



Original Article

# An Empirical Analysis of Linking Financial Inclusion with Rural Women's Empowerment through SHGs

Dr. Kiran Kumar P<sup>1</sup>, Shivanand Rathod Govind<sup>2</sup>

<sup>1</sup>Associate Professor, Department of Studies and Research in Economics, Rani Channamma University, Belagavi, Karnataka

<sup>2</sup>Research Scholar, Department of Studies and Research in Economics, Rani Channamma University, Belagavi, Karnataka

Manuscript ID:  
RIGJAAR-2026-030203

ISSN: 2998-4459  
Volume 3  
Issue 2  
Pp. 12-17  
February 2026

Submitted: 08 Jan. 2026  
Revised: 15 Jan. 2026  
Accepted: 10 Feb. 2026  
Published: 28 Feb. 2026

Correspondence Address:  
Shivanand Rathod Govind  
Research Scholar, Department  
of Studies and Research in  
Economics, Rani Channamma  
University, Belagavi, Karnataka  
Email:  
[shivanandrathod71@gmail.com](mailto:shivanandrathod71@gmail.com)

Quick Response Code:



Web: <https://rlgjaar.com>



DOI:  
10.5281/zenodo.19220072

DOI Link:  
<https://doi.org/10.5281/zenodo.19220072>



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## Abstract

*Women's empowerment through microfinance has gained prominence as a strategy for inclusive development, yet evidence on its multidimensional outcomes remains context-dependent. This study examines socio-economic characteristics, institutional performance, livelihood outcomes, and empowerment effects of Self-Help Group (SHG) based microfinance among rural women in India. Using a descriptive-explanatory cross-sectional design, primary data were collected from 120 SHG members with at least two years of participation. Stratified sampling ensured representation across NGO-, cooperative-, and government-promoted SHGs. Data were gathered through structured interviews and analysed using descriptive statistics and composite indices. Findings indicate that SHGs predominantly include economically active women from modest-income households engaged in wage labour and small-scale enterprise activities. Institutional performance is strong, reflected in regular savings behaviour, high leadership satisfaction, transparent bookkeeping, and sustained membership participation. Microfinance access has significantly improved financial inclusion, with a majority of members reporting increased income, enhanced savings capacity, and access to credit, though entrepreneurial transformation remains moderate due to limited credit availability and training. Empowerment outcomes are notable across financial, social, and psychological spheres. High involvement in decision-making, control over expenses, improved mobility, and digital financial literacy indicate increased agency. The Women Empowerment Index shows participants experience high empowerment, confirming SHGs support both capabilities building and social transformation. However, lower public confidence and limited enterprise expansion highlight the need for more institutional support and capacity-building. The study concludes that Self-Help Group (SHG)-based microfinance represents a comprehensive mechanism linking financial inclusion with livelihood improvement and gender empowerment. Policy measures enhancing credit adequacy, skill development, and institutional capacity can further strengthen SHGs as sustainable engines of inclusive rural development and women's empowerment.*

**Keywords:** Self-Help Groups, microfinance, women's empowerment, financial inclusion, rural development, livelihood improvement, institutional performance.

## Introduction

Women's empowerment is a vital element of inclusive development and poverty reduction. Limited access to financial resources constrains women's economic participation and perpetuates structural inequalities in developing economies. This study specifically investigates the role of SHG-based microfinance as a core institutional mechanism to improve access to credit, increase savings, and strengthen women's agency within rural India.

India hosts one of the largest SHG movements globally, functioning not only as a financial inclusion strategy but also as a platform for collective organisation and capability development. Empirical research suggests that microfinance participation improves household welfare and women's economic contribution (Pitt & Khandker, 1998). However, evidence on broader empowerment outcomes remains mixed, with several studies emphasising the importance of institutional context and complementary interventions (Banerjee et al., 2015; Duflo, 2012). Building on capability and agency perspectives, this study examines the multidimensional empowerment effects of SHG-based microfinance within a region-specific empirical framework.

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## How to cite this article:

Kiran Kumar P, & Rathod, S. G. (2026). An Empirical Analysis of Linking Financial Inclusion with Rural Women's Empowerment through SHGs. *Royal International Global Journal of Advance and Applied Research*, 3(2), 12-17. <https://doi.org/10.5281/zenodo.19220072>

### Empirical Literature on SHGs and Women's Empowerment:

Research examining the socio-economic characteristics and participation patterns of SHG members shows that demographic and household factors significantly influence women's engagement in microfinance groups. Ahmad et al. (2020) found that education level, income status, and household structure shape both entry into Self-Help Groups and the intensity of participation in savings and credit activities. Similarly, Basak and Chowdhury (2024) observed that SHG membership is concentrated among economically vulnerable but socially active rural women, with participation linked to improved income diversification and financial behaviour. These studies collectively indicate that socio-economic background not only determines access to SHGs but also influences the extent to which members benefit from group participation. Regarding institutional performance and operational effectiveness, the literature emphasizes governance quality, financial discipline, and institutional linkages as key determinants of SHG sustainability. Ghai et al. (2026) developed a structured scale to measure SHG performance, identifying leadership effectiveness, financial transparency, and member cohesion as central to long-term viability. Complementing this perspective, Maity (2023) demonstrated that strong linkages between SHGs and formal banking institutions enhance financial inclusion, improve credit utilization, and strengthen group sustainability. Together, these findings highlight that effective institutional frameworks and organizational practices are critical for ensuring SHG functionality and impact.

Regarding the impact of microfinance participation on livelihood improvement and women's empowerment, substantial empirical evidence points to positive socio-economic outcomes. Islam and Brahmachary (2025) reported that SHG-based microfinance significantly improves household income, savings behaviour, and

entrepreneurial engagement among rural women. Pandhare et al. (2024) further found that access to microfinance combined with skill development enhances women's decision-making power, financial independence, and social participation. Similarly, Renjini (2024) demonstrated that participation in microcredit fosters psychological empowerment, confidence, and community involvement. Overall, the literature consistently supports the view that SHGs function as an effective mechanism for enhancing livelihoods and promoting multidimensional women's empowerment.

### Research Gap:

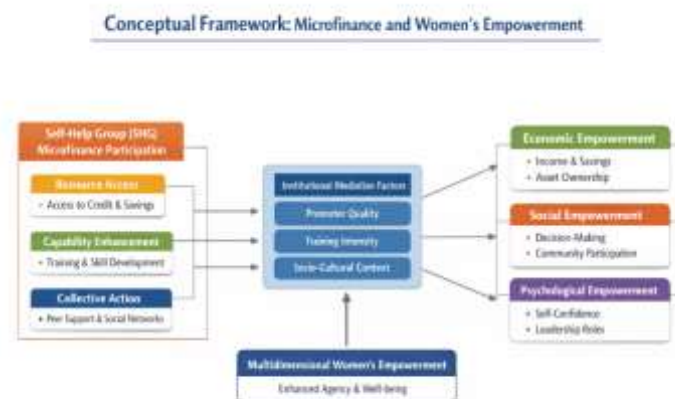
Despite extensive evidence on socio-economic determinants, institutional performance, and empowerment outcomes of SHGs, important gaps remain. Existing studies largely examine these dimensions in isolation, with limited integrated analysis linking member characteristics, institutional quality, and livelihood outcomes within a unified framework. Moreover, variations in participation intensity and differential benefits across socio-economic groups remain underexplored. There is also insufficient longitudinal evidence assessing the sustainability of empowerment and income gains over time. Additionally, contextual differences across regions and program models receive limited comparative attention. Future research should adopt multidimensional and dynamic approaches to better understand how structural, institutional, and individual factors jointly shape SHG effectiveness.

### Theoretical Framework:

Empowerment is conceptualised as the interaction of resources, agency, and institutional context. SHG participation influences empowerment through:

- Access to financial resources
- Capability enhancement
- Collective participation

Figure 1. Conceptual framework linking SHG microfinance participation and multidimensional women's empowerment



The conceptual framework illustrates how participation in Self-Help Group (SHG) microfinance programmes contributes to multidimensional women's

empowerment through an interconnected pathway of resources, agency, and institutional support. The figure positions access to financial resources - such as savings



facilities, credit availability, and income-generating opportunities - as the foundational input that strengthens women's economic capacity. This resource base is shown to enhance agency by improving decision-making ability, self-confidence, and control over personal and household finances. Simultaneously, capability enhancement through training, skill development, and financial literacy strengthens women's ability to utilise resources effectively. The framework also emphasises the role of collective participation within SHGs, highlighting peer support, shared learning, and social solidarity as key institutional mechanisms that reinforce empowerment outcomes. These interacting dimensions collectively lead to improvements in financial independence, mobility, participation in household decisions, and public engagement. By integrating perspectives from established empowerment theories, the framework demonstrates that empowerment is not a single outcome but a dynamic process shaped by access, capability, and supportive social structures. Overall, the figure conveys that SHG microfinance functions as both an economic and social intervention, facilitating sustainable empowerment by transforming women's resources into meaningful agency within their socio-economic environment.

Specific objectives of the study:

- To examine the socio-economic characteristics of Self-Help Group (SHG) members and their participation patterns.
• To evaluate the institutional performance and operational effectiveness of SHGs.
• To assess the impact of microfinance participation on livelihood improvement and women's empowerment.

Research Methodology:

The study adopted a descriptive-explanatory cross-sectional research design to examine the socio-

economic and empowerment outcomes of Self-Help Group (SHG) participation in the Dakshina Kannada and Udupi districts of Karnataka. This study is purely based on primary data. Primary data were collected from 120 SHG members who had been actively participating in their groups for at least 2 years, ensuring adequate exposure to SHG activities and financial services. A stratified sampling technique was employed to ensure representation across different SHG-promoting institutions. Accordingly, respondents were selected from three strata: NGO-promoted SHGs, cooperative-promoted SHGs, and government-promoted SHGs. This approach enabled comparative insights across institutional models of SHG functioning. Data were collected using a structured interview schedule covering socio-economic characteristics, institutional performance, microfinance utilization, and indicators of women's empowerment. The collected data were systematically coded and analysed using descriptive statistical tools, such as frequencies, percentages, and composite indices, to assess patterns of participation and outcomes.

Limitations of the Study:

This study has certain limitations that should be acknowledged. The analysis is based on cross-sectional primary data collected from 120 SHG members, which restricts the ability to establish causal relationships or observe long-term changes in livelihood and empowerment outcomes. The geographical focus on Dakshina Kannada and Udupi districts of Karnataka limits the generalisability of findings to other regions with different socio-economic contexts. Reliance on self-reported responses may introduce recall and social desirability bias. Additionally, the study primarily uses descriptive statistical methods, which may not capture complex dynamics influencing empowerment processes.

Results and Discussion:

Table 1: Socio-Economic Profile of SHG Members

Table with 3 columns: Indicator, Dominant Category, and Percentage. Rows include Age (36-45 years, 33.33%), Education (Secondary + PUC/Diploma, 53.34%), Marital Status (Married, 85%), Social Category (OBC, 54.17%), Family Type (Nuclear, 61.67%), Occupation (Wage labour + Small business, 53.33%), and Income Range (₹5,001-20,000, 68.33%).

Source: Field Survey

Table 1 presents the socio-economic profile of SHG members, revealing a predominantly middle-aged, moderately educated, and economically active group. The largest age cohort is 36-45 years (33.33%), indicating that most members are in their productive and family-responsibility phase, which often enhances commitment to income-generating activities. Educational attainment is relatively strong, with 53.34% having completed Secondary education and holding PUC or Diploma qualifications, suggesting a basic level of literacy and skills that can

support entrepreneurship and financial management. A significant majority of members are married (85%), reflecting social stability and possibly greater motivation to contribute to household welfare. In terms of social background, 54.17% belong to the OBC category, indicating notable representation of socially and economically disadvantaged groups within SHGs. Family structure data show that 61.67% live in nuclear families, which may increase financial responsibility and drive participation in livelihood activities. Occupationally, 53.33% are engaged in



a combination of wage labour and small business, demonstrating diversified income strategies and gradual movement toward self-employment. Income distribution reveals that 68.33% fall within the monthly income range of ₹5,001–20,000, indicating modest but stable earnings among most members. Overall, the profile suggests that

SHGs primarily consist of socially diverse, economically active women with moderate educational backgrounds who rely on a mix of livelihoods to sustain household income, reflecting SHGs' role in supporting financial inclusion, income diversification, and socio-economic empowerment among lower- and middle-income rural households.

Table 2: SHG Institutional Performance

| Indicator                      | Positive Response (%) |
|--------------------------------|-----------------------|
| Regular Meeting Attendance     | 69.17                 |
| Regular Savings Behaviour      | 70.83                 |
| Internal Lending Participation | 65.83                 |
| Leadership Satisfaction        | 87.50                 |
| Transparency in Bookkeeping    | 77.50                 |
| Membership > 2 Years           | 83.33                 |

Source: Field survey

Table 2 reflects a generally strong institutional performance of SHGs, marked by consistent participation, trust in leadership, and organizational stability. Regular meeting attendance stands at 69.17%, indicating that a substantial majority of members actively engage in group activities, which is essential for collective decision-making and cohesion. Regular savings behaviour is slightly higher at 70.83%, demonstrating a disciplined financial culture among members and highlighting the effectiveness of SHGs in promoting thrift practices. Internal lending participation is reported by 65.83% of members, suggesting that a significant proportion actively utilize group-based credit mechanisms, though there remains scope to expand access and participation further. Leadership satisfaction records the highest positive response at 87.50%, reflecting strong confidence in group leaders and indicating effective

governance, coordination, and conflict management within SHGs. 77.50% of members affirm transparency in bookkeeping, suggesting that financial records are generally maintained openly and accurately, which enhances trust and accountability in group operations. Additionally, 83.33% of members have been associated with SHGs for more than two years, demonstrating institutional stability, sustained member commitment, and the long-term relevance of SHGs in supporting livelihoods and financial security. Overall, the findings portray SHGs as functionally stable, participatory, and trusted grassroots institutions characterized by disciplined savings, reliable leadership, and enduring membership engagement, though strengthening internal lending participation and meeting regularity could further enhance organizational effectiveness and financial inclusion outcomes.

Table 3: Microfinance and Livelihood Outcomes

| Outcome           | Percentage |
|-------------------|------------|
| Loan Access       | 82.50%     |
| Income Increased  | 72.50%     |
| Savings Increased | 68.33%     |
| Business Started  | 40.83%     |
| Loan Fully Repaid | 63.64%     |
| Loan Inadequate   | 30.00%     |
| Received Training | 54.17%     |

Source: Field Survey

Table 3 demonstrates that microfinance has produced broadly positive livelihood outcomes for SHG members, particularly in improving financial access and income stability. A large majority of members (82.50%) reported access to loans, indicating that SHGs function effectively as a grassroots credit delivery mechanism for individuals who may otherwise face barriers to formal finance. Correspondingly, 72.50% of respondents experienced an increase in income, suggesting that credit utilization has translated into tangible economic benefits for most households. Savings behaviour also improved for 68.33% of members, reflecting enhanced financial discipline

and the capacity to build small financial buffers over time. However, only 40.83% of members started new businesses, implying that while credit supports consumption smoothing and income enhancement, entrepreneurial transformation remains moderate and may require stronger market linkages or skill support. Loan repayment performance appears relatively strong, with 63.64% reporting full repayment, indicating responsible borrowing behaviour and functional group-based accountability systems. At the same time, 30.00% of respondents considered loan amounts inadequate, highlighting a gap between credit needs and loan size that may constrain business expansion or investment potential.



Training exposure was reported by 54.17% of members, suggesting that capacity-building support exists but is not universal. Overall, the data indicate that microfinance through SHGs contributes significantly to income improvement, financial inclusion, and savings enhancement,

though strengthening credit adequacy, promoting entrepreneurship, and expanding training coverage would further deepen livelihood impacts and long-term economic empowerment.

Table 4: Women's Empowerment Outcomes

| Empowerment Dimension            | Empowered Respondents (%) |
|----------------------------------|---------------------------|
| Financial Decision Participation | 71.67%                    |
| Control Over Personal Expenses   | 79.17%                    |
| Freedom of Mobility              | 75.00%                    |
| Public Confidence                | 63.33%                    |
| Household Decision Role          | 85.00%                    |
| Digital Financial Literacy       | 78.33%                    |
| Reduced Domestic Dependence      | 78.34%                    |
| Composite WEI                    | 0.772 (High)              |

Source: Field Survey and author calculation

Table 4 indicates a high level of women's empowerment among SHG members, as reflected in both individual indicators and the composite Women Empowerment Index (WEI = 0.772). A substantial 71.67% of respondents participate in financial decision-making, demonstrating improved involvement in household economic matters and greater control over resource allocation. 79.17% of members report control over personal expenses, suggesting enhanced financial autonomy and reduced reliance on others for everyday expenditures. Freedom of mobility is experienced by 75.00% of respondents, indicating that SHG participation has contributed to increased social independence and the ability to engage with markets, institutions, and community activities. Public confidence, though comparatively lower at 63.33%, still reflects a majority gaining self-assurance in social and public interactions, highlighting gradual psychosocial empowerment. The strongest outcome is observed in household decision-making roles, with 85.00% of members actively involved, underscoring a significant shift in intra-household power dynamics. Digital financial literacy stands at 78.33%, indicating growing familiarity with modern financial tools that enhance access to services and strengthen financial inclusion. Additionally, 78.34% of respondents report reduced domestic dependence, suggesting improved self-reliance and recognition of women's economic contributions within families. Overall, the consistently high percentages across multiple dimensions, supported by a composite WEI in the "high" category, demonstrate that SHGs function not only as financial platforms but also as catalysts for social, economic, and psychological empowerment, fostering autonomy, confidence, and participatory roles for women in both household and community spheres.

**Policy Implication:**

The findings indicate that SHG-based microfinance has evolved into an effective instrument for financial inclusion and livelihood support, but its long-term developmental impact depends on policy measures that

enhance financial depth and productive capacity. As most members belong to modest-income groups engaged in wage labour and small-scale economic activities, policies should prioritise improved access to credit through graded loan ceilings, revolving funds, and stronger institutional linkages with formal financial systems to support enterprise investment rather than short-term consumption needs. The moderate level of enterprise formation underscores the need to integrate microfinance with structured livelihood promotion strategies, including entrepreneurship training, market linkage facilitation, skill certification, and value-chain integration tailored to local economic opportunities. Strengthening institutional capacity is equally important; investments in leadership development, financial management training, and digital record-keeping can enhance the quality of governance, transparency, and the operational sustainability of SHGs.

Empowerment outcomes demonstrate meaningful progress in women's financial autonomy, household decision-making, and mobility, indicating that SHGs function not only as financial platforms but also as mechanisms of social transformation. However, comparatively lower levels of public confidence suggest the need for policies that promote collective agency through leadership opportunities, community participation initiatives, and gender-sensitisation programmes. Expansion of digital financial literacy and access to formal banking services can further strengthen women's economic independence and reduce transactional barriers. Additionally, targeted inclusion strategies are necessary to ensure that socially and economically vulnerable women are not excluded from group-based benefits. Policy convergence between SHGs and broader rural development interventions-such as livelihood missions, skill development programmes, and social protection schemes-can amplify impact by aligning financial access with capability enhancement. Overall, a comprehensive policy approach that integrates financial inclusion, institutional strengthening, and gender-responsive capacity-building is essential to transforming SHGs into sustainable engines of inclusive rural development and women's empowerment.



### Conclusion:

The study demonstrates that Self-Help Group-based microfinance functions as a robust mechanism for advancing both livelihood security and multidimensional women's empowerment. The socio-economic profile of members indicates that SHGs effectively reach economically active women from modest-income households, enabling them to diversify income sources and strengthen financial resilience. Strong institutional performance, reflected in high leadership satisfaction, regular savings behaviour, and sustained membership, confirms that SHGs operate as stable grassroots organizations capable of fostering trust, accountability, and collective participation. The findings further show that access to credit and savings facilities has contributed to increased income, improved financial discipline, and enhanced household economic stability. Although entrepreneurial transformation remains moderate, the overall improvements in livelihoods highlight the importance of combining financial access with skill development and training opportunities to maximise productive outcomes. These results affirm that SHGs serve not only as financial intermediaries but also as platforms for capability development and social support, reinforcing the theoretical link between resources, agency, and institutional context.

Beyond economic gains, the study provides compelling evidence of substantial empowerment outcomes across financial, social, and psychological dimensions. High levels of participation in household decision-making, control over personal expenses, and improved mobility indicate a meaningful shift in intra-household power relations and women's autonomy. The composite empowerment index further confirms that SHG participation facilitates a sustained process of agency expansion rather than isolated improvements in income alone. At the same time, comparatively lower levels of public confidence and moderate enterprise creation suggest that empowerment remains a dynamic process requiring continued institutional support, leadership opportunities, and market integration. Overall, the findings establish that SHG-based microfinance represents a comprehensive development strategy that simultaneously promotes financial inclusion, livelihood enhancement, and gender equality. Strengthening credit adequacy, training coverage, and institutional linkages can further consolidate these gains and transform SHGs into enduring engines of inclusive rural development and women's empowerment.

### Acknowledgment

The authors express their sincere gratitude to the Department of Studies and Research in Economics, Rani Channamma University, Belagavi, for providing the academic environment and institutional support necessary for conducting this research.

We are especially thankful to the faculty members and colleagues of the department for their valuable suggestions and encouragement during the course of the study.

### Financial support and sponsorship

Nil.

### Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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