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## **Beyond Microfinance**

### **The VMSS Way**

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The SHG programmes of Visakha Mahila Seva Sangham (VMSS) combined both microfinance and social development approaches to help poor women. The VMSS, an all-women's organisation run and managed by women, has currently over 205 SHGs in 13 clusters with 3,716 women members spread across five sectors covering eight geographical areas in Arilova, Visakhapatnam. Working through SHGs, the VMSS developed financial services tailored to the needs of the poorest women in the neighbourhood and instilled among them a systematic habit of saving. Going beyond the mere microfinance approach, this model developed women's groups that could work toward the betterment of their members and social development of their communities. Thus, as a unique development finance institution, the VMSS has effectively combined both outreach and sustainability, and incorporated development orientation in the provision of microfinance services to poor women. This article presents the working model of the VMSS, its products, administration and governance mechanisms. A SWOT (strengths, weaknesses, opportunities, threats) analysis is used to assess the strengths and weaknesses of the systems, and the impact of the programmes on the women is ascertained, using participatory methods of investigation such as focus group discussions and in-depth interviews.

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### **INTRODUCTION**

The Visakha Mahila Seva Sangham (VMSS) is a small, but unique, microfinance institution (MFI) which was started in 1992 as a mahila mandal and registered in 1994 as a society under the Societies Registration Act, 1860. The VMSS is unique, in the sense that it is owned and managed by the poor women themselves. The aim of the VMSS is to help poor women organise themselves into value-based, self-reliant groups which

can provide them opportunities for savings, microcredit, microenterprise, literacy, social security, health awareness, leadership, and vocational skills, so as to help them realise their fullest potential by working with governmental and non-governmental organisations (NGOs). The VMSS has shown sensitivity to the needs of the poor and the vulnerable members of the organisation by putting in place diverse products to suit the members' needs such as different types of savings, insurance, and income generation support services. While emphasising on social intermediation in its activities, the VMSS has demonstrated, for more than a decade and half, that financial sustainability of the programme can be maintained without divorcing the objective of reaching out to the poor and the marginalised.

Here, it would be relevant to discuss the current crisis relating to the role of MFIs in providing microcredit to the poor as this would amply demonstrate and reconfirm the need for a different model of practice, which is more rooted in the community, poor friendly, and not for profit.

### **Are MFIs Saviours of the Poor?**

In Andhra Pradesh, the MFI sector<sup>1</sup> has been in the news of late for all the wrong reasons—fleecing poor women by charging usurious rates of interest and using coercive and humiliating tactics on defaulters. The MFIs, claiming the purpose of their existence as eradication of poverty and empowering the poor women by providing access to collateral-free microcredit, have been charging annual interest rate to the tune of 27–31% (sometimes even higher rates of interest of upto 50% are reported in the media) on small loans given to poor households (*Economic and Political Weekly*, 2010). It is not surprising that distressed and overburdened poor women, who had to repay loans on a weekly basis from the investments with fluctuating and inadequate returns, were driven to suicide<sup>2</sup> (*The Hindu*, 2010a). Though peer monitoring was supposed to act in the place of collateral, it was reported that some MFIs took signatures/thumb impressions of women on blank promissory notes and other blank documents for non collateral/non-asset loans—which reminds us of the coercive practices adopted by traditional moneylenders (Andhra Pradesh Mahila Abhivruddhi Society [APMAS], 2006; *The Hindu*, 2010b).<sup>3</sup> In India, either in rural or urban unorganised economies where these investments of poor women go, it is inconceivable to expect returns, which can service the interest rates of 27% and above (Ram Mohan, 2010). As it is obvious that credit is only one of the several inputs needed to fight poverty, simply providing loans with a minimalist stance that is, providing loans efficiently

and quickly—without an understanding of the needs of the poor—will be a self-defeating exercise, as is evident now (Sriram, 2010b).

The MFIs have morphed from an NGO mode to that of a non-banking financial corporation (NFBC), offering equity shares and enriching themselves at the cost of poor people (Nair, 2010). Sriram (2010a) captured these processes admirably well,<sup>4</sup> showing how commercialisation of microfinance has turned an innovation to address poverty into a big investment opportunity, and how private banks and MFI corporates, such as Larsen & Tubro, have partnered with MFIs in the business of lending to the poor.

In the process, they have put the 'understanding' of the needs of the poor aside and have started chasing targets and numbers. For these institutions, the poor are not seen as human beings having an individual identity, characteristic and need. Instead they are seen as data points that add up to their profit statements. (Sriram, 2010b).

And they have turned out to be no better than the *sahukars* of the past.

### Retrospect

Historically, two broad models came into practice to provide access to small credit to the poor—the SHG system<sup>5</sup> and the Grameen bank system (Harper, 2002; Muhammad, 2009; Vijaykumar, 2009). Both models differed in their approaches and methodologies and look at poor from different lenses. The SHG model is a community-based, voluntary, homogenous group of about 10–15 members whose operations are based on savings and internal lending as decided by the group. The group is owned and managed by its members and mostly operates through a bank account. There can be external capital either from the bank or government or other agencies added to the pool of savings, which the group uses for its lending purposes. The financial gain mostly accrues to the group. The SHGs are more nested in the community with social intermediation as the predominant attribute.

On the other hand, the Grameen model is more attuned to a financial delivery approach, is smaller in size (5–6 members), rigid, disciplined, with weekly or regular contact with the staff, and with little discretion to the group in fixing the size of loan amounts or interest rates or even who receives the loan. Though thrift was one of the products offered by the MFIs operating through this model, it was gradually eliminated and whatever savings were there, were returned to the group members (APMAS, 2006:6). As an external agent manages the Grameen model groups, they demand larger portion of money from its members whereas the SHG

system leaves more money to members of the group. Outcomes such as leadership development, liaison with external stakeholders, or building social capital either take a backseat or are non-existent in the Grameen model.

Three modes of intervention for providing access to financial resources for the poor have been identified (Sriram, 2010b), which used these two models with some variations. They are:

- (i) community-based interventions using the SHG design led by NGOs outside government schemes and banks;
- (ii) interventions by government in the form of schemes, cash transfers and subsidies operated mainly through the SHGs;<sup>6</sup> and
- (iii) the market-led microfinance interventions.

Let us examine the first and third interventions:

The MFI sector entered the development space around a decade and half ago with the mission of filling the gap in the formal rural credit sector by providing microcredit<sup>7</sup> to the 'poorest of the poor' (Swaminathan, 2007). The objective was to deliver microcredit at a large scale and by much less expensive mechanisms so that they could reach the poorest of the poor at their doorstep and with sensitivity to their fluctuating incomes and livelihood needs (Fisher and Sriram, 2002:19–21; Rogaly, Fisher and Mayo, 1999). Termed as the 'development microfinance model', it believed that financial intermediation could take place effectively if members of the groups are empowered through social intermediation.

The last decade was replete with articles and case studies critiquing how these interventions have been successful in reducing poverty and in empowering women (Burra, Deshmukh-Ranadive and Murthy, 2005; Das, 2001; Kabeer, 2005). During this period, most MFIs adopted an NGO mode—mostly the Grameen model and occasionally the SHG model for delivering their services. However, over a period of time, besides other issues such as size, diversity of products, focus of the organisation, and so on, the entry of business interest into the operations prompted MFIs to adopt different methods to morph into the commercial mode (Muhammad, 2009; Nair, 2010; Sriram, 2002, 2010a).

Broadly two debates, though interrelated, led to the transformation of the MFIs from the non-profit model to the commercial model. The first is the relationship between outreach, impact and financial sustainability of the organisation; and the second is how the market model of providing

microfinancial services will attract more investors and thereby result in a more efficient delivery of credit to more numbers of the poor. It was argued that though a number of NGOs could reach poor clients, often their operations were unsustainable. A good development microfinance model should, therefore, be able to combine both outreach and sustainability in order to have the desired developmental outcomes. However, with the exception of a few, many in the microfinance sector did not subscribe to this school of thought. Being 'impatient for growth', they embraced a market-based model. Though there was initial success with this option, the ethical basis of the processes of transformation and the logic of maximising the profit have remained questionable and the operations ran into trouble (Sriram, 2010b).

On the other hand, the community-based intervention went beyond the narrow microcredit approach with a belief that if microcredit is not integrated with the larger development mission of serving the poor, there is a danger of losing sight of the poor thereby making them more indebted (Vasimalai and Narender, 2007). Experiments with Kalanjiam, Sangamitra and PRADAN are examples of this approach. It is argued that the savings, credit, insurance and other related financial and non-financial services are interconnected and 'need to be offered together to create a synergetic effect to address poverty'. For them, credit is one of the services among other inputs. The major objective was to build skills in the group to manage their finances (savings, credit and insurance) and strengthen their organisations (Fernandez, 2007).

The above description reveals that the three cardinal principles of microcredit to the poor are: outreach, impact and sustainability. Thus, to help poor people, credit needs to be delivered at a scale, by using appropriate mechanisms so that it can reach them and be used by them to work their own way out of poverty. The challenge, however, is to sustain the financial services that is, savings, credit, insurance, and so on, and still be able to reach out to the poor. Even though most MFIs achieved financial sustainability and some even earned exorbitant profits, they had drifted away from serving the poor. Some NGOs may have reached out to the poor, but were often unsustainable in their microfinance operations. The present study shows that the VMSS has effectively combined outreach and sustainability in the provision of microfinance services to the poor women with efficient and transparent financial systems coupled with the development of social capital and community-building activities.

### **About VMSS and the Study**

St Ann's Society at Arilova was instrumental in promoting and facilitating VMSS. In 1998, the UK aid organisation, Department for International Development (DFID) gave a grant of Rupees 3,00,000 and suggested an evaluation of the VMSS by Padmavathy Sangam, Tirupati, and subsequent capacity-building and modification of systems of the federation. Following a request by the VMSS board, the research team (the authors of this article) of People's Action for Research and Development (PARD), Visakhapatnam conducted the present study in 2007 to review the performance of the federation and suggest directions for future programmes. At the time of the study, there were 3,500 women members in 190 SHGs in 13 clusters spread across five sectors (ward numbers: 1, 2, 3, 4 and 5) covering eight geographical areas of Arilova, namely Ravinder Nagar, Adarsh Nagar, SIG Nagar, Vivekananda Nagar, Pedagadili, Chinnagadili, Krishnapuram, and Ramakrishna Puram. From the period of its inception that is, 1992 till 1995, there were 60 SHGs. This rose to 148 by 2000, and another 42 groups were formed to make it 190 groups in 2007.<sup>8</sup>

### **Objectives of the Study**

- To present the working model of the VMSS—its administrative and governance mechanisms and its products
- To examine the functioning and efficiency of the programmatic structure at the SHG, cluster and federation levels, and
- To study the impact of the groups and social development activities taken up by the groups on SHG members and their communities.

### **METHOD AND DESIGN**

The study used a participatory method of investigation with a focus on assessing the strengths, weaknesses, constraints and opportunities of the VMSS and its programmes. While in-depth interviews and focus group discussions (FGDs) were used to collect data, account books, minutes books, attendance records of the groups up to the federation level, and annual reports of the organisation were also consulted.

Thus, 12 FGDs were conducted at three levels: seven at the SHG level (six for SHG members and one for the spouses of SHG members); three at the cluster level (two for cluster leaders and one for Cluster Executive Committee members); one FGD each was conducted with the Board (Federation) members, and with the staff

involved in the management of the programme. While selecting SHGs and clusters for conducting FGDs, characteristics such as seniority of the SHG, level of functioning of the SHG, and geographical distribution of SHGs and clusters were taken into consideration. The level of functioning of the group was decided by taking into consideration criteria such as the attendance of members in group meetings and their participation in training programmes and social development activities in the past six months. The research team analysed data from the FGDs in a two-day synthesis workshop where a senior social work educator was present as an external expert to validate the findings.

Similarly, 31 in-depth interviews were conducted: one with the Managing Director of VMSS, 14 interviews with cluster level members, and 12 interviews with individual SHG members (two members each from six SHGs). While selecting women for interviews, an effort was made to include some members who were entrepreneurs and those who had contested the Greater Visakha Municipal Corporation (GVMC) elections which had taken place a few months prior to the study period. In addition, interviews with four non-SHG women members (but who resided in the neighbourhood of SHG members) were also conducted.

## **FINDINGS**

### **Profile of SHG Women Members**

Box 1 lists a brief profile of women belonging to the 190 groups. Nearly 93% are from the weaker sections of the population that is, Backward Class and Scheduled Castes. All are from the nearby areas of Arilova and a majority of their spouses work in the unorganised sector. Details of loan size and frequency of borrowings show that a majority took loans below Rupees 5,000 at least once. Latest information upto 2010 was obtained to ascertain changes, which showed that members who took loan twice increased to 50% and one-timers decreased to 40%. Similarly, the proportion of members with whom loans were outstanding rose to 86%. The size of the loan amount taken had also increased.

Thus, the proportion of members taking a loan of Rupees 5,000 and below declined to 45%, whereas a higher number of members availed loans of Rupees 5,000–10,000 (32%) and Rupees 20,000–30,000 (14%), respectively. Around 9% had outstanding loans of Rupees 50,000 and above (VMSS, 2010).

**BOX 1**  
**Profile of Women Members**

- Mean age of members: 33 years
- Religion: Hindu = 82%, Christian = 9%, and Muslims = 9%
- Caste: Backward Class = 83%, Scheduled Caste = 10%, Other Castes = 7%
- Spouses' Occupations: Bus driver, Auto-rickshaw driver, Salesperson, Mechanic, Supplier, Office boy, Contractor, Owner of *paan* shop or snacks shop, and so on.
- Educational Levels: Illiterate = 57%, 10th and below = 40%. The remaining had studied up to intermediate/ undergraduate levels.
- Total number who took loans: 76%, out of which 60% took loans once, 30% took loan twice. The remaining had taken loans more than twice.
- As of March 2007, 83% of total members had outstanding loans. Of these, 59% members took loans of Rupees 5,000 and below; 19% and 8.4% members took loan amounts of Rupees 5,000–10,000 and Rupees 20,000–30,000 respectively. Only 2% had loans above Rupees 30,000 outstanding with them.

Why were the loans taken in the first place? Table 1 gives details of the broad purposes—to repay loans taken from other sources, to construct a house, for business and children's education/daughter's marriage, and so on. The major emphasis was on repaying loans taken from outside informal sources at higher rates of interest. The market rate at that time was 5% per month. The table shows that there was an increase in loans taken for children's education and daughter's marriage during 2009–2010.

**TABLE 1**  
**Purposes of Loans taken by SHG Members**

Purpose	2006–2007 (Percent)	2009–2010 (Percent)
Repay other loans	23	17
House construction	22	14
Business	12	6
Children's education/daughter's marriage	17	26
Medical expenses	6	1
Other expenses	20	37
Total	961	460

*Note:* These are fresh loans taken during the respective year(s).

**TABLE 2**  
**Demographic Profile of FGD Members from SHGs, Clusters and Staff**  
**(including non-SHG Members ) (N = 155)**

Characteristic	Percentage
<b>Age</b>	
Up to 20 years	1.3
21 – 30	43.9
31 – 40	38.7
41 – 50	11.6
51 – 60	4.5
<b>Religion</b>	
Hindu	82.0
Christian	9.0
Muslim	9.0
<b>Caste</b>	
Other Castes	7.1
Backward Classes	83.2
Scheduled Castes	9.7
<b>Educational Level</b>	
No schooling	22.6
Can read and write	12.3
Completed primary	11.0
Completed secondary	18.0
Graduate	3.2
No information	32.9

The study sample comprising women who participated in the FGDs of SHGs, clusters and the staff and other women came to 155. The socio-demographic profile of the sample (refer Table 2) indicates that they were young (mean age 33 years), predominantly Hindu, and belonged to the Backward Class. About 35 % of the women were illiterate. A majority of the women were from poor economic background and had voluntarily joined the groups with the consensus and approval of the respective

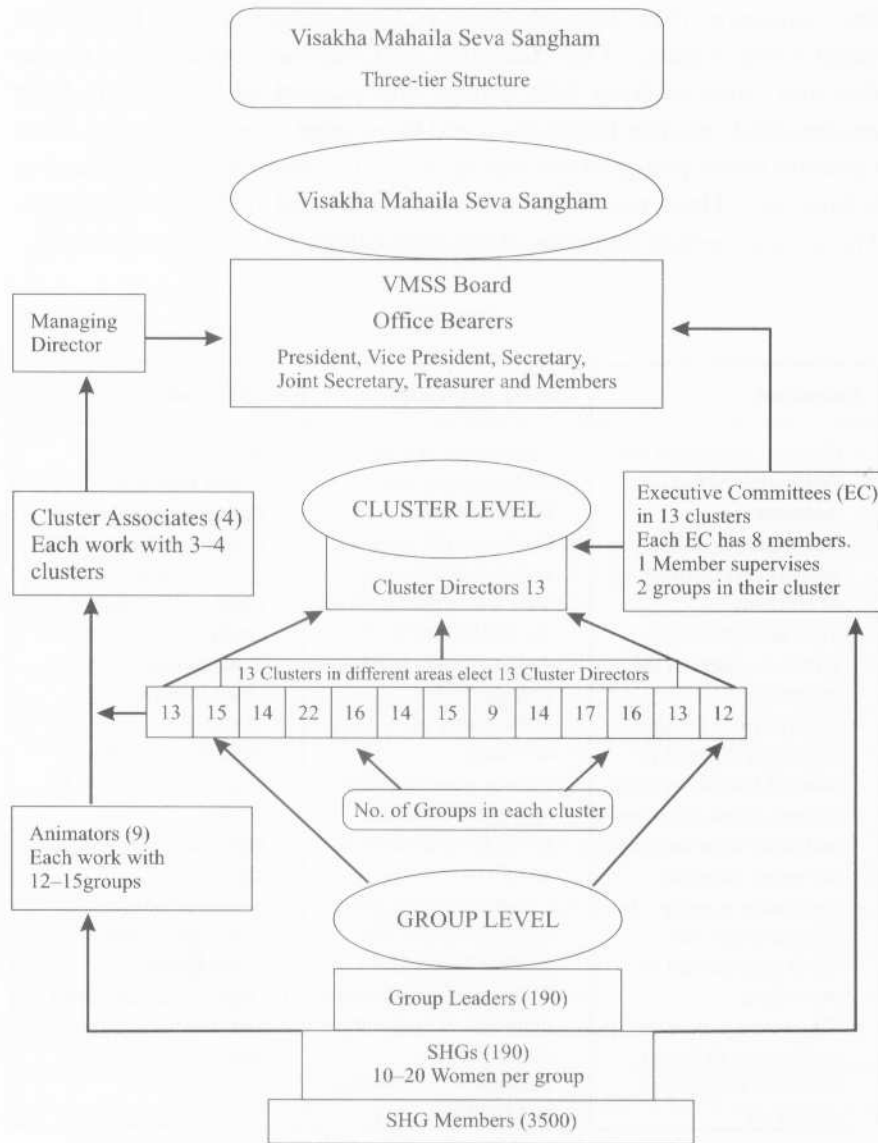
group. The prerequisite for joining any of the groups was willingness to save and attend group meetings regularly. Interviews with women from the same neighbourhood who had not joined the groups revealed reasons such as objections from husband, inability to pay monthly savings, lack of time to participate in the groups' meetings, and lack of interest.

### **Governance and Administration**

The VMSS is an all-women organisation, run and managed by women. As per its constitution, the organisational structure comprises the General Body, the Governing Body and the Executive. The Executive consists of the President, Vice-President, Secretary, Joint Secretary, Treasurer and two Directors. The MD is an ex-officio member without voting rights. The General Body, which looks after policy-making and overall governance, comprises two representatives from each SHG, but with one vote only. The group pays an entry fee of Rupees 10 and an annual renewal fee of Rupees 100 for continuation of the group's membership in the general body. Group leaders from groups of each cluster elect one director. Nominating the auditor, and approving the annual budget and the annual report are the other functions of the General Body, which meets at least once in a year. There are 13 Directors at the rate of one Director per cluster in the Governing Body or Board of Directors. They elect the President, Vice-President and other executive members for a term of two years. The Board meets once a month to chalk out the development activities and oversee the functioning of groups and clusters. The MD (honorary), who looks after the administration and is answerable to the Board, is drawn from St. Ann's Society. Besides these constitutional positions, there are two more administrative systems that is, the Executive Committee (EC) Leaders and the Animators and Cluster Associates, who are members of the SHGs and work with the governance systems.

For operational purposes, the VMSS is divided into three levels—group, cluster and federation. Details of the three-tier structure are shown in Figure 1. The 190 SHGs are grouped into 13 clusters, each headed by a cluster director. There are nine animators, each working with around 12–15 groups. Similarly, there are four cluster associates, each working with three to four clusters. All 13 clusters have EC comprising around eight members. One EC member supervises two groups in their respective clusters. The animators and cluster associates report to the MD, who in turn reports to the Board of VMSS at the federation level.

One of the striking features of the management of the VMSS groups is its conduct of monthly meetings in a consistent manner through a strict routine. Thus, the group level meetings take place between the 2nd and the 12th of every month from 10.30 a.m. onwards; while the cluster meetings take place on the 14th and 15th of the month between 11.30 a.m. and 3.00 p.m. Later, the cluster EC members' meetings are held on 19th and 20th of the month, and the Board meets on the 17th. Thus, the wheel of meetings rotates month after month.



**FIGURE 1**  
**Three-tier Structure of VMSS**

Of the 13 animators and cluster associates (also called 'staff'), 10 have completed secondary level education and three are graduates. The animators are paid a remuneration ranging from Rupees 1,500–2,500 per month and the cluster associates in the range of Rupees 2,000–3,300. There is one SHG exclusively for animators and cluster associates, which meets on the 1st of every month. This is to enable them to attend group meetings under their guidance. These two categories of functionaries are like the institutional memory banks of the federation who, because of their long association and close working with groups and clusters of the system, have accumulated valuable information and knowledge about the system. They have also developed good accounting skills. The position of an EC member is honorary. These members meet on the 18th and 19th of every month. The most important functions of the three categories are given in Box 2.

**BOX 2**

<b>Animators</b>	<b>Cluster Associates</b>	<b>EC Members</b>
<ul style="list-style-type: none"> <li>• General orientation and facilitation of Group meetings.</li> <li>• Assist groups in book-keeping and maintaining of accounts.</li> <li>• Take attendance of group members at the meetings.</li> <li>• Enforce fines for late coming or absence or delayed loan repayment.</li> <li>• Communicate decisions and other information to the group members.</li> <li>• Encourage members to discuss about their needs and attempt to meet them.</li> <li>• Educate members on topics such as health, nutrition, alcoholism, and so on.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitation of cluster meetings and VMSS Board Meetings.</li> <li>• Guide the EC leaders, and cluster directors who are on the board at the Federation level.</li> <li>• Assist clusters in book-keeping and maintaining of accounts.</li> <li>• Cluster associate takes up a problem of the group if an animator is unable to solve it.</li> <li>• Conduct internal audit of groups under the cluster twice a year.</li> <li>• Train group leaders and members of committees that is, Social, Educational, Economic and Health.</li> </ul>	<ul style="list-style-type: none"> <li>• Attend the monthly cluster meeting.</li> <li>• Communicate the Board's decisions to the group leaders.</li> <li>• Field verification of credit worthiness of loan applications and assist in approving them.</li> <li>• Verification of loans larger than Rupees. 10, 000/-.</li> <li>• Persuade defaulters to pay.</li> <li>• Bring up the group's problems/ issues to the cluster level.</li> <li>• Organise social events and functions at the cluster level.</li> </ul>

## **Programmes and Services**

The services of VMSS can broadly be described under two heads: (i) financial services to its members; and (ii) community development initiatives and awareness building programmes.

### ***Financial Services***

The financial services of the VMSS are confined to the groups' savings. A capital fund is created as surplus, which is income through interest over savings minus expenditure. The VMSS does not receive any external fund to add to the pool of savings.

#### *a) Group Savings*

The groups vary in size and monthly savings. Each group of 10–20 members has monthly savings ranging between Rupees 10–100 per member, and where Rupees 100 is the modal thrift amount. These savings and the interest accrued on the members' savings and internal lending form the bulk of their financial resources. Group-wise interest is settled once a year. As there is no separate bank account at the group level, the group's thrift is deposited in the name of the VMSS, a federation of these groups, in three bank accounts located in the areas nearer to the groups' localities. Group leaders or members deposit money every month on a specific date. The 'cash-in-hand' at the SHG level is always below Rupees 100. Apart from regular savings, a member can open a special savings account for marriage of children and will be given separate passbooks for these accounts.

#### *b) Loans*

Members at the group level can access different sized loans (refer Table 3) — larger loans are given following the consensus of all SHG members and signatures taken on the application. This application will go to the cluster level and then the board level. At every stage, it will be thoroughly discussed. After discussion at the board level, the application will be sent to the EC members of the respective cluster for verification of the facts and creditworthiness of the applicant. While considering the application, the EC members will take into account the seniority of the member, regularity of attendance to meetings during the previous year, previous history of loan repayment, and so on. On the basis of their remarks, the loan amount is sanctioned. For loans ranging from Rupees 30,000–50,000, they require collateral such as a house deed or *patta*.

**TABLE 3**  
**Profile of Financial Services of VMSS**

Product	Details
Loans	Individual loans at the SHG level (Rupees 5,000– Rs.7,000) Cluster loans at cluster level (Rupees 7,000–Rs .10, 000) Larger loans with Board approval (Rupees 10, 000–50, 000) Surety is needed for larger loans.
Savings	Members' average subscription is Rupees 60 per month. Till 1998, the subscription used to be Rupees 10. Later, it rose to Rupees 30, Rupees 50, and then to Rupees 60. It is Rupees 100 in 2010.
Insurance	<i>Charity Fund Insurance</i> (Mutual help fund): Internal insurance fund promoted by the VMSS. Member's yearly contribution is Rupees 100/- and the insurance amount paid would be Rupees 10, 000.  <i>Met Life Insurance</i> : This is a private insurance with a yearly contribution of Rupees 84/- from a member and the insurance paid would be Rupees 20, 000 in case of death or accident to the member.
Special Savings	Those who want to save additionally can deposit their special savings for which the VMSS gives separate books.
Marriage savings	For those members who want to save for their children's marriage.

### c) Interest Rates

A lot of flexibility is exercised by the groups in fixing interest rates, which varies with the seniority and regularity of the member. As against the market rate of 5% per month, the interest charged by the groups is very low. If the group is 10 years old, 1.5% interest is collected from the member. In addition, if the member is regular in attending group meetings, the interest will further be reduced to 1%. If the member has seniority of three years and has a record of regular attendance, the interest rate would be 1.5–2%. In the case of new groups, which have been in existence for less than three years, the member will be charged 3% as normal interest and if the member is regular in attending the group's meetings, 2% will be collected as interest on loans given to her.

*d) Recovery of Loans from Defaulters*

According to the information given by members, the defaulters are of three types: (i) members who find it hard to pay due to financial difficulties; (ii) those who can pay but are not paying; and (iii) those defaulters who have left the colony. Group members use different methods such as lowering or waiving of interest rate, revising the repayment schedule, visiting the house of the defaulting member, and exercising peer pressure to make her pay or adjust a major share of her loan with her savings, among others. There were instances when group members even shared the burden of members who were unable to pay regularly. While dealing with loan defaulters, members are more sensitive and take care not to use coercive methods.

*e) Insurance*

Charity Fund Insurance (Mutual help Fund): The VMSS collects Rupees 100 every year from each member as internal insurance. In the case of death of the member, the family will receive Rupees 10,000. This amount will be deposited in the names of the children of the deceased members. Of the contribution of Rupees 100, Rupees 30 will be collected from the member and the remaining Rupees 70 will be adjusted from the interest accrued on her savings. If a member's husband dies, they pay Rupees 1,000 to meet funeral expenses. However, there is a variation in the insured amount given, depending on the seniority of the group member. For example, the junior SHGs that is, those below three years old are eligible for Rupees 3,000 only, in the event of the death of the insured member. The VMSS collects only Rupees 30 from members of junior SHGs.

Met Life Insurance: An interested member can contribute Rupees 84 per year. It covers risk of the member's death due to accident and the heirs are paid Rupees 20,000.

*f) Regularity in Attending Meetings*

Regular attendance to group meetings is considered an important attribute of a good member. A system was evolved to ensure regularity in attendance by linking it to the concessions given on interest rates and for approval of loans. For instance, if a member, who has taken a loan is absent at a monthly meeting, a fine on loan interest is imposed (that is, the interest rate will be raised for that particular month). On the whole, the percentage of members' attendance at different levels has been found to be reasonably high (see Table 4).

**TABLE 4**  
**Distribution of Sample SHGs and Clusters by Range of Attendance and Average Attendance Rates (April 2006–March 2007)**

Name of SHG/Cluster	No. of Members/ Groups	Attendance Range		Average Attendance
		Lowest	Highest	
Parimala	21	57.1	90.5	72.4
Roja	21	66.6	90.9	82.4
Priyadarsini	13	53.3	92.3	71.3
Veniamma	13	61.5	100.0	80.6
Saiprakash	15	40.0	86.6	64.8
Mary matha	15	66.6	93.3	77.7
Visakha Matha Cluster	16 Groups	56.2	93.7	79.7
Fathima Matha Cluster	13 Groups	53.8	100.0	89.7

### **Community Development Services**

The services of the VMSS go beyond microcredit to address development issues of members and their neighbourhoods. The types of services provided can be classified under the following seven categories.

#### *a) Services to Members and their Families*

St Ann's Society, the promoter of VMSS, has on its campus skill development programmes such as computer training, typewriting, bookbinding, agarbatti and candle making, tailoring, embroidery, pickle, juice and jam making for members and their families. These programmes are mostly provided free though some are on a payment basis. Occasionally, the VMSS procures essential commodities/household items in bulk from the wholesale market and supplies the same to members at lower prices.

#### *b) Building Community Infrastructural Facilities*

Community Halls at Cluster Level: Around eight clusters built community halls from the capital savings of the SHGs in their respective areas on the land donated by the neighbourhood communities to enable the women to meet and interact.

Borewells: In order to address the severe water scarcity experienced during summer in certain cluster areas of the VMSS, 30 borewells were installed in these areas, from 2003 to 2010. Of these, 12 borewells were completed with 50% assistance from St Ann's Society.

*c) Addressing Community Problems and Awareness Building*

Members of the VMSS have taken up issues at the community level using methods such as awareness-building, advocacy, representation, and even confrontation with those who were pursuing illicit activities in the community. For instance, to deal with the problem of alcoholism among men due to the presence of illicit liquor shops in their neighbourhood, the VMSS conducted a six-month consultation and awareness-building meetings among members of groups, clusters, directors, community leaders, and ward corporators. After winning their support, representations were submitted to district authorities resulting in the arrest of the owners of five shops, while others closed shop and left the place. This was followed by a massive rally in January 2010 against the sale of liquor (VMSS, 2010).

Extension lectures for members were arranged on topics relating to health, social problems, nutrition, herbal medicine, and so on. Women who had taken up leadership responsibilities at the group or cluster levels were given training in simple accounts, book-keeping and leadership skills. The leaders and some select members were given an orientation on the Right to Information (RTI) Act. The awareness led to intervention by leaders seeking information under the RTI Act from a local government hospital on the supply and usage of medicines, duty timing of doctors, resulting in an improvement of its working. Similarly, members' vigilance over the mid-day meal scheme and functioning of the public distribution system (PDS) led to an improvement in services. Other persistent problems in the community such as gambling have also been dealt with in a collective manner.

*d) Sponsoring Educational Needs of Poor Children*

There is a practice of each SHG choosing one poor child from its neighbourhood to sponsor its education for one academic year. So far, 164 poor children were sponsored at a cost of Rupees 1,10,250.

*e) Relief and Charity*

In addition, groups have a charity orientation and help the elderly destitute and disabled on a monthly basis. The VMSS donated Rupees 1,20,000 for tsunami relief in 2004 from the savings of all groups.

*f) Other Activities*

The VMSS organises regular outings and visits to NGOs, welfare organisations, and so on for its members.

*g) Social Development Committees*

In order to conceive and coordinate services, from 2007, members at the group level were formed into four social development committees (SDCs) — social, educational, health and financial — to involve members with social issues and learn to work independently starting from the group level. Animators would guide members to discuss in groups about problems such as domestic violence, alcoholism among men and extramarital relationships/bigamy, which have been affecting the lives of women and families in the neighbourhood.

**SWOT Analysis of SHGs, Staff and the VMSS**

The FGDs held with the SHGs, VMSS board members, EC leaders and the staff and their spouses formed the basis for this analysis. Questions about the strengths, weaknesses, threats and opportunities of the different systems such as the SHGs, governance of the VMSS and its administrative systems were asked and synthesis of the information is presented here.

***Self-help Groups***

The strengths of the SHGs promoted by the VMSS are:

- Exclusive focus on poor women
- Self selection of members
- Decision-making at the group level
- Offer different financial services
- Peer pressure as collateral
- Surety/traditional collateral for bigger loans
- Higher levels of trust and openness.
- Social agenda
- No dependency on either government subsidy or outside source

Some of the weaknesses of the groups mentioned are dependency on animators for book-keeping and accounts because of illiteracy of members and lack of understanding about the overall systems of the VMSS. It was also felt that, in a way, most SHGs are like islands in the VMSS system connected only through animators and cluster associates. Communication is predominantly oral. Some members have multiple memberships in

groups other than the VMSS. A few members mentioned their financial burden due to imposition of fines linked to attendance.

### ***The Staff: Animators, Cluster Associates and EC Leaders***

Members saw the strengths of animators and cluster associates such as their knowledge in book-keeping, accounts maintenance at their respective levels, and facilitation of the groups and clusters respectively. Relatively better educated, their mastery of the systems helped in the smooth functioning of the VMSS too. Also, they belong to the same geographical area, background, and are members of SHGs promoted by the VMSS. Some of the weaknesses mentioned are that they are more accounts-oriented with less emphasis on members' concerns. Due to their seemingly indispensable position in the system, and in view of a separate group of their own, they are more cohesive and likely to emerge as centres of power leading to a potential threat to the organisation. The strength of the EC leaders lies in their knowledge about their groups, the amount of time spent in this voluntary work, and their impartiality in the verification of loan worthiness of applicants.

### ***The VMSS***

Members assessed the VMSS, as an organisation, in the following manner:

#### ***Strengths***

- Owned and managed by women
- Sensitivity towards members
- Ability to meet financial needs of poor women
- Financial systems are in place with checks and balances
- Transparent and secular operations
- Negligible dropout rate
- Has been in existence for more than 15 years.

#### ***Weaknesses***

- No linkages with the GVMC, state government programmes, or banks
- Group level identity is weak as many see themselves as members of VMSS rather than that of a group
- Office operations are still manually done
- No returns on infrastructure (community halls) created by the VMSS
- Staff members are burdened with workload

One of the threats mentioned by the members was that the groups promoted by the government and other MFIs such as Spandana, Asmita, and Kalanjiam were poaching their members. Thus, some members of VMSS have joined or have been persuaded to join these groups either because of programmes such as *pavala vaddi* or financial need. This had created problems in monthly payments, and pressure on members due to over indebtedness, among others. The other threat was the workload on the ‘staff’, thus affecting the quality of their work.

### **IMPACT ON WOMEN MEMBERS**

A large number of women clearly acknowledged the benefits of being an SHG member. They spoke about how their participation in the groups enabled them to save regularly and have access to credit at a lower rate of interest, and how the credit helped them tide over a family crisis or stabilised a livelihood (refer Case Studies 1 and 2). They were equally emphatic in relating how their participation in the groups had built their confidence, brought them into contact with the outside world, helped them learn negotiation skills, understand social and health related issues, realise the importance of children’s education, increased their role in family decision-making, and most importantly, of working together towards a common goal that is, helping poor women organise and improve their living conditions. Thus, the impact is felt at both levels— practical and as well as strategic.

### **CASE STUDY 1**

K, a 47-year-old illiterate housewife with three daughters and a son was a member since 1996. Her husband, a carpenter earns Rupees 8,000 per month. All the children, except one daughter, were married. However, one of her daughters lost her husband and returned to live with her parents. About eight years back, K’s son had borrowed large amounts of money from their neighbours and financiers and spent it indiscriminately. Later, unable to bear the pressure of financiers, he ran away from home. K and her husband were pressurised to repay the money her son borrowed, and she took a loan from a private moneylender for the same. However, she had to pay huge amounts to the moneylender, as the interest was exorbitantly high. Any delay in the payment attracted humiliating remarks from the moneylender. She discussed her problem with the group and took a loan to clear the debt to the moneylender. Thus, she not only saved money on the interest, but also saved her family from further humiliation.

More specifically, the membership resulted in building family assets such as a house plot, construction of a house, purchase of gold and other household items. In some cases, it scaled up existing economic activity or help initiate a new one (Case study 2). It helped single/neglected women to become economically self-reliant, and reduced dependency on money-lenders. 'Though the credit from VMSS may not meet all our needs, its absence would have made a big difference in our lives,' one board member observed.

### CASE STUDY 2

B, a 45-year-old Hindu Backward Class woman and educated upto Standard 6, was an active worker in the Communist Party (Marxist) since the past 16 years. She had even contested for the corporator's seat in the municipal elections and lost by a narrow margin. B was also a member of the All India Democratic Women's Association. She has two daughters and a son, who is a computer operator and earns around Rupees 3,000 per month. Her husband owns a *shamiana* (a temporary roof made of cloth) shop and earns around Rupees 8,000 a month, from renting out *shamianas* for weddings, rallies, parties, and so on.

As a group member since 1997, she has so far availed of 25 loans of different amounts ranging from Rupees 5,000-10,000. She clearly recollects how a loan of Rupees 25,000, which she took to establish the *shamiana* shop for her husband, changed the course of their lives and increased the family's earnings to Rupees 8,000 per month. To get this loan, she had to convince her group as well as the MD of VMSS. Three years back, she took a loan of Rs. 25,000 and a year back, another loan of Rs 30,000. She took these loans for her daughter's education and marriage. Her daughter is also a member of another group.

She said that she was first a worker in the CPM and later joined the SHG in 1997. Her participation in the group helped refine her leadership skills and gave her an opportunity to help people in difficulties. According to her, the insistence on time and attendance at group meetings, though painful, is necessary to enforce discipline among members. Drawing comparison with other groups promoted by MFIs and the GVMC, she said that the groups promoted by VMSS were disciplined, non-exploitative and transparent in their operations.

'In our groups all members can avail loans,' she said.

However, a few members mentioned about the disadvantages of being a member of SHG, especially of the VMSS. They expressed that there were too many meetings and too much time had to be spent in group meetings,

which was taking them away from home when children or husbands were at home, sometimes even affecting their business or work.

## REFLECTIONS

Microfinance as a tool of poverty alleviation and empowerment—especially of women—has come centrestage during the last two decades. Practitioners of microfinance, however, differed on how it can be achieved. In this article, an attempt has been made to look at the current scenario of microfinance practice and to show how the VMSS, as a microfinance organisation, made a significant difference in the lives of poor women and their communities, without losing sight of its development agenda. In this section, we shall consider six important dimensions, which made the VMSS a workable model to follow in the delivery of microfinance services to poor women. These are: size of the organisation, outreach and impact on the poor, sensitivity and flexibility of its financial services, social intermediation, and leadership development and sustainability.

The experience of the VMSS clearly shows that, based on its own pool of savings, a small organisation can sustain and continue its financial services to the poor at an effective interest rate of 1–2% per month. It also shows that the argument of ‘only “big” organisations with high rates of interest can sustain’ does not hold good. In fact, it can be said that to reach the poorest with timely and affordable credit, a small organisation with a local presence in the low-income areas is a viable model. Like big dams, which take more investments but yield low returns, ‘big’ MFIs in their obsession for expansion and financial sustainability, can lose sight of the poor and run into trouble.

It has also shown that in terms of its coverage, the VMSS could reach the poorest of the poor from all sections of the population. The size of loans given ranged from Rupees 5,000–50,000. There was no outsider involvement either in fixing loan sizes or determining the interest rates. Any member, by putting up a request at the group level, could avail of a loan. As the groups are sensitive to the members’ background and needs, the repayment schedule and the rate of interest are made flexible enough to fit the members’ ability to repay. Members have often pointed out to this sensitivity and flexibility of VMSS groups, and also adherence to discipline and strict routine. Thus, the VMSS covered a significant gap in the credit needs of the poor people in its constituency.

Unlike the groups formed by MFIs, these groups regularly meet to interact and transact their activities, which are not only money-related but also related to social development. Issues such as water scarcity, sale of illicit liquor, or personal problems of a member figure in the discussions of group members. This made the groups cohesive and supportive. The social capital, thus generated, made the process of fixing the size of the loan and repayment strategy more flexible and acceptable to the member. The groups also treated defaulting members with great sensitivity and flexibility. This is in stark contrast with what MFIs do with women, while handling repayment of loans.

The next dimension is the financial services of the VMSS. These services have evolved over a period of time in response to the members' needs and local realities. The variation in the types of savings, the internal insurance coverage provided through the common charity fund of the VMSS, and the flexible interest rates attest to this fact. The stories told by members reveal how timely help from the group has helped them tide over the financial difficulties they faced in life.

Emphasis on the social objective is another important dimension of the VMSS. The assignment of members to different SDCs at the group level to encourage participation in development activities had strengthened this dimension. The social development orientation of the VMSS members is clearly articulated in their stand taken against issues such as sale of illicit liquor in their areas, working of the PDS and building infrastructural facilities in their communities. Construction of borewells to address scarcity of water, which affects the women most, and community halls for women to meet and interact are an important manifestation of the community orientation of the organisation. Further, engagement of members in the activities helped them acquire skills in negotiation, mobilisation and leadership. In a way, the groups and clusters are more nested in the community and are valued by members for their social development and community-building orientation.

There are, however, a few concerns the organisation has been facing. One is the policy of capping the interest rate at 1% for members who gain seniority of 10 years and above. It is felt that as groups grow older, and in the light of VMSS' reluctance to expand, the income through interest will drastically reduce and is likely to affect the sustainability of the institution after sometime. Therefore, the VMSS began considering the revision of the interest rate and to keep the lowest at 2% per month. Another concern is the

slow progress in identifying market-relevant microenterprises to initiate women into income generation activities. The third concern is that many members felt that the VMSS needs to make efforts to develop linkages with the programmes of local self-government, state government, and banks.

## CONCLUSION

The objective of this article is to demonstrate how a microfinance model—and in this context, the VMSS—can make credit available in an affordable and sustainable manner to help the poor work their way out of poverty. This can be done without losing sight of the needs of the poor and the need to organise and build their capacities to become participatory and democratic people's institutions. Microcredit is only a means to achieve building sustainable people's institutions (Fernandez, 2001). Thus, small in size, locally rooted, self-managed by its members with its own pool of resources, VMSS has been providing microfinance in an affordable manner to poor women for more than a decade. More importantly, it went beyond providing financial services to build social vision among its members to function as a vibrant people's organisation in their neighbourhood. In the light of the failure of 'big' MFI model experiments by the market, the small, locally-based, self-managed institution model can be practiced to help the poor more effectively instead.

## NOTES

1. In October 2010, 21 MFIs were operating in the state and claimed to have given loans to the tune of Rupees 3,500 crore (see *The Hindu*, 2010b: 4).
2. There are also issues of multiple lending, competition among MFIs, and multiple memberships of women in groups.
3. The Government of Andhra Pradesh promulgated an Ordinance (No. 9 of 2010) on October 15, 2010, to protect women SHGs from exploitation of the MFIs in the state.
4. He discussed the cases of Share Microfin Ltd, Asmitha Microfin Ltd, Spandana Spoorthy Financials Ltd, and SKS Microfinance Ltd.
5. The SHGs in India were originally pioneered by the Mysore Resettlement and Development Agency as Self-help Affinity Groups. This idea was later adopted by the National Bank for Agriculture and Rural Development in 1992 under the popular name self-help groups (APMAS, 2009).
6. For example, the Indira Kranti Patham of Andhra Pradesh.

7. Microcredit has been defined as those programmes, which extend small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families. In most cases, the programmes also include savings facilities, training, business development services, and peer support (Micro Credit Summit, 1997). Microcredit is also associated with formation of groups, no collateral, with the credit and related services facilitated by NGOs or MFIs. In this article, the terms microcredit and microfinance are used interchangeably.
8. The total number of women in 2009–10 is 3,716 in 205 groups.

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