

Role Of Shgs In Strengthening Rural Financial Systems In Karnataka

Dr. H H Ramesha¹, Shivaraja²

¹ Associate Professor & Research Supervisor, Department of Management Studies (MBA), Visvesvaraya Technological University, Belagavi, Center for PG Studies, Muddenahalli, Karnataka, India. drhhramesh@gmail.com

² Research Scholar, Bharatiya Engineering Science & Technology Innovation University (BESTIU), Gownivaripalli, Gorantla, Sri Satya Sai District, Andhra Pradesh, India.

Abstract:

Self-Help Groups (SHGs) are now significant part of rural financial development in India and in particular, in state of Karnataka. They are very instrumental in increasing financial inclusion through accessing savings by rural households, credit, and provision of basic banking services. SHGs operate under the philosophy of collective saving and assisting one another such that the members (primarily rural women) could meet their financial needs in an orderly and reliable manner. This has enabled such groups to connect the rural communities to the institutional financial institutions under the SHG -Bank Linkage Programme resulting in the reduction in the use of informal sources of credit.

The role of SHGs to rural financial system of Karnataka is discussed in this paper by exploring their role in contributing to the savings behavior, institutional credit access, income generating activities and financial awareness. The research has its foundation on the primary and secondary data, and its approach to analysis is descriptive. The findings indicate that SHGs have been very significant in increasing financial discipline, improvement of credit access and economic empowerment of people in the rural setting. Nevertheless, the challenges like the lack of financial literacy, performance differences in groups, and the necessity of continuous training and support of the institution are also noted in the study. This research finds that SHGs are important to the rural financial systems and can do more to further impact them with more capacity-building initiatives and policy support.

Keywords: Self-Help Groups, Rural Finance, Financial Inclusion, Microfinance, Karnataka, Women Empowerment

INTRODUCTION:

A powerful rural finance system is critical towards an inclusive economic growth and sustainable development. The problem of access to formal financial services including savings account, credit, insurance, and pension is still not satisfactory in most of the rural India. Consequently, households in the rural areas frequently rely on informal means of finance such as money lenders and this causes high cost of borrowing and insecurity. Self-Help Groups (SHGs) have become a significant institutional process of enhancing financial access in the rural areas in order to surmount these challenges.

Self-Help Groups are small voluntary groups or associations usually composed of 10- 20 people who have a common economic background. SHGs mainly aim at promoting routine savings and offering credit to the members at affordable interests. These groups are eventually associated with formal banking institutions and this enhances the members to have institutional finance. The model has especially worked in encouraging financial inclusion of women in the rural areas and among wake economically disadvantaged groups.

SHGs have increased in the state of Karnataka with the active encouragement by the government, banks and other non-governmental agencies. Rural community and the formal financial system have been empowered by programs like SHG Bank Linkage Programme and state level programs. These have enhanced access to credit, savings and income generating activities in the rural areas.

SHGs are also linked to social and economic empowerment besides financial gain. The involvement of SHGs in financial awareness, responsible borrowing, and their impact on decision-making skills would benefit the members. The SHGs are also a medium of disseminating information regarding the welfare schemes by the government and also the rural development programs.

In spite of these successes, SHGs have the following issues: gap in group performance, low financial literacy, and the necessity to train and be monitored regularly. Hence, the contribution of SHGs towards enhances financial systems of rural areas in Karnataka is worth studying. This paper seeks to determine their role in financial inclusion, credit access as well as general rural financial development.

LITERATURE REVIEW:

Self-Help Groups (SHGs) have become one of the most significant relevant institutions with regards to financial inclusion, women empowerment and empowering rural financial institutions in India. Throughout the years, various researches and reports have examined the contribution, effectiveness, and issues of SHGs, noting that they contribute towards the socio-economic growth of the society especially in the rural regions.

As Agarwal (2018) pointed out, gender equality and empowerment of women are tied to sustainable farming and food security in great ways. This paper has indicated that through the active involvement of women in SHGs it improves the household decision-making, resources and income-generating activities. SHGs offer a platform whereby organizing women into groupings enhances the best social and financial capital that aid sustainable rural development.

Armendáriz and Morduch (2010) have given an elaborate analysis of microfinance and its role in alleviating poverty. Their research made significance of small-scale credit and collective saving institutions, including SHGs, relevant in enhancing household well-being. They discovered that the availability of microfinance enables rural households to invest in agriculture, in small enterprises as well as in education, and less exposure to economic risks. The other observation that the authors have raised is the fact that capacity building and monitoring by the institutions takes a critical role towards the success of the microfinance programs.

In the article by Bansal (2014), it is possible to discuss how women in Haryana can be empowered by SHGs. It was discovered that residing in SHGs were greatly helpful in the development of the financial literacy, confidence, and power of women both in the home and society. SHGs, as reported by Bansal, are not only financial institutions but they also offer the social space to women to learn skills of leadership, negotiation and collective action. It has also been pointed out in the paper that the empowerment of females through SHGs is useful in poverty alleviation and rural development.

Government of India (2019) acknowledged the great contribution made by SHGs in securing the involvement of women in economic and social issues in their National Policy on Women Empowerment. The policy proposes linking the women SHGs to the formal financial institutions and government programs in order that the effective outreach, sustainability and accessibility to the financial resources would be achieved. This has been a recognition of policy concerning SHGs as valuable instruments of rural development.

Kabeer (2005) put up an analytical scrutiny on the question of whether microfinance initiatives incorporating SHGs ought to be seen as a magic bullet towards women empowerment. Despite the study discovering that access to credit, self-confidence and decision-making were positively influenced through assistance of microfinance, it, in effect, hinted out at a significant alarm, to the effect that, microfinance approach, on its own, can never bring any woman to a position of complete empowerment, without another measure that may be applied in support of its use which may include education, skill development and also supportive social policies. The study article determined the importance to consider social and cultural aspects and institutional variables attribute while measuring SHG outcomes.

In Karnataka, it was documented that Karnataka State Rural Livelihood Promotion Society (2020) has reported that SHGs have grown at a fast rate connecting rural households with banks, providing access to credit, and encouraging income-generating activities to the rural population. The report revealed that SHGs in the state of Karnataka have empowered rural financial system by making their members less dependent on informal moneylenders and enhanced repayment discipline among those members.

The authors Kumar and Sekhar (2017) study the overall impact of SHGs on the rural development in India. They discovered that SHGs result in mobilization of savings, improved access to credit and eradication of poverty. Besides, SHGs enhance entrepreneurship, social networking and community participation, which provide value to the holistic rural development. The authors were very concerned with the significance of training, monitoring, and institutional support of SHGs in the long term.

SHGs have always been a focus of NABARD in its reports about financial inclusions such as in microfinance and the SHG-Bank linkage programme reports (NABARD, 2018, 2020). According to the reports, SHGs improve accessibility of banking services, availability of credit at reasonable rates, and satisfaction of healthy saving behaviours. Another suggestion given by NABARD was on training, capacity building and monitoring systems, which are important to enhance SHG performance and sustainability. Puhazhendi and Badatya (2002) assessed the effect of SHG-Bank linkage programme on the rural poor households. They discovered that SHGs contribute a great deal to access to credit, savings, and promotion

of income generating activities. The paper has identified the dual role of SHGs in development of livelihood and financial inclusion. Equally, Reddy and Malik (2011) surveyed SHG-Bank linkage programme and came up with a verdict that although SHGs are quite effective in enhancing financial inclusion, certain challenges, which include poor management and performance inequalities and financial illiteracy, still have impact on their performance.

Rao (2019) was concerned with the role played by SHGs towards financial inclusion in India. This paper has shown that the participation of SHG enhances the access to formal banking services, institutional credit and government welfare schemes. SHGs also enable an active participation of members of the economic activities, thus enhancing household income and social-economic standing.

The specified aspect of SHGs which was researched was the problem of empowerment (Shylendra, 2004; Swain and Wallentin, 2009). SHGs make women more independent financially, self-confident and socially active as it has been highlighted by Shylendra. Swain and Wallentin provided the empirical statistics that, the microfinance programmes, which are SHGs, increases the incomes and decision control and the social status of women.

The report of the Reserve Bank of India (2021) reports that SHGs have significantly contributed to financial inclusion, which involves connecting the rural households to the formal banking services by increasing their access to savings, credit, as well as insurance. The RBI observed that SHGs do not only improve financial discipline, but also strengthen the financial infrastructure in the rural areas as they are good intermediaries between the rural population and the banks.

Objectives of the Study:

1. To study the role of Self-Help Groups (SHGs) in strengthening the rural financial system in Karnataka.
2. To examine the contribution of SHGs to savings and access to institutional credit in rural areas.
3. To analyze the impact of SHGs on financial inclusion and economic empowerment of rural communities.

RESEARCH METHODOLOGY:

This research undertaking assumes the use of descriptive and analytical research approach to explore how Self-Help Groups (SHGs) can empower the rural financial system in Karnataka. It is a proper method, as the study aims at explaining the available practices, structures and results associated with SHG activities and evaluating its role as a contributor to rural financial development.

The descriptive technique will be applied to gather data on the operations of SHGs in terms of savings levels, disbursement of credits, loan repayment, and the facilities offered by banks. In this way, it is possible to know the present condition of SHGs and how they contribute to the financial inclusion of rural households. This is supplemented by the analytical technique which tries to make meaning out of the gathered data to point out the patterns, associations, and trends of financial conduct in the members of SHG.

The study uses both primary and secondary data. The main data will be collected by use of structured questionnaires and personal interviews with the members of SHG in the selected rural regions of Karnataka. This will enable the researcher to get first hand financial practice, benefits and challenges that the members are going through. To provide a more comprehensive context and to aid in the analysis, secondary data will be obtained based on the reports by government, NABARD publications, academic journals, books and official websites.

Simple random sampling method is applied to select the respondents to have a proper representation of members of SHG. The data obtained are evaluated based on descriptive statistical software like percentage, average and tabular analysis. Their results are provided in tables and explained in a systematic way to determine the effect of SHGs on savings behavior, institutional credit access, and financial inclusion.

On balance, the descriptive and analytical research approach allows conducting a thorough evaluation of the appropriateness of SHGs in empowering the rural financial system in Karnataka and makes substantial contributions to the development of policies and further research.

Table 1: Demographic Profile of SHG Members

Particulars	Category	Number of Respondents	Percentage (%)
Age Group	Below 30	22	22

	31-45	48	48
	Above 45	30	30
Educational Level	Illiterate	18	18
	Primary	42	42
	Secondary & Above	40	40
Occupation	Agriculture	55	55
	Allied Activities	25	25
	Others	20	20
Total		100	100

Analysis

Based on the table, it can be learned that most of the members of the SHG (48%) are between the age of 31 and 45 years, which reveals the involvement of economically productive people. The majority of the members are involved in farming and other related tasks. The statistics indicate that SHGs significantly appeal to women, who have the basic education, in rural areas thus emphasizing their contribution towards financial inclusion of semi-literate groups.

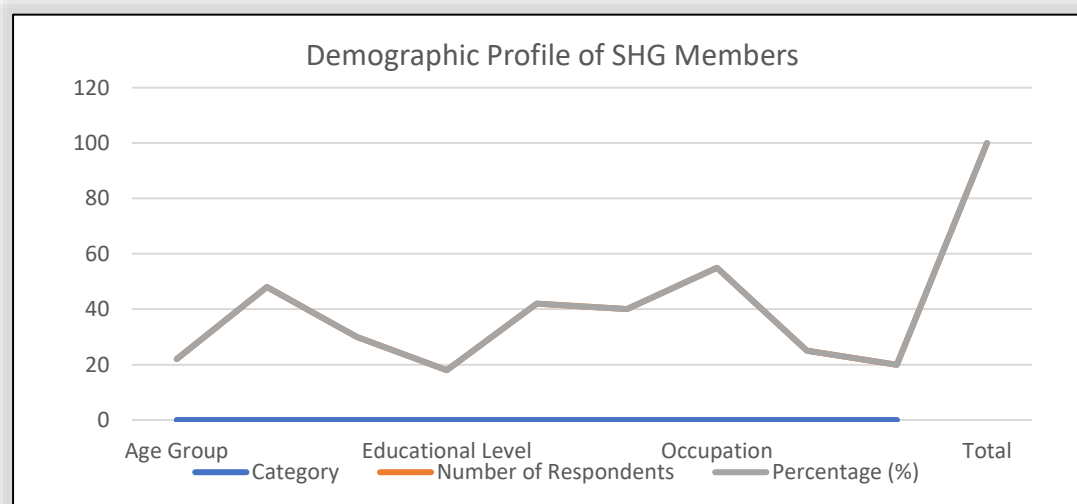
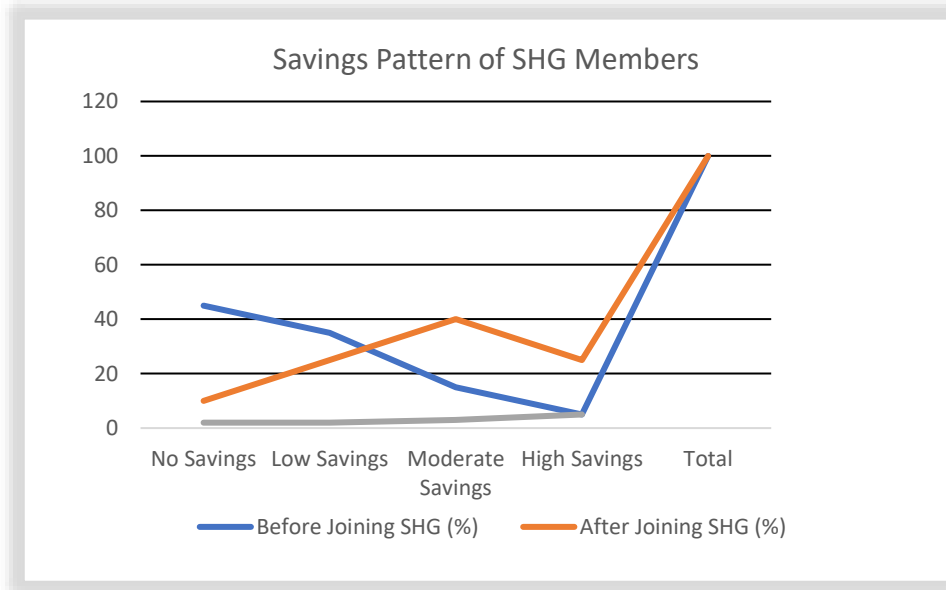


Table 2: Savings Pattern of SHG Members Before and After Joining SHGs

Savings Level	Before Joining SHG (%)	After Joining SHG (%)
No Savings	45	10
Low Savings	35	25
Moderate Savings	15	40
High Savings	5	25
Total	100	100

Analysis

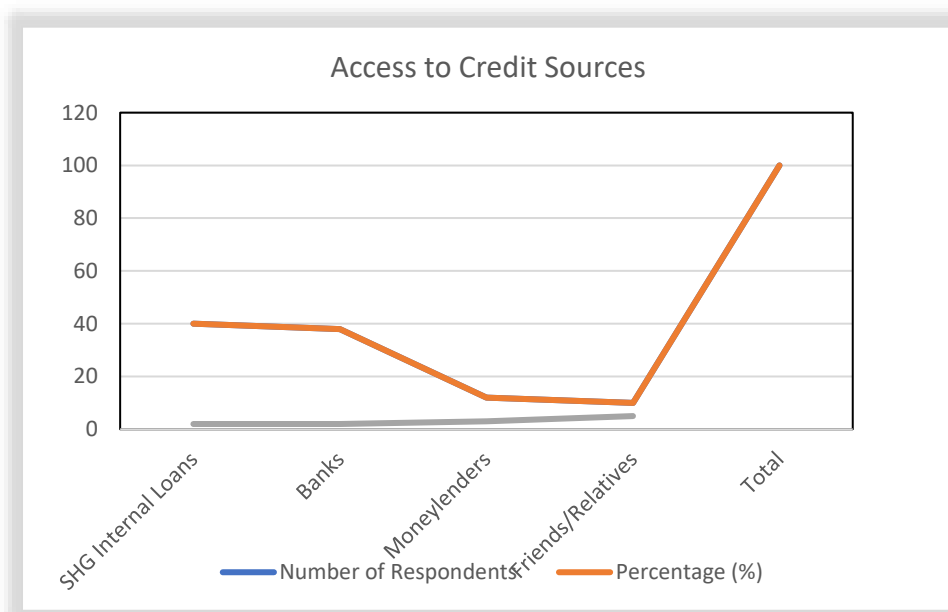
45% of the respondents at pre-SHG phase said that they had no savings before joining the SHGs. On becoming members of SHGs, this percentage reduced to 10% drastically. The moderate and high saving categories showed a high turn-out by the members. This is a clear indication of the fact that SHGs encourage normal saving behavior and enhancement of financial discipline among that households within the rural set up.

**Table 3: Access to Credit Sources After Joining SHGs**

Source of Credit	Number of Respondents	Percentage (%)
SHG Internal Loans	40	40
Banks	38	38
Moneylenders	12	12
Friends/Relatives	10	10
Total	100	100

Analysis

As indicated by the table, 78 percent of the respondents rely on SHGs and banks to receive credit on joining SHGs. The reliance on money lenders has gone down to 12 which means that there has been a positive change to the official and semi formal financial institutions. This proves that SHGs are effective in reinforcing the rural credit.

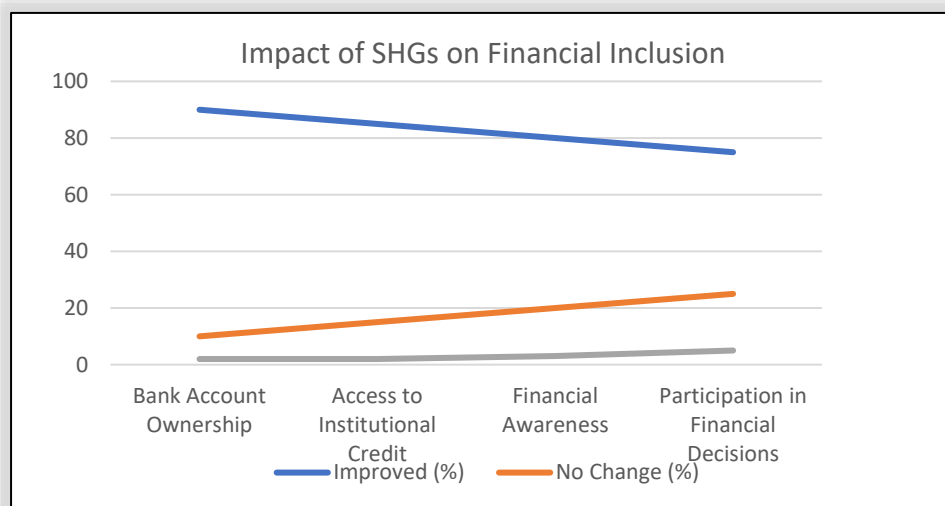
**Table 4: Impact of SHGs on Financial Inclusion**

Indicator	Improved (%)	No Change (%)
Bank Account Ownership	90	10

Access to Institutional Credit	85	15
Financial Awareness	80	20
Participation in Financial Decisions	75	25

Analysis

The findings indicate a large improvement in financial inclusion measures following the membership of SHGs. Most of the respondents have attested to greater banking service and financial awareness. Higher activeness in financial decision-making is an expression of the empowerment role of SHGs in the rural setting.



Overall Conclusion

The research concludes that self-help groups are important towards strengthening the financial system in Karnataka rural areas. SHGs have achieved success in increasing access to savings and credit facilities to rural household especially women and those who are economically disadvantaged. SHGs have ensured some level of reduced reliance of rural communities on informal sources of finance like moneylenders through encouraging savings habits and offering cheap credit.

The results also reveal that SHGs have led to a rise in financial inclusion wherein rural members of the group have been connected to formal banking institutions. Engagement in SHGs has not only contributed to financial awareness, responsible borrowing and enhancing repayment behavior has also been realized. Besides financial gains, SHGs have aided economic empowerment through allowing members to undertake income generating activities as well as influence in making financial decisions.

These positive results notwithstanding, the study reveals such challenges like the variation in the group performance, financial illiteracy, and the necessity of the constant training and institutional support. Effective policy intervention and redressing of such challenges through capacity building programs could build up the effects of SHGs. Overall, the study demonstrates that SHGs are a permanent and effective instrument of promoting both monetary and inclusive development of Karnataka rural territories.

REFERENCES:

1. Agarwal, B. (2018). *Gender equality, food security and the sustainability of agriculture*. Economic and Political Weekly, 53(14), 18–21.
2. Armendáriz, B., & Morduch, J. (2010). *The economics of microfinance* (2nd ed.). MIT Press.
3. Bansal, H. (2014). Role of self-help groups in women empowerment: A study of selected SHGs in Haryana. *International Journal of Research in Social Sciences*, 4(3), 144–155.
4. Government of India. (2019). *National policy for women empowerment*. Ministry of Women and Child Development.
5. Kabeer, N. (2005). Is microfinance a “magic bullet” for women’s empowerment? *Economic and Political Weekly*, 40(44–45), 4709–4718.
6. Karnataka State Rural Livelihood Promotion Society. (2020). *Status report on self-help groups in Karnataka*. Government of Karnataka.
7. Kumar, S., & Sekhar, S. (2017). Impact of self-help groups on rural development in India. *Journal of Rural Development*, 36(2), 235–252.
8. NABARD. (2018). *Status of microfinance in India 2017–18*. National Bank for Agriculture and Rural Development.
9. NABARD. (2020). *SHG–Bank linkage programme: Progress and performance*. NABARD.

10. Puhazhendi, V., & Badatya, K. C. (2002). SHG-Bank linkage programme for rural poor—An impact assessment. *Economic and Political Weekly*, 37(19), 1749–1755.
11. Rao, P. S. (2019). Financial inclusion through self-help groups in India. *Indian Journal of Finance*, 13(6), 24–36.
12. Reddy, A. A., & Malik, D. P. (2011). A review of SHG-Bank linkage programme in India. *Indian Journal of Agricultural Economics*, 66(3), 365–378.
13. Reserve Bank of India. (2021). *Financial inclusion and development*. RBI Publications.
14. Shylendra, H. S. (2004). The SHG-Bank linkage programme: An assessment. *Indian Journal of Agricultural Economics*, 59(3), 475–490.
15. Swain, R. B., & Wallentin, F. Y. (2009). Does microfinance empower women? *World Development*, 37(1), 62–75.