Client Protection Mechanism in Indian Microfinance Institutions—A Study on Arohan

Bappaditya Biswas
Assistant Professor, Department of Commerce
Raja Peary Mohan College, Uttarpara, Hooghly
e-mail : aditya_2582@rediffmail.com

Abstract: The over-indebtedness of microfinance borrowers, high interest rate and coercive method of collection by some Microfinance Institutions (MFIs) are the vital problems in the microfinance sector of India. The situation became more critical as there is no such regulation and single regulatory body for the sector. There is a dire necessity of proper regulation for ensuring the clients protection and responsible financing by the MFIs. Sa-Dhan, the Association of Community Development Finance Institutions, has developed few client protection principles for its members in India. Internationally, Consultative Group to Assist the Poor (CGAP) and Smart Campaign also came out with client protection principles. Some provisions are also included in the Andhra Pradesh Ordinance 2010, Malegam Committee Report to Reserve Bank of India (RBI) and Microfinance Institutions (Development and Regulation) Bill 2011 for ensuring client protection.

The primary objective of the study is to examine the present scenario of the client protection mechanism in Indian MFIs. I have selected six parameters of client protection and have matched it with the feedback from the clients of Arohan, the leading Indian MFI for evaluating its client protection mechanism.

Key-Words: Client protection principle, self regulation, Microfinance Institutions.

1. Introduction

Microfinance is playing an important role in poverty eradication, women empowerment and socio-economic development of the poor in India since the last two decades. In the last few years, Microfinance Institutions (MFIs) have made an outstanding growth in this sector in terms of client outreach and loan portfolio. At the same time, the issue of social responsibilities of the MFIs has put a question mark on the future of Rs. 22,000 crore market of this sector. The over-indebtedness of microfinance borrowers is a vital problem in some countries where microfinance has grown very rapidly. These markets, including Bosnia- Herzegovina, Morocco, Nicaragua, and Pakistan, have experienced intense competition, multiple borrowing by clients and erosion of credit discipline which has led to repayment crises and the rapid deterioration of portfolio quality.

Internationally most countries are opting for specific regulations for MFIs, arguing that it is a 'special' sector, which needs specific regulation to enhance its quality, development, growth and to broaden the funding base. In Bolivia, the Banks and Financial Entities Law is applicable for the MFIs, so there are no separate legislation and regulation for MFIs. In Ethiopia, the National Bank for Ethiopia is supervising the MFIs sector from 1996. Bank Rakyat Indonesia is authorised by Bank Indonesia (central bank) to supervise the MFIs sector in Indonesia. Pakistan has also formulated special MFIs law where Central Bank plays a vital role. So, it is been found that the Central Bank of every country plays a vital role in supervising the MFIs sector and to ensure proper regulation for client's protection.

But there is no single regulation for supervising the MFIs sector in India. Presently, the Non Banking Financial Companies (NBFC) MFIs are governed by Reserve Bank of India (RBI) guidelines, the Section 25 Companies are governed by the Company Law and other MFIs registered as Societies, Trusts etc. are governed by the respective State Laws. Different types of laws in this sector cause discrepancies and confusion among the stakeholders of the MFIs. But the Indian MFIs used to follow some self regulations to ensure the protection for their clients.

2. Review of Literature

A number of studies have been made nationally and internationally for verifying the client protection mechanism and regulatory issues in the microfinance sector. A few of them has been pointed out below:

Issues Related to Client Protection

In 2004, The Small Enterprise Education and Promotion (SEEP) Network for its members adopted the pro-client principles, recognizing that a proactive approach to consumer protection will encourage MFIs to improve their practices before donors and regulators. Consultative Group to Assist the Poor (CGAP) (2010) has made six client protection principles which are internationally accepted for evaluating the client protection in an MFI. CGAP has also described the way of regulation for supervising the MFIs.

Sa-Dhan (2010) has made a voluntary code of conduct consisting of seven codes/principles for its member MFIs for ensuring client protection in India. This code of conduct covers Fair Practise in MFI Operation, Avoiding Over-indebtedness, Appropriate Interaction and Collection Practices, Privacy of Client's Data, Governance, Client Education and Financial Literacy, Competition and Feedback and Grievance Mechanism. Small Industrial Development Bank of India (SIDBI) and the World Bank (2011) issued a code of conduct compliance assessment (COCA) for the microfinance sector. Microfinance Management and Investment Advisory (M2i) which designed the compliance tool COCA has carried out the compliance assessment for eight institutions. The assessment has concluded that most institutions have effective systems in place to ensure that the code of conduct is practiced. The COCA examined dimensions such as client origination and targeting, loan pricing, appraisal, client data security, staff conduct, client relationship and feedback.

MF *Transparency* (2011) in their study show different ways of calculating the interest rate or price of the microfinance product. They also hoped that the launching of the India pricing database is the beginning of the process for changes for increased transparency and client protection. *Srinivasan, Agashe and Garriott (2011)* stated that Indian MFIs have largely incorporated client protection principles. They further suggested that investment in client awareness needs to be increased, and grievances redressal mechanisms need to be systematically operationalised. Loan appraisal mechanisms have to be systemized to ensure an assessment of household cash flows and appropriate loan sizes to avoid over-indebtedness. Sivasankaran and *Sarvanan (2011)* examined the relationship of social performance of MFIs with the organisational characteristics, managerial performance, operational performance and financial performances of MFIs. They concluded that the organisational characteristics of MFIs have influenced on the social performance but the managerial performance and operational performance do not have any influence on it. Again the financial performances of MFIs do not influence their social performance uniformly. *Srinivasan (2013)* pointed out that good governance enables MFIs to implement appropriate business plans, strategies, decision making and resource allocation and to adapt changes in the business environment.

Issues Related to Regulations

In March 2008, the Finance Minister tabled the 'The Micro Financial Sector (Development and Regulation) Bill, 2007' in the Lok Sabha, which was then referred to the Lok Sabha Standing Committee on Finance. But somehow the Bill has not passed in Parliament. *Arun and Murinde (2010)* stated that the performance of MFIs depends largely on regulation for MFIs which eventually affect social protection in several ways mainly through its effectiveness and outreach. *Muganga (2010)* in his thesis paper described the international scenario of regulation for the development of MFIs with special evidence from Kenya. Malegam Committee (2011) has suggested creating a separate category for NBFCs operating in the microfinance sector, such NBFCs being designated as NBFC-MFI. It also recommended an interest cap of 24% on individual loans and many other recommendations to bring transparency in the sector and to protect the clients from unethical business practices.

Again the Government of India made a draft regulation named 'Microfinance Institutions (Development and Regulation) Bill 2011' for the sector. The Bill proposed the Reserve Bank of India as the sole regulator and puts industry under a strict watch. The draft Bill gives sweeping power to the RBI by bringing all aspect of microfinance under its oversight. Finally, the 'Microfinance Institutions (Development and Regulation) Bill, 2012' – was tabled in the Indian Parliament on 29 May 2012 with slight modification, in the draft Microfinance Bill. The bill provides flexibility to RBI to apply different measures, vary the same and delegate the powers to regulate to NABARD. But the Bill has not yet passed in the parliament.

3. Objectives of the Study

The objectives of the study are –

- to study the principles and regulations regarding client protection in microfinance sector,
- to examine the client protection practices in Arohan, the leading Indian MFI based in Kolkata, West Bengal.

4. Database and Methodology of the Study

The study is based on both primary and secondary data. The secondary data have been collected from the existing literature on the subject including books, journals, articles, newspapers, reports of concerned committees and institutions, RBI guidelines, etc. The primary data have been collected through a structured questionnaire. For this purpose, field visits have been done with the clients of Arohan over five districts of West Bengal namely, North 24 Parganas, South 24 Parganas, Burdwan, Nadia and Howrah. A total of 150 clients have been surveyed for this study by taking 30 clients from each district.

Six parameters of client protection principles have been selected after analysing various parameters of client protection principles developed internationally and nationally. Then these parameters have been matched with the feedback of Arohan's clients to evaluate the client protection practices in the MFI.

5. Client Protection Principles—An Overview

Client protection is all about protecting the clients from over indebtedness, high interest rates and providing them more transparent, friendly and professional services. Client protection is a customer service issue, a public relations issue, and a regulatory issue and in a competitive setting an issue that will ultimately affect the MFIs' long term market share. Organisations like CGAP, Sa-Dhan, Smart Campaign, The SEEP Network (along with its members ACCION International, CARE, MicroFinance Network, Freedom From Hunger, etc) are working on developing client protection principles and guidelines. The SEEP Network has formed SEEP Consumer Protection Working Group (CPWG) in 2002 to increase the transparency of MFI policies regarding consumer protection.

The Client Protection Principles describe the minimum protection of microfinance clients should expect from providers. While the principles are universal, meaningful and effective implementation will require careful attention to the diversity within the provider community and conditions in different markets and country contexts. In this section, we have summarised the Client Protection Principles developed by different research organisations nationally and internationally.

5.1. CGAP-Client Protection Principle

The CGAP conducted various research works for ensuring social performance and client protection in MFIs worldwide. According to CGAP the MFIs that provide financial services to low-income clients should adhere to the following six core principles:

a) Avoidance of Over-Indebtedness: Providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay loans and will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care that non-credit, financial products (such as insurance) are extended to low-income clients.

b) Transparent Pricing: The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients.

c) Appropriate Collection Practices: Debt collection practices of providers will not be abusive or coercive.

d) Ethical Staff Behaviour: Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.

e) Mechanisms for Redressal of Grievances: Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.

f) Privacy of Client Data: The privacy of individual client data will be respected and such data cannot be used for other purposes without the express permission of the client.

5.2. SA-DHAN Client Protection Principle

The basic tenet of client protection is to understand the client's needs and situation while delivering micro financial services. This section analyses the level of code compliance towards client protection under different sub-sections of the Code of Conduct developed by Sa-Dhan.

a) Fair practice: Fair practice requires:
   - MFI should not discriminate on the basis of caste and religion.
   - MFI should share the benefits of cost reduction/profits with the clients.
   - The MFI should not collect any collateral from the clients for small loan size (Rs 50,000 and below) loans.

b) Avoiding over indebtedness: This principle requires that the MFI should carefully analyse the repayment capacity of the clients before extending loans to them. Analysis of repayment capacity includes analysis of income and expense patterns as well as indebtedness.

c) Appropriate interaction and collection practices : Sa-Dhan proposed the following guidelines to control specific aspects of behaviour:
   - Staff would not confront the clients or their family members under any situation.
   - The staff would not enter the house of the client for recovery of loans.
   - Staff would visit clients only with the group leaders. More than two staff would not visit the client together for recovery.
   - Staff would not insist on recoveries in case there is severe illness in the family of the clients.

d) Privacy of client's data: This dimension of the code requires that documents and information obtained from the clients are kept secure and are not disclosed without prior permission from the clients. Most of the MFIs have a policy of keeping the documents obtained from the clients under the custody of the senior staff in the branches (usually the branch managers). The documents are barred from unauthorised access by outsiders.

e) Governance : Sa-Dhan's Code of Conduct on Governance requires the following:
   - The MFI should have independent members in its Board of Directors. This is to ensure that the affairs of the organisation are subject to scrutiny by independent persons.
   - The annual compensation of the CEO should be approved by the Board. This is to ensure check on the CEOs taking unreasonably high level of salaries for themselves.

f) Client education and financial literacy: The Code of Conduct requires the MFIs to provide regular training to their clients on issues pertaining to financial literacy so that they are able to take an informed decision about their financial affairs. It is also imperative that MFIs should conduct basic financial literacy programmes to make the clients responsible borrowers avoiding over indebtedness. This will also help manage the default risk better.

a) Competition: Sa-Dhan's Code of Conduct requires the MFIs to regularly and proactively interact with other MFIs in the operational area to avoid over-indebtedness, to have precise guidelines for recruiting staff members from other MFIs and to consciously go to the areas which are un-served or underserved.

b) Feedback and Grievance Mechanism: A sound feedback and grievance redressal mechanism is essential for the MFIs to maintain healthy relationship with their clients. This mechanism can also serve as an effective control system against staff fraud or other malpractices.

5.3. Smart Campaign

The Smart Campaign is a global campaign consisting of microfinance lenders, institutions and associations from around the world who believe that protecting clients is not only the right thing to do, but the smart thing to do. Launched in March 2009, the goal of Smart Campaign is to make sure financial service providers treat customers fairly, and avoid offering financial products that could harm or expose clients to unnecessary risks. The Campaign is working to establish standards for the appropriate treatment of low-income clients based on six Client Protection Principles: Avoidance of over-indebtedness; transparent pricing; appropriate collections practices; ethical staff behaviour; mechanisms for redress of grievances and privacy of client data.

After considering the above principles, six parameters have been selected for evaluating the client protection practices of Arohan. These are:

(a) Over-indebtedness of the Clients, (b) Transparent Pricing, (c) Collection Practices, (d) Ethical Staff Behaviour, (e) Mechanism for Redress of Grievance and (f) Privacy of Clients data.

6. Regulation for Client Protection in Indian MFI Sector—Present Scenario

As there is no single regulation for supervising the MFIs in India, multiple regulatory practices are being followed in Indian MFIs. There are some proposals from the RBI and National Bank for Agricultural and Rural Development (NABARD) and the government to regulate this sector. RBI formed Malegam Committee to study this sector and the committee has already submitted their proposals to the RBI. The Government of India has made a draft regulation named Microfinance Institutions (Development and Regulation) Bill 2011 for submitting before the Parliament. So there are some ongoing proposals for regulating this MFI sector. In this section we have briefly described the proposals of these regulations.

6.1. Self Regulation in MFIs

The MFIs operating in India have some of their own system of operations and principles to provide better services and to satisfy their clients. These system and provisions varies from MFI to MFI. These own norms, principles i.e. self regulation plays an important role to safeguard the interest of the clients. Self-regulation means prudential regulation (or supervision) by a body that is effectively controlled (whether in law or in fact) by the regulated entities, not by the government supervisor.

In India, organisation likes Microfinance Transparency working on increasing transparency and accountability in MFI sector. Sa-Dhan, has made some core values and voluntary mutual code of conduct for its member MFIs in India to ensure better transparency and better clients' protection. All the 236 MFI members of Sa-Dhan in India unanimously and whole-heartedly agree to abide by these guidelines. It has made Voluntary Mutually Code of Conduct for its members to provide all the necessary information to their clients regarding (a) terms and conditions of financial services (b) interest rate (c) premium of insurance (d) periodical statement, etc. It also made guidelines to provide microfinance services to the low income clients irrespective of gender, race, caste, religion or language. It also suggested to maintain high standard of governance, fairness and transparency in the operations of the MFIs. All the members of Sa-Dhan have to follow up this Code of Conduct and in case of failure to abide by these guidelines the membership of the MFI is liable to be cancelled.

6.2. Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Ordinance, 2010

The Andhra Pradesh Ordinance, 2010 made it mandatory for all the MFIs operating in the State of Andhra Pradesh to apply for registration before the Registering Authority of the district specifying therein the villages or towns in which they have been operating or propose to operate, the rate of interest being charged or proposed to be charged, system of conducting due diligence and system of effecting recovery. The Ordinance also tried to ensure that the member of an Self Help Group (SHG) shall not be a member of more than one SHG and no MFI shall seek any security from a borrower by way of pawn, pledge or other security for the loan.

The main features of this Ordinance are as follows:

- All MFIs shall display the rates of interest charged by them in a conspicuous place in their premises in bold letters visible to the members of the public.
- No MFI shall charge any other amount from the borrower except any charge prescribed in the Rules for submission of an application for grant of a loan.

6.3. The Microfinance Institutions (Development and Regulation) Bill, 2011

The Ministry of Finance of India released the much awaited draft microfinance bill which has been introduced in the Parliament shortly. The consultative process adopted, the work done by the Malegam Committee, and the regulations issued by the RBI and the participation of the lenders, practitioners and others have made the draft comprehensive and well-rounded. The main features of the Bill are that every institution in microfinance should register with the regulator, transform into a company when they attain a significant size, be subject to a variety of prudential and operational guidelines that are introduced by the regulator, provide periodic information to the regulator and face penal action for violation of law or any rules framed. The Bill provides flexibility to RBI to apply different measures, vary the same and delegate the powers to regulate to NABARD.

The grievance redressal procedures, mandatory enrolment to credit bureaus and code of conduct enforcement through industry associations will improve customer protection. The creation of national and state councils should provide wider sector participation in policy making. The proposed microfinance fund that would not only provide grants but also bulk finance to MFIs is a very welcome proposition.

Sections 23 and 24 of the proposed Bill contain the substance of RBI's regulatory powers. The powers of RBI is to issue directions under section 24 are comprehensive and cover almost all aspects of functioning of the MFIs. While there seems to be a provision for recognition of Self-Regulatory Organization of MFIs, the process of recognition has not been spelt out. The industry associations have a critical role to play in assisting the regulators. In section 25, the bill has chosen to implement margin caps rather than interest rate caps. Absolute interest rate caps are anti-market and introduce rigidities. If any provision of this Act is contravened or if any default is made in complying with any other requirement of this Act or of any rules, regulations or orders or directions given or notification issued or condition imposed thereunder, any person guilty of such contravention or default shall be punishable with fine which may extend to five lakh rupees and where, a contravention or default is a continuing one, with further fine, which may extend to ten thousand rupees for everyday after the first, during which the contravention or default continues or with imprisonment for a term not exceeding two years or with both.[1]

7. Analysis of Client Protection Mechanism in Arohan

In this section, an attempt has been made to examine the client protection practices in Arohan with the feedback from the clients. We were able to reach altogether 150 clients of Arohan through a structured questionnaire by taking 30 clients each from five districts of West Bengal.

Arohan was established in 2005 and started operations in January 2006 in Kolkata, with the aim of catering to the credit needs of the under-served urban population of Eastern India. Arohan's early operations were restricted to Kolkata and its surrounding semi-urban areas. Clients remain at the core of Arohan's operations. Performance of Arohan is shown in Table-1.

Table-1 : Arohan Performance as on 31st December, 2015

Total Number of customer	4,68,571
Number of States covered	5
Number of branches	180
Assets under Management	536.3 crore
Repayment Rate	99.61%

(**Source:** http://www.arohan.in/content.php?seo_url=newsletter-oct-dec-2015/)

7.1. Demographic Profile of the Clients

The basic demographic and biographic profiles of the client-base are as follows:

- All of the respondents are female.
- Almost two third of the clients belongs to rural area (64%) and remaining one third (36%) are from urban area.
- Maximum of the respondents are from age group of 26-35 years (44%), followed by 32% from 36-45 years age group and 14% from 15-25 age group. Very few are the age group of 46 years and above.
- 62% of the respondents are listed as Below Poverty Level and remaining of the respondents are from Above Poverty Level category.
- Approximately two third of the respondents are from Hindu Religion and remaining 32% are from other religion.

7.2. Analysis of Feedback of the Clients regarding Client Protection Mechanism

The client protection mechanism of Arohan has been examined by six sub-parameters. These are: (a) Over-indebtedness of the Clients, (b) Transparent Pricing, (c) Collection Practices, (d) Ethical Staff Behaviour, (e) Grievance Redress Mechanism and (f) Privacy of Clients data. These are discussed below:

a) *Over-indebtedness of the Clients*

The over-indebtednesses of the clients have been analysed on the basis of four issues like availing of multiple loan, sources of the multiple loan, amount of multiple loan and total indebtedness of the clients.

(i) *Availing of Multiple Loan*

One of the most important reasons for over-indebtedness of the clients is availing of multiple loans. The main sources of availing multiple loans are identified as MFIs, Swarnajayanti Gram Swarozgar Yjana (SGSY) or SHGs, Bank and Informal sources like friends, relative etc. Table-2 summarises the sources of the second loan of the respondents.

Table-2 : Sources of Second Loan of the Respondents

MFI name	Sources of Second/Multiple Loan				Total Multiple Loan	Total Clients	Percentage in terms of total client of the MFI (%)
	MFI	SGSY/ SHGs	BANK	Informal Sources			
Arohan	37	8	1	8	54	150	36
Percentage	**68.6**	**14.8**	**1.8**	**14.8**	**100**	–	–

(Source: Field Survey by the Resercher)

It is found that overall 36% of the clients surveyed have availed multiple loans. Among the total 54 multiple loans, 37 (68.6%) have been taken from different MFIs. Bandhan has provided the maximum multiple loans among the MFIs. Only 1 client preferred to go to bank for availing any further loan. The study hence proves the traditional believe that the low earning people prefer informal borrowing (14.8%) rather than the borrowing from banks.

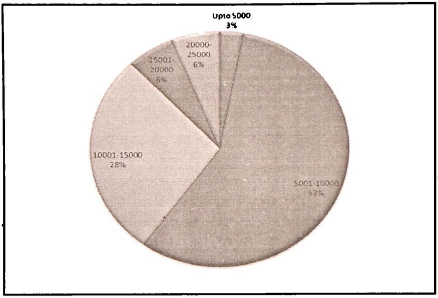
(ii) *Amount of Second Loan/Multiple Loans*

The amount of second loan/multiple loans ranges from Rs. 5,000 to Rs. 25,000. The Figure-1 below shows that 57% of the second loan ranges from Rs. 5,000- Rs. 10,000, 28% ranges from Rs.10,001- Rs. 15,000, and 6% ranges from Rs.15,001- Rs. 20,000. Only 6% of the clients have availed second loan ranging from Rs. 20,000- Rs. 25,000. A meagre 3% of the clients have availed second loan up to Rs. 5,000.

(iii) *Total Debt/Loan amount of the Multiple Borrowers*

Further an attempt has been made to find out the total debt/loan amount of the multiple borrowers and to examine whether the total debt have crossed the RBI prescribed limit of Rs. 50,000 for microfinance borrowers or not. If the total debt of the multiple borrowers are above Rs. 50,000, it can be said that the clients are over-indebted and vice-versa. Table -3 shows the ranges of total debt of the multiple borrowers.

Figure-1: Amount of Second Loan/Multiple loans



(Source: Field Survey by the Researcher)

Table-3 : Total Debt/Loan amount of the Multiple Borrowers

Total Loan Amount	Frequency	Percentage
10001-20000	15	27.78
20001-30000	20	37.04
30001-40000	8	14.81
40001-50000	6	11.11
Above 50000	5	9.26
Total	**54**	**100%**

Source: Field Survey by the Researcher

The above table found that the total debt of 9.26% of the multiple borrowers have exceeded RBI ceiling of loan of Rs 50,000 for a single borrower. So it can be said that among the total clients of 150, 3.33% are over-indebted. MFIs should cross check the other loans taken by the borrowers before sanctioning loans for controlling over the over-indebtedness of the clients.

b) *Transparent Pricing*

The survey found that most of the clients know about the installment amount of the loan as in every week they have to pay the loan installment. 82% of the clients can rightly say about their loan amount and total repayment period. Again most of the respondents are aware about the 'Group Warranty' i.e. if any one of the members failed to repay her installment, the other group members will pay the installment amount collectively.

80% (120) of the respondents know about the interest rate charged by the MFIs for the loan. But on the other hand only one-third (34%) of the respondents are aware about the 'other charges' of the loan like processing fees. Only 58% (87) respondents can explain the insurance coverage of the credit life insurance. Again for evaluating the practices of 'Transparent Pricing', four factors related to pricing have been considered. These are satisfaction with the interest rate of the loan, preferable interest rate of the respondents, collateral for granting loan, matching of insurance with the need and capacity of the clients.

(i) Satisfaction with the Interest Rate of the Loan

Rate of interest is one of the debated issues in microfinance sector as the rates are normally higher than the banking rate. The clients were asked to scale their satisfaction about the rate of interest charged by their corresponding MFIs. The five point Likert scale of satisfaction were considered for this. The results of the scaling are summarized below in Table-4.

Table-4 : Satisfaction with the Interest Rate of the Loan

Satisfaction Level	Frequency	Percent
Highly Satisfied	3	2
Satisfied	90	60
Neither Satisfied nor Dissatisfied	42	28
Dissatisfied	12	8
Highly Dissatisfied	3	2
Total	**150**	**100**

Source: Field Survey by the researcher

The above table shows that only 2% of the clients are highly satisfied with the rate of interest whereas 60 % clients are satisfied with it. But 8% of the clients expressed their dissatisfaction with the interest rate. The door step services provided by the MFIs for providing and collecting the loans, weekly collection practices etc. have compensated the high rate of interest rate to the clients.

(ii) Preferable Interest Rate of the Respondents

The field survey reveals that most of the respondents prefer the rate of interest between the ranges of 19-24% and only 10% like to pay interest of 25-27% for their loans. The high rate of interest is the most controversial issue in the microfinance sector, but the clients are not so concerned about it. Rural women who are the main clients of MFIs know it very well that neither the formal banking sector will offer them any loan, nor will provide doorstep services. At the same time, the local moneylender used to charge 3-5% per month i.e. 36-60% per annum for providing loan after taking collateral. So, in this situation, the rate of interest charged by the MFI is comparatively cheaper to the clients of the microfinance sector.

(iii) Collateral for granting Loan

In microfinance sector, the tradition is not to take any collateral for sanctioning loan. In the field survey, the researcher has not found any collateral system in the sector.

(iv) Matching of Insurance with the Need and Capacity of the Clients

All the female clients of Arohan are provided with credit life insurance. Normally the MFIs charge Rs. 4 for every Rs. 1,000 of loan as insurance premium which is paid once at the time of taking loan. The insurance coverage is given for loan tenure only. Table-5 examines the matching of insurance with the need and capacity of the clients.

Table-5 : Matching of Insurance with the Need and Capacity of the Clients

	Frequenciy	Percent
Perfectly matched	66	44
Somewhat matched	63	42
Neither matched nor mismatched	3	2
Mismatched	18	12
Fully mismatched	0	0
Total	150	100.0

Source: Field Survey by the researcher

Majority of the respondents said that the insurance provided by the MFIs perfectly match with their need and capacity. Only 12% said the insurances are mismatched with their need and capacity.

c) Collection Practices

As per the normal practices of the sector, the MFI's loans are repaid at a rate of 98 % or more. These practices have also been reflected in the field survey. 98-99 % of the clients repaid their loan in stipulated time period. However, the repayment rate has dropped in many cases due to the negative media coverage after the Andhra Pradesh crisis.

Somehow if any of the clients failed to repay their loan installment due to illness or absence in the weekly/monthly repayment meeting, the other group members repaid the amount collectively or individually. However, in some cases indirect pressurization through the group members have been found for ensuring repayment in time.

d) Ethical Staff Behaviour

The clients were asked to scale the behavior of the field staff on the basis of five point Likert scale. The results are summarized below in Table-6:

Table-6 : Staff Behaviour of the MFIs

Staff Behaviour	Frequency	Percent
Very friendly and Co-operative	101	67.34
Friendly and Cooperative	36	24.00
Neither friendly nor Non-Cooperative	1	0.66
Unfriendly and Non-Cooperative	12	8.00
Very Unfriendly and Non-Cooperative	0	0
Total	**150**	**100.0**

Source: Field Survey by the researcher

It has been found that most of the clients (67.34%) are satisfied with the behaviour of the staff as they think that the staffs are 'very friendly and cooperative'. Only 8 % of the clients have expressed their dissatisfaction by stating that the staffs are 'unfriendly and non-cooperative'. None have said that the staffs are 'very unfriendly and non-cooperative'.

e) Grievance Redress Mechanism

At the time of sanctioning loan to the clients, the employees of Arohan discuss about the mechanism of lodging complaint to the clients. Our survey found that 70 % of the respondents know about the procedure of registering complaints regarding any matter to the MFIs. The clients are mainly aware about the branch manager and the printed telephone number for registering complaints. The survey reveals that only 62 % of the clients are aware about the telephone number for registering complaints. But a very few among them have used the number. They have used the telephone number mainly for knowing the information about loan.

f) Privacy of Client's Data

It has been found from the survey that privacy of the client's data is not so important factor to the clients. MFIs demanded that they informed their clients about the privacy of their data, but in field survey the respondents told something different. The survey shows that only 28% of the clients are aware about the privacy of their data. Most of the respondents (72%) are not aware about the privacy of their data. The Cross Tabulation in Table-7 below shows the relation between the educational qualification and the awareness about the privacy of data among the clients.

Table-7 : Cross Tabulation of Educational Qualification and awareness about the Privacy of Data

Educational Qualification	Awareness about the Privacy		Total
	Aware	Not aware	
Illiterate	1	4	5
Literate	22	81	103
Eight pass	12	20	32
Madhyamik	4	3	7
Graduation	2	0	2
Masters	1	0	1
Total	**42** (28%)	**108** (72%)	**150**

Source: Field Survey by the researcher

The above cross tabulation found that the awareness about the privacy of data increases with the increase in education qualification.

8. Conclusion and Recommendations

The study found that the MFIs inform their clients about interest, processing charges, insurance charges, loan amount, instalment, etc, before granting loan and the clients also accepted that they are informed about these issues. The rates of interest charged by the MFIs are within the prescribed limit of RBI i.e., 26%. The clients are also somewhat satisfied with the rate of interest. But through field survey it has been found that many clients do not know the exact interest rate, processing fees, benefits of insurance etc. The clients are well aware about amount and number of loan instalments. However, rate of interest is a less important issue to the clients. They know very well that they will not be able to get the loan so easily from the banks and will not be provided with doorstep services in any way. So, the clients are ready to compensate those facilities with high rate of interest.

Multi-borrowing practices have been found in the survey. The total debt of 9.26% of the multiple borrowers have exceeded RBI ceiling of loan of Rs 50,000 for a single borrower. So it can be said that among the total borrowers of 150, 3.33% are over-indebted. The researcher has not found any case of coercive method of collection or pressurization for repayment of loan. However, in some cases indirect pressurization through the group members have been found for ensuring repayment in time. According to the field/collection officers, on time repayment is a good practice in microfinance borrowing and that have helped the MFIs to lend without collateral. If any client stops repaying without proper reason, the other will follow it and the whole system will collapse. Maximum of the respondents are satisfied with the employees behaviour of the MFIs. Regarding the privacy of client's data, maximum MFIs used to store the data through computerised Management Information System (MIS). But the clients are not aware or worried about the privacy of their information.

The MFIs should take initiatives to clearly spell out the interest rate, processing charges, insurance charges, repayment period and group warranty before sanctioning loan to the clients. As well as Arohan should cross check the other loans taken by the borrowers before sanctioning loans to control over the over-indebtedness of the clients. It must consider seriously about adopting modern technologies in their operations so that they can provide their services in cost effective way and can reduce their rate of interest. As of now, privacy as a principle is not a priority for MFIs in West Bengal. However, Arohan will need to provide client information to the credit bureaus for their effective functioning, which should be informed to the clients.

The revised Microfinance Institutions (Development and Regulation) Bill, 2012, has been tabled in the Parliament where it has been referred to the Standing Committee on Finance of the Parliament. But the Bill has not passed in the last four years. As early as the Bill is passed, the sector will be more transparent and safer for all the stakeholders.

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