

Dialogue with Sa-Dhan members from UP: Concerns on the recent developments in microfinance

Date: June 26th 2010

Background: Members from UP initiated an internal discussion among themselves raising concern over the mail from the Chair of Sa-Dhan regarding the recent developments in AP and other places. The discussion was led by members including TMN, NEED, Sonata, Jaago, BMC and others. The objective of the discussion was to debate over such concerns and to prevent similar incidents taking place in the state of UP. It is a healthy sign that members from UP are concerned on the above subject and self initiated the dialogue to take corrective measures. It was proposed that Sa-Dhan initiate the dialogue with a teleconference on 25th June at 5 PM with the concerned members from UP to discuss the issue. The following agenda items were proposed for the telecom:

1. As the whole issue of sector reputation is arising out of high growth rate and competition Sa-Dhan is increasingly focusing on the area of Code of Conduct implementation and its compliance by the member organizations. How can the Sa-Dhan Code of Conduct help in addressing the concerns raised?
2. How can the members from UP set an example in adoption, implementation and compliance to the Sa-Dhan code of conduct?
3. What other commonality (besides code of conduct) the members from UP can develop and follow to build the goodwill of the sector and also to safeguard their portfolio?

Discussion: The Code of Conduct work in Sa-Dhan was introduced to the members. It was mentioned that the existing code developed two years ago, has been revised to cover the experiences of the sector that have changed so dramatically in the last two years. It was shared that Sa-Dhan is serious about implementation and compliance of the code by its members. Along with the revised code, the process of implementation, its monitoring and reporting, grievance redressal mechanism etc. have also been developed to give it a complete and structured shape. The monitoring of its compliance can be done by peer review and/or by hiring independent agencies.

It was expressed that some of the MFIs and their staff are not showing seriousness in implementing the code. Usage of the code should be highlighted to the members and made public, it was added. It was also highlighted that there is need for a local forum that can initiate and continue the dialogue at the state level on all such issues and it was proposed that TMN (Trust Microfin Network) can perhaps take the lead. It was shared that Sa-Dhan is in the process of establishing regional chapters, the first one is being inaugurated on 2nd of July in Orissa and the West Bengal Chapter is in offing.

It was discussed that the issue of multiple lending and the extent of multiple lending has been a matter of concern for the whole sector. Some borrowers are heavily burdened with loan repayment and paying the MFIs in turn which is neither good for the sector nor for the borrowers. It was desired that the big MFIs should participate in all future discussion on such common issues and senior representatives of the MFIs from outside the state should be informed to participate in the discussion. Citing the violation of Code of Conduct that create the incidents of competition, multiple and over lending, unethical practices it was desired that senior representative who can take decision for the MFI should be involved in all such discussions.

The Sa-Dhan code contains the minimal requirements (as per RBI fair practices Code) and members of Sa-Dhan should follow it. Compliance to Code of Conduct will be reported periodically to the Government and other stakeholders. The Reserve Bank of India appreciated the efforts highly and extended all its support to implement the code. The idea was also well received by the Ministry of Finance, NABARD. Support has been sought from various stakeholders to make the code implementation a success, it was added.

Sa-Dhan would translate the code into regional languages as required. It was also mentioned that the CEOs of the other state MFIs will be informed by Sa-Dhan to participate/nominate in the meetings, and discussion of the local forum. A point person in Sa-Dhan would be available for the members to respond to any query, clarification or support, it was added. It was decided to continue the dialogue with teleconferences and local meetings and also to share the discussion with wider constituency.