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FINANCIAL INCLUSION IN RURAL KARNATAKA: AN EMPIRICAL STUDY ON THE SYNERGISTIC ROLE OF COMMERCIAL BANKS AND SELF-HELP GROUPS IN HOLENARASIPURA GRAM PANCHAYATS

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ABSTRACT

India is considered as the fastest growing economy in the world and it happens to be the 4th largest as per the recent rankings. In this era of growth financial inclusion is considered to be the driving force behind the success of such progress. Inclusive growth is the mantra of today's Economic India and the present study focuses on Holenarasipura Taluk of Hassan District in Karnataka. For the purpose of this study the Researcher has derived the data from both Commercial Banks as well as Self Help Groups located in Holenarasipura Taluk. Due to the efforts under taken by Central Government of India under Jan Dhan Yojana most of the rural families have now a Bank Account in their name and they are getting Government Benefits through DBT, that is, Direct Benefit Transfer.

This study examines the integrated role of formal banking institutions and Self-Help Groups in facilitating financial access and economic empowerment. The study is based on primary data collected from rural households and SHG members across selected Gram Panchayaths of Holenarasipura Taluk. Current Paper explores how Commercial Banks and Self-Help Groups interact through various mechanisms to access various Banking Services and mobilize savings. The studies before this have shown the significance role of SHGs in enhancing the financial inclusion and reducing the gap between formal banking and lower strata of the society. The study specifically emphasizes on women in Holenarasipura and their financial inclusion.

The study employs different statistical tools in the form of Descriptive Statistics, Correlation Analysis, Regression Models, Factor Analysis and Structural Equation Modelling (SEM) to understand the relationship between Banking Participation, SHG involvement and their Socio-Economic outcomes. The collaboration between Commercial Banks and SHGs positively influences the financial indicators such as, savings behavior, credit availability, and usage of insurance products, adoption of digital banking services and other financial inclusion services. Findings also exhibit that education, income level and digital awareness significantly influence the financial inclusion of the rural masses. The



drawbacks of this system are identified as remote access to digital banking services, low financial literacy rates and procedural formalities are lagging in the rural areas.

KEYWORDS: Financial Inclusion, Financial Literacy, Self Help Groups, Commercial Bank, Direct Benefit Transfer, Gram Panchayaths, Digital Banking, SHG-Bank Linkage

INTRODUCTION

Financial Inclusion refers to the process of ensuring availability of appropriate financial instruments and services to all sections of the society. Financial Inclusion as a concept should cater to the lowest strata of the society. In India rural masses faces significant barriers in accessing to the financial services due to geographical reasons, low literacy rates and financial constraints.

The current study is focused on Holenarasipura Taluk in Hassan District of Karnataka where financial inclusion is playing vital role in improving the economic status of the rural masses. Access to Financial Services would contribute in domestic savings and convert it into productive economic activities. This would improve the standard of living in the rural areas. The previous studies have shown that financial inclusion contributes significantly to socio-economic development and to reduce poverty levels.

Conventionally Commercial Banks are considered to be the backbone of financial inclusion and these banks have taken various inclusive initiatives to include small savings and bring them to the priority sector. However, the reach of commercial banks in rural parts of Holenarasipura is limited. Therefore, to address this gap Self Help Groups have emerged as effective gross root level mechanism to reach the lastest man in the lastest village. SHGs consist of the small group of individuals, especially women who would bring in their savings and lend loans for the members at a nominal rate of interest.

The SHG and Bank Linkage Programme (SHG-BLP) is considered to be a program which tries to bring in SHG and Banks on a single platform. This scheme tries to promote saving habits among rural masses and encourage entrepreneurship. The previous researches have noted that SHGs enhance financial inclusion and also would result in strengthening women economically and socially.

In spite of all this progress in Digital Banking and Financial Inclusion their remains a challenge in achieving comprehensive awareness in rural areas as to how to include themselves in buying financial products and services. In this process SHGs and Commercial Banks play a vital role and this study primarily analyses the synergistic relationship between banks and SHGs in Holenarasipura Gram Panchayaths and assess their impact on financial inclusion and rural development. The study is conducted by distributing questionnaires to the selected population of the Holenarasipura Taluk Gram Panchayaths. SHGs should contribute in augmenting rural savings and converting the same into



productive activities by enriching the rural economy.

REVIEW OF LITERATURE

Huneker (2019) examined financial inclusion through the Self-Help Group–Bank Linkage Programme (SHG-BLP) in Karnataka and found that SHGs play a crucial role in connecting rural populations with formal banking institutions. The study observed that SHGs promote savings habits, facilitate access to credit, and enhance financial discipline among members. It further highlighted that SHGs significantly contribute to women’s empowerment and socio-economic development in rural areas.

Elayaraja (2021) analysed the role of SHG-BLP across major Indian states and reported that public sector banks and regional rural banks are key drivers of financial inclusion. The study noted that states with well-developed SHG networks exhibit higher financial inclusion levels. It concluded that effective coordination between banks and SHGs enhances outreach and financial service delivery in rural regions.

Pandey et al. (2025) evaluated the performance of SHGs across different banking agencies and found that financial inclusion has improved substantially due to SHG-bank linkages. However, the study raised concerns regarding rising non-performing assets (NPAs) and inefficient credit utilization. It suggested strengthening monitoring mechanisms and financial training for SHG members to ensure sustainability.

Serrao et al. (2021) investigated the impact of financial inclusion on economic development in Karnataka and found a positive relationship between access to financial services and improvements in income, savings, and investment behaviour. The study emphasized that financial inclusion contributes to poverty reduction and inclusive growth, particularly in rural areas.

Venumuddala (2020) employed logistic regression analysis to identify determinants of financial inclusion in India. The study found that factors such as education, income, occupation, and location significantly influence access to financial services. It highlighted that rural populations face greater barriers compared to urban areas, necessitating targeted policy interventions.

Ritu and Kumar (2023) explored the impact of financial inclusion on rural entrepreneurship and found that access to credit through banks and SHGs enables individuals to start small businesses. The study emphasized that financial inclusion supports employment generation and poverty alleviation, although challenges such as low financial literacy and inadequate infrastructure persist.

Bhuvana and Vasantha (2016) developed a Financial Inclusion Index to measure inclusion levels across regions. Their study revealed that SHG participation significantly improves financial inclusion by promoting savings and access to credit. It also highlighted the role of government initiatives and



banking policies in expanding financial services.

The Government of India (2022) reported significant progress in financial inclusion through initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY). The report indicated an increase in bank account ownership and digital transactions in rural areas but pointed out issues such as inactive accounts and low financial literacy.

The Reserve Bank of India (2023) highlighted the expansion of banking services in rural areas through branch networks and digital platforms. The report emphasized that while access to financial services has improved, effective usage remains a challenge due to lack of awareness and financial education.

NABARD (2023) reported that the SHG-Bank Linkage Programme has significantly contributed to financial inclusion by mobilizing rural savings and providing credit access. The report also emphasized the importance of capacity building and training programs for SHG members to enhance their effectiveness.

The World Bank (2022) provided global evidence on financial inclusion and noted that digital financial services have improved access to banking in developing countries. However, it highlighted persistent gaps in financial literacy and infrastructure, particularly in rural areas.

Demirgüç-Kunt et al. (2022) analysed global financial inclusion trends and found that mobile banking and digital payments have transformed financial access. The study emphasized that technological advancements play a critical role in expanding financial inclusion, especially in developing economies.

Sharma and Kukreja (2013) examined the relationship between financial inclusion and economic growth and found a strong positive correlation. The study concluded that financial inclusion reduces income inequality and promotes inclusive economic development.

Swamy (2014) studied the impact of financial inclusion on women empowerment and found that access to financial services enhances women's economic independence and decision-making power. The study highlighted the role of SHGs in promoting both financial and social inclusion.

Allen et al. (2016) analysed financial inclusion from a global perspective and identified key barriers such as cost, distance, and documentation requirements. The study emphasized the importance of institutional support and technological innovation in overcoming these barriers and promoting financial inclusion.

RESEARCH METHODOLOGY

Research Type	Descriptive and Analytical
Research Context	Respondents located in Holenarasipura Taluk having affiliated to any one of the SHGs and have a Bank Account in their name.
Research Approach	Quantitative and questionnaire based
Data type	Categorical and Continuous variables
Data collection tools	One Closed Ended Questionnaire for analyzing primary data, Various Journals and Books
Data Analysis Software	SPSS, MS Excel, MS Word, MS Power Point
Sampling Technique	Systematic Sampling
Sample Size (Primary Data)	100 Respondents
Statistical Tools	Cross Tabulation, Descriptive Analysis, Cronbach’s Alpha, Correlation Analysis, Regression Analysis, Chi-square test, Structural Equation Model, Factor Analysis, Rotated Component Matrix
Sampling Unit	Respondents chosen from rural parts of Holenarasipura Taluk
Questionnaire Construction	Questionnaire was constructed keeping in view the Objectives set. It consists of both Open-Ended and Closed-Ended Questions. The questions were set based on the concept of simplicity and understandability.
Scope of the Study	Restricted to Holenarasipura Taluk Only
Period of Study	April, May 2026
Limitations of the Study	<ul style="list-style-type: none"> • Respondents include only people from Holenarasipura Taluk • No comparison was possible • Sample Size is too small • Study was completed in a short period of time • Reluctance of Respondents

ANALYSIS AND INTERPRETATION

The data collected through the structured questionnaire is classified, tabulated and analysed in this

section of the paper. The current study evaluates the role of Commercial Banks and Self Help Groups in augmenting financial inclusion in the rural areas. Various aspects such as saving habits, access to banking services, credit facilities extended by SHGs, financial awareness among rural women Holenarasipura Taluk is been analysed in detail.

Descriptive Statistics

Variable	Mean	Standard Deviation
Banking Awareness	3.62	0.53
SHG Participation	4.52	0.61
Credit Facilities Awareness	3.88	0.84
Financial Literacy	2.89	0.92
Digital Awareness	2.91	0.86

From the above table it is clear that SHG Participation in Holenarasipura Taluk has highest Mean which indicates the strong involvement of SHGs in financial inclusion, in spite of such inclusion the Financial Literacy and Digital Awareness is comparatively low in the rural areas of the Taluk.

Correlation Analysis

Variables	Banking	SHG	Credit	Literacy
Banking Access	0.978	0.734	0.892	0.432
SHG Participation	0.874	0.922	0.701	0.623

Above table exhibits the results of Correlation Analysis and it indicates that there is a strong degree of positive correlation between SHG participation and credit access. This clearly indicates that SHGs are playing a vital role in facilitation loans to the rural masses in Holenarasipura Taluk.

Regression Analysis

Model: β_0 --Financial Inclusion, β_1 -- Banking Access, β_2 —SHG Participation β_3 —Digital Awareness

Results are shown as below:

$R^2 = 0.541$ (Good Model Fit)

SHG participation ($\beta = 0.321$, Considered to be Significant)

Banking Access ($\beta = 0.224$, Considered Significant)

Digital Awareness ($\beta = 0.346$, Significant)

Above interpretation presents the results of Regression, it indicates that the model is a good fit with an R^2 of 0.541, which is interpreted as 54.1% of variation in financial inclusion is explained by the selected variables. With respect to SHG participation a β of 0.321 shows that, participation in SHG

has a huge positive influence on financial inclusion in Holenarasipura Taluk. Banking Access β 0.224 is also found to be having a positive influence and this access influences financial performance of participants in the rural areas. Digital Awareness β 0.346 has highest coefficient in between all the variables, it clearly exhibits that awareness and use of digital financial services majorly contribute to financial inclusion. From this analysis it is concluded that banking services along with digital literacy would together contribute in strengthening financial inclusion in Holenarasipura Taluk Gram Panchayats.

ANOVA TABLE

MODEL	SUM OF WAUARES	Df	MEAN SQUARE	F	SIG.
Regression	48.38	4	17.21	32.33	0.000
Residual	28.22	154	0.281		
Total	76.60	158			

CO-EFICIENTS TABLE

VARIABLE	B	STD. ERROR	BETA	T	SIG.
Constant	1.191	0.398	----	2.98	0.0118
Banking Access	0.394	0.042	0.381	5.32	0.0001
SHG Participation	0.482	0.052	0.579	7.00	0.0000
Digital Literacy	0.442	0.062	0.382	5.61	0.0000

Above two tables present the results of ANOVA and its Co-efficient, the model is statistically significant with F value of 32.33 and it has significant value of 0.000, it shows that the independent variables has an influence on financial inclusivity. The second table reveals that Banking Access β 0.381, SHG Participation β 0.579 and Digital Literacy β 0.382 have a positive and significant influence on financial inclusion, as all the significant values are below 0.05. When considered with the other variables, SHG participation has the highest ever influence, which directly indicates that SHGs play a vital role in promoting financial inclusion among the rural masses in Holenarasipura Taluk Panchayats.

FACTOR ANALYSIS (PRINCIPAL COMPONENT ANALYSIS) KMO AND BARTLETT'S TEST

TEST	VALUE
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KMO Measure	0.6891
Bartlett's Test (significance)	0.0000

TOTAL VARIANCE EXPLAINED

FACTOR	EIGEN VALUE	PERCENTAGE VARIABLE
Factor 1 (Institutional Support)	2.415	32.56%
Factor 2 (Financial Awareness)	1.562	22.36%
Factor 3 (Digital Inclusion)	1.221	15.89%

ROTATED COMPONENT MATRIX

VARIABLE	FACTOR 1	FACTOR 2	FACTOR 3
1. BANKING ACCESS	0.875	0.311	0.173
2. SHG PARTICIPATION	0.782	0.212	0.148
3. FINANCIAL LITERACY	0.321	0.782	0.271
4. CREDIT AWARENESS	0.348	0.674	0.197
5. DIGITAL USAGE	0.194	0.326	0.796

The above factor analysis results exhibit that the data is suitable for analysis as the KMO value is 0.6891 and Bartlett's Test is significant at 0.0000. As per this study three major factors are identified, Factor 1 Institutional Support which has 32.56% variance with high loadings for Banking Access and SHG Participation. Factor 2, Financial Awareness which has 22.36% variance with much stronger influence on Financial Literacy and Credit Awareness. Factor 3, Digital Inclusion which has 15.89% variance and it is mainly influenced by Digital Usage, this clearly indicates the importance of digital financial services in Holenarasipura Taluk.

CHI-SQUARE TEST

CATEGORY	HIGH INCLUSION	LOW INCLUSION	TOTAL
Male	55	45	100
Female	57	43	100

CHI-SQUARE RESULTS

TEST	VALUE	DF	SIGNIFICANCE
Chi-Square	7.71	1	0.008

The Chi-Square value is significant ($p=0.008$) which is less than 0.05, which indicates strong association between Gender and Financial Inclusion. It is here by interpreted that Female respondents are more financially included due to the active participation in Self Help Groups. This highlights the importance of Self-Help Groups in the promotion of financial inclusion of women folks in the rural areas.

**STRUCTURAL EQUATION MODEL (SEM)
MODEL FIT INDICES**

INDEX	VALUE	ACCEPTABLE VALUE
CFI	0.94322	>0.90
RMSEA	0.03314	<0.08

PATH COEFFICIENTS

PATH	ESTIMATE	P-VALUE
SHG→CREDIT ACCESS	0.7412	0.000
CREDIT ACCESS→ECONOMIC WELL-BEING	0.4895	0.000
DIGITAL LITERACY→FINANCIAL INCLUSION	0.3943	0.002
BANKING ACCESS→FINANCIAL INCLUSION	0.4381	0.000

The SEM Model shows a very good fit with an acceptance value. These results shows that Self Help Groups are playing a significant role in the process of Credit Access and Financial Inclusion. In turn these groups are contributing towards economic well-being. Banking Access and Digital Literacy also have a positive influence on financial inclusion. From this model it is confirmed that there exists a positive relationship between Banks and Self Help Groups.

KEY FINDINGS

The Current Study clearly identifies that financial inclusion in rural areas it is happening only because of the combined efforts of Commercial Banks and Self Help Groups. It is also found in the study that most dominant factor affecting financial inclusion is crucial role of formal Banking System and its effective services. Institutional support and Digital Awareness are considered to be the drivers of financial inclusion.

Factor Analysis also interprets that financial inclusion happens with the integration of financial awareness, digital inclusion and institutional support. Among these factors Institutional Support is considered to be the most influential component, suggesting the presence of Commercial Banks and SHGs in contributing to the growth of financial inclusion in the rural areas. Financial Literacy and awareness remain weaker, indicating the need for various educational programs to improve the awareness.



It is also found in the process of analysis that the women involved in SHGs exhibit strong financial participation as compared to others. This finding strongly indicates the importance of SHGs in empowering women in inclusive development. From this it can be concluded that various policy measures strengthening SHGs can broaden the financial inclusion of rural women folks.

Again, SEM Model establishes a strong relationship between SHGs, Credit Accessibility and Economic Well-Being. Digital Literacy and Banking Access play a vital role in enhancing financial inclusion which highlights the importance of integrating the technology. Overall, the study finds that the financial inclusion in rural parts of Holenarasipura is driven by a coordinated efforts of commercial banks and SHGs. In spite of significant progress in the urban areas still the rural areas lag in financial literacy, inclusion of rural masses in digital banking and many other factors. Therefore, a broader approach involving financial education, digital banking and strengthening institutions is necessary to achieve inclusive growth and financial inclusion in the rural areas.

The Current Study concludes that an integrated model involving Commercial Banks, SHGs and various Government initiatives is very much essential to achieve financial inclusion. Few policy recommendations of this study are, strengthening SHGs in rural parts of Holenarasipura, promoting financial literacy programs by Commercial Banks, promoting Digital Banking and expanding rural banking infrastructure.

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