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UNDERSTANDING ECONOMIC VIABILITY OF SELF-HELP GROUPS FOR POOR: EVIDENCE OF VARANASI DISTRICT, UTTAR PRADESH

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ABSTRACT

Micro-finance is always considered as poverty alleviation tool for deprived people. It provides platform to develop business strategies for livelihood. But the impact of micro-finance on poor is always dubious. This paper attempts to provide base to understand the area of effectiveness of micro-finance programme via self-help group. The study is based on primary data taken from Varanasi district of Uttar Pradesh. The study shows that about more than 40 per cent beneficiaries belong to landless households. The average saving significantly increased in all SHG groups, while pace of change is highest in older groups. The study also confirms that more than half of total loan amount has been spent on non-income generating activities.

Introduction

Micro-finance is often considered as one of the most effective strategies for poverty alleviation and women empowerment. But, there is no common consensus about impact of micro-credit on poor people. Several studies highlight the positive impact of micro-credit on the lives of poor (Rhyne 1998; Mosley 2001; Littlefield, Morduch and Hashemi, 2003; Van de Walley and Cratty, 2005). McKernan (2002) states that micro-finance leads to self-employment profits, while Pitt and Khandekar (1998) and Khandekar (2005) found that micro-credit has positive impact on the well-being of poor and even greater on women clients. On the other hand, some other scholars argue that micro-credit bypasses the poor, and rarely it reaches poor (Kotir and Obeng-Odoom, 2009; Coleman, 2006). Mosley (2001) found that there is no positive impact of micro-finance on extreme poverty due to greater needs of consumption loans and their limited range of investment. This study also shows that micro-finance services may increase vulnerability if borrowers over-leverage. Hulme (2007) shows that micro-credit might leave some people in worse-off situation by pushing into indebtedness without repayment capacities.

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In India, the Self-Help Group (SHG) Bank Linkage Programme is by far the dominant model of micro-finance in terms of both number of borrowers and loans outstanding. Over the last 10 years, the programme has experienced exponential growth in terms of outreach and credit disbursement (Srinivasan, 2009). Ghosh (2013) shows that about 75 per cent of the world's micro-finance borrowers were based on in Asia and every 7 out of every 10 of such borrowers live in India or Bangladesh. But most of the borrowers (about 90 per cent) belong to two States: Andhra Pradesh and Tamil Nadu. The provisional data of NABARD for 2011-12 show that the number of SHGs provided with bank loans was 4.36 millions, however in 2006-07, it was 2.23 millions. On the other hand, loan outstanding increased by 193 per cent between 2007-08 and 2012-13. Besides, the impact studies of Self-Help Groups (SHGs) show mixed results. Puhazhendi and Badatya (2002) found that SHG bank linkage programme made a significant contribution to social and economic empowerment of SHG members even; their incomes increased by 23 per cent. While other studies (Nair, 2005; Moyle, Dollard and Biswas, 2006 and Chakrabarti, 2004) assessed more specific type of issues such as role of SHG federations in providing sustainability of SHGs, economic and personal empowerment of women and role of micro-finance in poverty eradication. Luders and Osborne (1996) focused on group dynamics such as SHG longevity and causes of group failure, while APMAS' (2003) study reveals the differences between older and younger groups and found a cyclical pattern in group performance with groups younger than four years or older than seven years showing better performance in saving and credit behaviour than the middle aged groups. In fact, the purpose of SHG-bank linkage programme was to expand credit availability for poor and deprived people in rural areas because early programmes yielded disappointing results (Deininger and Liu, 2009). The micro-finance delivery mechanisms in India include two types of approaches. Micro-finance Institutes (MFIs) mainly focus on loan disbursement and saving services are designed as a means of collateralising loans (Hulme, 2000). However, SHG-bank linkage model adopts saving led strategies to eradicate the poverty as well as women empowerment but size of disbursement of loan is still a problem. Therefore, many borrowers diversified their loan amount on consumption purposes rather than productive. But, no research has been done so far on whether participation in SHG is economically viable or only it is the outcome of their coping up strategies. In other words, after participation which kind of beneficiaries benefited most and on what activities they spent more amount of loan for increasing livelihood status?

Survey Design and Data

The present study is empirical in nature based on primary data collected through field survey from Varanasi district of Uttar Pradesh. SHG-bank linkage programme was selected purposively for interview of beneficiaries. A multistage sampling method was chosen for the study. At the first stage, district Varanasi was selected purposively because this district has the ample experience of diversification of work and meets the objectives of study. In fact, after 1991, powerloom took the place of handloom in this district and this process has thrown the financially feeble handloom owners into casual workers. At the same time, implementation of SHG-bank linkage programme played an important role in resettlement of small enterprises for those who pushed out.

In the second stage of sampling, two developing blocks such as Chiraigoan and Kashi Vidyapeeth were selected for data collection on the basis of the concentration of SHGs in different blocks. Thus, Chiraigoan block was selected for highest concentration of SHGs and Kashi Vidyapeeth block was selected for lowest concentration of SHGs. Finally, the cluster of villages from each block was chosen randomly on the basis of programme availability and concentration of SHGs. Availability of groups was highly scattered and in many villages there were only one or two groups. For economising the time and resources, the village cluster where higher number of groups are functioning was selected , so that the number of villages are minimised for this study.

The main aim of this study is to understand the effectiveness of micro-finance on beneficiaries. Therefore, the sampling criterion set was only those groups who were at least three years old. Based on the above criterion, 90 SHGs were selected for the interview and out of which 45 SHGs were selected from each developing block. In the final stage of sampling, two members were selected from each group by systematic random sampling in which one was group leader. Finally, 180 SHG members were chosen from two developing blocks for interview. In addition to this, focus group discussions were also conducted for the collection of qualitative and quantitative information from the selected groups. This Survey was conducted in 2012.

Results and Analysis

The analysis focused on five key aspects. The first relates to the socio-economic and demographic characteristics of beneficiaries and their household, including their land ownership and source of income for livelihood. The second assesses the financial performance of SHG members which includes saving performance and loan utilisation on different activities.

Socio-economic Profile of Self-Help Group Members

Table 1 represents the socio-economic characteristics of beneficiaries' households. The main purpose of this section is to comprehend the economic standing of households. In fact, Uttar Pradesh witnessed diversifying economy. The upper peasantry shifted into middle peasantry and even marginalisation of land has taken place, consequently people were pushed out from agriculture sector to non-farm sector on different status. In this condition, SHG model provided livelihood opportunities to feeble sections especially women. The number of years of participation in SHG really matters because those who got earlier participation were able to get more financial benefits. The behaviour of older group beneficiaries about decision making on saving and usage of loan should be different from newer groups. Therefore, and based on data, the total SHG periods are divided into three categories i.e. newer groups (3 - 6 years), middle age groups (6 - 9 years) and older groups (more than 9 years). Data show that an average beneficiary household has about 0.16 acre land, however about 45 per cent beneficiaries' households were landless which shows the outreach of programme to poor beneficiaries. For about 57 per cent beneficiaries' households, casual work is the main source of income, however agriculture, regular salaried and small businesses have equal importance for livelihood. The SHG category-wise analysis reveals some interesting thing. Both newer and older groups are showing similar pattern about dependency on different income generating activities.

In many rural settings in India as well as Uttar Pradesh, choice of work and other decisions are restricted by caste system and gender bias as to who decides the role of persons in the household and community level. Usually, elderly and male members of household take decisions regarding consumption expenditure, education of children and job in particular sector. Table 1 represents that about 90 per cent beneficiaries' households are male-headed and this proportion is almost similar in all SHG age groups. House size and proportion of dependent population (below 15 years age) are used as proxy of economic standing of a household and often, large families tend to be poorer (Kotir and Obeng-Odoom, 2009). Even, there is no common consensus on what is considered large or small size of household. Therefore, for this study, we have taken average figure of household size. The survey data show that average size of household was around 7 in all three age groups of SHG.

Table 1 : Household Characteristics by Age of Participation in SHG

Particulars	Newer Group	Middle Age Group	Older Group	All Groups
		Source of Income		
Agriculture	13.8	15.7	10.9	13.5
Casual work	50.0	65.7	53.1	57.6
Regular salaried	16.6	8.5	15.6	12.9
Business	19.4	10.0	20.3	15.8
		Gender of Household Head		
Male	86.1	88.5	92.1	89.4
Female	13.8	11.4	7.8	10.5
		Family Size		
HH Size	6.6	7.0	6.9	6.9
Below 15 years	2.1	2.2	2.0	2.1
		Land Ownership		
Proportion of landless	44.4	47.1	43.7	45.2
Per Household Land Ownership (in Acre)	0.1	0.1	0.2	0.1
		Monthly Household Income		
<= 2500	22.2	35.7	17.1	25.8
2500 - 5000	44.4	50.0	42.1	45.8
> 5000	33.3	14.2	40.6	28.2

The age of respondent is considered as important parameter of participation in self-help group and their respective income generation activities. The mean age of SHG members was 44 years. It was comparatively less in newer groups than middle age and older groups. The second important factor which leads to participation in SHG as well as in other activities outside home is education level of beneficiaries. Education helps the beneficiaries in different ways such as maintenance of record, starting of income generating activities and linkages with banks, even care of banks accounts. Table 2 confirms that about 55 per cent in newer groups, 73 per cent in middle age groups and 65 per cent in older groups are illiterate. The proportion of graduates is very less in all SHG groups which may be considered as participation in SHG is the outcome of the coping up strategy of illiterate beneficiaries.

Besides, in older groups, about three-fourths of beneficiaries belonged to scheduled caste, however in later periods; participation of OBC beneficiaries increased. SHG beneficiaries were involved in different occupation categories for their livelihood i.e. cultivation, animal husbandry, casual work, salaried and petty business. About 45 per cent beneficiaries were engaged in casual work, either agriculture or non-agriculture. But the process of casualisation shifted from agriculture to non-farm sector during later period of SHG. It is often accepted that engagement in petty business and animal husbandry uplift the living standard of people. Table 2 indicates that about 11 per cent of beneficiaries were engaged in animal husbandry in older groups and it declined by 50 per cent in newer groups. On the other hand, participation of beneficiaries in petty businesses increased during SHG periods. About 4.6 per cent beneficiaries worked in petty businesses in older groups and however, it was 13.8 per cent in newer groups. Even, around 5 - 8 per cent of beneficiaries were engaged in mixed activities to increase supplementary income. On the basis of this analysis, it is clear that the proportion of casualisation declined during later period of SHG.

Table 2 : Beneficiaries' Profile by Age of Participation in SHG

Particulars	Newer Group	Middle Age Group	Older Group	All Groups
Average Age	42.3	43.4	46.1	44.2
		Education		
Illiterate	55.5	72.8	65.6	66.4
Primary	11.1	8.5	15.6	11.7
Middle	13.8	5.7	9.3	8.8
Secondary	13.8	12.8	9.3	11.7
Graduate & above	5.5	0	0	1.1
		Caste		
OBC	38.8	34.2	23.4	31.1
SC	61.1	65.7	76.5	68.8

(Contd...)

Table 2 ***(Contd...)***

Particulars	Newer Group	Middle Age Group	Older Group	All Groups
		Main Occupation		
Cultivation	22.2	16.9	21.8	19.8
Animal Husbandry	5.5	4.2	10.9	7.0
Agriculture Labour	19.4	36.6	26.5	29.2
Non-Agriculture Labour	22.2	14.0	17.1	16.9
Salaried	0	5.6	3.1	3.51
Business	13.8	14.0	4.6	10.5
Other	8.3	5.6	6.2	6.4
House work	8.3	2.8	9.3	6.4

Financial Performance

Savings : The SHG-Bank Linkage (SBL) model is often considered as saving led model in India, and thereby offers the poor a greater scope of accumulating capital i.e. economic and social. Government agencies, NGOs and banks organise and support SHGs, training their members to manage savings and credit activities. Group saving is an important component of financial sustainability because when beneficiaries save and deposit it in bank, the process of financial inclusion starts and they get eligibility of access to bank loan to start income generating activities. The study shows that mean saving of beneficiaries increased by 50 percentage points during the SHG period. Though average saving significantly increased in all categories of SHG groups, this percentage change was highest in older groups. In older groups, percentage change of average saving was about two times of newer groups which may be considered as positive economic response of participation in SHGs. Table 3 also indicates that the total saving of an individual beneficiary is ₹ 2000 only, however on average total savings of each group was ₹ 57000 (including interest on credit). This Table also confirms that mean saving of SHG group was maximum in older SHG groups, but individual beneficiary savings was maximum in comparatively newer groups. On group savings, the difference between newer groups and older groups is very less due to the better financial discipline in new groups reflecting the need for continuous monitoring and motivation to beneficiaries by NGO workers and facilitators.

Table 3 : Average Monthly Savings of SHG Members (in ₹)

SHG Category	Initial	Present	% Change	Per Beneficiary Mean Saving	Group Saving
Newer Group	30.5	41.9	37.2	2372.6	59734.7
Middle Age Group	25.0	34.9	39.3	1870.1	47696.0
Older Group	27.8	48.3	73.3	1982.2	65341.9
Total	27.2	41.4	51.8	2017.9	56888.5

Usage of SHG Credit: Loan usage pattern is an interesting issue among researchers and policymakers. We might think that use of loan for production purposes or income generating activities has more potential for increasing household income and improves the welfare of the beneficiaries than a loan used for unproductive activities such as social ceremony or consumption. However, this type of loan may be associated with risk levels which may even lead to a loss in income, if the returns to investment are too low (Gadenne, and Vasudevan, 2007). Therefore, any shift from consumption-oriented activities to income generating activities is considered as positive economic gain. On the other hand, when beneficiary's savings increase, they would be fulfilling their consumption needs through savings amount and larger share of the bank loan will be invested in income generating activities. Hence, initial investments in income generating activities would increase the household's income, making the group's role as consumption smoothing mechanism less important and SHG beneficiaries will tend to shift from non-income generating activities to income generating activities.

In the light of above discussions, first the study discusses about the main sources of loan of beneficiaries. About 85 per cent beneficiaries depend on SHGs for required loans and similar pattern appears in all SHG categories. Even, we did not get a single evidence of moneylenders, but about 2.9 per cent of beneficiaries borrowed from their relatives on almost similar interest rate charged by moneylenders. Only few beneficiaries of middle age groups have taken loan from banks (separately from groups). During the survey, it was observed that some of the beneficiaries have also taken loan from micro-finance institutes (MFI) which is considered as wrong practice. In fact, borrowers take loan from more than one MFI to repay old loan and consequently they end up with heavy burden of indebtedness. Although, after implementation of Malegam committee recommendation (2011), this kind of practices have been resisted.

Table 4 : Percentage Distribution of Beneficiaries Who Availed Loan From Different Sources During Last Three Years

Sources of Loan	Newer Group	Middle Age Group	Older Group	All Groups
SHG	83.3	84.3	84.4	84.1
Bank	0.0	7.1	1.6	3.5
MFI	8.3	4.3	7.8	6.5
Relatives	2.8	1.4	4.7	2.9
Other	2.8	0.0	1.6	1.2
Don't Avail Loan	2.8	2.9	0.0	1.8

Though SHG system reduced the dependency of poorer on moneylenders, it was observed that SHG credit is used mainly for consumption purpose leading the beneficiaries to indebtedness trap. Therefore, it is important to understand for which activities beneficiaries borrowed loan from SHG. For this, we asked beneficiaries about the purpose of loan taken from SHG during the last three years. It was found that on average, beneficiaries have taken four times loan from SHG for different purposes for both income generating activities and non-income generating activities. Table 5 indicates that about 42 per cent of total loan outstanding of first loan was borrowed for non-income generating activities such as consumption, social ceremony, health and education. However, in second time and third time loan, the share of unproductive purposes increased significantly. But, the share of productive or income generating activities in total loan outstanding was almost constant in all loan cycles. Asset building is always considered as positive outcome of participation in SHG. In case of first time loan, about 12 per cent of total loan outstanding was taken for assets building and purchase of cattle and this share increased significantly in further loan cycles.

Table 5 : Percentage Distribution of Total Loan Outstanding by Purpose and Activities

Activities	1st Loan	2nd Loan	3rd Loan	4th Loan
Agriculture	14.7	15.2	20.7	15.7
Petty Business	13.3	12.0	8.5	11.8
Livestock	5.6	8.0	3.7	19.6
Asset Building	6.3	9.6	11.0	7.8
Repayment of Old Loan	8.4	3.2	3.7	2.0

(Contd...)

Table 5 *(Contd...)*

Activities	1st Loan	2nd Loan	3rd Loan	4th Loan
Health & Education	28.7	30.4	29.3	23.5
Social Ceremony	7.0	7.2	9.8	9.8
Consumption	16.1	14.4	13.4	9.8
Total	100	100	100	100

Actual Utilisation of Loan: Now, we turn towards actual use of loan. As discussed, any shift towards income generating activities from non-income generating activities is an indication of positive economic response of participation in SHGs. From Table 6, it is evident that mean value of loan increased by 66 percentage points between first time loan and fourth time loan. But, it is important to understand whether this increasing share of loan amount was spent on income generating activities and asset creation or consumption purposes. Though number of borrowers declined between first time loan to fourth loan, the share of total loan outstanding for income generating activities increased significantly in the same period. About 45 per cent amount of first loan was utilised for income generating activities, while it was 61 per cent in fourth loan.

Further, analysis presents the distribution of loan outstanding within income generating activities (IGA) and non-income generating activities (NIGA). In case of IGA, there is no certain pattern of utilisation of loans. About 23 per cent amount of first loan was invested in petty business followed by agriculture, however agriculture in third loan and livestock in fourth loan were the important activities where beneficiaries spent maximum amount. Similarly, social ceremony and health and education were the important activities in non-income generating activities that attract maximum loan amount. On social ceremony, beneficiaries' expenditures increased by two times in fourth time loan than first loan; however expenditure on repayment of old loan decreased by 50 per cent during same loan cycles. Only small percentage of loan outstanding was spent on consumption purposes which could be importantly considered as increasing awareness of financial discipline. Against this, data show the decreasing pattern of expenditure of loan amount on asset building. Several studies indicate (Gadenne, and Vasudevan, 2007) that asset creation is the only sector where most of the beneficiaries invest loan amount and beneficiaries borrow large size loan from bank to establish enterprises for income generation. Now, we turn towards actual loan amount spent on different activities. In SHG system, size of loan is always a questionable issue. In fact, most of the times beneficiaries borrow small loan for consumption purposes or health problem. It was also observed that share of individual beneficiary in total bank loan outstanding is often quite low and it is very difficult to start income generating activities through this amount. Finally, these kinds of process push beneficiaries into debt trap. In case of first loan, beneficiaries spent less than ₹ 500 in all activities except petty business, however in further loan cycles, the average amount increased significantly for income generating activities. In fact, this amount is very less which can only help in on-going business or activities.

Table 6 : Percentage Distribution of Actual Expenditure of Internal Loan Outstanding by Activities

Activities	Average Amount of Loan				% Expenditure of Total Loan Outstanding			
	1st Loan	2nd Loan	3rd Loan	4th Loan	1st Loan	2nd Loan	3rd Loan	4th Loan
Agriculture	358.5	362.4	834.1	845.1	12.2	10.1	22.9	19.2
Petty Business	694.8	442	431.7	656.9	23.6	12.3	11.9	14.9
Livestock	269.1	446.4	468.9	1215.7	9.2	12.4	12.9	27.6
IGA	1322.4	1250.8	1734.7	2717.7	45.0	34.8	47.7	61.7
Asset Building	438.9	694.4	408.5	327.5	14.9	19.4	11.2	7.4
Repayment of Old Loan	291.3	146.4	170.7	147.1	9.9	4.1	4.7	3.3
Health & Education	453.7	499.2	450.6	373.5	15.4	13.9	12.4	8.5
Social Ceremony	231.6	612	712.2	627.5	7.9	17.1	19.6	14.3
Consumption	200	385.6	159.8	209.8	6.8	10.7	4.4	4.8
Total	2937.8	3588.4	3636.6	4402.9	100	100	100	100

From Tables 5 and 6, it is clear that there is significant difference between purposes of borrowing loan and actual use of loans. The divergence of loan amount might be possible for two reasons: first, beneficiaries are able to open new income generating activities but amount of loan is too small and can't start business. Therefore, beneficiaries expend maximum share of loan amount on consumption purposes. Second, business atmosphere at village level attracts beneficiaries to start production activities and they can divert unproductive loan towards productive activities. Several studies highlight that women are only a medium of borrowing money from SHG, however actual loan is used by family members (Srinivasan 2009). This study presents that during loan cycles, beneficiaries shifted significant share of consumption loans towards income generating activities. Overall, agriculture and petty business were the most important activities that attracted maximum share of diversified loan. Asset building is also observed as key sector where beneficiaries invest significant amount of diversified loan in first and second time borrowing. In summing up, this study confirms that micro-finance developed the business strategies among beneficiaries and they were attracted to spend higher share of loan amount on income generating activities.

Table 7 : Divergence of Loan Amount by Activities

Activities	1st Loan		2nd Loan		3rd Loan		4th Loan	
	Purpose	Usage	Purpose	Usage	Purpose	Usage	Purpose	Usage
Agriculture	14.7	12.2	15.2	10.1	20.7	22.9	15.7	19.2
Petty Business	13.3	23.6	12.0	12.3	8.5	11.9	11.8	14.9
Livestock	5.6	9.2	8.0	12.4	3.7	12.9	19.6	27.6
IGA	33.6	45.0	35.2	34.8	32.9	47.7	47.1	61.7
Asset Building	6.3	14.9	9.6	19.4	11	11.2	7.8	7.4
Repayment of Old Loan	8.4	9.9	3.2	4.1	3.7	4.7	2.0	3.3
Health & Education	28.7	15.4	30.4	13.9	29.3	12.4	23.5	8.5
Social Ceremony	7	7.9	7.2	17.1	9.8	19.6	9.8	14.3
Consumption	16.1	6.8	14.4	10.7	13.4	4.4	9.8	4.8
Total	100	100	100	100	100	100	100	100

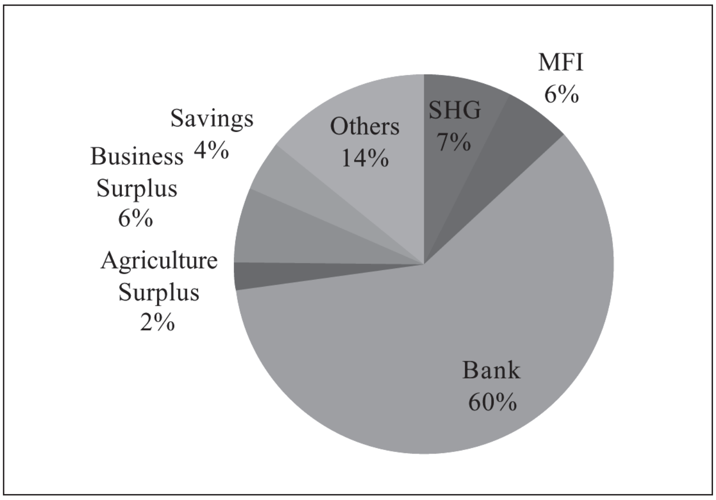
Source: Tables 5 and 6.

SHG - Credit and Enterprise Development

There is common acceptance among scholars and policymakers that development of micro and small enterprises generate employment opportunity and simultaneously contribute in household income especially for illiterate and unskilled poor people in rural area. But the capital is the main constraint to establish new enterprises. The micro-finance mechanism, especially SHG model, is able to channelise the production loan through group members. Hossain (1988) found that micro-finance increased the income and resources of marginal and small farmers. Mckee (1989) presents that the inherent capacity of micro-finance ensured the self-employment and enterprise development opportunities. In the light of above discussion, the further analysis tries to understand the role of SHG credit in enterprise development. This study reveals that about 66 per cent of beneficiaries are illiterate and petty business is the main occupation of less than one-fifth of SHG members. It is also observed that some of the beneficiaries are engaged in micro-enterprises on subsidiary basis. This study incorporates both types of enterprises where beneficiaries engage as main occupation or subsidiary occupation for their livelihood. Only one-third of beneficiaries were employed in enterprises or petty businesses and out of them about 70 per cent enterprises were started by own, however 30 per cent were engaged in parental enterprises.

The study also shows that about 60 per cent amount of total investment for open enterprises was taken from bank, however only 8 per cent amount came from SHG followed by business surplus (6 per cent) which indicates that the SHGs are not playing significant role in enterprise development. It appears that due to the paucity of loan size and more consumption needs, households resist to establish new business. During the focus group discussion, it was found that most of the SHG members, especially women, are involved in SHG to make a bridge between household and SHG to borrow loan for emergency purposes.

Figure 1 : Sources of Investment in Enterprise



Dropout

The group size of SHG is considered as an important indicator of group sustainability. It was observed that groups which are not properly functioning as well as unable to meet the financial purpose of beneficiaries dropouts occur. During the survey we asked about initial and present group size. Group size decreased during later period in all three age groups. Initially, mean group size was 15.4 and presently it is 14.9, but this decreasing proportion was more in newer SHG groups. About one per cent members left out the group in newer formed SHGs which is comparatively less in middle age group (0.2 per cent) and older group (0.3 per cent).

Table 8 : Initial and Present Size of Groups

SHG Category	Initial	Present
Newer Group	16.0	14.9
Middle Age Group	14.9	14.7
Older Group	15.5	15.2
Total	15.4	14.9

When we asked about reasons of dropout, about 47 per cent of beneficiaries of newer groups left the SHGs due to less interest to continue participation. The same reason was reported by the majority of middle age group beneficiaries. Financial constraint was the most important reason in older groups. Even around 21 per cent beneficiaries of newer groups left the groups due to the biased rules and regulations of groups. Migration is one of the main reasons for dropping out of SHGs. People in rural areas migrate to nearby towns or cities in search of livelihood. This phenomenon occurs more frequently during periods of prolonged drought. Women leave SHGs after marriage as they migrate to their husbands' villages (Ballem, Mohammad and Venkata, 2012). Data show that about 11 per cent beneficiaries of newer groups dropped out of SHGs because they got married or stay in nearby city for their livelihood.

Table 9 : Reasons of Dropouts

Reasons	Newer Group	Middle Age Group	Older Group	All Groups
Don't Know	15.7	15.6	15.3	15.5
Financial Constraint	5.2	28.1	38.4	25.9
Rules and Regulations	21.0	15.6	7.6	14.2
Physical Problem	0.0	0.0	11.5	3.9
Migration	10.5	0.0	0.0	2.6
Not interested to continue	47.3	37.5	19.2	33.7
Marriage	0.0	3.1	0.0	1.3
Others	0.0	0.0	7.6	2.6
Total	100	100	100	100

A study of EDA rural system on self-help groups presents that migration for employment outside the village, and 'financial difficulties' especially in making regular savings deposits is the main reason for very poor and poor to dropout, however, group dynamics is an issue for non-poor. In fact, it seems to be the member's decision to leave; otherwise it is a case of 'mutual agreement' between the member and the group, though there are cases of groups expelling a member. Theoretically, when a member leaves an SHG, she/he must receive back her/his savings and interest. But in practice, most of the SHGs are not communicated as the norm (EDA, 2006).

Conclusion and Policy Implication

The main purpose of this study is to examine the financial feasibility of self-help groups for poor. In other words, whether participation in SHG is economically viable or beneficiaries only join SHG due to the non-availability of access to finance and livelihood opportunities. The analysis shows that this programme has wide outreach to poor and vulnerable (about three-fourths beneficiaries belong to the monthly household income group less than ₹ 5000.) Our main result is that micro-finance in itself has small impact on livelihood and income but it depends on how it is articulated with the entire range of management strategies of household. The prosperous households are less likely to spend SHG credit on consumption purposes. About more than half amount of loan outstanding was spent on non-income generating activities. This study also contributes in debates on whether micro-credit should be used only on income generating activities or other activities also. Some of the studies (Collins et. al. 2009, and Guerin, Kumar etc. 2009) argue that micro-credit can be considered as tool serving to consumption need. In many cases it is observed that poor beneficiaries divert their loan amount and use it for non-income generating activities i.e. education, health, repayment of old loan and emergency need etc. The analysis of this study indicates that beneficiaries diverted their loan amount from non-income generating activities to production activities. In addition, one of the important objectives of SHG-bank linkage programme is to create capacity of beneficiaries and enhance employment opportunities through the development of petty business. The study indicates that few members have been able to use group loans to start a new income generating activity. About one-third beneficiaries are engaged in petty business for their livelihood and out of them; about 70 per cent enterprises were started on their own, however, remaining 30 per cent beneficiaries were engaged in parental business/enterprises. It is also found that the loan size was insufficiently large to cover the necessary initial investments to startup business or enterprise. Our result shows that only 7 per cent amount of initial investment was taken from SHG. Finally, most of the beneficiaries of newer groups dropped out from SHG due to the less interest to continue with group however, financial constraint was the main reason of dropping out among middle age and older group beneficiaries.

Turning to policy, the study raises some questions such as; does participation in SHG help in financial planning of households in both income generation and consumption, at what level it removes the effect of moneylender from rural market, does it get medium of financial inclusion etc. As this study highlights, loan size is not large enough to start business or income generating activities, so that people divert their loan amount and start to expend on health care, education, repayment of old loan and other type of consumption activities. During the survey, the author also felt that micro-credit satisfies the social need. Therefore, a provision of larger loan amount through SHG could open up new dimension of employment generation in rural area but some scholars blame that this process would push poor beneficiaries to over-burdening of debt. A careful policy and regulation is required for loan distribution. Although, the government of India, Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) always played an important role for financial inclusion, financial inclusion should not be only a matter of access to credit, policymakers should also look at how people make use of credit facilities (Guerin, Roesch, Kumar, Venkatasubramanian and Sangare, 2009).

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