

## Impact of Self-Help Groups on Financial Inclusion and Rural Development: A Study of Gangoh Block, Uttar Pradesh

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*Citation:* Singhal, P., Dubey, S. & Narain, D. (2026). *Impact of Self-Help Groups on Financial Inclusion and Rural Development: A Study of Gangoh Block, Uttar Pradesh.* *Journal of Modern Management & Entrepreneurship*, 16(01(II)), 106–115. [https://doi.org/10.62823/JMME/16.01\(II\).8885](https://doi.org/10.62823/JMME/16.01(II).8885)

### ABSTRACT

*This study examines the impact of Self-Help Groups (SHGs) on financial inclusion and rural development with special reference to Gangoh Block, Uttar Pradesh. Rural India continues to face challenges such as limited access to formal financial services, low-income levels, and socio-economic inequalities. SHGs have emerged as grassroots institutions that promote savings, provide access to credit, and support livelihood opportunities. The study is based on both primary and secondary data, with primary data collected from 120 respondents using structured questionnaires. The findings reveal that SHGs have significantly improved financial inclusion, as reflected by high bank account ownership, increased access to credit, and reduced dependence on informal lenders. Participation in SHGs has also led to income growth, employment generation, and diversification of livelihood activities. Furthermore, SHGs have played a crucial role in empowering women by enhancing financial independence, confidence, and participation in decision-making. Improvements in savings behavior, living standards, and social status were also observed. However, challenges such as low financial literacy, lack of training, and limited market access continue to hinder their full potential. The study concludes that SHGs are effective instruments for inclusive rural development and recommend strengthening institutional support, financial education, and market linkages to maximize their impact.*

**Keywords:** Self-Help Groups (SHGs), Financial Inclusion, Rural Development, Women Empowerment, Microfinance, Livelihood Enhancement.

### Introduction

Rural development and financial inclusion are central to achieving inclusive and sustainable economic growth in India. A significant proportion of India's population—around 64–65%—resides in rural areas, making rural transformation essential for national progress. Despite contributing substantially to employment, particularly through agriculture, rural areas continue to face structural challenges such as poverty, unemployment, inadequate infrastructure, and limited access to financial services.

Financial inclusion has emerged as a critical strategy to address these issues by ensuring access to affordable financial services such as savings accounts, credit, insurance, and digital payments. Over the past decade, India has made considerable progress, with nearly 78% of adults having access to bank accounts. Initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY), Direct Benefit Transfer (DBT), and

Unified Payments Interface (UPI) have strengthened financial access. However, access does not always translate into effective usage, particularly in rural areas where financial literacy remains limited.

### **Concept of Self-Help Groups (SHGs)**

Self-Help Groups (SHGs) are informal associations of 10–25 individuals from similar socio-economic backgrounds who come together to save regularly and provide loans to members. These groups operate on principles of mutual trust, collective responsibility, and democratic decision-making.

SHGs function as grassroots-level financial institutions, especially in regions where formal banking systems are weak. They not only facilitate savings and credit but also promote financial discipline and social cohesion among members.

### **Evolution of SHGs in India**

The SHG movement in India has evolved significantly over time. During the pre-1990s period, rural populations relied heavily on informal credit systems. NGOs initiated early experiments in group-based savings and lending, demonstrating the effectiveness of collective financial practices.

A major milestone occurred in 1992 with the launch of the SHG–Bank Linkage Programme (SBLP) by NABARD, which integrated SHGs into the formal banking system through collateral-free loans and simplified procedures. The early 2000s witnessed rapid expansion, supported by government programs and financial institutions.

The launch of the National Rural Livelihood Mission (NRLM) in 2011 further institutionalized SHGs by promoting women-led groups, capacity building, and financial inclusion. Today, SHGs represent one of the largest microfinance networks globally, with millions of members, predominantly women.

### **Role of SHGs in Financial Inclusion**

SHGs play a vital role in bridging the gap between rural populations and formal financial institutions. They facilitate access to banking services, encourage regular savings, and provide collateral-free credit to members.

Participation in SHGs increases the likelihood of financial inclusion by improving access to bank accounts, reducing dependence on informal lenders, and enhancing financial literacy. The collective structure of SHGs ensures accountability and reduces default risks, making them reliable intermediaries in rural finance.

### **SHGs and Rural Development**

Rural development is a multidimensional process involving improvements in income, employment, education, and living standards. SHGs contribute significantly to this process by promoting income-generating activities such as dairy farming, handicrafts, and small-scale enterprises.

They also create employment opportunities and support livelihood diversification, reducing dependence on agriculture. Importantly, SHGs empower women by enhancing their decision-making capacity, financial independence, and social status. Additionally, they serve as platforms for social development by promoting awareness about health, education, and government schemes.

### **Financial Inclusion Scenario in India**

India has made notable progress in expanding financial inclusion, particularly through policy initiatives and digital innovations. While bank account ownership is high, active usage remains limited in rural areas due to irregular incomes, lack of awareness, and infrastructural constraints.

Challenges such as low financial literacy, limited access to formal credit, and dependence on informal lending persist. Government initiatives like PMJDY, NRLM, MUDRA Yojana, and Digital India aim to address these issues. However, effective financial inclusion requires not only access but also meaningful usage and empowerment.

In this context, SHGs play a crucial role as grassroots institutions that translate policy initiatives into practical outcomes by promoting savings, credit access, and financial awareness.

### **Profile of Study Area: Gangoh Block**

Gangoh Block in Saharanpur district represents a typical rural agrarian economy. Agriculture is the primary source of livelihood, with most households engaged in farming and allied activities. Small landholdings, seasonal employment, and limited industrial development characterize the region.

While basic infrastructure exists, challenges remain in healthcare, education, and skill development. The literacy level is moderate, with female literacy lagging male literacy. In recent years, SHGs have emerged as important institutions in the region, promoting financial inclusion, livelihood generation, and women empowerment.

### **Statement of the Problem**

Despite significant efforts to promote financial inclusion, rural populations continue to face challenges such as limited financial awareness, inadequate banking infrastructure, and dependence on informal credit sources. In regions like Gangoh Block, these issues are particularly pronounced.

Although SHGs have been introduced as a key intervention, their effectiveness varies across regions. There is limited empirical evidence regarding their actual impact on financial inclusion, income generation, and socio-economic development in the study area.

Therefore, the central problem of this study is to assess whether SHGs effectively address rural financial exclusion and contribute to sustainable livelihood development.

### **Objectives of the Study**

The study aims to:

- Examine the concept and functioning of SHGs
- Analyze their role in financial inclusion
- Assess their impact on income and employment
- Identify challenges faced by SHG members

### **Research Questions**

The study seeks to answer the following:

- How do SHGs promote financial inclusion?
- Do they improve access to banking and credit?
- What is their impact on income and savings?
- What challenges affect their functioning?

### **Hypotheses**

**H<sub>1</sub>:** SHGs have a significant positive impact on financial inclusion

**H<sub>01</sub>:** SHGs do not significantly impact financial inclusion

**H<sub>2</sub>:** SHGs improve income, employment, and socio-economic conditions

**H<sub>02</sub>:** SHGs do not significantly affect these outcomes

### **Scope of Study**

The study is confined to Gangoh Block and focuses on SHG members, primarily women. It examines financial inclusion and rural development outcomes such as income, employment, and empowerment. The analysis is based on primary data collected from 80–120 respondents.

### **Significance of the Study**

This study is significant as it provides insights into the effectiveness of SHGs as grassroots financial institutions. It contributes to policy-making, enhances understanding of rural livelihood strategies, and supports women empowerment initiatives. Academically, it adds to the literature on microfinance and rural development.

### **Limitations of the Study**

The study is limited to a specific geographical area and relies on self-reported data. Time and resource constraints restrict the sample size and scope of analysis. Additionally, perspectives of other stakeholders such as banks and policymakers are not included.

### **Review of Literature**

#### **• Studies on SHGs and Financial Inclusion**

Nichols, Haldar, and Mahajan (2021) emphasized that SHGs function not only as financial entities but also as social networks that promote collective action, information sharing, and community participation. Their study found that SHGs significantly improve access to financial services such as savings and credit, though their effectiveness depends on group cohesion and active member participation.

Al-Kubati (2023) examined the SHG–Bank Linkage Programme and found that SHGs successfully bridge the gap between rural populations and formal banking institutions. The study highlighted that SHGs are among the largest microfinance networks globally and play a key role in reducing financial exclusion.

Pandey (2025) observed that SHGs have enhanced access to banking services and strengthened financial inclusion. However, the study raised concerns about rising Non-Performing Assets (NPAs), which may affect the long-term sustainability of SHG-based lending systems.

Basak (2024) analyzed SHGs in West Bengal and found that participation leads to increased income, better saving habits, and improved financial access. The study also linked SHGs to broader development goals such as poverty reduction and gender equality.

Survase (2024), based on a study in Maharashtra, concluded that SHGs positively impact socio-economic conditions by improving savings, livelihood opportunities, and access to essential services like healthcare and education.

Gokhru (2023) highlighted SHGs as effective tools for poverty alleviation, enabling access to credit for income-generating activities. The study also emphasized their role in enhancing financial literacy and empowering women through increased participation and decision-making.

Overall, existing literature confirms that SHGs contribute significantly to financial inclusion, income generation, and women empowerment, though challenges such as sustainability and credit risk persist.

### **Research Gap**

Despite extensive research, several gaps remain:

- **Lack of Micro-Level Studies:** Most studies are conducted at national or state levels, with limited focus on specific regions like Gangoh Block.
- **Limited Integrated Analysis:** Few studies examine financial inclusion and rural development together as interconnected processes.
- **Insufficient Focus on Challenges:** Issues such as financial literacy, training gaps, and market access are not deeply analyzed.
- **Lack of Primary Data-Based Studies:** Many studies rely on secondary data, limiting the understanding of ground realities.

### **Research Methodology**

#### **Objectives of the Study**

The study aims to examine the concept and functioning of Self-Help Groups (SHGs), analyze their role in promoting financial inclusion, assess their impact on income, employment, and socio-economic conditions, and identify challenges faced by SHG members in Gangoh Block.

#### **Research Questions**

The study addresses key questions related to the role of SHGs in financial inclusion, access to banking and credit, impact on income and savings, and challenges faced by members.

#### **Hypotheses**

The study tests two major hypotheses:

- SHGs have a significant positive impact on financial inclusion.
- SHG participation improves income, employment, and socio-economic conditions.

#### **Research Methodology**

#### **Research Design**

A combination of descriptive and analytical research design is used. Descriptive analysis helps in understanding demographic and socio-economic characteristics, while analytical methods examine relationships between SHG participation and financial outcomes.

#### **Sources of Data**

The study uses both primary and secondary data. Primary data is collected through structured questionnaires, personal interviews, and discussions with SHG members and stakeholders. Secondary data is obtained from government reports, NABARD publications, and academic literature.

### **Sampling Technique and Sample Size**

Simple random and purposive sampling methods are applied to select respondents. The sample consists of approximately 80–120 SHG members from different villages of Gangoh Block, ensuring diversity and representativeness.

### **Tools for Data Analysis**

Data is analyzed using percentage analysis, means, standard deviation, chi-square test, and correlation analysis. Graphs and tables are used for better interpretation.

### **Reliability, Validity, and Ethics**

The study ensures reliability through pre-tested questionnaires and data verification from multiple sources. Ethical considerations such as informed consent and confidentiality are strictly maintained.

### **Data Analysis and Interpretation**

#### **• Introduction**

This paper presents the analysis and interpretation of primary data collected from 120 respondents to examine the impact of Self-Help Groups (SHGs) on financial inclusion and rural development in Gangoh Block. The analysis covers demographic characteristics, SHG participation, financial inclusion, income and employment, savings behavior, socio-economic development, women empowerment, challenges, awareness levels, and overall impact.

#### **• Demographic Profile**

The sample reflects a predominantly working-age population, with 65% of respondents falling between 25–45 years. This ensures relevance to economic activities and livelihood outcomes. Women constitute 75% of respondents, indicating the strong participation of women in SHGs and highlighting their central role in the study.

Educational attainment is moderate, with most respondents having secondary (30%) or primary (25%) education, while 18% are illiterate. This suggests limited access to higher education, which may influence financial awareness and decision-making.

Occupationally, the majority depend on agriculture (40%), followed by self-employment (28%) and labor (20%), reflecting a rural and informal economic structure. Income levels are relatively low, with 76% earning below ₹20,000 per month, indicating economic vulnerability and limited financial capacity.

#### **• SHG Membership and Participation**

The data shows a stable SHG membership structure, with 68% of respondents having 1–5 years of experience, indicating growing familiarity and engagement with group activities. Long-term members (20%) contribute to stability and leadership.

Participation levels are high, with 60% actively involved in SHG activities and only 10% showing low participation. This indicates strong group functioning, collective responsibility, and member commitment, which are essential for SHG success.

#### **• Financial Inclusion Analysis**

Financial inclusion among respondents is notably high. About 92% of respondents have bank accounts, reflecting successful integration into the formal banking system. Importantly, 68% opened their accounts after joining SHGs, highlighting the direct role of SHGs in promoting financial access.

Access to financial services is strong for basic services, with 92% using savings accounts and 85% accessing loans. However, access to insurance (40%) and pension schemes (22%) remains limited, indicating gaps in long-term financial security.

A significant shift in credit sources is observed. Before joining SHGs, 55% relied on moneylenders, but after joining, 50% depend on SHGs and 25% use both SHGs and banks. This indicates reduced dependence on informal credit and improved access to affordable financial services.

Additionally, 70% of respondents reported reduced interest rates, and 88% found loan access easy or very easy, reflecting improved financial conditions and accessibility.

- Income and Employment Impact**

SHGs have contributed significantly to economic improvement. Around 78% of respondents reported increased income, with most experiencing moderate growth (10–25%). A smaller group (15%) reported substantial income increases above 50%.

Income sources have diversified, with agriculture (30%), small businesses (28%), dairy (20%), and handicrafts (15%) contributing to livelihoods. This diversification reduces dependence on a single income source and enhances economic resilience.

Employment generation is also significant, with 72% of respondents reporting improved employment opportunities. This indicates that SHGs promote self-employment and micro-enterprises, contributing to rural economic development.

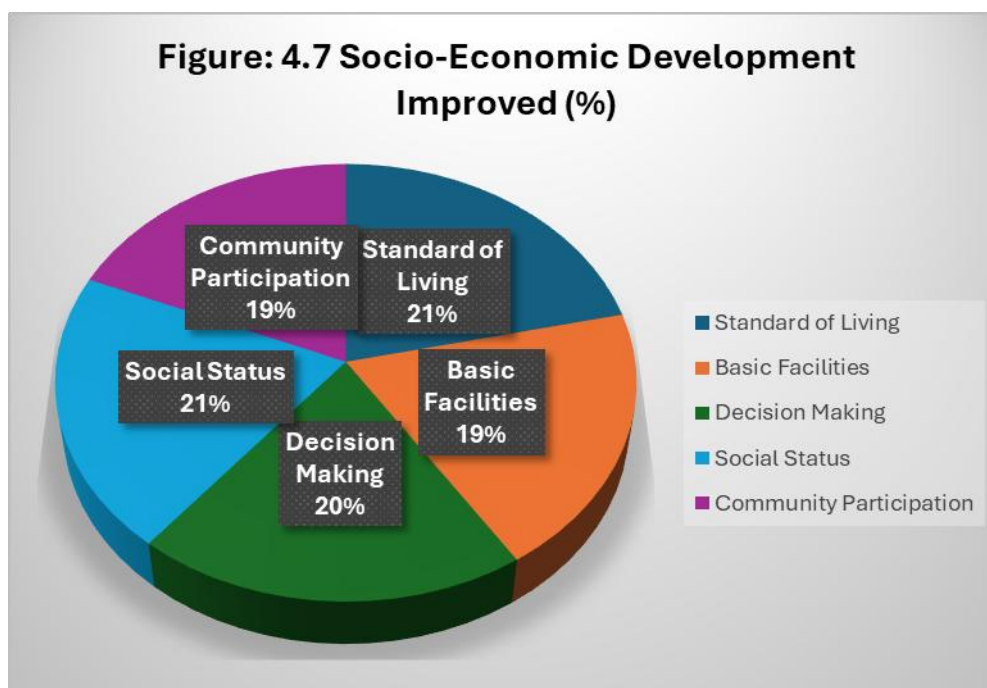
- Savings Behaviour**

Savings behavior has improved considerably, with 85% of respondents reporting increased savings. Most respondents save between ₹500–1000 monthly (40%), indicating moderate saving capacity.

Savings are primarily used for essential purposes such as household expenses (40%), education (25%), health (20%), and business (15%). This reflects a balanced approach between consumption and investment, contributing to financial stability and security.

- Socio-Economic Development**

Indicator	Improved (%)
Standard of Living	75%
Basic Facilities	68%
Decision Making	70%
Social Status	72%
Community Participation	65%



SHGs have positively influenced socio-economic conditions. About 75% of respondents reported improved living standards, while 72% experienced enhanced social status. Decision-making capacity improved for 70% of respondents, indicating increased empowerment, particularly among women.

Access to basic facilities improved for 68% of respondents, and 65% reported greater community participation. These findings suggest that SHGs contribute not only to economic upliftment but also to social development and community engagement.

- **Women Empowerment**

Women empowerment is a key outcome of SHG participation. Around 80% of women achieved financial independence, reflecting enhanced economic autonomy. Confidence levels improved significantly, with 62% reporting high confidence.

Additionally, 55% of respondents actively participate in household decision-making, indicating progress in gender equality. However, there remains scope for further improvement in leadership and decision-making roles.

**Challenges Faced**

<b>Challenge</b>	<b>Percentage</b>
Lack of training	30%
Low financial literacy	25%
Loan repayment issues	20%
Lack of market access	15%
Poor coordination	10%

Despite positive outcomes, several challenges persist. The major issues include lack of training (30%), low financial literacy (25%), loan repayment difficulties (20%), and limited market access (15%). Poor coordination (10%) also affects group functioning.

These challenges highlight the need for capacity building, financial education, and improved market linkages to enhance SHG effectiveness.

- **Awareness and Support**

Awareness levels about government schemes and financial services are moderate, with 45% having moderate awareness and only 35% showing high awareness. About 20% have low awareness, indicating the need for better information dissemination and training programs.

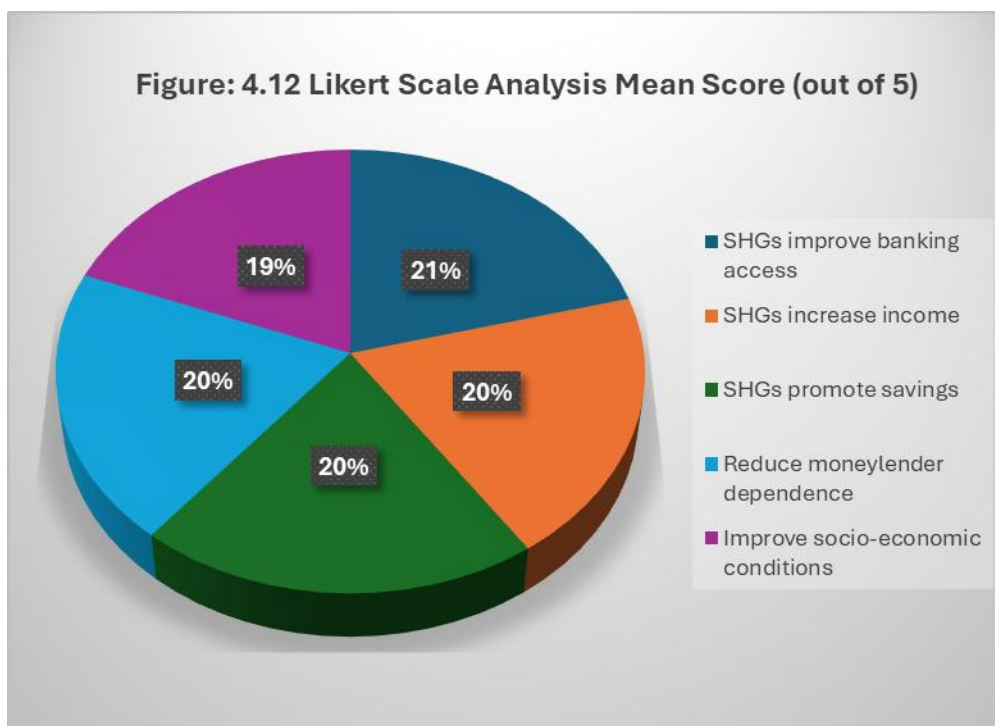
- **Overall Impact**

The overall impact of SHGs is highly positive. About 85% of respondents reported positive or highly positive outcomes, while only 5% expressed negative perceptions. This demonstrates the effectiveness of SHGs in improving financial and socio-economic conditions.

Likert scale analysis further supports these findings, with high scores for banking access (4.5), savings (4.4), reduced dependence on moneylenders (4.3), income improvement (4.2), and socio-economic development (4.1). These scores indicate strong agreement on the benefits of SHGs.

- **Likert Scale Analysis**

<b>Statement</b>	<b>Mean Score (out of 5)</b>
SHGs improve banking access	4.5
SHGs increase income	4.2
SHGs promote savings	4.4
Reduce moneylender dependence	4.3
Improve socio-economic conditions	4.1



**Interpretation:** The Likert scale analysis presented in Table 4.12 reflects a strong positive perception of Self-Help Groups (SHGs) among respondents across multiple dimensions of socio-economic empowerment. All statements have mean scores above 4.0, indicating a high level of agreement and satisfaction.

The highest mean score (4.5) for “SHGs improve banking access” suggests that SHGs play a crucial role in enhancing financial inclusion, enabling members to access formal banking services more easily. Similarly, the statement “SHGs promote savings” (4.4) highlights that these groups effectively inculcate financial discipline and encourage regular saving habits among members.

The score of 4.3 for “Reduce moneylender dependence” indicates that SHGs significantly reduce reliance on informal and often exploitative credit sources. Additionally, “SHGs increase income” (4.2) reflects their contribution to livelihood generation and income enhancement through various income-generating activities.

Although slightly lower, the score of 4.1 for “Improve socio-economic conditions” still demonstrates a strong positive impact on the overall well-being of members.

Overall, the data clearly indicates that SHGs are instrumental in promoting financial inclusion, economic independence, and social upliftment, thereby serving as an effective tool for rural development and women empowerment.

### **Conclusion**

The present study highlights the significant role of Self-Help Groups (SHGs) in promoting financial inclusion and rural development in Gangoh Block. The findings clearly demonstrate that SHGs have emerged as effective grassroots institutions that bridge the gap between rural populations and formal financial systems. A high proportion of respondents having access to bank accounts and credit facilities indicate that SHGs have successfully integrated marginalized communities into the formal financial framework.

SHGs have made notable contributions to income generation and employment. Most respondents reported increased income and improved livelihood opportunities through participation in

various income-generating activities such as agriculture, small businesses, dairy, and handicrafts. This diversification of income sources has reduced economic vulnerability and enhanced financial stability among rural households. Additionally, SHGs have fostered a culture of regular savings, promoting financial discipline and security, although the overall savings capacity remains limited due to low-income levels.

One of the most important outcomes of SHGs is women empowerment. The study reveals that women have gained financial independence, improved confidence, and increased participation in household decision-making. SHGs have provided a platform for women to develop leadership skills and actively engage in socio-economic activities, thereby contributing to gender equality and inclusive development.

Furthermore, SHGs have significantly reduced dependence on informal credit sources such as moneylenders. Members now have access to affordable and transparent credit systems, which has lowered financial exploitation and improved repayment capacity. The study also indicates improvements in socio-economic conditions, including better living standards, enhanced social status, and increased community participation.

However, despite these positive outcomes, several challenges persist. Issues such as lack of training, low financial literacy, limited market access, and loan repayment difficulties hinder the full potential of SHGs. Addressing these challenges through capacity-building initiatives, financial education, and improved institutional support is essential for sustaining and enhancing the impact of SHGs.

In conclusion, SHGs have proven to be a transformative model for rural development by promoting financial inclusion, empowering women, and improving livelihoods. With appropriate policy support, training, and stronger institutional linkages, SHGs can further strengthen their role as sustainable instruments for inclusive and equitable rural growth.

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