Impact of Financial literacy & Peer influence on Financial behavior among SHG Members in India – A PLS SEM-based Model

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Globally 1.7 billion people are below the poverty line (Kunt, 2017). These people do not have access to physical collateral and suffer from formal financial institutions that do not have information about the creditworthiness of the poor. Group lending provides a panacea to the problem of financial exclusion. Through social capital, these groups provide access to finance for the poor. This landmark financial intermediation initiative achieved repayment rates of 100%. But despite all efforts, the Self-help group linkage program is fraught with institutional unsustainabilities, such as lack of adherence to group norms, due to lack of financial literacy. This study aims to understand the impact of financial literacy on the members' financial behavior. The theoretical lens of Theory of Planned Behaviour by Ajzen, 1971 has been used. Within this theoretical construct, the study aims to explore the mediating role of Financial Attitude and Financial efficacy on financial behavior of members of self-help groups. Group lending generate social capital through peer mechanism. In a homogenous group of people with Joint liability, the members peer monitor and self-select each other, mitigating the transaction and screening cost. Members also share knowledge and this leads to behavioral changes. In the context of 250 SHGs under the SHPI (Self-help group Promotion Institution), the study through PLS-SEM and ANN method establishes a significant relationship between Financial Knowledge, Financial Attitude, Financial Efficacy, and Financial Behaviour. This study demonstrates an important mediating role of the Financial Attitude on Financial Behaviour. Peer Influence also plays a moderating role in the relationship between Financial Knowledge and Financial Behaviour.