International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

To cite this article: Dr. G. Arulselvan (2026). AN UNDERSTANDING INTO THE ROLE OF NGO'S IN PROMOTING SELF HELP GROUP TOWARDS FINANCIAL INCLUSION IN INDIA, International Journal of Research in Commerce and Management Studies (IJRCMS) 8 (5): 143-151 Article No. 869 Sub Id 1422

AN UNDERSTANDING INTO THE ROLE OF NGO'S IN PROMOTING SELF HELP GROUP TOWARDS FINANCIAL INCLUSION IN INDIA

Dr. G. Arulselvan

Head, Department of Commerce, S.I.V.E.T. College (SF), Chennai

DOI: https://doi.org/10.38193/IJRCMS.2026.8511

ABSTRACT

At Present, Self-help group are playing a very important role in the process of financial inclusion Self-help groups usually groups who get together and pool money from their savings money and lend money among against the group member's guarantee. Peer pressure within the group helps in improving recoveries. Through SHG's nearly 40 million households are linking with the banks. they are now permitted to utilize the service of NGOs, SHGs and other civil society organization as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. Up till now banking are fighting the financial inclusion dream. It serves as a medium of delivering micro credit to the members and reduce their dependence on explicative informal credit delivery system consisting of money lenders, land lords, traders etc. Empowerment has thus helped women to realize their identity, capability, strengths and power. The main reason is that the products designed by the banks are not satisfying the low-income families. The provision of un complicated, small, affordable products will help to bring the low income families into the formal financial sector. Educating the consumers about the financial benefits and products of banks which are beneficial to low income groups will be great step to tap their potential towards financial inclusion dream. In this paper attempt to analyze the role of NGO's and promoting their groups towards financial inclusion in India.

KEYWORDS: NGO's, SHG, Importance, promoting. Growth and Development, financial process

INTRODUCTION

Self-Help Group or in-short SHGs is now a well-known concept. It is now almost two-decade old. It is reported that the SHGs have a role in hastening country's economic development. SHGs have now evolved as movement. Mainly, members of the SHGs are women. Consequently, participation of women in the country's economic development is increasing. They also play an important role in elevating the economic status of their families. This has led boost to the process of women's empowerment. In the recent years, empowerment has been recognized as the central issue in determining status of women. Since women become more potent source of development empowering

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

them is prerequisite for overall development. By empowering women not only make them to share in the development progress but also bring out their lasting efficiency. Self-Help Groups (SHGs) are informal associations of people who choose to come together to find ways to improve their living conditions. It can be defined as self-governed, peer-controlled information group of people with similar socio-economic background and having a desire to collectively perform common purpose. Villages face numerous problems related to poverty, illiteracy, lack of skills, lack of formal credit etc. These problems cannot be tackled at an individual level and need collective efforts. Thus, SHG can become a vehicle of change for the poor and marginalized. SHG rely on the notion of "Self Help" to encourage self-employment and poverty alleviation.

1.2. REVIEW OF LITERATURE

In this section, an effort is made to review studies that have undertaken so far in respect to the various qualities, sustainability, performance and impact assessment related to SHGs in India. Sa-Dhan (2003) made a comparative study of assessment tools developed by various organization viz. NABARD, BASIX, MYRADA, CARE, APAMAS etc. and have identified eight broad thematic areas with various indicators and their relative benchmarks. The study also felt that unless a tool could provide an instant and clear analysis of the state of affairs of SHG, it would not popular in practice. However, the study identifies eight broad major indicators viz. Group constitution, organizational discipline, organizational systems, financial management, credit policy external linkage etc. to access the quality of SHGs.

Pattanaik (2003) emphasized the role of SHGs for socio-economic development of women in particular and society as a whole. Narasiah (2004) opined that micro credit plays crucial role in empowering women. Manimekalai (2004) also remarked that the SHGs have the enough potential for establishing capacity building and self-efficiency among women. Sinha (2005) in his work observed that micro-finance contributed significantly to saving and borrowing of the poorer section of the country. Suguna (2006) also remarked that the emergence of SHGs as silent revolution in the spread of rural credit for rural development. Lolheihzovi (2007) considered SHGs as best engine of growth of human resource. In addition, remarkable studies have been done by Ali-Akpajiak & Pyke (2000), Krishna (2003), Panda (2005), Jerinabi (2006) and Chen, Jhabvala, Kanbur and Richard (2007) regarding role of SHGs in development of poor.

1.3. NEED FOR SHGS

One of the reasons for rural poverty in our country is low access to credit and financial services. A Committee constituted under the chairmanship of **Dr. C. Rangarajan** to prepare a comprehensive report on **'Financial Inclusion in the Country'** identified four major reasons for lack of financial inclusion:

- Inability to provide collateral security,
- Poor credit absorption capacity,
- Inadequate reach of the institutions, and
- Weak community network.
- The existence of sound community networks in villages is increasingly being recognized as one of the most important elements of credit linkage in the rural areas.
- They help in accessing credit to the poor and thus, play a critical role in poverty alleviation.
- They also help to build social capital among the poor, especially women. This empowers women and gives them greater voice in the society.
- Financial independence through self-employment has many externalities such as improved literacy levels, better health care and even better family planning.

Recent years have witnessed the emergence of empowerment as a significant and positive concept, encompassing various elements such as increased literacy, educational attainment, awareness of rights and responsibilities, active participation in economic activities, hanced healthcare, equal access to productive resources, and improved living standards. The movement of Self-Help Groups (SHGs) has played a crucial role in achieving women's empowerment across different regions. The key roles identified for SHGs in empowering women include:

- **Providing access to economic resources:** SHGs offer impoverished women access to financial resources, enabling them to fulfill productive and essential consumption needs.
- **Decision-making participation:** SHGs empower women to join in decision-making processes concerning economic and financial matters within their families, such as income management, consumption patterns, loan acquisition, and asset transactions.
- **Economic and social status improvement:** SHGs contribute to the enhancement of women's economic and social standing within their families and communities.
- **Self-development opportunities:** SHGs provide women with opportunities for education, training, and practical knowledge, allowing them to develop their skills and abilities. Working in a group setting fosters personal growth.
- **Socio-political participation:** Through participation in Village Gram Sabha, Panchayat meetings, and political activities, SHGs enable women to engage in sociopolitical decision-making at the local level.
- **Transforming roles and outlook:** SHGs empower women by transforming them from being mere housekeepers to becoming organizers, managers, and decision-makers. Women acquire skills and abilities through group interactions.
- **Fostering unity and welfare:** SHGs promote unity and integrity among members, bridging disparities such as caste, religion, language, and age. This leads to the overall welfare and improvement of families and communities.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

- **Mobilizing resources:** Over time, many individuals within SHGs successfully mobilize resources to develop their enterprises and improve their living conditions gradually.
- **Financial services** It play a crucial role in enabling the impoverished to leverage their initiatives, thereby speeding up the process of acquiring income, assets, and economic security.

1.4. RESEARCH METHODOLOGY

This paper is expressive in wildlife. It is based on the secondary data. The paper understands to study of the role of NGOs. It also discusses the various groups of SHG towards financial inclusion in India. The paper attempts to identify the challenges faced by NGOs. In the last section, the paper suggests some recommendations for increased effectiveness in India. In order to study all these aspects, the researchers have taken the support of various articles and research papers published in various magazines, journal, books, newspapers, blogs, websites, etc.

1.5. OBJECTIVES OF THE STUDY

- To understand the role of NGOs
- To study on Contribution of Self-Help Groups to India.
- To learning on challenges faced by NGOs.
- To study on recommendations for increased Effectiveness in India.

1.6. ROLE OF NGOs

Most NGOs contribute in the overall development of a community through their engagement in social issues and therefore s is recognized as the third pillar of development. Most NGOs have the following inherent features associated with them:

- Grass root linkages
- Participatory approach
- Community engagement
- Community trust
- Long-term commitment

Most experts recognize the role of NGOs in all areas of development and have classified their role into the following categories:

- **Developing Infrastructure:** Some NGOs primarily help in development and operation of infrastructure. These organizations purchase land and then use the land for construction of schools, hospitals, wells, public toilets etc. which is used by community at large.

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

- **Research and Development:** These NGOS conduct research and help in enhancing knowledge on current issues. They develop innovative solutions based on the research to deal with social problems.
- **Advocacy:** Several NGOs attempt to influence policy development in favor of poor and marginalized communities. These NGOs are most likely to conduct rallies, stage demonstrations, participate in policy formulation etc.
- **Dissemination of Information:** In areas where government is unable to reach out to people, NGOs help in disseminating information about government schemes, policies and programs. They help in generating awareness about relevant government projects.
- **Training and Capacity Building:** NGOs provide training and conduct capacity building courses to empower marginalized communities.
- **Facilitate Dialogue:** NGOs can facilitate both upward communication from people to government and downward communication from the government to the people. This two way flow of information helps in designing better projects and effective policies.

ADVANTAGES OF SELF-HELP GROUPS

- Low Transaction costs: for both lenders and borrowers.
- Women Empowerment: Self-help groups empower poor people, especially women, in rural areas.
- Decrease informal borrowing: They reduce the influence of informal lenders in rural areas.
- Support by Big corporate houses: they promote self-help groups in many places.
- No collateral required: SHGs help borrowers overcome the lack of collateral.
- Generate Social support: Women can discuss their problems and find solutions in the group.

1.7. PROMOTING SELF HELP GROUP TOWARDS FINANCIAL INCLUSION IN INDIA

Finance can be a glue that holds all the pieces of our life together. It enables money to be in the right place at the right time for the right situation. To borrow and save is to move money from the future to the present, or from the present to the future. To insure is to move money from a "good" situation to a "bad" one. Ideally, we would never have to think about finance. No country fully meets these ideal conditions, of course. But in developing countries, the situation is especially challenging: Contracts are often not enforceable; long physical distances drive up transaction costs; a lack of competition gives a small number of firms an inordinate degree of market power; and behavioral biases (which are present in wealthy countries, too) lead people to make systematic and costly mistakes. For a long period, such inefficiencies prevented financial markets from emerging in these countries, and the result was stark: The poor had little access to credit and little ability to build savings through formal institutions. The obstacles were simply too high for traditional banks to want to serve them, and no

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

one else was filling the gap. Then, starting in the 1970s, Muhammad Yunus changed the landscape of finance for the poor. He developed a new business model known as microcredit that lowered transaction costs for the lender and removed some of the information asymmetries that made it difficult to lend. This innovation required some tinkering, some exploration, and a great deal of risk. In its early stages, the microcredit movement was not financially sustainable; it required a subsidy. For that reason, donors and nongovernmental organizations (NGOs) played a central role in building the movement.

Financial inclusion is very basic necessity in the economic progress of a country. But in most of the developing countries majority people are out of financial awareness ambit. Self -Help Group is one feasible way for the financial inclusion particular in rural area. Self-help groups are usually informal groups whose members have a common perception of need and importance towards collective action and a SHG is a small economically homogeneous affinity group of the real poor voluntarily coming together to save small amount of money regularly, which is deposited in a common fund to meet member's emergency needs and to provide collateral free loans decided by the group

- **Credit Discipline**: Highlighted by a **repayment rate exceeding 96%**, SHGs contrast with the challenges faced by India's commercial banks, which often grapple with substantial non-performing loans.
- **Growth**: According to the Economic Survey 2022-23, SHGs have demonstrated impressive growth rates, with a compound annual growth rate (CAGR) of 10.8% in credit linkages and 5.7% in credit disbursement per SHG over the past decade.
- **Government Support**: The government's active engagement with SHGs is evident in their inclusion in policies and programs, reflecting a recognition of their organizational effectiveness at the grassroots level.
- **Diversified Roles**: SHGs undertake a variety of roles, including managing local community kitchens, running health services, overseeing slum redevelopment initiatives, and managing agri-nutri gardens.
- **Political Influence**: SHGs have gained significant influence in politics, with political parties incorporating them into women-focused manifestos.
- **National Significance**: Prime Minister Narendra Modi has emphasized the role of SHGs in transforming from "Self-Help Groups" to "Nation Help Groups," underscoring their national significance.
- **Financial Commitment from States**: State governments, particularly in Uttar Pradesh, Madhya Pradesh, Bihar, Rajasthan, Tamil Nadu, Kerala, and Odisha, have provided substantial budgetary support, totaling Rs 5 lakh crore, directly to SHGs.
- **Vote Bank**: SHGs have become a vehicle for soliciting votes from women, reflecting their increasing participation in elections.

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

1.8. PROBLEMS AND CHALLENGES FACED BY SHGs

PROBLEMS FACED BY SHGs

While SHGs have made significant strides in poverty alleviation and empowerment, there are still challenges that need to be addressed:

- **Recognition of beneficiaries:** Identifying and including the poorest of the poor remains a challenge.
- **Limited Training, Capacity Building & Skill Upgradation**: There is a lack of appropriate training plans, quality training, and expert training institutions.
- **Lack of Financial Inclusion**: There is a lack of financial literacy and proper coverage of members of SHGs by formal institutions.
- **Lack of market linkages**: Poor market linkages and forward integration hamper the growth of SHGs.
- **Support Structure in the Community**: lack of a conducive business environment and value chain additions limits the growth of SHGs.

CHALLENGES FACED BY SHGs

- Lack of **financial literacy** among members of SHGs, most of whom are women from poor households. This makes management of micro enterprises difficult. **Financial investment and management** also suffer as a result.
- **Ignorance** of members/participants about the facilities available to them.
- **Lack of proper training** to members regarding product selection, quality of products, production techniques, managerial ability, packing, and other technical knowledge leads to no competitive advantage.
- Due to the small scale of enterprise, **procuring raw materials** in small quantities at affordable prices becomes a challenge. There is a lack of channels with big suppliers, as well as of proper storage facilities.
- **Marketing** of products created by SHGs is a bug hurdle to their prosperity. Various challenges include: Fewer orders Lack of linkages with marketing agencies inadequate sales promotion Issues of quality with products due to usage of traditional technology No permanent market for SHG-based products. Competition from the major players
- SHG products often result in **low margins of profit** for the members.
- SHGs, especially those of women **lack stability and unity**, due to movement of women with their families, as well as due to interpersonal issues in the group.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 8, No. 05 Sep-Oct; 2026 Page. No. 143-151

- In certain cases, it is found that the SHG becomes **another mechanism of exploitation** of the poor as the group is dominated by certain powerful individuals.
- **Financial assistance** provided to SHGs is often found to be inadequate and unable to meet the group's requirements.
- **Uncooperative attitude of financial institutions** towards SHGs makes the process of obtaining loans long and cumbersome.

1.9. RECOMMENDATIONS FOR INCREASED EFFECTIVENESS

- The group dynamics of working of the SHGs should neither be regulated nor should formal structures imposed or insisted upon. The approach to financing of SHGs from the government's end should be that of a **facilitator rather than regulator**.
- The state should however, put in place a **mechanism to monitor** SHGs and their activities in different states.
- The **attitude of government officials** towards SHG members seeking loans should reflect respect, cooperation and coordination.
- Efforts should be made to design **new and updated financial products** for the SHGs.
- Issues arising out of **variation in location** of SHG group and individual **bank accounts** should be addressed by the NPCI (National Payments Corporation of India).
- The spectrum of services provided on the **Bank Correspondent** (Bank Sakhi) platform for financial inclusion should be expanded.
- The government must invest in **literacy** of the poor – digital, financial and digital-financial.
- **Entrepreneurship development** which involves enhancing entrepreneurial skills and knowledge through structured training and institution building programmes should be a priority effort for SHG members.
- **Innovation** should also be encouraged in the functioning of SHGs.
- Organizational, administrative and managerial **skills** among SHGs should be improved, and the communication/information gaps among SHGs members should be filled.
- The **importance of understanding environmental, social and localized issues** in promoting sustainable SHGs should be acknowledged and promoted.
- Focus on **expansion of SHGs** into remote credit-deficient areas of the country.
- Use technology and communication advances to **expand the financial infrastructure** in remote regions of states.
- Due to increasing urbanization and the number of urban poor, there is a need to develop and **strengthen the SHG network in urban areas**.

1.10. SUGGESTIONS

Self-help groups have become a very established institution in our country. The process of financial inclusion is to bring within ambit of the organized financial system the weaker Vulnerable section of society. As far as commercial bank is concerned, the pillars which will help the organizing banking system to widen its outreach is the strengthening of the Bank.

- SHG linkage scheme and the strengthening of the business correspondent model through NGOs towards financial inclusion.
- The formal banking system, the rural co-operatives, and NGOs must be strengthened organizationally to extend their outreach towards better financial inclusion.
- The SHGs are still not recognized as legal entities. Through they were not legally recognized, the experience with the working of the self-help groups has been extremely good.
- They repayment ethics have been good and they have been able to repay promptly loans granted by NGOs.
- There are of course a lot of improvement that are require to increase the number of self-help groups in all parts of the country.

1.11. CONCLUSIONS

SHGs are primarily started to overcome financial problem of the neglected section of the society, today also, keeping the financing function as the first priority, SGHs help to boost financial inclusion. In addition, the present study discloses that the SHGs members are empowered not only through micro financing activities but also by allied different initiatives. The study reveals that after joining the self-help groups, financial awareness improved and the socio-economic status of the members in the family and society are being increased day after day. Thus, to bring weaker and neglected sections of the society to main stream, self-help group can be one of the strong instruments.

1.12. REFERENCES

1. Entrepreneur’s development in India- Kathiresan, Dr. Radha
2. Empowerment of women through self –help groups –Kurukshetra
3. Journals in the NGOs and non-profit sector.
4. International NGO journals.
5. Non-profit management and leadership.
6. The Indian journal of marketing.
7. Asian journals of management.
8. www.icmrindia.org
9. www.Tapanpanda.com
10. www.indianmba .com