

DEPARTMENT OF PARLIAMENTARY AFFAIRS AND LEGISLATION SECRETARIAT**NOTIFICATION****NO: DPAL 03 SHASANA 2025, BENGALURU, DATED:12.02.2025**

ಕರ್ನಾಟಕ ಕಿರು (Micro) ಸಾಲ ಮತ್ತು ಸಣ್ಣ ಸಾಲ (ಬಲವಂತದ ಕ್ರಮಗಳ ಪ್ರತಿಬಂಧಕ) ಅಧ್ಯಾದೇಶ, 2025 ರ ಫೆಬ್ರವರಿ ತಿಂಗಳ 12ನೇ ದಿನಾಂಕದಂದು ರಾಜ್ಯಪಾಲರ ಒಪ್ಪಿಗೆ ದೊರೆತಿದ್ದು, ಸಾಮಾನ್ಯ ತಿಳುವಳಿಕೆಗಾಗಿ ಇದನ್ನು 2025 ರ ಕರ್ನಾಟಕ ಅಧ್ಯಾದೇಶ ಸಂಖ್ಯೆ: 02 ಎಂಬುದಾಗಿ ಪ್ರಕಟಿಸಲು ಹಾಗೂ ಭಾರತ ಸಂವಿಧಾನದ ಅನುಚ್ಛೇದ 348ರಡಿಯಲ್ಲಿ ರಾಜ್ಯಪಾಲರಿಂದ ಅಧಿಕೃತಗೊಳಿಸಿದ ಸದರಿ ಅಧ್ಯಾದೇಶದ ಆಂಗ್ಲ ಭಾಷಾಂತರವನ್ನು ಕರ್ನಾಟಕ ರಾಜ್ಯಪತ್ರದ ವಿಶೇಷ ಸಂಚಿಕೆಯಲ್ಲಿ (ಭಾಗ IV-A) ಪ್ರಕಟಿಸಬೇಕೆಂದು ಆದೇಶಿಸಲಾಗಿದೆ,-

KARNATAKA ORDINANCE NO. 02 OF 2025**THE KARNATAKA MICRO LOAN AND SMALL LOAN (PREVENTION OF COERCIVE ACTIONS) ORDINANCE, 2025**

(Promulgated by the Governor of Karnataka in the seventy sixth year of the Republic of India and first published in the Karnataka Gazette Extra-ordinary on the 12th day of February, 2025)

An Ordinance to protect and relieve the economically vulnerable groups and individuals, especially farmers, women and women's self help groups from the undue hardship of usurious interest rates and coercive means of recovery by Micro Finance Institutions or Money Lending Agencies or Organizations operating in the state of Karnataka and for matters connected therewith and incidental thereto.

And whereas, the Karnataka Legislative Assembly and Karnataka Legislative Council are not in session, and the Hon'ble Governor of Karnataka is satisfied that the circumstances exist which render it necessary and expedient to exercise powers under Article 213 (1) of the Constitution of India, and promulgate the following Ordinance, namely:-

1. Short title, commencement and application.-(1) This Ordinance may be called the Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Ordinance, 2025.

(2) It shall come into force at once.

(3) Nothing in this Ordinance shall be applicable to any banking or Non Banking Finance Company (NBFC) registered with RBI.

(4) The provisions of this Ordinance shall be in continuation of and not in derogation of any existing law for the time being in force.

2. Definitions.- (1) In this Ordinance, unless the context otherwise requires,-

- (a) "Borrower" means an individual or a Self Help Group (SHG) or Joint Liability Group (JLG) or group of individuals who avail money in the form of a loan for any purpose from Micro Finance Institutions or Money Lending Agencies or Organizations or Lender under an agreement either orally or in writing with terms and conditions that the money shall be repaid within a certain period of time.
- (b) "Coercive Action" means the Coercive Action as explained in section 8.
- (c) "Interest" for the purposes of the terms defined under the provisions of this Ordinance means a return on the amount lent by the Micro Finance Institutions or Money Lending Agencies or Organizations or Lender in cash or kind as the case may be, to a Borrower and includes interest charged on daily, weekly, monthly or yearly basis;
- (d) "Loan" means an advance or hand loan whether of money or in kind such as seed, fertilizer, etc, given to the borrower at interest explicitly or otherwise.
- (e) "Lender" includes Micro Finance Institutions (MFI) or Money Lending Agencies or Organizations and any partnership firm or person or group of persons or digital lending platform whose principal or incidental activity is to lend money or offer financial support of whatsoever nature, in cash or kind to earn profit by charging interest on daily, weekly, monthly or yearly basis.
- (f) "Registering Authority" means the Deputy Commissioner of the concerned District:

Provided that, the State Government may by notification appoint such other designated officer as Registering Authority.

- (g) "Vulnerable section of the society" means and includes farmers, women, self help group of women, agricultural labours, workmen, footpath vendors, other vendors who move from one place to other, worker working in milk dairy, construction workers, migrant workers, those group of

people who are disadvantaged as compared to others mainly on account of reduced access to their basic services and the underlying determinants of health, housing sanitation etc. and the people who are economically backward, low on livelihood patterns with no regular source of income.

(2) Words used but not defined in this Ordinance, shall have the same meanings respectively assigned to them in the relevant Acts and rules made thereunder.

3. Registration of Micro Finance Institute or Money Lending Agencies or Organizations or Lender.- (1) All Micro Finance Institutions or Money Lending Agencies or Organizations or Lender operating in the State of Karnataka as on the date of the commencement of this Ordinance, shall within thirty days from the date of commencement of this Ordinance, apply for registration before the Registering Authority of the district specifying there in the villages or towns in which they have been operating or propose to operate, the rate of interest being charged, system of conducting due diligence and system of effecting recovery and list of persons authorized for conducting the activity of lending or recovery of money which has been lent and the name and address of the borrower, the total principal amount lent to the borrower, the amount already recovered from the borrower, the balance amount yet to be recovered from the borrower, and a written undertaking that it shall always act in conformity with the provisions of this Ordinance.

(2) No Micro Finance Institutions or Money Lending Agencies or Organizations or Lender operating or intending to start the business of lending money after the commencement of this Ordinance shall grant any loans or recover any loans without obtaining registration under this Ordinance from the Registering Authority.

(3) The Registering Authority shall verify the details furnished by the Micro Finance Institutions or Money Lending Agencies or Organizations or Lender and accord registration in such manner as may be specified for operation of Micro Finance Institutions or Money Lending Agencies or Organizations or Lender for a period of one year.

(4) Where the Micro Finance Institutions or Money Lending Agencies or Organizations or Lender applies for renewal of registration, an application for that purpose shall be filed by the Micro Finance Institutions or Money Lending Agencies

or Organizations or Lender within sixty days before the expiry of the period of one year referred to in sub-section (3) and the Registering Authority shall decide either to grant renewal or refuse renewal of registration at least fifteen days before the date of expiry of registration, after due verification of the performance of the Micro Finance Institutions or Money Lending Agencies or Organizations or Lender in the field level and after hearing objections, if any, from the general public regarding extension of registration.

(5) Every Registering Authority shall maintain registers as specified for the area under its jurisdiction of all Micro Finance Institutions or Money Lending Agencies or Organizations or Lender having valid registration.

4. Power to cancel or suspend Registration.- (1) The Registering Authority may, at any time, either suo-motu or upon receipt of complaint by a borrower cancel or recommend to cancel the registration of a Micro Finance Institution or Money Lending Agencies or Organizations or Lender after hearing and after assigning sufficient reasons in writing for such cancellation and no order of cancellation of the registration shall be passed without issuing notice to the Micro Finance Institution (MFI) or Money Lending Agencies or Organizations or Lender intimating the facts upon which the prima-facie decision to cancel the registration has been taken and the Micro Finance Institution (MFI) or Money Lending Agencies Organizations or Lender shall be afforded a reasonable opportunity of being heard against such notice.

Explanation: For the purposes of sub-section (1), conviction of a Micro Finance Institution (MFI) or Money Lending Agencies or Organizations or Lender for an offence of violation of any of the provisions of this Ordinance shall be sufficient cause for cancellation or recommend to cancellation of its registration.

(2) Pending enquiry under sub-section (1), the Registering Authority may, for sufficient reasons to be recorded, suspend the registration, of a Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender.

5. Lending Norms.- The Government may, by notification, specify the lending norms, collection and recovery practices.

6. Micro Finance Institutions or Money Lending Agencies or Organizations or Lender not to seek security.- No Micro Finance Institution (MFI) or Money Lending Agencies or Organizations or Lender shall seek any security from a borrower by way of pawn, pledge or other security for the loan:

Provided that, any such security obtained from a borrower before the date of commencement of this Ordinance shall forthwith stand released in favor of the borrower.

Explanation: For the Purpose of this Ordinance “security” means, any form of collateral.

7. Transparency in rates of interest charged by Micro Finance Institutions or Money Lending Agencies or Organizations or Lender.- (1) There shall be only four components in the pricing of the loan viz. the interest charge, the processing charge, the insurance premium and delayed penal payment.

(2) There shall be a standard loan agreement as specified.

(3) Micro Finance Institutions or Money Lending Agencies or Organizations or Lender shall provide the borrower a loan card reflecting.-

- (i) the effective rate of interest charged;
- (ii) all other terms and conditions attached to the loan;
- (iii) information which adequately identifies the borrower; and
- (iv) acknowledgements by the Micro Finance Institution (MFI) of all repayments including installments received and the final discharge;
- (v) all entries in the Loan Card shall be in Kannada.

(4) The effective rate of interest charged by Micro Finance Institution (MFI) or Money Lending Agencies or Organizations or Lender shall be prominently displayed in all its offices and in the literature issued by it and on the website.

(5) All borrowings by a borrower from Micro Finance Institutions (MFI) or the Money Lending Agencies or Organization or Lender shall be entered in the manner, wherein the process of sanction and disbursement of loans shall comply that,-

- (i) all communications to the borrower shall be in the kannada;
- (ii) Loan application forms shall include necessary information which may affect the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other Micro Finance Institutions (MFI) or Money Lending Agencies or Organization or Lender can be made and a proper decision can be taken by the borrower. The loan application

form shall indicate the documents required to be submitted with the application form.

(6) Every Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall keep and maintain a cash book, a ledger and such other books of account as may be specified.

(7) Every Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall deliver or cause to be delivered, to the borrower within one day before the date on which a loan is made, a statement in the specified form showing in clear and distinct terms the amount and date of the loan and of its maturity, the name and address of the functionary of the Micro Finance Institution (MFI) or the Money Lending Agencies or Organization or Lender and the effective rate of interest charged;

(8) Every Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall have a registered office in the local area.

(9) No Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall receive any payment from a borrower on account of any loan without giving him/her a duly signed receipt for the payment.

(10) A Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall, on a demand in writing by the borrower, supply a copy of any document relating to a loan obtained by him/her, or if the borrower so requires, to any person specified in that behalf in the demand:

Provided that, in respect of loans given prior to the commencement of this Ordinance, it shall be obligatory for the lender to specify if any security was accepted from the borrower.

(11) Every Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall submit a quarterly Statement and annual statement to the Registering Authority before 10th day of ensuing quarter and financial year as the case may be, giving therein the list of borrowers, the loan given to each and the interest rate charged on the repayment made.

(12) The Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender who fails to submit the quarterly Statement and annual statement shall be punishable with imprisonment for period of six months or with fine which may extend to Ten Thousand rupees or with both.

8. Penalty for coercive actions against Micro Finance Institutions (MFI).- Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall not use any coercive action either by itself or by its agents for recovery of money from the borrower and any form of coercive recovery shall be liable for punishment under the provisions of this Ordinance and empower the Registering Authority to suspend or cancel the Registration of such Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender as provided under the provisions of this Ordinance.

Explanation: For the purposes of this section, "coercive Action" by a Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender against the borrowers include the following, namely:-

- (i) exerting pressure or obstructing or using violence to or insulting or intimidating the borrower or his/her family members, or
- (ii) persistently following the borrower, his/her family member from place to place or interfering with any property owned or used by him/her or depriving him/her of, or hindering him/her in the use of any such property, or
- (iii) frequenting the house or other place where the borrower resides or works, or carries on business, or happens to be, with an intension of taking coercive action, or
- (iv) using the service of private or outsource or external agencies, criminal background to negotiate/urging the borrower to make payment using coercive and undue influence, or
- (v) Seeking to take forcibly any document from the borrower which entitles the borrower to a benefit under any Government programme.

9. Power to require production of records or documents and power of entry, inspection and seizure.- (1) The Registering Authority or any officer authorized by him/her in this behalf may, to verify whether the business of the Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender is being carried on in accordance with the provisions of this Ordinance, enter the premises of the Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender office or of any person who in his/her opinion is carrying on the business of lending and call upon him/her to produce any record

or document relating to such business and every such Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender shall allow such inspection and produce such record or document during such inspection and as and when required.

(2) The Registering Authority may, for the purposes of sub-section (1) search the premises and seize any record and document as may be necessary and the record or document seized shall be retained only for such period as may be necessary for the purposes of examination, prosecution or other legal action.

(3) The Registering Authority or the other officer referred to in sub-section (1), shall also have power to summon and examine the Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender any person who in his/her opinion is in a position to furnish relevant information.

10. Complaints.- A complaint can be filed regarding violation of the provision of this Ordinance by a Micro Finance Institution (MFI) or Money Lending Agencies or Organization or Lender before the concerned/ jurisdictional police station and the concerned police officer. No police officer shall refuse to register a case:

Provided that, a Police officer not below the rank of Deputy Superintendent of Police shall be empowered to file a suo-moto case.

11. Appointment of an Ombudsperson.- The Government may by notification, appoint an Ombudsperson who can act as mediator between the borrower or lender, for settling the disputes.

12. Penalty for contravention of section 8 of the Ordinance.- Any person who contravenes of section 8 of this Ordinance, shall be tried and punishable by the Judicial Magistrate First Class, with imprisonment for a term which may extend to ten years and with fine which may extend to rupees five lakh. The offences under this Ordinance are cognizable and non-bailable.

13. Every officer to be public servant.- Every officer of the Government and every person acting under the provisions of this Ordinance shall be deemed to be a public servant within the meaning of sub-section (28) of section 2 of the Bharatiya Nyaya Sanhita, 2023.

14. Relief to borrower from coercive action by the unlicensed and unregistered Micro finance institutions or Money Lending Agencies or Organizations or Lender.- Notwithstanding anything in any law for the time being in force or in any contract or instrument having force by virtue of any such law and save as otherwise expressly provided in this Ordinance, with effect from the date of commencement of this section,-

(a) Every loan advanced before the commencement of this section including the amount of interest, if any, payable by the borrower to Micro finance institutions or Money Lending Agencies or Organizations or Lender shall be deemed to be wholly discharged for "Vulnerable section of the society" if the Micro finance institutions or Money Lending Agencies or Organizations or Lender are unregistered and unlicensed.

(b) No Civil Court shall entertain any suit or proceeding against the borrower for the recovery of any amount of such loan including interest, if any:

Provided that, where a suit or proceeding is instituted jointly against the borrower and any other person nothing in this section shall apply to the maintainability of the suit or the proceeding in so far as it relates to such other person.

(c) All suits and proceedings (including appeals, revisions, attachments or execution proceedings) pending on the said date against any borrower for the recovery of any such loan shall abate.

15. Power to remove difficulties.- If any difficulty arises in giving effect to the provisions of this Ordinance, the State Government may, by an order, published in the Official Gazette, make such provisions not inconsistent with the provisions of this Ordinance which appear to it to be necessary or expedient for the purposes of removing the difficulty:

Provided that, no such order shall be made under this section after the expiry of the period of two years from the date of commencement of this Ordinance.

16. Power to give directions.- The Government may, from time to time, issue such orders, instructions and directions by specifying the Registers, Forms, Online procedures, Portals, Help Centers not inconsistent with the provisions of this Ordinance and the rules made thereunder to the officers, Micro Finance

Institutions (MFI) or Money Lending Agencies or Organizations, borrower, lender for the purpose of proper implementation of the Ordinance and such officers and all other persons employed in the enforcement of the Ordinance, shall comply with such orders, instructions and directions.

17. Power to make rules.-(1) The State Government may, by notification in the Official Gazette make rules to carry out the purposes of this Ordinance.

(2) The power to make rules conferred by this section shall be subject to the condition of the rules being made after previous publication

(3) Every rule or notification made under this Ordinance shall be laid as soon as may be after it is made, before each House of the State Legislature while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions and if before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or notification or both Houses agree that the rule or notification should not be made, the rule or notification shall, from the date on which the modification or annulment is notified have effect only in such modified form or be of no effect as the case may be; so, however, that any such modification or annulment shall be without, prejudice to the validity of anything previously done under that rule or notification.

The above translation of ಕರ್ನಾಟಕ ಕಿರು (Micro) ಸಾಲ ಮತ್ತು ಸಣ್ಣ ಸಾಲ (ಬಲವಂತದ ಕ್ರಮಗಳ ಪ್ರತಿಬಂಧಕ) ಅಧ್ಯಾದೇಶ, 2025 (2025 ರ ಕರ್ನಾಟಕ ಅಧ್ಯಾದೇಶ ಸಂಖ್ಯೆ:02) be published in the official Gazette under Article 348 of the Constitution of India.

THAAWARCHAND GEHLOT
GOVERNOR OF KARNATAKA

By Order and in the name of
the Governor of Karnataka,

G. Sridhar
Secretary to Government
Department of Parliamentary Affairs
and Legislation