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Financial Inclusion Through Self-Help Groups: A Study of Women's Economic Empowerment in North Karnataka

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Abstract: Self-Help Groups (SHGs) have emerged as a critical institutional mechanism for extending financial services and promoting economic empowerment among rural and semi-urban women in India, particularly through the SHG-Bank Linkage Programme operationalised by NABARD. This study examined the impact of SHG membership on financial inclusion outcomes and economic empowerment indicators among women in four talukas of north Karnataka — Bagalkot, Ilkal, Jamkhandi, and Mudhol — a region characterised by agrarian dependence, low female workforce participation, and limited banking infrastructure penetration. A survey of 250 SHG member women, stratified by taluka and SHG maturity (below three years and above three years of operation), was conducted using a structured questionnaire. Financial inclusion indicators measured included savings behaviour, credit access, loan utilisation pattern, and bank account usage. Empowerment indicators included household financial decision-making autonomy, control over personal income, access to information, and self-reported confidence and self-efficacy. Results showed significant improvements across all financial inclusion indicators for SHG members compared to a reference group of 50 non-member women from the same communities. Binary logistic regression revealed SHG membership duration as the strongest predictor of empowerment outcomes (OR=4.12 for duration above three years; 95% CI: 2.63–6.46; $p<0.001$). Older, more mature SHGs showed stronger empowerment impacts but also greater delinquency risks. The study recommends strengthening the SHG-Bank Linkage Programme, reducing documentation burdens for loan access, and introducing financial literacy curricula within SHG meetings.

Keywords: *Self-Help Groups, Financial Inclusion, Women's Empowerment, SHG-Bank Linkage, North Karnataka, NABARD*

1. Introduction

Financial inclusion — ensuring that all individuals and businesses have access to useful and affordable financial products and services, including transactions, payments, savings, credit, and insurance — is now recognised as a foundational enabler of broader economic development and poverty reduction. In India, despite significant progress through the Pradhan Mantri Jan Dhan Yojana (PMJDY) launched in 2014, substantial segments of the population — particularly women in rural and semi-urban areas — remain effectively excluded from formal financial services. Account ownership does not translate automatically into account usage or meaningful financial participation.

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The Self-Help Group (SHG) model, pioneered by NABARD in collaboration with NGOs and commercial banks since the early 1990s, has evolved into one of India's most significant financial inclusion and social mobilisation mechanisms. Under the SHG-Bank Linkage Programme, groups of 10–20 women meet regularly, contribute to a common savings fund, extend inter-member loans from savings, and after a period of demonstrated savings discipline (typically 6–12 months) become eligible for formal bank credit linked to their group savings. As of March 2023, over 1.15 crore SHGs comprising approximately 12 crore women were credit-linked under the programme.

North Karnataka — comprising the districts of Bagalkot, Vijayapur, Belagavi, Dharwad, and Haveri among others — is a historically underdeveloped subregion of Karnataka marked by agrarian distress, low female literacy, high rates of seasonal male outmigration, and relatively limited bank branch density compared to southern Karnataka. Women in this region are disproportionately engaged in rain-fed agriculture, domestic labour, and home-based artisanal work, with limited access to formal credit markets for income-generating activities or consumption smoothing.

While SHG impacts have been studied extensively in Andhra Pradesh, Tamil Nadu, and Kerala, systematic empirical evidence from north Karnataka's specific agro-ecological and socio-cultural context is limited. This study addresses this gap by examining SHG-mediated financial inclusion and women's empowerment outcomes in four talukas of Bagalkot district, providing contextually grounded evidence for programme design and policy.

2. Methodology

A cross-sectional survey design was employed. The study population comprised women who were active members of SHGs registered with the Karnataka Mahila Abhivruddhi Mattu Samrakshane Samsthe (KMAS) and credit-linked under the SHG-Bank Linkage Programme in four talukas of Bagalkot district: Bagalkot, Ilkal, Jamkhandi, and Mudhol. A stratified random sample of 250 SHG member women was drawn, stratified by taluka (approximately 62 per taluka) and by SHG maturity — defined as operating for fewer than three years ('younger SHGs', n=125) or three or more years ('mature SHGs', n=125). A comparison group of 50 non-SHG-member women from the same communities was also interviewed using the same questionnaire to provide a non-randomised reference population.

The structured questionnaire comprised four modules: (i) Sociodemographic background (age, education, household size, land ownership, spouse's occupation); (ii) Financial inclusion scale (10 items on savings habits, bank account usage frequency, credit access, loan utilisation, insurance enrolment); (iii) Economic empowerment scale (12 items adapted from the Women's Empowerment in Agriculture Index and validated for the study context through pilot testing with 30 non-sample respondents); and (iv) SHG participation history (duration, meeting attendance, leadership roles, inter-member lending experience). All instruments were available in Kannada and administered by four trained female data collectors through face-to-face interviews.

Quantitative data analysis was conducted in SPSS version 25. Financial inclusion and empowerment composite scores were computed and their reliability assessed (Cronbach's alpha: financial inclusion = 0.81; empowerment = 0.78). Independent samples t-tests were used to compare SHG member and non-member scores. Multivariate binary logistic regression with empowerment score (dichotomised at median) as the dependent variable was used to identify predictors. The study received ethical clearance from Shri Basaveshwara Degree College's institutional research committee, and all participants provided informed verbal consent.

3. Results and Findings

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Among the 250 SHG members surveyed, 82.4% reported having an active bank savings account compared to 54.0% of non-SHG comparison women ($p<0.001$). Among those with accounts, 74.1% of SHG members reported using their account at least twice in the preceding month ('active usage') compared to 31.5% of non-members with accounts ($p<0.001$), suggesting that SHG participation drives not merely account ownership but active financial engagement. Credit access was similarly differentiated: 91.6% of SHG members had received at least one formal or SHG inter-member loan in the preceding two years, compared to 22.0% of non-members.

Empowerment scores were significantly higher for SHG member women across all four sub-dimensions of the empowerment scale: household financial decision-making (mean score 3.8 out of 5 for SHG members vs 2.4 for non-members; $p<0.001$), control over personal income (3.4 vs 2.0; $p<0.001$), access to financial information (3.6 vs 2.2; $p<0.001$), and self-reported confidence and self-efficacy (3.9 vs 2.6; $p<0.001$). Women in mature SHGs (3+ years of operation) reported significantly higher empowerment scores than those in younger SHGs on all dimensions ($p<0.01$).

Binary logistic regression identified SHG membership duration of three or more years (OR=4.12; 95% CI: 2.63–6.46; $p<0.001$), SHG leadership experience (serving as president or secretary; OR=2.87; 95% CI: 1.74–4.73; $p<0.001$), and higher household income (OR=1.92; 95% CI: 1.23–3.01; $p=0.004$) as the strongest independent predictors of above-median empowerment. Education level of the respondent was a significant predictor only at the bivariate level and lost significance in the multivariate model, suggesting that SHG participation may partially compensate for low formal education in building financial capability.

4. Discussion

The finding that SHG membership significantly increases active bank account usage — not merely account ownership — is an important contribution to the financial inclusion literature. The PMJDY's success in opening bank accounts has been widely documented, but the problem of dormant or infrequently used accounts ('last-mile problem') remains a significant concern for financial inclusion policymakers. The SHG mechanism appears to address this gap by creating regular group-based savings habits and establishing a social norm of financial activity that spills over into individual bank account behaviour.

The strong predictive power of SHG maturity and leadership experience for empowerment outcomes supports a pathway model in which SHG participation builds empowerment incrementally over time: women develop financial skills in the early years (savings, credit management), then exercise agency in group decision-making (lending decisions, meeting facilitation), and eventually transfer these capabilities to household financial decision-making and broader civic participation. This suggests that SHG programmes should prioritise long-term continuity and leadership rotation — ensuring that as many women as possible experience office-bearing roles — rather than focusing narrowly on credit disbursement volumes.

Constraints identified by survey participants included excessive documentation requirements for bank loan renewal (cited by 43.2% as a barrier), irregular meetings due to seasonal agricultural labour demands (38.4%), and lack of financial literacy on topics beyond basic savings and credit (29.6%). The latter finding suggests that integrating structured financial literacy modules — covering topics such as insurance products, Kisan Credit Cards, government scheme entitlements, and digital payments — into regular SHG meetings could substantially enhance the programme's empowerment impact at low marginal cost.

5. Conclusion

This study provides empirical evidence from north Karnataka that SHG membership significantly enhances financial inclusion outcomes and women's economic empowerment, with the strength of impact increasing

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substantially with membership duration and active leadership participation. The findings validate the SHG model's continued relevance as a microfinance and empowerment mechanism in a region characterised by structural economic disadvantage for women.

Key policy recommendations include: (i) strengthening NABARD's revolving fund support for SHG bank linkage in Bagalkot and Vijayapur districts, which lag behind coastal Karnataka in credit linkage ratios; (ii) mandating simplified, standardised documentation requirements for SHG loan renewals across all linkage banks; (iii) introducing structured financial literacy training modules into bi-monthly SHG meetings through trained KMAS cluster coordinators; (iv) incentivising leadership rotation within SHGs through preferential loan terms for groups demonstrating office-bearing diversity; and (v) expanding SHG integration with government welfare schemes (Ayushman Bharat, MGNREGS payment accounts) to maximise the financial inclusion platform already created by the programme.

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