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A Study Seeks To Look Into The Relationship Between Rural Development And Financial Inclusion By Examining The Role Of Self-Help Groups

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Abstract

Financial inclusion refers to a strategic approach aimed at facilitating access to financial services for marginalised populations, including individuals residing in poverty-stricken and low-income neighbourhoods. The importance of entrepreneurship and employment growth cannot be overstated, since it has the potential to significantly enhance economic growth. The challenges encompass several factors such as inadequate infrastructure, low income levels, poverty, legislative limitations, geographical remoteness, restricted financing availability, and concerns related to data privacy. Financial institutions establish and provide support to Self-Help Groups (SHGs), hence facilitating their role in fostering economic development. Women have a prominent role in Self-Help Groups (SHGs), exerting significant influence on both the overall economic development of the nation and the welfare of their families. The Self-Help Group Bank Linkage Programme (SHGBLP) is an initiative aimed at mitigating transaction costs for Indian banks while concurrently augmenting the average annual income of low-income households by 72%.

Self-help groups (SHGs) are widely recognised as a prevalent method of promoting financial inclusion in India. According to the findings of a survey, it was observed that a significant proportion of respondents, namely 79%, exhibited a commendable level of financial literacy, while the remaining 21% displayed a comparatively lower level of financial literacy. This study investigates the relationship between microfinance institutions and financial inclusion in the context of rural development and self-help organisations in Haryana, India. The findings reveal a significant correlation between microfinance institutions and the promotion of financial inclusion. The concept of connecting Self-Help Groups (SHGs) with banks is widely recognised as a prominent approach for promoting financial inclusion, primarily due to its ability to attract a significant number of new clients. The promotion of Self-Help Groups (SHGs) and Microfinance Institutions (MFIs) has the potential to mitigate the financial disparity between individuals who lack access to formal banking services and those who are financially included.

This study also investigates the perspectives of branch managers about financial inclusion and the role played by Business Correspondents (BCs) in promoting inclusivity. This study demonstrates the impact of individual circumstances on the accessibility of banking services for families in Haryana, thereby enabling financial institutions to extend their reach to rural regions.

Keywords: Self-Help Group, Financial Inclusion, Self-Help Group Bank Linkage Programme (SHGBLP), Micro Finance Institutions (MFI).

Introduction

The term "financial inclusion" refers to an organized effort to ensure that people from groups that are underserved, such as the poor and those living in communities with low incomes, have access to the financial services they need and can use them when they are needed. The term "financial products and services" refers to a wide variety of services provided by banks to meet the varying requirements of their customers. These include deposit accounts, which provide a secure and convenient means to store and manage funds. Another crucial service, institutional loans give businesses access to funds for a wide range of operations.

Objective of financial Inclusion

Providing low-income people and families with access to financial services is central to the mission of financial inclusion, which is to alleviate poverty. They are then in a better position to save, invest, and protect themselves financially from any future difficulties that may arise. Having access to credit and savings accounts is crucial because it paves the way for people to launch or expand businesses, invest in their own health and education, and build a nest egg over time. Due to its capacity to support entrepreneurial activities and facilitate job creation, financial inclusion has been identified as a possible catalyst for economic growth. The availability of credit and savings to individuals and small businesses plays a crucial role in fostering economic development within a nation. Individuals and small businesses are given a boost to their ability to contribute to economic growth and development when they are given access to these funds.

CHALLENGES OF FINANCIAL INCLUSION

- Insufficient Physical Infrastructure
- Low income and poverty are prevalent issues
- Regulatory barriers and intricate documentation requirements
- Geographic i0073olation poses a significant challenge for individuals residing in remote and secluded regions
- The issue of limited access to credit
- Data privacy concerns are a significant factor that can potentially deter individuals from embracing digital financial services.

Introduction to SHG

The notion of a Self-Help Group (SHG) has become widely recognized and accepted in contemporary discourse. Approximately twenty years have elapsed. It is widely acknowledged that small and medium-sized enterprises (SMEs), also known as SHGs, have a significant role in expediting economic growth within a nation. There is currently an observable cultural shift towards Self-Help Groups (SHGs). There are three main ways in which Self-Help Groups (SHGs) are connected to formal financial systems in the Indian context. Banks play a pivotal role in the organization and funding of self-help groups (SHGs).

Self-Help Groups (SHGs) are established through the collaboration of non-governmental organizations (NGOs) and other relevant agencies, with financial support provided by banks.

Financial assistance is provided to Self-Help Groups (SHGs) by banks via NGOs and other intermediary organizations.

Females constitute the majority of individuals participating in Self-Help Groups (SHGs). Consequently, an increasing number of women are making significant contributions to the economic growth of the nation. Furthermore, they play a crucial role in enhancing the economic status of their respective families. The advancement of gender equality has experienced a significant impetus due to this development.

Most bankers are using the Self-Help Group (SHG) bank connection strategy to advance the cause of universal banking. Peer group pressure is taken into consideration by lenders as a form of collateral and Self-Help Groups (SHGs) are able to obtain bank financing under this model despite the fact that no security is required. Conventional financial institutions in India bear a heavy burden of transaction costs, but the SHG-driven microfinance approach helps lighten that load. Moreover, a number of empirical studies have found that the members of Self-Help Groups (SHG) have been able to improve their socioeconomic position thanks to the availability of a range of microfinance services made possible by the Self-Help Group Bank Linkage Programme (SHGBLP). As a result, microfinance can be seen as a potential long-term answer to the problem of how to help economically disadvantaged people who don't have access to conventional banking meet their financial obligations.

Litreture Review

Swamy (2019) conducted research to assess how low-income families benefit from the microfinance strategy for financial inclusion through SHGs. All the people in the Shimoga district of Karnataka, India, who benefited from SHGs and other forms of financial inclusion were represented in the research. These people might live in India. The average annual income of beneficiaries increased by 72% as a direct result of their participation in the SHG project, according to the results of a paired sample t-test comparing their income levels before and after they joined the SHG programme.

Ali et al. (2020) studied how Australia's digital divide and geographic isolation contribute to the country's social marginalization. They used panel data estimation techniques to analyze long-term data for a full state between 1998 and 2015. The years 1998–2015 were considered. From 1998 until 2015, this group served the industry. The results suggested a statistically significant connection between socioeconomic disadvantage, physical isolation, and the digital divide. A solution to the issue of digital exclusion, they said, must prioritize social inclusion because of the growing use of ICTs, which helps close the digital gap.

Chotani (2019) conducted studies in the Indian states of Punjab and Haryana to assess the availability of formal financial services to the local populations. The researcher surveyed 1,335 people using a detailed questionnaire for the primary survey. The research utilized a wide variety of statistical techniques, including exploratory factor analysis, logistic regression, analysis of variance, and regression. The results showed that 79% of respondents had a high level of financial literacy, while only 21% had a low level.

Kim et al. (2018) tested the hypothesis that economic growth in OIC countries is correlated with the ease with which people can have access to financial services. Secondary sources such as GFDD, WDI, and FAS were mined for information spanning 1990-2013. Financial inclusion was measured using five indicators: the availability of ATMs per 100,000 adults, the density of bank branches per 100,000 adults, the number of deposit accounts per 1000 adults, the ratio of borrowers per 1000 adults, and the share of GDP covered by life insurance premiums.

Chaudhary (2017) investigated the availability of financial services in Haryana to gauge the level of need among locals. The author has compiled a complete index of universal financial inclusion between 2006 and 2016 that includes all of those years. The survey found that between 2006 and 2016, the share of Haryana residents with access to formal financial services rose dramatically.

Research gap

Initially, it was discovered that research endeavours have been undertaken regarding financial inclusion in select rural regions of Haryana. However, it is noteworthy that no research has been conducted thus far on the topic specifically pertaining to rural areas within Haryana. Consequently, in order to address this void, the present study has chosen to focus on this particular area for research purposes.

In addition, it is noteworthy to mention that the existing body of research on financial inclusion primarily focuses on the macro-level aspects of individuals' access to and utilisation of financial services. However, it is important to highlight that there is a dearth of empirical research studies in this domain.

Research objective

- The objective of this study is to examine the relationship between financial inclusion for rural development and self-help groups.

DATA COLLECTION

The data came from many sources. A structured questionnaire and in-person interviews helped us collect primary data easily. Survey and interviews focused on Haryana households' financial services access. The literature review included research papers from reputable academic journals, published articles, critical evaluations, and financial industry websites. Secondary data came from these sources.

DATA ANALYSIS

1. Hypothesis Testing - 1

Null Hypothesis (H_0): Education doesn’t impact on Financial Inclusion.

Alternative Hypothesis (H_1): Education impact on Financial Inclusion.

Table 1: Chi Square Table for Hypothesis

Variable’s Name	df	Chi-Square	P-Value
Education	4	14.70	0.067

Interpretation

After age, gender, and marital status, education (FI1) is the next most important predictor variable with a p value of 0.067. All respondents with advanced degrees (master's or doctoral) were counted, but combining them with the fourth has reduced their importance.

Chi-square values show that education and financial inclusion are correlated. We cannot accept the null hypothesis. Financial inclusion and education are linked. The study accepts alternative hypothesis. The null hypothesis that education affects financial inclusion is rejected.

2. Hypothesis Testing -2

Null Hypothesis (H_0): Income Level doesn't impact on Financial Inclusion.

Alternative Hypothesis (H_1): Income Level impact on Financial Inclusion.

Table 2: Chi Square Table for Hypothesis

Variable's Name	df	Chi-Square	P-Value
Income Level	4	33.10	0.0001

Interpretation:

A p-value of less than 0.0001 and income level (FI2) are key predictors of inclusion. The Income Frequency Table confirms that income increases financial inclusion. Most respondents (88.52%) who report awareness to Micro Finance Institutions (MFI) are financially included, bolstering the significance of a predictor variable. Chi-square values show a significant relationship between income and financial inclusion. We cannot accept the null hypothesis. Income strongly influences financial inclusion. The study accepts alternative hypothesis. This supports the competing hypothesis that income affects financial system access.

3. Hypothesis Testing -3

Null Hypothesis (H_0): Source of Income doesn't impact on Financial Inclusion.

Alternative Hypothesis (H_1): Source of Income impact on Financial Inclusion.

Table 3: Chi Square Table for Hypothesis

Variable's Name	df	Chi-Square	P-Value
Source of Income	4	1.67	0.00

Interpretation:

There is a weak correlation between income source (FI3) and FI based on the chi-square values for this variable (p-value 0.001). The null hypothesis is therefore accepted. Financial Inclusion is not strongly correlated with a person's income level. Therefore, the research does not support the counterfactual. Therefore, we accept the null hypothesis that there is no relationship between income source and access to financial services..

4. Hypothesis Testing -4 (FI^4)

Null Hypothesis (H_0): Micro Finance Institutions awareness doesn't impact on Financial Inclusion.

Alternative Hypothesis (H_1): Micro Finance Institutions awareness does impact on Financial Inclusion.

Table 4: Chi Square Table for Hypothesis

Variable's Name	df	Chi-Square	P-Value
Micro Finance Institutions (MFI)	4	13.56	0.061

Interpretation:

A p-value of 0.061 indicates that familiarity with MFIs is a significant predictor of financial inclusion. There is a significant correlation between Micro Finance Institutions (MFI) and Financial Inclusion, as indicated by the chi-square values for these two variables. Therefore, we cannot accept the null hypothesis. Financial inclusion is strongly linked to microfinance institutions. So, the study accepts the alternate hypothesis. This lends credence to the competing hypothesis that MFIs have an effect on broadening access to banking services.

5. Hypothesis Testing -5

Null Hypothesis (H_0): Self Help Group awareness doesn't impact on Financial Inclusion.

Alternative Hypothesis (H_1):Self Help Group awareness does impact on Financial Inclusion.

Table 5: Chi Square Table for Hypothesis – FI^5

Variable's Name	df	Chi-Square	P-Value
Self Help Group	4	28.65	0.04

(SHG)			

Interpretation:

The p-value for SHG awareness and financial inclusion prediction is 0.04. The frequency table also shows that 77.20 percent of "Self-Help Group" (SHG) users are financially included.

Multiple financial data sources were also strong indicators. The Self-Help Group Movement and Financial Inclusion are significantly related, according to chi-square analysis. We cannot accept the null hypothesis. Financial Inclusion is linked to Self Help Groups. The study accepts alternative hypothesis. Thus, we accept the null hypothesis and examine how Self-Help Groups affect economic participation.

Findings

i. The Self-Help Group (SHG) bank connection model is the most popular financial inclusion strategy. Its effectiveness in producing the desired result led to its selection.

ii. Banks prefer the Self-Help Group (SHG) inclusion model because it attracts new customers reliably.

iii. To close the financial gap between the unbanked and the financially included, SHGs and MFIs are promoted.

iv. The Self-Help Group (SHG) movement is expected to improve its ability to achieve financial inclusion, livelihood opportunities, and women's empowerment. Despite the fact that MFI knowledge is a more important factor in access.

v. Self-Help Group Bank Linkage Programme success depends on NGOs and aid recipients. The National Bank for Agriculture and Rural Development (NABARD) and other financial institutions must invest more in these NGOs' capacities. The Self-Help Group Bank Linkage Programme relies on NGO-self-help group collaboration.

vi. Low-income families who are members of a Self-Help Group (SHG) are more likely to have a bank account than those who are not. Like the above case, households without adults who can read and write but who are SHG members have a better chance of becoming economically self-sufficient.

vii. The discovery of a statistically significant correlation between 'Self Help Group (SHG) awareness' and financial inclusion should be welcomed worldwide.

Conclusion

This Paper summarizes financial inclusion research, focusing on the Self-Help Group (SHG) bank connection initiative's viability. We will summarize the study, discuss its contributions and policy implications, and discuss its limits and expansions. All of this will happen in order. In addition, this project will investigate the perspectives of branch managers who are at the forefront of financial inclusion. Our 25 multiple-choice and three essay questions covered no-frills, training modules, the Business Correspondent (BC) model, Electronic Bank Transfer (EBT), and general perception (Do they think inclusion gives clients and banks confidence?). Surveys were sent to 125 people. After delivering this questionnaire, 105 branch managers responded. The questionnaire worked. After removing survey responses that disagreed and were repeated word-for-word, we examined 93 representative responses. The brief case study describes business correspondents' processes and services. This shows that Business Correspondents (BCs) are crucial to inclusivity. Due to high initial setup and operating costs, they only achieve long-term profitability; in the beginning, they incur operational losses. They can only be profitable long-term because of these factors. As part of the research study, bank managers were surveyed about India's financial inclusion measures. This study shows how a variety of individual circumstances affect Haryana families' access to banking services. The huge number of people without bank accounts in these remote areas presents an opportunity for financial institutions to expand into new markets. The research is data-driven, but its findings can be applied to other isolated locations.

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