

Empowering Rural Women Through Self-Help Groups: A Pathway to Financial Inclusion and Economic Independence

Ramya L P¹, Dr. Shripathi Kalluraya P²

Research Scholar, Institute of Social Science and Humanities, Srinivas University, Mangalore,
Karnataka, India

Professor, Institute of Social Science and Humanities, Srinivas University, Mangalore, Karnataka, India

ABSTRACT

Rural women in India abide by diverse shades of obstacles pumpkin Ing poverty, illiteracy, and limited accessibility to financial institutions. The SHG movement is therefore viewed as a transformative force into bridging the twin gaps of gender and financial inclusion by largely empowering women socially, economically, and politically. This study, therefore, attempts to understand the role of SHGs in the financial inclusion of rural women and their economic independence-pertaining issues in accessing credit, savings pattern, decision-making levels, and options for livelihood. Based on secondary data, case studies, and other existing literature, the paper attempts to highlight SHG's strength-building, client's financial literacy, and enhancement of social capital. The paper establishes that SHGs act as a medium of empowerment and inclusion but still pose questions like sustainability, capacity building, and linkage to formal credit mechanisms for the future. It finally prescribes some policy frameworks through which the existing SHG approach can be fortified for inclusive rural development and empowerment of women.

Keyword: Self-Help Groups (SHGs), Women Empowerment, Financial Inclusion, Rural Development, Microfinance, Economic Independence.

1. INTRODUCTION

In rural India, women tend to be the most marginalized segment of society as they experience structural forms of discrimination in accessing education, employment, credit, and decision-making roles. Traditionally restricted to domestic roles, rural women have increasingly looked for ways to economically disinvest and confer financial autonomy upon themselves. One of the best-known grassroots innovations that support this paradigm shift has been the initiation of the Self-Help Group (SHG): a small, voluntary-group-based organization (usually women) that come together to save money on a regular basis and offer loans to members for income-generating activities and personal needs.

SHG has been considered one invaluable tool for facilitating financial inclusion and improvement of women's socio-economic status, under the aegis of NABARD and various state-sponsored programs. Accessing microcredit and promoting saving discipline and group solidarity have transmitted earnings

directly to households while offering transformative opportunities for building confidence in leadership and social mobility among women. This piece of study looks at the contribution of SHGs towards the financial inclusion and economic empowerment of rural women, scrutinizes the organizational structure of SHGs, their role in increasing financial literacy, and the results thereof, such as an increase in income, decision making, and community participation. Thus, the constraints faced by SHGs are also described, along with solutions for strengthening the SHGs in the livelihoods of rural women and their financial independence.

Review of Literature

Seibel and Khadka (2001) discovered that Self-Help Groups (SHGs) play a crucial role in providing financial services right to the doorsteps of the rural poor. Their research in South Asia showed that when financial services are paired with self-help initiatives, both financial literacy and social solidarity see a boost.

Harper (2002) pointed out that SHGs serve as a practical alternative to traditional microfinance institutions by encouraging group-based lending, which helps lower default risks and cut administrative costs. His findings revealed that SHGs contribute to better income levels and greater economic resilience for their members.

Kabeer (2005) argues that gaining access to microfinance through SHGs empowers women, enhancing their bargaining power within households and society, which leads to increased autonomy.

Swain & Wallentin (2009) found that being part of an SHG boosts women's self-confidence, mobility, and decision-making roles at home.

Puhazhendhi & Badatya (2002) observed that the economic advantages of SHGs are long-lasting, with women often reinvesting their earnings into productive ventures, creating a cycle of empowerment.

The World Bank (2019) highlights that group-based lending models like SHGs lower the cost of credit delivery and enhance repayment rates, thanks to peer monitoring and mutual trust. However, challenges such as poor group dynamics, insufficient training, low literacy levels, and limited market access still prevent SHGs from reaching their full potential.

According to NABARD (2022), more than 12 million SHGs have been established in India through various government initiatives, significantly improving access to savings and credit in rural communities.

Objectives of the Study

1. To examine the structure and functioning of Self-Help Groups in rural areas.
2. To analyze the role of SHGs in mobilizing savings and providing access to credit among the unbanked.
3. To assess the impact of SHGs on enhancing financial literacy and credit discipline.

4. To evaluate the role of SHGs in promoting women's economic empowerment and participation in financial decision-making.

Research Methodology

The study is largely explanatory in nature. Data is collected mainly from secondary sources like magazine, newspaper, RBI press release, RBI website, NABARD website, previous studies on the subject.

Significance of the Study

Empowering rural women is not just a matter of social justice but a crucial driver of economic development and poverty reduction. In the Indian rural context, women have historically been disadvantaged due to limited access to education, property rights, financial services, and employment opportunities. This marginalization has restricted their ability to contribute fully to the economy or to make independent decisions regarding their lives and households. Self-Help Groups (SHGs) have emerged as a transformative solution to these issues, providing rural women with an organized platform to save money, access credit, start micro-enterprises, and develop a sense of identity and collective strength.

This study is particularly important because it explores the powerful role that SHGs play in bridging the financial inclusion gap for rural women. Financial inclusion refers to the process of ensuring access to appropriate financial products and services needed by individuals and businesses, delivered in a fair, transparent, and affordable manner. For rural women, financial inclusion often begins with small savings and credit access through SHGs. Over time, it grows into greater economic participation, entrepreneurship, and improved standards of living. Through this study, we can understand how SHGs act as entry points to formal banking systems and how they equip women with the knowledge and confidence to manage their finances.

Moreover, the study sheds light on how economic independence achieved through SHGs leads to broader empowerment. When women are economically independent, they gain respect within their families and communities. They can make decisions regarding their children's education, health care, and household investments. The collective strength of SHG members also enables them to advocate for community needs, address social issues, and influence local governance processes.

From a development policy perspective, this study is significant because it provides evidence-based insights into the effectiveness of SHGs as tools for financial and social empowerment. By analyzing secondary data from government reports, development agencies, and research institutions, the study identifies the progress made, the gaps that remain, and the potential for scaling up such models. It also helps stakeholders understand the challenges that SHG members face such as lack of market access, limited digital literacy, and societal norms and suggests areas for policy intervention and support.

Furthermore, the importance of this study lies in its contribution to academic and practical knowledge. It connects the concepts of microfinance, gender equality, and rural development, thereby offering a holistic view of how targeted interventions can uplift an entire section of the population. The insights derived can guide future research, help refine existing SHG models, and promote inclusive financial systems that leave

no one behind. In essence, this study recognizes SHGs not merely as financial entities but as catalysts for social transformation empowering rural women to become confident, self-reliant, and active contributors to their communities and the nation's economy.

Structure and functioning of SHGs

- **Composition:** Self-help groups usually consist of small groups of 10-20 people, usually composed of women, who come together voluntarily to save regularly and manage a common fund.
- **Operating model:** Members save fixed savings, lend to each other at an agreed interest rate, and keep running records collectively. Members make decisions democratically.
- **Bank linkage:** NABARD's Self-Help Group-Bank Linkage Programme links SHGs to formal institutions, enabling collateral free loans.
- **Federation model:** In the majority of states, SHGs are federated into village level organizations (VLOs) and cluster-level federations for further scaling and sustainability.
- **Support structures:** The NGOs, State Rural Livelihood Missions (SRLMs) and Microfinance Institutions (MFIs) provide training (especially in financial literacy), funding support and continuous monitoring of the SHG's activity proportionately.

Self-help Groups and Financial Inclusion

Financial inclusion refers to the process of ensuring access to appropriate and affordable financial products and services such as savings, credit, insurance, and remittance facilities to all individuals, especially the underserved and economically weaker sections of society. In the rural Indian context, financial inclusion is particularly critical for women, who have traditionally faced limited access to formal financial institutions due to factors like illiteracy, lack of collateral, absence of documentation, and socio-cultural restrictions.

Self-Help Groups (SHGs) have emerged as a grassroots-level financial inclusion model that addresses many of these barriers by organizing rural women into small, cohesive groups. These groups encourage regular savings, facilitate credit through internal lending, and build financial discipline. More importantly, they serve as an entry point for women to engage with formal financial institutions through bank linkages, microcredit schemes, and government support programs.

The relationship between SHGs and financial inclusion is both functional and empowering. For many rural women, membership in an SHG marks their first interaction with a formal financial institution. It often leads to the opening of a bank account, learning how to save and manage money, understanding interest rates, and repaying loans. These seemingly simple actions hold the power to transform lives.

Financial inclusion through SHGs goes beyond merely providing financial access it builds **financial literacy**. Women learn the importance of budgeting, investment, and credit management. They begin to make informed financial decisions for themselves and their families, which was traditionally the domain of male household members. Moreover, the financial products and services accessed via SHGs are typically more affordable and flexible than those offered by moneylenders, who often trap rural families in cycles of debt through high interest rates and exploitative conditions. Through financial inclusion, SHGs

serve as platforms for **economic empowerment**, enabling women to start small businesses, engage in income-generating activities, and contribute meaningfully to household income. This, in turn, elevates their status in the family and community, giving them greater voice and autonomy.

Women who once remained confined to their homes are now emerging as entrepreneurs, community leaders, and change agents. Participation in SHGs has also improved their access to health, education, and government welfare programs, as the collective becomes a channel for information and advocacy. Importantly, SHGs also offer a **social support system**. In times of personal crisis, illness, or family emergencies, group members come together to offer financial and emotional assistance. This sense of solidarity reinforces trust and belonging elements often missing in formal financial relationships.

Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) have been instrumental in promoting financial access for economically marginalized women in India. The SHG-Bank Linkage Program enabled around 16 crore households to be formally linked to banks through Savings linkage and has nearly 10 crore households linked through credit linkage and availed of around ₹2.60 lakh crore of bank credit as on 31st March 2024. Although many of these SHG members have utilized their loan amount for some economic activities, most of them remain unable to scale to bigger enterprises. Data from the Ministry of MSME highlights that women-owned enterprises remain significantly underrepresented in India, with only 20.4% in microenterprises, 5.3% in small enterprises, and just 2.7% in medium-sized enterprises. The primary constraint is the lack of training, handholding and access to larger credit. The banks prefer to lend to the smaller borrowers through group mode, where scaling up of an enterprise is not possible. The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM) aims to uplift women economically. With over 90 million women across 77 million SHGs, around 10 million women are ready for individual loans ranging from ₹75,000 to ₹1 million. But the SHGs members lack the appropriate support system and financial products to meet these needs. This bottleneck hampers their growth, limiting their potential for larger enterprises.

FINDINGS

The SHG - Bank Linkage Programme, which was launched as a pilot scheme in 1992, by NABARD, to link the poor with a formal banking system in the form of Self-Help Groups, has since become a pre-eminent banking product. The Reserve Bank prompted it through a revolutionary decision it made in 1991, allowing informal groups to open bank account and also get credit from banks. After that it was never looking back and the scheme grew from strength to strength with the support of the Reserve Bank through continuous policy notifications. The State and Central governments realized the import of SHG movement for their own programmes targeted mostly for the poor. Hence SHG Bank linkage became the largest microfinance programme in the world. The National Rural Livelihood Mission (NRLM), the largest poverty alleviation and employment generation programme in the world is based on its concepts. Therefore, the SHG Bank linkage programme has earned its place in history for being one of the most impactful programmes through bank credit. It has completed 30 years in its existence in Indian financial sector landscape. SHG Bank Linkage Programme is recognized as the first important microfinance activity in our country. It is unique in our country where formal banking system and informal structure are finding a common path.

Self Help Group Bank Linkage Programme (SBLP)

Over the past thirty years, SHG Bank linkage has gone from strength to strength. Certainly, there were external events, like Covid and demonetization, which posed temporary setbacks, but even in such crisis situations, it largely remained intact. Opening of bank accounts for SHGs is the first stage of the bank linkage programme. The first linkage takes place immediately on formation, by opening a Savings Bank account for the group. The balance money generated from whatever amount regular thrift is mobilized in the group, will be deposited into these accounts after using it for internal lending. Thereafter, after some time, and when the group is matured, they would demand bank credit linkage now where the bank will provide credit to the group so that the group itself can act as lenders to its members.

As of 31st March 2024, 17.75 crore rural households were savings linked under the SHG-BLP through 144.21 lakh SHG bank accounts with activities taking place. The total savings in these account works out to 765,089.15 crore, registering a growth of 10.52% over the previous year. Of these, 120.44 lakh were all women SHGs with savings of 255,227.69 crore accounting for nearly 85% of total SHGs linked and savings mobilized, respectively. Of the total number of accounts opened, about 53% have availed of credit from the banking system indicating a gap of nearly 47% in credit linkage. This large gap might be due to non-counting of defunct SHGs and accounts as the number shown is cumulative.

The SHG Bank linkage programme was introduced in 1992 by NABARD and initiated with numerous NGOs and development institutions in India and using income generating programmes such as Swarnajayanti Gram Swarozgar Yojana (SJSY) in 1999 and National Rural Livelihood Mission (NRLM) from 2013 onwards. Thus, most of the SHGs developed through this intervention are either NRLM or a Government Poverty alleviation programme. Currently, the Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) under the Ministry of Rural Development Government of India is leading the development and capacity building of SHGs in rural India. There were 84.30 lakh SHGs of which NRLM account for a growth of 3% with an account of net growth of 2.29 lakh SHGs with its ambit. At the same time, in the urban context, SHG development and linkage are being done through DAY-NULM under the Ministry of Housing and Urban Affairs, Government of India. NULM had 7.40 lakh SHGs with a growth of 0.01 lakh addition with a percentage of 0.14 % in the year. SHGs were mostly women driven where in a total of about 84% of SHGs were women SHGs. The programme serves the purpose of developing the poor rural women in the country.

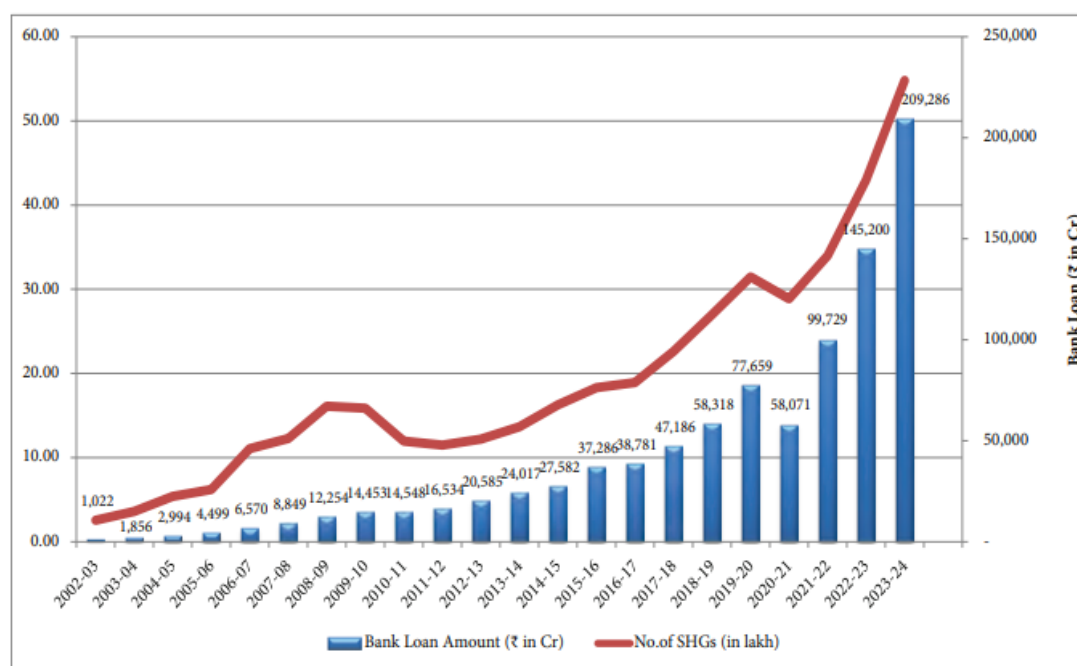
SHGs AND BANK LINKAGE PROGRAM

S N	Indicators	2024	2023	Change
1	Total number of SHGs saving-linked with banks (in Lakh)	144.21	134.03	10.18
	Percentage of NRLM/NULM Groups	64%	67%	- 3%
2	Total saving amount of SHGs linked with banks (₹ in Cr.)	65,089	58,893	6,196
	Percentage of women groups linked	97%	96%	1%
	Percentage of NRLM/ NULM groups	87%	86%	1%
3	Total number of SHGs with loan outstanding (in Lakh)	77.42	69.57	7.85
4	Total loan amount outstanding (₹ in Cr)	2,59,664	1,88,079	71,585
5	Total No. of SHGs credit linked during FY 2023-24 (in Lakh)	54.82	42.96	11.86
6	Total Amount disbursed during FY 2023-24 (₹ in Cr.)	2,09,286	1,45,200	64,086
7	Number of Households covered	17.75	16.20	1.55
8	Non-Performing Asset (NPA)	2.79%	2.05%	0.74%

Source: Bharat Microfinance in India Report 2024

SHG-BLP Activity since Inception: The development of SHG-BLP was consistently positive with negligible disruptions owing to occasional external disturbances like the Andhra Pradesh crisis or covid-related disruptions. The disbursement to SHGs during FY 2023-24 was ₹2,09,286 crores, with a hefty growth of 44.14%, from ₹1,45,200 crores in the previous year. The growth in the previous year was at 45.59%. On the other hand, the number of credit-linked SHG's during FY 2023-24 has also gone up to 54.82 lakhs, from 42.96 lakhs in 2022-23, with a growth of 27.61%.

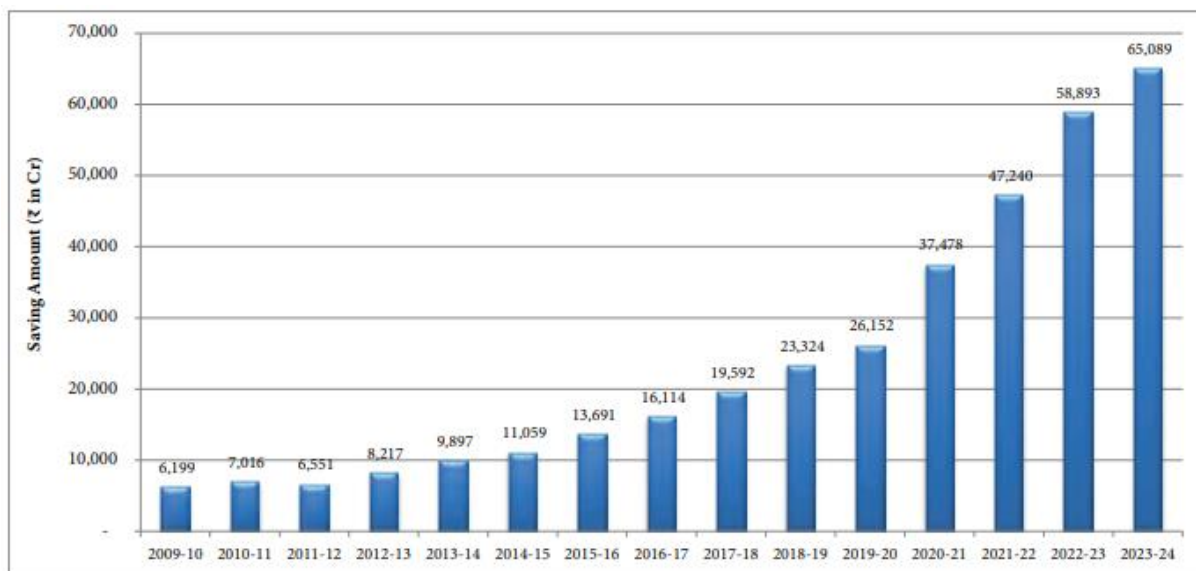
Figure: 1.1 - Trends in Credit Linkage and Bank Loan Disbursed



Savings Performance of SHG-BLP: Savings are essential to SHG Bank linkage. Any amounts members save in the course of a weekly/fortnightly/monthly thrift are usually used internally for lending, but

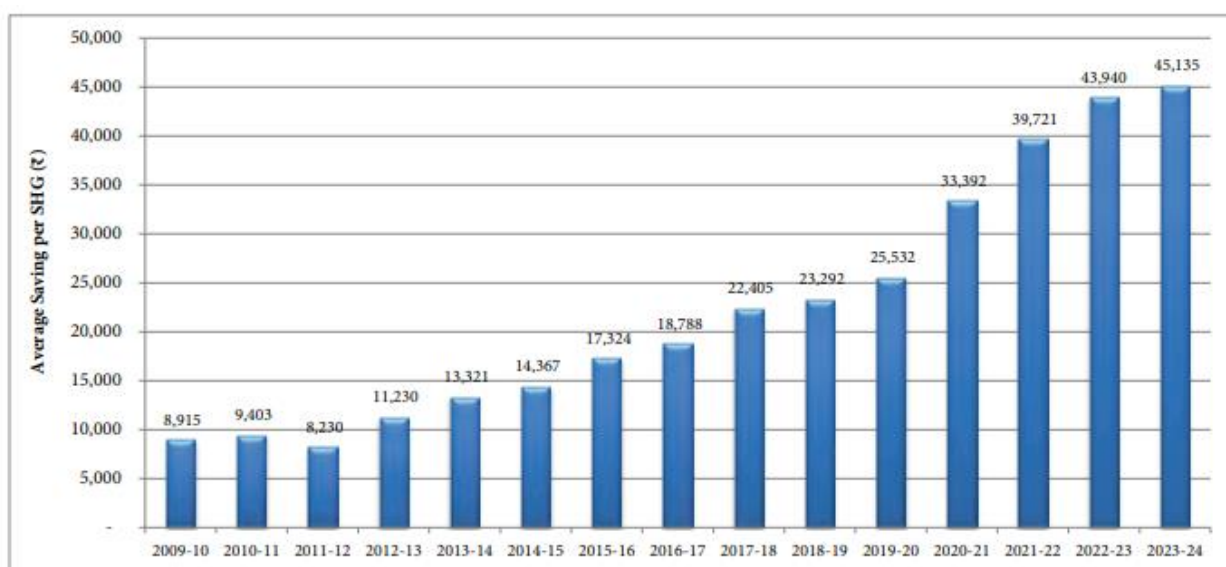
whatever surplus they have, they deposit into the Savings Bank account set up for the groups. The savings amounts kept in banking accounts by SHGs have also shown steady growth over the past 15 years as shown in the figure 1.1. As of March 2024, the banking system is holding SHG savings worth ₹65,089 crore, a good growth of 10.52%.

Figure: 1.2 - All India Trend in SHG Savings Amount Held in the Indian Banking System



Average Savings per SHG: Across different groups, the differences in saving in bank accounts varied. However, based on aggregated average saving by SHG at the all India level as of March 2024, was ₹45,135 which is 2.72% increase over the previous year. Figure 5.3 plots the trend on average savings held by the banking system.

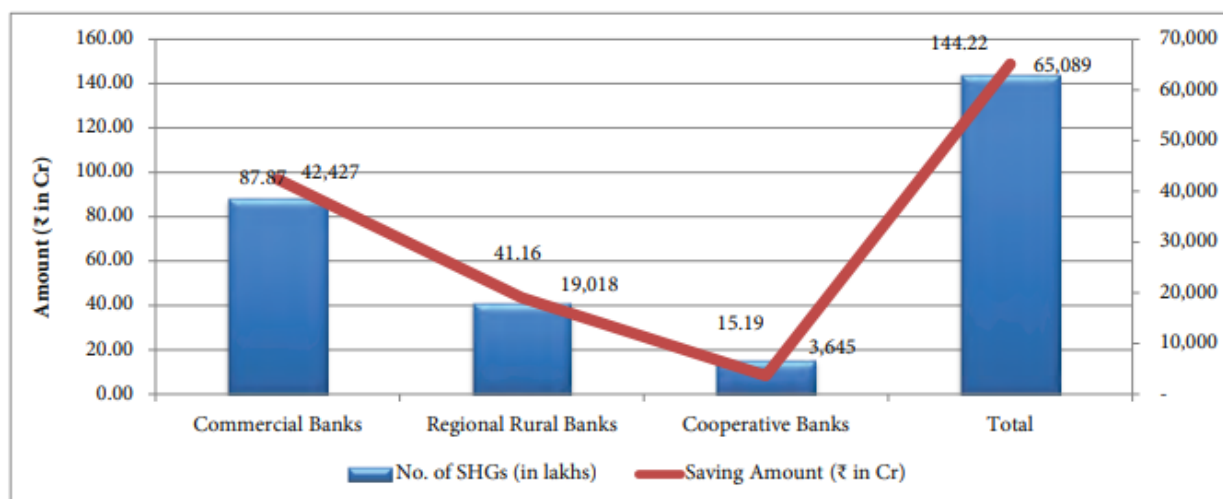
Figure: 1.3 - All India Trend in Average per SHG Savings Held in the Banking System



Savings of SHGs with Banks: Commercial Banks persistently held the largest share of saving of the SHGs which was nearly 2/3rd of the total savings mobilized. Figure 1.4 depicts savings of the SHGs as

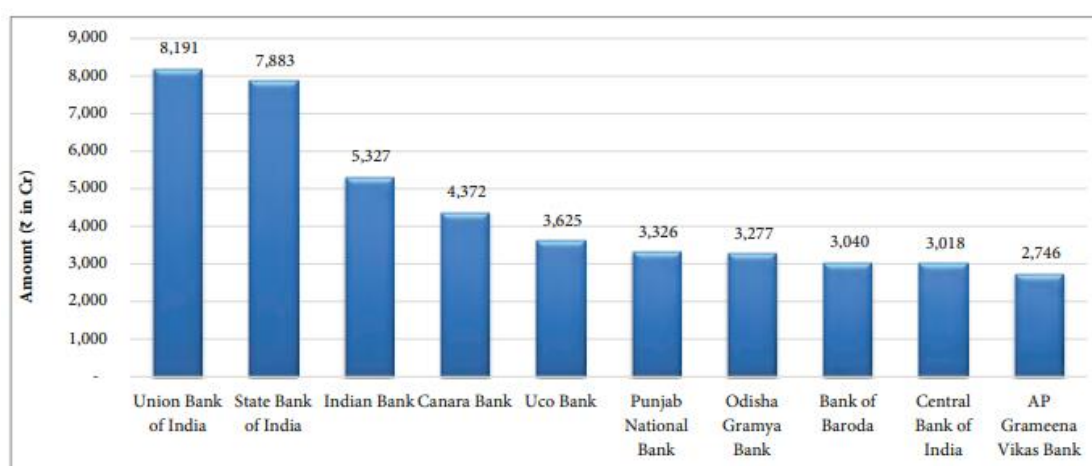
on 31 March 2024 with different Banks viz. Commercial Banks, Regional Rural Banks and Cooperative Banks.

Figure: 1.4 - Savings of SHGs with Banks as on 31 March 2024



Banks in terms of Savings: The amount of savings with the top 10 Banks is shown below in Figure 5.5. With ₹8,191 crore, the Union Bank of India is at the top, closely followed by the State Bank of India with ₹7,883 crore. Among the top ten banks, there are two RRBs viz. Odisha Grameena Bank and AP Grameena Vikas Bank with savings amounts of ₹3,277 crore, and ₹2,746 crore. The inclusion of two RRBs in the top ten indicates that the RRBs are also strong players in linking the SHGs.

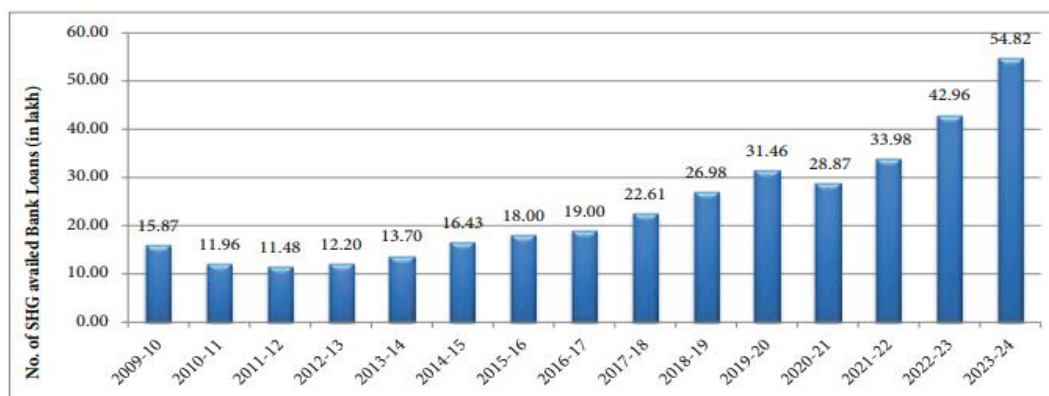
Figure: 1.5 - Top 10 Banks in terms of Savings



No. of SHGs Availing Bank Loan during FY 2023-24: SHGs are awarded bank credit only after reaching a certain level of maturity. This maturity is determined using a rating mechanism, which also determines how much credit to extend. The NRLM scheme provides interest subvention to the SHGs for the loan taken, for a certain level. The significant portion of the amount taken via loans by SHGs has mostly been passed down to their members for productive activities. SHGs are also entrusted with the responsibility of recovering and repaying the loan to the banks. As mentioned, SHGs that take bank credit have been growing steadily. The FY 2023-24 registered a 27.61% increase in number of SHGs that availed of fresh

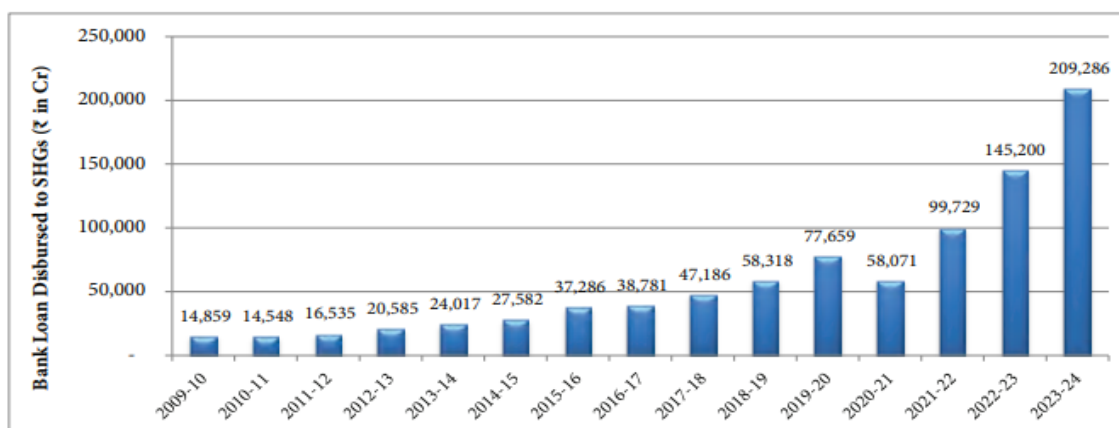
bank loan compared to the previous year. Figure 1.6, depicts the trend number of SHGs received fresh loans of the SHGs during the last 15 years.

Figure:1.6 - No. of SHGs availing Bank Loan during FY 2023-24 from the Banking System



All India Trend in Bank Loan Amount Disbursed to SHGs: The sum utilized as bank credit in FY 2023-24 recorded a significant increase of 44.14%, as shown in Figure 1.7 below. The total loan amount disbursed during the year was at ₹2,09,286 crore as against ₹1,45,200 crore of the preceding fiscal year.

Figure: 1.7 - All India Trend in Bank Loan Amount Disbursed to SHGs



Agency-wise loan disbursement – No. of SHGs and Loan Amount disbursed: Approximately two-thirds of the loan dispersed in the year has been by the Commercial Banks ₹1,42,625 crore (for 33.48 lakh SHGs), followed by RRBs ₹56,833 crore (19.13 lakh SHGs), and Cooperative Banks ₹9,828 crore (2.22 lakh SHGs). Commercial Banks contributed around 68.15% and RRBs 27.16% to the total loan disbursed. Cooperative Banks only had the small share of 4.70%.

Figure: 1.8 Agency-wise loan disbursement – No. of SHGs and Loan Amount disbursed

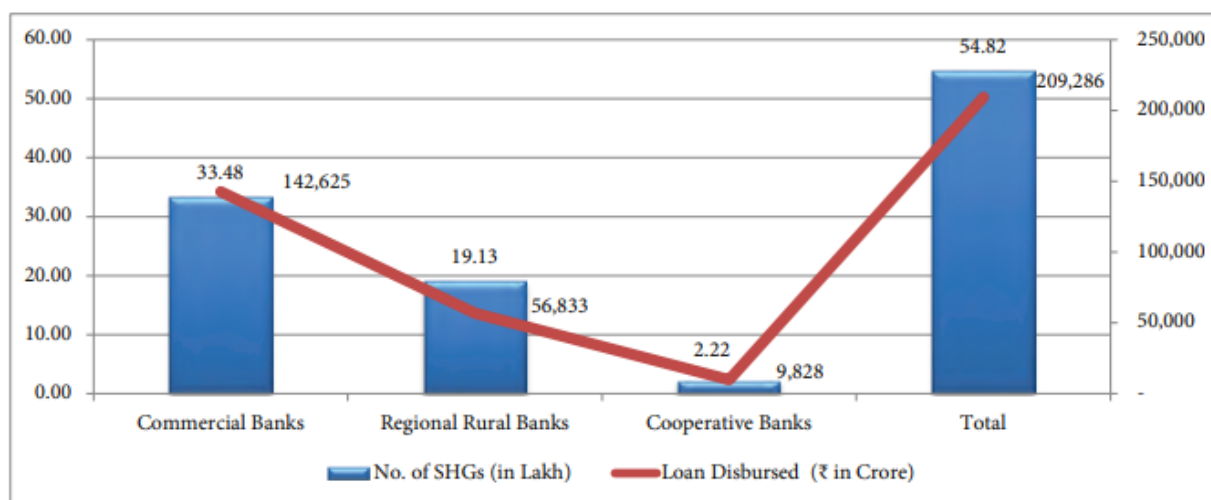
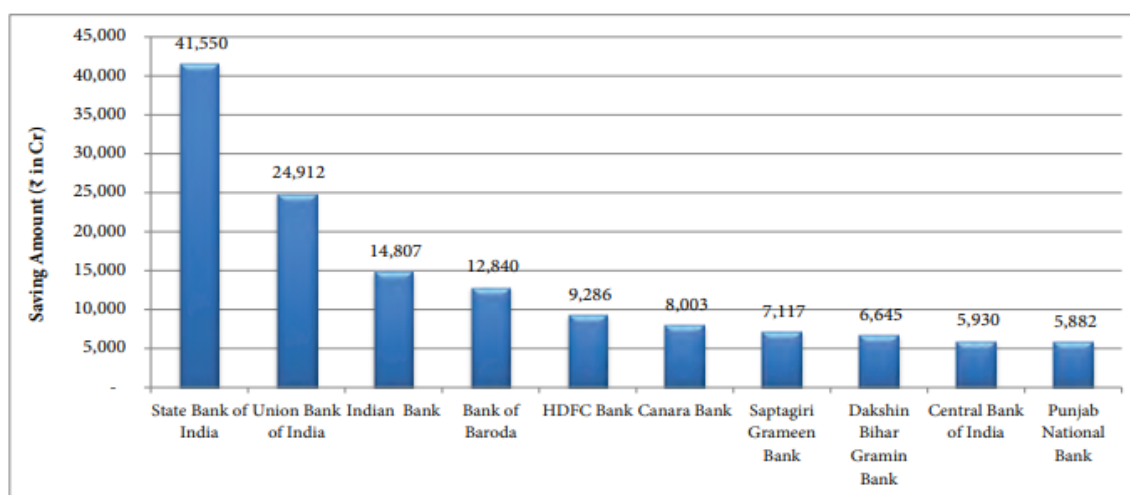


Figure 1.9: Top 10 Banks in terms of Disbursement



While Union Bank of India ranked first in terms of savings mobilization from SHGs, for the credit disbursed by banks in total, State Bank of India ranked first with almost 20% of the total amount disbursed during the year. To put it in perspective, as demonstrated in Figure 1.9, the share of State Bank of India (₹41,550 crore) was almost 80% more than that of the next place bank, Union Bank of India (₹24,912 crore) and then Indian Bank (₹14,807 crore). In seventh and eighth place were two RRBs - Saptagiri Grameen Bank (₹7,117 crore) and Dakshin Bihar Gramin Bank (₹6,645 crore). It is important to note that two RRBs shared the Top ten regulatory banks by amount disbursed too.

Role of SHGs in Mobilizing Savings and Credit

- **Savings Mobilization:** SHGs help people form a habit of saving money. Globally, SHGs have mobilized deposits worth more than ₹40,000 crore (NABARD, 2022).

- **Credit Access:** SHGs have disbursed credit through SHG-Bank linkage of over ₹1.5 lakh crore, making SHGs the world's largest microfinance program.
- **Financial Access for Unbanked Women in Rural Areas:** Rural-based women, previously excluded from banks because of lack of collateral, are now able to access formal credit.
- **Reduction of Informal Debt:** Reliance on moneylenders has decreased with SHGs providing loans at lower interest rates to their members.

Women's Economic Empowerment and Decision-Making

- ✓ **Income Generation:** SHG loans facilitate the establishment of micro-enterprises (i.e., tailoring, dairy, handicrafts, petty shops) by women.
- ✓ **Asset Ownership:** Women acquire control over financial asset, livestock, and household resources.
- ✓ **Decision Making:** Women enter the sphere of SHGs with the trust and empowerment to make decisions from a community governance perspective and for family financial decisions.
- ✓ **Social Empowerment:** SHG members report a rise in mobility, a reduction in domestic violence, and a rise in participation in Panchayati Raj institutions.

Conclusion

Self-help groups (SHGs) have established themselves as a foundational model of financial inclusion in rural India. Given that they not only provide credit but also provide social solidarity, financial literacy, and women's empowerment opportunities, there are ongoing challenges in terms of scaling, sustainability, and digital intervention, or integration. Nevertheless, SHGs continue to be a realistic, relevant, and impactful model of inclusive development. And, SHGs can be supported through appropriate policy to accelerate rural financial inclusion, women's empowerment, economic inclusion and gender equality.

References

1. NABARD (2022). Status of Microfinance in India. Mumbai: NABARD.
2. Reserve Bank of India (2021). Report on Trend and Progress of Banking in India.
3. Ministry of Rural Development, Government of India (2020). Annual Report on National Rural Livelihood Mission.
4. Singh, S. (2019). "Impact of SHGs on Women Empowerment in Rural India." Journal of Rural Development, 38(2), 123–140.
5. Yunus, M. (2007). Creating a World Without Poverty: Social Business and the Future of Capitalism. Public Affairs.
6. Harper, M. (2011). The New Middle Women: Profitable Banking through On-lending Groups. Oxford University Press.