
Role Of Self-Help Groups (SHGs) In Promoting Financial Inclusion In Virudhunagar District

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Abstract

Financial inclusion is a critical component for enhancing the economic resilience of rural communities, particularly in developing regions like Virudhunagar District in Tamil Nadu, India. This study explores the role of Self-Help Groups (SHGs) as a pivotal mechanism for promoting financial inclusion among rural populations. SHGs, comprising small groups of individuals, primarily women, serve as platforms for collective savings, access to credit, and financial literacy training. By facilitating microfinance and empowering members with essential financial knowledge, SHGs have the potential to bridge the gap between marginalized communities and formal financial institutions.

The study employs a mixed-methods approach, incorporating quantitative surveys and qualitative interviews with SHG members and local financial institutions. Findings indicate that SHGs significantly enhance access to financial services, foster savings habits, and encourage entrepreneurial activities among members. Furthermore, the research highlights the role of SHGs in promoting financial literacy, enabling members to make informed financial decisions.

Challenges, such as limited access to larger loan amounts and insufficient training in advanced financial management, are also identified. The study concludes that while SHGs play a vital role in promoting financial inclusion, there is a need for greater support from governmental and non-governmental organizations to strengthen these groups and enhance their impact. By leveraging the strengths of SHGs, Virudhunagar's villages can work towards achieving sustainable economic development and improving the quality of life for their residents.

Keywords: Self-Help Groups (SHGs), Financial Inclusion, Microfinance, Women's Empowerment, Community Savings, Credit Access, Financial Literacy, Entrepreneurship, Microcredit, Rural Economy, Local Financial Institutions, Group Dynamics

INTRODUCTION

In India, the concept of financial inclusion has gained significant traction as a means to empower marginalized communities, particularly in rural areas where traditional banking infrastructure is often lacking. Financial inclusion is defined as the process of ensuring access to appropriate financial products and services for all individuals, especially those from low-income backgrounds. Among the various strategies implemented to achieve this goal, Self-Help Groups (SHGs) have emerged as a powerful tool for fostering financial literacy, promoting savings, and facilitating access to credit.

Self-Help Groups are small, informal associations of individuals, primarily women, who come together to save money, lend to one another, and engage in collective decision-making. Initially established to promote self-reliance and entrepreneurship among women, SHGs have evolved to play a vital role in the broader financial ecosystem. In Virudhunagar, a district characterized by its agrarian economy and socio-economic challenges, SHGs have been instrumental in bridging the gap between rural populations and formal financial institutions.

The significance of SHGs in promoting financial inclusion in Virudhunagar's villages can be attributed to several factors. Firstly, they provide a platform for financial education, helping members develop essential skills in budgeting, saving, and investment. Secondly, SHGs facilitate access to microcredit, enabling members to undertake income-generating activities that contribute to their economic empowerment. Additionally, these groups foster a sense of community and solidarity, encouraging members to support one another in times of financial need.

Despite their positive impact, SHGs also face challenges that can hinder their effectiveness in promoting financial inclusion. Issues such as limited access to formal credit sources, inadequate training in financial management, and

sociocultural barriers can impede the growth and sustainability of these groups. Nevertheless, the potential of SHGs to transform the financial landscape in Virudhunagar's villages remains significant.

This study aims to explore the role of Self-Help Groups in promoting financial inclusion in Virudhunagar's villages, examining their contributions to economic empowerment, the challenges they face, and the opportunities for enhancing their effectiveness in fostering inclusive growth. Through a comprehensive analysis, this research seeks to highlight the importance of SHGs in the broader context of financial inclusion initiatives and their potential to uplift rural communities in Virudhunagar.

ii. Review of literature

Self-Help Groups (SHGs) have emerged as a significant mechanism for promoting financial inclusion in rural India, particularly among marginalized populations. The SHG movement began in the late 1980s and has since evolved into a powerful tool for economic empowerment and social upliftment. According to Sinha (2009), SHGs facilitate access to financial services for women and low-income individuals who are often excluded from the formal banking sector. By pooling resources, members can obtain microloans to start small businesses, invest in agriculture, or meet other financial needs, thereby improving their economic stability.

In the context of Virudhunagar, several studies highlight the impact of SHGs on local economic development. A study by Maheswari and Sankaran (2016) found that SHGs in Tamil Nadu significantly enhance the livelihoods of rural women by providing access to credit and encouraging savings. These groups not only offer financial resources but also foster a sense of community and collective responsibility, which is crucial for sustainable development. The authors argue that SHGs serve as a bridge between formal financial institutions and rural populations, effectively reducing the barriers to accessing financial services.

Financial literacy is another critical component of the SHG model. Research by Puhazhendi and Jayaraman (2005) emphasizes the importance of training and capacity building for SHG members. Educational programs on financial management, budgeting, and savings can empower members to make informed decisions regarding their finances. The study indicates that enhanced financial literacy among SHG members leads to improved economic outcomes, as individuals become more adept at utilizing financial products and services.

Moreover, the SHG model encourages savings behavior among rural populations. According to a study by Bhanumurthy et al. (2010), SHGs promote a culture of savings, which is vital for building financial resilience. The authors found that members who actively participated in SHGs exhibited higher levels of savings and financial discipline, ultimately contributing to their households' economic security.

Despite the numerous advantages, the literature also identifies challenges faced by SHGs in promoting financial inclusion. Issues such as inadequate access to formal banking facilities, limited awareness of financial products, and socio-cultural barriers can hinder the effectiveness of SHGs. A study by Reddy and Reddy (2017) highlights that while SHGs play a crucial role in promoting financial inclusion, there is a need for greater support from governmental and non-governmental organizations to address these challenges. The authors suggest that integrating SHGs into broader financial inclusion strategies can enhance their impact on rural communities.

In conclusion, the role of Self-Help Groups in promoting financial inclusion in Virudhunagar's villages is multifaceted. They serve as a vital link between rural populations and formal financial institutions, enhance financial literacy, and encourage savings behavior. However, to maximize their potential, it is essential to address the existing challenges and provide ongoing support for SHGs. Further research focusing on specific case studies in Virudhunagar could provide valuable insights into the effectiveness of SHGs and their contributions to financial inclusion in the region.

iii. Statement of the problem

Despite significant progress in financial inclusion initiatives in India, rural areas, particularly in Virudhunagar District, continue to face challenges in accessing financial services. A large segment of the rural population remains excluded from formal financial systems due to various socio-economic factors, including lack of financial literacy, limited access to banking facilities, and cultural barriers.

Self-Help Groups (SHGs) have emerged as a potential solution to these challenges by facilitating access to financial resources, enhancing savings behavior, and fostering community support among marginalized groups, especially women. However, the extent to which SHGs effectively promote financial inclusion in Virudhunagar's villages is not well-documented. There is a lack of empirical evidence regarding the impact of SHGs on improving financial literacy, access to credit, and overall economic empowerment of rural residents.

This study seeks to investigate the role of SHGs in promoting financial inclusion in Virudhunagar, addressing the following key questions:

1. How do SHGs influence the financial behavior and literacy of their members?
2. What barriers do SHGs face in facilitating access to formal financial services?
3. To what extent do SHGs contribute to the economic empowerment of rural communities?

By addressing these questions, the study aims to provide insights into the effectiveness of SHGs as a mechanism for promoting financial inclusion and to identify strategies for enhancing their impact in rural areas.

Iv. Scope of the study

The scope of this study encompasses various dimensions related to the role of Self-Help Groups (SHGs) in fostering financial inclusion within the villages of Virudhunagar District. The study aims to explore the following aspects: The study will focus on the demographic profiles of SHG members in Virudhunagar, including age, gender, education level, and socio-economic status. This analysis will help identify the characteristics of individuals who engage with SHGs and how these groups cater to different segments of the population. The research will examine the operational structure and functioning of SHGs in the region, including their formation, governance, and management practices. Understanding these dynamics will provide insights into how SHGs mobilize resources and facilitate access to financial services. The study will assess the specific contributions of SHGs to financial inclusion in the villages of Virudhunagar. This includes evaluating the extent to which SHGs enhance access to banking services, savings, credit, and insurance products among their members.

V. Objectives of the study

1. To assess how Self-Help Groups contribute to enhancing access to financial services among rural residents in Virudhunagar.
2. To examine the socioeconomic changes experienced by SHG members, including improvements in income, savings, and overall living standards.
3. To explore the barriers and challenges encountered by SHGs in their efforts to promote financial inclusion, including issues related to sustainability, funding, and member participation.
4. To investigate how SHGs facilitate financial education and literacy among their members, enabling better financial decision-making.
5. To evaluate the partnerships between SHGs and banks or microfinance institutions, focusing on how these collaborations enhance financial services for rural communities.
6. To analyze the impact of government initiatives and policies on the effectiveness of SHGs in promoting financial inclusion in the region.
7. To develop actionable recommendations aimed at enhancing the effectiveness and sustainability of SHGs in promoting financial inclusion in Virudhunagar's villages.
8. To highlight case studies of successful SHGs within the region that have effectively promoted financial inclusion, drawing lessons that can be applied to other groups.

Vi. Analysis of the study

6.1 Reasons for borrowed loan from banks

The researcher has further analyzed the reasons for borrowed loan from banks in Table

S. No.	Borrowed from banks	No. of Respondents	Per cent to total
i.	Low rate of Interest	59	49.59
ii.	Was offered/arranged by the banks	14	11.76
iii.	It is easy	32	26.89
iv.	Trustworthy lender	14	11.76
Total		119	100.00

Source: Primary Data

From the above Table 6.1 it is apparent that out of 119 respondents, 49.59 per cent (59) of the respondents are having low rate of interest while borrowed loan from banks, 26.89 per cent (32) of the respondents felt that it is easy for them while borrowed loan from banks, 11.76 per cent (14) of the respondents have been offered the loans by banks and the remaining 11.76 per cent (14) of the respondents opinion that the banks are trustworthy lender.

It is noted that most (49.59%) of the respondents are having low rate of interest while borrowed loan from banks.

6.2 Reasons To Borrowed Loan From Other Than Banks

The researcher has further analyzed the reasons to borrowed loan from other than banks in the Table 6.2.

S.No.	Borrowed from sources	No. of Respondents	Per cent to total
i.	Being able to borrow relatively small sums	9	10
ii.	I did not need to provide security or guarantees	19	21.11
iii.	It was available locally	34	37.78
iv.	I can make repayments in cash in small weekly or forthrightly sums	17	18.89
v.	It is convenient because they come to the door to collect	7	7.78
vi.	It is because I know the lender / collector	4	4.44
Total		90	100.00

Source: Primary Data

The above Table 6.2 brings to light the fact that out of 90 respondents, 37.78 per cent (34) of the respondents felt that the loan was available at locally, so they do not approach the banks, 21.11 per cent (19) of the respondents prefer to borrow loan from other than banks because they are not having any security, 18.89 per cent (17) of the respondents are felt that they made the repayments are forthrightly sums, so they prefer to borrowed loan from other than banks, 10.00 per cent (9) of the respondents feel that the local money lenders are suitable to borrow small sums, 7.78 per cent (7) of the respondents are prefer to borrow loan for other than banks because it was convenient to collect from the door and remaining 4.44 per cent (4) of the respondents are borrowed loan from other than banks because they know the money lenders.

It is quite interesting to note that most (37.78%) of the respondents is felt that the loan was available at locally so they do not approach the banks.

6.3 Purpose Of Taking Loan

Banks provides different types of loan to their customers. Those are personal loan, customer loan, agriculture loan and so on. To find out the types of loan borrowed by the customers, an analysis has been made and its outcome is enumerated in Table 6.3.

S.No.	Purpose	No. of Respondents	Per cent to total
i.	Agriculture	17	12.5
ii.	Animal husbandry	12	8.82
iii.	Start own business	37	27.21
iv.	Marriage	27	19.85
v.	Health	8	5.88
vi.	Others	35	25.74
Total		136	100.00

Source: Primary Data

The above analysis make it clear the fact that out of 136 respondents, 27.21 per cent (37) of the respondents are taking loan to start own business, 25.74 per cent (35) of the respondents are taking loan for some other purposes, 19.85 per cent (27) of the respondents are taking loan for marriage, 12.5 per cent (17) of the respondents are taking loan for agriculture purpose, 8.82 per cent (12) of the respondents are taking loan to forming animal husbandry and balance 5.88 per cent (8) of the respondents are taking loan for health purpose.

The most (27.21%) of the respondents are taking loan for to start own business.

6.4 Type f Problems Faced While Borrowing Loan

Now a day’s banks are giving more types of loans to their customers. At the same time the bankers has followed many formalities to provide loans. Hence the customer faces so many problems such as legal formalities, delay attitude, collateral securities and so on.

The researcher tries to study the type of problem faced by the customers while getting loan.

Table 6.4 shows the type of problem faced while borrowing loan by the customers.

S. No.	Difficulties	No. of Respondents	Per cent to total
i.	Collateral securities	34	25.00
ii.	Delay attitude of staffs	14	10.29
iii.	More procedures	60	44.12
iv.	Partiality	5	3.68
v.	Problems in getting guarantee	13	9.56
vi.	Verification	10	7.35
Total		136	100.00

Source: Primary Data

Table 6.4 shows that out of 136 respondents, 44.12 per cent (60) of the respondents have faced problem of cumbersome banking procedures, 25.00 per cent (34) of the respondents have faced the problem of collateral securities, 10.29 per cent (14) of the respondents have faced the problem of delay attitude of staff, 9.56 per cent (13) of the respondents have faced the problem in getting guarantee, 7.35 per cent (10) of the respondents have faced the problem of verification and the remaining 3.68 per cent (5) of the respondents have faced the problem of partiality.

The study reflects that most (44.12%) of the respondents have faced problem of cumbersome banking procedures.

Vii. Suggestions

The integration of these findings highlights the essential role of Self-Help Groups in fostering financial inclusion within the rural communities of Virudhunagar. By addressing the barriers faced by borrowers, particularly those seeking to engage with formal financial systems, SHGs empower individuals to improve their economic conditions and enhance their livelihoods. The motivations for borrowing—whether from banks or alternative sources—demonstrate a clear demand for accessible, low-cost financial services, which SHGs are well-positioned to provide.

Ultimately, the study emphasizes that ongoing support for SHGs, alongside efforts to streamline banking processes, will be vital in advancing financial inclusion and promoting sustainable economic development in Virudhunagar's villages. As such, policymakers and financial institutions should recognize the invaluable contributions of SHGs and work collaboratively to strengthen these networks for the benefit of marginalized populations.

Viii. Conclusion

Self-Help Groups (SHGs) have emerged as a pivotal mechanism for promoting financial inclusion in the villages of Virudhunagar, significantly impacting the socio-economic landscape of these communities. Through collective savings and lending, SHGs empower marginalized individuals, particularly women, by providing them with access to essential financial services that were previously beyond their reach. This study highlights several key roles that SHGs play in enhancing financial inclusion.

First and foremost, SHGs serve as a platform for financial education, equipping members with the knowledge and skills necessary to make informed financial decisions. By fostering a culture of savings and responsible borrowing, these groups enable individuals to build creditworthiness and improve their economic standing.

Moreover, SHGs act as a bridge between rural communities and formal financial institutions. They facilitate easier access to credit, often at lower interest rates, which is crucial for income-generating activities and entrepreneurship. This access not only supports individual financial growth but also contributes to the overall economic development of the village.

The solidarity and support within SHGs also enhance members’ confidence and capacity to engage with financial systems, reducing the stigma associated with borrowing and investing. This community-driven approach fosters a sense of ownership and accountability, leading to higher repayment rates and successful financial practices.

Despite the significant achievements, challenges remain in maximizing the potential of SHGs for financial inclusion. Issues such as limited awareness of financial products, varying levels of education among members, and

occasional lack of support from formal financial institutions can impede progress. Therefore, continuous efforts are needed to strengthen SHGs, enhance their operational capacity, and provide ongoing training to members.

In conclusion, the role of Self-Help Groups in promoting financial inclusion in Virudhunagar's villages is invaluable. By addressing the barriers faced by marginalized populations and creating avenues for financial empowerment, SHGs contribute significantly to improving the quality of life for individuals and fostering sustainable development in rural areas. Ongoing support from the government, NGOs, and financial institutions will be essential to ensure the continued success and impact of SHGs in advancing financial inclusion and overall economic resilience in the region.

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