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Self Help Groups Members' Religious Perception and their Relationship between Financial Literacy and Repayment Intention towards Loan: Considerable Focus on Himachal Pradesh (H.P)

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Abstract

The intent of this study is to create a comprehensive model that can identify various factors and examine the impact of financial literacy on loan repayment intentions among members of SHGs in Himachal Pradesh. A conceptual model has been put forward and its validity has been confirmed. In addition to this, a total of 500 questionnaires were distributed, out of which 372 were considered usable. The stability of the proposed model and the testing of research hypotheses were conducted using structural equation modelling. The findings indicate that financial awareness and financial skills are strong predictors of loan repayment intention among SHG members. On the other hand, financial knowledge and financial skills have a relatively weak influence on loan repayment intentions. The results and observations from the interaction with responders indicate that there is a moderate level of importance placed on financial literacy among members of SHGs. An important factor in reducing the rate of outstanding loans in SHGs is the need for members to enhance their financial understanding.

Keywords: Self-Help Groups, Financial Experience, Financial Knowledge, Financial Skills, Financial Literacy, Loan Repayment Intention

INTRODUCTION

ASIC report from 2003, financial literacy plays a crucial role in promoting economic and financial stability and fostering growth. The definition of financial literacy remains a topic of ongoing discussion and disagreement. The research on financial literacy has yielded multiple definitions, as experts in the field have allowed researchers and authors to freely explore and analyse the concept, there is a consensus that the terms financial literacy, financial education, and financial knowledge can be used interchangeably. (Verma, 2023 & Singh et al., 2023) in the study discusses that financial literacy plays a crucial role in today's complex financial landscape and its importance cannot be overstated. Acquiring information and skills in personal finance allows individuals to make informed decisions about their financial matters, leading to improved financial well-being. The importance of financial literacy education has increased significantly as it has been found to decrease the probability of individuals being deceived when making investment choices (Braunstein & Welch, 2002). De Bassa Scheresberg (2013) suggests that individuals with a greater degree of financial literacy tend to exhibit greater confidence in making personal financial decisions and achieving favourable financial outcomes. The increasing interconnection and reliance of societies on credit have highlighted the importance of effectively managing loans and repaying debt as a crucial aspect of financial literacy (Roy & Jain, 2018; Singh et al., 2023). The main purpose of this research article is to examine the relationship between financial literacy and loan repayment, focusing specifically on the region of HP India. The acquisition of financial knowledge and skills plays a crucial role in enhancing the economic well-being of individuals and society as a whole. This programme aims to equip individuals with the necessary resources to navigate complex financial systems and make informed decisions that can have a significant impact on their financial stability and future prospects. Insufficient financial

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literacy can lead to challenges in effectively managing personal finances, resulting in recurring debt, failure to meet financial responsibilities, and increased financial vulnerability. ASIC report from 2003, financial literacy plays a crucial role in promoting economic and financial stability and fostering growth. The definition of financial literacy remains a topic of ongoing discussion and disagreement. The existing research on financial literacy encompasses a variety of definitions, as researchers and authors have been granted the freedom to explore and analyse the concept of financial literacy (Remund, 2010). According to Al-Tamimi and Bin Kalli (2009), Howlett, Kees, and Kemp (2008), and Yoong, See, and Baronovich (2012), there is a consensus that the terms financial literacy, financial education, and financial knowledge can be used interchangeably. Financial literacy plays a crucial role in today's complex financial landscape and should not be underestimated. Acquiring information and skills in personal finance allows individuals to make informed decisions about their financial matters, leading to improved financial well-being. Braunstein & Welch (2002), Gupta et al., 2023 reveals the importance of financial literacy education has increased significantly as it has been found to decrease the chances of individuals being deceived or misinformed when making investment decisions. De Bassa Scheresberg (2013) suggests that individuals with a greater level of financial literacy tend to exhibit increased confidence in making personal financial decisions and achieving favourable financial outcomes. The increasing interconnection and reliance of societies on credit have highlighted the importance of effectively managing loans and repaying debt as a crucial aspect of financial literacy (Roy & Jain, 2018). The main purpose of this research article is to examine the relationship between financial literacy and loan repayment, focusing specifically on the region of H.P India. The acquisition of financial knowledge and skills plays a crucial role in enhancing the economic well-being of individuals and society as a whole. This programme aims to equip individuals with the necessary resources to navigate complex financial systems and make informed decisions that can have a significant impact on their financial stability and future prospects. Insufficient financial literacy can lead to challenges in effectively managing personal finances, resulting in recurring debt, failure to meet financial commitments, and increased financial vulnerability.

The relationship between financial literacy and loan repayment has garnered significant interest from scholars, government officials, and the financial industry. Analysing the correlation between financial literacy and loan repayment behaviour is crucial in order to advance financial inclusion, mitigate default rates, and cultivate economic stability. By conducting a thorough analysis of this correlation, we can identify the different factors that contribute to the success of loan repayment. As a result, this analysis allows for the development of effective strategies to enhance financial literacy programmes and policies. Financial literacy plays a crucial role in fostering economic empowerment and promoting financial inclusion. This tool enables individuals to make well-informed decisions regarding money management, savings, investments, and borrowing. Financial literacy plays a crucial role in SHGs as it has a direct influence on the loan repayment behaviour of its members. The state of H.P in northern India has experienced a notable increase in the number of SHGs over time. This presents an excellent opportunity to examine the connection between financial literacy and the repayment of loans (Maity & Sarania, 2017). The research paper titled "Relationship between Financial Literacy and Repayment of Loans in SHGs in Himachal" focuses on examining the connection between financial literacy and loan repayment in SHGs in H.P. The objective of this study is to offer valuable insights into this significant topic. This study aims to contribute to the existing knowledge on financial literacy and loan repayment by analysing the current level of financial literacy among SHG members, identifying the barriers they face in loan repayment, and proposing strategies to enhance financial literacy (Dhungana & Kusakabe, 2010).

The primary objective of this study is to evaluate the level of financial literacy among SHGs members in H.P. The objective of this study is to analyse the impact of financial literacy on loan repayment behaviour among members of SHGs in H.P. The study will also investigate various factors that influence the level of financial literacy among SHG members in H.P. Additionally, the purpose of this investigation is to analyse the obstacles that hinder financial literacy and loan repayment in the state. The intent is to propose effective strategies that can enhance financial literacy.

The Research Questions of The Study are:

- What is the level of financial literacy among SHG members in H.P.?

- What are the most influential loan repayment characteristics in H.P?
- What factors influence financial literacy in H.P and its effect on loan repayment?
- What feasible initiatives could be proposed to enhance financial literacy and loan repayment in H.P?

The primary objective of this research is to deepen our comprehension of the relationship between financial literacy and loan repayment intentions. This will be achieved by investigating various research objectives and topics. The research findings and recommendations of the study have the potential to provide valuable insights for policymakers, financial institutions, and educators. The provided insights have the potential to be valuable in the development of effective strategies aimed at promoting financial literacy, improving loan repayment rates, and fostering economic stability. The impact of this extends beyond H.P and has the potential to affect other regions as well. This study recognises the importance of examining the relationship between financial literacy and loan repayment intention among members of SHGs, specifically focusing on the HP region. The primary aim of this study is to provide an academic contribution by thoroughly analysing the research objectives and questions that have been identified. The primary focus of this study is to examine the influence of financial literacy on individuals' intentions to fulfil their loan obligations. Furthermore, its objective is to provide meaningful analysis that can be leveraged to enhance financial inclusivity and promote economic stability in H.P and similar areas.

LITERATURE REVIEW:

Individuals who do not possess a basic knowledge of key financial principles may face challenges in making well-informed decisions regarding their financial management. The financial literacy report by Klapper et al. (2015) highlights that the financial literacy rate in India is only 24% among adults. Additionally, the report indicates that approximately one-third of the global adult population possesses financial literacy skills. The data suggests that a significant number of adults, around 3.5 billion globally, lack adequate understanding of basic financial concepts. It is noteworthy that a majority of these individuals live in developing economies. According to Manu (2022), SHGs are instrumental in the development and empowerment of their members. Financial literacy is identified as a critical factor in facilitating this process (Husain & Dutta, 2013). SHGs play a crucial role in enhancing financial well-being, empowering individuals to achieve economic independence, and facilitating informed decision-making in areas such as budgeting, savings, investments, and access to financial services. This is accomplished by providing SHG members with the necessary financial literacy and knowledge. The role of credit is crucial in enabling and supporting tangible economic transactions. Individuals who lack transparent or comprehensive financial information face challenges when seeking formal credit. The paper "Stiglitz & Weiss (1981)" is a significant contribution to the field. The establishment of SHGs and their affiliation with banks is an important initiative aimed at providing formal credit to individuals who are financially excluded and lack clear information about their financial situation (Pathak & Pant, 2018).

According to Madheswaran and Dharmadhikary (2023), although SHGs have had a notable impact in India, there is still a considerable number of members who do not possess adequate financial literacy. Studies found that a significant number of SHG members lack a sufficient understanding of financial terms such as interest rates, loans, and banking procedures. The lack of financial knowledge among SHG members poses various challenges that hinder their ability to invest in profitable ventures and expand their businesses (Rao, 2021), (Guérin, 2011). Report of NCFE 2019 observed that individuals who have inadequate financial literacy and are associated with SHGs are vulnerable to predatory and illegal lending practises. Due to this, individuals frequently find themselves unintentionally involved in disadvantageous loan agreements or investment schemes, resulting in financial setbacks.

The study conducted by Johnson et al. (2016) provides evidence that social learning can be beneficial for group members when it comes to making wise financial choices. The members convene in a social environment to exchange information, engage in discussions regarding financial choices, and make decisions tailored to their individual financial circumstances. The peer effect plays a significant role in fostering social learning and encouraging the adoption of sound financial practices. In a social context, an individual's financial attitude, their

emotional relationship with money, and their level of financial efficacy or confidence in their abilities are factors that contribute to effective money management. Having a strong understanding of financial concepts is crucial for developing a positive mindset towards finances, which in turn can greatly impact the effectiveness of a group. Ahmad et al. (2020), discusses that financial behaviour of individuals in a joint liability group is affected by peer pressure and financial knowledge. Additionally, an individual's financial attitude plays a role in amplifying this influence. The relationship between financial attitude and financial efficacy among community members is significant, as a lack of financial efficacy is associated with the development of poor financial habits. The presence of peers has a moderating effect on the relationship between an individual's financial knowledge and their financial behaviour. On the other hand, the utilisation of social mediation has the potential to contribute to the cultivation of a mindset that is inclined towards financial responsibility, consequently bolstering one's belief in their ability to achieve desired outcomes. Anand et al. (2020) and Singh and Kumar (2017), NGOs and SHPIs have the ability to develop programmes that promote positive financial attitudes within communities through the provision of initial assistance. The field of studying the influence of social norms and background on an individual's financial behaviour lacks sufficient research theory. Furthermore, it is possible to conduct research to analyse the influence of subjective norms on an individual's financial behaviour, considering other indicators such as subjective norms, as suggested by Tiwari (2013). Rural households have a need for diverse financial services to meet their specific requirements. These services include the management of their earned income with assured returns, access to credit for maintaining liquidity and addressing short-term financial needs throughout the year, insurance coverage to safeguard their property and lives, and the ability to make payments and send money to their families (Pillai, 2017). Financial education campaigns should consider the potential for low-income individuals to generate assets, which can have positive impacts on both their economies and societies.

Various authors believe (Rastogi, 2021; Deshpande, 2007; Das, 2021; Kabeer, 2001), it has been found that the lack of financial knowledge among members hampers their ability to recognise and capitalise on growth opportunities. Individuals might face challenges in accessing government programmes, market connections, and entrepreneurial training programmes that necessitate financial literacy. Bijli 2012 & Khare et al., 2023 in the study shows that involvement in SHGs has a positive impact on financial literacy and socio-economic status. This impact is observed in both individual members and their families, and it tends to increase over time. In order to promote the inclusion of marginalised and underserved segments of society, self-help groups can be a powerful tool (Gopalkrishna & Head, 2014), (Ravi, 2023). This study analyses the financial management techniques employed by female members of SHGs who have received microcredit from the MFI Grameen Koota in Karnataka. Financial literacy modules were created to empower SHG members. This decision was made after discovering that the women had limited understanding of important financial concepts such as the importance of saving, managing cash flow, building capital, and maintaining accurate financial records. (Hasan et al., 2023); Swain & Wallentin (2009), exists a significant potential for women from low socioeconomic backgrounds to achieve financial viability. The lack of sufficient information and guidance on savings and credit practices hinders women from making informed financial decisions, which in turn hampers their journey towards empowerment. The correlation between prudent financial practices and sound decision-making in the finance industry is highly important. To achieve this objective effectively, it is essential to prioritise three key areas: enhanced information dissemination, knowledge sharing, and the promotion of financial planning within SHGs. The study mentioned earlier highlights the potential effectiveness of financial literacy modules in empowering women and helping them achieve economic autonomy. These modules are specifically designed to be easily understood, making them accessible to a wide range of individuals. According to Tesoriero (2005), the SHG members face limitations in realising their complete entrepreneurial capabilities because of their inadequate understanding of financial matters. The potential challenges they may face include pricing issues, market analysis limitations, and financial planning constraints. These factors could potentially impact their profitability and long-term sustainability. The improvement of financial literacy among SHGs members in India should be prioritised, as highlighted by Rajeev and Veerashekarappa (2020).

In order to effectively implement financial literacy programmes for SHG members, it is crucial to involve organisations and government agencies. These initiatives should be tailored to meet the specific needs of SHG members. Venkataramany and Bhasin (2011), states that it is important for these programmes to cover a variety

of subjects, such as fundamental banking principles, savings techniques, credit management, and investment strategies. The study conducted by Gupta et al. (2014) & (Hasan, 2018) examines the level of financial literacy awareness among microbusiness owners in the Kangra district of H.P. The analysis indicates that the financial literacy of microbusiness owners in Kangra district is lacking. Furthermore, the research conducted by Gajjala and Gajjala (2016), (Hasan et al., 2023) revealed several deficiencies in record-keeping practices, cash management, saving habits, and understanding of financial products and instruments. The study's findings indicate that microentrepreneurs are not fully embracing formal financial practices. The government-sponsored financial literacy initiatives should focus on targeting every sector of society. When comparing the loan outstanding in 2020-21 to 2017-18, a different scenario emerges. The total amount outstanding has increased by 89% over the course of these two years. With the exception of Dadra and Nagar Haveli, no state or union territory has witnessed a decrease in the outstanding credit amount. The increase in loan disbursement could be a potential cause for this occurrence. Although there has been a decrease in loan disbursement, it is noteworthy that outstanding amounts have actually risen in several significant states. Upon analysing the performance of SHGs in Uttar Pradesh and Telangana, it becomes evident that there has been a consistent decrease in the number of SHGs obtaining loans, the overall loan amount disbursed, and the Investment Subsidy (IS) provided annually. The data shows a notable rise in the number of outstanding loans, particularly in Uttar Pradesh where there has been a 99% increase, and in Telangana where the increase stands at 73%. According to the data, there has been a decrease in the number of SHGs in Punjab that have been able to access loans and income support (IS). Moreover, it is worth noting that the annual amount of loans disbursed has experienced only a slight increase. However, it is worth noting that in Punjab, the outstanding amount has experienced a significant increase, nearly doubling in size. As of March 2022, the Non-Performing Assets (NPA) in Punjab and Uttar Pradesh stood at 9.85% and 13.51% respectively. The statement implies that there is a decrease in the demand for loans and a decline in the capacity to repay them.

The current state of financial literacy among SHG members in India is a significant cause for concern. Insufficient knowledge in finance can impede individuals from accessing financial services, effectively managing their finances, and taking advantage of opportunities for growth. However, efforts are currently being made to address these challenges through targeted financial education programmes and partnerships with financial institutions. The promotion of financial literacy among SHG members is crucial for their empowerment, poverty alleviation, and the achievement of sustainable development.

Based On Reviewing Literature Researcher Formulated Following Hypothesis

H₁: There is Impact of financial awareness on Loan repayment intention of SHG members.

H₂: There is impact of financial experience on Loan repayment intention of SHG members.

H₃: There is impact of financial knowledge on Loan repayment intention of SHG members.

H₄: There is impact of financial skills on Loan repayment intention of SHG members.

RESEARCH METHODOLOGY

This study can be classified as cross-sectional research, as it focuses on a single point in time (contact) to gather data and analyse it. The sample was collected through a systematic offline questionnaire/interview procedure. The researcher conducted tests to examine the hypothesis and obtained further understanding of Financial Literacy and Repayment Intention among H.P SHG members. The research employed modified standardized scales. The study involved contacting 500 respondents through the cluster sampling method, with the sample size determined using the stratified formula. Questionnaire distributions took place in Shimla, Mandi, Kangra, and Sirmour. The study incorporated both primary and secondary data. The collected data was analysed using Jamovi version 2.4.4. Skewness and kurtosis were utilized to assess the normality of the study variables. The range of skewness and kurtosis values fell within +2 and -2, suggesting that the data followed a normal distribution.

RESULTS

Respondents' Profile

The study was designed with an expected participation of 400 respondents. Out of the 400 respondents, 372 provided final and complete responses that were included in the data analysis. The remaining 28 responses were excluded because they had incomplete questionnaires. A total of 382 respondents identified as female. A significant proportion of the participants (75.2%) fell within the age range of 20 to 45. Additionally, a substantial majority (84.9%) of the respondents displayed a limited grasp of financial concepts.

ANALYSIS AND DISCUSSION

Data Description

The primary data was collected using a survey method. A questionnaire consisting of 24 items was created based on existing literature. The items were then categorised into five variables using a five-point Likert scale. The study includes four exogenous variables: financial awareness (FA) with 5 items, financial experience (FE) with 5 items, financial knowledge (FK) with 5 items, and financial skills (FS) with 3 items. Additionally, there is one endogenous variable: loan repayment intention (LRI) with 6 items. The modification and translation of the questionnaire into Hindi were done to ensure that all participants can comprehend the information presented.

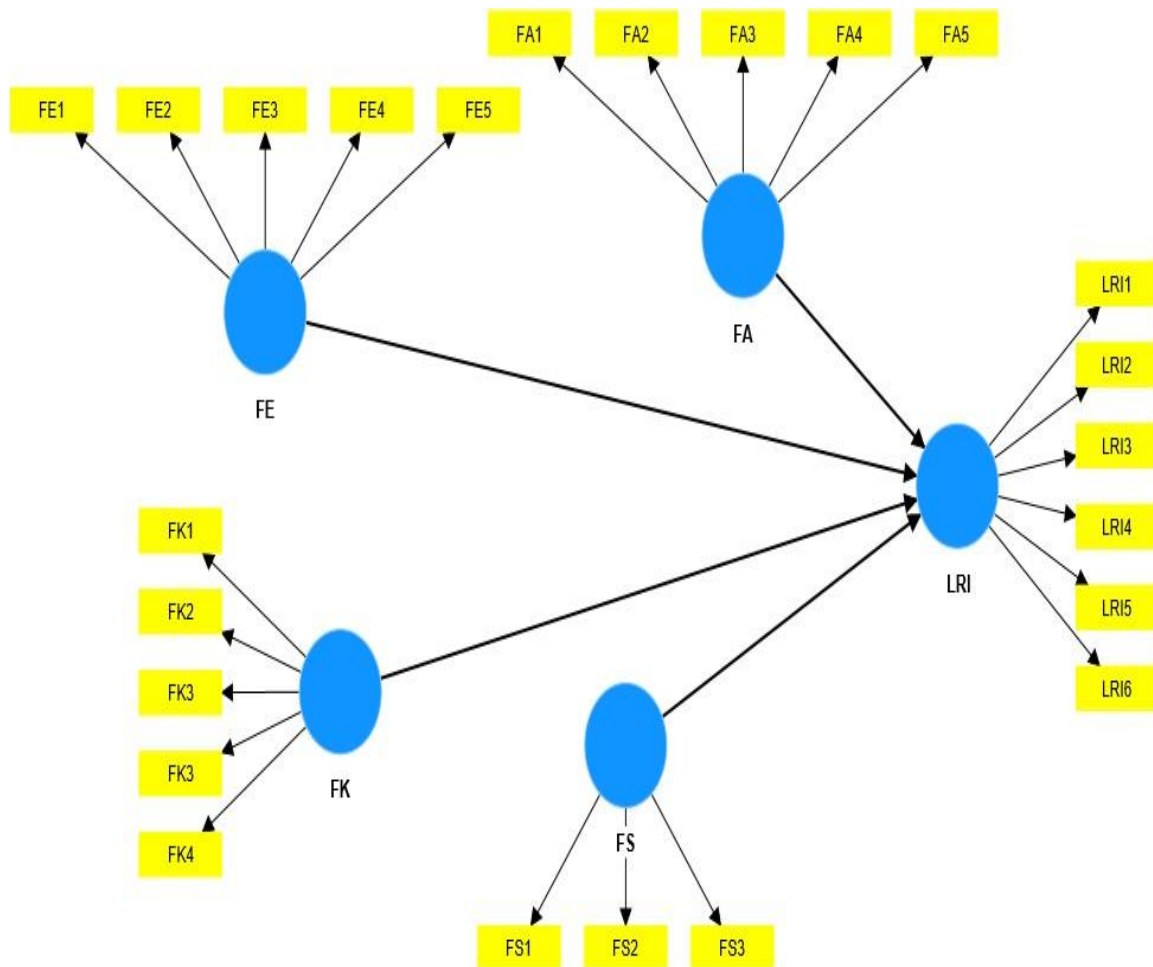


Figure 1 Proposed model

Table 1 PLS-SEM Result analysis

Variable	CR	Cronbach's alpha	AVE
FA	0.521	0.868	0.656
FE	0.277	0.773	0.447
FK	0.549	0.890	0.697
FS	0.465	0.857	0.778
LRI	0.559	0.887	0.621

Source: Smart PLS 4

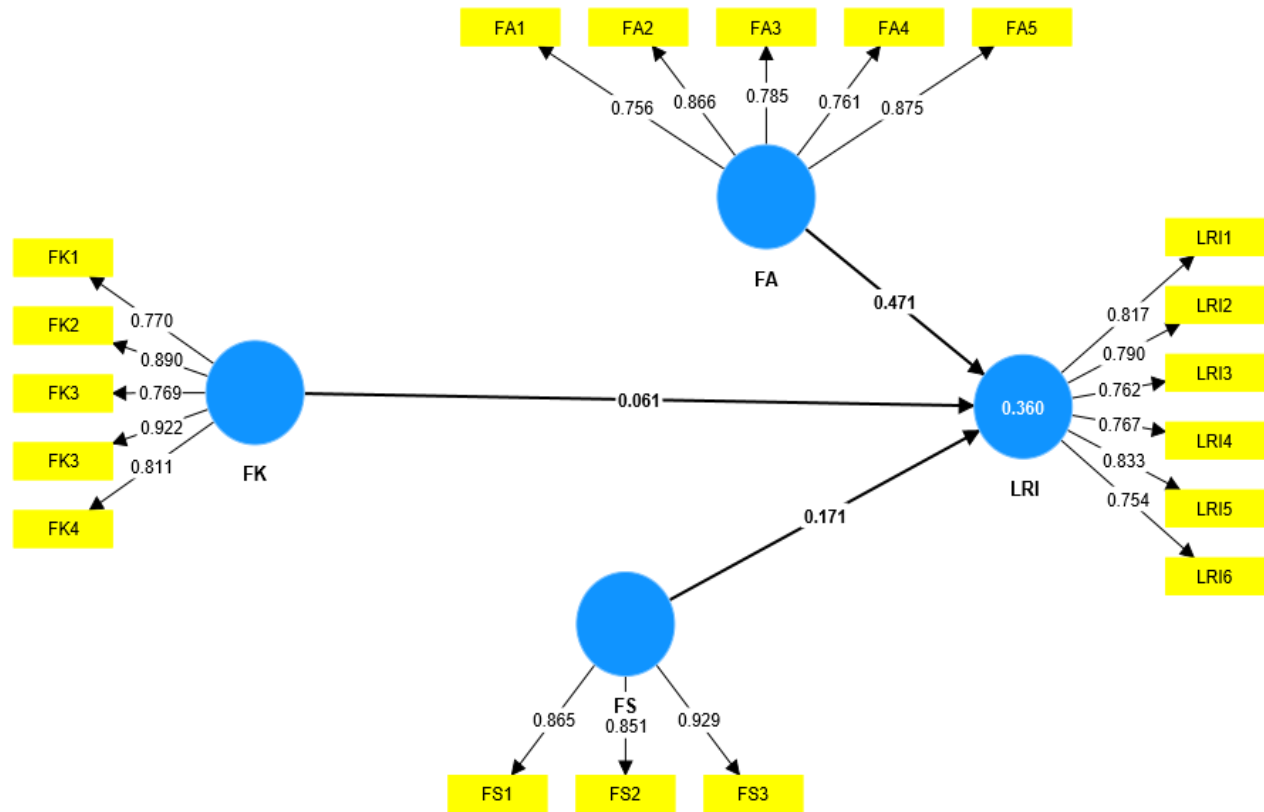


Figure 2

Source: Smart PLS 4

The reflective measurement was analysed using the PLS-SEM with the assistance of Smart PLS. This approach has been previously used by researchers such as Hair et al. (2019), Aguirre-Urreta and Hu (2019), Endara et al. (2019), Kalia et al. (2021a), and Kock (2015). The proposed model, as shown in Figure 1, was assessed using reflective measurement criteria. Values higher than 0.70 are considered as the expected criteria for both composite reliability (CR) and Cronbach's alpha. The outer loading is anticipated to exceed 0.70. Furthermore, it is crucial to acknowledge that a convergent reliability value should exceed 0.50. The outcome of the analysis conducted using the PLS-SEM algorithm is presented in Table 2. Based on the analysis of the PLS-SEM algorithm, it was determined that four variables (FA, FK, FS, and LRI) met the reflective measurement criteria. The values reported for Cronbach's alpha and CR of these variables were found to be greater than 0.70. The study evaluated the convergent reliability by analysing the AVE, which was determined to be higher than 0.50. However, the variable of Financial Experience (FE) did not meet the necessary criteria and was subsequently

excluded from subsequent analysis. Following the removal of specific items, a subsequent analysis was performed utilising the PLS-SEM algorithm. According to the analysis results presented in Table 2, there was a noticeable enhancement in the values of CR (Construct Reliability) and AVE.

After the second analysis completed, the final model was created, as shown in Figure 2. The model includes four variables: FA, FK, FS, and LRI. The collection consists of a grand total of 19 individual items. The model underwent evaluation and estimation using the Smart PLS v. 4 programme for PLS-SEM analysis. Figure 2 illustrates the external loading associated with each item.

Table 2 PLS-SEM Result after removal of rejected variable

Variable	Cronbach's alpha	CR	AVE
FA	0.868	0.848	0.656
FK	0.890	0.921	0.697
FS	0.857	0.832	0.778
LRI	0.877	0.942	0.621

Source: Smart PLS 4

Table 3 Model fit

Model fit	
SRMR	0.0789
Chi- square	489.324
NFI	0.895

Source: Smart PLS 4

IMPLICATION OF THE STUDY

The subject matter has significant implications that necessitate additional investigation. In order to improve financial awareness, it is essential to focus on two key areas: increasing financial literacy and promoting loan repayment intentions among members of SHGs. Achieving this goal can be facilitated through a range of methods, such as organising workshops, implementing training programmes, and providing educational resources that specifically focus on topics like budgeting, saving, and understanding different financial instruments. It is crucial to prioritise the development of financial skills in addition to raising awareness about financial matters. Providing SHG members with diverse opportunities to enhance their financial expertise is crucial. This includes offering resources and education on investment strategies, minimising risks, and effective financial planning. Utilising these skills gives people the power to make decisions based on good information and manage their funds well. While the study suggests that financial knowledge and experience may not have a significant influence on loan repayment intentions, it is still important to acknowledge their significance. Financial literacy programmes should be designed to include elements that not only increase the financial knowledge of participants but also provide opportunities for them to apply their financial skills in real-life situations. The facilitation of a more comprehensive understanding of financial concepts and the promotion of practical application of financial skills in real-world scenarios will be enhanced by this (Gupta, 2023).

To enhance the effectiveness of financial education programmes, it is crucial to tailor them to the specific needs and circumstances of SHG members. Considering the cultural, social, and economic factors that may impact individuals' financial decision-making processes is crucial. The introduction of customised programmes is anticipated to improve participation and applicability, thus increasing the likelihood of positive results regarding financial literacy and intentions to repay loans. Regular monitoring and evaluation of financial literacy programmes is crucial for assessing their impact and identifying areas in need of improvement. The purpose of this assessment is to analyse the effectiveness of the programmes in enhancing financial literacy and promoting the intention to repay loans among members SHGs. The proactive solicitation of feedback from participants is crucial in order to incorporate their suggestions and requirements into the modifications. By implementing these implications, policymakers, organisations, and stakeholders can create an environment that allows SHG

members to improve their financial literacy, make informed decisions about loan repayment, and ultimately improve their financial well-being.

LIMITATIONS OF THE STUDY

The research study is limited by its relatively small sample size. The study focused on individuals who are part of SHGs in Himachal Pradesh. However, it is suggested that a more comprehensive investigation should be carried out, including a wider range of participants. Ensuring the applicability of the results to a wider population would be beneficial in this case. The study is subject to geographic limitation, as it focuses solely on the region of Himachal Pradesh. To gain a thorough understanding of the factors that influence loan repayment intentions among members of SHGs, it is suggested that future research should include similar investigations in different locations or conduct a multi-site study.

The study employs self-report measures to assess the levels of financial awareness, financial skills, and loan repayment intentions. However, it is important to note that self-report measures can be influenced by different biases, such as social desirability bias, recall bias, and response bias. Further investigations could consider incorporating objective measures or alternative methodologies as potential approaches to mitigate these biases. The study investigates the correlation between financial awareness, financial skills, and loan repayment intentions. However, it does not succeed in establishing a causal relationship. Future investigations should consider using longitudinal or experimental methodologies to examine the causal relationship between these variables. This will provide stronger empirical evidence to support the implications of policy and intervention.

FUTURE POTENTIAL AREAS FOR FUTURE RESEARCH

The implementation of intervention studies focused on evaluating the effectiveness of financial education programmes and interventions in improving financial knowledge and skills, as well as promoting loan repayment intentions, could provide valuable insights for policymakers and practitioners. Longitudinal studies are valuable for assessing the long-term impact of financial literacy interventions on loan repayment intentions and financial well-being among SHG members. The studies could potentially improve our understanding of the long-term effects of financial education programmes. A comparative study can be conducted to analyse loan repayment intentions and financial literacy levels among SHG members and other similar groups, such as microfinance borrowers or individuals not associated with SHGs. This study can help identify specific factors that influence loan repayment intentions within the context of SHGs. Qualitative research methods, such as interviews or focus groups, can provide valuable insights into the experiences, perspectives, and challenges faced by members of SHGs when it comes to loan repayment. The incorporation of qualitative data in this study has the capacity to improve and supplement the quantitative findings. By recognising and analysing these limitations, as well as investigating potential avenues for future research, we can further enhance our understanding of financial literacy and loan repayment intentions among Self-Help Group (SHG) members. In addition, this will allow for the creation of more effective approaches focused on enhancing their overall financial welfare.

CONFLICTS OF INTEREST

The author(s) declare that there are no conflicts of interest regarding the publication of this paper.

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Self Help Groups Members' Religious Perception and their Relationship between Financial Literacy and Repayment Intention towards Loan: Considerable Focus on Himachal Pradesh (H.P)

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