs
Digital Literacy	Training in mobile banking and apps
Leadership Development	Mentorship and community leadership programs

Findings

The study clearly demonstrates that Self-Help Groups have made a significant contribution toward improving financial inclusion among marginalized communities. The analysis indicates that SHG members possess greater access to formal banking services, including savings accounts, institutional credit, insurance facilities, and digital payment systems, when compared to non-members. Participation in SHGs has also reduced dependence on informal moneylenders, thereby minimizing financial exploitation and promoting secure financial practices.

The findings further reveal that SHGs have played an important role in women's empowerment and socio-economic advancement. Women associated with SHGs reported increased participation in household decision-making, higher contribution toward family income, and greater confidence in public interaction. SHG membership also encouraged entrepreneurial activities by enabling women to establish micro-enterprises and diversify their livelihood opportunities.

However, the research identified several challenges affecting the efficiency and sustainability of SHGs. Limited digital literacy, irregular savings habits, dependency on external facilitators, and delays in banking procedures emerged as major barriers. These challenges restrict the ability of SHGs to fully integrate with modern financial systems and limit their long-term effectiveness.

The study additionally highlights the importance of SHG-Bank Linkage Programs in strengthening financial inclusion. SHG-linked groups demonstrated higher access to formal loans, improved repayment performance, and increased savings ownership. For financial institutions, SHG linkages reduced operational costs and default risks while expanding outreach to rural populations.

The analysis also reveals that digital financial services present considerable opportunities for improving SHG operations. Mobile banking, digital payments, and financial applications can increase transparency, efficiency, and access to government schemes. Nevertheless, poor internet connectivity, fear of cyber fraud, and inadequate digital skills continue to hinder the successful adoption of these technologies.

Suggestions

To strengthen the effectiveness of Self-Help Groups in promoting financial inclusion, it is essential to simplify SHG-bank linkage procedures and improve access to affordable financial products. Banks should introduce flexible and low-cost credit schemes specifically designed to meet the needs of SHG members. Regular awareness programs should also be conducted to improve financial literacy related to savings, credit management, insurance, and investment practices.

Skill development and entrepreneurship training programs should be expanded to encourage livelihood diversification and income generation among SHG members. Leadership development initiatives can further empower women by enhancing their participation in community-level decision-making and governance.

Digital financial inclusion should be promoted by providing training on mobile banking, UPI systems, and digital financial applications. Efforts must also be made to improve internet connectivity in rural areas and ensure access to affordable digital devices. Establishing secure grievance redressal mechanisms can help reduce fear of online fraud and increase trust in digital financial systems.

To address sustainability challenges, SHGs should be encouraged to maintain regular savings practices through peer monitoring and incentive-based mechanisms. Dependence on external facilitators can be reduced by strengthening internal governance and management capabilities. SHGs should also diversify their activities into sectors such as micro-insurance, collective farming, and small-scale enterprises to improve long-term sustainability.

Government agencies, NGOs, and financial institutions should work collaboratively to provide continuous monitoring, mentorship, and institutional support. Integrating SHGs more effectively into national financial inclusion policies will help expand their outreach and ensure inclusive socio-economic development.

Conclusion

The study concludes that Self-Help Groups serve as powerful instruments for promoting financial inclusion and socio-economic empowerment, particularly among marginalized and rural communities. SHGs have significantly improved access to savings facilities, institutional credit, insurance services, and digital financial systems while simultaneously reducing dependence on informal lending sources.

In addition to financial benefits, SHGs have contributed substantially toward women's empowerment by strengthening their decision-making abilities, increasing entrepreneurial participation, and enhancing social confidence. These groups have therefore emerged not only as financial intermediaries but also as important agents of social transformation and community development.

Despite their achievements, SHGs continue to face several operational and structural challenges, including irregular savings practices, limited digital literacy, dependency on facilitators, and bureaucratic barriers within banking systems. Although SHG-Bank Linkage Programs have successfully reduced transaction costs and credit risks for financial institutions, greater institutional support and policy intervention remain necessary.

The growing adoption of digital financial services presents new opportunities for improving SHG operations, increasing transparency, and expanding financial outreach. However, successful digital integration will require investments in infrastructure, digital literacy training, and trust-building measures.

Declaration of Conflicting Interests

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