



Panel Discussion Regulation of Microfinance

On 10 April 2007 a panel discussion on Regulation of Microfinance was held at the United Nations Headquarters in New York. The panel was moderated by Mr. **José Antonio Ocampo**, Under-Secretary-General for Economic and Social Affairs, and included the following panelists: Mr. **Joselito Gallardo**, Counsellor, Business Outreach Center Network; Mr. **Arnaud Ventura**, Vice President, PlaNet Finance and President & CEO MicroCred; Mr. **Mark Bienstman**, Senior Adviser for Institutional Relations, World Savings Banks Institute (WSBI); Mr. **Richard Weingarten**, Executive Secretary, United Nations Capital Development Fund (UNCDF).

The Panel highlighted the work done during the **International year of Microcredit (2005)**, jointly coordinated by UN-DESA and UNCDF, including the publication of the “**Blue Book**” on Inclusive Financial Sectors for Development.

The concept of **inclusive finance** entails (i) a **continuum of financial services**, not only credit but savings, insurance, remittances, payment services; (ii) a **multiplicity of financial institutions**: NGO microfinance institutions, community-based organizations, financial cooperatives and credit unions, postal and non-postal savings banks, commercial banks and state and agricultural banks.

The development of microcredit into inclusive finance, the creation of strategic alliances between different institutions and the rapid expansion of microfinance have called for its regulation. There are many reasons why microfinance should be regulated, such as improved self-sustainability of microfinance institutions (MFIs), protection of savings, safeguarding the stability of financial systems, mitigation of risk due to currency mismatches, prevention of money laundering and of funding of terrorism. At the same time regulations should not restrict access to finance by crowding out clients and/or providers.

Key **issues related to regulation of microfinance** include:

- Whether different agents should be subject to the same type of regulation or whether tiered regulation should be implemented, i.e. regulation tailored to different institutions
- Whether regulation should target agents or activities
- Who regulates: state regulation, industry regulation, internal regulation, market discipline
- Supervision is very challenging in developing countries due to the multitude of small institutions and limited supervisory capacity. Effectively regulating small institutions without stifling them may entail creating national federations or promoting collaboration between different institutional types. Regulation without supervision would cause costs without benefits
- The need for coherence between regulation of microfinance and other national policies.

Recent **observations of country experiences** have found that it takes a long period, eight years, to put in place a regulatory framework for microfinance. This process includes elaborating rules, expanding supervisory capacity, transforming institutions and resolving political conflicts. Also, country experiences illustrate that there has been a

tension between maintaining soundness of financial systems and achieving outreach and deepening.

Private companies investing in MFIs that are outside the legal framework, are regulated by new or temporary laws or fall under inappropriate banking regulation face the following challenges:

- Difficulty in dealing with institutional investors
- Limited scope of services offered, such as inability to provide savings services
- Limitation in access to funding: inability to take deposits or contract debt from local commercial banks
- Uncertainty due to changing regulatory environment
- Incompatibility between risk profiles and lending techniques and technologies of MFIs and the banking regulation.

Savings banks face restrictions to the services that they can provide and are constrained by uneven application of regulation. They favour regulation based on activities rather than institution and based on activities risk profile. This would create a pluralistic financial sector where different type of institutions could provide microfinance services according to the same rules. It would also allow savings bank to provide different financial services rather than saving only, as is often the case.

There are many **international programmes** to support improvement of regulatory environments to expand access to finance. These include **UNCDF efforts in Africa** entailing assessment of financial sector development (including the legal and regulatory framework), development of nationally owned policy and strategies and their implementation. Also, UNDF hosts the Secretariat of the **UN Advisors Group (UNAG) on inclusive financial sectors** established in June 2006 with a mandate of two years. The UNAG is active in the domain of regulation of microfinance, among others, focusing on raising public awareness among policymakers and central bankers. Other development entities involved in the field of regulation include GTZ, USAID, ADB, microfinance networks, CGAP.

Regulation of microfinance is a very technical and complex issue. It touches upon the interests of many different stakeholders and is very much embedded in each national context. It is thus extremely difficult to design a set of detailed common guidelines for different countries. Policy makers in developing economies are seeking advice from different actors. Coordination among these is crucial. Advice should target the principles of maintaining soundness of financial sectors, protecting savings and expanding access to financing.

The **United Nations Department of Economic and Social Affairs has initiated a project** entailing regional comparative studies (building on existing analysis) and regional multi-stakeholder conferences. The final aim is that of elaborating good practices in regulation of MF on a regional and international basis. The FfDO of DESA is taking a lead role in this project **in collaboration with PlaNet Finance and WSBI.**

For Additional Information see the following website: <http://www.un.org/esa/ffd/> or contact: Ms. Ann Orr – orr@un.org, Ms. Tania Cernuschi – cernuschi@un.org