RESPONSIBLE FINANCE IN INDIA
LESSONS FOR RWANDA

seep leading collaboration & learning

AMIR Association of Microfinance Institutions in Rwanda

mastercard foundation

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LEARNING BRIEF:
Responsible Finance in India Lessons for Rwanda

This learning brief is based on the lessons that emerged during a study program attended by a Rwandan delegation to New Delhi, India from August 28-31, 2017. The study program was facilitated by Basix Academy for Livelihoods and Micro-enterprise Promotion (B-A-LAMP) and funded by The SEEP Network as part of the Responsible Finance through Local Leadership and Learning Program.

The objectives of the program were to:

- Understand how consumer protection policies and practices are embedded in the core policies of microfinance associations in India and how they translate at the level of microfinance institutions;
- Understand the associations' strategies around responsible finance practices and their systems and processes to ensure the adoption of these practices;
- Have a broad understanding of the policies and procedures of some pioneering MFIs;
- Understand the Central Bank's policies around consumer protection;
- Understand the role of key donors and investors in furthering the field of responsible finance through various sector stakeholders;
- Suggest a roadmap for incorporating best practices.

The study program was attended by:

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- Straton Habyalimana (The SEEP Network),
- Jules Theoneste Ndayaho (Umtanguha Finance Company),
- Kevin Kavugizo Shyamba (National Bank of Rwanda (BNR),
- Mary Lambasha (Development Vision SACCO),
- Caitlin Smit (Genesis Analytics).

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All organizations that participated in the Study Program:

RBI, Sa-Dhan, MFIN, IFC, Smart Campaign, M-CRIL, Satin Credit Care Network Ltd., SV Creditline Pvt. Ltd., Michael and Susan Dell Foundation (MSDF), Small Industries Development Bank of India (SIDBI), Maanaveeya Development & Finance Pvt. Ltd., Business Correspondent Federation of India (BCFI).

About The Association of Microfinance Institutions in Rwanda (AMIR)

AMIR is the only umbrella body for microfinance institutions in Rwanda that seeks to build a flourishing microfinance sector through Advocacy and Information, Research and Development, Responsible Finance, Performance Monitoring and Capacity Building. AMIR was created in 2007 with 32 founding members. Currently its membership has reached 343 licensed microfinance banks, limited savings and deposit taking companies, and credit and savings cooperatives. Its membership represents more than 97% of the microfinance sector in Rwanda and serves close to 2.8 million customers. As a very strong partner to the Government of Rwanda and a member of the private sector federation, AMIR hopes to promote an enabling environment by facilitating collaboration amongst a wide range of private and public sector stakeholders by 2020. www.amir.org.rw @AMIR_Rwanda.

About The SEEP Network (SEEP)

SEEP is a collaborative learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women, to participate in markets and improve their quality of life. For over 30 years, our members have served as a testing ground for innovative strategies that promote inclusion, develop resilient markets, and enhance the livelihood potential of the worlds' poor. www.seepnetwork.org @TheSEEPNetwork.

About The Mastercard Foundation

The Mastercard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by Mastercard when the Foundation was created in 2006. For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.

Acronyms

AMIR	Association of Microfinance Institutions in Rwanda
BC	Business correspondents
BCFI	Business Correspondent Federation of India
BNR	National Bank of Rwanda
CGAP	Consultative Group to Assist the Poor
CoC	Code of Conduct
FLC	Financial Literacy Centers
IFC	International Finance Corporation
JLG	Joint Liability Group
KYC	Know Your Customer
MFIN	Microfinance Institutions Network
MSDF	Michael and Susan Dell Foundation
MSME	Micro, small and medium enterprises
MUDRA	Micro Units Development and Refinance Agency
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-banking financial companies
PMJDY	Pradhan Mantri Jan Dhan Yojana
RBI	Reserve Bank of India
SACCO	Savings and Credit Cooperatives
SFB	Small Finance Banks
SHG	Self-help groups
SIDBI	Small Industries Development Bank of India
SRO	Self-Regulatory Organizations
VSLA	Village Savings and Loans Associations

WHAT MAKES RESPONSIBLE FINANCE WORK IN INDIA?

While country contexts vary significantly and comparisons are not always possible, it is useful to identify lessons and success factors from one country that can be adapted and applied in another. The study program identified **three major drivers of India's progress in furthering responsible finance in its microfinance sector**, that are particularly relevant to the Rwandan context.

These are:

- **An industry-wide Code of Conduct (CoC) developed and enforced by two strong associations with a legal mandate to facilitate the self-regulation** of the microfinance sector. The CoC includes details on grievance resolution mechanisms that financial service providers are required to establish. Association members are required to submit regular CoC self-assessments to the associations, who also conduct surveillance activities to ensure adherence with the CoC. The associations are able to penalize members that do not adhere with the CoC or adequately address client grievances.
- **The presence of many funders and investors in the microfinance sector** that make investment decisions based on a range of factors, including the completion of and performance against CoC assessments and social performance management.
- **Reserve Bank-issued rules on microcredit loans** that aim to prevent overindebtedness of clients, such as maximum loan amount, total indebtedness per borrower, loan tenure, the aggregate amount of loans to be given for income generation, loan repayment frequency and caps on interest rates. These are supported by a strong credit reference bureau system that allows institutions to make lending decisions that do not overindebt borrowers. **Guidelines are also provided on fair practices in lending**, including transparency of pricing; limits on multiple-lending, and non-coercive methods of loan recovery. These are monitored by the two industry associations and reported to the Reserve Bank.

This learning brief begins by explaining the evolution of the Indian microfinance sector, and the reasons why responsible finance has gained increased attention and commitment from different actors in the sector. It then goes on to explain the role of those different actors in furthering responsible finance in India, ending with next steps for the Rwandan sector based on lessons from the Indian experience.

THE INDIAN MICROFINANCE SECTOR

Evolution and growth of the importance of responsible finance

1970

The microfinance sector in India began in the 1970s with the emergence of informal self-help groups (SHG) as a means of providing access to much-needed savings and credit services. Between 2005 and 2010, the sector experienced exponential growth, driven by strong demand for loans from borrowers unable to access the banking system and investors eager to invest funds in a growing industry.

With this growth came increasing allegations of high interest rates, overindebtedness of poor borrowers and coercive debt collection practices contributing to increased suicide rates. To address this, the State government of Andhra Pradesh promulgated an ordinance in 2010 to clamp down on microfinance activities. Following that, repayment rates dropped drastically, which undermined the growth and profitability of microfinance institutions (MFIs), and investment to the microfinance sector all but ceased, causing the crisis to spread beyond Andhra Pradesh and across India.

The crisis sparked a strong response from the Reserve Bank of India (RBI) and the microfinance sector (represented by the two associations, Sa-Dhan and MFIN) and **elevated the importance placed on responsible finance**. The Malegam Committee was established by RBI in 2010 to study issues and concerns in the MFI Sector. The Committee's report, released in 2011, recommended the creation of a separate category of non-banking financial companies (NBFCs) operating in the microfinance sector, and meeting a set of qualifications, to be designated as NBFC-MFIs. It also provided a list of recommendations to **improve client protection** and mitigate the problems of multiple-lending, over borrowing and coercive methods of recovery, and proposed an approach to share responsibility across MFIs, RBI and industry associations.

2010

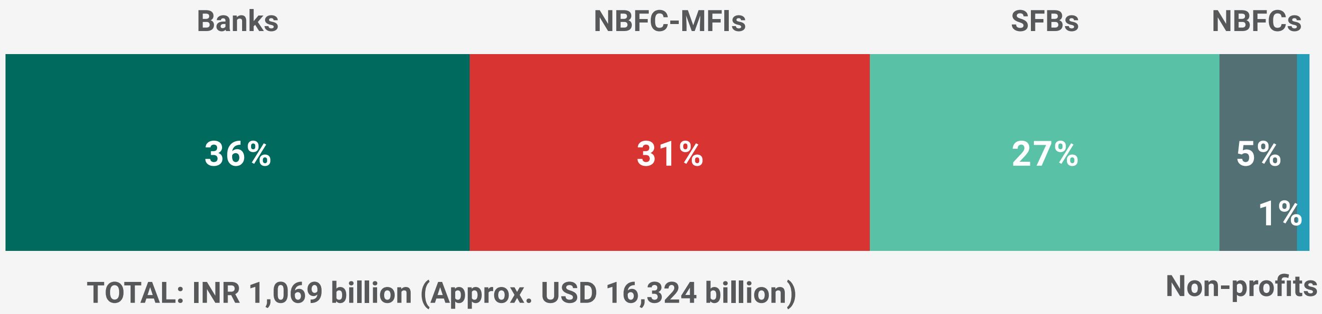
Current landscape

Since the 2010 crisis, the microfinance sector in India is considered to have bounced back.

There are a number of different categories of institutions within the sector, including:

- **Banks:** As of June 2017, banks became the largest provider of microcredit in India. In 2006, RBI introduced a regulation allowing banks to use the services of third-party, non-bank agents, called business correspondents (BCs), to extend their services to people at the bottom of the income pyramid. Currently, approximately 65% of bank microcredit lending is direct, and the remaining 35% is indirect through BC partnerships [1].
- **NBFCs & NBFC-MFIs:** NBFCs lend, accept deposits and make investments, but adhere to a set of requirements that make them different to commercial banks. NBFC-MFIs are a category of NBFCs and should be *"a company which provides financial services predominantly to low-income borrowers, with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks"* [2].
- **Small Finance Banks (SFBs):** SFBs can accept deposits and provide lending to people that are not typically served by commercial banks. They are required to comply with a set of guidelines which stipulate minimum capital requirements, years of experience, and minimum paid-up capital, among others. Eight NBFC-MFIs have been issued SFB licenses and have transitioned or are in the process of doing so.
- **Non-profit MFIs:** These institutions fall outside of RBI regulation and includes non-profits, NGOs, societies and trusts.
- **SHG-Bank linkage:** The SHG-Bank linkage program was launched in the early 1990s to extend banking services to the unbanked. SHGs are usually promoted by NGOs and are made up of 15 to 20 members from very low-income families, usually women. They mobilize savings from members and use the pooled funds to give loans to needy members. Under the SHG-Bank linkage program, banks were allowed to open savings accounts for the SHGs and provide them with loans against group guarantee (with the value of the loan up to several times the deposits placed by the SHG with the bank).

Figure 1: Microcredit loan amount outstanding across lenders as of June 2017 (excluding SHG-Bank linkage) [3]



Excluding banks, NBFC-MFIs dominate the microfinance sector in India. As of June 2017, 44 NBFC-MFIs provided credit to 20.8 million clients, had a gross loan portfolio of INR 350,450 million, 69,516 employees and 8,432 branches across 29 states [4].

The majority of NBFC-MFIs follow a Joint Liability Group (JLG) model, where small groups of women (usually five) self-select to form a group and elect a group leader. These smaller groups are often clustered and each member of a cluster of groups is jointly liable for the other members' loan repayment. **Microfinance institutions in India do not accept deposits and rely on social collateral**.

1 MFIN (2017) Micrometer
2 Microfinance Focus: RBI releases Malegam Committee Report on microfinance. Accessed 12 September 2017
3 MFIN (2017) Micrometer
4 MFIN (2017) Micrometer

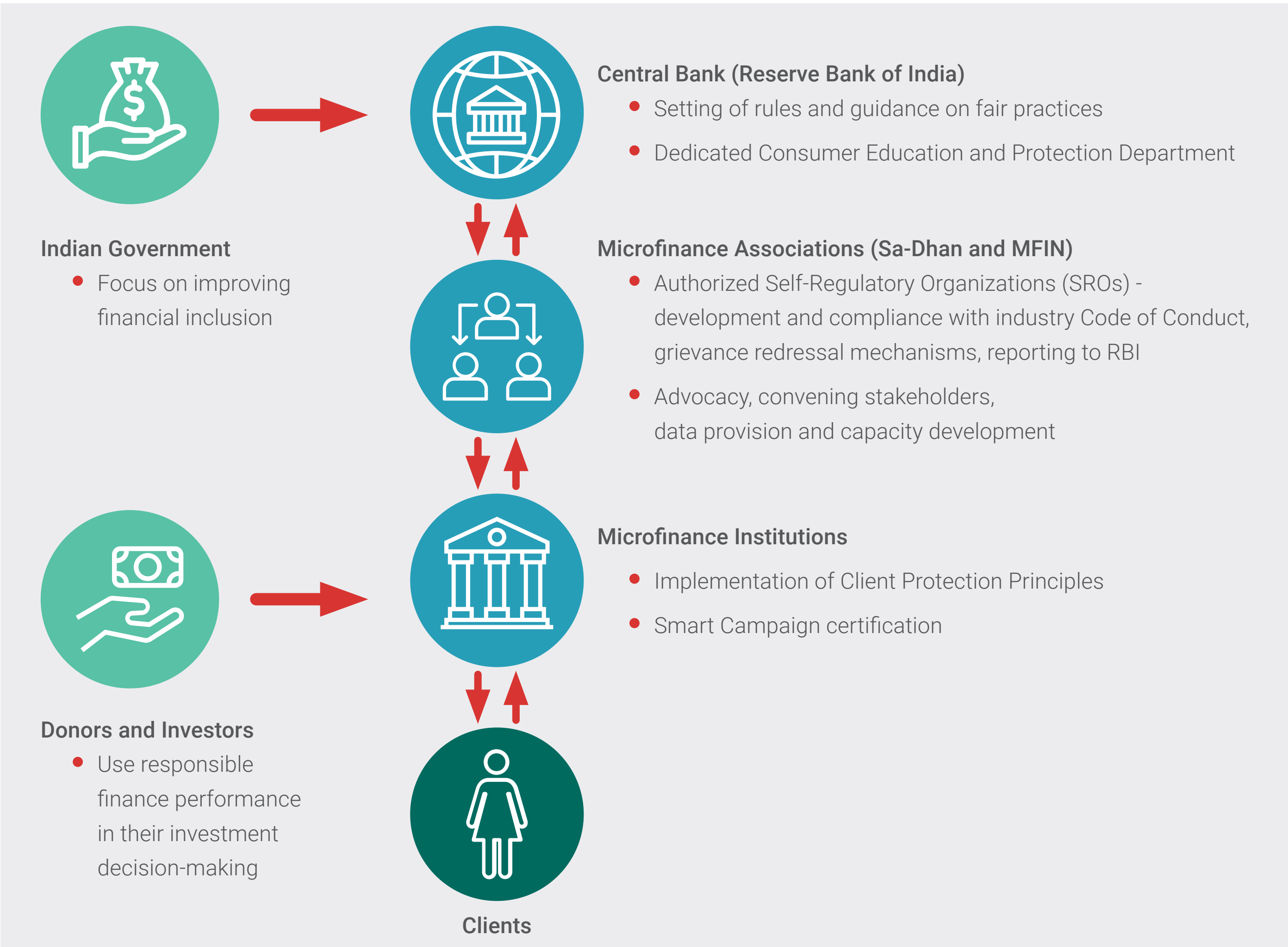
In an effort by RBI to improve the stability of the financial system, a number of operating licenses have been issued to credit bureaus in India. **There are currently four credit information bureaus in the country and MFIs are making good use of them**. This is important for responsible finance as most MFIs report to bureaus weekly and use them to **check delinquent borrowers, restrict over-lending and comply better with regulatory guidelines** (such as RBI's "two-lender rule" that states that a borrower should not get loans from more than two MFIs). One challenge has been the lack of credit information available for individual SHG members, as banks can only report on group loans to credit bureaus.

Since 2009, the Government of India has been implementing a unique identification system, called Aadhaar. To date, nearly 100% of adults have been enrolled in the system and have been issued a 12-digit unique identity number based on their biometric and demographic data, which supports the credit bureau system. The biometric identity database is connected to additional layers of financial infrastructure, including simple payments addressing and digital payment interoperability, together called India Stack. This system facilitates Know Your Customer (KYC) processes and allows for residents to open accounts using their ID number and biometric data only, as well as digital payments between individuals and with financial institutions.

THE ROLES OF DIFFERENT STAKEHOLDERS IN FURTHERING RESPONSIBLE FINANCE IN THE INDIAN MICROFINANCE SECTOR

The following sections provide detailed accounts of the roles the following stakeholders play in furthering responsible finance in the microfinance sector in India:

- The central bank, the Reserve Bank of India
- Microfinance associations, Sa-Dhan and MFIN
- Microfinance institutions
- Donors and investors
- The Indian government



THE ROLE OF THE CENTRAL BANK

There is no Microfinance Act in India, however rules for NBFC-MFIs are set by RBI.
The Directions for NBFC-MFIs were shared in a Master Circular issued by RBI in 2014.

Based on the Malegam Committee recommendations, RBI issued directions for NBFC-MFIs that include the following:

- The definition of an NBFC-MFI, including rules on microcredit loans, such as maximum loan amount, **total indebtedness per borrower**, tenure of the loan, the aggregate amount of loans to be given for income generation, and loan repayment frequency.
- Entry point norms for existing NBFCs and new companies wanting to be registered as NBFC-MFIs.
- Prudential norms, including capital adequacy, asset classification and provisioning.
- **Pricing of credit**, where interest rates charged by the NBFC-MFI should not exceed the cost of funds plus a margin cap of 10% for large MFIs (or 12% for other MFIs).
- **Fair practices in lending**, that embed responsible finance principles, including transparency of interest rates; multiple-lending, over-borrowing and ghost-borrowers; non-coercive methods of recovery; and corporate governance.

RBI also issued a Fair Practices Code for all NBFCs, which promotes responsible finance and includes guidelines on:

- Applications for loans and their processing
- Loan appraisal and terms/conditions
- Disbursement of loans including changes in terms and conditions
- Responsibility of Board of Directors
- Grievance Redressal Officer
- Disclosures in loan agreement / loan card
- Non-Coercive methods of recovery
- Internal control system

India has a legislated Banking Ombudsman Scheme, housed within the RBI, which aims to provide a quick and cost-free resolution mechanism for complaints relating to poor banking services. This Scheme currently only covers banks, but is looking to extend its mandate to include NBFC-MFIs. Customers with a complaint should approach the bank in question first, and if they do not receive an adequate response within 30 days, they can escalate their concern to the Banking Ombudsman. There are currently 20 offices of Banking Ombudsmen covering all 29 States that received approximately 121,000 complaints in the 2016-2017 financial year. Challenges in establishing the scheme included low response rates of banks, incomplete information provided by customers in their complaints (e.g. unique account number), and the need to educate the public on the role of the Ombudsman and their own financial roles and responsibilities [5].

Within RBI, there is a dedicated Consumer Education and Protection Department. This department acts as the single nodal point for the receipt of all external complaints on the deficiency of services provided by RBI and RBI-regulated institutions. The Banking Ombudsman Scheme is housed within this department, but it works to enforce ethical behavior by all financial service providers under the regulatory remit of RBI. It also creates consumer awareness and educates the public on banking and financial services. As per RBI guidelines, Financial Literacy Centers (FLCs) have been set up across the country. These are either run by societies/trusts (sponsored by banks) or by banks themselves but have faced a number of challenges, such as low public awareness of the centers and the concentration of the centers in urban and semi-urban areas [6].

5 As reported in interview with representatives from Banking Ombudsman in August 2017.
6 India Infoline News Service: RBI revises guidelines for financial literacy centers. Accessed 29 September 2017

THE ROLE OF ASSOCIATIONS

There are two microfinance associations in India: Sa-Dhan and Microfinance Institutions Network (MFIN). **Both Sa-Dhan and MFIN are authorized Self-Regulatory Organizations (SROs) for the microfinance sector**. Given a recognition of the important role played by microfinance in financial inclusion, and the absence of deposit-taking institutions in the sector, non-banking regulations are much more relaxed than banking regulations in India, and greater responsibility is placed on the associations to facilitate self-regulation within the industry, who then report to RBI on key measures.

Sa-Dhan

http://www.sa-dhan.net

Sa-Dhan works in the following three thematic areas:

1. **Sector Building Initiatives and Self Regulation:** Sa-Dhan is an SRO for NBFC-MFIs and facilitates the adoption of best practices within the sector. The primary roles and responsibilities entrusted to Sa-Dhan include: formulating and administering a sector-wide Code of Conduct recognized by RBI; having a grievance and dispute redressal mechanism for the clients of NBFC-MFIs; ensuring borrower protection and education; monitoring compliance by NBFC-MFIs with the regulatory framework put in place by RBI; surveillance of the microfinance sector; training and awareness programs for members; and submission of financials to RBI.
2. **Sector Representation and Policy Advocacy:** Sa-Dhan engages with a range of stakeholders with the aim of influencing policy and providing an enabling policy environment for the enhancement of microfinance activities.
3. **Capacity building:** Sa-Dhan provides capacity building and training support to its members in two main areas. Firstly, technical inputs to members, non-members and practitioners; and secondly, perspective building for the institutions engaged in driving financial inclusion, such as banks, policy makers, and government bodies. During the last few years, Sa-Dhan has intensified its training and capacity building in the area of regulatory and Code of Conduct compliance. This includes client protection principles and social performance initiatives.

Sa-Dhan also conducts a range of data and knowledge sharing activities and produces the annual Bharat Microfinance Report.

Sa-Dhan's membership encompasses all legal forms/types of MFIs: NBFC-MFIs, non-profits (as per Section 8 of the Companies Act), NGOs, societies and trusts, as well as the SHG-bank linkage program. Member fees account for one third of Sa-Dhan's revenue, with the remainder coming from donor-funded programs and conferences.

MFIN http://mfinindia.org

MFIN provides four main services:

1. **Self-regulation:** MFIN ensures its members' adherence to NBFC-MFI regulations stipulated by the RBI, the Fair Practices Code and the Industry Code of Conduct (CoC). Member MFIs have to submit quarterly a comprehensive self–assessment tool, the Responsible Business Index, which is a score card against various compliance parameters. Members also report to MFIN on their own grievance redressal mechanisms. MFIN also has its own grievance redressal mechanisms in place.

2. **Advocacy and Development:** MFIN acts as a collective voice for the industry and engages with governments, regulators, institutions, and the general public to improve the policy and business environment for the microfinance industry in India. MFIN has an Information Hub that provides wide-ranging data and analytics on the microfinance industry to be used by various industry participants.

3. **Communication and Marketing:** MFIN's communication and marketing strategy is focused primarily on building a positive perspective around the sector by engaging with external stakeholders and establishing MFIN as a knowledge center.

4. **State Initiatives:** MFIN has created collective platforms at the state and district level aimed at strengthening the understanding of stakeholders at a local level in the role that NBFC-MFIs play in promoting financial inclusion, bringing greater coordination among members in their field operations and creating an enabling environment for member operations.

All NBFC-MFIs are eligible for membership of MFIN, but MFIN also has an Associateship program for institutions that play an important role in financial inclusion: banks, NBFCs, Housing Finance Companies, Insurance Companies, Business Correspondents, Private Equity Social Investors, Think Tanks and Foundations. The Association is almost entirely member-funded.

CODE OF CONDUCT

In India, there is an industry-wide Code of Conduct (CoC) in place, supported by both Sa-Dhan and MFIN, that is to be followed by all MFIs.

The CoC includes:

- **Part I:** The Core Values of Microfinance that guide microfinance institutions, namely integrity, quality of service, transparency, fair practices, privacy of client information, integrating social values into operations, and feedback/grievance redressal mechanism.
- **Part II:** The CoC for MFIs, with guidelines on **i)** Integrity and ethical behavior, **ii)** Transparency, **iii)** Client protection (fair practices, avoiding over-indebtedness, appropriate interaction and collection practices), **iv)** Governance, **v)** Recruitment, **vi)** Client education, **vii)** Data sharing, **viii)** Feedback/Grievance redressal mechanism
- **Part III:** Client Protection Guidelines for Microfinance Institutions
- **Part IV:** Institutional Conduct Guidelines for Microfinance Institutions
- **Annexure:** MFIs' Commitment to Customers

MFIs that receive funding from development finance institutions are required to complete CoC self-assessments, which are reported on to the SROs. The SROs also conduct field visits and observations of MFIs to confirm CoC adherence as part of their surveillance activities.

As per the CoC and the RBI's guidelines on fair practices, **MFIs are required to establish their own feedback and grievance redressal mechanisms**. At a minimum, this includes **i)** an easy procedure for recording a complaint over the phone with details of phone numbers printed on loan cards, **ii)** a staff-assisted procedure at the branch for recording complaints/grievances, **iii)** acknowledgement for receipt of the complaint, **iv)** a time limit for resolution of the complaint, **v)** a clear appeal procedure in case a customer is not satisfied with the solutions offered by the MFI, **vi)** nodal staff in the branch to guide customers to lodge grievances with RBI or SRO, **vii)** assurance to customers that they will be treated fairly despite the complaint/grievance being lodged. MFIs report on grievances received, solved and pending to their Boards and the SROs. The SROs are strengthening their ability to monitor and analyze this data.

The SROs also have their own grievance redressal mechanisms. Customers can call the SRO using a toll-free number that is provided to them at the branch and on their loan cards. The SRO then passes the complaint on to the MFI in question and tracks its resolution. If the case is not resolved to the satisfaction of the client within the stipulated turnaround time, the matter is escalated to a committee within the SRO.

The SROs are able to penalize members that do not adhere with the CoC or adequately address grievances, either by removing members from their member base or by issuing warnings and charging financial penalties.

THE ROLE OF MICROFINANCE INSTITUTIONS

There are a number of MFIs in India that follow a range of best practices in responsible finance and some have received Smart Campaign certification , or are in the process of becoming certified.

Some of these practices include:

- New products and services are tested and piloted with clients, and adjusted based on ongoing client feedback.
- Once given consent from potential clients, MFIs conduct KYC processes and request credit bureau information on the client. The loan approval process is automated using that information, and ensures compliance with RBI regulations.
- All staff are provided comprehensive training that covers the technical aspects of lending, as well as treatment of clients and grievance resolution mechanisms.
- Clients are informed of interest rates and fees prior to taking a loan by community-based staff, and all pricing information and other terms and conditions are clearly stated on their loan cards and loan agreements.
- Strict policies and processes for the storage and protection of client data are in place. Some MFIs' email servers are even blocked from sending and receiving external emails.
- Mechanisms for grievance resolution have been embedded in operations, including suggestion boxes in branches and toll-free numbers clients can call with any queries or complaints (that are provided to clients in branches and on their loan cards). These complaints are actively tracked, categorized and reported to management and the SROs.
- Regular client satisfaction and other social performance management research is conducted and fed back to management and is used to inform business decisions.
- Consumer education and financial literacy activities are conducted. These aimed at improving clients' awareness and understanding of their rights and responsibilities when borrowing from the MFI.
- For those institutions that are performing particularly well in embedding client protection principles and practices, responsible finance has become part of their organizational culture and they believe it to be good for their clients and therefore good for the business.
- MFIs report to Sa-Dhan and MFIN regularly on their financial performance, regulatory compliance, CoC self-assessments, and grievance resolution mechanisms. They believe they derive considerable value from being members of the associations, including the ability to raise their voice (through policy advocacy); the convening of stakeholders at national, state and district levels; the access to valuable sectoral data; and the ability to identify and raise concerns about malpractice in the sector.

THE ROLE OF DONORS AND INVESTORS

MFIs in India receive finance, investment and other support from government agencies, development finance institutions, private institutions and investors, and donors, many of whom use responsible finance performance in their investment decision-making.

Some examples of these are provided below:

- The Small Industries Development Bank of India (SIDBI) aims to facilitate and strengthen credit flows to micro, small and medium enterprises (MSMEs) and provides direct financing and indirect support to MFIs. **The SIDBI Foundation for Micro Credit played a pioneering role in the sector and worked to lay down standards for and promote responsible lending** through: capacity assessment ratings, a CoC Assessment tool, encouragement to credit bureaus, and initiating the India Microfinance Lenders forum.
- Social investors and philanthropic foundations, such as Oikocredit and Michael and Susan Dell Foundation, provide finance to MFIs and **include responsible finance performance and social performance management as critical factors in their investment decision-making**.
- Other investors include private individuals and institutions, who can access share capital in some of the largest MFIs that are listed companies; commercial banks, who are mandated by RBI to allocate a specified portion of lending to priority sectors in the economy, including microcredit; and the Micro Units Development and Refinance Agency (MUDRA) Bank, which was established in 2015 as a funding vehicle for MFIs who in turn lend to small businesses. There are a number of rating agencies in India that rate MFIs based on a range of indicators, including client protection (such as performance against CoC Assessments). **Investors use these ratings to make investment decisions, which is an important incentive for MFIs to act responsibly**.

THE ROLE OF THE GOVERNMENT

As discussed in the sections above, the **Indian government has made a number of concentrated efforts to promote financial inclusion in India**, including mandated priority sector lending targets (including microcredit), the formation and linkage of SHGs, and the appointment of BCs by banks to extend the delivery of banking services in more rural areas. Pradhan Mantri Jan Dhan Yojana (PMJDY) was also launched in 2014 to provide every household with a bank account and basic insurance cover.

As a result, many MFI clients now also have bank accounts, and are moving towards cashless loan disbursements and collection. However, within this context, it has been RBI and the SROs, as well as large global organizations, such as the International Finance Corporation (IFC), Consultative Group to Assist the Poor (CGAP) and Smart Campaign, that have been critical in defining responsible finance and developing metrics to measure its achievement.

The government also has the ability to negatively affect the microfinance industry and clients' ability to take out and repay microcredit loans. In November 2016, the Indian government announced demonetization of all INR 500 and INR 1000 bank notes from the economy. People were able to exchange these notes at banks, but had to wait in long queues or travel long distances to do so. The move resulted in prolonged cash shortages and had a significant negative effect on the growing microfinance sector, with MFIs reporting reduced repayment rates and increases in their portfolios at risk.

Apart from the differences in scale and population sizes of the two countries, the Rwandan and Indian microfinance sectors differ in a number of key ways:

- There is an Act in place in Rwanda that governs microfinance activities. Microfinance institutions, including Savings and Credit Cooperatives (SACCOs), are regulated by the National Bank of Rwanda (BNR).
- There is only one umbrella body that represents the microfinance sector in Rwanda - AMIR. AMIR's work falls into three main areas: **i)** Research and performance monitoring, **ii)** Communications and membership affairs, and **iii)** Responsible and inclusive finance (which includes financial education activities). While AMIR promotes self-regulation among its members through an industry Code of Conduct, it is not legally mandated to perform this role, as is the case in India.
- An industry CoC has been developed and was revised in May 2016, but the levels of compliance by financial service providers is still low.
- The version of the CoC revised in 2016 does not provide details on grievance resolution mechanisms that financial service providers are required to establish [7]. AMIR currently does not have its own grievance resolution mechanism in place.
- There is a limited number of investors in the Rwandan microfinance sector, and therefore less incentive for MFIs to comply with the industry CoC than in India.
- MFIs in Rwanda accept deposits and so are able to include collateral requirements in their loan agreements. There are, however, many informal groups in the country, such as Village Savings and Loans Associations (VSLAs) that have been formed with the facilitation of international NGOs. There are also a number of initiatives aimed at linking these groups with formal financial institutions.
- There is no dedicated Ombudsman for the financial sector in Rwanda.

Despite these differences, there are still some valuable lessons that can be drawn from the Indian experience and applied in Rwanda, including:

- The industry CoC should be updated to provide details on a preferred grievance resolution mechanism for MFIs, and establish and harmonize grievance resolution mechanisms at institution, AMIR and BNR levels.
- Compliance with the CoC in Rwanda needs to be improved, and different means of achieving this should be investigated, such as regular self-assessments and penalties for non-compliance.
- Where there are wholesale financiers in the Rwandan microfinance market, they can include compliance with the industry CoC and Smart Campaign Client Protection Principles in their due diligence tools.
- The use of the SHG and JLG models by Rwandan MFIs, and the extent to which VSLAs provide an opportunity for this, should be explored.

7 A new version of the CoC that addresses this concern had been approved at the time of publishing, but was not yet publicly available.

The Responsible Finance through Local Leadership and Learning Program is a four-year program being implemented in Rwanda by The SEEP Network, in collaboration with the Association of Microfinance Institutions of Rwanda (AMIR) and the Mastercard Foundation. The program's goal is to scale the application of consumer protection principles for low income financial service customers by promoting an enabling environment through collaboration among a wide range of private and public sector stakeholders. This learning brief was developed as part of the program's learning agenda.