

## Digital Financial Inclusion and Self-Help Groups in India: A Theoretical Review into Empowerment, Credit Linkage, and Sustainable Development

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**Introduction:** Over the past few years, self-help organizations have advanced in the Indian economy thanks in large part to digital financial inclusion. Through the many facets of the digital financial inclusion process, the Joint Liability Groups (JLG) and Farmer Interest Groups (FIG) are also making progress in their social inclusion and economic growth. Point of Sale (POS) counters, Adhar-enabled payment methods, Core Banking System (CBS), and various Unified Payment Interfaces (UPI) are all playing a significant role in creating the nation's digital ecosystem and fostering a close relationship with the country's semi-urban and rural areas through digital financial inclusion.

**Objective of the Study:** The study's goals are to determine if the process of digital financial inclusion has any bearing on the financial advancements of Self-Help Groups (SHGs) in India and to evaluate the effects of various government initiatives implemented thus far to enhance the same. Another aspect of this study is how DFI creativity and SHGs may work together to help India achieve the SDGs.

**Methodology:** Information gathered from various government websites, journals, magazines, newspapers, and e-books forms the basis of the theoretical research with the case study. Additionally, this study uses quarterly NABARD reports as an additional quantitative data source.

**Results:** Enterprises for Digital Financial Inclusion (DFI), which have a massive potential to advance sustainable development improvements in the Indian economy, have a substantial influence on self-help groups (SHGs). The actual empowerment of Self-Help Groups (SHGs) has been transmuted by the incorporation of digital technology and financial services, which has subsequently assisted in the socioeconomic progression of communities around the world. Subsequently, this empowerment has elevated household incomes, assisted fight against poverty, and boosted living circumstances for semi-urban and rural residents.

**Keywords:** digital financial inclusion, economic growth, government policies, living standards, self-help groups

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# 1. Introduction

## 1.1 Background and Context

The financial services sector in India has seen a substantial conversion in recent years due to the upsurge of Digital Financial Inclusion (DFI). DFI is the progression of via digital platforms and technology to deliver formal financial services to underbanked and underserved clusters, particularly in rural and semi-urban areas (RBI, 2022). Thanks to its prominence on inclusive growth, which is boosted by Digital India initiatives, Jan Dhan Yojana, and the widespread usage of mobile banking and UPI, India is currently leading the worldwide financial inclusion inclination. Among the prime recipients of this digital revolution are Self-Help Groups (SHGs), which are small, unofficial groups mostly composed of womankind who join together for the goals of redeemability, community development, and social recognition.

SHGs now have easier access to financial services, augmented autonomy, and amended integration into the authorized financial system because to digital instruments as well as Direct Benefit Transfers (DBTs), mobile wallets, and Aadhaar-enabled Payment Systems (AePS) (NABARD Annual Report, 2022).

## 1.2 The Role of SHGs in Socio-Economic Development

In the earlier stages, SHGs have been critical in endorsing social and economic enablement, especially for neglected countryside & rural womenfolk. Through inter-lending and group savings, these ordinary establishments encourage daily livings, skill development, and microcredit (Singh & Kaur, 2020). However, their scalability and long-term feasibility were previously hindered by the deficiency of strong financial ties. These days, digital platforms that bid mobile banking, real-time financial data, and crystal-clear accounting systems are supplementary in closing this social gap.

## 1.3 Bridging the Digital Divide in Rural India

The use of digital technology into SHG events has enhanced the financial literacy and liberation of group members. For example, smartphone applications and UPI services permit SHGs to transact, uphold digital records, and interact electronically with financial institutions.

This accessibility not only diminishes transaction costs but also expands creditworthiness and financial castigation among rural borrowers (Mehrotra & Sharma, 2021). Furthermore, government sustenance through initiatives like the National Rural Livelihood Mission (NRLM) and NABARD's e-Shakti program has assisted DFI to further develop its grasp into the hinterlands. These exertions empower more precise subsidy targeting, more effective loan distribution, and improved monitoring systems.

## 1.4 The Convergence of SHGs and DFI for Sustainability

DFI and SHGs at work together is a financial inclusion and sustainable development approach. The Sustainable Development Goals (SDGs), which comprise dropping poverty rate, advancing gender equality, reassuring decent employment in the country, and lowering inequality, can be proficient with the aid of Self-Help Groups (SHGs) when they are properly vested digitally. SHGs may use digital platforms to market their crops & other products online, link with new value chains, and involve in e-commerce—all of which contribute to the development of entrepreneurial ecosystems in rural India (World Bank, 2022).

# 2. Review of Literatures

## 2.1 Evolution of Financial Inclusion in India

In India, the impression of financial inclusion has transformed significantly through the last 20 years. Primarily, it engrossed on providing the unbanked inhabitants with standard banking services through physical branches and cooperative groups. However, as digital infrastructure and mobile technologies have advanced more, financial inclusion initiatives have lifted toward digitalized systems to overawed socioeconomic and geographic restrictions (Chakrabarty, 2011). The employment of government initiatives like as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar authentication, and smartphone infiltration set the foundation for the development of DFI.

The Reserve Bank of India (2021) demanded that the increasing use of digital gears like mobile banking, Aadhaar-enabled Payment Systems (AePS), and the Unified Payments Interface (UPI) has underwritten to a stable improvement in the financial inclusion index.

More effectually than ever before, these tools have aided in the delivery of credit services, insurance, savings accounts, and besieged subsidies.

## 2.2 Role of SHGs in Financial Empowerment

Self-Help Groups (SHGs) have been a significant part of India's rural development story since the 1990s. SHGs were originated as grassroots collectives, mostly composed of women, and are frequently supported by NGOs or the government to backing members in saving money and offering minor amounts to one another. They are vital for building social capital, evolving leadership, and promoting community engagement, claim Nair and Tankha (2015). In addition to financial aid, SHGs offer a variety of social safety nets and emotional sustenance, specifically to women in underserved provinces. The NABARD SHG-Bank Linkage Programme (SBLP), which linked SHGs to conventional financial institutions, accelerated the formalization of SHGs even more.

The foundation for financial inclusion in our country through community-based models was arranged by this assembly, which offered access to financing, capacity-building programs, and entrepreneurial opportunities (NABARD, 2022).

## 2.3 Digital Financial Inclusion: Bridging Gaps

Digital financial inclusion, according to current study, is a change in the availability, price, and use of financial services for underserved community clusters. It goes beyond just executing new-fangled technology. Women in SHGs that involved with mobile-based financial tools displayed better-quality credit discipline, faster payback, and more varied revenue-oriented income streams, according to Mehrotra and Sharma (2021). SHGs are now able to reserve financial transaction transparency and reduce their dependence on middlemen thanks to tools like UPI, mobile wallets, and digital record-keeping schemes. Over 1.2 crore SHG members' records have been digitized because to projects like NABARD's e-Shakti program. This improves the organizations' creditworthiness and makes it possible for improved micro-level financial planning, policymaking, and monitoring (NABARD, 2022). Additionally, digital platforms facilitate the inclusion of new users by allowing women who have never used a bank before to create accounts, ask for loans, and immediately receive subsidies.

## 2.4 Digital Divide and Literacy Barriers

Notwithstanding the encouraging expansion of DFI, a number of studies have brought attention to India's ongoing digital divide, especially for women and senior citizens living in rural areas. According to Banerjee and Duflo (2019), many SHG members' engagement is frequently restricted by their lack of smartphone access and digital literacy. Widespread acceptance is also hampered by infrastructure problems including inadequate internet access, unintuitive user interfaces, and worries about cyber-crime.

Furthermore, human touchpoints are still important even when the digital transition is increasing efficiency. For the understanding and practice of mobile applications, a number of SHGs still be contingent on implementers, often known as "Banking Sakhis." Hence, trust-building actions, localized content, and exercise programs continue to be key for a positive digital incorporation in our country. (Kumar & Mahadevan, 2020).

## 2.5 DFI and Sustainable Development Goals (SDGs)

The linking between DFI and the Sustainable Development Goals (SDGs) is slowly opening to be familiar by worldwide study. Digital financial services allow SHGs to start small enterprises, contribute in online marketplaces, and involve in e-commerce activities. These findings have a straight impact on SDG goals such as poverty reduction (SDG 1), gender equality (SDG 5), and decent employment and economic growth (SDG 8) (World Bank, 2020). When women in SHGs are allowed financially and digitally, it advances community health, children's education, and domestic decision-making.

# 3. Objective of the Study

The primary objective of this research is to study how digital financial inclusion affects the overall empowerment, operational effectiveness, and financial development of Self-Help Groups (SHGs) in India. It aims to measure how effectively government rules, digital technologies, and institutional support improve SHG members' access to financial services and credit. Moreover, the research pursues to establish if combining digital finance with SHG operations positively chains long-

term sustainability and bring into line with broader developmental goals such as inclusive economic growth, gender equality, and poverty lessening in the community.

## 4. Methodology

This study employs a theoretic approach to comprehend how digital financial inclusion is enhancing Self-use Groups (SHGs) in India through the use of a case study investigation. Secondary data collected from a diversity of reliable sources, including academic journals, magazines, newspapers, e-books, and administrative websites (such as the Ministry of Rural Development, RBI, and NABARD), forms the basis of the entire study. Particular emphasis is paid to the analysis of NABARD's monthly reports, predominantly those that deal with microfinance and digital SHG initiatives like the e-Shakti project. The data is prudently studied to identify trends, policy outcomes, and real-world challenges SHGs face while using digital technology in the society.

With an importance on long-term sustainability and empowerment, the study pursues to provide a compact information of how digital finance mechanisms are positively inducing the financial inclusion landscape in rural India through this detailed review.

## 5. Findings & Discussions

### 5.1 SHG Expansion and Digital Financial Inclusion

Since its inauguration by NABARD, the Self-Help Group – Bank Linkage Programme (SHG-BLP) has prolonged to become the world's prime microfinance exertion, linking over 144.22 lakh SHGs to formal banks as of March 2024. The program's direct influence to the progression of gender empowerment is confirmed by the fact that over 120 lakh of these SHGs are worked by women (NABARD, 2024a).

Digital financial inclusion (DFI) has received a lot of attention. For SHG members, this has meant lower financial service costs and fewer obstacles to access thanks to Aadhaar-enabled payments, UPI-based mobile banking, and real-time monitoring tools.

**Table 1:** Growth of SHG Savings and Credit Linkages (2021–2024)

Year	SHGs Savings Linked (lakh)	Total Savings (₹ crore)	SHGs Credit Linked (lakh)	Credit Disbursed (₹ crore)
2021–22	118.93	47,240.48	33.98	99,729.22
2022–23	134.03	58,892.68	42.96	1,45,200.23
2023–24	144.22	65,089.15	54.82	2,09,285.87

**Source:** NABARD. (2024a). *Status of Microfinance in India 2023–24*. National Bank for Agriculture and Rural Development.

SHG loan connections increased by 61% and total savings increased by over 38% during 2021–2022 and 2023–2024, demonstrating the strong momentum behind inclusive rural finance. The success of digital and institutional convergence under NRLM and NABARD initiatives is demonstrated by these numbers (NABARD, 2024a).

### 5.2 Regional Disparities and Financial Deepening

Regional disparities in typical loan amounts and credit outreach continue, despite the fact that national statistics indicate robust development. While the Eastern and North-Eastern areas exhibit tremendous development as a result of focused digital interventions and helpful state alliances, the Southern region continues to lead in outreach, disbursement, and average savings per SHG.

**Table 2:** Region-wise Average Savings and Loan Disbursed per SHG (2023–24)

Region	Avg. Savings (₹)	Avg. Loan Disbursed (₹)	Ratio (Savings: Credit)
Southern	68636	632910	0.000800926
Eastern	49503	217981	0.00074537
Western	21836	305181	0.051388889
North-East	22538	297351	0.000847222
National Avg.	45132	381758	0.000792361

**Source:** NABARD. (2024b). *Impact of Bank Linkage Programme on Self-Help Groups: Achievements, Challenges and the Way Forward* (Issue No. 04). Department of Economic Analysis and Research, NABARD.

States like West Bengal and Bihar are quickly catching up in terms of SHG creation and loan access, despite the fact that the Southern area has the highest average credit per SHG. The unrealized potential for future credit development is shown by the 67% increase in SHG savings in the Northeastern area (NABARD, 2024a).

5.3 Performance of Women SHGs

In 2023–2024, 97% of credit-linked groups were led by women, making them the dominant group in the landscape. Additionally, they exhibit stronger internal lending cycles and greater repayment discipline. Women SHG members are further empowered by government programs like Lakhpati Didi and the M-Suwidha App, which offer doorstep digital transactions and business training.

**Table 3:** Women SHG Performance Snapshot (2023–24)

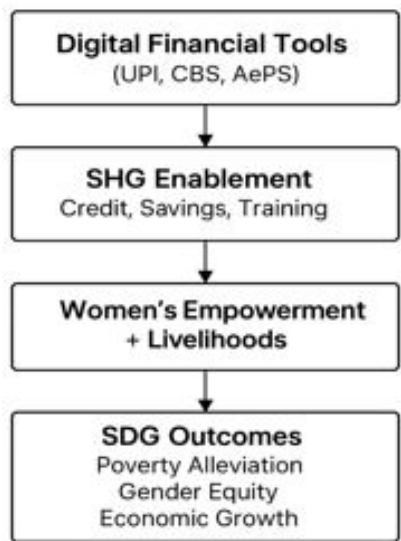
Indicator	Value
Women SHGs (savings-linked)	120.44 lakh (83.5%)
Women SHGs (credit-linked)	72.3 lakh (93.4%)
Credit Disbursed to Women SHGs	₹2,02,716 crore (96.9%)
Avg. Loan Outstanding per SHG	₹3.35 lakh
Average Credit Growth YoY (2022–24)	45%

**Source:** NABARD. (2024a). *Status of Microfinance in India 2023–24*. National Bank for Agriculture and Rural Development.

The program's effectiveness in attaining financial inclusion from a gendered lens is reflected in this preponderance. Because of peer support, group-based learning, and focused digital literacy initiatives, women's groups are also more technologically savvy (NABARD, 2024b).

5.4 A Conceptual Framework Linking Digital Financial Tools, SHG Empowerment, and Sustainable Development Outcomes

**Figure 1:** Conceptual Framework



**Source:** Author's own compilation

This paradigm highlights how SHG empowerment through digital access starts a positive feedback loop that improves livelihoods, household finances, and resilience in rural India. According to the World Bank (2020), it supports SDGs 1 (No Poverty), 5 (Gender Equality), and 8 (Decent Work).

6. Conclusion & Policy Suggestions

Self-Help Groups (SHGs) are becoming substantial agents of rural economic development because to digital financial inclusion. According to NABARD's SHG-BLP statistics, digitalization has improved women's financial self-sufficiency, credit availability, and repayment patterns (NABARD, 2024). SHGs assist as podiums for social mobility and empowerment in addition to being successful financial entities.

6.1 Policy Proposals

To withstand this momentum, three important areas must be addressed:

- 1. Fortify digital literacy** through localized training and mobile-based tutorials.
- 2. Develop banking infrastructure** in underserved & backward provinces, especially the Northeast and tribal belts.
- 3. Endorse women-led fintech solutions** to safeguard inclusive design and better adoption in the country (World Bank, 2020).

A combined approach between government, financial institutions, and community institutions can guarantee that SHGs evolve into resilient engines of inclusive development.

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