MANAGEMENT CASE

describes a real-life situation faced, a decision or action taken by an individual manager or by an organization at the strategic, functional or operational level

The AP Microfinance Crisis 2010: Discipline or Death?

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On October 15, 2010, the news that the Andhra Pradesh (AP) government had passed an ordinance to regulate the microfinance activities in the State pushed all the MicroFinance Institutions (MFIs) with huge exposure to AP into a huddle. The microfinance sector had seen a high and a low in a short timespan. In July 2010, the largest MFI – SKS Microfinance – had a successful initial public offering (IPO). The same year, a series of controversies (including some unrelated to each other) culminated in the ordinance passed by the State Government. This ordinance threatened the very existence of for-profit MFIs. Suddenly, a fairy-tale had turned into a nightmare.

BACKGROUND

Indian microfinance had come of age from the early steps taken in the later part of the decade of 1990s. While the roots of what is known today as microfinance is usually traced to the establishment of the Shri Mahila Sewa Sahakari Bank (popularly known as Sewa Bank) in 1974, the growth picked up only in the new century. Mysore Resettlement and Development Agency (MYRADA) was seen as one of the early innovators of the concept of self-help groups (SHG)[1]. The concept had emerged in 1984-85, but it was only after the National Bank of Agriculture and Rural Development (NABARD) saw the merit in this model of microfinance that it was accepted as a predominant model of achieving financial inclusion, by the government agencies.

In the later part of 1990s, a new breed of institutions started cropping up. BASIX was an acknowledged pioneer of private sector microfinance in India. The promoter of BASIX – Vijay Mahajan – was an acknowledged leader of the microfinance sector. The model followed by his organization was significantly different from the ones that followed. The other MFIs followed what is known as the classic Grameen model. The earliest to establish operations under this model was Share which initially operated as a not-for-profit NGO, followed by Spandana and SKS Microfinance. All the three organizations were based in AP.

KEY WORDS

Microfinance

Andhra Pradesh India

Self-Help Groups

SKS-IPO

Microcredit

Inclusion

[1] MYRADA started with Credit Management Groups (CMGs) and then recognizing the fact that these groups were performing a larger role than just credit management started using the term SHG. However, over a period of time, the term SHG got adopted into the mainstream nomenclature as NABARD embraced the concept.

The Landscape

The access to formal financial services for the poor is provided through multiple channels such as branches of commercial banks, regional rural banks, and co-operatives. The informal sector has a fairly significant share in the market. Over the decades, the role and importance of these institutions has changed. The co-operatives assumed significant market share in the decade of 60s. Following the nationalization of banks in 1969, there was improvement in the rural branch network of the public sector banks. Between 1969 and 1990, bank branches were opened in around 30,000 locations that were un-banked. After 1991, the growth of branch expansion in rural and semi-urban areas slowed down. In addition, the movement in terms of transaction size was also away from the smaller tickets. If we look at the average size of small borrowal accounts (loans of less than Rs.200,000), we find that the average loan size which was around 10,900 in 1997, had moved up to Rs. 25,660 by 2003 to Rs.36,520 by 2009[2]. The co-operative sector was going through a revival process, but progress was yet to be seen. There was a gap left by the banking sector in providing financial services to the poor.

The structuring of the delivery of micro-financial services was in response to what was perceived as a lacuna in the banking system. The attributes that defined microfinance could be classified as under:

- The loan amounts were small, spread over a large number of clients, thereby addressing the issue of concentration risks.
- The repayments were structured to be regular (weekly, fortnightly, or monthly depending on the model) thereby maintaining a regular contact with the borrower; this ensured that any adverse event affecting repayment was factored as quickly as possible.
- The transactions were aggregated at an intermediary location — reducing transaction time and cost and bringing in efficiencies in having a predictable volume of transactions.
- Elaborate documentation was replaced by social pressure, passing on part of the cost of follow-up to the customers.

The above attributes encouraged the clients to take up certain types of activities. The portfolios of MFIs showed that a major part of the loans were for activities that yielded a regular cash flow; 72 per cent of the finance from MFI lending went towards supporting animal husbandry.[3]

The other purposes were businesses that had regular cash flows – petty businesses such as vegetable vending, small provision stores and so on.

The basic philosophy of microfinance was to provide easy finance without monitoring end use, which was recorded for documentation purposes. Although most MFIs claimed that their loans went for productive purposes, there was evidence that loans were used for consumption as well. Experience elsewhere showed that consumption credit led to problems. The collapse of some MFIs in Bolivia was attributed to competitive consumer finance. In AP, when Spandana started its consumer finance,it was initially hailed as an innovation as they financed the purchase of gas stoves, pressure cookers, and water filters – classified as drudgery-reducing or hygiene-enhancing items. When Spandana expanded its lending with a bundled superstore having around 3,000 stock keeping units, including lifestyle items such as televisions, washing machines, and jewellery, it was accused of pulling the poor into a debt trap by luring them into buying things they did not need.

MODELS OF MICROFINANCE

There were two predominant models of microfinance – Grameen and Self Help Groups (SHG) (the third called Individual Banking Model was not widespread in India). There were differences on how these models were applied in different regions and by different players.

Grameen

The Grameen model was inspired by the Grameen Bank of Bangladesh. This model was supply-driven and grew fast. Between 1996 and 2010, organizations following the Grameen model had shown the fastest growth in terms of number of clients. The main features of the Grameen methodology were as follows:

[2] These numbers are based on the calculations from the Basic Statistical Returns of Scheduled Commercial Banks provided by the Reserve Bank of India, downloaded from the site: www.rbi.org.in accessed on August 14, 2011.

[3] EDA Rural Systems (2004). *The maturing of Indian microfinance: A longitudinal study for SFMC.* New Delhi: EDA Rural Systems. (mimeo) (Team Leader: Francis Sinha).

- Groups of 5, and centres containing 6-8 groups were formed as a unit. A village could have multiple centres. The group had to maintain financial discipline. For instance, if one of the members of the group defaulted, it was necessary for the others to fill in on her behalf irrespective of whether the member was present or not.
- Loans were given on a step-up basis, and it was necessary for all the members to take loans.
- Default was not tolerated; social pressure was used in recovery. Worldwide, Grameen replicators reported near 100 per cent repayment rates.
- The interest rates were relatively high, ranging up to an effective interest rate of around 38 per cent per annum. The rates covered training, group formation, and follow-up costs. While the old Grameen replicators took around five years to break even, with growth, a new outfit could break even in about three years.
- Break-even points occurred faster in areas where other Grameen replicators had already done some business, as the market development costs were borne by the first mover.
- Most loans were offered for a year. The design of the loans was simple, and the instalments were due every week. The loans were given in multiples of Rs.1,000 for duration of 26 and 52 weeks. Equated instalments were collected on the basis of a flat interest rate.

Self-Help Groups

The country had a wide variety of SHGs with diverse parentage. Unlike Grameen, where the organization that formed the groups, also lent, in case of SHGs, the promoter of the groups could be distinct from the lender. Typically, the promotion of SHGs was done by a Non Governmental Organization (NGO). SHGs were independent groups and loosely linked. And unlike Grameen groups, their development was not a centralized activity. SHGs started with savings as a base and the credit was always linked to savings. Therefore the growth of SHGs and their credit portfolio was slow. The main attributes of SHGs were as follows:

- SHGs started with a group of 10-20 women who met regularly. They started with savings. The weekly savings could range between Rs.10 to Rs.50 depending on the level of monetization of the activities carried out by the women and the geography.
- Credit activity started only after six months of stable savings operation and "internal lending". Every time the women met, savings were collected and these amounts were lent within the group to a person in need. Decisions on lending were taken by the women themselves.
- Banks or other microfinance institutions linked the SHGs after they passed the "probation" of six months. Usually, bulk loans were given to the SHGs who on-lent to members as per the criteria evolved by the women.
- The repayment rates at the client level were not as high as that of the Grameen groups. In several groups, the repayment schedule was flexible since the group activities were managed by the women themselves. The repayment by the groups to the banks was usually high, and the gaps between the member repayment and the bank dues were met through the internal accruals in the group. The margin at the group level was fairly high to bear small shocks. The cost of funds from the bank could be near Prime Lending Rates (PLR) which ranged between 10-15 per cent per annum depending on the monetary and fiscal situation, while the interest charged from the members was around 24 per cent, with low transaction costs (which gave a comfortable margin).
- AP was the leading state in the SHG Bank linkage model.

THE MICROFINANCE SECTOR: POLICY ENVIRONMENT AND SOME TRENDS

The policy pronouncements in the last few years had been encouraging for the microfinance sector as a whole. In November 2002[4], the Reserve Bank of India (RBI, India's Central Bank) notified that commercial banks were allowed to treat unsecured advances to SHGs with a group guarantee on par with secured advances for the applicability of prudential norms. This encouraged the banks to take an exposure on SHGs aggressively. In April 2004, the RBI announced that lending to microfinance operations even through intermediaries would be reckoned as a part of the mandatory priority sector lending. The commercial banks were expected to earmark 40 per cent of their net bank credit to sectors identified as priority sector, which included agriculture, small indus-

4 Reserve Bank of India (2001). *Trend and progress of banking in India.* Mumbai: RBI.

try, housing, education and other identified sectors. Similar announcement was made pertaining to the banks' advances given to NBFCs for on-lending for agricultural operations. Both these initiatives opened up a larger microfinance market to the commercial banks, without jeopardizing their own achievements on the priority sector targets[5].

The banking sector continued to actively participate in this market both by financing SHGs directly and through the intermediary structure such as NGOs and federations. The banks were also aggressively funding other microfinance organizations that followed the Grameen model. In 2005, the commercial banks had sanctioned around Rs.14.58 billion for SHGs and in all Rs.140 billion for other groups, and NGOs (including SHGs)[6]. By 2009, the number had exponentially grown to a sanction of Rs.82.86 billion for microfinance[7] and nearly Rs.192.74 billion for other groups and the NGOs (excluding microfinance)[8]. As of date, the SHGs and the MFIs are estimated to have bank finance to the extent of Rs.300 billion each. Signalling from the state in encouraging the banks to lend more to microfinance also played a role in increasing the involvement of the banks. Banks started seeing this portfolio as one that gave a good risk adjusted return[9].

Penetration and Regional Spread

Data indicated that the maximum penetration of the Grameen type for-profit MFIs was in AP. A report by Rozas and Sinha (2010)[10] indicated that the *"market penetration has continued its rapid growth, with Indian MFIs adding six million customers in 2009. This is of course good news. The less good news is that the state that was already the most heavily penetrated in 2008 – Andhra Pradesh – was also the largest contributor to that growth, adding nearly 1.3 million customers."* Annexures 1 and 2 have tables pertaining to the growth rates of microfinance in AP.

AP in particular had the unique distinction of not only having the greatest penetration and growth of MFIs, but also aggressive growth of the SHGs. A World Bank aided project for elimination of rural poverty was launched in AP (initially called Velugu and presently, Indira Kranti Patham (IKP)). This ambitious programme pumped a large amount of money into the rural sector, and all the livelihood projects were being managed through promotion of SHGs and their federal structures. This programme not only promoted new SHGs, but also took older SHGs into its fold. There was an extensive state government machinery working for the promotion of SHGs in AP.

Velugu (IKP) was the flagship rural development programme of the Government of AP. It was showcased as an ideal partnership with the World Bank. While the World Bank had signed up with three state governments on the rural livelihoods programmes around the same time (Governments of AP, Madhya Pradesh, and Rajasthan), the AP model was seen as the most successful and was being showcased in the later interventions in Bihar and Odisha. The programme was oriented towards poverty alleviation using the methodology of formation and routing of the aid through SHGs. The SHGs were mature and had a federated structure with groups coming together at the village level as a village organization and these in turn federating at the block (*Mandal*) level as *Mandal Samakhyas*. The interest of the state in protecting and nurturing this programme was immense.

Meanwhile in the for-profit world of microfinance...

Krishna Crisis

Five of India's largest microfinance institutions (SKS, BASIX, Spandana, Share, and Asmitha) were not only headquartered in AP, but also had substantial exposure to the state. There was a significant clash of ideology between the for-profit MFIs and the state-run SHG programme. The first tension surfaced in 2006, when the Government clamped down on two large MFIs – Share and Spandana – and closed down around 50 branches (Shylendra, 2006)[11] in the Krishna District of AP. The

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5 Reserve Bank of India (2002). *Trend and progress of banking in India 2002*, Mumbai: RBI.

6 Reserve Bank of India (2005). *Basic statistical returns of scheduled commercial banks in India 2005*, Mumbai: RBI.

7 The classification of "microfinance" came in the year 2008. However, it is not clear whether microfinance includes SHGs or whether the SHGs have been classified under other "groups". With the entry of microfinance, we find that SHGs have disappeared as a classification in the returns.

8 Reserve Bank of India (2009). *Basic statistical returns of scheduled commercial banks in India 2009*. Mumbai: RBI.

9 Rao, MBN (2004). Personal communication.

10 Rozas, Daniel and Sinha, Sanjay (2010). Avoiding a microfinance bubble in India: Is self-regulation the answer? *Microfinance Focus*, (online journal) accessed on November 10, 2010 http://www.microfinancefocus.com/news/2010/01/10/avoiding-a-microfinance-bubble-in-india-is-self-regulation-the-answer/Accessed on August 14, 2011.

allegations against these MFIs were that they were charging usurious interest rates, following unethical practices in recovery and poaching clients from the state-sponsored SHGs. This instance came to be known as the Krishna crisis, but was averted without much damage. At that time, the MFI industry association, Sa-Dhan, called for a meeting of its member institutions and evolved a code of conduct on responsible behaviour. This elaborate code of conduct not only indicated the practices, but also the punitive actions for organizations deviating from the code (Annexure 3). This code was adopted, and was widely reported[12]. For a good measure, MFIs also announced the reduction of interest rates.

Interest rates were a contentious issue in the world of microfinance. During the initial period, the issue of interest rates did not come up for discussion as it was assumed that access to finance was primary and interest rates were high because delivery of these services did involve cost. The cost of delivery included the cost of finance, administrative overheads, cost of default, and a margin. Historical data indicated that during the period of growth of commercial microfinance, the interest rates of the banking system were systematically falling. The bank rate in 1997 was at around 11 per cent per annum (which was reduced by a hundred basis points in that year). By 2004, the bank rate had been pegged at 6 per cent per annum. The rates remained benevolent, and continued for a while even after the effects of the global meltdown were felt, because the RBI considered it necessary to inject liquidity into the market. The MFIs were able to negotiate better rates from the banks as their portfolio was classified as priority sector lending. They possibly had significant efficiency gains in achieving scale. All these should have resulted in a fall in interest rates at the client end. However, MFIs had kept the interest rates at the client end somewhat inelastic. On the other hand, banks found it attractive to lend in wholesale at reduced interest rates rather than undertake SHG or individual client level transactions.

Incidents similar to the Krishna crisis had occurred in other places. There was an incident in Kolar, Karnataka State where MFIs were accused of charging high interest rates and engaging in unethical practices. The local Islamic clergy had intervened to hamper the operations of the MFIs. The microfinance sector overcame this crisis by avoiding working in that area and moved on.

Fairytale Run with the Press

In the decade, including when the Krishna crisis happened, the English language press had been generally favourable to MFIs. During the Krishna crisis, the vernacular media had shown some anti-microfinance sentiments but it did not precipitate matters. There was an uneasy calm between the state operated machinery and MFIs. Only two institutions had been targeted in 2006, the damage was contained and the other MFIs were relatively unaffected. During this crisis, SKS Microfinance was a relatively smaller organization and was not targeted by the government. In the next four years, the MFIs had a honeymoon period, with positive publicity in the English language press.

SKS Microfinance and Vikram Akula: The Poster Boy of Indian Microfinance

The biggest story of the decade was that of SKS Microfinance, led by its articulate and charismatic promoter, Vikram Akula. After an indifferent growth during the early years, SKS started growing at a rapid pace from 2006, putting the leaders, Spandana and Share, far behind. The US educated Akula was often featured in various lists including Time 100 list and was a speaker at several forums including the World Economic Forum at Davos. He prominently featured in the Indian press as the entrepreneur who blended profits and purpose, and in February 2010, received the Ernst and Young "Business Transformation Entrepreneur" Award.

Amidst all this fame and glory, SKS was successful in placing its equity in the private equity markets at an attractive valuation. With the initial set of investors wanting to cash-out a part of their investments, SKS hit the capital market through an Initial Public Offering (IPO) of its shares. In the run up to the IPO, SKS managed to get Mr. NR Narayana Murthy (of Infosys) to make an investment of around Rs.280 million in a private placement through his newly established Catamaran Fund. SKS already had Vinod Khosla (Silicon Valley enterpreneur who had exited from Sun Microsystems) and other well known private investors on board. The IPO was oversubscribed through the book building route and was

[11] Shylendra HS (2006). Microfinance institutions in Andhra Pradesh: Crisis and diagnosis. *Economic and Political Weekly*, *41*(20), May 20, 1959-1963.

[12] *Hindu Businessline (*2006). AP: MFIs adopt conduct code. March 21, http://www.thehindubusinessline.com/2006/03/22/stories/2006032201701900.htm accessed on 10th November 2010.

allotted at the upper end of the price band of Rs.985 per share. The shares listed at a premium and went all the way up to Rs.1,490 a piece in a short while. In the run up to the IPO, Akula and SKS were caught up in two controversies. One was about a paper published in early April 2010 that documented the movement of charity funds that initially came into SKS and other MFIs and how these funds were "converted" into equity capital in the for-profit firms, thereby questioning the moral and ethical fabric of the large MFIs – all headquartered in AP[13]. The second unrelated controversy was about Akula's ongoing custody battle for his son, with his estranged wife. However, neither of these controversies came in the way of the success of the IPO or the performance of the stock thereafter.

The success in the stock market was followed by stories about some employees of SKS encashing their stock options and becoming millionaires. The MFI sector seemed to have arrived. Other large MFIs were announcing their plans to tap the stock market.

While there were some rumblings of discontent before the SKS IPO, the organization remained unaffected by the adverse publicity and appeared immune to it. In an unrelated development, SKS sacked Mr. Suresh Gurumani, its CEO at the time of IPO, citing interpersonal differences. The timing of the sacking brought SKS back into the news for all the wrong reasons. The press started asking questions about the governance quality of MFIs in general and SKS in particular. The negative stories appeared in several dailies. The IPO, encashment of ESOPs, profits, interest rates, and the sacking of Gurumani were all covered in television interviews, editorials, and opinions of prominent journalists. Suddenly, the MFIs were consuming more column centimetres in newspapers than they had cumulatively seen in the past.

Rumblings of Discontent

Even as the SKS dream run was continuing, elsewhere there were voices of discontent. The discontent came from the rapid growth of MFIs since 2006. This growth, fuelled by the private equity investments, was putting pressure on MFIs to grow. The sector was attracting mainstream players towards microfinance. A rapid growth was necessary to build a track record for an IPO. It was also widely discussed that microfinance was on the verge of creating a bubble. The microfinance list serves like devfinance.org and microfinance practice on yahoo groups were already publishing pieces indicating an impending trouble because most MFIs in their enthusiasm to chase numbers were operating in the same areas lending to the same clients. The magnitude was alarming enough for MFIs to openly talk and take preventive measures.

MFIN

In December 2009, a new microfinance association, Microfinance Instititutions Network (MFIN) was established with Vijay Mahajan as its Chairman. While Mahajan was the force that promoted Sa-Dhan, the first network of microfinance institutions, there was discontent on how Sa-dhan represented the interests of the MFIs. It was perceived that the code of conduct that evolved from the Krishna crisis was violated more than adhered to and Sa-dhan did not have the wherewithal to rein in the erring members. There was a difference in the lobbying requirements between the for-profit MFIs registered with RBI as NBFCs and the others who were operating in the not-for profit format. Sa-dhan was actively advocating for the passing of a new Microfinance Regulation Bill. A bill that was drafted and considered in the preceding Parliament (Lok Sabha), had lapsed. However, the content of the Bill was widely discussed in public and representations were made to the Parliamentary Standing Committee on the content of the bill. The bill itself advocated the regulation of microfinance institutions that fell outside the ambit of RBI. There was a feeling amongst the NBFC-MFIs that Sa-dhan did not represent their interests. Mahajan led the initiative and formed MFIN. In addition, there were efforts to set up a credit bureau that would capture the client level data. Between MFIN and the credit bureau, it was expected that the microfinance sector would be able to avert a possible crisis with better sharing of information and issues of ethical code of conduct (see Annexure 4). While Akula represented the celebration of the commercialization of microfinance, Mahajan became the spokesperson and the chief trouble shooter for the microfinance sector.

The establishment of MFIN acknowledged the divide between the for-profit MFIs that were looking at the

[13] Sriram M S (2010). Commercialisation of microfinance in India: A Discussion of the emperor's apparel. *Economic and Political Weekly*,*45*(24), June 18, 65-74.

stock market and the others. It was also the first public acknowledgement of the possible problems of competitive lending. MFIN tried to style itself as a self-regulatory organization of MFIs. It had its own code of conduct, and was also negotiating with the banks on how they should be assessing the microfinance sector and the covenants that the bankers should impose on the on-lending for MFIs. On March 9, 2010, MFIN issued a press note which indicated that the members of MFIN would ensure responsible lending, adhere to a code of conduct, and invest substantial amount in setting up a credit bureau. It also announced that they would register a 100 million people under the Unique Identity Authority's Aadhar scheme for providing biometric identity to every citizen of the country.

On April 28, 2010, *Mint*, a business daily, carried a story on microfinance. The report said *"Microfinance has had a skewed growth in India. Three southern states, Andhra Pradesh, Tamil Nadu and Karnataka, contributed 54% of new clients in 2009. According to Srinivasan's sector report, the average loan outstanding per household in Andhra is already Rs. 49,150, which would create a kind of entry barrier for a new NBFC as MFIN's code limits the loan to Rs.50,000".* This was the data that MFIN was dealing with. However, the MFIs (at least overtly) were in a state of denial. When this data was brought to the notice of Mahajan, he is reported to have said, *"We are nowhere near a bubble."* According to his estimate, the delinquency level among microfinance NBFCs was "about 1-1.5%" of the outstandings. According to RBI data, gross bad loans of commercial banks were 2.3 per cent of the gross advances at the end of 2008-09[14].

In the run up to the SKS IPO and the related controversy, Mahajan was relatively silent. When he was pushed to say something, he supported the commercialization of microfinance and obliquely supported SKS and its IPO, by acknowledging that this was inevitable for a growing commercial organization. In one of the rare interviews to Forbes, he indicated his stand regarding SKS and its IPO. Mahajan said,*"I have known Vikram since he was a young idealist trying to set up an NGO…. Interestingly, we have differed over several things over the years but we still share a warm relationship. Earlier he thought I was too commercial and now I think he is too commercial. Then he went to work for McKinsey and I thought that during the period he changed. Now I feel he is too commercial and that MFIs could do with a more moderate profitability[15]."*This was mildly critical of the SKS model of growth.

When it rains, it pours…

The rumblings about excessive commercialization, multiple lending, and the stories of profits started coming out regularly. The sacking of Gurumani raised questions on the quality of governance of MFIs. The press was digging deeper into the histories of the organizations and the events appeared to be similar to the Krishna crisis. The difference was that it seemed to be encompassing not just a few organizations, but the entire sector.

In September 2010, before the sacking of Gurumani, there was news in the local press of some MFI clients committing suicide. The vernacular press was carrying stories of harassment of borrowers and public humiliation leading to suicides. The MFIs were known to be intolerant of default. All of these MFIs had consistently reported repayments of near 100 per cent for years. While this worked positively in building the organizations as responsible lenders who brought discipline to the chaotic market that was marred with delinquency and write offs, it was now termed inhuman and coercive. The stories of suicides increased. A report by the government-run programme, IKP, had documented more than 40 cases of suicides attributed to over-indebtedness from MFIs. This came as a blow to the MFIs. Suicides as a phenomenon, was not new. In 1998, BASIX had commissioned a study to understand the phenomenon of large number of suicides of cotton farmers. A few years ago, farmer suicides in Vidarbha, Western Maharashtra, had rocked the country, but this looked distant from the perspective of an MFI, because usually suicides – when attributed to indebtedness – were attributed to a faceless moneylender. For the first time now, suicides were being attributed to MFIs. For years, MFIs had projected themselves as agencies working to alleviate poverty.

When reports of suicides came, the response of the MFIs was of denial. On the day the AP government promulgated the ordinance (discussed later), the press reported

[14] Shankaran, Sanjiv (2010). MFIN code shows cracks within ranks. *Mint,* April 28, available at http://www.livemint.com/2010/04/27235736/MFIN-code-shows-cracks-within.html accessed on November 10, 2010.

[15] Mahajan, Vijay (2010). MFI profits should be moderate (an interview to Shloka Nath and Saumya Roy). August 16, available on line at http://business.in.com/interview/close-range/vijay-mahajan-mfi-profits-should-be-moderate/16252/1 accessed on November 10, 2010.

that *"17 out of some 30 poor in Andhra Pradesh committed suicides recently were SKS borrowers; Akula however said his company never resorted to unethical recovery practices or strong-arm tactic in recovering dues from borrowers. In fact, he said the deceased borrowers were not defaulters of SKS and they would have been driven to suicides by other factors such as pressure for repayment of dues by other MFIs that lent money to the same borrowers."*[16]

The Ordinance

On October 16, 2010, the business daily, *Business Standard*, had an article by Mahajan who wrote: *"More disturbing are the recent reports alleging that some poor women have committed suicide due to the burden of over-indebtedness caused by MFIs. If even one of these cases is true, it is a matter of shame for all of us in the sector. Though we should not give up on the principle of sustainability and thus cost-covering interest rates, the greed and ambition of promoters/CEOs should not be allowed to convert a boon into a bane for the poor. This brings to mind a Kabir's couplet: "A poor man's sigh of grief is enough to burn even gold." Let us put our house in order before it is too late."*[17]

As a strange co-incidence, the article appeared on the same day as the news of the ordinance carried by various newspapers, and was clearly written much before the ordinance became public. However, while the article ended on an introspective note, it was much more defensive in its tone about interest rates and the need to cover costs, going to great lengths to explain the rationale of the microfinance business.

On October 15, the Government of Andhra Pradesh promulgated an ordinance to "protect the women Self Help Groups from exploitation by the Micro Finance Institutions in the State of Andhra Pradesh". While there were rumblings that the government would be coming out with an ordinance, MFIs appeared to be in a state of denial. While the ordinance (see Annexure 5 for the highlights of the ordinance) had strong clauses that were difficult for the organizations to follow, the reaction of the microfinance community was first of shock and then of litigation. The ordinance was more onerous than expected, because it required MFIs to register in each district of the State and obtain the registration in order to continue operations. This meant that, MFIs with pending registration had to cease operations in AP. MFIN, SKS Microfinance, and Spandana went to the court challenging the ordinance. The general hope was that the court would provide a stay and the activities of the organizations could resume, while the litigation continued. Unfortunately, for the MFIs, the honourable High Court of AP, while permitting the MFIs to continue their operations, refused to stay or quash the ordinance and directed them to register with the authorities within a week (and later extended this time by another 2 weeks). When the court refused to stay the ordinance, the enormity of the episode and the impending crisis hit the MFIs.

The MFIs in AP were unable to carry out their operations for almost a week while the Court was hearing their plea, which made an impact on their liquidity. They were unable to collect loans and carry out their business. There were rumblings from the banks that they would not be taking any further exposure with the MFIs and it appeared that some other state governments would follow the AP example in clamping down on the operations of MFIs. The press went into an overdrive on analysing the profitability of the MFI, looking at interest rates, margins, and executive compensations. The numbers showed MFIs having much greater profitability than the banking system and this led to the question of whether these institutions were profiteering from the poor. The words like white collared money lenders, Shylocks, and Loan sharks were liberally used by the press.

In the meantime, the principal opposition party in Andhra Pradesh, the Telugu Desam Party had taken this issue up on a political plank. The issue was going much beyond just debates about regulation, but was dragged into the assembly, on to the streets in addition to the media. The entire MFI sector was suddenly experiencing a nightmarish situation where bankruptcy was inevitable if the stand-off continued for long. The MFIs were not able to lend further; the borrowers were defaulting; and it was difficult for MFIs to effect even legitimate and voluntary collections. It appeared that if something was not done very quickly, the entire sector including the ones that were known to be clean were staring at bankruptcy.

[16] Sukumar, C R (2010).Capping interest rates affects margins, says VikramAkula. *Mint,* October 15th 2010, available at http://www.livemint.com/2010/10/15212333/Capping-interest-rates-affects.html accessed on November 10, 2010.

[17] Mahajan, Vijay (2010). Micro loans, macro returns.*Business Standard,* October 16,available at http://www.business-standard.com/india/news/vijay-mahajan-micro-loans-macro-returns/411679/ accessed on November 10, 2010.

Mahajan was worried. He had spent a lifetime working in helping the poor to find meaningful livelihoods. He had started BASIX as a mainstream venture, with very little investment of his personal resources and with a huge loan from developmental agencies just to prove that commercial microfinance was possible to be undertaken as an ethical business. In the past 14 years of setting up BASIX and running it, he had always put the interests of the industry above his own personal and organizational interests. He had lobbied for better policies for inclusive finance and was seen as a natural leader of the microfinance sector. For a gold medalist from the Indian Institute of Management, Ahmedabad (IIMA), who chose to abandon a corporate career to serve the poor, this was a very difficult period indeed. He had to take care of the interests of his institution and those of the MFIs that he represented, and ensure that the larger agenda of inclusive finance did not suffer a death blow at the hands of MFIs that happened to be careless and a passionate government driven to the wall by the opposition. As the chairman of MFIN, the onus was on Mahajan to take the initiative to protect the industry and bring it out of its current mess.

Annexure 1: Growth by No. of Active Borrowers in AP (2002-2009)

Name of MFI	Operations Began in...	No. of Clients in Million at Beginning of Period 2002 (except Asmitha, 2004)	No. of Clients in Million at End of Period in 2009	No. of Clients in Million Added Since 2005	% of Clients added since 2005/ Total	CAGR %	State of Origin and Head-quarters
SKS (All India 1 on outreach)	Jan 1, 1997	0.0111	5.795	5.62	96.98	118..57	AP
Spandana Spoorty Financial Ltd. (All India 2 on outreach)	Jan 1, 1998	0.0341	3.663	2.94	80.27	79.43	AP
SHARE Microfin Ltd. (All India 3 on outreach)	Jan 1, 1992	0.1321	2.357	1.54	65.32	43.37	AP
Asmitha Microfin Ltd. (AML)	Jan 1, 2002	0.1277	1.340	0.95	70.88	47.97	AP
BASIX	Jan 1, 1996	0.0404	1.114	0.97	87.04	51.40	AP
Andhra Pradesh (5 MFIs in India top 11)		0.3454	14.2701	12.0200	84.23		

Source: www.mixmarket.org (quoted by Rames Arunachalam, Rural Finance Practitioner).

Annexure 2: Outreach of Top MFIs in AP, West Bengal, Tamil Nadu, Karnataka, and Orissa

State	No. of Clients in Million at End of Period in 2009	No. of Clients in Million Added since 2005	% of Clients added since 2005/Total
Andhra Pradesh (5 MFIs in India Top 11)	14.2701	12.02	84.23
West Bengal (1 MFI in India Top 11)	2.3014	2.15	93.42
Tamil Nadu (2 MFIs in India Top 11)	1.6607	1.57	94.54
Karnataka (2 MFIs in India top 11)	1.7925	1.56	87.03
Orissa (1 MFI in India top 11)	0.3057	0.18	58.89
All Over	**20.3**	**17.5**	**85.98**

* Based on data availability and applicability.

Source: Same as Annexure 1

Annexure 3: Some Select Financial Performance Parameters of Commercial Banks and MFIs

Name	Return on Assets	Return on Equity	Yield	Financial Expenses	Provisions	Operating Expenses	Write-off Ratio
State Bank of India	1.04	17.05	9.68	5.85	0.46	1.86	
St. Bank of Travancore	1.30	30.64	10.43	6.21		1.71	
Bank of India	1.49	24.97	9.78	5.79	0.44	1.53	
Citi Bank	2.12	20.83	12.61	3.57	4.03	2.74	
Standard Chartered	2.87	20.45	12.30	5.05		2.92	
Axis Bank	1.44	19.12	10.57	5.88	0.90	2.22	
Karur Vysya Bank	1.49	18.57	11.50	7.36		1.63	
State Bank Group	1.02	17.74	9.89	6.07	0.23	1.57	0.32
Nationalised Banks	1.03	18.07	10.19	6.18	0.27	1.46	0.24
Foreign Banks	1.98	13.75	12.60	4.51	0.58	2.75	0.22
Private Sector Banks	1.13	11.36	11.41	6.29	0.71	2.12	0.58
All Banks	1.13	15.44	10.50	6.06	0.66	1.70	0.33
Regional Rural Banks	0.94	13.61	8.2	4.5	0.9	2.0	Na
SKS Microfinance	4.96	21.56	25.64	8.32	1.47	9.80	0.86
Spandana Spoorthy	8.99	55.67	25.71	9.27	1.48	6.14	0.66
SHARE Microfinance	5.50	45.18	26.55	9.18	0.30	6.14	0.48
Bandhan Microfinance	3.52	38.21	22.16	6.74	0.03	4.18	0.00
Asmitha Microfinance	4.31	40.07	25.64	9.06	0.40	5.15	0.56
BASIX	3.12	23.29	23.97	7.18	0.56	10.11	0.37
Equitas	4.50	12.38	24.44	7.25	0.92	6.79	0.00

Source: Banking Stastistical Returns of RBI 2009 and MIX market data for 2009.

Annuxure 4: Sa-Dhan – Core Values, Code of Conduct and Compliance Mechanism for Micro Finance Institutions

Part I: CORE VALUES IN MICROFINANCE

1.1 Integrity

Our mission is to service low-income clients – women and men – and their families, providing them short-term and/or long-term access to financial services that are client-focused, designed to enhance their well-being, and delivered in a manner that is ethical, dignified, transparent, equitable and cost effective.

1.2 Quality of Service

We believe that our clients deserve fair and efficient microfinance services. We will provide these services to them in as convenient, participatory and timely manner as possible.

1.3 Transparency

We shall give our clients complete and accurate information and educate them about the terms of financial services offered by us in a manner that is understandable by them.

1.4 Fair Practices

We are committed to ensure that our services to our clients are not unethical anddeceptive. In providing microfinance services including lending and collection of dues, we are committed to fair practices, which balance respect for client's dignity and an understanding of a client's vulnerable situation, with reasonable pursuit of recovery of loans.

1.5 Privacy of Client Information

We will safeguard personal information of clients, only allowing disclosures and exchange of such information to others who are authorized to see it, with the knowledge and consent of clients.

1.6 Integrating Social Values into Operations

We believe that high standards of governance, participation, management and reporting are critical to our mission to serve our clients and to uphold core social values.

1.7 Feedback Mechanism

We shall provide our clients formal and informal channels for their feedback andsuggestions for building our competencies to serve our clients better.

Part II: CODE OF CONDUCT

To ensure that all our activities and dealings with clients are in compliance with the above core values, we all agree to adopt the code of conduct as elaborated hereunder:

2.0 Application of the Code:

i) This code applies to all categories of member microfinance institutions – irrespective of their constitution (a society or a trust or company or cooperative society under any state enactment or Multi-State Cooperative Societies Act) – whose principal activity is microfinance.

ii) This code applies to following activities undertaken by member microfinance institutions:

   a) Formation of any type of community collectives including self-help groups, joint liability groups and their federations.
   b) Providing financial literacy to the clients.
   c) Collection of thrift from clients.
   d) Making arrangement for remittance of funds collected from clients through banking channels or by any other means.
   e) Providing credit services to clients individually or in groups;
   f) Recovery of credit provided to clients for economic activities or for any other purpose for the welfare and benefit of clients.
   g) Business development services including marketing products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.
   h) Providing insurance or pension benefit products as partners or agents of insurance companies, or pension or mutual fund schemes duly licensed to undertake microfinance or insurance or pensioners' benefit schemes by a competent authority.

iii) Certain key words used in this code are defined in the Annexure at the end of this code.

iv) This code comes into effect from 18 January 2007 unless otherwise indicated.

2.1 We all agree to—

i) Promote and strengthen the microfinance movement in the country by bringing the low-income clients to the mainstream financial sector.

ii) Build progressive, sustainable and client-centric microfinance institutions in the country to provide integrated financial services to our clients.

iii) Promote cooperation and coordination among microfinance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve our clients better.

2.2 In order to achieve the aforesaid, we all agree to follow the following practices mentioned below:

2.2.1 Integrity

We agree to—

i) Act honestly, fairly and reasonably in conducting microfinance activities.

ii) Conduct our microfinance activities by means of fair competition, not seeking competitive advantages through illegal or unethical microfinance practices. No officer, employee, agent or other person acting on our behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.

iii) Prominently display the core values and code of conduct on the notice board of head office and all branches, and put systems in place to ensure compliance.

iv) Ensure that our staff and any person acting for us or on our behalf, are trained or oriented to put these values into practice.

2.2.2 Transparency

We agree to—

i) Disclose to clients all the terms and conditions of our financial services offered in the language understood by the client.

ii) Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.

iii) Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly/quarterly/half-yearly), terms of repayment, and any other information related to interest rates and other charges

iv) Provide information to clients on the rate of interest offered on the thrift services provided by us.

v) Provide information to clients related to the premium and other fees being charged on insurance and pension services offered by us as intermediaries.

vi) Provide periodical statements of our accounts to the clients.

2.2.3 Fair Practices

We are committed to follow fair practices built on dignity, respect, fair treatment, persuasion, and courtesy to clients. We agree to

i) Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.

ii) Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.

iii) Recognize our responsibility to provide financial services to clients based upon their needs and repayment capacity.

iv) Promise that, in case of loans to individual clients below Rs 25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, etc as collateral security for loans except when obtaining copies of these for fulfilling "know your customers" norms of the RBI. Only in case of loan to individual clients of Rs. 25,000 and above can land titles, house pattas, vehicle RC books, etc. be taken as collateral security.

v) Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.

vi) Maintain decency and decorum during the visit to the clients' place for collection of dues.

vii) Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/ visits to collect dues.

viii) Scrupulously avoid any demeanour that would suggest any kind of threat or violence.

ix) Emphasize using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what are the obligations of social collateral.

2.2.4 Governance

We agree to—

i) Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of Board of Directors. We shall ensure that the majority of the directors are independent directors and/or duly elected representatives of the community we serve, and that we will involve the Board in all policy formulation and other important decisions.

ii) Ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor/s.

iii) Put in our best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).

iv) Place before the Board of Directors, a compliance report indicating the extent of compliance with this Voluntary Mutual Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

2.2.5 Feedback/ Grievance Mechanisms

We agree to—

i) Establish effective and efficient feedback mechanism

ii) Take steps to correct any errors and handle complaints speedily and efficiently.

iii) Provide; where a complainant is not satisfied with the outcome of the investigation into her complaint, she shall be notified of her right to refer the matter to the Ethics and Grievance Redressal Committee constituted by Sa-Dhan.

Part III: COMPLIANCE MECHANISM

3.1 The Board of Directors of Sa-Dhan shall form an independent Ethics and Grievance Redressal Committee to facilitate compliance with this code. The committee shall be constituted of respected and trusted persons from the microfinance sector and other social development sectors, providing guidance and help in resolving any disputes.

3.2 The board of the member microfinance institutions should adopt the core values and the code of conduct on an annual basis.

3.3 In case of a written complaint received by the Ethics and Grievance Redressal Committee regarding non-compliance with the code by any member microfinance institution, the committee shall take the following steps:

i) Assist in compliance.

ii) Failing which—

a) Formally write to the chief executive of that member microfinance institution to respond to the complaint within ***15*** days.

b) If the chief executive of that member microfinance institution fails to respond within ***15*** days of the receipt of the communiqué, the matter will be formally communicated to the board of that microfinance institution in writing to seek a response.

c) If the board does not respond within the ***15*** days of the receipt of the communiqué, the membership of that microfinance institution shall be suspended till further decision of the committee.

d) If the committee decides it is necessary to expel the microfinance institution from the membership of Sa-Dhan, it shall recommend the expulsion to the Board of Directors of Sa-Dhan.

e) The Board of Directors of Sa-Dhan shall then take the appropriate decision and if they decide to expel the member, the name of the expelled member will be published on the website of Sa-Dhan.

Source: www.sa-dhan.net (accessed on November 10, 2010)

Annexure 5: MICROFINANCE INSTITUTIONS NETWORK (MFIN)

Extract from Code of Conduct for MFIN Members

As all MFIN Member MFIs are regulated by the Reserve Bank of India (RBI), they are already required to follow all prudential norms as well as consumer protection practices laid down by the RBI. This Code of Conduct is designed to ensure that the RBI Guidelines are followed in both letter and spirit, and in some matters, lays down additional requirements.

A. Fair Practices with Borrowers

i. Communication of charges

All members should clearly convey to the borrowers the following terms of the loan (at the minimum):

a. All the important terms and conditions of the loan agreement

b. Declining rate of interest

c. Processing fee
d. Any other charges
e. Security or any other deposit.
f. Systematic advance collections
g. Total charges recovered for insurance coverage risks covered
h. Any other services rendered and charges for the same

The communication should be in writing through any/various of the following ways:

- Individual sanction letter
- Loan card
- Loan schedule
- Passbook
- Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)

i. The communication should be in a medium understood by the borrower
ii. Nature and amount of charges
The code of conduct will not specify the nature and quantum of charges to be charged by individual MFIs. However, the transparency of the same should be ensured as covered in clause
iii. Recovery mechanism
a. Though each MFI tries to ensure on-time recovery of dues, it is imperative that they shall not use any abusive, violent, or unethical methods of collection and recovery efforts should be in line with guidelines issued from RBI from time to time.
b. A valid receipt (in whatever form as decided by each member) should be provided for each collection from the borrower.

B. Muliple Lending & Lending Limits

a. The maximum number of MFIs who can lend to one client is three, and the maximum loan outstanding that all the three MFIs together can have to a single client is restricted to Rs. 50,000/- at any point in time.
b. This cap will cover only unsecured loans given within the joint liability group mechanism or mutual guarantee of all types.
c. Any secured loans or individual business loans will not be covered under this cap.
d. The code will not cover the credit norms to be fixed by individual member MFIs.

C. Data Sharing/ Incident Sharing

a. In addition to the formatted data supplied to the Credit Bureaus CIBIL and High Mark, and hence available to all the members through the bureaus, it should be agreed to participate in a forum to share qualitative credit information.
b. Whenever any member comes across Incidents of High Default (IHD), the member should inform the Association of the same so that the other members are made aware of it.
c. However whether any other member would further lend to clients in such an area would be the choice of each individual MFI based on their credit policies
d. In connection with 'c' above, it is agreed that each member will make his decision transparent to the remaining members.
e. In case of any Incidents of High Default is faced by one MFI, all members shall cooperate in a recovery drive and restrain lending in that area till things are streamlined.

E. Whistle Blowing

a. Any person or MFIN member is entitled to report an incident of improper conduct of an MFIN member to the Code of Conduct Enforcement Committee (CCEC) of MFIN.
b. The CCEC shall investigate such instances within 30 calendar days of receiving such report. For this purpose the CCEC may depute its own staff or use the services of outsourced agencies as the CCEC thinks fit.

F. Enforcement Mechanism

a. If the CCEC finds the charge *prima facie* correct, it shall give notice to both theparties for a written representation for the charge within 15 days
b. If the CCEC finds that the contravening Member admits to the contravention and undertakes not to repeat the same then the CCEC may drop further proceedings
c. However if the Member does not admit to contravention or does not undertake to stop further contraventions, the CCEC shall hold a hearing with both the parties present within a further period of 15 days.
d. If the action of the member is found to be in contravention to the Code of Conduct, the following escalation will come into effect, with a gap of 15 days at each stage, in case no corrective action has been taken.

- Communication to the errant member's MFIN representative.
- Communication to the Chief Executive of the respective MFI.
- Communication to the Chairman of the Board of Directors of the errant MFI.
- Communication to each member of the Board of Directors of the errant MFI.
- Communication to the institutional investors of the errant MFI
- Communication to the institutional lenders of the errant MFI
- Communication to the RBI about the errant MFI

e. The errant MFI as well as the complainant can appeal to the Board of MFIN against the decision of the CCEC within 15 days. The appeal will be adjudicated by the Board of the MFIN in its next meeting.
f. The escalation mechanism will be kept on hold till such time an appeal is adjudicated upon.
g. In case no corrective action is taken by the errant member, within 1 month of the final escalation, the Board of MFIN is

entitled to suspend the errant MFI from the membership of MFIN for a period or expel the member from MFIN. While suspension can be approved by the Board with a two-thirds majority, the decision for expulsion would require a two-thirds majority in the Board favouring it and a further approval by the General Body with two-thirds majority either present and voting in person or voting through any written form including e-mail and fax.

h. This action under 'g' would then be communicated to all important stakeholders along with the reasons.

G. Ombudsperson Mechanism

a. MFIN Board will appoint one or two individuals of high professional reputation and integrity, as Ombudspersons, in each of the six RBI regions – East, West, Central, South, North and Northeast, to provide an independent mechanism to individual consumers or staff members to complain against an MFI and seek redressal. They will be given adequate secretarial support by MFIN.

b. Any person desiring to complain against an MFIN Member shall write a letter to the Ombudsperson

c. The Ombudsperson, on receipt of the complaint will send copies to the Chairman of the CCEC and the Chairman of MFIN Board. The Ombudsperson can cause an initial enquiry to be conducted to determine prima facie if there exists a case for investigation

d. If the Ombudsperson does not feel that there exists a case for further investigation he may accordingly write back to the complaining person with copies marked to the Chairman of MFIN and the Chairman of the CCEC (unless the matter pertains to the Chairman himself in which case it shall be marked to the Vice Chairman)

e. If the Ombudsperson feels that there exists a *prima facie* case for investigation, then he shall cause an investigation to be made using the services of the Secretariat of the MFIN.

f. The Ombudsperson may also require the presence of parties to the dispute in which case, such meetings shall normally be held at the office of the Ombudsmen unless the disputing parties mutually agree to any other place for such meetings

g. If after reasonable notice, any party to the dispute fails to be present for such meetings or fails to provide written responses to the queries of the Ombudsperson, then the Ombudsperson shall proceed to give his decision with the materials available with him

h. The Ombudsmen will have the power to ask the errant MFI to make good any damages incurred by the consumer, and in addition impose a fine on the MFI, commensurate with the seriousness of the complaint. After investigation andsuch inter-party meetings as the Ombudsperson determines, the Ombudsperson shall deliver his decision on the dispute in front of him and such decision shall be communicated in writing to all the parties to the dispute as well as to the Chairman of the CCEC and the Chairman of MFIN. Such decisions of the Ombudsperson shall be final and binding on all the parties involved.

i. However if any of the parties to the dispute desire to contest the decision of the Ombudsperson, then they may give the same in writing to the Chairman of MFIN who shall place it before the next General Body of the members and two-thirds of the Members may take the final decision on the dispute either by voting in person or through other written forms including e-mails and fax.

j. In extreme case, the Ombudsperson may also recommend suspension or expulsion from membership of the errant MFI to the MFIN Board. This will then follow the same process as specified in clause (e.g.) above.

H. Amendments to the Code of Conduct

Any amendments to this Code of Conduct will be adopted through the due process of first, a Board majority approval and thereafter a ratification by a majority of the General Body.

Source: www.mfinindia.org (accessed on November 10, 2010)

Annexure 6: The AP Micro Finance Institutions Ordinance, 2010

Ordinance with teeth

- MFIs should display their interest rates prominently in their offices
- No cost can be charged except those laid down in the application
- The interest payable should not be in excess of the principal amount
- MFIs cannot extend a second loan unless the first loan is cleared
- MFIs must submit a monthly statement to the registering authority
- Only MFI staff with identity cards should go for recovery
- Fast track courts will be set up to settle disputes
- MFI loan sharks will can be jailed for up to three years and/or fined Rs.1 lakh
- SHG members cannot take a second loan without the permission of the registering authority
- Members of one SHG cannot be members of another SHG at the same time
- All MFIs must register with the registering authority
- MFIs must specify their area of operations, rates of interest, system of operation and recovery
- Borrowers who have paid interest to MFIs in excess of the principal can demand the excess money back
- MFI agents cannot go to the doorstep of borrowers to demand repayment

- Loan repayment instalments can only be collected at the *gram panchayat* office
- In case of complaints, borrowers can call toll-free number 155321

Source: *The Week,* November 14, 2010.

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