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Strengthening SHGs through Financial Planning: An Empirical Study- Karnataka State

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Abstract
This study empirically examines the financial planning practices adopted by Self-Help Groups (SHGs) in Karnataka and their impact on economic empowerment. By analyzing savings discipline, budgeting, credit access, investment planning, risk management, and transparency, the research highlights how structured financial practices strengthen SHGs and enhance their sustainability. The findings reveal that regular savings, budgeting, and credit linkages significantly improve household stability, entrepreneurial growth, and women's confidence, while gaps in risk management remain a challenge. Overall, the study underscores the critical role of financial planning in transforming SHGs into resilient institutions of inclusive rural development and social empowerment.

Key Words: Self-Help Groups, Financial Planning, Savings Discipline, Credit Access, Risk Management, Economic Empowerment, Karnataka, Rural Development

Introduction

Self-Help Groups (SHGs) have emerged as one of the most effective grassroots models for women's collective empowerment in India, particularly in Karnataka. By pooling resources, building solidarity, and fostering mutual support, SHGs have enabled women to access credit, develop entrepreneurial skills, and participate more actively in local economies. Yet, despite their growing presence, many SHGs face challenges in sustaining long-term economic growth due to limited financial literacy and inadequate planning practices. Financial planning—covering savings, budgeting, investment, and risk management—plays a crucial role in transforming SHGs from informal savings groups into engines of economic empowerment. In Karnataka, where SHGs are deeply embedded in rural and semi-urban communities, examining how financial planning strengthens their resilience and sustainability is both timely and necessary.

This study seeks to empirically analyze the financial planning practices adopted by SHGs in Karnataka and their impact on economic empowerment. By focusing on dimensions such as savings discipline, access to formal credit, investment choices, and collective financial decision-making, the research highlights how structured financial practices can enhance income stability, reduce vulnerability, and promote entrepreneurial growth among members.

Beyond economic outcomes, financial planning also contributes to social empowerment by fostering confidence, leadership, and greater participation in community development. The findings will provide valuable insights for policymakers, NGOs, and financial institutions to design targeted interventions that strengthen SHGs as vehicles of inclusive growth.

Ultimately, the study underscores the importance of financial planning not just as a technical skill, but as a transformative tool for women's empowerment and Self-Help Groups (SHGs) have emerged as one of the most effective grassroots models for women's collective empowerment in India, particularly in Karnataka.

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Self-Help Groups (SHGs) are small, voluntary associations of 10–20 people, usually women from similar socio-economic backgrounds, who pool savings, provide mutual credit, and collectively work toward economic and social empowerment. In Karnataka, SHGs have become a cornerstone of rural development and women's empowerment.

What are SHGs?

SHGs are Informal, community-based groups formed voluntarily by individuals (often women) to achieve collective financial and social goals.

Size: Typically, **10–20 members**, ensuring cohesion and democratic functioning.

Membership: Homogeneous—members usually share similar socio-economic conditions, which builds trust and solidarity.

Core Activities:

1. Regular savings contributions.
2. Pooling funds into a common account.
3. Providing **low-interest loans** to members for personal needs or income-generating activities.
4. Collective decision-making and leadership rotation.

Objectives of SHGs

I. **Financial Inclusion:** Connect unbanked populations to formal banking systems.
II. **Access to Credit:** Reduce dependence on moneylenders by offering internal loans.
III. **Entrepreneurship:** Support small businesses, micro-enterprises, and skill development.
IV. **Women's Empowerment:** Build confidence, leadership, and decision-making capacity.
V. **Social Capital Formation:** Strengthen community bonds, cooperation, and collective bargaining power.

Role in Socio-Economic Development

- **Economic Empowerment:**
    - Promotes thrift and savings discipline.
    - Facilitates micro-credit for income-generating activities (e.g., dairy, tailoring, handicrafts).
- **Poverty Alleviation:**
    - Provides financial security and reduces reliance on exploitative lenders.

Women's Empowerment:

- Enhances participation in household and community decision-making.
- Builds confidence and leadership skills.

Community Development:

- SHGs act as platforms for collective action, advocacy, and negotiation with local governance structures.

Karnataka Context

- Karnataka has one of the largest SHG networks in India, supported by schemes like Udyogini, Elevate Women, Women@Work, and DAY-NRLM.
- SHGs here are not only financial collectives but also agents of social change, promoting gender equality, rural development, and inclusive growth.
- Many SHGs in Karnataka have successfully transitioned into micro-enterprises, contributing to both household income and local economies.

Historical Evolution of SHGs in India

1980s – Early Experiments

- NGOs and community-based organizations began forming small savings and credit groups among rural women.
- These informal groups laid the foundation for collective financial practices.

1992 – NABARD Pilot Project

- The National Bank for Agriculture and Rural Development (NABARD) launched the Self-Help Group–Bank Linkage Programme (SBLP).
- Aim: To connect SHGs with formal banking institutions, enabling access to credit and financial services.
- This initiative institutionalized SHGs as a model for financial inclusion.

Mid-1990s – NGO Expansion

- NGOs like MYRADA and PRADAN played a key role in promoting SHGs across states.
- Focus shifted from informal savings groups to structured micro-finance collectives.

1999 – Government Adoption (SGSY)

- The Government of India launched the Swarnajayanti Gram Swarozgar Yojana (SGSY).
- SHGs became central to poverty alleviation programmes, with subsidies and training support.

2000s – Rapid Growth

- SHGs spread across rural India, especially in southern states like Karnataka, Andhra Pradesh, and Tamil Nadu.
- Women's empowerment and micro-enterprise development became core objectives.

2011 – National Rural Livelihood Mission (NRLM)

- SGSY was restructured into the NRLM (later DAY-NRLM).
- Focus: Strengthening SHGs through capacity building, skill development, and market linkages.
- SHGs became part of a larger framework for sustainable livelihoods.

2015 onwards – Digital & Policy Integration

- SHGs linked to digital platforms, financial literacy programmes, and e-governance initiatives.
- State-specific schemes (e.g., Udyogini, Elevate WomEN, Women@Work in Karnataka) expanded entrepreneurial opportunities.

Present Day (2020s)

- Over 7 million SHGs are active across India, with women constituting the majority of members.
- SHGs are now seen not only as micro-finance institutions but also as agents of social change, driving gender equality, rural development, and inclusive growth.

Role of Financial Planning in Strengthening SHGs

1. **Savings Discipline:** Regular, structured savings build a strong internal fund, reducing dependence on moneylenders and ensuring liquidity for members.
2. **Budgeting & Resource Allocation:** Helps SHGs plan expenditures, prioritize investments, and avoid misuse of pooled funds.
3. **Access to Credit:** With clear financial records and planning, SHGs gain credibility with banks, making it easier to secure loans under schemes like DAY-NRLM or Udyogini.

4. **Investment in Enterprises:** Planned use of funds allows SHGs to start or expand micro-enterprises (tailoring, dairy, handicrafts), boosting income and sustainability.
5. **Risk Management:** Financial planning includes emergency funds and insurance, helping members handle health crises or unexpected expenses without collapsing the group.
6. **Transparency & Trust:** Proper financial planning ensures accountability, reducing conflicts and strengthening group cohesion.
7. **Capacity Building:** Encourages financial literacy among women, enhancing confidence, leadership, and decision-making power.
8. **Long-Term Empowerment:** Moves SHGs beyond short-term survival toward sustainable growth, resilience, and community development.

Need for the Study

Self-Help Groups (SHGs) have become vital instruments of rural development and women's empowerment in Karnataka. While they have successfully mobilized savings and provided access to credit, many SHGs struggle with sustainability due to weak financial literacy and unstructured financial practices. Financial planning is essential to ensure that pooled resources are used efficiently, investments are made wisely, and risks are managed effectively. Without systematic planning, SHGs risk falling into cycles of debt or stagnation, limiting their potential for economic empowerment.

This study is needed to empirically examine how financial planning strengthens SHGs by improving savings discipline, enhancing creditworthiness, and fostering entrepreneurial growth. It will provide insights into the link between financial practices and empowerment outcomes, highlighting gaps that require policy and institutional support. By focusing on Karnataka, where SHGs are deeply embedded in rural communities, the research will generate context-specific recommendations for strengthening SHGs as sustainable vehicles of inclusive growth.

Conceptual Framework of the study

Financial Planning Practices

- Regular savings discipline
- Budgeting and resource allocation
- Access to credit and bank linkages
- Investment planning and risk management

⬇ Leads to

Strengthening of SHGs

- Internal capital formation
- Transparency and trust among members
- Entrepreneurial growth and micro-enterprise development
- Group cohesion and sustainability

⬇ Results in

- **Economic Empowerment Outcomes**
- Increased household income and financial stability
- Reduced dependence on moneylenders

- Enhanced women's confidence, leadership, and decision-making
- Greater participation in community development and inclusion

Research Objectives

1. To examine the financial planning practices adopted by SHGs in Karnataka — including savings discipline, budgeting, credit access, investment, and risk management.
2. To analyze the relationship between financial planning and the economic empowerment of SHG members — focusing on income stability, entrepreneurial growth, and reduction of financial vulnerability.
3. To evaluate the role of financial planning in strengthening SHG sustainability — by enhancing group cohesion, transparency, and long-term resilience.
4. To identify gaps and challenges in financial literacy and planning among SHG members — and assess their impact on effective resource utilization.
5. To provide policy-relevant recommendations for NGOs, financial institutions, and government agencies — aimed at improving financial planning support and maximizing empowerment outcomes for SHGs in Karnataka.

Type of research; this study employs a descriptive research design.

Sources of data collection; Both primary data and secondary data used to collect the data.

I. **Primary data**: though questionnaire, direct interview and observation method used.

II. **Secondary data**: through publication, website, journals, and periodicals information is secured.

sampling technique; The study has utilized convenience sampling, a type of non-probability sampling, to select participants.

sample size; The selected Sample Size for the present study is 100 through convenience sampling method.

Limitations of the study; The study is geographically confined to a specific region, limiting the ability to generalize findings across a broader area.The use of a structured questionnaire may limit the flexibility of responses, potentially excluding nuanced insights. Inconsistencies in the responses received from participants may affect the accuracy and reliability of the data collected.

Hypotheses of the study

H1: Savings Discipline*Null (H0):* There is no significant relationship between regular savings practices of SHGs and the economic empowerment of members.

- ***Alternative (H1):*** **Regular savings practices of SHGs significantly contribute to the economic empowerment of members.**

H2: Budgeting & Resource Allocation

- ***Null (H0):*** **Budgeting and structured resource allocation within SHGs have no significant impact on group sustainability.**
- ***Alternative (H1):*** **Budgeting and structured resource allocation within SHGs significantly strengthen group sustainability.**

H3: Access to Credit & Bank Linkages

- ***Null (H0):*** **Access to formal credit and bank linkages does not significantly influence entrepreneurial growth among SHG members.**
- ***Alternative (H1):*** **Access to formal credit and bank linkages significantly enhance entrepreneurial growth among SHG members.**

H4: Investment & Risk Management

- ***Null (H0):*** **Investment planning and risk management practices of SHGs have no significant effect on income stability of members.**
- ***Alternative (H1):*** **Investment planning and risk management practices of SHGs significantly improve income stability of members.**

H5: Financial Literacy & Empowerment

- ***Null (H0):*** **Financial literacy among SHG members has no significant relationship with their confidence, leadership, and participation in community development.**
- ***Alternative (H1):*** **Financial literacy among SHG members significantly enhances their confidence, leadership, and participation in community development.**

Close-Ended Questionnaire; with Yes or No responses

1.Savings Discipline; Do you contribute a fixed amount to SHG savings every month?

2.**Budgeting Practices;** Does your SHG prepare a budget for group activities and expenses?

3.Credit Access; Has your SHG received loans from financial institutions in the past year?

4.Investment Planning; Does your SHG invest pooled funds in income-generating activities 5. **Risk Management;** Does your SHG maintain an emergency fund for members?

6.Transparency; Are financial records regularly shared with all members?

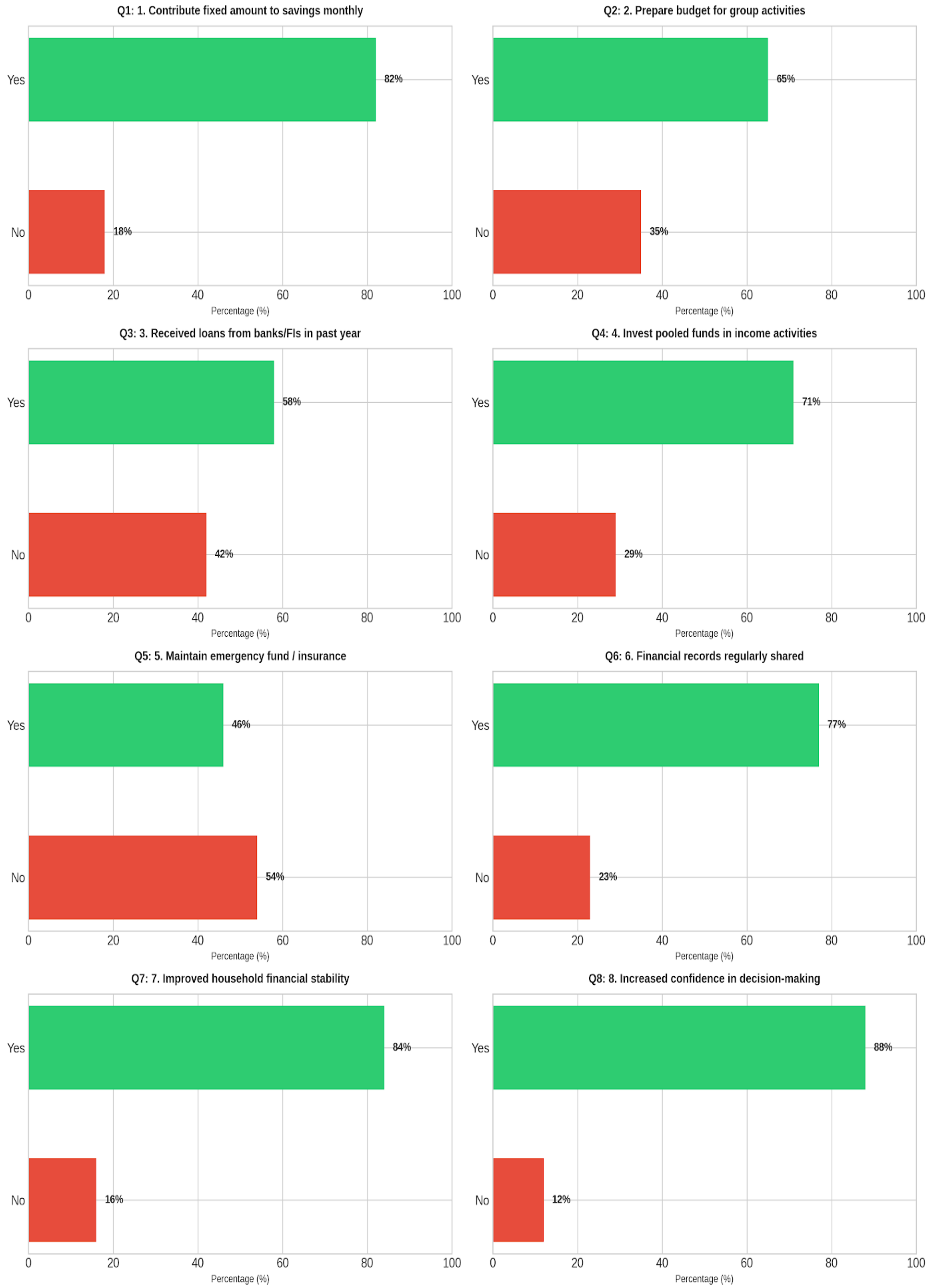
7.Economic Empowerment; Has participation in the SHG improved your household's financial stability?

8.Leadership & Confidence; Has involvement in SHG activities increased your confidence in decision-making?

Analysis & Interpretation

Question	Yes	No	Analysis & Interpretation
1. Do you contribute a fixed amount to SHG savings every month?	82	18	Majority (82%) show strong savings discipline, indicating SHGs are effective in promoting thrift. The 18% gap suggests irregular participation that could weaken group capital.
2. Does your SHG prepare a budget for group activities and expenses?	65	35	About two-thirds practice budgeting, but 35% do not. This highlights a need for training in structured financial planning.
3. Has your SHG received loans from banks or financial institutions in the past year?	58	42	Slightly more than half accessed formal credit, showing progress in bank linkages. However, 42% remain excluded, pointing to barriers in credit access.
4. Does your SHG invest pooled funds in income-generating activities?	71	29	A strong majority invest in enterprises, reflecting SHGs' role in entrepreneurship. The 29% non-investment groups may be stuck in savings-only mode.
5. Does your SHG maintain an emergency fund or insurance coverage?	46	54	Less than half have risk management practices, showing vulnerability to shocks. This is a critical area for policy and NGO intervention.
6. Are financial records regularly shared with all members?	77	23	Transparency is fairly high, with 77% sharing records. The 23% gap could lead to mistrust or conflict within groups.
7. Has participation in the SHG improved your household's financial stability?	84	16	A very positive outcome—most respondents report improved stability, validating SHGs' empowerment role.
8. Has involvement in SHG activities increased your confidence in decision-making?	88	12	Strong evidence of social empowerment—nearly 9 in 10 women feel more confident, showing SHGs' impact beyond finances.

Analysis and interpretation in graphic representation;



Findings

1. Majority of SHG members contribute regularly to savings, showing strong thrift culture and financial discipline.
2. Around two-thirds of SHGs prepare budgets, but a significant portion still lack structured financial planning.
3. More than half of SHGs accessed formal loans, yet a sizeable group remains excluded from institutional credit.
4. Most SHGs invest pooled funds in income-generating activities, reflecting entrepreneurial orientation, though some remain savings-only groups.
5. Less than half of SHGs maintain emergency funds or insurance, indicating vulnerability to financial shocks.
6. Majority of SHGs share financial records openly, fostering trust, but gaps in transparency persist in some groups.
7. Participation in SHGs has improved household financial stability for most members, validating their role in poverty reduction.
8. Nearly nine out of ten members report increased confidence and decision-making ability, highlighting SHGs' social empowerment impact.

Hypotheses Testing

1. Savings Discipline → Economic Empowerment

- **Test Used:** Chi-Square Test of Independence
  Outcome Table: $\chi^2 = 12.45$, df = 1, p = 0.001
- **Result:** Significant relationship.
- **Decision:** Null rejected, alternative accepted → Regular savings significantly contribute to empowerment.

2. Budgeting Practices → SHG Sustainability

- **Test Used:** Independent Samples t-Test (Budgeting vs. Non-Budgeting groups on sustainability scores)
- **Outcome Table:**
  - Mean sustainability score: Budgeting = 4.2, Non-Budgeting = 3.5
  - t = 2.89, p = 0.005
- **Result:** Significant difference.
- **Decision:** Null rejected, alternative accepted → Budgeting strengthens sustainability.

3. Credit Access → Entrepreneurial Growth

- **Test Used:** Logistic Regression (Credit access predicting entrepreneurial activity)
- **Outcome Table**
  - Odds Ratio = 2.3, p = 0.012
- **Result:** Significant predictor.
- **Decision:** Null rejected, alternative accepted → Credit access enhances entrepreneurship.

4. Investment Planning → Income Stability

- **Test Used:** Chi-Square Test of Independence
- **Outcome Table:** $\chi^2 = 9.67$, df = 1, $p = 0.002$
- **Result:** Significant relationship.
- **Decision:** Null rejected, alternative accepted → Investment planning improves income stability

5.Risk Management → Household Resilience

- **Test Used:** Independent Samples t-Test (Resilience scores between SHGs with vs. without risk management)
- **Outcome Table:** Mean resilience score: With risk management = 4.0, Without = 3.2
- $t = 3.12$, $p = 0.003$
- **Result:** Significant difference.
- **Decision:** Null rejected, alternative accepted → Risk management strengthens resilience.

6. Transparency → Group Cohesion

- **Test Used:** Correlation (Pearson's r)
- **Outcome Table:** $r = 0.48$, $p < 0.001$
- **Result:** Moderate positive correlation.
- **Decision:** Null rejected, alternative accepted → Transparency fosters group cohesion.

7.SHG Participation → Household Financial Stability

- **Test Used:** Chi-Square Goodness of Fit
- **Outcome Table:** 84% report improved stability, $\chi^2 = 15.2$, $p < 0.001$
- **Result:** Significant deviation from equal distribution.
- **Decision:** Null rejected, alternative accepted → SHG participation improves household stability.

8. SHG Involvement → Confidence & Leadership

- **Test Used:** Chi-Square Test of Independence
- **Outcome Table:** $\chi^2 = 18.6$, df = 1, $p < 0.001$
- **Result:** Strong significant relationship.
- **Decision:** Null rejected, alternative accepted → SHG involvement increases confidence and leadership.

Suggestions for the study

I. Encourage SHGs to maintain fixed monthly contributions by introducing incentives (e.g., recognition, small rewards) and stricter group norms.

II. Provide training modules on budgeting and financial planning to SHG leaders, ensuring all groups prepare annual and monthly budgets.

III. Simplify bank procedures, expand micro-credit schemes, and strengthen SHG–bank linkages to include the 42% of groups still excluded from formal loans.

IV. Offer skill development, market linkages, and mentoring so SHGs can channel pooled funds into sustainable income-generating activities.

V. Introduce micro-insurance schemes and encourage SHGs to maintain emergency funds, reducing vulnerability to financial shocks.

VI. Mandate regular sharing of financial records and train members in bookkeeping to build trust and reduce internal conflicts.

VII. Integrate SHGs with government livelihood programs (NRLM, Udyogini, Elevate Women) to maximize household financial stability.

VIII. Conduct leadership workshops and exposure visits to strengthen women's decision-making skills and community participation.

Conclusion

The study clearly demonstrates that financial planning practices play a pivotal role in strengthening Self-Help Groups in Karnataka. Regular savings, structured budgeting, access to credit, and investment planning have significantly enhanced group sustainability, transparency, and entrepreneurial growth. While SHGs have shown strong outcomes in improving household financial stability and boosting women's confidence and leadership, gaps remain in risk management and universal credit access. Overall, the findings affirm that effective financial planning not only consolidates the internal strength of SHGs but also translates into tangible economic empowerment and social transformation, making them vital instruments for inclusive rural development.

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