

# Role of Digitization in Financial Inclusion of Self- Help Groups in India

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**Abstract-** *Enhancing the financial inclusion of self-help groups (SHGs) has been made easier by digitization, especially in developing nations. This study examines how digitalization plays a critical role in enhancing SHGs' access to financial services, with a particular emphasis on programs like E-Shakti, Aajeevika, and Stree Nidhi. SHGs can increase member financial knowledge, improve transparency, and streamline operations by utilizing digital platforms. In order to evaluate the effects of digital technologies on SHG performance, financial behavior, and overall economic empowerment, the study examines a variety of case studies and empirical data. Results show that digitization closes the gap between SHGs and formal financial institutions while also enabling improved record-keeping and accountability. But there are still a lot of obstacles to overcome, such as poor infrastructure, opposition to change, and digital literacy.*

**Indexed Terms-** *Digitization, Self-Help Groups, Financial Inclusion, Empowerment.*

## I. INTRODUCTION

Self-help groups (SHGs) are widely acknowledged as essential tools for advancing financial inclusion and socioeconomic empowerment, especially for people with limited opportunities in emerging nations. SHGs have historically conducted financial transactions, record-keeping, and communication through manual procedures, which has frequently led to inefficiencies, a lack of transparency, and restricted access to professional financial services. But the development of digitization provides a big chance to change the SHG environment, increasing their reach and improving their operational effectiveness.

Digitization involves the integration of digital technologies into SHG operations, encompassing a wide range of tools such as mobile banking apps, digital wallets, online platforms, and blockchain technology. These tools facilitate more efficient management of SHG activities, improve transparency and accountability, and foster greater financial inclusion by linking SHGs with formal financial institutions. Initiatives like E-Shakti by the National Bank for Agriculture and Rural Development (NABARD) in India exemplify the potential of digitization to revolutionize SHG operations by digitizing records and integrating them with banking systems.

The impact of digitization on SHGs is multifaceted. It not only streamlines administrative tasks and enhances financial management but also empowers SHG members by providing them with access to a broader range of financial services. Digital platforms can facilitate savings, credit, insurance, and investment opportunities, thereby promoting financial literacy and economic resilience among SHG members. Additionally, the transparency afforded by digital records reduces the risk of fraud and mismanagement, fostering greater trust within the groups and with external financial entities.

Despite these promising benefits, the transition to digital platforms is not without challenges. Issues such as digital literacy, inadequate infrastructure, and resistance to change can impede the successful adoption of digital tools by SHGs. Addressing these barriers requires concerted efforts from policymakers, financial institutions, and technology providers to create an enabling environment that supports the digital transformation of SHGs.

This research aims to explore the role of digitization in enhancing the financial inclusion of SHGs. By examining various digital initiatives and platforms, this study seeks to assess their impact on SHG operations, financial behavior, and overall economic empowerment. Through case studies and empirical data, we aim to identify the benefits, challenges, and best practices associated with the digitization of SHGs, providing insights that can inform future policies and interventions to maximize the potential of digital technologies in promoting financial inclusion.

## II. REVIEW OF LITERATURE

Self-help groups (SHGs) play a crucial role in promoting financial inclusion and empowerment, particularly among marginalized communities in developing countries. Traditionally, SHGs have relied on manual processes for record-keeping and financial transactions, which often led to inefficiencies and limited access to formal financial services (Harper, 2002). The need for digitization in SHGs arises from the potential to overcome these challenges by leveraging digital technologies to streamline operations, enhance transparency, and facilitate better access to financial services.

Digital platforms such as mobile banking apps, digital wallets, and online financial management tools offer SHGs opportunities to improve their efficiency in managing group finances and accessing financial services (World Bank, 2017). The integration of digital solutions not only enhances the operational capabilities of SHGs but also strengthens their resilience and ability to adapt to economic changes (Anderson & Kegels, 2018).

Digitization has significantly facilitated access to formal financial services for SHG members, encompassing savings, credit, insurance, and investment opportunities. Platforms like E-Shakti and Aajeevika have been instrumental in digitizing SHG records and integrating them with formal financial institutions (NABARD, 2015; Ministry of Rural Development, Government of India, 2020). These initiatives have enabled SHG members to open bank accounts, access loans, and engage in savings schemes more conveniently and securely.

Studies indicate that digitization improves the efficiency of financial transactions, reduces transaction costs, and enhances the reliability of financial services for SHGs (Stree Nidhi Credit Cooperative Federation Limited, 2020). By bridging the gap between SHGs and formal financial institutions, digitization promotes financial inclusion and empowers SHG members to manage their finances more effectively.

## III. OBJECTIVE OF THE STUDY

1. To analyze the need and importance of digitization in the SHG's.
2. To examine the extent to which digitization facilitates access to formal financial services.
3. To identify the key benefits and challenges associated with the digitization of SHGs

## IV. RESEARCH METHODOLOGY

The secondary data used in this study was gathered from government websites, bank records, NABARD annual reports, newspapers, reference books, and papers. Published on the SHG-Bank linking program, and those are assessed and rationally analyzed to satisfy the predefined goals and research-based inquiries. The study focuses on data specifically connected to Indian SHGs and banks, and it identifies strategies for the socioeconomic empowerment of SHG members.

### Meaning of Digitization

Digitization refers to the process of converting analog information into digital format, making it accessible, searchable, and easier to manipulate electronically. In the context of self-help groups (SHGs), digitization involves adopting digital technologies and platforms to streamline administrative processes, improve record-keeping, and enhance access to financial services.

### Need and Importance of Digitization

- **Efficiency and Accuracy:** Digitization reduces the reliance on manual processes for record-keeping and financial transactions, leading to improved efficiency and accuracy in managing SHG operations. Digital tools enable real-time updates

and data tracking, minimizing errors and enhancing transparency.

- Access to Financial Services: Digitization enhances SHG members' access to formal financial services such as savings accounts, loans, insurance, and investment opportunities. By digitizing records and integrating with banks or financial institutions, SHGs can facilitate faster and more secure financial transactions.
- Financial Inclusion: Digital platforms bridge the gap between SHGs and formal financial systems, promoting financial inclusion among marginalized communities. This inclusion is crucial for empowering SHG members economically and enabling them to participate more actively in economic activities.
- Empowerment and Decision-Making: Digital literacy programs and access to financial information through digital platforms empower SHG members to make informed financial decisions. They gain greater control over their finances and are better equipped to manage savings, investments, and risks.
- Transparency and Accountability: Digitization enhances transparency within SHGs by providing clear, accessible records of financial transactions and group activities. This transparency reduces the risk of fraud and fosters trust among SHG members, leaders, and external stakeholders.
- Scalability and Sustainability: Digital platforms enable SHGs to scale their operations more effectively and sustainably. They can reach more members, expand their services, and adapt to changing economic and social environments with greater agility.
- Policy and Development Support: Governments and development organizations increasingly recognize the role of digitization in enhancing SHG effectiveness and promoting socio-economic development. Supportive policies and investments in digital infrastructure can facilitate the adoption and integration of digital technologies within SHGs.

#### Financial Inclusion

India hosts about 12 million Self-help Groups (SHGs), with a notable 88% being women-led. This initiative began in 1992 and by 2022, it's become the world's

largest microfinance project, serving 142 million families with savings deposits totaling Rs 47,240 crore. Remarkably, over the past decade, more than 96% of SHG loans have been repaid, underscoring their financial discipline.

The Economic survey for 2022 – 2023 highlights that over the past decade there has been a consistent annual growth rate of 10.8% in the number of Self-Help Groups (SHGs) linked to credit, while the credit disbursement per SHG has been an annual growth rate of 5.7% during the same period.

#### V. E-SHAKTI INITIATIVE OF NABARD TO DIGITALIZE SHGS

##### Background

NABARD brought together 500 SHGs in 1992 and encouraged banks to join in these organizations by either providing initial funding or refinancing their initiatives in an effort to support the cause and bring SHGs into the mainstream of banking and financial institutions. 94 percent of the 18.98 lakh Self-Help Groups (SHGs) that received bank loans in 2016–17 was exclusively composed of women. In 2016–17, the total loan amount disbursed was 38781.16 crore, with 93% of the loan amount going to only women's SHGs. In 2016–17, the combined savings of 85.77 lakh SHGs and banks was 16114.23 crore. Of these, women's SHGs accounted for 73.22 (85.36%) of the total SHGs and their savings was 14283.42 crore (88.64%).

Due in large part to its successful journey in carrying out its objective of supporting Self-Help Groups (SHGs) from 1992 to the present, NABARD is now present in almost every corner of the nation. The amount of data and information that the thriving SHGs had also increased significantly. As a result, keeping up with the groups' records was challenging.

SHGs faced a number of difficulties, including: (a) maintaining manual records, which was laborious and led to bulky records over time; (b) a high risk of malfunctions; (c) an individual may hold multiple memberships in SHGs; (d) manual records deteriorate over time, increasing the risk of losing the record history; and (e) a shortage of personnel. (1) Banks and Financial Institutions were unable to provide support

because of incomplete or insufficient information from SHGs and their members.

The problem SHGs were facing has to be addressed right now. SHGs must now be integrated into the technological platform due to the quick progress of digitalization and the rapid change in technologies. Financial institutions such as banks were already adopting the new technology.

## VI. PROJECT E- SHAKTI

E- shakti, pilot project for digitization of SHGs was launched by NABARD in the year 2015 in two districts and later expanded to 100 districts across the country during 2016 and 2017. It aims at digitization of data of all SHGs for enhancing the ease of doing business with SHGs. This is also in line with Government of India's "Digital India" mission.

E-Shakti or Digitization of SHGs is an initiative of Micro Credit and Innovations Department of NABARD. It is a project under which, the social and financial data of the Self-Help Groups and their members in the selected districts are digitized. Digitization brings all the SHGs on to the technology platform and into the fold of Financial Inclusion, thereby helping them access wider range of financial services. This helps bankers in client appraisal and credit dispensation. NCT, proudly took part in NABARD's this prestigious initiative, step for digitization of SHGs i.e. "E-Shakti". E-Shakti, that gives new definition to SHG movement is an opportunity for all the stakeholders like- SHG itself, its members, Bankers, PIAs, Resource agencies and Finally NABARD. The mobile App enabled bilingual (English and Hindi) system is easy to handle that with a little training a villager or a SHG women can operate it. Even a loan application can easily be generated through the app and will directly go to the concerned bank. The system itself grade the SHG and generate balance sheet and give glimpses of every detail (Pancha Sutra) about that particular SHG and hence saves the time of a banker. NCT has digitized 1700 SHGs in Chhindwara district of Madhya Pradesh and 400 SHGs in Nagpur district of Maharashtra state. All the SHGs are women SHGs with an average strength of 12 women a group.

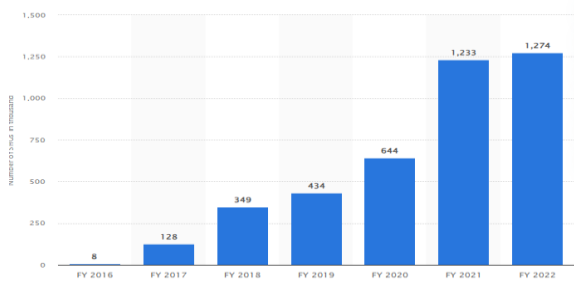
Features of the e-Shakti project by NABARD

- Regular updates on transactional data.
- Online bookkeeping or e-book keeping for SHGs.
- Generation of reports in the formats accepted by various stakeholder such as banks.
- Inbuilt Automatic Grading of these groups according to the NABARD norms. Auto-generation of loan application for bankers after the input of resolution to borrow by SHGs.
- Constructs a comprehensive information base and develops a robust Management Information System (MIS) facilitating suitable interventions and the convergence of various other programmes by empowering them socially and financially.
- Helps in identifying appropriate interventions and support for the proper nurturing and strengthening of SHGs.
- Simplifying the transfer of Direct Benefit Transfer (DBT) and other benefits through the convergence with other Government benefits and Aadhaar linked accounts.
- Every member of Self-Help Groups has the advantage of accessing all social and financial information using the e-Shakti software.

Need for e-Shakti

The irregular and delayed maintenance of books of accounts of SHGs is the main reason why the digitization of records of SHGs are required. With the power of digitization, transparent and proper maintenance of the records would nurture and strengthen SHGs internally. Initiating the e-Shakti project would also bring SHGs, through digital empowerment, to a common web-based online platform by simplifying bookkeeping for various clients who find it difficult. It also promotes the national agenda of Financial Inclusion and paves the way of credible SHG data. By doing so, the credibility of these groups can be used by Credit Bureaus in order to bring down the problems related to financing.

Number of self-help groups digitized under Project E-Shakti in India from financial year 2016 to 2022



SOURCE: NABARD Website

In the financial year 2022, around 1.27 million self-help groups (SHGs) were digitized under Project E-Shakti. This was a slight increase from the previous year. Project E-Shakti was conceptualized with the aim of digitizing financial and non-financial data of self-help groups. The SHG-BLP was developed by National Bank for Agriculture and Rural Development (NABARD) to provide financial services to the unattended and undeserved. Under this program, banks were allowed to open savings accounts for self-help groups (SHGs). Self-help groups are registered or unregistered entities comprising 15 to 20 members from low-income families, usually women.

#### Digital Transformation in Financial Services:

Digital transformation has revolutionized the way financial services are delivered in India. With the advent of digital technologies, financial services are becoming more accessible and affordable to people in rural areas. SHGs are now leveraging digital technologies to transform the financial services sector in India. Some of the ways in which SHGs are promoting digital transformation in financial services are:

1. Mobile banking: SHGs are leveraging mobile banking to provide banking services to their members. Members can access their accounts, check their balance, and transfer funds using their mobile phones. This has made banking services more accessible and affordable to people in rural areas.
2. Digital payments: SHGs are promoting the use of digital payment platforms such as BHIM, Google Pay, and Paytm among their members. Members can use these platforms to make payments, transfer funds, and pay bills. This has made financial transactions more convenient and secure for people in rural areas.

3. Digital lending: SHGs are using digital lending platforms to provide loans to their members. Digital lending platforms such as MUDRA and Jan Dhan Yojana have made it easier for SHGs to provide loans to their members. This has increased access to credit for people in rural areas.
4. Digital literacy: SHGs are promoting digital literacy among their members by providing them with training on how to use digital technologies. This has increased the adoption of digital technologies among people in rural areas. Financial Literacy -Community Resource Person (FL-CRP) is playing an important role in this work.
5. E-commerce: SHGs are using e-commerce platforms (i.e. Amazon, Flipkart, Meesho etc) to sell their products online. This has increased the reach of SHGs and has helped them to generate more income.

#### Benefits of Digital Transformation in Financial Services through SHGs:

1. Improved access to financial services: Digital technologies have made financial services more accessible and affordable to people in rural areas. This has improved access to financial services and has increased financial inclusion.
2. Increased efficiency: Digital technologies have made financial transactions more efficient and secure. This has reduced the time and cost involved in financial transactions.
3. Empowerment of women: Digital technologies have empowered women by providing them with access to financial resources, training, and capacity building. This has increased their participation in economic activities and has improved their social status.
4. Creation of new employment opportunities: Digital technologies have created new employment opportunities in the financial services sector. This has helped to promote economic development in rural areas.
5. Reduction in corruption: Digital technologies have helped to reduce corruption by making financial transactions more transparent.

#### Challenges Faced by SHGs in Promoting Digital Transformation:

Despite the numerous benefits of digital transformation in financial services through SHGs, there are several challenges that they face in promoting digital transformation. Some of the key challenges are:

1. Limited access to digital infrastructure: Many rural areas lack adequate digital infrastructure such as internet connectivity, smartphones, and computers. This makes it difficult for SHGs to promote digital transformation among their members.
2. Limited digital literacy: Many members of SHGs are not familiar with digital technologies, which makes it difficult for them to adopt digital financial services. SHGs need to invest in digital literacy programs to promote digital adoption among their members.
3. High cost of digital infrastructure: The high cost of digital infrastructure such as smartphones, computers, and internet connectivity are another challenge faced by SHGs. Many SHG members cannot afford to buy expensive digital devices, which limits their access to digital financial services.
4. Limited availability of digital financial products: Despite the growth of digital financial services, many financial products are still not available digitally. This limits the ability of SHGs to provide a complete range of financial services to their members.
5. Security concerns: Digital financial transactions are vulnerable to cyber threats, which can result in financial losses. SHGs need to invest in cybersecurity measures to protect their members' financial information.

#### CONCLUSION

In India, digitization has been shown to be a key factor in improving Self-Help Groups' (SHGs') financial inclusion. SHGs have seen notable gains in operational effectiveness, transparency, and access to formal financial services by utilizing digital platforms and tools like digital wallets, mobile banking apps, and online financial management systems. E-Shakti, Aajeevika, and Stree Nidhi are just a few examples of how digitalization can change SHG operations by giving members access to a wider choice of financial products and services and improving their ability to interact with financial institutions.

Digital technology integration in SHGs improves financial administration, lowers transaction costs, and boosts the dependability of financial services. Members of SHGs gain influence from this digital change, which also encourages increased economic resilience and financial awareness. Furthermore, digital records offer accountability and transparency, which lowers the possibility of fraud and promotes confidence among group members and outside stakeholders.

Even with the great advantages, a number of problems still exist, including poor digital infrastructure, low digital literacy, change aversion, and security issues. It will need coordinated efforts by legislators, financial institutions, and technology companies to remove these obstacles and establish a supportive atmosphere for SHGs' digital transformation.

In conclusion, there is a great deal of promise for advancing financial inclusion and economic empowerment in India through the digitization of SHGs. SHGs can continue to be vital to the socioeconomic growth of marginalized groups by tackling the current issues and taking use of the opportunities provided by digital technologies. The collaborative efforts of all parties involved in promoting and maintaining the digital empowerment of SHGs are essential to the success of this digital transformation.

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