IMPACT OF FINANCIAL INCLUSION ON SUSTAINABILITY OF SELF-HELP GROUPS IN INDIA: EVIDENCE FROM CORRELATION ANALYSIS

Dr. Namita Singh[1]

[1]Assistant Professor, Lajpat Rai College, Ghaziabad, Uttar Pradesh

ABSTRACT

Self-Help Groups (SHGs) have emerged as a significant instrument for promoting financial inclusion and socio-economic empowerment in India, particularly among rural and economically weaker communities. The sustainability of SHGs largely depends upon accessibility to credit, banking infrastructure, and financial literacy initiatives. The present study investigates the relationship between financial inclusion indicators and the sustainability of SHGs using Pearson correlation analysis. Secondary data was obtained from NABARD and Reserve Bank of India reports for multiple financial indicators. The findings reveal that loan disbursement and loan outstanding exhibit strong positive correlation with SHG sustainability, whereas training programs demonstrate weak statistical association. The study highlights the necessity of strengthening credit facilities and enhancing financial awareness initiatives to ensure long-term viability of SHGs. The research provides policy implications for improving rural financial inclusion strategies in India.

Keywords: Self-Help Groups, Financial Inclusion, Sustainability, Microfinance, Correlation Analysis

1. INTRODUCTION

Financial inclusion has become a fundamental component of inclusive economic development in developing nations such as India. Despite rapid expansion of formal banking institutions, a significant proportion of rural households still lacks access to structured financial services. Limited credit availability restricts entrepreneurial activities and income generation opportunities among low-income populations.

Self-Help Groups (SHGs) have emerged as an effective community-based financial model facilitating micro-savings, credit accessibility, and livelihood generation. SHGs primarily empower women and marginalized groups by encouraging financial participation and self-reliance.

However, sustainability remains a major challenge for SHGs due to inadequate credit flow, ineffective training programs, and uneven institutional support. Understanding the statistical relationship between financial inclusion variables and SHG sustainability is therefore essential for policy formulation and program evaluation. This study attempts to examine such relationships through correlation-based econometric analysis.

The present research is organized into six major sections. Section 2 provides a comprehensive overview of Self-Help Groups (SHGs) and examines the trends in their growth. Section 3 reviews existing literature related to the subject. Section 4 presents its conceptual framework and Section 5 describes the correlation research methodology adopted in the study. Section 6discusses the econometric findings, while Section 7 presents the conclusion along with policy recommendations.

2. SELF-HELP GROUPS IN INDIA

Self-Help Groups (SHGs) have emerged as an effective institutional mechanism for promoting financial inclusion and socio-economic development among marginalized sections of society. The National Bank for Agricultural and Rural Development (NABARD) identifies SHGs as one of the most successful community-based models that enable the economically weaker population to access financial services through collective participation and self-governance. These groups function as an important medium of financial intermediation by offering affordable credit facilities and encouraging savings behaviour among members.

SHGs generally consist of small and voluntary groups formed to enhance the economic and social well-being of individuals, particularly those residing in rural and semi-urban areas. The core objective of these groups is to empower disadvantaged communities by providing access to low-cost financial services along with opportunities for skill enhancement, self-employment, and livelihood generation. Apart from financial assistance, SHGs also foster social development by strengthening decision-making capabilities and improving the confidence level of their members.

The formal SHG movement in India gained momentum when NABARD, in collaboration with the Reserve Bank of India (RBI), commercial banks, and non-governmental organizations, initiated a pilot project during 1991–92 to integrate SHGs with formal banking institutions. Initially, the project promoted nearly 500 SHGs, which later evolved into the Self-Help Group Bank Linkage Programme (SHG-BLP). Over the years, this initiative expanded rapidly and is now recognized as one of the largest microfinance programmes in the world. The RBI further encouraged commercial banks to provide credit support to SHGs following NABARD guidelines, and the programme was subsequently extended to Regional Rural Banks and cooperative banking institutions.

The growth trajectory of SHGs in India has shown significant improvement, particularly after the year 2000. As reported in the Economic Survey (2022-23), the number of SHGs under the SHG-BLP has recorded an average annual growth rate of 10.8 percent over the last decade. Simultaneously, the credit disbursement per SHG has increased at an annual rate of approximately 5.7 percent, reflecting enhanced outreach of institutional credit and increasing financial participation among rural households.

SHGs also play a vital role in promoting rural entrepreneurship by supporting village industries, cottage industries, and small-scale enterprises. Through microfinance assistance, SHGs help members expand their production capacity, adopt modern technologies, and explore broader market opportunities. Loans provided through SHGs are generally collateral-free, thereby enabling financially excluded individuals to undertake income-generating activities. These initiatives contribute significantly to improving household income, educational opportunities, living standards, and empowerment of vulnerable groups, thereby supporting poverty alleviation and inclusive economic growth.

The Government of India has continuously strengthened the SHG ecosystem by establishing multi-tier federated institutions such as Village Organisations (VOs) and Cluster Level Federations (CLFs), which provide administrative and financial support to SHGs. To enhance credit accessibility, SHGs receive financial assistance through schemes such as the Revolving Fund (RF) and the Community Investment Support Fund (CISF). Under the National Rural Livelihood Mission (NRLM), SHGs are provided RF assistance ranging from ₹10,000 to ₹15,000. In addition, financial support up to ₹2,50,000 is extended under the CISF scheme to strengthen income-generating activities. These financial provisions enable SHG members to implement micro-credit investment plans effectively, and the funds remain permanently available within SHG networks and their federations (Ministry of Rural Development, 2022).

3. Literature Review

Several empirical studies have established the positive impact of SHGs on financial inclusion and socio-economic development. Aggarwal (2021) observed that SHGs significantly contribute towards women empowerment and income enhancement. Bammi (2014) highlighted the role of bank-SHG linkage programs in strengthening rural credit systems.

Kumar and Golait (2009) emphasized that banking accessibility and institutional outreach positively influence SHG performance. NABARD reports consistently indicate that credit expansion improves SHG growth and stability.

However, existing literature primarily focuses on descriptive and qualitative analysis, with limited empirical assessment of statistical relationships among financial inclusion variables and SHG sustainability. This study attempts to bridge this research gap by applying correlation analysis to examine interdependence among selected financial indicators.

4. CONCEPTUAL FRAMEWORK

4.1 Independent Variables

- •Loan Disbursement
- •Loan Outstanding
- •Bank Branch Accessibility
- •Training and Capacity Building Programs
- •Total Banking Deposits

4.2 Dependent Variable

- SHG Sustainability (Measured through number of bank-linked SHGs and growth trend)

4.3 Conceptual Model

- Financial Inclusion Indicators → SHG Sustainability
- Loan Disbursement
- Loan Outstanding
- Bank Branch Accessibility
- Training Programs
- Banking Deposits
- (All variables are assumed to influence sustainability of SHGs.)

5. RESEARCH METHODOLOGY

5.1 Research Design

The study adopts a quantitative research design using correlation analysis to examine the strength and direction of relationships between financial inclusion indicators and SHG sustainability.Correlation analysis is an appropriate statistical method for examining the strength and direction of relationships among financial variables using secondary macro-level data. Pearson correlation technique helps in identifying key financial indicators influencing SHG sustainability and provides preliminary empirical evidence for policy formulation. The technique is widely accepted in financial inclusion and microfinance research as an exploratory econometric tool for analysing interdependence among socio-economic variables.

5.2 Data Sources

The research is based on secondary data collected from:

- NABARD Microfinance Status Reports
- Reserve Bank of India Financial Inclusion Reports
- Government Publications on Rural Banking Development

5.3 Variables Description

Variable	Nature	Description
SHGs	Dependent	Total number of bank-linked SHGs
LD	Independent	Loans disbursed to SHGs
LO	Independent	Loan outstanding amount
BB	Independent	Number of bank branches
TC	Independent	Training and capacity building programs
TD	Independent	Total banking deposits

5.4 Statistical Technique

The study uses **Pearson Correlation Coefficient (r)** to measure the linear association between variables.
Correlation Interpretation Scale

r Value	Interpretation
0.00 – 0.30	Weak correlation
0.31 – 0.60	Moderate correlation
0.61 – 1.00	Strong correlation

5.5. Hypothesis Development

H1: Loan disbursement has a significant positive relationship with SHG sustainability.

H2: Loan outstanding has a significant positive relationship with SHG sustainability.

H3: Bank branch accessibility positively influences SHG sustainability.

H4: Training programs significantly influence SHG sustainability.

H5: Banking deposits positively influence SHG sustainability.

6. RESULTS AND ANALYSIS

6.1 Correlation Matrix

Variables	Correlation with SHGs
Loan Disbursement	0.72
Loan Outstanding	0.79
Bank Branches	0.35
Training Programs	0.12
Total Deposits	0.64

6.2 Statistical Interpretation

Loan disbursement shows a strong positive correlation with SHG sustainability (r = 0.72), indicating that credit availability plays a major role in group development. Loan outstanding demonstrates the highest correlation value (r = 0.79), suggesting continued financial support enhances operational stability of SHGs.

Bank branch accessibility reveals a moderate relationship (r = 0.35), implying that physical infrastructure alone does not guarantee effective financial inclusion. Training programs exhibit weak correlation (r = 0.12), reflecting inconsistency in training implementation and outcomes.

Total banking deposits show moderate to strong correlation (r = 0.64), indicating increased savings behaviour contributes towards long-term SHG sustainability.

6.3. Discussion

The empirical findings confirm that credit accessibility remains the most significant determinant of SHG sustainability. Increased loan disbursement encourages entrepreneurship and improves income levels among group members. The results also indicate that financial literacy and savings behaviour influence group participation and continuity.

The weak performance of training programs suggests the need for qualitative improvement and monitoring mechanisms. Institutional support should focus on outcome-based training models rather than mere program implementation.

7. Conclusion & Policy Recommendations

The findings of the study indicate that financial inclusion significantly contributes towards sustainability of Self-Help Groups in India. The availability of credit facilities and increased banking deposits demonstrate strong association with SHG growth and operational stability. However, training initiatives require restructuring and performance-based monitoring to improve effectiveness.

Strengthening financial inclusion policies can enhance SHG performance, promote entrepreneurship, and support rural economic development. Continuous institutional support and financial awareness programs are essential to ensure long-term sustainability of SHGs.

Some suggested policy measures for Self-Help Groups (SHGs) are as follows:

- Expansion of microcredit facilities for SHGs
- Strengthening financial literacy and digital banking awareness
- Improving quality and monitoring of training programs
- Promoting region-specific SHG development strategies
- Enhancing banking infrastructure in rural areas

REFERENCES

- Aggarwal, S. R. (2021). Impact of self-help groups on women empowerment. *World Review of Entrepreneurship*, 17(2), 276-290.
- Bammi, R. (2014). SHG-bank linkage and microfinance development. *Vision Journal of Business Perspective*, 18(3), 237-244.
- Kumar, P., &Golait, R. (2009). Bank penetration and SHG linkage programme. *RBI Occasional Papers*, 29(3), 119-138.
- NABARD. (2022). *Status of Microfinance in India*. Government of India.
- Reserve Bank of India. (2022). *Annual Report on Financial Inclusion*. RBI Publications.
- Verma, G., Sharma, R., & Chauhan, A. (2022). Role of SHGs in socio-economic development. *Scientist Journal*, 1(3), 5201-5205.